

LAN AIRLINES S.A.

CONSOLIDATED INTERIM FINANCIAL STATEMENTS

JUNE 30, 2009

US\$ - AMERICAN DOLLARS

KUS\$ - THOUSANDS OF AMERICAN DOLLARS

Report by the External Auditors

Santiago, August 25, 2009

To the Shareholders and Directors of
Lan Airlines S.A.

We have reviewed the interim consolidated financial situation of Lan Airlines S.A. and affiliates as of June 30, 2009, the interim consolidated integral statements of income for the periods of six months and three months ending June 30, 2009 and 2008, and the corresponding interim consolidated statements of cash flow and changes in the consolidated net equity for the periods of six months ending on those same dates. The management of Lan Airlines S.A. is responsible for the preparation and presentation of these interim consolidated financial statements and corresponding notes according to NICCH 34/IAS 34 "Interim Financial Information" included in the Financial Reporting Standards of Chile (NIFCH)/International Financial Reporting Standards (IFRS). Our responsibility is to issue a report on such interim financial information based on our review. The explanatory analysis and attached material events do not form an integral part of these financial statements, so this opinion excludes them.

We have conducted our review according to auditing standards established in Chile for the review of interim financial information. A review of interim financial information consists mainly of applying analytical procedures and making inquiries with individuals responsible for accounting and financial affairs. The scope of these reviews is significantly less than an audit conducted according to generally accepted auditing standards of Chile, where the objective is to express an opinion on the financial statements as a whole. Therefore, we do not express any such opinion.

Based on our review, we have no knowledge of any material change that should be made to the aforesaid financial statements in order for them to be consistent with NICCH34/IAS 34, which form part of the Financial Reporting Standards of Chile/International Financial Reporting Standards.

Renzo Corona S.

Taxpayer I.D.: 6.373.028-9

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LAN AIRLINES S.A. AND SUBSIDIARIES

**INTERIM STATEMENT OF CONSOLIDATED FINANCIAL
SITUATION**

	Note	As of June 30, 2009 KUS\$	As of December 31, 2008	As of January 1, 2008 KUS\$
ASSETS				
Current assets				
Current assets in operation				
Cash and cash equivalent	7	639,197	400,972	445,583
Other financial assets		60,543	10,065	21,439
Trade receivables and other accounts receivable	9	328,861	342,665	349,433
Intercompany accounts receivable	10	200	1,117	228
Inventories	11	49,110	45,950	46,104
Hedging assets	12	5,219	612	5,356
Prepayments	13	24,646	11,518	11,563
Tax receivables		72,931	72,125	65,990
Other current assets	14	17,852	181,722	8,206
Subtotal current assets in operation		1,198,559	1,066,746	953,902
Non-current assets and disposal groups held for sale	15	7,781	10,444	10,784
Total current assets		1,206,340	1,077,190	964,686
Non-current assets				
Other financial assets		507	506	1,808
Trade receivables and other accounts receivable	9	4,715	3,574	4,543
Intercompany accounts receivable	10	-	251	-
Investments in associates accounted for by the equity method	17	1,242	1,389	1,484
Intangible assets	18	90,658	90,374	88,857
Property, plant and equipment	19	4,093,341	3,966,063	3,449,448
Deferred tax assets	20	10,114	12,585	20,378
Hedging assets	12	3,411	2,733	1,806
Other non-current assets	14	39,635	42,201	33,689
Total non-current assets		4,243,623	4,119,676	3,602,013
Total assets		5,449,963	5,196,866	4,566,699

The attached notes 1 to 42 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

**INTERIM STATEMENT OF CONSOLIDATED FINANCIAL
SITUATION**

	Note	As of June 30, 2009	As of December 31, 2008	As of January 1, 2008
		KUS\$	KUS\$	KUS\$
LIABILITIES AND NET EQUITY				
Current liabilities				
Current liabilities in operation				
Interest-bearing loans	21	297,692	284,028	235,935
Other financial liabilities	22	-	1,345	1,586
Trade payables and other accounts payable	23	379,994	389,650	364,369
Intercompany accounts payable	10	89	302	355
Provisions	24	1,242	2,217	-
Taxes payable		8,747	7,858	15,374
Other liabilities	25	24,090	109,764	121,637
Deferred income		422,343	446,381	433,882
Hedging liabilities	27	51,658	179,240	6,936
Accrued liabilities on the reporting date	28	110,792	130,675	114,499
Total current liabilities		<u>1,296,647</u>	<u>1,551,460</u>	<u>1,294,573</u>
Non-current liabilities				
Interest-bearing loans	21	2,422,454	2,087,859	1,791,468
Other financial liabilities	22	292,287	285,313	271,853
Trade payables and other accounts payable	23	72,000	90,000	-
Provisions	24	26,320	26,344	25,399
Deferred tax liabilities	20	214,366	167,372	171,046
Other liabilities	25	43,027	47,664	61,586
Long-term and post-employment benefit liabilities	26	3,485	3,865	4,082
Hedging liabilities	27	82,980	168,385	47,815
Total non-current liabilities		<u>3,156,919</u>	<u>2,876,802</u>	<u>2,373,249</u>
Total liabilities		<u>4,453,566</u>	<u>4,428,262</u>	<u>3,667,822</u>
NET EQUITY				
Net equity attributable to equity holders in controller				
Issued capital	29	453,444	453,444	453,444
Other reserves	29	(127,160)	(306,257)	(45,477)
Retained earnings	29	663,315	614,588	485,721
Subtotal - net equity attributable to equity holders in controller		989,599	761,775	893,688
Minority interest		6,798	6,829	5,189
Total net equity		<u>996,397</u>	<u>768,604</u>	<u>898,877</u>
Total liabilities and net equity		<u>5,449,963</u>	<u>5,196,866</u>	<u>4,566,699</u>

The attached notes 1 to 42 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED INTERIM INCOME STATEMENT

	Note	For the 6 months ending as of June 30,		For the 3 months ending as of June 30,	
		2009	2008	2009	2008
		KUS\$	KUS\$	KUS\$	KUS\$
Ordinary income	30	1,595,949	1,955,423	747,674	968,354
Cost of sales		<u>(1,191,635)</u>	<u>(1,426,008)</u>	<u>(593,724)</u>	<u>(730,858)</u>
Gross margin		<u>404,314</u>	<u>529,415</u>	<u>153,950</u>	<u>237,496</u>
Other operating income	33	78,943	82,632	42,578	37,603
Marketing costs		(50,292)	(48,400)	(25,468)	(24,463)
Distribution costs		(152,066)	(177,845)	(79,995)	(88,292)
Administration expenses		(69,713)	(83,675)	(35,031)	(43,456)
Other miscellaneous operating expenses		(50,634)	(63,714)	(19,009)	(30,551)
Finance costs (of non-financial activities)	31	(78,104)	(53,518)	(40,363)	(27,314)
Share in earnings of associates accounted for using the equity method	17	168	398	107	199
Translation differences	34	12,902	(582)	3,313	(14,257)
Profit (loss) because of units of adjustment		(608)	138	(559)	120
Other net gains (losses)		<u>(10,714)</u>	<u>5,619</u>	<u>(331)</u>	<u>21,674</u>
Gain before gains tax		84,196	190,468	2,192	68,759
Gains tax	20	<u>(13,827)</u>	<u>(29,441)</u>	<u>(783)</u>	<u>(10,058)</u>
EARNINGS IN THE PERIOD		<u>70,369</u>	<u>161,027</u>	<u>1,409</u>	<u>58,701</u>
		=====	=====	=====	=====
Earnings in the period attributable to equity holders in the controller		69,247	160,118	4,233	60,489
Earnings in the period attributable to minority interest		1,122	909	(2,824)	(1,788)
		=====	=====	=====	=====
Earnings in the period		<u>70,369</u>	<u>161,027</u>	<u>1,409</u>	<u>58,701</u>
		=====	=====	=====	=====
EARNINGS PER SHARE					
Basic and diluted earnings per share (US\$)	35	0.2	0.47	0.01	0.18

The attached notes 1 to 42 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

**INTERIM STATEMENT OF CONSOLIDATED INTEGRAL
INCOME**

	Note	For the 6 months ending on June 30,		For the 3 months ending on June 30,	
		2009	2008	2009	2008
		KUS\$	KUS\$	KUS\$	KUS\$
EARNINGS IN THE PERIOD		70,369	161,027	1,409	58,701
Other income and expenses debited or credited to net equity:					
Cash flow hedging		214,551	124,482	146,601	147,964
Translation adjustments	34	(308)	(989)	1,824	(3,134)
Gains tax related to components of other income and expenses debited or credited to net equity	20	(36,420)	(21,162)	(24,869)	(25,154)
Integral income and expenses in the period		<u>177,823</u>	<u>102,331</u>	<u>123,556</u>	<u>119,676</u>
Total recognized earnings		248,192	263,358	124,965	178,377
		=====	=====	=====	=====
Integral profit (loss) attributable to:					
Majority shareholders		247,062	262,419	127,407	180,140
Minority interests		1,130	939	(2,442)	(1,763)
INTEGRAL PROFIT (LOSS) IN THE PERIOD		248,192	263,358	124,965	178,377
		=====	=====	=====	=====

The attached notes 1 to 42 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

**INTERIM STATEMENT OF CHANGES IN CONSOLIDATED
NET EQUITY**

	Changes in other reserves					Changes in retained earnings	Changes in net equity attributable to controller	Changes in equity - minority interests	Changes in total net equity
	Changes in issued capital	Option Reserve	Translation Reserve	Hedging Reserves	Other Misc. Reserves				
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Initial balance at January 1, 2009	453,444	1,801	(6,193)	(301,813)	(52)	614,588	761,775	6,829	768,604
Issuance of stock option certificates	0	343	0	0	0	0	343	0	343
Integral profit (loss) in the period	0	0	(262)	(178,077)	0	69,247	247,062	1,130	248,192
Dividends	0	0	0	0	0	(20,762)	(20,762)	0	(20,762)
Other increases (decreases) in net equity	0	(306)	1,180	0	65	242	1,181	(1,161)	20
Final balance at June 30, 2009	453,444	1,838	(5,275)	(123,736)	13	663,315	989,599	6,798	996,397

	Changes in other reserves					Changes in retained earnings	Changes in net equity attributable to controller	Changes in equity - minority interests	Changes in total net equity
	Changes in issued capital	Option Reserve	Translation Reserve	Hedging Reserves	Other Misc. Reserves				
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Initial balance at January 1, 2008	453,444	0	0	(45,425)	(52)	485,721	893,688	5,189	898,877
Issuance of stock option certificates	0	392	0	0	0	0	392	0	392
Integral profit (loss) in the period	0	0	(1,019)	103,320	0	160,118	262,419	939	263,358
Dividends	0	0	0	0	0	(47,306)	(47,306)	0	(47,306)
Other increases (decreases) in net equity	0	0	0	0	0	0	0	(366)	(366)
Final balance at June 30, 2008	453,444	392	(1,019)	57,895	(52)	598,533	1,109,193	5,762	1,114,955

The attached notes 1 to 42 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM STATEMENT OF CONSOLIDATED CASH FLOWS

	For the periods ended on June 30, 2009	
	KUS\$	KUS\$
Cash flow from operations		200
Customer collections	1,583,450	2,333,239
Supplier payments	(1,038,156)	(1,836,496)
Payroll	(270,879)	(232,982)
Value-added tax payments and remittances	20,618	25,538
Cash flows from operations, total	295,033	289,299
Cash flow from other operating activities		
Interest received classified as from operation	5,832	3,840
Earnings tax returns	14,378	10,856
Earnings tax payments	(4,728)	(14,402)
Other receipts (outlays) from other operating activities	58,930	19,048
Cash flow from other operating activities, total	74,412	19,342
Net cash flows from operating activities	369,445	308,641
Net cash flows used in investment activities		
Disposals of property, plant and equipment	10,161	5,194
Disposals of subsidiaries, net of disposed cash	1,503	4,278
Disposal of other financial assets	3,074	5,501
Dividends classified as investment activities	260	587
Interest received classified as investment	244	1,060
Addition of property, plant and equipment	(257,210)	(398,178)
Payments to purchase other financial assets	(53,203)	0
Other investment disbursements	(4,451)	(4,927)
Net cash flows used in investment activities	(299,622)	(386,485)
Net cash flows from financing activities		
Loans obtained	410,725	309,594
Loan payments	(93,079)	(45,368)
Reimbursement of lease-purchase liabilities	(31,327)	(25,920)
Payments for interest classified as financial interest	(57,285)	(41,608)
Dividend payments to minority interests	(313)	(447)
Dividend payments by the reporting entity	(105,001)	(125,643)
Other cash flows from financing activities	44,434	(6,302)
Net cash flows from financing activities	168,154	64,306
Net increase (decrease) in cash and cash equivalent	237,977	(13,538)
Effects of variations in exchange rates on cash and cash equivalent	248	392
CASH AND CASH EQUIVALENT, SHOWN IN THE CASH FLOW STATEMENT, INITIAL BALANCE	400,972	445,583
CASH AND CASH EQUIVALENT, SHOWN IN THE CASH FLOW STATEMENT, FINAL BALANCE	638,197	432,437

The attached notes 1 to 42 form an integral part of these consolidated financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED INTERIM FINANCIAL STATEMENTS AS OF JUNE 30, 2009 AND 2008

NOTE 1 – GENERAL INFORMATION

Lan Airlines S.A. (“LAN”) is an open stock corporation registered under No. 306 with the Securities and Insurance Commission. Its shares are traded on the Valparaíso Stock Exchange, the Electronic Exchange of Chile and the Santiago Stock Exchange in Chile as well as on the New York Stock Exchange (NYSE) in the form of American Depositary Receipts (ADRs). It engages mainly in passenger and cargo air transport on the domestic markets in Chile, Peru, Argentina and Ecuador (this latter beginning in April 2009) and by several regional and international routes in America, Europe and Oceania. It conducts its business either directly or through its subsidiaries in different countries.

The Company is located at Avda. Américo Vespucio Sur 901, Borough of Renca, city of Santiago, Chile.

The Corporate Governance Practices of LAN are governed by Securities Market Law 18,045, Companies Law 18,046 and the Regulations thereto and the Regulations of the Securities and Insurance Commission and laws and regulations of the United States of America and of the U.S. Securities and Exchange Commission (SEC) in regard to the ADR issues.

The Board of Directors of LAN is comprised of 9 regular members elected every 2 years by the Regular Shareholders Meeting. The Board of Directors holds regular meetings monthly and special meetings whenever corporate needs require. Three of the 9 members of the Board are on its Audit Committee, which plays the role stipulated in the Companies Law and performs the duties of the Audit Committee required by the U.S. Sarbanes-Oxley Act and SEC regulations.

According to a Shareholders Agreement made in 2004, LAN is controlled jointly by the Cueto Group, represented by Costa Verde Aeronautica S.A. e Inversiones Mineras del Cantábrico S.A.; and the Piñera Group through Axxion S.A. and Inversiones Santa Cecilia S.A. At June 30, 2009, LAN had a total of 1,197 shareholders in its registry. On that date, 9.53% of the Company’s shares were in the form of ADRs.

In the first quarter of 2009, the Company employed an average of 16,476 people, ending that period with a total of 16,580, 3,079 employed in Management, 2,233 in Maintenance, 4,851 in Operations, 2,695 as Cabin Crew, 1,363 as Cockpit Crew and 2,359 in Sales.

Below are the subsidiaries included in these consolidated financial statements:

Sociedad	RUT	As of June 30, 2009		As of December 31, 2008	
		Direct	Indirect	Direct	Indirect
		%	%	%	%
Comercial Masterhouse S.A.	96.518.860-6	99.9900	0.0100	99.9900	0.0100
Inmobiliaria Aeronáutica S.A.	96.763.900-1	99.0100	0.9900	99.0100	0.9900
Lan Pax Group S.A. and Subsidiaries	96.969.680-0	99.8361	0.1639	99.8361	0.1639
Lan Perú S.A.	Foreign	49.0000	21.0000	49.0000	21.0000
Lan Chile Investments Limited and Subsidiaries	Foreign	99.9900	0.0100	99.9900	0.0100
Lan Cargo S.A. and Subsidiaries	93.383.000-4	99.8939	0.0041	99.8939	0.0041
Connecta Corporation	Foreign	0.0000	100.0000	0.0000	100.0000
Prime Airport Services Inc.	Foreign	0.0000	100.0000	0.0000	100.0000
Transporte Aéreo S.A.	96.951.280-7	0.0000	99.9900	0.0000	99.9900
Ediciones Ladeco América S.A.	96.634.020-7	0.0000	100.0000	0.0000	100.0000
Aircraft International Leasing Limited	Foreign	0.0000	100.0000	0.0000	100.0000
Fast Air Almacenes de Carga S.A.	96.631.520-2	0.0000	100.0000	0.0000	100.0000
Ladeco Cargo S.A.	96.631.410-9	0.0000	100.0000	0.0000	100.0000
Laser Cargo S.R.L.	Foreign	0.0000	100.0000	0.0000	100.0000
Lan Cargo Overseas Limited and Subsidiaries	Foreign	0.0000	100.0000	0.0000	100.0000
Lan Cargo Inversiones S.A. and Subsidiary	96.969.690-8	0.0000	100.0000	0.0000	100.0000
Blue Express INTL S.A. and Subsidiary	96.801.150-2	0.0000	100.0000	0.0000	100.0000
Inversiones Lan S.A. and Subsidiaries	96.575.810-0	99.7100	0.0000	99.7100	0.0000

As indicated in Note 3, the Company has consolidated certain special-purpose entities according to SIC 12.

There have been no changes in the perimeter of consolidation between June 30, 2009 and December 31, 2008.

All entities controlled have been included in the consolidation.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Below is a description of the main accounting policies adopted in preparing these consolidated financial statements. As required by IFRS 1, these policies have been designed according to the IFRS in effect at June 30, 2009 and applied uniformly to all periods shown in these consolidated financial statements.

2.1 Basis of Accounting

The consolidated interim financial statements of Lan as of June 30, 2009 correspond to the period ending June 30, 2009 and have been prepared according to the Internal Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that have been adopted in Chile under the name of Financial Report Standards of Chile (NIFCH). Such international standards were fully, explicitly and unreservedly adopted. Previously, the group's financial statements were prepared according to generally accepted accounting principles of Chile (GAAP).

The consolidated financial statements have been prepared using the historic cost, albeit modified by the reappraisal of certain property, plant and equipment. The exceptions and exemptions are described in Note 3.

Preparing the consolidated financial statements according to IFRS requires using certain critical accounting estimations. It also requires Management to exercise judgment in applying the accounting policies of the Company. Note 5 discusses the areas that entail a greater degree of judgment or complexity or the areas where the assumptions and estimations are significant to the consolidated financial statements. These consolidated interim financial statements have been prepared according to IAS 34/NICCH 34.

On the date of these consolidated interim financial statements, the following accounting rulings were issued by the IASB but were not mandatory:

Standards and Amendments	Mandatory: Fiscal years starting:
Revised IFRS 1: First-time adoption of International Financial Reporting Standards.	7/1/2009
Revised IFRS 3: Business combinations.	7/1/2009
Amendment to IAS 39 and IFRS 7: Reclassification of financial instruments.	7/1/2009
Amendment to IAS 39: Reclassification of financial instruments: transition effective date.	7/1/2009
Amendment to IAS 39: Eligible hedged items.	7/1/2009
Amendment to IAS 27: Consolidated and separate financial statements.	7/1/2009
Improvement to the IFRS	7/1/2009
Improvement to IAS 38: Intangible assets	7/1/2009
Amendment to IFRS 2: Share-based payments	1/1/2010

Amendment to IFRS 5: Non-current assets held for sale or discontinued operations	1/1/2010
Amendment to IFRS 8: Operating segments	1/1/2010
Amendment to IAS 1: Presentation of financial statements	1/1/2010
Amendment to IAS 7: Cash flow statement	1/1/2010
Amendment to IAS 7: Leases	1/1/2010
Improvement to IAS 36: Impairment of assets	1/1/2010
Amendment to IAS 39: Financial instruments: recognition and measurement	1/1/2010

Interpretations

Mandatory: Fiscal years starting:

IFRIC 17: Distributions of non-cash assets to owners.	07/01/2009
IFRIC 18: Transfers of assets from customers.	07/01/2009
Amendment to IFRIC 9: Reassessment of embedded derivatives	7/1/2009
Amendment to IFRIC 16: Hedges of a net investment in a foreign operation	7/1/2009

The Company's management considers that adopting the standards, amendments and interpretations described above will have no material impact on the consolidated financial statements of the Company in the period when first applied.

2.2 Basis of Consolidation

(a) Subsidiaries

Subsidiaries are entities (including special-purpose entities) in which the Company has the power to direct the financial and operating policies, which generally is accompanied by an interest above one-half of the voting rights. When evaluating whether the Company controls another entity, the existence and effect of potential voting rights that are currently exercised or converted is taken into account. Subsidiaries are consolidated as of the date when control is transferred to the Company and they are excluded from the consolidation on the date when such control ceases.

The acquisition cost is used to record the acquisition of subsidiaries by the Company. The acquisition cost is the fair value of assets, of equity securities and of liabilities on the transaction date, plus costs forming a direct part of the acquisition. Identifiable assets and liabilities and identifiable contingent liabilities assumed in a business combination are appraised initially at the fair value on the date of acquisition, regardless of the scope of minority interest. The cost above the fair value of the company's interest in identifiable net assets is recognized as goodwill. If the acquisition cost is less than the fair value of the net assets of the subsidiary, the difference is recognized directly in the consolidated income statement (Note 2.5(a)).

Intercompany transactions, balances and unrealized earnings in intercompany transactions are eliminated. Unrealized losses are also eliminated unless there is evidence of an impairment loss on the asset in the transaction. Whenever necessary, the accounting policies of subsidiaries are modified to assure uniformity with the policies adopted by the Company.

(b) Minority Transactions and Interests

The Group applies the policy of considering transactions with minority shareholders to be transactions with third parties external to Lan Airlines S.A. and Subsidiaries. The sale of minority interests entails gains and/or losses for Lan Airlines S.A. and Subsidiaries that are recognized in the consolidated income statement. The purchase of minority interests results in goodwill, which is the difference between the price paid and the proportional carrying amount of the subsidiary's net assets.

(c) Associates

Associates are entities in which Lan Airlines S.A. and Subsidiaries exercise a material influence but do not have control. Generally they hold an interest of 20% to 50% of the voting rights in associates. The investments in associates are accounted for using the equity method and are initially recognized at the cost. The investment by Lan Airlines S.A. and Subsidiaries in associates includes the goodwill in the purchase, net of any cumulative impairment loss (Note 2.5 (a)).

The share of Lan Airlines S.A. and Subsidiaries in losses or gains subsequent to the acquisition of associates is recognized in income and their share in activity subsequent to acquisition in reserves is recognized in reserves. The carrying amount of investments is adjusted by the cumulative movements subsequent to acquisition. When the share of

Lan Airlines S.A. and Subsidiaries in the losses of an associate is greater than or equal to their share in that associate, including any other unsecured receivables, Lan Airlines S.A. and Subsidiaries do not recognize additional losses unless they have assumed debt or made payments in the name of the associate.

Unrealized earnings in transactions between Lan Airlines S.A. and Subsidiaries and their associates are eliminated according to the percentage interest of Lan Airlines S.A. and Subsidiaries in those associates. Unrealized losses are also eliminated unless there is evidence in the transaction of an impairment loss on the asset being transferred. Whenever necessary, the accounting policies of associates are modified to assure uniformity with the policies adopted by Lan Airlines S.A. and Subsidiaries.

The dilution losses or gains in associates are recognized in the income statement.

2.3 Foreign Currency Translation

(a) Currency of Presentation and Functional Currency

The items included in the financial statements of each of the entities of Lan Airlines S.A. and Subsidiaries are appraised using the currency of the main economic environment in which the entity does business (“functional currency”). The functional currency of Lan Airlines S.A. is the American dollar, which is also the currency in which the consolidated financial statements of Lan Airlines S.A. and Subsidiaries are prepared.

(b) Transactions and Balances

Foreign currency transactions are converted to the functional currency using the exchange rates prevailing on the dates of the transactions. Translation losses and gains in the settlement of these transactions and in the conversion of the foreign currency–denominated cash assets and liabilities at the closing exchange rates are recognized in the income statement.

Changes in the fair value of financial investments in foreign currency–denominated debt securities, classified as available for sale, are separated into translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences are recognized in period income and other changes in the carrying amount are recognized in net equity and are shown according to IAS 1 in the integral income statement.

The translation differences on non-cash items, such as equity instruments kept at the fair value through profit or loss, are presented as part of the fair value gain or loss. Translation differences on non-cash items such as equity instruments classified as financial assets available for sale are included in net equity in the translation reserve.

(c) **Entities in the Group**

The income and financial situation of all entities in the Group (none of which uses the currency of a hyperinflationary economy) that use a functional currency other than the currency of presentation are converted to the currency of presentation in the following way:

- (i) Assets and liabilities in each balance sheet are converted at the closing exchange rate on the date of the balance sheet;
- (ii) Income and expenses of each income account are converted at the exchange rate existing on the transaction date; and
- (iii) All resulting translation differences are recognized as a component separate from net equity.

In the consolidation, the translation differences in the conversion of a net investment in foreign entities (or national entities using a functional currency different from the parent) and of loans and other instruments hedging those investments are carried in net equity. When the investment is sold, those translation differences are recognized in the statement of income as part of the loss or gain on the sale.

Adjustments to goodwill and to the fair value because of the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are converted at the closing exchange rate for the fiscal year.

2.4 Property, Plant and Equipment

The land of Lan Airlines S.A. and Subsidiaries is recognized initially at cost. The remaining property, plant and equipment are shown at the historic cost in the initial recognition and in subsequent measurements, less corresponding depreciation.

Subsequent costs (component replacement, improvements, enlargements, etc.) are included in the value of the original asset or recognized as a separate asset only when it is likely that the future economic benefit associated with the elements of fixed assets will flow to the company and the cost of the element can be determined reliably. The value of the component that is substituted is retired on the books. The remaining repairs and maintenance are debited against income in the fiscal year in which they are performed.

Constructions under way include the following items accrued only during the period of construction:

- (i) Financial expenses for the external financing directly attributable to construction, both specific and generic in nature. The financial expenses of generic financing are capitalized using the average weighted cost of long-term financing applied to the average cumulative capitalizable investment not specifically financed.
- (ii) Directly related personnel expenses and other operating expenses allocable to the construction.

The depreciation of fixed assets is calculated using the straight-line method to allocate costs or revaluations to residual values in respect of their estimated technical useful lives, except for certain technical components, which are depreciated according to cycles and hours flown.

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

When the value of an asset is higher than its estimated recovery, the value is reduced immediately to the recoverable amount (Note 2.7).

Losses and gains on the sale of property, plant and equipment are calculated comparing the income earned to the carrying value and they are included in the consolidated income statement.

2.5 Intangible Assets

(a) Goodwill

Goodwill is the excess above the acquisition cost as compared to the fair value of the company's share in identifiable net assets of the subsidiary or associate on the date of acquisition. Goodwill in the acquisition of subsidiaries is included in intangible assets and tested for an impairment in value. Gains and losses on the sale of an entity include the carrying amount of the goodwill related to that entity.

The goodwill is allocated to cash-generating units (CGU) in order to test for impairment losses. The allocation is made to CGUs that are expected to benefit from the business combination in which the goodwill occurred.

(b) Data Processing Software

The licenses for data processing software are capitalized at the cost of acquiring and preparing them for specific use. These costs are amortized during their estimated useful lives.

The expenses of data processing software development or maintenance are recognized as an expense when disbursed. The cost directly related to production of unique and identifiable data processing software controlled by the Company that are likely to generate economic benefits above cost for more than one year are recognized as intangible assets. The direct costs include the expenses of staff that develop the data processing software and an adequate percentage for overhead.

The software development expenses recognized as assets are amortized over their estimated useful lives.

2.6 Interest Costs

Interest costs incurred in building any qualified asset are capitalized over the period of time required to complete and prepare the asset for the intended use. Other interest costs are recorded in income.

2.7 Impairment Losses on Non-Financial Assets

Assets that have an indefinite useful life are not amortizable and are tested annually for impairment losses. Amortizable assets are tested for impairment losses whenever there is an event or change in circumstances that indicates that the carrying amount might not be recoverable. An excess carrying value of the asset above its recoverable amount is recognized as an impairment loss. The recoverable amount is the fair value of an asset,

less the cost of sale or of use, whichever of the two is higher. Assets are grouped together to evaluate impairment losses at the lowest level for which there are cash flows identifiable separately (CGU). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed once a year to check whether there were any reversals of the loss.

2.8 Financial Assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables, financial assets kept through maturity and assets available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at the time of the initial recognition.

(a) Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss are financial assets kept for trading. A financial asset is classified in this category if it is acquired mainly for the purpose of being sold in the short term. Derivatives are also classified for trading unless they are designated hedges. Assets in this category are classified as current assets.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are recorded in current assets, except when they expire more than 12 months from the date of the balance sheet, in which case they are classified as non-current assets. Loans and receivables are included in trade receivables and other receivables in the balance sheet (Note 2.11).

(c) Financial Assets kept through maturity

Financial assets kept through maturity are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company's management has the positive intention and capacity to keep through maturity. If the Company sells a material amount of the financial assets kept through maturity, the entire category will be reclassified as available for sale. These available-for-sale financial assets are included in non-current assets unless they expire less than 12 months from the date of the balance sheet, in which case they are classified as current assets.

(d) **Financial Assets Available for Sale**

Financial assets available for sale are not derivatives that are put in this category or are not classified in any of the other categories. They are included in non-current assets unless management intends to sell the investment within the 12 months following the date of the balance sheet.

The purchases and sales of investments are recognized on the transaction date, i.e. the date when the Lan promises to acquire or sell the asset. The investments are recognized initially at the fair value, plus the transaction costs for all financial assets not taken at fair value through profit or loss. Financial assets at fair value through profit or loss are recognized initially at the fair value and the costs of the transaction are carried in income. Investments are retired from the books when the rights to receive cash flows from the investments have expired or have been transferred and Lan has substantially transferred all risks and advantages from holding them. The financial assets available for sale and financial assets at fair value through profit or loss are thereafter recorded at their fair value. Loans, receivables and financial assets kept through maturity are recorded at their amortized cost according to the effective interest rate method.

Losses and gains from changes in the fair value of the category of financial assets at fair value through profit or loss are included in the consolidated statement of income in “other net gains / losses” in the fiscal year in which they occur. Income from dividends on financial assets at fair value through profit or loss are recognized in the consolidated statement of income in “other operating income” when the right of the Company to receive the payment is established.

Variations in the fair value of cash securities denominated in foreign currency and classified as available for sale are analyzed by separating the differences in the amortized cost of the security from other changes in the carrying amount of the security. The translation differences of cash securities are recognized in the consolidated statement of income; the translation differences of non-cash securities are recognized in net equity. The variations in the fair value of cash securities and non-cash securities classified as available for sale are recognized in net equity.

The cumulative adjustments at the fair value recognized in net equity when securities classified as available for sale are sold or suffer an impairment loss are included in the consolidated statement of income under “other net gains / (losses).”

The interest on securities held for sale calculated using the effective interest rate method is recognized in the consolidated statement of income under “other operating income.” Dividends from the net equity instruments available for sale are recognized in the consolidated statement of income under “other operating income” when the right of the Company to receive the payment is established.

The fair values of quoted investments are based on the current purchase prices. If the market for a financial asset (and for the securities not quoted) is inactive, the Company sets the fair value using appraisal techniques that include the use of recent, unrestricted transactions between knowledgeable, willing parties regarding other substantially like instruments, the analysis of discounted cash flows and the optional pricing models, maximizing market information and relying as little as possible on specific information on the entity. If no such technique can be used to set the fair value, the investments are recorded at their acquisition cost, net of the impairment loss, if relevant.

The Company evaluates whether there is objective evidence that a financial asset or group of financial assets may have suffered impairment losses on the date of each balance sheet. In order to determine whether equity securities classified as available for sale have suffered impairment losses, there must be a significant or prolonged decline in the fair value of the security below its cost. If there is any objective evidence on available-for-sale financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in gains or losses, is eliminated from net equity and is recognized in the consolidated statement of income. Impairment losses on equity investments recognized in the consolidated statement of income are not reversed through the consolidated statement of income.

2.9 Derivatives and Hedging

Derivatives are initially recognized at the fair value on the date when the derivatives contract is made and are then reappraised at their fair value thereafter. The method for recognizing the resulting loss or gain depends on whether the derivative has been designated a hedge and, if so, the nature of the item it is hedging. The Company designates certain derivatives as:

- (a) Hedging of the fair value of recognized assets (fair value hedge);
- (b) Hedging of a concrete risk associated with a known liability or a highly likely transaction (cash flow hedge); or

- (c) Derivatives that do not qualify for hedge accounting.

The Company documents the relationship between the hedging instruments and the items hedged at the beginning of the transaction and the objectives in managing the risk and strategy to implement diverse hedging transactions. The Company also documents its evaluation, at the start and on a continuing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in the fair value or in the cash flow of the hedged items.

The total fair value of hedging derivatives is classified as a non-current asset or liability if the period remaining to the maturity of the hedged item is greater than 12 months; and as a current asset or liability if the period remaining to maturity of the hedged item is less than 12 months. Non-hedging derivatives are classified as a current asset or liability.

(a) **Fair Value Hedge**

The changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the consolidated statement of income together with any change in the fair value of the hedged asset or liability allocable to the risk hedged.

(b) **Cash Flow Hedge**

The effective part of changes in the fair value of derivatives designated and qualified as cash flow hedges is recognized in net equity. The loss or gain on the non-cash portion is immediately recognized in the consolidated statement of income in “other net gains/(losses).”

This means, in the case of variable interest rate hedges, that the amounts recognized in equity are reclassified to financial expenses as the interest accrues on the associated debt.

Fuel hedges recognized in equity are reclassified to cost-of-sales as the fuel being hedged is used.

Any cumulative gain or loss in net equity when a hedge expires or is sold or does not meet the requirements for hedge accounting remains in the equity through that moment and is recognized when the forecasted transaction is finally recognized in the

consolidated statement of income. When the forecasted transaction is not expected to take place, the cumulative gain or loss in net equity is immediately carried to “other net gains /(losses)” in the consolidated statement of income.

(c) **Non-Hedge Derivatives**

Certain derivatives do not qualify for hedge accounting and are recognized at the fair value through profit or loss. The changes in fair value of any derivative not qualifying for hedge accounting are immediately recognized in “other net gains /(losses)” in the consolidated statement of income.

2.10 Inventories

Inventories are accounted for at their cost or at their net realizable value, whichever is lower. Cost is determined by the average weighted price (AWP) method. The net realizable value is the estimated sale price in the normal course of business, less any variable cost of sale.

2.11 Trade Receivables and Other Receivables

Trade receivables are recognized initially at their fair value and subsequently at their amortized cost using the effective interest rate method, less the impairment loss reserve. A provision is made for impairment losses on trade receivables when there is objective evidence that the company will be incapable of collecting all sums owed according to the original terms of the receivable. Material financial difficulties of the debtor, the probability that the debtor will go bankrupt or undergo a financial reorganization and the failure to pay or late payment are indicators that the receivable has become impaired. The provision is made for the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced as the provision is used and the loss is recognized in “cost of sale” in the consolidated statement of income. When a receivable is written off, it is regularized against the receivables provision account.

2.12 Cash and Cash Equivalent

Cash and cash equivalent include cash on hand, time deposits in banks, other short-term, highly liquid investments originally expiring in 3 months or less, and bank overdrafts.

2.13 Issued Capital

Common stock is classified in net equity.

The incremental costs directly attributable to issuing new stock or options are presented in net equity as a deduction from income earned, net of taxes.

When any Group entity purchases shares in the Company (treasury stock), the consideration paid, including any directly attributable incremental cost (net of earnings tax), is deducted from the equity attributable to shareholders in the Company until cancelled, re-issued or sold. When these shares are sold or are later re-issued, any amount received, net of any directly attributable incremental cost of the transaction and the corresponding effects of the earnings tax, are included in the net shareholders' equity.

2.14 Trade Payables and Other Accounts Payable

Suppliers are recognized at the face value.

2.15 Interest-bearing Loans

Outside funding is initially recognized at the fair value, net of the costs incurred in the transaction. Outside resources are later appraised at the amortized cost. Any difference between the funding obtained (net of the costs required to obtain it) and the reimbursement amount is recognized in the consolidated statement of income during the life of the debt using the effective interest rate method.

Outside resources are classified in current liabilities and non-current liabilities based on the maturity of the nominal principal by contract.

2.16 Deferred Taxes

Deferred taxes are calculated using the balance sheet method on the temporary differences between the fiscal basis of assets and liabilities and the carrying amounts. However, deferred taxes are not accounted for when they come from the initial recognition of a liability or asset in a transaction other than a business combination that does not affect either the book profit or loss or the fiscal gain or loss at the time of the transaction. The deferred tax is determined using the tax rates (and laws) approved or

about to be approved on the date of the balance sheet that are expected to apply when the corresponding deferred tax asset is realized or the deferred tax liability is settled.

Deferred tax assets are recognized when it is likely that future fiscal benefits will be available against which temporary differences can be offset.

Deferred taxes for temporary differences stemming from investments in subsidiaries and associates are recognized except when the Company can control the date when the temporary differences will be reversed and it is likely that they will not be reversed in the foreseeable future.

2.17 Employee Benefits

(a) Employee vacations

The Company recognizes employee vacation expenses on an accrual basis.

(b) Stock-based compensation

The compensation plans implemented through stock options are recognized in financial statements according to IFRS 2, and the effect of the fair value on the options is debited against salary in a straight line between the date when the options are granted and the date when they become irrevocable.

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

Liabilities that are provisioned using the actuarial value of the accrued cost of the benefit take into account estimations such as future permanency, mortality rates and future salary increases determined on the basis of actuarial calculations. Discount rates are set by reference to market interest rate curves. The changes in those provisions are recognized in income in the period in which they occur.

(d) Incentives

The Company has an employee annual incentive plan in place for meeting goals and making individual contributions to results. Potential incentives consist of a certain number or portion of monthly salaries and are provisioned on the basis of the estimated payment.

2.18 Provisions

Provisions are recognized when:

- (i) the Company has a present legal or implicit liability as a result of past occurrences;
- (ii) it is likely that disbursements will be required to settle the liability; and
- (iii) the amount has been reliably estimated.

Provisions are valued by the present value of disbursements that are expected to be required to settle the liability, according to the Company's best estimate. The discount rate used to determine the present value is a reflection of the actual market assessments of temporary value of money on the date of the balance sheet as well as the specific risk related to that particular liability.

2.19 Recognition of Income

Ordinary income includes the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's business. Ordinary income is shown net of value-added tax, returns, rebates and discounts.

The Company recognizes income when the amount of income can be reliably appraised, it is likely that the future economic benefits will flow into the Company and the specific conditions are met for each of the Company's businesses, as described below.

(a) Sale of services

a.1 Passenger and cargo transport

The Company recognizes passenger and cargo transport income when the service has been rendered.

a.2 Frequent flyer program

The Company has a frequent flyer program in place called Lan Pass. It fosters customer loyalty by awarding kilometers each time the members of the program take certain flights, use services of affiliated entities or

make purchases with an affiliated credit card. The kilometers can be exchanged for free tickets or other services of affiliated entities. The consolidated financial statements include liabilities for this reason (deferred income), estimated at the redemption value of the accumulated kilometers pending use on that date, in line with IFRIC 13.

a.3 **Other income**

The Company recognizes income from other services when the services have been rendered.

(b) **Interest income**

Interest income is recognized using the effective interest rate method. When a receivable suffers an impairment loss, the Company reduces the carrying amount to the recoverable amount by deducting the future estimated cash flows at the original effective interest rate of the instrument. It then continues to account for the discount as less interest income. The interest income on loans that have become impaired is recognized using the effective interest rate method.

(c) **Dividend income**

Income from dividends is recognized when the right to receive the payment is established.

2.20 Leases

(a) **When the Company is lessee - lease-purchases**

The Company leases certain properties, plants and equipment where it assumes substantially all risks and advantages of the property. For that reason, it classifies them as lease-purchases. Lease-purchases are capitalized at the start of the lease, at the fair value of the leased property or at the present value of the minimum lease payments, whichever is lower.

Each lease payment is distributed between liabilities and financial charges to obtain a constant interest rate for the balance pending payment. The corresponding lease liabilities, net of financial charges, are included in “interest-bearing loans.” The interest component of the financial cost is debited in the consolidated statement of income

during the term of the lease so as to obtain a constant periodic interest rate on the remaining balance of the liability in each fiscal year. The good acquired under a lease-purchase is depreciated over its useful life and is included in property, plant and equipment.

(b) When the Company is lessee – operating lease

Leases in which the lessor retains an important part of the risks and advantages of ownership are classified as operating leases. Payments under an operating lease (net of any incentive received from the Lessor) are debited on a linear basis in the consolidated statement of income during the period of the lease.

2.21 Non-Current Assets (or Disposal Groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale and are recognized at the lower of the carrying value and the fair value, less the cost of sale.

2.22 Environment

Disbursements for environmental protection are imputed to income as they are made, unless they can be capitalized according to the IFRS.

NOTE 3 – TRANSITION TO THE IFRS

3.1 Basis for Transition to the IFRS

3.1.1. Application of IFRS 1

The consolidated financial statements of the Company correspond to the period ending June 30, 2009 and they were prepared according to the International Financial Reporting Standards (IFRS). The Company has applied IFRS 1 in preparing its consolidated financial statements.

The Company's transition date is January 1, 2008. The Company has prepared its opening IFRS balance sheet as of that date. The Company adopted the IFRS on January 1, 2009.

According to IFRS 1, all obligatory exceptions and some of the optional exemptions in retroactive application of the IFRS have been applied in preparing these consolidated financial statements.

3.1.2 Exemptions from retroactive application chosen by Lan Airlines S.A. and Subsidiaries

(a) Business combinations

The Company has applied the exemption for business combinations under IFRS 1. Therefore, it has restated the business combinations since 1997.

(b) Fair value or reappraisal as attributable cost

The Company has chosen to measure certain items in property, plant and equipment at their fair value on the transition date of January 1, 2008.

(c) Employee benefits

The Company has chosen to recognize all actuarial gains and losses accumulated as of January 1, 2008.

(d) Translation reserve

This exemption does not apply.

(e) Compound financial instruments

The Company has not issued any compound financial instruments so this exemption does not apply.

(f) Transition date for subsidiaries, associates and commonly controlled entities, subsidiaries and associates with a different transition date

This exemption does not apply since both the Parent Company and its affiliates adopted IFRS for the first time on the same date, January 1, 2009.

(g) Restatement of comparables regarding IAS 32 and IAS 39.

This exemption does not apply.

(h) **Share-based payments**

This exemption was not adopted by the Company.

(i) **Insurance contracts**

This exemption does not apply.

(j) **Restoration and dismantling liabilities**

The Company did not have any asset or operation as of January 1, 2008 because of which it might incur dismantling or similar costs. Therefore, this exemption does not apply.

(k) **Initial appraisal of financial assets and liabilities at fair value**

This exemption does not apply.

(l) **Service Concessions**

This exemption does not apply.

(m) **Comparative information for exploration businesses and the assessment of mineral resources.**

This exemption does not apply.

(n) **Leases**

This exemption does not apply.

3.2 Conciliation of IFRS to Generally Accepted Accounting Principles of Chile

The conciliations presented below quantify the impact of the transition by the Company to IFRS:

- 3.2.1 Consolidated equity as of December 31, 2008
- 3.2.2 Consolidated equity as of January 1, 2008
- 3.2.3 Consolidated equity as of June 30, 2008
- 3.2.4 Income for the period ending June 30, 2008
- 3.2.5 Income for the fiscal year ending December 31, 2008
- 3.2.6 Consolidated statement of cash flow for the fiscal year ending December 31, 2008

3.2.1 Conciliation of consolidated net equity at December 31, 2008

	<u>KUS\$</u>
GAAP in Chile	1,117,978
Lan Pass Program	(91,945)
Property, plant and equipment	38,122
Financial liabilities	14,884
Goodwill	27,580
JOL Consolidation	(34,490)
Maintenance	14,723
Deferred taxes in complementary accounts	(8,645)
Reserve for derivative hedging	(301,813)
Minority interests	6,829
Translation adjustment	(6,193)
Other	(8,426)
Effect of transition to IFRS	(349,374)
Net equity according to IFRS	<u>768,604</u>

3.2.2 Conciliation of consolidated net equity at January 1, 2008

	<u>KUS\$</u>
GAAP in Chile	988,052
Lan Pass Program	(83,245)
Property, plant and equipment	51,082
Financial liabilities	14,884
Goodwill	27,580
JOL Consolidation	(44,454)
Maintenance	(477)
Deferred taxes in complementary accounts	(8,645)
Reserve for derivative hedging	(45,425)
Minority interests	5,189
Other	(5,664)
Effect of transition to IFRS	(89,175)
Net equity according to IFRS	<u>898,877</u>

3.2.3 Conciliation of consolidated net equity at June 30, 2008

	<u>KUS\$</u>
GAAP in Chile	<u>1,120,880</u>
Lan Pass Program	(75,485)
Property, plant and equipment	47,627
Financial liabilities	13,822
Goodwill	27,580
JOL Consolidation	(40,047)
Maintenance	8,111
Deferred taxes in complementary accounts	(8,645)
Reserve for derivative hedging	(57,895)
Minimum dividend	(41,479)
Translation adjustment	(1,019)
Minority interests	5,762
Other	(47)
Effect of transition to IFRS	<u>(5,925)</u>
Net equity according to IFRS	<u>1,114,955</u>

3.2.4 Conciliation of income for the period ending June 30, 2008

	<u>KUS\$</u>
GAAP in Chile	<u>138,264</u>
Lan Pass Program	7,760
Property, plant and equipment	(3,455)
Financial liabilities	(1,062)
JOL Consolidation	4,407
Maintenance	8,588
Minority interests	909
Other	<u>(5,616)</u>
Effect of transition to IFRS	<u>22,763</u>
Net equity according to IFRS	<u>161,027</u>

3.2.5 Conciliation of income for the fiscal year ending December 31, 2008

	<u>KUS\$</u>
GAAP in Chile	<u>335,739</u>
JOL Consolidation	9,964
Maintenance	15,200
Property, plant and equipment	(12,960)
Lan Pass Program	(8,700)
Minority interest	1,831
Other	<u>(2,762)</u>

Effect of transition to IFRS	<u>2,573</u>
IFRS at the date of the last annual financial statements	<u>338,312</u>

Below are explanations of the different items included in the above conciliations.

1. Lan Pass Program

Under Chilean GAAP, accumulated kilometers were accounted for as a provision calculable at the incremental cost. According to IFRS, kilometers are accounted for as deferred income at fair value until the kilometers are flown.

2. Property, Plant and Equipment

In the initial adoption, the Company re-evaluated some components of property, plant and equipment, mainly buildings, land and other technical components. This reappraisal was made one-time only according to IFRS 1 and the new value represents the initial cost of the asset as of the transition date. The financing costs became a part of the effective interest rate on the loan to finance the fixed asset, which is deducted from the capitalized value.

3. Financial Liabilities

Financing costs accounted for as property, plant and equipment according to Chilean GAAP became a part of the effective interest rate of the loan under IFRS. Furthermore, financial expenses were calculated using the amortized cost.

4. Goodwill

Under IFRS, the Company has considered goodwill to be an intangible with an indefinite useful life. At least once a year, the cash generating unit on which there is goodwill is evaluated for an eventual impairment in the fair value. If there is any evidence of impairment, the goodwill is adjusted by debiting income. In the initial adoption, the Company decided to restate the business combinations since 1997 so goodwill amortization has been reversed since that date. No other effects occurred because of those restatements.

5. JOL Consolidation

The Company operates 17 aircraft under the Japanese Operating Lease Financing Method (JOL). This method entails creating a special-purpose company that purchases the aircraft using bank and third-party financing. Under Chilean GAAP, aircraft were accounted for as an operating lease. This created an aircraft lease expense in the consolidated statement of income. Under the IFRS and in harmony with SIC 12, these aircraft are accounted for as part of property, plant and equipment in the consolidated statement of financial situation and the corresponding debt is recognized as a liability.

6. Maintenance

Under Chilean GAAP, only major maintenance of the Company's fleet was recognized as an asset while the major maintenance of the leased fleet was recognized via provisions until the next maintenance was performed. Under IFRS, major maintenance of the entire fleet is capitalized and amortized.

7. Deferred Taxes – Complementary Accounts

Technical Bulletin No. 60 of the Chilean Accountants Association permitted recording the effect of the first application of this rule against an account in the consolidated statement of financial situation called “complementary asset (liability) for deferred liabilities (assets)” according to Chilean GAAP. Those complementary assets (liabilities) were amortized against income in the estimated period of reversal of the temporary difference that created it, except for complementary liabilities that originated in the accounting of deferred tax assets because of tax losses, in which case the amortization was made based on the real utilization of those losses. Under IFRS, complementary asset (liability) accounts were reversed entirely against retained earnings in the initial adoption.

Moreover, all differences between Chilean GAAP and IFRS in the transition that were accounted for either in retained earnings or in other reserves were calculated and the corresponding deferred tax recorded in the item that created it. Hence, the differences because of regulations are net of deferred taxes in the conciliations presented as of each of the pertinent dates.

8. Reserve for Derivative Hedges

Under IFRS, realized gains and/or losses under fuel hedges and/or interest rate hedges are recognized in the line for the hedged item (fuel and/or financial expenses) in the consolidated statement of income. In addition, the market value of derivative contracts

in a cash flow hedge are deferred in an equity reserve account. This represents a change with respect to fuel hedges since under Chilean GAAP, realized gains or losses for this reason used to be recognized in non-operating income while the market value of fuel hedges and interest rate hedges was recognized in asset and liability accounts.

9. Minority Interest

Under the IFRS, the net equity of the Company is comprised both of the interest of shareholders in a dominant company and the interest of minority shareholders in its affiliates. Under Chilean GAAP, the minority interest used to be classified in a line between long-term liabilities and net equity.

10. Translation Adjustment

According to the IFRS, the translation adjustment because the functional currency of some companies is different from the currency of presentation of these financial statements is included in net equity. These companies are subsidiaries whose functional currencies are Chilean pesos and Argentine pesos.

11. Minimum Dividend

Pursuant to Article 79 of the Chilean Companies Law, save resolution otherwise unanimously adopted by the Company's Shareholders' Meeting, open stock corporations must pay a dividend annually to shareholders amounting to at least 30% of the net profits from each fiscal year, unless there are offsettable cumulative losses from previous fiscal years. Under the IFRS, the Company has accounted for this obligation on an accrual basis, net of interim dividends approved as of the closing date. According to Chilean GAAP, this liability was recorded only once the dividend was declared.

3.2.6 Conciliation of the cash flow statement for the fiscal year ending December 31, 2008

The main differences between Chilean GAAP and IFRS in the preparation of cash flow statements relates to the classification of lease-purchase payments (included as investing activities under Chilean GAAP and as financing activities under IFRS), the interest paid (included as operating activities under Chilean GAAP and as finance activities under IFRS), and the collateral backing derivatives (shown as financing activities under Chilean GAAP and operating activities under IFRS).

NOTE 4 – MANAGEMENT OF FINANCIAL RISK

4.1 Financial Risk Factors

The business of the Company is exposed to diverse financial risks: (a) market risk; (b) credit risk; and (c) liquidity risk. The company's global risk management program concentrates on the uncertainty of financial markets and tries to minimize the potential adverse effects in the net margin. The Company uses derivatives to hedge against part of those risks.

(a) Market risks

Due to the nature of its operations, the Company is exposed to market risks such as (i) the price of fuel; (ii) interest rates; and (iii) local exchange rates. The company uses derivatives to set or limit the rises in underlying assets in order to hedge against all or part of those risks.

(i) Price of fuel

The variation in fuel prices depends significantly on the supply and demand of oil in the world, on the decisions adopted by the OPEC, on the worldwide refining capacity, on levels of inventories, on weather phenomena and geopolitical factors.

The Company purchases Grade 54 Jet Fuel for aircraft. There is a benchmark index on the international market for this underlying asset, namely the US Gulf Coast Jet 54. However, the average price of the fuel basket that the Company has in different countries correlates better to the price of WTI Crude. In addition to being a better correlation, this underlying asset is more liquid. As a result, there are greater advantages in hedging against the variations in WTI Crude than against the variations in US Gulf Coast Jet 54.

During the first semester of 2009, the Company recognized losses totaling US\$110 million. In the same period in 2008, it had earnings of US\$31 million for fuel hedging.

At the close of June 2009, the market price of fuel positions totaled US\$22.8 million (negative). At the close of December 2008, that market price was US\$ 170.2 million

(negative). The tables below show the notional value of the purchase positions and derivatives contracted for the different periods:

Positions at June 30, 2009

	Maturities			
	Q3/09	Q4/09	Q1/10	Total
Volume (000's of WTI barrels)	1,080	1,380	300	2,760
Agreed future price (US\$ per barrel)*	82	77	92	81
Total (KUS\$)	88,560	106,260	27,600	223,560
Approximate hedging percentage (on volume expected to be consumed)	38%	48%	10%	32%

*Weighted average between active collars and options

Positions at December 31, 2008

	Maturities					
	Q1/09	Q2/09	Q3/09	Q4/09	Q1/10	Total
Volume (000's of WTI barrels)	900	1,170	540	570	300	3,480
Agreed future price (US\$ per barrel)*	107	104	93	92	92	98
Total (KUS\$)	96,300	121,680	50,220	52,440	27,600	348,240
Approximate hedging percentage (on volume expected to be consumed)	33%	44%	19%	20%	10%	25%

*Weighted average between active collars and options

Sensitization

A drop in fuel prices has a positive impact on the Company because it reduces costs. Yet this drop has an adverse impact on positions since they aim at protecting the Company from the risk of a price rise. For the same reason, the policy is to have a percentage unhedged in order to be competitive when there is a drop in prices.

Since the outstanding positions do not involve changes in cash flow but rather a variation in market price exposure, the outstanding hedging positions have no impact on income (and are accounted for as cash flow hedges, so a variation in the fuel price has an impact on the Company's net equity).

The next table sensitizes the financial instruments taking into account reasonable changes in the fuel price and their impact on equity. The projection is through the expiration of the last outstanding fuel hedge, which is the last business day of the first quarter of 2010. The calculations were made using a parallel movement of 5 dollars per barrel on the future reference price curve of WTI crude oil at the close of June 2009 and at the close of December 2008.

WTI reference price (US\$ per barrel)	Position at June 30, 2009 Effect on equity (US\$ millions)	Position at December 31, 2008 Effect on equity (US\$ millions)
+5	+9.7	+15.7
-5	-9.3	-16.1

The Company tries to reduce the risk posed by rising fuel prices by assuring that it will not be at a disadvantage in comparison to its competitors should there be an abrupt drop in price. To that end, the Company uses hedging such as swaps, options and collars that partially hedge the volumes of fuel consumed.

Since it has been determined that the fuel derivatives contracted by the Company are efficient, there is no impact on income because of changes in their appraisal shown in each period.

The fuel hedge structure for the first half of the year takes into account a hedge-free portion, so a vertical drop of 5 dollars in the WTI reference price (which is the monthly daily average) for each month would have meant savings of approximately 17 million dollars in the total cost of fuel.

(ii) **Risk of interest rates in cash flows**

A variation in interest rates depends strongly on the state of the world economy. An improvement in the long-term economic outlook moves long-term interest rates upwards while a drop causes a reduction because of the market effects. However, if we take into account government invention, benchmark rates are usually reduced during contractions in order to push up aggregate demand by making credit more accessible and increasing production (in the same way that there are rises in benchmark rates during expansions). The uncertainty of how the market and governments will behave and, therefore, how the interest rate will vary entails a risk to the company's variable-rate debt and to the investments that it holds.

The interest rate risk in debt is equal to the risk of future cash flows of the financial instruments given the fluctuation in interest rates on the market. The Company's exposure to market interest rate changes relates mainly to long-term variable-rate liabilities.

In order to reduce the risk of an eventual rise in interest rates, the Company signed interest rate swaps and call options that eliminate more than 95% of exposure to interest

rate fluctuations. A small portion the Company's debt is thus exposed to variations in the LIBOR and the 180-day nominal bank rate.

The next table shows the sensitivity of changes in financial liabilities not hedged against interest rate variations. These changes are considered reasonably possible based on actual market conditions.

Increase (decrease) in Libor	Position as of June 30, 2009, effect on pre-tax gains (MUS\$).	Position as of December 31, 2008, effect on pre-tax gains (MUS\$).
+100 base points	-0.80	-0.65
-100 base points	+0.80	+0.65

Changes in market conditions cause the value of outstanding interest hedges to vary and an effect on the Company's equity (because they are accounted for as cash flow hedges). These changes are considered reasonably possible based on actual market conditions. The calculations were made by vertically increasing (decreasing) 100 base points on the futures curve of the 3-month libor.

Increase (decrease) in futures curve	Position as of June 30, 2009, effect on equity (MUS\$)	Position as of December 31, 2008, effect on equity (MUS\$)
+100 base points	49.35	63.37
-100 base points	(53.33)	(68.94)

Since the interest rate derivatives contracted by the Company have been designated efficient, there is no impact on income due to changes in their appraisal shown in each period.

There are market-imposed limitations on the method used in the sensitivity analysis. The levels indicating future curves will not necessarily occur and will vary in each period.

(iii) **Local exchange rate risk**

The functional currency of the Parent Company is the American Dollar. It uses that currency to set its sales prices, comprise its balance sheet and measure effects on

revenues. It sells most of its services in American Dollars or in prices equivalent to the American Dollar and a large part of its expenses are expressed in American Dollars or the equivalent, in particular fuel, aviation fees, aircraft leases, insurance and aircraft components and accessories. Payroll is expressed in local currency.

The Company accounts for the rates of international cargo and passenger business in American dollars. There is a mix of rates for the domestic business since sales are made in Peru in local currency, but the prices are indexed to the American dollar. In Chile and Argentina, the rates are in local currency and there is no indexation of any kind. The rates and sales for domestic business in Ecuador are in dollars. As a result, the company is exposed to the fluctuations of diverse currencies: the Chilean peso, Argentina peso, Uruguayan peso, Euro, new Peruvian sol, Brazilian real, Australian dollar and New Zealand dollar. The greatest exposure occurs in Chilean pesos.

During the first half of 2009, the Company received loans from local banks equivalent in pesos to US\$220 million, payable in 3 years with one year of grace. In order to reduce the risk of a rise in the exchange rate, the Company signed cross-currency swaps that set payment of a part of these loans in dollars.

(b) Credit risk

Credit risk arises when the counterparty breaches his obligations to the Company under a certain financial contract or instruments and that breach causes a loss in the market value of a financial instrument (only financial assets, not liabilities).

The Company is exposed to credit risk in its operating and financing activities, including deposits with banks and financial institutions, investments and other types of instruments, exchange rate transactions and derivatives or options contracts.

(i) Financing activities

Cash surpluses remaining after financing assets required for operation are invested according to the credit limits approved by the Board of Directors of the Company, mainly in time deposits with different banks, short-term mutual funds, short-term corporate and sovereign bonds that have short remaining lives and are easily convertible. These investments are accounted for as cash and cash equivalent and investments held through maturity.

In order to reduce the counterparty risk and to ensure that the company knows and manages the risk, investments are diversified with different banks (local and international). The Company evaluates the credit rating of each counterparty and levels of investments based on (i) risk rating, (ii) equity of the counterparty; and (iii) investment limits according to level of liquidity of the Company. Based on these three rules, the Company chooses the most restrictive of the above three rules and then sets limits on transactions with each counterparty.

Given the delicate national and international financial situation, the Company made its credit risk policy stricter during 2008. It began to invest only in banks that had a high market equity and a local credit rating above AA. This limited investments to certain local banks that signified increasing the investment limits for banks that qualified under this policy.

The Company maintains no collateral to mitigate this exposure.

(ii) **Operating activities**

The Company has four large sales “clusters”: travel agencies, cargo agents, airlines and credit card administrators. The first three are governed by IATA (International Air Transport Association) and any agency or airline that does not pay its debt cannot operate with the group of IATA airlines. Credit card administrators are fully secured by card issuers.

The exposure comes from the periods of payment that fluctuate from 1 to 45 days.

One of the tools used by the Company in reducing credit risk is to participate in world industry organizations such as IATA, BSP (Business Sales Processing), CASS (CRC, Clearing House) and banks (credit cards). These entities play the role of collectors and distributors among airlines and travel and cargo agencies. The Clearing House acts as a clearing agent among airlines for the services they render to each other. A reduction in periods and the implementation of collateral have been arranged through these organizations.

(c) **Liquidity risk**

Liquidity risk is the risk that the Company has no money to pay its liabilities.

Given the cyclical nature of its business, the operation and the investment and financing needs because of the addition of new aircraft and renovation of its fleet as well as the financing required to hedge market risks, the Company needs cash to pay its debt.

Therefore, the Company manages its cash and cash equivalent to match the periods of its investments to its liabilities. The policy is that the average term of investments cannot exceed the average term of liabilities. This cash and cash-equivalent position is invested in highly liquid short-term instruments through prime financial entities.

The Company maintains a liquid policy that results in a significant volume of cash availability. The Company began a financial reinforcement plan to handle greater liquidity than in previous fiscal years in order to be prepared for eventual drops in passenger and cargo traffic. The Company therefore replaced approximately US\$90 million it had in cash collateral delivered to financial counterparties by stand-by letters of credit. The Company's Board of Directors also authorized contracting loans or issuing debt securities (in the form of bonds) on the local market for close to US\$250 million. At the end of June 2009, the Company secured the equivalent in pesos to US\$270 million from a local bank over a three-year period of payment that included one year of grace.

The Company has future liabilities under lease-purchases, operating leases, the maturities of other bank debt, derivatives and aircraft purchase agreements.

The Company's financial policy since 1998 is not to contract any short-term debt.

Type of liability for analysis of liquidity risk, grouped by maturity as of June 30, 2009

Type of liability	Debtor I.D. No.	Name of Debtor	Description of currency	Lender name	Up to 1 month KUS\$	From 1 to 3 months KUS\$	3 to 12 months KUS\$	1 to 5 years KUS\$	5 years or more KUS\$	Total KUS\$	Type of amortization	Effective Rate %	Nominal value KUS\$	Nominal rate %
Secured debt	89.862.200-2	Lan Airlines S.A.	US\$	ING	4,872	2,500	22,153	109,893	128,666	268,084	3 months	5.14	211,193	4.67
		Lan Airlines S.A.	US\$	CALYON	8,186	12,780	63,120	268,430	51,059	403,575	3 months	5.00	359,044	5.30
		Lan Airlines S.A.	US\$	PEFCO	5,939	11,634	52,673	280,912	314,726	665,884	3 months	5.27	532,771	4.74
		Lan Airlines S.A.	US\$	BNP PARIBAS	8,158	14,892	69,283	373,212	533,214	998,759	3 months	4.76	797,251	4.14
		Lan Airlines S.A.	US\$	RBS	2,034	4,049	18,250	97,334	148,096	269,763	3 months	6.31	198,324	5.67
Lease-purchase	89.862.200-2	Lan Airlines S.A.	US\$	ING	3,998	-	11,990	91,475	-	107,463	3 months	4.58	95,296	4.30
		Lan Airlines S.A.	US\$	CALYON	605	1,729	7,063	38,222	59,439	107,068	3 months	0.80	98,805	1.81
		Lan Airlines S.A.	US\$	OTHER	4,155	6,980	34,269	76,568	-	121,972	3 months	0.51	118,924	1.23
Bank loans	89.862.200-2	Lan Airlines S.A.	US\$	OTHER	-	-	11,271	281,519	0	292,790	6 months	4.19	267,391	4.25
Derivatives	89.862.200-2	Lan Airlines S.A.	US\$	OTHER	5,534	11,068	29,683	65,618	20,745	132,648	-	-	-	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries			114,025	265,969	-	72,000	-	451,994	-	-	-	-

Type of liability for analysis of liquidity risk, grouped by maturity as of December 31, 2008

Type of liability	Debtor I.D. No.	Name of Debtor	Description of currency	Lender name	Up to 1 month KUS\$	From 1 to 3 months KUS\$	3 to 12 months KUS\$	1 to 5 years KUS\$	5 years or more KUS\$	Total KUS\$	Type of amortization	Effective Rate %	Nominal value KUS\$	Nominal rate %
Secured debt	89.862.200-2	Lan Airlines S.A.	US\$	ING	2,934	2,521	16,005	80,577	83,287	185,324	3 months	5.34	147,811	4.86
		Lan Airlines S.A.	US\$	CALYON	9,359	14,949	69,166	345,897	142,471	581,842	3 months	4.21	493,629	5.46
		Lan Airlines S.A.	US\$	PEFCO	5,939	11,611	52,665	280,925	349,840	700,980	3 months	5.27	554,927	4.74
		Lan Airlines S.A.	US\$	BNP PARIBAS	6,670	15,007	63,104	343,427	517,761	945,969	3 months	5.63	732,412	4.87
		Lan Airlines S.A.	US\$	RBS	2,034	4,049	18,250	97,334	160,263	281,930	3 months	6.31	204,689	5.67
Lease-purchase	89.862.200-2	Lan Airlines S.A.	US\$	ING	4,224	-	12,035	63,899	37,361	117,519	3 months	5.58	101,071	5.18
		Lan Airlines S.A.	US\$	OTHER	4,210	7,212	33,822	103,888	-	149,132	3 months	2.06	139,993	2.73
Bank loans	89.862.200-2	Lan Airlines S.A.	US\$	OTHER	-	3,465	3,465	-	-	6,930	3 months	6.98	6,752	6.96
Derivatives	89.862.200-2	Lan Airlines S.A.	US\$	OTHER	19,576	39,968	119,696	112,822	55,562	347,624	-	-	-	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries			94,889	294,761	-	90,000	-	479,650	-	-	-	-

Given the nature of the Company's aviation business, it leases an important part of its fleet. Leases require collateral. Some of those leases require cash collateral and others stand-by letters of credit. The aviation authorities in all countries where the Company operates require securing the payment of aviation fees for one or more months of operation. This cash collateral is recorded as collateral for liabilities. The Company also has defined certain fuel hedging strategies that consist of contracting derivatives with certain financial institutions. The Company has margin lines with each bank in order to regulate reciprocal exposure caused by changes in the market appraisal of derivatives. During 2008, the Company was forced to provide cash collateral due to the drop in fuel prices, which is recorded as liability collateral.

At June 30, 2009, the Company had delivered US\$177.8 million in collateral for derivative margins. As of that same date, US\$171 million had been recovered because of the expiration of fuel contracts, the rise in the price of fuel and rates, and the replacement of cash collateral by stand-by letters of credit.

4.2 Capital Risk Management

The objectives of the Company in managing capital are (i) to safeguard the capital to continue as an ongoing concern; (ii) to earn a return for shareholders; and (iii) to maintain an optimal capital structure by reducing capital costs.

The Company could adjust the amount of dividends payable to shareholders, reimburse capital to shareholders, issue new shares or sell assets to reduce debt in order to maintain or adjust the capital structure.

The Company tracks capital according to a leverage indicator in line with the sector practice. This indicator is calculated as adjusted net debt divided by capital. The adjusted net debt is calculated as the total financial debt 8 times revenues in the last 12 months, less total cash (measured as cash and cash equivalent plus marketable

securities). Capital is calculated as net equity without the impact of the market price of derivatives, plus net adjusted debt.

The Company's strategy in 2008 was the same as 2007, consisting of maintaining a leverage indicator from 70% to 80% and an international credit rating above BB- (the minimum required to be considered investment grade). Leverage indicators at June 30, 2009 and December 31, 2008 were:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Total loans	<u>3,012,433</u>	<u>2,657,200</u>
Revenues in the last twelve months x 8	560,456	564,216
Less:		
Cash and marketable securities	<u>699,740</u>	<u>411,037</u>
Total net adjusted debt	2,873,149	2,810,379
Net equity	989,599	761,775
Fair value of derivatives	<u>123,736</u>	<u>301,813</u>
Total capital	<u>3,986,484</u>	<u>3,873,967</u>

4.3 Estimation of Fair Value

The fair value of financial instruments traded on active markets (such as officially quoted derivatives and investments purchased for trading and available for sale) is based on the market prices at the close of the period. The financial asset market price is the current purchase price.

The carrying amount, less the provision for impairment of accounts receivable and payable, is assumed to be near fair values given the short term nature of trade receivables. The fair value of financial liabilities in financial reporting is estimated by discounting the future cash flows by contract at the current market interest rate available for similar financial instruments.

NOTE 5 – ESTIMATES AND ACCOUNTING JUDGMENTS

The Company has used estimates in appraising and accounting for some assets, liabilities, income, expenses and commitments. These estimates basically refer to:

1. The evaluation of potential impairment losses in certain assets.

2. The useful life and residual value of material and intangible assets.
3. The criteria used in appraising certain assets.
4. The amount of plane tickets sold that will ultimately not be used.
5. The calculation of deferred revenues at the close of the fiscal year corresponding to Lan Pass customer kilometers pending use.
6. The calculation of provisions and accrued liabilities.
7. The recoverability of deferred tax assets.

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

In any case, these estimates and judgments may have to be changed in future fiscal years because of events that may take place in the future. Any such changes will be made on a predictive basis.

NOTE 6 – REPORTING BY SEGMENT

The Company provides information by segment according to IFRS 8 “Operating segments.” That rule establishes standards for reporting by segment in the financial statements and disclosures on products and services, geographic areas and main customers. An operating segment is defined as a component of an entity on which there is separate financial information that is evaluated regularly by the senior management in making decisions on the allocation of resources and the evaluation of results. The Company considers that it has only one operating segment (air transport).

The Company’s revenues by geographic area are:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	KUS\$	KUS\$	KUS\$	KUS\$
Peru	197,169	186,311	96,654	95,406
Argentina	191,634	190,468	82,927	91,820
USA	315,864	443,052	144,460	227,974
Europe	144,470	177,605	62,153	78,413
Chile	469,341	595,105	226,889	285,019
Other *	<u>348,835</u>	<u>441,905</u>	<u>172,056</u>	<u>224,273</u>
Total (**)	<u>1,667,313</u>	<u>2,034,446</u>	<u>785,139</u>	<u>1,002,905</u>

The Company allocates revenues to the geographic area on the basis of the ticket or cargo point of sale. Tangible assets are comprised mainly of aircraft and aviation equipment, which are used freely throughout the different countries and therefore are not allocable to a geographic area.

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

(**) Includes ordinary revenues and other operating income, net of financial investment income shown in Note 33.

NOTE 7 – CASH AND CASH EQUIVALENT

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Cash flow	2,821	2,729
Balances in banks	41,649	9,378
Time deposits	477,372	259,019
Other	<u>117,355</u>	<u>129,846</u>
Total	<u>639,197</u>	<u>400,972</u>

The balances comprising cash and cash equivalent by currency are shown below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30,</u> <u>2009</u>	<u>As of December 31,</u> <u>2008</u>
Type of currency	KUS\$	KUS\$
Argentine peso	5,635	8,235
Euro	4,559	6,053
Brazilian real	2,464	2,155
Chilean peso	372,373	124,932
U.S. Dollar	183,970	212,721
Other currencies	<u>70,196</u>	<u>46,876</u>
Total	<u>639,197</u>	<u>400,972</u>

Starting in 2003 in Venezuela, the authority decided that all remittances to abroad must be approved by the Foreign Currency Board (CADIVI). Despite bolivars being freely available inside Venezuela, the Company must abide by certain restrictions in remitting that money outside of Venezuela.

The Company does not engage in significant non-cash transactions that must be disclosed, nor has it acquired companies in either period.

NOTE 8 – FINANCIAL INSTRUMENTS

8.1 Financial Instruments by Category

June 30, 2009

<u>Assets</u>	<u>Held until maturity</u>	<u>Loans and receivables</u>	<u>Hedging derivatives</u>	<u>Held for trading</u>	<u>Total</u>
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Other financial assets	61,050	-	-	-	61,050
Derivative financial instruments	-	-	8,630	-	8,630
Trade receivables and other accounts receivable	-	333,576	-	-	333,576
Intercompany receivables	-	200	-	--	200
Cash and cash equivalent	-	521,842	-	117,355	639,197
Total	<u>61,050</u>	<u>657,686</u>	<u>8,630</u>	<u>117,355</u>	<u>1,042,653</u>

June 30, 2009

<u>Liabilities</u>	<u>Hedging derivatives</u>	<u>Other financial liabilities</u>	<u>Total</u>
	KUS\$	KUS\$	KUS\$
Interest-bearing loans	-	2,720,146	2,720,146
Other financial liabilities	-	292,278	292,278
Trade payables and other accounts payable	-	451,994	451,994
Intercompany accounts payable	-	89	89
Derivative financial instruments	134,638	-	134,638
Total	<u>134,638</u>	<u>3,464,519</u>	<u>3,599,154</u>

December 31, 2008

<u>Assets</u>	<u>Held until maturity</u>	<u>Loans and receivables</u>	<u>Hedging derivatives</u>	<u>Held for trading</u>	<u>Total</u>
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Other financial assets	10,571	-	-	-	10,571
Derivative financial instruments	-	-	3,345	-	3,345
Trade receivables and other accounts receivable	-	346,239	-	-	346,239
Intercompany receivables	-	1,368	-	-	1,368
Cash and cash equivalent	-	271,126	-	129,846	400,972
Total	<u>10,571</u>	<u>618,733</u>	<u>3,345</u>	<u>129,846</u>	<u>762,495</u>

December 31, 2008

<u>Liabilities</u>	<u>Held for trading</u>	<u>Hedging derivatives</u>	<u>Other financial liabilities</u>	<u>Total</u>
	KUS\$	KUS\$	KUS\$	KUS\$
Interest-bearing loans	-	-	2,371,887	2,371,887
Other financial liabilities	1,345	-	285,313	286,658
Trade payables and other accounts payable	-	-	479,650	479,650
Intercompany accounts payable	-	-	302	302
Derivative financial instruments	-	347,625	-	347,625
Total	<u>1,345</u>	<u>347,625</u>	<u>3,137,152</u>	<u>3,486,122</u>

8.2 Credit Quality of Financial Assets

The Company uses the external credit evaluation system provided by IATA. Internal systems are also used to evaluate individuals or specific markets based on credit histories available on the local market. The internal rating is supplemental to the external rating, i.e. if agencies or airlines are not members of IATA, the internal requirements are greater. The uncollectibles rate is insignificant in the main countries where the Company does business.

NOTE 9 – TRADE RECEIVABLES AND OTHER ACCOUNTS RECEIVABLE

	As of June 30, 2009	As of December 31, <u>2008</u>
	KUS\$	KUS\$
Trade receivables	285,962	297,603
Less: Provision for receivables impairment loss	<u>(24,693)</u>	<u>(22,790)</u>
Trade receivables - net	261,269	274,813
Other accounts receivable	<u>72,307</u>	<u>71,426</u>
Total	333,576	346,239
Less: Non-current portion	<u>(4,715)</u>	<u>(3,574)</u>
Current portion	<u>328,861</u>	<u>342,665</u>

The fair value of trade receivables and other accounts receivables does not differ significantly from the carrying value.

Assets in judicial collection 100%

The criteria used to determine whether there is objective evidence of an impairment loss are:

- Maturity of the portfolio
- Concrete signs from the market; and
- Concrete events of impairment (default).

The activity of impairment loss provisions for accounts receivable was as follows:

	KUS\$
At January 1, 2008	21,946
Write-offs	(2,007)
Provision increases	<u>1,543</u>
Balance at June 30, 2008	<u>21,482</u>
At July 1, 2008	21,482
Write-offs	(2,790)
Provision increases	<u>4,098</u>
Balance at December 31, 2008	<u>22,790</u>
At January 1, 2009	22,790
Write-offs	(1,243)
Provision increases	<u>3,146</u>
Balance at June 30, 2009	<u>24,693</u>

Once preliminary and judicial collection actions have been exhausted, the assets are retired against the provision. The Company uses a provision, instead of a direct write-off, to keep a better control.

Historic and outstanding rescheduling of debt is irrelevant and the policy is to analyze case by case in order to classify them according to the risk and determine whether they

must be reclassified to preliminary collection accounts. If a reclassification is warranted, a provision is established for what is past due and coming due.

There are no impaired assets in the remaining accounts receivable.

The maximum credit risk exposure on the reporting date is the fair value of each of the categories of accounts receivable indicated above.

	<u>As of June 30, 2009</u>			<u>As of December 31, 2008</u>		
	Gross exposure according to balance sheet	Gross impairment exposure	Net exposure in concentrated risk	Gross exposure according to balance sheet	Gross impairment exposure	Net exposure in concentrated risk
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Trade receivables	285,962	(24,693)	261,269	297,603	(22,790)	274,813
Other accounts receivable	72,307	--	72,307	71,426	-	71,426

Collateral is irrelevant in the credit risk and is appraised when enforced. There are no materially important direct guarantees. All guarantees are established through IATA. IATA makes periodic assessments of the need to establish, not establish or increase collateral according to risk and/or regulations.

NOTE 10 – INTERCOMPANY ACCOUNTS RECEIVABLE AND PAYABLE

Intercompany accounts receivable and payable are described below as of June 30, 2009 and December 31, 2008:

a) Accounts receivable

Current

Taxpayer Id. No.	Name	As of June 30, 2009	As of December 31, 2008
		KUS\$	KUS\$
87.752.000-5	Granja Marina Tornagaleones S.A.	--	13
9.259.640-0	Claudia Urrutia U.	--	139
96.812.280-0	San Alberto S.A. and subsidiaries	29	29
96.669.520-K	Red de Television Chilevision S.A.	158	16
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	6	12
96.778.310-2	Concesionaria Chucumata S.A.	5	3

Taxpayer Id. <u>No.</u>	<u>Name</u>	As of June 30, 2009	As of December 31, <u>2008</u>
78.005.760-2	Sociedad de Seguridad Aerea S.A.	--	905
96.921.070-3	Austral Sociedad Concesionaria S.A.	<u>2</u>	
Total		<u>1,789</u>	<u>1,117</u>

Non-current

Taxpayer Id. <u>No.</u>	<u>Name</u>	As of June 30, 2009	As of December 31, <u>2008</u>
		KUS\$	KUS\$
9.259.640-0	Claudia Urrutia U.	--	<u>251</u>
Total		--	<u>251</u>

b) Accounts payable

Current

Taxpayer Id. <u>No.</u>	<u>Name</u>	As of June 30, 2009	As of December 31, <u>2008</u>
		KUS\$	KUS\$
96.847.880-K	Lufthansa Lan Technical Training S.A.	59	255
96.894.180-1	Bancard Inversiones Ltda.	--	19
96.921.070-3	Austral Sociedad Concesionaria S.A.	--	2
Foreign	Inversora Aeronautica Argentina	27	26
87.752.000-5	Granja Marina tornagaleones S.A.	<u>3</u>	--
Total		<u>89</u>	<u>302</u>

Intercompany transactions have been performed as they would be performed by knowledgeable willing parties.

NOTE 11 - INVENTORIES

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Spare parts and materials	<u>49,110</u>	<u>45,950</u>
Total	<u>49,110</u>	<u>45,950</u>

The items included here are spare parts and materials that will be used in own maintenance and third-party maintenance. They are appraised at the average acquisition cost. The resulting amounts do not exceed the replacement values.

At June 30, 2009, the Company recorded KUS\$15,266 in income, mainly because of on-board service consumption and maintenance. That amount was KUS\$19,505 at June 30, 2008.

NOTE 12 – HEDGING ASSETS

Hedging assets are described below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current	467	612
Foreign currency risk cash flow hedge	159	--
Fuel price risk cash flow hedge	4,593	--
	<hr/>	<hr/>
Total	5,219	612
Non-current		
Interest rate risk cash flow hedge	3,411	2,733
	<hr/>	<hr/>
Total	3,411	2,733
Total hedging assets	<u>8,630</u>	<u>3,345</u>

NOTE 13 - PREPAYMENTS

Prepayments are described below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Aviation insurance and other	14,514	5,078
Aircraft lease	6,250	4,080
Other	<u>3,882</u>	<u>2,360</u>
Total	<u>24,646</u>	<u>11,518</u>

NOTE 14 – OTHER ASSETS

Other assets are described below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current		
Derivative margin collateral	6,680	177,840
Other guarantees granted	9,178	1,864
Other	<u>1,994</u>	<u>2,018</u>
Total	<u>17,852</u>	<u>181,722</u>
Non-current		
Deposits in guarantee (aircraft)	13,680	13,680
Other guarantees granted	1,418	2,798
Deferred expense in aircraft leases	8,501	9,847
Other	<u>16,036</u>	<u>15,876</u>
Total	<u>39,635</u>	<u>42,201</u>

NOTE 15 – NON-CURRENT ASSETS AND DISPOSAL GROUPS HELD FOR SALE

Non-current assets and disposal groups held for sale are described below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Engines	4,262	4,751
Inventories in consignment	2,432	4,564
Dismantled aircraft	911	911
Rotables	<u>176</u>	<u>218</u>
Total	<u>7,781</u>	<u>10,444</u>

One engine and rotables in the Boeing 737 fleet were sold in the period from January 1 to June 30, 2009. One Boeing 737 aircraft was sold in the same period in 2008 and 3 Boeing aircraft were added.

The Company has no operations that were discontinued as of June 30, 2009.

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

The Company holds investments in companies that have been recognized as investments in subsidiaries. All companies defined as subsidiaries have been

consolidated in the financial statements of Lan Airlines S.A. and Subsidiaries. The consolidation also include special-purpose companies.

Below is summary financial reporting providing the sum of financial statements of subsidiaries and special-purpose companies:

As of June 30, 2009

	<u>Sum of assets</u>	<u>Sum of liabilities</u>
	KUS\$	KUS\$
Current	438,550	369,415
Non-current	<u>1,275,716</u>	<u>1,033,842</u>
Total	<u>1,714,266</u>	<u>1,403,257</u>

As of December 31, 2008

	<u>Sum of assets</u>	<u>Sum of liabilities</u>
	KUS\$	KUS\$
Current	510,577	403,683
Non-current	<u>1,301,826</u>	<u>1,111,622</u>
Total	<u>1,812,403</u>	<u>1,515,305</u>

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Sum of ordinary income	941,208	1,014,114	445,521	507,129
Sum of expenses	<u>(925,444)</u>	<u>(1,008,440)</u>	<u>(467,097)</u>	<u>(526,034)</u>
Sum of net gain (loss)	<u>15,764</u>	<u>5,674</u>	<u>(21,576)</u>	<u>(18,905)</u>

NOTE 17 – INVESTMENTS IN ASSOCIATES

Summary financial information is presented below on the sum of financial statements of affiliates corresponding to the statement of financial situation as of June 30, 2009 and December 31, 2008 and statements of income for the periods January – June 2009, January - June 2008, April - June 2009 and April - June 2008.

	<u>Sum of assets</u>	<u>Sum of liabilities</u>
	KUS\$	KUS\$
As of June 30, 2009		

Current	5,483	1,475
Non-current	<u>710</u>	<u>285</u>
Total	<u>6,193</u>	<u>1,760</u>

As of December 31, 2008

Current	3,831	576
Non-current	<u>1,300</u>	<u>238</u>
Total	<u>5,131</u>	<u>814</u>

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009 KUS\$	2008 KUS\$	2009 KUS\$	2008 KUS\$
Sum of ordinary income	3,449	3,488	1,647	1,800
Sum of expenses	<u>(2,604)</u>	<u>(2,418)</u>	<u>(1,387)</u>	<u>(1,173)</u>
Sum of net gain (loss)	<u>845</u>	<u>1,070</u>	<u>260</u>	<u>627</u>

The Company has recognized the shares it holds in the following companies as investments in associates: Austral Sociedad Concesionaria S.A., Lufthansa Lan Technical Training S.A. and Concesionaria Chucumata S.A. The Company has not made any investments in associates in the period January to June 2009.

<u>Company</u>	<u>Cost of investment</u> KUS\$	<u>Country of incorporation</u>	<u>Functional currency</u>	<u>Percentage Interest</u> %
Austral Sociedad Concesionaria S.A.	661	Chile	Chilean peso	20.0
Lufthansa Lan Technical Training S.A.	702	Chile	Chilean peso	50.0
Concesionaria Chucumata S.A.	119	Chile	Chilean peso	16.7

These companies mainly engage in the following businesses:

Austral Sociedad Concesionaria S.A.: It engages in the construction, conservation, rendering and exploitation of aviation services exclusively for the Passenger Terminal of the Carlos Ibañez del Campo Airport in Punta Arenas.

Lufthansa Lan Technical Training S.A.: It provides training services to the aviation and other industries.

Concesionaria Chucumata S.A.: It engages in the execution, construction, concession and rendering of services to air terminals.

The investment activity in associates accounted for using the equity method is:

	KUS\$
Initial balance at January 1, 2008	<u>1,484</u>
Share in earnings	398
Share in items from previous periods	--
Dividends received	<u>(565)</u>
Total changes in investments in associates	<u>(167)</u>
Final balance at June 30, 2008	<u>1,317</u>

	KUS\$
Initial balance at July 1, 2008	<u>1,317</u>
Share in earnings	298
Dividends received	<u>(226)</u>
Total changes in investments in associates	<u>72</u>
Final balance at December 31, 2008	<u>1,389</u>

	KUS\$
Initial balance at January 1, 2009	<u>1,389</u>
Share in earnings	168
Share in items from previous periods	(55)
Dividends received	<u>(260)</u>
Total changes in investments in associates	<u>(147)</u>
Final balance at June 30, 2009	<u>1,242</u>

The Company recognizes the profit or loss on its investments in associates monthly in the consolidated statement of income, using the equity method.

NOTE 18 – INTANGIBLE ASSETS

(a) Composition and activity of intangible assets

Intangible assets are described below:

<u>Type of intangible assets (net)</u>	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$

<u>Type of intangible assets (net)</u>	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Goodwill (net)	62,873	62,927
Identifiable intangible assets (net)	<u>27,785</u>	<u>27,447</u>
Total	<u>90,658</u>	<u>90,374</u>

<u>Type of intangible assets (gross)</u>	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Goodwill (gross)	62,873	62,927
Identifiable intangible assets (gross)	<u>53,958</u>	<u>49,389</u>
Total	<u>116,831</u>	<u>112,316</u>

	<u>Data Processing Software (net)</u>	<u>Other assets (net)</u>	<u>Total (net)</u>
	KUS\$	KUS\$	KUS\$
At January 1, 2008	23,348	965	25,313
Additions	3,561	840	4,401
Disposal by sale of business	--	(961)	(961)
Amortization	<u>(3,278)</u>	<u>(36)</u>	<u>(3,314)</u>
Balances at June 30, 2008	<u>24,631</u>	<u>808</u>	<u>25,439</u>

	<u>Data Processing Software (net)</u>	<u>Other assets (net)</u>	<u>Total (net)</u>
	KUS\$	KUS\$	KUS\$
At July 1, 2008	24,631	808	25,439
Additions	6,030	330	6,360
Retirements	(875)	--	(875)
Amortization	<u>(3,404)</u>	<u>(73)</u>	<u>(3,314)</u>
Balances at December 31, 2008	<u>26,382</u>	<u>1,065</u>	<u>27,447</u>

	<u>Data Processing Software (net)</u>	<u>Other assets (net)</u>	<u>Total (net)</u>
	KUS\$	KUS\$	KUS\$
At January 1, 2009	26,382	1,065	27,447
Additions	4,660	--	4,660
Retirements	(73)	--	(73)
Amortization	<u>(4,190)</u>	<u>(59)</u>	<u>(4,249)</u>
Balances at June 30, 2009	<u>26,779</u>	<u>1,006</u>	<u>27,785</u>

Intangible assets with a defined useful life consist mainly of computer software that have been purchased entirely from third parties. The Company has defined a useful life of 4 to 7 years for these assets. Other identifiable intangible assets are amortized on a straight-line basis over a period of 10 years.

The Company appraises its intangibles at the acquisition cost and the amortization is made on a straight-line basis over the estimated useful lives. The amortization in each period is recognized in the consolidated statement of income. The cumulative amortization of data processing software was KUS\$25,995 at June 30, 2009 (KUS\$21,823 at December 31, 2008). The cumulative amortization of other identifiable intangible assets was KUS\$178 at June 30, 2009 (KUS\$119 at December 31, 2008).

(b) Goodwill

The Company has allocated goodwill to the cash generating unit: air transport.

The recovery from a CGU is determined by calculating the value in use. These calculations are obtained from the pre-tax cash flow based on assumptions covering a period of 5 years. Cash flows beyond 5 years are extrapolated using growth rate estimates below the mean growth rate.

Management has not seen signs of impairment of goodwill and has no other intangible assets with an undefined useful life.

Goodwill activity

	KUS\$
Initial balance at January 1, 2008	63,544
Retirement due to business disposal	(555)
Increase (decrease) in foreign currency conversion	<u>25</u>
Balances at June 30, 2008	<u>63,014</u>
Initial balance at July 1, 2008	63,014
Increase (decrease) in foreign currency conversion	<u>(87)</u>
Final balance at December 31, 2008	<u>62,927</u>
Initial balance at January 1, 2009	62,927
Increase (decrease) in foreign currency conversion	<u>(54)</u>
Final balance at June 30, 2009	<u>62,873</u>

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(a) The table below provides an itemization and activity of the different categories of property, plant and equipment:

	<u>Gross property, plant & equipment</u>				<u>Net property, plant & equipment</u>	
	At June 30, 2009	At December <u>31, 2008</u>	At June 30, 2009	At December <u>31, 2008</u>	At June 30, 2009	At December <u>31, 2008</u>
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Constructions under way	249,266	267,844	--	--	249,266	267,844
Land	35,538	35,538	--	--	35,538	35,538
Buildings	94,812	94,792	(17,364)	(16,582)	77,178	78,210
Plant and equipment	3,871,457	3,779,640	(736,159)	(699,729)	3,135,301	3,079,911
IT equipment	78,732	75,756	(62,167)	(59,420)	16,575	16,336
Fixed installations and accessories	42,289	40,118	(19,932)	(18,091)	22,357	22,027
Motor vehicles	2,909	2,654	(1,903)	(1,845)	1,006	809
Improvement of leased assets	66,391	59,428	(19,139)	(12,879)	47,252	46,549
Other property, plant and equipment	<u>864,188</u>	<u>709,116</u>	<u>(355,310)</u>	<u>(290,277)</u>	<u>508,878</u>	<u>418,839</u>
TOTAL	<u>5,305,582</u>	<u>5,064,886</u>	<u>(1,212,241)</u>	<u>(1,098,823)</u>	<u>4,093,341</u>	<u>3,966,063</u>

b) As of June 30, 2008

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment	Fixed installations and accessories (net)	Motor vehicles (net)	Improvement in leased assets (net)	Other property, plant and equipment (net)	Property, plant and equipment (net)
	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Initial balance as of January 1, 2008	424,747	23,564	80,059	2,418,308	16,336	22,027	985	20,620	440,542	3,449,448
Additions	115,685	19	190	366,025	2,299	655	44	-	7,246	492,181
Disposals	-	-	-	(225)	(1)	-	-	-	-	(226)
Transfers to (from) non-current assets and groups	-	-	-	(17,365)	-	-	-	-	-	(17,365)
Disposals by business sale	-	-	-	(100)	(256)	(1,687)	(17)	-	(74)	(2,146)
Retirements	(12)	-	-	(2,940)	(11)	-	(5)	-	(212)	(3,168)
Depreciation expenses	-	-	(1,061)	(80,461)	(2,904)	(1,691)	(112)	(2,569)	(16,253)	(105,051)
Increases (decreases) in currency exchange	-	-	-	14	(48)	(71)	5	-	23	(74)
Other increases (decreases)	<u>(144,468)</u>	-	-	<u>5,084</u>	<u>(98)</u>	<u>49</u>	-	<u>4,762</u>	<u>(6,152)</u>	<u>(140,823)</u>
Total changes	<u>(28,793)</u>	38	<u>(871)</u>	<u>270,032</u>	<u>(1,019)</u>	<u>(2,745)</u>	<u>(85)</u>	<u>2,193</u>	<u>(15,422)</u>	<u>223,328</u>
Final balance at June 30, 2008	<u>395,954</u>	<u>23,602</u>	<u>79,188</u>	<u>2,688,340</u>	<u>16,243</u>	<u>20,616</u>	<u>900</u>	<u>22,813</u>	<u>425,120</u>	<u>3,672,776</u>

c) As of December 31, 2008

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment	Fixed installations and accessories (net)	Motor vehicles (net)	Improvement in leased assets (net)	Other property, plant and equipment (net)	Property, plant and equipment (net)
	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Initial balance as of July 1, 2008	395,954	23,602	79,188	2,688,340	16,243	20,616	900	22,813	425,120	3,672,776
Additions	66,746	11,936	48	494,208	3,082	1,287	17	-	10,666	587,990
Disposals	-	-	-	-	-	-	(2)	-	-	(2)
Transfers to (from) non-current assets and groups	-	-	-	981	-	-	-	-	-	981
Disposals by sale of business	-	-	-	-	-	-	-	-	-	-
Retirements	-	-	-	(215)	(30)	-	(10)	-	(480)	(735)
Depreciation expenses	-	-	(1,057)	(91,010)	(2,813)	(1,743)	(94)	(3,414)	(17,815)	(117,946)
Increases (decreases) in currency exchange	(14)	-	-	(647)	(248)	(549)	(13)	-	(89)	(1,560)
Other increases (decreases)	<u>(194,842)</u>	-	<u>31</u>	<u>(11,746)</u>	<u>102</u>	<u>2,416</u>	<u>11</u>	<u>27,150</u>	<u>1,437</u>	<u>(175,441)</u>
Total changes	<u>(128,110)</u>	<u>11,936</u>	<u>(978)</u>	<u>391,571</u>	<u>93</u>	<u>1,411</u>	<u>(91)</u>	<u>23,736</u>	<u>(6,281)</u>	<u>293,287</u>
Final balance at December 31, 2008	<u>267,844</u>	<u>35,538</u>	<u>78,210</u>	<u>3,079,911</u>	<u>16,336</u>	<u>22,027</u>	<u>809</u>	<u>46,549</u>	<u>418,839</u>	<u>3,966,063</u>

d) As of June 30, 2009

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment	Fixed installations and accessories (net)	Motor vehicles (net)	Improvement in leased assets (net)	Other property, plant and equipment (net)	Property, plant and equipment (net)
	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$	MUS\$
Initial balance as of January 1, 2009	267,844	35,538	78,210	3,079,911	16,336	22,027	809	46,549	418,839	3,968,063
Additions	59,597	19	20	284,987	2,846	1,666	290	-	6,637	356,043
Disposals	(7)	-	-	(4,919)	-	-	-	-	-	(4,926)
Retirements	-	-	-	(1,979)	(8)	(4)	-	-	(285)	(2,276)
Depreciation expenses	-	-	(1,052)	(101,333)	(2,802)	(1,873)	(85)	(6,260)	(20,083)	(133,488)
Increases (decreases) in currency exchange	(55)	-	-	(2,060)	196	222	(8)	-	(28)	(1,733)
Other increases (decreases)	(78,113)	-	-	(119,306)	(3)	319	-	6,963	103,798	(86,342)
Total changes	(18,578)	-	(1,032)	55,390	229	330	197	703	90,039	127,278
Final balance at June 30, 2009	249,266	35,538	77,178	3,135,301	16,565	22,357	1,006	47,252	508,878	4,093,341

e) Fleet Composition

Aircraft included in property, plant and equipment of the Company:

<u>Aircraft</u>	<u>Model</u>	<u>Use</u>	As of June 30, 2009	As of December 31, <u>2008</u>
Boeing 737	200ADV	Passenger (*)	4	4
Boeing 737	200ADV	Cargo (*)	1	1
Boeing 767	300ER	Passenger	15	14
Boeing 767	300F	Cargo	8	8
Boeing 767	200ER	Passenger (**)	1	1
Airbus A318	100	Passenger	15	15
Airbus A319	100	Passenger	20	17
Airbus A320	200	Passenger	16	16
Airbus A340	300	Passenger	<u>4</u>	<u>4</u>
Total			<u>84</u>	<u>80</u>

(*) Leased to Sky Service S.A.

(**) Leased to Aerovias de Mexico S.A.

Leased aircraft:

<u>Aircraft</u>	<u>Model</u>	<u>Use</u>	As of June 30, 2009	As of December 31, <u>2008</u>
Boeing 767	300ER	Passenger	11	12
Boeing 767	300F	Cargo	1	1
Boeing 777	Freighter	Cargo	2	--
Airbus A320	200	Passenger	2	2
Airbus A340	300	Passenger	<u>1</u>	<u>1</u>
Total			<u>17</u>	<u>16</u>
Total Fleet			<u>101</u>	<u>96</u>

The debit against income for depreciation in the period shown in the consolidated statement of income totaled KUS\$133,488 (KUS\$105,051 at June 30, 2008).

(f) Method used to depreciate property, plant and equipment.

	<u>Depreciation method</u>	<u>Useful life</u>	
		<u>Minimum</u>	<u>Maximum</u>
Buildings	Straight-line method with no residual value	10	50
Plants and equipment	Straight-line method with 20% residual value in the Airbus fleet and 36% in the Boeing fleet	5	20
IT equipment	Straight-line method with no residual value	5	10
Fixed installations and accessories	Straight-line method with no residual value	10	10
Motor vehicles	Straight-line method with no residual value	10	10
Improvements of leased assets	Straight-line method with no residual value	5	5
Other property, plant and equipment	Straight-line method with no residual value	3	10

(g) Additional information on property, plant and equipment

(i) Property, plant and equipment given in guarantee:

These are direct guarantees granted because of the purchase of aircraft and they are shown at the net carrying value of the relevant assets. The Company sold its interest in Linnet Leasing Limited, a permanent establishment, in the period ending June 30, 2009. Therefore, the direct guarantees associated with 4 airbus A320 aircraft were eliminated. In the period ending June 30, 2009, direct guarantees were added for 3 Airbus A319 and 1 Boeing 767-300 aircraft that were added to the fleet. By way of supplemental information, debt totaling KUS\$1,790,025 was outstanding at June 30, 2009 at the effective rate for the assets given in guarantee and KUS\$1,792,902 at December 31, 2008. There are also indirect guarantees associated with assets accounted for in property, plant and equipment that as a whole have a carrying value of KUS\$369,107 at June 30, 2009 and KUS\$379,537 at December 31, 2008.

Description of property, plant and equipment given in guarantee:

	<u>As of June 30, 2009</u>
	KUS\$
Wilmington Trust Company – 14 aircraft	1,033,080
BNP Paribas – 32 aircraft	935,137
ING – 1 aircraft	83,899

	<u>As of June 30, 2009</u>	
	KUS\$	
Calyon – 2 aircraft		<u>55.94</u>
Total		<u>2,107,956</u>

	<u>As of December 31, 2008</u>	
	KUS\$	
Wilmington Trust Company – 14 aircraft		1,058,606
BNP Paribas – 29 aircraft		852,733
Calyon – 6 aircraft		<u>163,843</u>
Total		<u>2,075,182</u>

(ii) Commitments and Other

Disbursements for property, plant and equipment in the process of construction totaled KUS\$59,597 at June 30, 2009 (KUS\$115,684 at June 30, 2008).

Below are the assets that have been fully depreciated and future purchase commitments:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Gross carrying value of any fully depreciated property, plant and equipment still in use (1)	52,443	49,046
Commitments in the acquisition of property, plant and equipment (2)	7,200,000	7,390,000

(1) These amounts pertain mainly to ground support and computer equipment.

(2) Aircraft purchase commitments.

At June 30, 2009, 15 airbus aircraft in the A320 family were pending delivery between 2010 and 2011 under the different aircraft purchase agreements with Airbus S.A.S. According to the manufacturer's price list, the amount is approximately KUS\$970,000.

As of June 30, 2009, a total of 9 B767-300ER aircrafts were pending delivery before December 2012 under the Aircraft Purchase Agreements with the Boeing Company, 1 B777-Freighter deliverable in 2012 and 26 B787 Dreamliners deliverable between 2015 and 2019. The amount is approximately KUS\$6,230,000 according to the manufacturer's price list. The Company also holds purchase options for 2 B767-300 ER Aircraft and 15 B787 Dreamliner aircrafts.

(iii) Cost of compounded interest in property, plant and equipment

	<u>As of June 30, 2009</u>	<u>As of June 30, 2008</u>
Compounding rate of compounded interest costs	4.59%	4.78%
Compounded interest costs	KUS\$4,749	KUS\$11,205

(iv) **Lease-purchases**

Lease-purchases break down as follows:

Lessor	Aircraft	Use	As of June 30, 2009	As of December 31, 2008
Condor Leasing LLC	Boeing 767	Passenger	2	2
Condor Leasing LLC	Boeing 767	Cargo	1	1
Bluebird Leasing LLC	Boeing 767	Cargo	2	2
Eagle Leasing LLC	Boeing 767	Passenger	1	1
Eagle Leasing LLC	Boeing 767	Cargo	1	1
Seagull Leasing LLC	Boeing 767	Cargo	1	1
Linnet Leasing Limited	Airbus 320	Passenger	4	-
Total			<u>12</u>	<u>8</u>

Property, plant and equipment acquired under lease-purchases are classified in other property, plant and equipment. At June 30, 2009, the Company accounted for 12 aircraft and 1 spare engine in this line (8 aircraft and 1 spare engine at December 31, 2008). The parent company increased its number of leased aircraft by 4 Airbus A320 in comparison to December 31, 2008, because it sold its interest in Linnet Leasing Limited in March 2009.

The net value of lease-purchase assets was KUS\$473,252 at June 30, 2009 (KUS\$382,530 at December 31, 2008).

The minimum payments under lease-purchases are:

As of June 30, 2009

	<u>Gross</u>	<u>Interest</u>	<u>Present value</u>
	KUS\$	KUS\$	KUS\$
Not exceeding one year	70,671	3,629	67,042
Exceeding one year but less than five years	204,523	10,264	194,259
More than five years	<u>59,437</u>	<u>643</u>	<u>58,794</u>
Total	<u>334,631</u>	<u>14,536</u>	<u>320,095</u>

As of December 31, 2008

	<u>Gross</u>	<u>Interest</u>	<u>Present value</u>
	KUS\$	KUS\$	KUS\$
Not exceeding one year	64,300	7,355	56,945
Exceeding one year but less than five years	<u>208,608</u>	<u>18,736</u>	<u>189,872</u>
Total	<u>272,908</u>	<u>26,091</u>	<u>246,817</u>

Contingent rent under lease-purchases debited to income in the period ending June 30, 2009 totaled KUS\$2,672 (KUS\$5,232 at June 30, 2008).

NOTE 20 – DEFERRED TAXES

Deferred tax assets and liabilities are offset when the right to offset the assets and liabilities for current taxes is legally recognized and the deferred taxes are owed to the same tax authority. Deferred tax balances break down as follows:

	<u>Assets</u>		<u>Liabilities</u>	
	As of June 30, 2009	As of December 31, 2008	As of June 30, 2009	As of December 31, 2008
	KUS\$	KUS\$	KUS\$	KUS\$
Depreciation	(412)	(442)	200,847	166,528
Amortization	(87)	27	29,577	29,858
Provisions	2,898	1,858	15,995	(2,224)
Post-employment benefit obligations	336	194	(713)	(659)
Revaluation of financial instruments	-	-	(25,343)	(61,817)
Fiscal losses	6,727	10,182	--	-
Other	<u>652</u>	<u>766</u>	<u>(5,997)</u>	<u>35,686</u>
Total	<u>10,114</u>	<u>12,585</u>	<u>214,366</u>	<u>167,372</u>

Unrecognized deferred tax assets were:

	As of June 30, 2009	As of December 31, 2008
	KUS\$	KUS\$
Temporary differences	2,152	2,152
Fiscal losses	<u>4,350</u>	<u>1,972</u>
Total unrecognized deferred tax assets	<u>6,502</u>	<u>4,124</u>

Deferred tax assets arising from negative tax bases pending set-off are recognized when it is likely that the corresponding fiscal benefit will be realized through future fiscal benefits. The company has unrecognized deferred tax assets totaling KUS\$4,350 (KUS\$1,972 at December 31, 2008) offsettable against losses totaling around

KUS\$13,365 (KUS\$6,700 at December 31, 2008) that will be offset in future fiscal years against fiscal benefits. Losses amounting to KUS\$481 will expire in 2009, associated with losses that are provisioned in whole or in part.

Deferred tax liability activity was:

	KUS\$
Initial balance at January 1, 2008	171,046
Increase (decrease) in deferred tax liabilities	<u>52,038</u>
Final balance at June 30, 2008	<u>223,084</u>
	KUS\$
Initial balance at July 1, 2008	223,084
Increase (decrease) in deferred tax liabilities	<u>(55,712)</u>
Final balance at December 31, 2008	<u>167,372</u>
	KUS\$
Initial balance at January 1, 2009	167,372
Increase (decrease) in deferred tax liabilities	<u>46,994</u>
Final balance at June 30, 2009	<u>214,366</u>

Deferred tax expenses (income) and income tax as of June 30, 2009 and 2008 are allocable as follows:

	For the 6 months ending June 30, 2009		For the 3 months ending June 30, 2008	
	KUS\$	KUS\$	KUS\$	KUS\$
Expenses for current taxes on gains				
Current tax expense	2,320	5,997	(278)	(80)
Adjustments to current taxes in the previous period	(2,436)	(2,636)	(3,296)	(2,636)
Other current tax expenses	<u>1,818</u>	<u>781</u>	<u>1,857</u>	<u>648</u>
Total net current tax expense	<u>1,702</u>	<u>4,142</u>	<u>(1,717)</u>	<u>(2,068)</u>

	For the 6 months ending June 30, 2009		For the 3 months ending June 30, 2008	
	KUS\$	KUS\$	KUS\$	KUS\$
Expenses for deferred taxes on gains				
Deferred expense (income) for taxes relating to the creation and reversal of temporary differences	14,503	21,357	5,332	5,893
Reduction in value of deferred tax assets during the evaluation of utility	(2,378)	3,823	(2,832)	6,114
Other deferred tax expenses	=	<u>119</u>	=	<u>119</u>

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Total net deferred tax expense	<u>12,125</u>	<u>25,299</u>	<u>2,500</u>	<u>12,126</u>
Gains tax expense	<u>13,827</u>	<u>29,441</u>	<u>783</u>	<u>10,058</u>

The composition of gains tax expenses (income) was:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Current tax expense, net, foreign	2,528	735	389	579
Current tax expense, net, local	<u>(826)</u>	<u>3,407</u>	<u>(2,106)</u>	<u>(2,647)</u>
Current tax expense, net, total	<u>1,702</u>	<u>4,142</u>	<u>(1,717)</u>	<u>(2,068)</u>
Deferred tax expense, net, foreign	856	(5,892)	(4,592)	(6,200)
Deferred tax expense, net, local	<u>11,269</u>	<u>31,191</u>	<u>7,092</u>	<u>18,326</u>
Deferred tax expense, net, total	<u>12,125</u>	<u>25,299</u>	<u>2,500</u>	<u>12,126</u>
Gains tax expense	<u>13,827</u>	<u>29,441</u>	<u>783</u>	<u>10,058</u>

The conciliation of tax expenses at the legal rate to tax expenses at the effective rate was:

	As of June 30, 2009	As of June 30, 2008
	KUS\$	KUS\$
Taxable expense using the legal rate	<u>14,123</u>	<u>32,225</u>
Tax effect of rates in other jurisdictions	1,154	(3,808)
Tax effect of non-taxable ordinary income	(4,662)	(4,785)
Tax effect of expenses that are not tax deductions	399	999
Tax effect of using fiscal losses not previously recognized	2,378	4,464
Other increases (decreases) in debits for legal taxes	<u>435</u>	<u>346</u>
Total adjustments to tax expense using the legal rate	<u>(296)</u>	<u>(2,784)</u>
Tax expense using the effective rate	<u>13,827</u>	<u>29,441</u>

The conciliation of the legal tax rate to the effective tax rate was:

	<u>As of June 30, 2009</u>	<u>As of June 30, 2008</u>
	KUS\$	KUS\$
Legal tax rate	<u>17.00</u>	<u>17.00</u>
Effect of rate in other jurisdictions on tax rate	1.39	(2.01)
Effect of non-taxable ordinary income on tax rate	(5.61)	(2.52)
Effect of non-deductible expenses on tax rate	0.48	0.53
Effect of using previously unrecognized fiscal losses on tax rate	2.86	2.35
Other increases (decreases) in legal tax rate	<u>0.52</u>	<u>0.18</u>
Total adjustment of legal tax rate	<u>(0.36)</u>	<u>(1.47)</u>
Total effective tax rate	<u>16.64</u>	<u>15.53</u>

Below are the deferred taxes relative to items debited against net equity:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Aggregate deferred taxation in items debited against net equity	<u>(35,616)</u>	<u>52,513</u>
Total deferred taxation in items debited against net equity	<u>(35,616)</u>	<u>52,513</u>

The effects of deferred taxes on the components of other integral income:

	<u>As of June 30, 2009</u>		
	<u>Income before taxes</u>	<u>Expense (income) for gains tax</u>	<u>Income after taxes</u>
	KUS\$	KUS\$	KUS\$
Cash flow hedging	(214,551)	36,474	(178,077)
Translation adjustment	316	<u>(54)</u>	262
		<u>36,420</u>	
	<u>As of June 30, 2008</u>		
	<u>Income before taxes</u>	<u>Expense (income) for gains tax</u>	<u>Income after taxes</u>
	KUS\$	KUS\$	KUS\$
Cash flow hedging	(124,482)	21,162	(103,320)

NOTE 21 – INTEREST-BEARING LOANS

Bank debt and debt securities:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current		
Bank loans	2,087	6,752
Secured obligations	218,222	214,031
Lease-purchases	76,766	63,212
Other loans	<u>617</u>	<u>33</u>
Total current	<u>297,692</u>	<u>284,028</u>
Non-current		
Bank loans	267,391	-
Secured obligations	1,854,365	1,898,070
Lease-purchases	243,330	183,607
Other loans	<u>57,368</u>	<u>6,182</u>
Total non-current	<u>2,422,454</u>	<u>2,087,859</u>
Total bank debt	<u>2,720,146</u>	<u>2,371,887</u>

The carrying value of outside resources is close to the fair value:

The carrying value of outside resources is expressed in the following currencies:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
U.S. dollars	2,501,137	2,371,887
Chilean peso	<u>219,009</u>	-
Total	<u>2,720,146</u>	<u>2,371,887</u>

NOTE 22 – OTHER FINANCIAL LIABILITIES

Other financial liabilities are broken down below as of June 30, 2009 and December 31, 2008.

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current		
Derivative currency flow	--	1,345
Non-current		
Fleet financing (JOL)	<u>292,287</u>	<u>285,313</u>
Total	<u>292,287</u>	<u>286,658</u>

NOTE 23 – TRADE PAYABLES AND OTHER ACCOUNTS PAYABLE

Trade payables and other accounts payable are broken down below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current		
Trade payables	291,099	298,067
Lease liabilities	7,653	7,808
Other accounts payable	<u>81,242</u>	<u>83,775</u>
Total Current	<u>379,994</u>	<u>389,650</u>
Non-current		
Other accounts payable	<u>72,000</u>	<u>90,000</u>
Total Non-Current	<u>72,000</u>	<u>90,000</u>
Total Trade Payables and Other Accounts Payable	<u>451,994</u>	<u>479,650</u>

NOTE 24 – PROVISIONS

Provisions are itemized below as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current provisions		
Provisions for legal claims (1)	<u>1,242</u>	<u>2,217</u>
Total Current	<u>1,242</u>	<u>2,217</u>
Non-current provisions		
Provision for legal claims (1)	1,320	1,344
Provision for European Commission Investigation (2)	<u>25,000</u>	<u>25,000</u>
Total Non-Current	<u>26,320</u>	<u>26,344</u>
Total Provisions	<u>27,562</u>	<u>28,561</u>

(1) This represents a provision for certain claims filed against the Company by former employees, regulatory agencies and other persons. The charge for the provision is recognized in the consolidated statement of income within selling, general and administrative expenses. The balance current as of June 30, 2009 is expected to be applied during the course of the next 12 months.

(2) This provision was established because of proceedings under way by the

European Commission for eventual antitrust infringements on the air cargo market.

	Legal claims	U.S. Department of Justice	European Commission Investigation	Total
	KUS\$	KUS\$	KUS\$	KUS\$
At January 1, 2008	399	--	25,000	25,399
Increase in provisions	143	--	--	143
Exchange differential	(15)	--	--	(15)
Balance at June 30, 2008	<u>527</u>	<u>--</u>	<u>25,000</u>	<u>25,527</u>
At July 1, 2008	527	--	25,000	25,527
Increase in provisions	3,105	109,000	--	112,105
Provision used	(28)	(109,000)	--	(109,028)
Exchange differential	(43)	--	--	(43)
Balance at December 31, 2008	<u>3,561</u>	<u>--</u>	<u>25,000</u>	<u>28,561</u>
At January 1, 2009	3,561	--	25,000	28,561
Increase in provisions	936	--	--	936
Provision used	(1,998)	--	--	(1,998)
Exchange differential	63	--	--	63
Balance at June 30, 2009	<u>2,562</u>	<u>--</u>	<u>25,000</u>	<u>27,562</u>

NOTE 25 - OTHER LIABILITIES

Other liabilities break down as follows as of June 30, 2009 and December 31, 2008:

	As of June 30, 2009	As of December 31, 2008
	KUS\$	KUS\$
Current		
Dividends payable	21,172	105,330
Other guarantees received	2,229	1,620
Other miscellaneous liabilities	<u>689</u>	<u>2,814</u>
Total	<u>24,090</u>	<u>109,764</u>
Non-current		
Aircraft and engine maintenance	34,069	37,007
Vacation and bonuses provision	6,033	6,699
Other miscellaneous liabilities	<u>2,925</u>	<u>3,958</u>
Total	<u>43,027</u>	<u>47,664</u>

NOTE 26 – POST-EMPLOYMENT AND LONG-TERM BENEFIT LIABILITIES

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Non-current		
Retirement benefits	1,731	2,121
Resignation benefits	526	863
Other benefits	<u>1,228</u>	<u>881</u>
Total non-current	<u>3,485</u>	<u>3,865</u>

Debits/(Credits) in the consolidated income statement:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Retirement benefits	(390)	310	(468)	(501)
Resignation benefits	(337)	(143)	(492)	(314)
Other benefits	<u>347</u>	<u>80</u>	<u>18</u>	<u>(141)</u>
Total	<u>(380)</u>	<u>247</u>	<u>(942)</u>	<u>(956)</u>

(a) Retirement benefits

Retirement, resignation and other benefits break down as follows:

	KUS\$
At January 1, 2008	4,082
Cost of current services	885
Benefits paid	<u>638</u>
Balance at June 30, 2008	<u>4,329</u>
At July 1, 2008	4,329
Cost of current services	(338)
Benefits paid	<u>(126)</u>
Balance at December 31, 2008	<u>3,865</u>
At January 1, 2009	3,865
Cost of current services	(126)
Benefits paid	<u>(254)</u>
Balance at June 30, 2009	<u>3,485</u>

(b) Short-term benefits

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Share in profits and bonuses	<u>18,144</u>	<u>39,014</u>

The types of expenses per employee were as follows:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Wages and salaries	222,390	230,688	118,551	116,093
Short-term benefits for employees	27,451	27,452	7,524	13,728
Expense of post-employment benefit liabilities	(390)	310	(468)	(501)
Severance benefits	8,605	8,027	3,656	3,598
Transactions with stock-based payments	413	392	265	201
Other long-term benefits	(2)	(63)	(426)	(455)
Other personnel expenses	<u>38,665</u>	<u>40,416</u>	<u>19,951</u>	<u>21,212</u>
Total	<u>297,132</u>	<u>307,222</u>	<u>149,053</u>	<u>153,876</u>

NOTE 27 – HEDGE LIABILITIES

Hedge liabilities break down as follows as of June 30, 2009 and December 31, 2008:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Current		
Interest rate cash flow hedge	26,875	19,491
Currency cash flow hedge	2,001	-
Fuel price cash flow hedge	<u>22,782</u>	<u>159,749</u>
Total	<u>51,658</u>	<u>179,240</u>
Non-current		
Interest rate cash flow hedge	82,990	157,872
Currency cash flow hedge	(10)	-
Fuel price cash flow hedge	=	<u>10,513</u>
Total	<u>82,980</u>	<u>168,385</u>
Total	<u>134,638</u>	<u>347,625</u>

The foreign currency hedges correspond to a cross-currency swaps contracted to hedge the cash flow of debt expressed in Chilean pesos and to forwards to hedge the fair value of investments in Chilean pesos.

NOTE 28 – LIABILITIES ACCRUED ON THE REPORTING DATE

The liabilities accrued as of June 30, 2009 and December 31, 2008 are described below:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Aircraft and engine maintenance	35,138	43,463
Other accounts payable to personnel	31,614	43,825
Accrued personnel expenses	27,747	19,581
Other accrued liabilities	<u>16,293</u>	<u>23,806</u>
Total	<u>110,792</u>	<u>130,675</u>

NOTE 29 – EQUITY

(a) Capital

The capital of the Company is managed and comprised as follows:

The objective of the Company is to maintain an adequate level of capitalization to ensure access to financial markets to conduct its business in the medium and long term and optimize the return to shareholders while maintaining a sound financial position.

At the close of each period, the capital of the Company was KUS\$453,444, divided into 338,790,909 registered common shares in one same series with no par value. There were no special series of shares or preferences. The form of share certificates, issuance, exchange, ruin, misplacement, replacement and other circumstances as well as the transfer of shares will be governed by the Companies Law and the Companies Regulations.

(b) Subscribed and paid-in shares

A total of 341,000,000 common shares with no par value was authorized as of June 30, 2009 and December 31, 2008. 338,790,909 shares have been paid of the total subscribed and 2,209,091 shares have been reserved for issuance under option agreements.

(c) Other reserves

	<u>Translation reserve</u>	<u>Reserve for hedging transactions</u>	<u>Stock option plans</u>	<u>Other reserves</u>	<u>Total</u>
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
As of January 1, 2008	-	(45,425)	-	(52)	(45,477)

	Translation reserve	Reserve for hedging transactions	Stock option plans	Other reserves	Total
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
Profit (loss) in derivative valuation	--	124,482	--	--	124,482
Deferred taxes	--	(21,162)	--	--	(21,162)
Subsidiaries' translation differences	(1,019)	--	--	--	(1,019)
Stock option plans	--	--	<u>392</u>	--	<u>392</u>
Balances as of June 30, 2008	<u>(1,019)</u>	<u>57,895</u>	<u>392</u>	<u>(52)</u>	<u>57,216</u>

	Translation reserve	Reserve for hedging transactions	Stock option plans	Other reserves	Total
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
As of July 1, 2008	(1,019)	57,895	392	(52)	57,216
Profit (loss) in derivative valuation	--	(433,383)	--	--	(433,383)
Deferred taxes	--	73,675	--	--	73,675
Subsidiaries' translation differences	(5,174)	--	--	--	(5,174)
Stock option plans	--	--	<u>1,409</u>	--	<u>1,409</u>
Balances as of December 31, 2008	<u>(6,193)</u>	<u>(301,813)</u>	<u>1,801</u>	<u>(52)</u>	<u>(306,257)</u>

	Translation reserve	Reserve for hedging transactions	Stock option plans	Other reserves	Total
	KUS\$	KUS\$	KUS\$	KUS\$	KUS\$
As of January 1, 2009	(6,193)	(301,813)	1,801	(52)	(306,257)
Profit (loss) in derivative valuation	-	214,551	-	-	214,551
Deferred taxes	54	(36,474)	(70)	-	(36,490)
Subsidiaries' translation differences	(316)	-	-	-	(316)
Stock option plans	-	-	413	-	413
Legal reserves	--	--	--	65	65
Other	<u>1,180</u>	--	<u>(306)</u>	--	<u>874</u>
Balances as of June 30, 2009	<u>(5,275)</u>	<u>(123,736)</u>	<u>1,838</u>	<u>13</u>	<u>(127,160)</u>

(c.1) Translation Reserves

Translation reserves are set up because of the translation differences occurring in the conversion of a net investment in foreign entities (or national entities using a different functional currency than that of the parent) and from loans and other instruments in a foreign currency designated as hedging for those investments. They are recorded in net equity. These reserves are recognized in the consolidated statement of income as part of

the loss or gain on the sale or disposal of all or part of the investment at the time it is sold or disposed of.

(c.2) Hedge Reserves

They originate in the fair value appraisal of outstanding hedging derivative contracts at the close of each period. These reserves must be adjusted to recognize the corresponding results once the contracts expire.

(c.3) Stock Option Plan Reserves

These reserves relate to the “share-based payments” explained in Note 39.

(c.4) Other Miscellaneous Reserves

The balance in Other Miscellaneous Reserves breaks down as follows:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Reserve for adjustment to value of PPE	2,620	2,620
Cost of issuing and placing shares (1)	(2,672)	(2,672)
Other	<u>65</u>	=
Total	<u>13</u>	<u>(52)</u>

(1) According to Circular 1736 of the Securities and Insurance Commission, the share issuance and placement cost account must be deducted from paid-in capital at the next Special Shareholders Meeting held by the parent company.

(d) Retained earnings

The activity in retained earning reserves was as follows:

	KUS\$
As of January 1, 2008	485,721
Profit (loss) in the period	160,118
Dividends	<u>(47,306)</u>
Balance as of June 30, 2008	<u>598,533</u>
	KUS\$
As of July 1, 2008	598,533
Profit (loss) in the period	176,363
Dividends	<u>(160,308)</u>
Balance as of December 31, 2008	<u>614,588</u>

	KUS\$
As of January 1, 2009	614,588
Profit (loss) in the period	69,247
Other increases	242
Dividends	<u>(20,762)</u>
Balance as of June 30, 2009	<u>663,315</u>

e) Dividends per share

As of June 30, 2009

<u>Description of Dividend</u>	<u>Mandatory minimum dividend</u>
Dividend date	6/30/2009
Value of dividend (KUS\$)	20,762
Number of shares on which dividend is calculated	338,790,909
Dividend per share (US\$)	0.06128

As of December 31, 2008:

<u>Description of Dividend</u>	<u>Final dividends in 2007</u>	<u>Interim dividends in 2008</u>	<u>Interim dividends in 2008</u>
Dividend date	04-10-2008	07-29-2008	12-23-2008
Value of dividend (KUS\$)	5,827	96,786	105,001
Number of shares on which dividend is calculated	338,790,909	338,790,909	338,790,909
Dividend per share (US\$)	0.01720	0.28568	0.30993

The company has established a dividend policy where dividends must be equal to the minimum required by law, i.e. 30% of profits at this time. This does not mean that dividends above the obligatory minimum may eventually be distributed in view of the particularities and de facto circumstances that may be present during the course of the year.

At June 30, 2009, minimum obligatory dividends for 30% of the company's profits were provisioned. This amount was accounted for in other current liabilities.

NOTE 30 – ORDINARY INCOME

Ordinary income is broken down below as of June 30, 2009 and 2008:

	<u>For the 6 months ending June 30, 2009</u>		<u>For the 3 months ending June 30, 2008</u>	
	KUS\$	KUS\$	KUS\$	KUS\$
Passenger	1,198,511	1,310,091	546,918	613,632
Cargo	<u>397,438</u>	<u>645,332</u>	<u>200,756</u>	<u>354,722</u>
Total	<u>1,595,949</u>	<u>1,955,423</u>	<u>747,674</u>	<u>968,354</u>

NOTE 31 – FINANCIAL COSTS

Financial costs are described below as of June 30, 2009 and 2008:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Interest on bank loans	57,659	46,414	28,858	23,391
Lease-purchases	2,935	5,232	1,380	2,367
Other financial instruments	<u>17,510</u>	<u>1,872</u>	<u>10,125</u>	<u>1,556</u>
Total	<u>78,104</u>	<u>53,518</u>	<u>40,363</u>	<u>27,314</u>

NOTE 32 – GAINS (LOSSES) ON THE SALE OF NON-CURRENT ASSETS NOT HELD FOR SALE

The gains (losses) on non-current assets not held for sale broke down as follows as of June 30, 2009 and 2008:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Property, plant and equipment	4,895	(557)	5,043	384
Investments in subsidiaries, associates and business combinations	<u>(2)</u>	<u>2,719</u>	<u>(2)</u>	<u>1,083</u>
Total	<u>4,893</u>	<u>2,162</u>	<u>5,041</u>	<u>1,467</u>

NOTE 33 – OTHER OPERATING INCOME

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Duty free	4,342	9,264	1,862	3,417
Plane leases	10,979	22,060	4,598	10,612
Logistics and courier	16,662	17,037	8,359	8,442
Customs and storage	7,947	13,230	4,218	6,604
Tours	16,097	2,056	7,399	911
Income from financial investments	7,579	3,609	5,113	3,052
Other miscellaneous income	<u>15,337</u>	<u>15,376</u>	<u>11,029</u>	<u>4,565</u>

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Total	<u>78,943</u>	<u>82,632</u>	<u>42,578</u>	<u>37,603</u>

NOTE 34 – TRANSLATION DIFFERENCES

Translation differences were recognized in income, except for financial instruments measured at fair value through profit or loss. On a cumulative basis as of June 30, 2009 and 2008, this represented a credit of KUS\$2,902 and a debit of KUS\$582, respectively. For the second quarter of 2009, there was a credit of KUS\$3,313, while there was a debit of KUS\$14,257 for the second quarter of 2008.

Translation differences recognized in equity as translation reserves resulted in a debit of KUS\$308 for the first six months ending June 30, 2009 and a debit of KUS\$989 for the first six months as of June 30, 2008. There was a credit of KUS\$1,824 for the second quarter of 2009 and a debit of KUS\$3,134 for the second quarter of 2008.

Below are the exchange rates for the American dollar at the close of each period:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
Chilean peso	531.76	636.45
Argentine peso	3.79	3.45
Brazilian real	1.96	2.34
New sol (Peru)	3.01	3.14
Australian dollar	1.24	1.45
Bolivar (strong)	2.14	2.14
Bolivian	7.02	6.97
Uruguayan peso	23.52	24.25
Mexican peso	13.16	13.82
Colombian peso	2,142.50	2,246.16
New Zealand dollar	1.55	1.73
Euro	0.71	0.71

NOTE 35 – EARNINGS PER SHARE

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
Profit attributable to equity holders of the controller (KUS\$)	69,247	160,118	4,233	60,489
Weighted average of number of shares, basic	338,790,909	338,790,909	338,790,909	338,790,909
Basic earnings per share (US\$)	0.20	0.47	0.01	0.18

The Company has taken into account the effect that stock options will have on earnings per share and has reached the conclusion that it does not dilute those earnings because the share value is less than the option strike price.

NOTE 36 - CONTINGENCIES

a) Lawsuits

a.1) Lawsuits filed by Lan Airlines S.A. and Subsidiaries

Company	Court	Case Number	Reason	Procedure Stage and Instance	Committed Amounts KUSS
Atlantic Aviation Investments LLC (AAD)	Supreme Court of the State of New York, County of New York	07-6022920	AAI is an indirect subsidiary of Lan Airlines S.A., incorporated under the laws of the State of Delaware. It sued Varig Logistica S.A. ("Variglog") for failure to pay four loans set down in loan agreements governed by New York law. Those agreements stipulate acceleration of the loans if the original borrower, VRG Linhas Aereas S.A., is sold.	The ruling condemning Variglog to pay principal owed to AAI is in the enforcement stage in Switzerland. We are awaiting a final determination by the New York court as to interest and costs in order to proceed with enforcement in Switzerland. The lien on Variglog's Swiss bank account continues in place.	17,100
Aeroline, Lineas Aereas Nacionales del Ecuador S.A.	Fiscal Court of Guayaquil	6319-4064-05	Against the Regional Director of the Internal Revenue Service in Guayaquil for excess VAT payment.	A decision is pending.	4,210
Lan Airlines S.A.	Fiscal Court of Quito	23493-A	Against the Regional Director of the Internal Revenue Service in Quito for excess VAT payment.	A petition for a decision is forthcoming.	3,958
Aerotransporte Mas de Carga S.A. de C.V.	Federal Court of Fiscal and Administrative Justice	31780/06	A lawsuit seeking annulment, against the fiscal authority for refusal to repay VAT balances.	The decision was notified recognizing the company's right to appeal and ordering the reimbursement of the balances.	250
Lan Airlines S.A.	Federal Court of Fiscal and Administrative Justice	29950/07	A lawsuit seeking annulment, against the fiscal authority because of a resolution confirming the validity of diverse fiscal credits since the bank's "received" stamps were considered fake, which were placed on checks with which the company made payments for services rendered by Servicio de Navegacion en el Espacio Aereo Mexicano.	In the evidentiary stage, pending notification of the decision on the remedy of appeal filed by the company, which orders the admission of certain means of proof.	200
Lan Argentina S.A.	15 th national First Instance Commercial Court	10587/09	A petition for the bankruptcy of Southern Wings for diverse unpaid credits.	Negotiations are underway directly with the debtor and the notice of the petition for bankruptcy will be executed if the negotiations fail.	3,200

a.2) Lawsuits filed against Lan Airlines S.A. and Subsidiaries

Company	Court	Case Number	Reason	Procedure Stage and Instance	Committed Amounts KUSS
Aerolinhas Brasileiras S.A.	Department of the Treasury of the State of Rio de Janeiro	2003	The administrative authority of Rio de Janeiro, Brazil, notified an infringement or fine for alleged failure to pay VAT (ICMS) on the import of a Boeing 767, license PR-ABB.	Pending a resolution by the review board regarding revocation of the fine.	3,000
Lan Airlines S.A.	Labor Court, Buenos Aires, Argentina	34187/07	A labor claim filed by a former customs agent who claims he has a labor relationship with Lan Airlines S.A.	Plea proceedings	568
Lan Cargo S.A.	Civil Court of Asuncion, Paraguay	78-362	A damage indemnity claim filed by its former General Agent in Paraguay.	Appeal is pending of the resolution that rejected one of the motions regarding an obvious absence of action, made by the respondent's attorneys.	425
Lan Airlines S.A.	10 th Room of the Federal Court of Fiscal and Administrative Justice (TFJFA)	29950/07-17-10-7	An annulment lawsuit filed against the SAT resolution confirming the validity of fiscal credits because the bank's stamps were considered "fake" where payments of Servicios a la Navegación en el Espacio Aereo Mexicano (SENEAM) were made.	The claim for annulment was filed and admitted by the TFJFA. Now in an evidentiary stage.	200
Lan Airlines S.A.	19 th Civil Court of Santiago	3216/2003	A damage indemnity claim for tort liability for failure to make payment into the private sector employee equalization fund (EMPART) that had an impact on the employee's recognition bond.	The first-instance decision dismissed the entire claim, which was appealed in January 2007. The case is now awaiting a hearing by the Court of Appeals.	335
Lan Airlines S.A.	2 nd Labor Court of Santiago, Chile	354-2008	A claim filed by the Aviation Workers Union of the company (Maintenance) seeking collection of salary differentials for alleged breach of the collective agreement regulating the income adjustment system.	A first-instance decision is about to be rendered.	Undetermined
Lan Airlines S.A. and Lan Cargo S.A.	European Commission, Canada, New Zealand and South Korea		An investigation of potential infringements of fair competition by cargo airlines, especially the fuel surcharge. On December 26, 2007, the Competition Directorate-General of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. of the process against 25 cargo airlines, including Lan Cargo S.A., for alleged antitrust breaches on the European aviation cargo market, especially supposedly fixing a fuel and freight surcharges. It is not possible to predict the outcome of this process based on the current status and information provided by outside counsel in Europe.	The notification by the European Commission was answered on April 14, 2008.	Undetermined
Lan Cargo S.A. and Lan Airlines	Court with jurisdiction in the		As a consequence of the investigation of	Class actions were filed.	Undetermined

As of June 30, 2009, the Company has considered that there is no need to establish provisions for these cases given the stage of the process and/or the unlikelihood of an adverse ruling. Nonetheless, a provision of US\$25 million was established for the case under investigation by the European Union regarding a possible infringement of the antitrust regulations in relation to a good number of international cargo airlines (including Lan Cargo S.A., a LAN subsidiary) charging fuel and other surcharges on the European air cargo markets.

b) Other contingencies

<u>Collateral in favor of</u>	<u>Borrower's Name</u>	<u>Type</u>	<u>Amount in KUSS</u>	<u>Release Date</u>
Societe Generale, New York Branch	Lan Airlines S.A.	Letter of credit	30,000	10/31/09
Deutsche Bank A.G.	Lan Airlines S.A.	Three letters of credit	30,000	1/30/10
Morgan Stanley	Lan Airlines S.A.	Letter of credit	20,000	8/1/09
J. Aron & Company	Lan Airlines S.A.	Letter of credit	10,000	10/31/09
The Royal Bank of Scotland plc	Lan Airlines S.A.	Letter of credit	8,000	1/8/10
Sectional Customs Bureau of Bogota	Linea Aerea Carguera de Colombia S.A.	Two bond insurance policies	2,430	4/7/14
Metropolitan Dade County	Lan Airlines S.A.	Five letters of credit	1,504	5/31/10

NOTE 37 – COMMITMENTS

(a) Commitments under loans

Limits have been established on some financial indicators of the Parent Company on a consolidated basis under the different contracts made by Lan Airlines S.A. to finance the Boeing 767 Aircraft under the guarantee of the U.S. Export-Import Bank. Restrictions have been established on the Company's management under these same agreements in terms of share composition and disposal of assets. Furthermore, restrictions have also been established on the management of the parent company and its subsidiary, Lan Cargo S.A., in regard to share composition and asset disposal under the diverse contracts made by Lan Cargo S.A. to finance Boeing 767 Aircraft guaranteed by the U.S. Export-Import Bank. Limits have been established on some financial indicators of the Company under different agreements it has made to finance Airbus A320 Aircraft under the guarantee of European export credit agencies. These same agreements impose restrictions on the Company's management regarding share composition and asset disposal.

Limits have been established on some financial indicators of the parent company, on a consolidated basis, in the bilateral loan agreements the Company has made in the period march to June 2009, such as net financial debt to EBITDAR and the ratio of EBITDAR to the sum of financial expenses, plus the amount paid under plane leases, plus dividends paid during the period. The Company was in compliance with these covenants as of June 30, 2009.

(b) Lessee commitments under operating leases

The main operating leases are itemized below:

Lessor	Aircraft	Use	As of June 30, 2009	As of December 31, 2008
International Lease Finance Corporation	Boeing 767	Passenger	8	8
Orix Aviation Systems Limited	Airbus 320	Passenger	2	2
Celestial Aviation Trading 35 Limited	Boeing 767	Passenger	1	1
MSN 167 Leasing Limited	Airbus 340	Passenger	1	1
Celestial Aviation Trading 16 Limited	Boeing 767	Cargo	1	1
Nordea Finance Sweden PLC	Boeing 767	Passenger	1	1
CIT Aerospace International	Boeing 767	Passenger	1	1
The Boeing Company	Boeing 767	Passenger	-	1
Celestial Aviation Trading 39 Limited - GECAS (WFBN)	Boeing 777	Cargo	1	-
Celestial Aviation Trading 23 Limited - GECAS (WFBN)	Boeing 777	Cargo	<u>1</u>	-
Total			<u>17</u>	<u>16</u>

The portion of rent installments accrued is shown in income.

Future non-cancellable minimum rent payments are:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
One year or less	89,385	58,988
More than one year and less than five years	250,778	139,291
More than five years	<u>87,333</u>	<u>8,266</u>
Total	<u>427,496</u>	<u>206,545</u>

The minimum rent payments recognized in income are:

	<u>As of June 30, 2009</u>	<u>As of December 31, 2008</u>
	KUS\$	KUS\$
Minimum payments under operating leases	<u>35,041</u>	<u>35,354</u>
Total	<u>35,041</u>	<u>35,354</u>

The first B777–Freighter aircraft was added in April 2009 and the second one arrived in May 2009. The lease of a Boeing 767-300, license CC-CGN, will end in September 2009.

The operating leases made by the parent company and its subsidiaries stipulate that aircraft must be maintained according to the manufacturer’s technical specifications at the margins agreed upon in the leases, which is a cost assumed by the lessee. The lessee must also carry insurance for each aircraft covering associated risks and the value of the assets involved. Rent payments are unrestricted and cannot be netted against other receivables or payables between the lessor and the lessee.

NOTE 38 - INTERCOMPANY TRANSACTIONS

a) Intercompany transactions at June 30, 2009

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Value of intercompany transaction KUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	Investments	Building leased	8
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation fees	44
					Basic utilities	10
					Aviation concessions	161
					Dividend payment	7
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Ticket service	9
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building lease	9
					Training received	409
					Debt assignment	9
					Other Payments	59
94.627.000-8	Parque Arauco	Other related parties	Chile	Other	Other Payments	80
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional assistance	Professional assistance	69
96.669.520-K	Red de Televisión Chilevision S.A.	Other related parties	Chile	Television	Ticket service	342
					Advertising	533
78.005.760-2	Sociedad de Seguridad Aerea S.A.	Other related parties	Chile	Security services	Security services	575
					Other payments	1,018

b) Intercompany transactions at June 30, 2008

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Value of intercompany transaction KUS\$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	Investments	Building leased	29
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation fees	45
					Basic utilities	14
					Aviation concessions	113
					Dividend payment	17
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	Concessionaire	Aviation fees	16
					Basic utilities	1
					Aviation	22

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Value of intercompany transaction
						KUS\$
					concessions	
					Dividend	27
					payment	
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Training	406
					Debt assignment	7
					Dividend	221
					payment	
96.888.630-4	Sociedad Concesionaria Aerosur S.A.	Other related parties	Chile	Concessionaire	Aviation fees	25
					Aviation concess.	93
					Basic utilities	4
56.080.790-2	Asamblea de Comuneros de Valle Escondido	Other related parties	Chile	Other	Other services	67
65.216.000-K	Comunidad Mujer	Other related parties	Chile	Other	Advertising	10
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional assistance	Professional assistance	49
96.669.520-K	Red de Television Chilevision S.A.	Other related parties	Chile	Television	Ticket service	398
					Advertising	128
Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	Investments	Building leased	106

(c) Compensation to key managerial staff.

The Company has defined key staff as executives who define the macro-policies and goals of the company and directly affect the results of the business, considered to be the positions of Vice-President, CEO and Director.

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
	KUS\$	KUS\$	KUS\$	KUS\$
Compensation	3,110	2,613	1,511	1,198
Management fees	62	69	33	37
Adjustments in value and non-cash benefits	172	198	84	86
Short-term benefits	3,429	3,969	1,195	2,579
Share-based payments	413	392	265	201
Other	<u>782</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	<u>7,968</u>	<u>7,241</u>	<u>3,088</u>	<u>4,101</u>

NOTE 39 – SHARE-BASED PAYMENTS

Compensation plans implemented through stock options have been in place since the fourth quarter of 2007 and are recognized in financial statements according to IFRS 2, Share-Based Payments. The fair value of options is recorded on a straight-line basis against salaries between the date of such options and the date when they become irrevocable.

These options have been formalized in agreements in the proportion shown in the following accrual calendar. This calendar relates to the executive's time of employment on those dates in order to strike the options:

<u>Percentage</u>	<u>Period</u>
30%	From July 1, 2009 through September 30, 2011
30%	From July 1, 2010 through September 30, 2011
40%	From July 1, 2011 through September 30, 2011

These options have been appraised and accounted for at the fair value on the date granted, determined using the Black-Scholes-Merton method.

	<u>Number of Stock Options</u>
Stock option in a share-based payment agreement, balance as of January 1, 2009	1,604,000
Stock options granted	19,000
Stock options annulled	(312,000)
Stock options in share-based payment agreement balance as of June 30, 2009	<u>1,311,000</u>

Data input to the option appraisal model is provided below that is used in the stock options granted during the period.

<u>Average Weighted Share Price</u>	<u>Strike Price</u>	<u>Expected Volatility</u>	<u>Option Period</u>	<u>Expected Dividends</u>	<u>Risk-Free Interest</u>
US\$8.27	US\$16.1	40.7%	2.5 years	70%	1.12%

NOTE 40 – ENVIRONMENT

No rule in the Environmental Framework Law and supplemental regulations affects the air transport industry.

NOTE 41 – SANCTIONS

(a) By the Securities and Insurance Commission

On July 6, 2007, the Securities and Insurance Commission issued Exempt Resolution No. 306 fining Mr. Juan José Cueto Plaza, Director of Lan Airlines S.A., 1,620 Unidades de Fomento. It concluded that he had infringed the final part of the first subparagraph of Article 165 of Law 18,045 by having purchased shares in Lan Airlines S.A. knowing of the financial statements as of June 30, 2006, but prior to their publication. The Commission gave notice that it decided that there was no use of privileged information because it was proven that knowing that information was not the cause behind the purchase transactions. This resolution was appealed before the 27th

Civil Court of Santiago and that appeal was dismissed by resolution of last January 8th, which was notified that same day. Mr. Cueto's attorneys filed a remedy of cassation in form and a remedy of appeal against the decision, both of which were received for processing and are pending.

No other sanctions have been applied against the Parent Company and its subsidiaries, directors or managers by the Securities and Insurance Commission during the period ending June 30, 2009.

(b) Other administrative authorities

No significant sanctions have been applied against the Parent Company and its subsidiaries, directors or administrators by other administrative authorities through June 30, 2009.

NOTE 42 – EVENTS SUBSEQUENT TO THE DATE OF THE BALANCE SHEET

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries must be approved by the Board of Directors of the Company at a regular meeting. They must be presented by the Audit Committee for approval.

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of June 30, 2009 were approved by the Regular Board Meeting held May 26, 2009 at which the following directors were present:

Jorge Awad Mehech
Juan José Cueto Plaza
Jose Cox Donoso
Ignacio Guerrero Gutierrez
Dario Calderon Gonzalez
Ramon Eblen Kadis
Bernardo Fontaine Talavera
Andres Navarro Haeussler

After June 30, 2009, the Board approved the payment of an interim dividend of US\$0.10219 per share on account of 2009 fiscal year profits, at its regular meeting held July 28, 2009.

There is no knowledge of other financial or other events that materially affect the balances or interpretation of these financial statements after June 30, 2009 through the date of issuance.

MATERIAL EVENTS

The following material events were reported to the Securities and Insurance Commission and to Stock Exchanges:

1. The following material event was reported on July 28, 2009, according to article 9 and subparagraph 2 of article 10 of Securities Market Law No. 18,045 and General Rule No. 30 of the Securities and Insurance Commission:

Starting in the first quarter of 2009, according to regulations of the Securities and Insurance Commission, Lan Airlines S.A. is reporting its results according to IFRS. Therefore, even though the FECU will be sent in the established periods, the Audit Committee and the Board of Lan Airlines S.A. approved, on this date, disclosure of the enclosed financial information as a material event. This information summarizes the Statement of Income and Consolidated Balance Sheet of the company and provides a qualitative explanation of the operating performance in the second quarter ending June 30, 2009.

Lan Airlines S.A. will provide this financial information to its shareholders, investors and the market at large in order to (i) provide truthful, sufficient and timely information in advance of the disclosure of the FECU in the established deadlines; (ii) deliver financial information to the market, investors and analysts on due dates, like it has in past years; and (iii) keep our shareholders, investors and the market at large adequately informed in view of the financial reporting by Lan Airlines S.A. according to IFRS starting this year.

Finally, this financial information does not supersede or modify the FECU according to IFRS, which will be submitted for the second quarter of 2009 in the deadlines established by the Securities and Insurance Commission.

2. On July 28, 2009, the material event was reported that according to governing regulations, in particular Circular 660 of the Securities and Insurance Commission, the Board of Directors of Lan Airlines S.A. approved payment of an interim dividend of US\$0.10219 per share on account of 2009 fiscal year profits at its regular meeting held July 28, 2009. This dividend will be paid starting August 20, 2009 and all shareholders who are shareholders on the fifth business day prior to that date are entitled to this dividend.

3. The following material event was reported on April 28, 2009, according to article 9 and subparagraph 2 of article 10 of Securities Market Law No. 18,045 and General Rule No. 30 of the Securities and Insurance Commission:

Starting in the first quarter of 2009, according to regulations of the Securities and Insurance Commission, Lan Airlines S.A. will be reporting its results according to IFRS. Lan Airlines S.A. will be one of the first companies in the nation to report its

results according to IFRS. The results for the first quarter of 2008 will also be reported under IFRS in order to be comparable.

Therefore, even though the FECU will be sent in the established periods, the Audit Committee and the Board of Lan Airlines S.A. approved, on this date, disclosure of the enclosed financial information as a material event. This information summarizes the Statement of Income and Consolidated Balance Sheet of the company and provides a qualitative explanation of the operating performance in the quarter ending March 31, 2009. Lan has also published an explanation of the main impacts of this transition to IFRS on its 2008 fiscal year results.

Lan Airlines S.A. will provide this financial information to its shareholders, investors and the market at large in order to (i) provide truthful, sufficient and timely information in advance of the disclosure of the FECU in the established deadlines; (ii) deliver financial information to the market, investors and analysts on due dates, like it has in past years; and (iii) keep our shareholders, investors and the market at large adequately informed in view of the reporting by Lan Airlines S.A. according to IFRS starting this year.

Finally, this financial information does not supersede or modify the FECU according to IFRS, which will be submitted for the 2009 quarter in the deadline established by the Securities and Insurance Commission.

4. The following material event was reported on March 3, 2009, according to article 9 and subparagraph 2 of article 10 of Securities Market Law No. 18,045 and General Rule No. 30 of the Securities and Insurance Commission:

On this date, the Board of the Company unanimously decided to record and register two bond facilities in the Securities Registry of the Commission. The main characteristics are as follows:

1. Maximum combined amount under both bond facilities: US\$200,000,000 (two hundred million dollars of the United States of America) or the equivalent in other currencies or units of adjustment, as indicated in number 4 below;
2. Maturity of the bond facilities: The first bond facility will expire in no more than 10 years and the second in no more than 30 years as from their registration in the Securities Registry. Payment liabilities under the different bond issues against each facility must expire in those periods.
3. Use of the funds: The funding will be used to finance investments of the company and its subsidiaries and to refinance liabilities.

4. Other general conditions: The bonds may be placed on the market in general, they will be dematerialized, to the bearer, they will not be convertible into shares of the company, they may be expressed in dollars of the United States of America, in local currency or in Unidades de Fomento and they may contain different units or forms of adjustment or no adjustments at all.

The Board empowered any two of Alejandro de la Fuente Goic, Andres del Valle Eitel, Roberto Alvo Milosawlewitsch and Cristian Toro Cañas, acting jointly on behalf of the company, to set down all stipulations and conditions of the agreements required for the bond issuance, to execute and sign the public deeds containing the bond facility agreements and to perform all proceedings and acts necessary for the issuance and placement of the respective bonds.

5. The following material event was reported on January 21, 2009, according to article 9 and subparagraph 2 of article 10 of Securities Market Law No. 18,045 and General Rule No. 30 of the Securities and Insurance Commission:

LAN Cargo S.A. (“LAN Cargo”) has signed a Plea Agreement with the U.S. Department of Justice (hereinafter the “Department of Justice”) in relation to the U.S. investigation of infringements of fair competition because of price-fixing in the fuel charge and other charges. This involves more than 30 international airlines that operate in the air cargo transport business.

Eight airlines reached this agreement with the Department of Justice: British Airways, Korean Air, Air France-KLM, Japan Airlines, Qantas, Cathay Pacific, SAS and Mastinair/Tampa. Fines totaling US\$1.275 billion were paid.

The period investigated by the Department of Justice in relation to LAN Cargo ranged from February 2003 to February 14, 2006. This investigation of LAN only covered the air cargo business, not the passenger business.

The agreement says that LAN Cargo has agreed to pay a fine of US\$88 million. This fine will be paid over a period of 5 years so it should not materially affect the cash flow of the company. As reported earlier, the company made a provision of US\$75 million for this investigation against income in 2007 and the third quarter of 2008.

Moreover, Aerolinhas Brasileiras S.A. (“ABSA”), in which LAN CARGO has an equity interest, has also reached an agreement. This Plea Agreement with the Department of Justice amounted to US\$21 million, which will be paid in the same terms indicated above.

LAN CARGO has always cooperated with the authorities from the U.S. Department of Justice. The company will continue to cooperate with the authorities as necessary in the global investigation.

5. On December 23, 2008, the material event was reported that according to governing rules, especially Circular No. 660 of the Superintendency of Securities and Insurance, at its regular board meeting held December 23, 2008, the Board of Lan Airlines S.A. approved payment of an interim dividend of 0.30993 per share on account of profits from the 2008 fiscal year, which will be paid starting January 15, 2009. All shareholders who are shareholders on the fifth business day prior to this date will be entitled to payment.

6. On March 3, 2009, by virtue of the provisions in the applicable rules, it was reported that at the Regular Board Meeting held February 26, 2008, the Board of Lan Airlines S.A. agreed to convene a Regular Shareholders Meeting to be held on April 17, 2009, at 11:00 a.m., in order to decide on the following matters:

- a) Approval of the Annual Report, General Balance Sheet and Financial Statements of the Company corresponding to the fiscal year ending December 31, 2008;
- b) Approval of the distribution of a final dividend on account of profits from the 2008 fiscal year, imputing toward such amount the interim dividends of US\$0.28568 per share, paid in August 2008, and US\$0.30993 per share, paid in January 2009;
- c) The compensation of the Board for the 2009 fiscal year;
- d) The compensation of the Audit Committee and calculation of the budget for the 2009 fiscal year;
- e) Appointment of External Auditors, of Risk Rating Agencies; a report on matters within the purview of article 44 of Companies Law No. 18,046;
- f) Information on costs for processing, printing and sending the information indicated in Circular No. 1494 of the Securities and Insurance Commission; and
- g) Other matters of corporate interest inherent to the Regular Shareholders Meeting.

7. On December 23, 2008, the material event was reported in accordance with governing regulations, in particular Circular 660 of the Securities and Insurance Commission, that at its regular meeting held December 23, 2008, the Board of Directors of Lan Airlines S.A. agreed to pay an interim dividend of US\$0.30993 per share on account of 2008 fiscal year profits, which was paid starting January 15, 2009. All

shareholders who are shareholders on the fifth business day prior to this date will be entitled to payment.

8. On November 10, 2008, by virtue of the provisions in Articles 9 and 10 of Law No. 18,045 on Securities Market, the material event was reported on this date that Lan Airlines S.A. (“LAN”) signed a purchase agreement with The Boeing Company in order to purchase four (4) new 767-316ER Boeing aircraft, with deliveries scheduled for February, March (2 aircraft) and April 2012. Moreover, LAN and The Boeing Company signed an agreement granting LAN a purchase option for two (2) planes of the same model for 2013. The amount of the investment, excluding the aforesaid purchase options, is approximately MUS\$636,000 (list price).

The acquisition of these planes forms part of the revision of the strategic fleet plan of LAN for the long-term (year 2012), taking into account the estimates of the delay in the delivery of Boeing 787 aircraft (initially starting in 2011 for LAN). Such purchase was informed by LAN as a material event on July 12, 2007.

9. On July 29, 2008, the material event was reported that according to governing rules, especially Circular No. 660 of the Superintendency of Securities and Insurance, at its regular board meeting held July 29, 2008, the Board of Lan Airlines S.A. approved payment of an interim dividend of 0.28568 per share on account of profits from the 2008 fiscal year, which will be paid starting August 21, 2008. All shareholders who are shareholders on the fifth business day prior to this date will be entitled to payment.

10. On April 10, 2008, by virtue of the provisions in article 9 and subparagraph 2 of article 10 of Law No. 18,045, the material event was reported that at the Regular Shareholders Meeting of Lan Airlines S.A., held on the same date, the new directors of the Company were elected.

The new Board of Directors of Lan Airlines S.A. is comprised as follows:

1. Andres Navarro Haeussler,
2. Bernardo Fontaine Talavera,
3. Dario Calderon Gonzalez,
4. Ignacio Guerrero Gutierrez,
5. Jorge Awad Mehech,
6. Jose Cox Donoso,
7. Juan Cueto Sierra,
8. Juan Jose Cueto Plaza and
9. Ramón Eblen Kadis.

11. On April 10, 2008, the material event was reported that according to governing rules, especially Circular No. 660 of the Superintendency of Securities and Insurance, at its regular shareholders meeting held April 10, 2008, the Board of Lan Airlines S.A. approved payment of a final dividend of 0.01720 per share on account of profits from the 2007 fiscal year, which will be paid starting May 8, 2008. All shareholders who are shareholders on the fifth business day prior to this date will be entitled to payment.

EXPLANATORY ANALYSIS

A comparative analysis and explanation of the principal trends:

1. Consolidated Statement of Financial Situation

At the close of June 2009, total assets of the Company had risen KUS\$253,097 compared to the 2008 fiscal year, equal, percentage-wise, to 4.9%.

Current assets of the Company increased by KUS\$129,150 (12.0%) compared to the 2008 fiscal year. The principal upward variations were in Other Financial Assets (501.5%), Cash and Cash Equivalent (59.4%) and Prepayments (114.0%), which was offset by a decrease in Other Assets (90.2%) as a result of the recovery of collateral for derivative margins and Trade Receivables and Other Accounts Receivable (4.0%).

The liquidity ratio of the Company increased 34.0%, going from 0.69 in the 2008 fiscal year to 0.93 in 2009. Current assets rose 12%, while Current Liabilities decreased 16.4%. The acid-test ratio also varied upwards (90.7%), going from 0.26 in the 2008 fiscal year to 0.49 in 2009.

Non-Current Assets of the Company increased KUS\$123,947 (3.0%) as compared to the 2008 fiscal year. The main positive variation was in Property, plant and equipment, which totaled KUS\$4,093,341 as of June 30, 2009, increasing a net 3.2% compared to the 2008 fiscal year when it was KUS\$3,966,063. This change is due mainly to the net effect in sub-lines Plants and Equipment as a result of the addition of three Airbus A319 aircraft and one Boeing 767 aircraft for passenger transport, the incorporation of one Boeing 777 engine and rotables to support fleet operation; the acquisition of computer equipment, ground support equipment, tools and the like; and to the decrease in Construction Underway, mainly as a result of the recovery of advances on the purchase of the aforesaid aircraft, and to the increase in the Cumulative Depreciation resulting from the depreciation in the period. Moreover, the Company reclassified 4 Airbus A320 aircraft from Plant and Equipment to Other Properties, Plant and Equipment because it sold its interest in the permanent establishment Linnet Leasing Limited, the owner of such aircraft while keeping the original lease-purchase in effect.

The current liabilities of the Company decreased KUS\$254,813 (16.4%), closing at KUS\$1,296,647 in 2009. The variation is due mainly to the decrease in Other Liabilities (78.1%) because of the payment of interim dividends in the first quarter of 2009, Hedge Liabilities (71.2%), Accrued Liabilities (15.2%) and Deferred Income (5.4%). The main increase was in Interest-Bearing Loans (4.8%).

The debt ratio of the Company's Current Liabilities decreased 35.7%, going from 2.04 in the 2008 fiscal year to 1.31 in 2009. Its share as compared to total debt decreased by 16.9%, going from 35.0% in the 2008 fiscal year to 29.1% in 2009.

Non-current liabilities increased KUS\$280,117 (9.7%), to close at KUS\$3,156,919 in 2009. This variation mainly comes from the increase in Loans accruing Interest (16.0%), as a result of the financing for the purchase of four aircraft, the financing of advances for the purchase of aircraft, and loans obtained on the local market to minimize the liquidity risk. This was slightly offset by the decrease in Hedge Liabilities (50.7%) and Trade Payables and Other Accounts Payable (20%).

At the close of June 2009, 96% of the Company's Loans accruing interest are accrued at interest at a fixed rate, including forwards.

The Non-current Liabilities debt ratio of the Company decreased 15.5%, going from 3.78 in the 2008 fiscal year to 3.19 in 2009. Its share compared to total debt increased 9.1%, going from 65.0% in the 2008 fiscal year to 70.9% in 2009.

The total debt-net equity ratio of the Company decreased 22.6%, going from 5.81 in the 2008 fiscal year to 4.50 in 2009.

The variation in Net Equity is due mainly to the results obtained in the 2009, the recognition of the 30% minimum dividend stipulated in governing law and to the decrease in Hedging Reserves.

2. Consolidated Interim Income Statement

The net profit of the controlling company totaled KUS\$69,247 in the first half of 2009, which meant a decrease of KUS\$90,871, equal to a negative variation of 56.8% as compared to the same period in the previous year. Operating profit was KUS\$152,983, a decrease of 34.9% as compared to the first semester in 2008, equal to KUS\$81,856. This decrease was due mainly to the fuel hedging loss amounting to KUS\$110,559, while the results of the first semester of 2008 included a gain of KUS\$30,716 for this reason. Excluding this impact, operating income was KUS\$263,542, or a 29.1% increase and an operating margin of 15.8% compared to 10% attained in the same period in 2008.

Operating income dropped 18.0% compared to the first semester of 2008, to KUS\$1,667,285. This reflects a decrease of 8.5% in passenger revenues, of 38.4% in cargo revenues and 9.7% in other revenues.

Passenger revenues amounted to KUS\$1,198,512, or a decrease of 8.5% when compared to the KUS\$1,310,091 earned in the same period in 2008. This decrease was the product of a 17.6% drop in yields that was partially offset by an 11.0% increase in traffic. The cabin factor fell from 76.3% to 75.9% as the growth in traffic was lower than the 11.6% increase in capacity. This traffic growth came from a 31.0% increase in domestic traffic and 4.2% increase in international traffic. International traffic accounted for 70% of all traffic during the semester. Yield dropped 17.6%, mainly because of the decrease in the fuel charge and lower nominal rates.

Cargo revenues totaled KUS\$397,438, falling 38.4% with respect to the first semester of 2008. This drop is due to the 23.0% decrease in yields and 20.0%

drop in traffic. Cargo traffic was heavily impacted by the global economic slowdown and the weak seed season as well as a drop in salmon exports from Chile caused by the ISA virus. Capacity fell 12.0% in the semester, causing the cabin factor to fall from 72.1% to 65.5%. Revenues measured in ATK decreased 30.1% with regard to the first half of 2008.

Moreover, Other Income fell by KUS\$7,688, equal to a variation of 9.7%, due mainly to the drop in onboard sales and less income from plane leases and customs and storage services to third parties, which was partially offset by higher revenues from the sale of tourist packages. Moreover, Other Income in the first half of 2008 included compensation of US\$5.7 million received from Airbus for the change in the delivery schedule of certain Airbus A318 aircraft.

Operating costs amounted to KUS\$1,514,302, which represents a decrease of KUS\$285,305 (variation of 15.9%) compared to the first semester of 2008. The variation in each item stems from the following:

- a) Payroll and Benefits Expenses decreased KUS\$9,925 as compared to the same period in the previous year, representing a variation of 3.2% caused by the devaluation of local currencies, which was partially offset by an increase in personnel and in average wages and salaries.
- b) Fuel expenses decreased 34.0% as compared to the same period in the previous year, equal to KUS\$233,827. This is due mainly to the drop of 33.7% in prices and 0.3% in consumption. Moreover, the company recorded a loss amounting to KUS\$110,559 in fuel hedging as compared to the gain of KUS\$30,716 in the first half of 2008.
- c) Fees decreased KUS\$21,147, equal to 23.8%, as compared to the same period in 2008. This was due mainly to the decrease of 18.4% in traffic revenues from both businesses (passenger and cargo). Moreover, there was a drop of 0.3 percentage points in average fees, mainly caused by lower fees in the passenger business.
- d) Depreciation and Amortization expenses increased 18.2%, totaling KUS\$22,578, due mainly to the addition of three new B767 aircraft, five A318 aircraft, five A319 aircraft and one A320 aircraft to the fleet, partially offset by the retirement of the Boeing 737-200 aircraft fleet completed in May 2008.
- e) Other leases and landing expenses decreased KUS\$24,729, which represents a variation of 9.4%, as compared to the first semester of the previous year. It was caused mainly by the reduction in the use of cargo planes leased under the ACMI modality in the company's cargo business.
- f) The passenger service expenses rose 5.2% as compared to the same period in 2008. The main cause was the 20.8% increase in the number of passengers carried in the semester. This was partially offset by a

renegotiation of contracts with outside suppliers and logistical efficiencies in the on-board supply process.

- g) Plane lease expenses decreased 1.3%, equal to KUS\$470, due mainly to the drop in the average number of leased planes, which was partially offset by the increase in the average lease costs resulting from the delivery of 2 Boeing 777 aircraft during the second quarter of 2009.
- h) Maintenance costs rose KUS\$4,128, equal to a 7.4% variation, as compared to the first half of 2008, due to the growth in the fleet and escalation in maintenance contracts.
- i) Other operating expenses decreased by 12.2%, as compared to the same period in 2008, equal to KUS\$24,061. This decrease was in line with the drop in costs of sale and in on-board sales.

Interest Income rose from KUS\$3,609 in the first half of 2008 to KUS\$7,579 in the same period in 2009, mainly due to an increase in interest as a result of greater cash availability.

Finance Costs increased 45.9%, equal to KUS\$24,586, basically as a result of the average increase in long-term debt related to the financing of the fleet.

Other Income/Costs showed a gain of KUS\$1,738 with regard to the gain of KUS\$5,538 in the first semester in 2008.

3. Analysis and Explanation of the Consolidated Net Flow from Operation, Investment and Finance Activities

The operating flow of the Company increased KUS\$60,804 compared to the same period in the previous year, mainly due to the net effect of Customer Collections and Supplier Payments (9.8%) and to the increase in Other Income from Other Operating Activities (209.4%), the result of the recovery of collateral securing derivatives margins, offset partially by payments for fuel hedges.

The investment flow rose by KUS\$86,863 as compared to the same period in the previous year, mainly because of the addition of Property, Plant and Equipment (35.4%). Less aircraft were added to the fleet in comparison to the same period in the previous year, which was partially offset by the negative variation in Payments to acquire other financial assets totaling KUS\$53,203.

The finance flow varied positively by KUS\$103,848 as compared to the same period in the previous year, primarily due to the increase in Loans Obtained (32.7%) because of new financing of the purchase of aircraft and loans to minimize the liquidity risk; to the decrease in Dividend Payments (16.7%) and the increase in Other Cash Flows from Finance Activities amounting to KUS\$50,736. All of this was partially offset by the increase in loan payments (105.2%) and the payment of financial interest (37.7%).

Finally, the net flow of the Company during this period of 2009 increased by KUS\$251,515, compared to the same period in the previous year.

4. **Market Risk Analysis**

Credit risk concentration

The Accounts Receivable of the Company are comprised of a high percentage of airplane ticket sales and cargo services to individuals and several companies that are economically and geographically disperse. They are generally short term. Therefore, the Company does not consider itself to be exposed to a significant credit risk concentration.

Hedging instruments: Administration of fuel price risk

The variation in fuel prices depends significantly on oil supply and demand in the world, on the decisions adopted by the OPEC, on the world's refining capacity, on the inventory levels and on factors such as weather and politics. In order to reduce the risk of price variations to which the Company might be exposed, it signed several fuel hedging agreements with different financial institutions for a part of the total estimated fuel consumption of the Company for 2009. The agreements were (a) swaps, which allow a price to be set, (b) call options, which allow the price increase to be limited, and (c) the price collars, which allow a maximum and a minimum price to be set. In the swap, when the market price goes above the set level, the Company receives the difference between both prices by the number of gallons of fuel stipulated in each agreement. Inversely, if the market price is below the set price, the Company must pay the price differential. There are no costs associated with a swap. In a call option, when the market price exceeds the level set, the Company receives the difference between both prices by the number of gallons of fuel stipulated in the agreement. If the market price is below the set price, the Company does not exercise the option. The price collar stipulates that if the market price is higher than the maximum price, the Company receives the difference between the market price and the maximum price, multiplied by the amount of gallons of fuel stipulated in each agreement. If the market price is lower than the minimum price, the Company must pay the price differential established. If the market price is between the maximum and minimum prices set, the Company does not receive or pay.

The Company made a net payment of KUS\$110,148 under these agreements as of June 2009. The losses or earnings on these agreements are recognized as part of Hedging Reserves in the Company's net equity. As of June 30, 2009, the market value of the existing agreements was a negative KUS\$22,782.

Hedging instruments: Administration of interest rate risk

The Company signed interest rate swaps for the purpose of decreasing the risk of a rise in interest rates during the first half of 2001, the second half of 2005, and the first half of 2006. In the second half of 2003, all of 2004 and 2005, the Company also signed call options. Together with the foregoing, the debt for 2006, 2007 and 2008 was assumed at a fixed rate directly with the lending bank

and, moreover, the interest rates were set in advance for the financing of 15 Airbus planes to be delivered between 2010 and 2011 and three Boeing 767-300 planes that will be delivered in 2009 and two Boeing 777-F aircraft, one to be delivered in 2012, while the other was swapped for 2 Boeing 767-300 planes that will be delivered in 2011 and 2012. Moreover, in 2009, the Company signed a cross-currency swap to hedge the cash flow of debt in Chilean pesos accruing interest at the nominal 180-day bank rate (TAB) rate; and interest rate swaps to reduce the risk of an eventual rise in rates on a dollar liability accruing interest at the 6-month LIBOR.

The purpose is to have a percentage of the debt at (i) a fixed rate (like for swaps and fixed-rate debt) and (ii) another percentage of the debt at a floating rate, but limited to a maximum (like the calls), together with (iii) limiting the interest rate exposure in future financing. Therefore, the Company significantly decreases the risk of an increase in interest rates. In relation to such agreements, the Company (i) pays, receives or (ii) only receives, as the case may be, the difference between the agreed fixed rate and the floating rate calculated on the unpaid principal of each agreement. The Company recognized a cumulative profit of KUS\$12,072 on these agreements in the period. The losses and earnings on interest rate swaps together with the premiums and interest rate call earnings are recognized as a component of Interest Expense, based on the amortization of the hedged loan. As of June 30, 2009, the market value of the outstanding swaps, calls and pre-set interest rate agreements was KUS\$(96,298).

As of June 30th, approximately 96% of the debt was fixed under one of the aforesaid instruments at an average rate of 5.1%.

Effects of exchange rate fluctuations

The functional currency of the Company is the American dollar with respect to setting prices of its products, the composition of its balance sheet and effects on income from operations. It sells most of its services in American dollars or the equivalent and most of its expenses are denominated in American dollars or the equivalent, in particular fuel costs, flight and landing fees, aircraft leases, insurance and aircraft parts and accessories. Approximately 92% of all liabilities, including bank debt, air traffic liabilities and some supplier accounts payable, are expressed in American dollars. Moreover, approximately 90% of its assets, particularly Cash and Cash Equivalent, Property, Plant and Equipment, Accounts Receivable and Investments, are also expressed in American dollars.

Although it generally keeps its rates and cargo prices in American dollars or the equivalent, the Company is exposed to foreign currency losses and earnings because of exchange rate fluctuations.

Thus far in 2009, the Company recorded a net exchange differential loss in the amount of KUS\$12,902, which is shown in the Income Statement under Exchange Differentials.

5. Chilean Economic Environment

In order to analyze the economic environment where the Company does business, below is a brief discussion of the situation and evolution of the leading economies that affect it, both national as well as regional and the world.

The publication of the latest developments in the world economy show that although it is true that the economic crisis continues, there are signs of a slight recovery. The financial conditions have improved, mainly because of the heavy public investment made by the leading economies in order to help reduce unemployment, among other things. The world economy is predicted to grow approximately 0.9% in 2009 (2.5% in 2008) and to expand 2.5% in 2010.

The European economy will see its GDP fall to 4.5% in 2009. The world financial crisis caused a change in the direction of investments and a heavy contraction in the export of raw materials. Nonetheless, it is foreseen that the recent recovery in the prices of those products will stimulate demand in key economies.

In the United States, economic indicators point to a falling slowdown rate. The drop in industrial production seems to be reaching its low point and the confidence of companies and consumers has improved. A negative growth of around 2.6% is forecast for 2009 and a gradual recovery for 2010. Growth this latter year is estimated to be closed to 0.8%.

The growth in Latin America is predicted to be near 2% in 2009 (4.2% in 2008). It was heavily impacted by the world financial crisis, albeit to a lesser extent than other regions because the economies of several of the member countries are sound. The region is now benefitting from the rise in the prices of raw materials and growth projections for 2010 are from 4% to 5%.

The Chilean economy was hit hard by the world financial crisis and demand, investment and domestic consumption deteriorated considerably. Inflation has been kept under control and our economy is currently benefitting from the increase in the price of raw materials. Zero growth is expected this year (3.2% in 2008).

The international airline industry was not immune to the impact of the world economic scenario and demand did drop in the passenger and cargo businesses. However, the flexible business model implemented by the company has worked consistently well over time.

EXPLANATORY ANALYSIS

a) Below are the principal financial ratios of the Consolidated Financial Situation Statement:

	6/30/2009	12/31/2008	6/30/2008 (*)
LIQUIDITY INDICATORS			
Current ratio			
(current assets/current liabilities)	0.93	0.69	1.07
Acid-test ratio			
(cash/current liabilities)	0.49	0.26	0.37
DEBT INDICATORS			
Debt ratio			
(current liabilities + non-current liabilities/net equity)	4.50	5.81	2.87
Current debt/total debt (%)	29.11	35.04	37.68
Non-current debt/total debt (%)	70.90	64.96	62.32
Financial expense ratio			
(RAII/financial expenses)	2.19	4.04	5.37
ACTIVITY INDICATORS			
Total Assets	5,449,963	5,196,866	4,338,048
Investments	237,574	838,535	384,648
Sales	14,738	13,333	9,472

(*) Figures according to Chilean GAAP.

PROFIT INDICATORS

The profit indicators have been calculated on the basis of equity and income corresponding to majority shareholders.

	6/30/2009	12/31/2008	6/30/2008 (*)
Return on equity (net profit/average net equity)	0.07	0.41	0.13
Return on assets (net profit/average assets)	0.01	0.07	0.04
Return on operating assets (operating income/average operating assets) (**)	0.03	0.13	0.04

(**) Total assets less deferred taxes, employee current accounts, standing and temporary investments and goodwill.

	6/30/2009	12/31/2008	6/30/2008 (*)
Per-Share Profit (fiscal year profit/number of subscribed and paid-in shares)	0.20	0.99	0.41
Return on dividends (dividends paid/market price)	0.03	0.08	0.04

(*) Figures according to Chilean GAAP.

b) Below are the principal financial ratios of the Consolidated Statement of Income:

	For the 6 months ending June 30,		For the 3 months ending June 30,	
	2009	2008	2009	2008
INCOME INDICATORS				
Revenues	1,667,285	2,034,446	785,109	1,002,904
Passenger	1,198,512	1,310,091	546,918	613,632
Cargo	397,438	645,332	200,756	354,722
Other	71,335	79,023	37,435	34,550
Operating Costs	1,514,302	1,799,607	750,187	917,601
Other leases and landing fees	237,130	261,859	118,795	136,185
Fuel	453,443	687,270	225,176	360,579
Commissions	67,673	88,820	31,140	43,432
Salaries	297,695	307,620	149,283	154,050
Other operating costs	172,437	196,498	83,090	99,109
Plane leases	36,059	36,529	20,338	18,214
Maintenance	59,672	55,544	29,560	22,987
Depreciation and amortization	146,771	124,193	72,222	62,297
Passenger service	43,422	41,274	20,583	20,748
Operating income	152,983	234,839	34,922	85,303
Operating margin	9.2%	11.5%	4.4%	8.5%
Financial income	7,579	3,609	5,113	3,052
Financial expense	-78,104	-53,518	-40,363	-27,314
Other income / costs	1,738	5,538	2,517	7,716
Profit before taxes and minority interest	84,196	190,468	2,189	68,757
Taxes	-13,827	-29,441	-783	-10,058
Profit before Minority Interest	70,369	161,027	1,406	58,699
Attributable to:				
Investors in parent company	69,247	160,118	4,231	60,487
Minority interest	1,122	909	-2,825	-1,788
Net profit	69,247	160,118	4,231	60,487
Net margin	4.2%	7.9%	0.5%	6.0%
Real tax rate	-16.6%	-15.5%	-15.6%	-14.3%
Total number of shares	338,790,909	338,790,909	338,790,909	338,790,909
Net profit per share (US\$)	0.204395	0.472616	0.012489	0.178538
RAIIDAIE	300,370	363,661	112,486	157,104

DECLARATION OF LIABILITY

TAXPAYER NUMBER: 89.862.200-2
Corporate Name: LAN AIRLINES S.A.

The undersigned declare their liability for the veracity of the following information forming part of this quarterly report as of **June 30, 2009**:

	<u>INDIVIDUAL</u>	<u>CONSOLIDATED</u>
Financial Statements		X
Explanatory notes to the Financial Statements		X
Explanatory Analysis		X
Summary of Material Events in the period		X

Note: Place an "X" where pertinent.

<u>Name</u>	<u>Title</u>	<u>Taxpayer Number</u>	<u>Signature</u>
JORGE AWAD MEHECH	CHAIRMAN	4.756.185-K	
JUAN JOSE CUETO PLAZA	DIRECTOR	6.694.240-6	
JOSE COX DONOSO	DIRECTOR	6.065.868-4	
IGNACIO GUERRERO GUTIERREZ	DIRECTOR	5.546.791-9	
DARIO CALDERON GONZALEZ	DIRECTOR	5.078.327-8	
RAMON EBLEN KADIS	DIRECTOR	4.346.062-5	
BERNARDO FONTAINE TALAVERA	DIRECTOR	6.371.763-0	
ANDRES NAVARRO HAEUSSLER	DIRECTOR	5.078.702-8	
IGNACIO CUETO PLAZA	GENERAL MANAGER	7.040.324-2	
ALEJANDRO DE LA FUENTE G.	VICE-PRESIDENT, FINANCE	6.947.715-1	

Date: August 25, 2009