LAN AIRLINES S.A. AND SUBSIDIARIES
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010

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US$ - AMERICAN DOLLARS
KUS$ - THOUSANDS OF AMERICAN DOLLARS

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Report by the External Auditors

Santiago, July 27, 2010

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

1. We have reviewed the interim consolidated financial situation of Lan Airlines S.A. and affiliates as of June 30, 2010, the interim consolidated integral statements of income for the periods of six months and three months ending June 30, 2010 and 2009, 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).

2. 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.

3. Based on our review, we have no knowledge of any material change that should be made to the aforesaid interim 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.

4. On February 17, 2010, we issued a report without comments on the consolidated financial statements as of December 31, 2009 and 2008 of Lan Airlines S.A. and subsidiaries, including the statement of financial situation as of December 31, 2009 in the consolidated financial statements attached hereto in addition to the corresponding notes.

Renzo Corona Spedaliere

Taxpayer I.D.: 6.373.028-9

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED CLASSIFIED STATEMENT OF FINANCIAL POSITION

	Note	At June 30, 2010	At December 31, 2009
		KUS$	KUS$
ASSETS			
Current assets			
Cash and cash equivalent	6	592,463	731,497
Other current financial assets	11	170,039	110,667
Other non-financial assets, current	12	26,541	17,128
Trade receivables and other current accounts receivable	8	427,190	423,739
Intercompany current accounts receivable	9	41	38
Inventories	10	49,641	46,563
Assets for current taxes		87,556	68,420
Total current assets other than assets or group of assets for disposal classified as held for sale or held for distribution to owners		1,353,471	1,398,052
Non-current assets or group of assets for disposal classified as held for sale	13	7,683	10,919
Total current assets		1,361,154	1,408,971
Non-current assets			
Other non-current financial assets	11	20,718	20,024
Other non-current non-financial assets	12	23,142	28,736
Non-current rights receivable	8	6,692	7,190
Investments accounted for by the equity method	15	1,245	1,236
Intangible assets other than goodwill	16	34,378	34,814
Goodwill	17	63,773	63,793
Property, plant and equipment	18	4,386,167	4,196,556
Deferred taxes assets	19	10,250	10,652
Total non-current assets		4,546,365	4,363,001
Total assets		5,907,519	5,771,972
		=======	=======

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED CLASSIFIED STATEMENT OF FINANCIAL POSITION

	Note	At June 30, 2010	At December 31, 2009
		KUS$	KUS$
EQUITY AND LIABILITIES			
LIABILITIES			
Current liabilities			
Other current financial liabilities	20	472,741	417,932
Trade payables and other accounts payable	21	481,413	476,597
Intercompany accounts payable, current	9	287	297
Other short-term provisions	22	850	970
Liabilities for current taxes		7,767	11,287
Other current non-financial liabilities	23	584,249	616,256
Total current liabilities		1,547,307	1,523,339
Non-current liabilities			
Other non-current financial liabilities	20	2,523,360	2,443,178
Non-current liabilities	25	417,442	426,521
Other long-term provisions	22	26,588	26,834
Deferred tax liabilities	19	257,066	240,619
Non-current provisions for employee benefits	24	5,240	5,555
Total non-current liabilities		3,229,696	3,142,707
Total liabilities		4,777,003	4,666,046
EQUITY			
Issued capital	26	453,444	453,444
Retained earnings	26	836,155	742,704
Other interest in equity	26	3,744	2,490
Other reserves	26	(168,315)	(99,811)
Equity attributable to controller owners		1,125,028	1,098,827
Non-controlling interest		5,488	7,099
Total equity		1,130,516	1,105,926
Total equity and liabilities		5,907,519	5,771,972

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	Note	For the 6 months ending June 30		For the 3 months ending June 30	
		2010	2009	2010	2009
		KUS$	KUS$	KUS$	KUS$
Income from ordinary activities	27	2,009,632	1,595,949	1,002,732	747,674
Cost of sales		(1,405,237)	(1,191,635)	(710,825)	(593,724)
Gross earnings		604,395	404,314	291,907	153,950
Other income by function	30	58,888	71,364	30,890	37,465
Distribution costs		(178,809)	(152,066)	(90,848)	(76,995)
Administration expenses		(146,147)	(120,005)	(77,338)	(60,499)
Other expenses by function		(82,820)	(50,634)	(41,988)	(19,009)
Other losses		(2,384)	(10,714)	(1,987)	(331)
Interest income		5,106	7,579	1,796	5,113
Finance costs	28	(78,500)	(78,104)	(40,737)	(40,363)
Share in earnings of associates and joint businesses accounted for using the equity method	15	119	168	110	107
Translation differences	31	(2,386)	12,902	(702)	3,313
Profit (loss) because of units of adjustment		(14)	(608)	(11)	(559)
Gain before gains tax		177,448	84,196	71,092	2,192
Gains tax	19	(30,070)	(13,827)	(11,980)	(783)
EARNINGS IN THE PERIOD		147,378	70,369	59,112	1,409
		======	======		
Earnings attributable to equity holders in the controller		148,929	69,247	60,630	4,233
Earnings (loss) attributable to minority interest		(1,551)	1,122	(1,518)	(2,824)
Earnings in the period		147,378	70,369	59,112	1,409
		======	======		
EARNINGS PER SHARE					
Basic and diluted earnings per share (US$)		0.44	0.20	0.18	0.01

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME BY FUNCTION

	Note	For the 6 months ending June 30		For the 3 months ending June 30	
		2010	2009	2010	2009
		KUS$	KUS$	KUS$	KUS$
EARNINGS IN THE PERIOD		147,378	70,369	59,112	1,409
Exchange differential					
Loss on exchange differential before taxes	31	(2,769)	233	(1,402)	2,457
Other integral profit (loss) before taxes, exchange differential		(2,769)	233	(1,402)	2,457
Cash flow hedging					
Earnings (losses) for cash flow hedging before taxes	26	(79,800)	214,551	(75,350)	146,601
Other integral profit (loss) before taxes, cash flow hedging		(79,800)	214,551	(75,350)	146,601
Other components of other integral profit (loss) before taxes		(82,569)	214,784	(76,752)	149,058
Gains tax related to components of other integral profit (loss)					
Gains tax related to exchange differential of other integral profit (loss)	19	471	1,234	239	1,234
Gains tax related to cash flow hedging of other integral profit (loss)	19	13,566	(36,474)	12,810	(24,923)
Addition of gains tax related to components of other integral profit (loss)		14,037	(35,240)	13,049	(23,689)
Other integral profit (loss)		(68,532)	179,544	(63,703)	125,369
Total integral profit (loss)		78,846	249,913	(4,591)	126,778
Integral profit (loss) attributable to:					
Majority shareholders		80,425	248,242	(3,053)	128,587
Minority interests		(1,579)	1,671	(1,538)	(1,809)
INTEGRAL PROFIT (LOSS)		78,846	249,913	(4,591)	126,778

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM STATEMENT OF CHANGES IN NET EQUITY

	Note	Issued capital	Changes in other reserves: Other interest in equity	Changes in other reserves: Reserves for exchange differential	Changes in other reserves: Reserves for cash flow hedging	Changes in other reserves: Other miscellaneous reserves	Retained earnings	Equity attributable to majority shareholders	Minority interest	Total equity
		KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Initial balance at January 1, 2010 (current period)		453,444	2,490	(4,924)	(92,230)	(2,657)	742,704	1,098,827	7,099	1,105,926
Changes in equity										
Integral profit (loss)										
Earnings	26	-	-	-	-	-	148,929	148,929	(1,551)	147,378
Other integral profit (loss)		-	-	(2,270)	(66,234)	-	-	(68,504)	(28)	(68,532)
Dividends	26	-	-	-	-	-	(55,349)	(55,349)	-	(55,349)
Increase (decrease) because of transfers and other changes	26-36	-	1,254	-	-	-	(129)	1,125	(32)	1,093
Final balance at June 30, 2010 (current period)		453,444	3,744	(7,194)	(158,464)	(2,657)	836,155	1,125,028	5,488	1,130,516

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM STATEMENT OF CHANGES IN NET EQUITY

		Changes in other reserves							
	Note	Issued capital	Other interest in equity	Reserves for exchange differential	Reserves for cash flow hedging	Retained earnings	Equity attributable to controller	Non-controlling interest	Total equity
		KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Initial balance at January 1, 2009 (previous period)		453,444	1,749	(6,193)	(301,813)	614,588	761,775	6,829	768,604
Changes in equity									
Integral profit (loss)									
Earnings	26	-	-	-	-	69,247	69,247	1,122	70,369
Other integral profit (loss)		-	-	918	178,077	-	178,995	549	179,544
Dividends	26	-	-	-	-	(20,762)	(20,762)	-	(20,762)
Increase (decrease) because of transfers and other changes	26-36	-	102	-	-	242	344	(1,702)	(1,358)
Final balance at June 30, 2009 (previous period)		453,444	1,851	(5,275)	(123,736)	663,315	989,599	6,798	996,397

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

LAN AIRLINES S.A. AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS – DIRECT METHOD

	Note	For the periods ended on June 30 2010	2009
		KUS$	KUS$
Cash flow from operations			
Type of charge for operations			
Charges from the sale of goods and services		2,119,525	1,583,450
Other charges for operations		22,148	20,618
Type of payments			
Payments to suppliers for goods and services		(1,483,097)	(1,019,156)
Payments to and on account of employees		(303,600)	(270,879)
Other payments for operations		(18,000)	(19,000)
Interest paid		(387)	-
Interest received		2,427	5,832
Earnings taxes reimbursed (paid)		(3,602)	9,650
Other receipts (outlays) of cash		(3,166)	(112,029)
Net cash flows from operations		332,248	198,486
Cash flow used in investment activities			
Cash flows from loss of control in subsidiaries or other businesses		1,458	1,503
Other charges for the sale of equity or debt instruments of other entities		4,968	3,074
Other payments to acquire equity or debt instruments of other entities		-	(53,203)
Income from the sale of property, plant and equipment		43	10,161
Purchase of property, plant and equipment		(332,184)	(257,210)
Purchase of intangible assets		(4,826)	(4,451)
Dividends received		110	260
Interest received		2,437	244
Other cash receipts (outlays)		(86,875)	170,959
Net cash flows used in investment activities		(414,869)	(128,663)
Net cash flows from (used in) financing activities			
Long-term loans		344,123	410,725
Loan payments		(250,211)	(93,079)
Payment of liabilities for financing lease		(32,008)	(31,327)
Dividends paid		(80,941)	(105,314)
Interest paid		(64,032)	(57,285)
Other cash receipts (outlays)		26,757	44,434
Net cash flows from (used in) financing activities		(56,312)	168,154
Net increase (decrease) in cash and cash equivalent before effect of changes in the exchange rate		(138,933)	237,977
Effects of variations in exchange rates on cash and cash equivalent			
Effects of variations in exchange rates on cash and cash equivalent		(101)	248
Net increase (decrease) in cash and cash equivalent		(139,034)	238,225
CASH AND CASH EQUIVALENT, SHOWN IN THE CASH FLOW STATEMENT, INITIAL BALANCE	6	731,497	400,972
CASH AND CASH EQUIVALENT, SHOWN IN THE CASH FLOW STATEMENT, FINAL BALANCE	6	592,463	639,197
		======	======

The attached notes 1 to 39 form an integral part of these consolidated interim financial statements.

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 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. Moreover, the Company has subsidiaries that operate in the cargo business in Mexico, Brazil and Colombia.

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

The Corporate Governance Practices of the Company 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 the Company 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.

The majority shareholder of the Company is the Cueto Group, owner of 34.1% of the shares issued by the Company through Costa Verde Aeronautica S.A. and Inversiones Mineras del Cantábrico S.A. Therefore, it is the controller of the Company, according to letter b) of articles 97 and 99 of the Securities Market Law, since this Group has a significant influence on the management of the Company although it does not have a voting majority at shareholders meetings or choose the majority of directors in the Company.

As of June 30, 2010, the Company had a total of 1,181 shareholders in its registry. As of such date, 8.69% of the ownership of the Company was in the form of ADRs.

For the first semester of 2010, the Company employed an average of 17,319 people, ending this period with a total of 17,679, 3,283 employed in Management, 2,288 in Maintenance, 5,037 in Operations, 3,111 as Cabin Crew, 1,515 as Cockpit Crew and 2,445 in Sales.

Below are the subsidiaries included in these consolidated financial statements:

Taxpayer Id. No.	Company	Country of origin	Functional currency	At June 30, 2010 Direct %	Indirect %	Total %	At December 31, 2009 Direct %	Indirect %	Total %
96.518.860-6	Comercial Masterhourse S.A.	Chile	US$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
96.763.900-1	Inmobiliaria Aeronautica S.A.	Chile	US$	99.0100	0.9900	100.0000	99.0100	0.9900	100.0000
96.969.680-0	Lan Pax Group S.A. and subsidiaries	Chile	US$	99.8361	0.1639	100.0000	99.8361	0.1639	100.0000
Foreign	Lan Peru S.A.	Peru	US$	49.0000	21.0000	70.0000	49.0000	21.0000	70.0000
Foreign	Lan Chile Investments Limited and subsidiaries	Cayman Islands	US$	99.9900	0.0100	100.0000	99.9900	0.0100	100.0000
93.383.000-4	Lan Cargo S.A. and subsidiaries	Chile	US$	99.8939	0.0041	99.8980	99.8939	0.0041	99.8980
Foreign	Connecta Corporation	USA	US$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Prime Airport Services Inc. and Subsidiary	USA	US$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.951.280-7	Transporte Aereo S.A.	Chile	US$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.634.020-7	Ediciones Ladeco America S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Aircraft International Leasing Limited	USA	US$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.631.520-2	Fast Air Almacenes de Carga S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.631.410-9	Ladeco Cargo S.A.	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Laser Cargo S.R.L.	Argentina	ARS	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
Foreign	Lan Cargo Overseas Limited and subsidiaries	USA	US$	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.969.690-8	Lan Cargo Inversiones S.A. and subsidiary	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.801.150-2	Blue Express INTL S.A. and subsidiary	Chile	CLP	0.0000	100.0000	100.0000	0.0000	100.0000	100.0000
96.575.810-0	Inversiones Lan S.A. and subsidiaries	Chile	CLP	99.7100	0.0000	99.7100	99.7100	0.0000	99.7100

Moreover, the Company has consolidated certain special-purpose entities according to the Standard issued by the International Financial Reporting Interpretations Committee: Consolidation – Special-Purpose Entities ("SIC 12").

All entities controlled have been included in the consolidation.

Changes in the perimeter of consolidation between January 1, 2009 and June 30, 2010 are as follows:

1. Companies dissolved:
    - Nigsy S.A., an indirect subsidiary of Lan Chile Investments Limited

2. Addition or acquisition of companies:
    - Florida West Technical Services LLC, a direct subsidiary of Prime Airport Services Inc., changed its corporate name to Lan Cargo Repair Station, LLC in April 2010.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Below is a description of the main accounting policies adopted in preparing these consolidated financial statements.

2.1 Basis of Accounting

The consolidated interim financial statements of Lan Airlines S.A. correspond to the period ending June 30, 2010 and have been prepared according to the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) that have been adopted in Chile under the name of Financial Reporting Standards of Chile (NIFCH). Such international standards were fully, explicitly and unreservedly adopted.

The consolidated financial statements have been prepared using the historic cost, albeit modified by the appraisal of certain property, plant and equipment.

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 4 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 interim consolidated financial statements have been prepared according to NIC 34/NICCH 34.

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

Standards and Amendments	**Mandatory: Fiscal years starting:**
Amendment to IAS 24: Related party disclosures	1/1/2011
IFRS 9: Financial instruments, classification and measurement	1/1/2013

Interpretations	**Mandatory: Fiscal years starting:**
IFRIC 19: Extinguishing financial liabilities with equity instruments	7/1/2010
Amendment to IFRIC 14: Prepayments of a minimum funding requirement	1/1/2011

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 can currently be exercised or converted is taken into account as at the date of the consolidated financial statements. 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 or purchase 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 identifiable contingent assets and 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 2.6).

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 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. The interest held is generally 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 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 of the associates. 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.

The dilution losses or gains in associates are recognized in the consolidated 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 presented.

(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 consolidated income statement.

(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 statement of financial position are converted at the closing exchange rate on the date of the consolidated statement of financial position;

(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 consolidated 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 period.

2.4 Property, Plant and Equipment

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

The amounts for prepayments to aircraft manufacturers are capitalized by the Company under Constructions under way until their delivery, at which time they are settled.

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 property, plant and equipment 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.

The depreciation of fixed assets is calculated using the straight-line method 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 2.8).

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 other than Goodwill

(a) 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 costs directly related to production of unique and identifiable data processing software controlled by the Company are recognized as intangible assets other than goodwill, when they meet all capitalization requirements. The direct costs include the expenses of staff that develop the data processing software and other directly related expenses.

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

2.6 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 impairment in value annually. Gains and losses on the sale of an entity include the carrying amount of the goodwill related to that entity.

2.7 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.

2.8 Impairment Losses on Non-Financial Assets

Assets that have an indefinite useful life and processing software under development 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 indicate 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.

2.9 Financial Assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables and financial assets kept through maturity. 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 other financial 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 consolidated statement of financial position, in which case they are classified as non-current assets. Loans and receivables are included in trade receivables and other receivables in the consolidated statement of financial position (Note 2.12).

(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 financial assets kept through maturity are included in non-current assets unless they expire less than 12 months from the date of the consolidated statement of financial position, in which case they are classified as other current financial assets.

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 consolidated statement of financial position. If there is any objective evidence on financial assets kept through maturity, the amount of the provision is the difference between the amount for the asset on the books and the present value of estimated future cash flows, less the original effective interest rate.

2.10 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 Other non-current financial assets or liabilities if the period remaining to the maturity of the hedged item is greater than 12 months; and as other current financial assets or liabilities if the period remaining to maturity of the hedged item is less than 12 months. Non-hedging derivatives are classified as Other financial assets or liabilities.

(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 losses” in the consolidated statement of income.

(c) **Non-Hedge Derivatives**

Certain derivatives do not qualify for hedge accounting. The changes in fair value of any derivative not qualifying for hedge accounting are immediately recognized in “Other losses” in the consolidated statement of income.

2.11 Inventories

Inventories, described in Note 10, 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.

2.12 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 original 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.

2.13 Cash and Cash Equivalent

Cash and cash equivalent include cash on hand, time deposits in banks and other short-term, and highly liquid investments.

2.14 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.

2.15 Trade Payables and Other Accounts Payable

Trade Payables and Other Accounts Payable are recognized initially at the fair value and later at the amortized value using the effective interest rate method.

2.16 Interest-bearing Loans

Financial liabilities are initially recognized at the fair value, net of the costs incurred in the transaction. Financial liabilities 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.

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

2.17 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 closing date of the consolidated statement of financial position 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.

The Company does not record deferred taxes for temporary differences stemming from investments in subsidiaries and associates since it controls the date when the temporary differences will be reversed and it is likely that they will not be reversed in the foreseeable future.

2.18 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 the consolidated financial statements according to IFRS 2: Stock-based payments, and the effect of the fair value on the options are 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 actuarial gains and losses 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.

2.19 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 consolidated statement of financial position as well as the specific risk related to that particular liability.

2.20 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 returns, rebates and discounts.

(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: Accounting for Customer Loyalty Programs.

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.

(c) **Dividend income**

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

2.21 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 "Other Financial Liabilities." 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.

2.22 Non-Current Assets or Asset Groups for sale classified as 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.

2.23 Maintenance

Costs incurred in major scheduled maintenance of aircraft fuselage and engines are capitalized and depreciated until the next maintenance. The depreciation rate is determined on a technical basis according to utilization based on cycles and flight hours.

Non-scheduled maintenance of aircraft and engines and minor maintenance are debited against income in the fiscal year when performed.

2.24 Environment

Disbursements for environmental protection are imputed to income as they are made.

NOTE 3 – MANAGEMENT OF FINANCIAL RISK

3.1 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 forward market for this index is not very liquid, so the Company hedged in WTI crude oil, which has a high correlation to Jet Fuel and is a highly liquid asset. 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 2010, the Company recognized losses totaling US$1.3 million for fuel hedging. In the same period of 2009, it had losses of US$110 million for fuel hedging.

As of June 30, 2010, the market price of fuel positions totaled US$1.8 million (negative). At the close of December 2009, that market price was US$13.6 million (positive). The tables below show the notional value of the purchase positions and derivatives contracted for the different periods:

Positions at June 30, 2010

	Maturities						
	Q310	Q410	Q111	Q211	Q311	Q411	Total
Volume (000's of WTI barrels)	1,428	1,531	1,158	570	306	324	5,317
Agreed future price (US$ per barrel)*	78	81	79	80	80	81	80
Total (KUS$)	111,384	124,011	91,482	45,600	24,480	26,244	425,360
Approximate hedging percentage (on volume expected to be consumed)	47%	47%	34%	16%	8%	8%	25%

*Weighted average between active collars and options

Positions at December 31, 2009

	Maturities				
	Q110	Q210	Q310	Q410	Total
Volume (000's of WTI barrels)	1,404	1,371	876	738	4,389
Agreed future price (US$ per barrel)*	84	80	79	82	81
Total (KUS$)	117,936	109,680	69,204	60,516	355,509
Approximate hedging percentage (on volume expected to be consumed)	48%	49%	29%	24%	37%

*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 2011. 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 2010 and the close of December 2009.

WTI reference price (US$ per barrel)	Position at June 30, 2010 Effect on equity (US$ millions)	Position at December 31, 2009 Effect on equity (US$ millions)
+5	+22.2	+14.6
-5	-21.5	-13.6

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.

As required by IAS 39, the Company has not accounted for inefficacy in the consolidated statement of income during the periods presented.

The fuel hedge structure for the first semester of 2010 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) would have meant savings of approximately US$18.5 million in the cost of fuel in the first semester of 2010.

(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 90-day 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 three-month Libor	Position as of June 30, 2010, effect on pre-tax gains (KUS$)	Position as of December 31, 2009, effect on pre-tax gains (KUS$)
+100 base points	-0.94	-0.87
-100 base points	+0.94	+0.87

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 of three-month Libor	Position as of June 30, 2010, effect on equity (KUS$)	Position as of December 31, 2009, effect on equity (KUS$)
+100 base points	44.99	49.64
-100 base points	(48.48)	(53.23)

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.

As required by IAS 39, the Company has not accounted for inefficacy in the consolidated statement of income for the periods presented.

(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 consolidated statement of financial position 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, mainly: 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 Chilean pesos at that time to US$202 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 starting in 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), an international agency comprised of the majority of airlines representing more than 90% of the scheduled commercial traffic and one of its main goals is to regulate the financial operations between airlines, travel agencies and cargo agencies. 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, Business Sales Processing ("BSP"), Cargo Account Settlement Systems ("CASS"), IATA Clearing House ("ICH") 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 and financial assets 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$100 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, on the date received, to US$252 million, from a local bank payable over a three-year period 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.

Type of liability for analysis of liquidity risk, grouped by maturity as of June 30, 2010

Type of liability	Debtor I.D. No.	Name of Debtor	Country of debtor	Creditor I.D. No.	Creditor name	Country of debtor	Description of currency	Up to 90 days KUS$	More than 90 days un to one year KUS$	More than 1 up to 3 years KUS$	More than 3 up 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.	Chile	0-E	ING	USA	US$	7,387	22,249	56,616	47,122	105,105	238,479	3 months	5.24%	191,325	4.67%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US$	20,997	63,310	151,414	51,386	31,089	318,196	3 months	4.96%	291,751	4.91%
		Lan Airlines S.A.	Chile	0-E	PEFCO	USA	US$	19,831	59,512	158,695	154,142	244,494	636,674	3 months	5.15%	525,406	4.59%
		Lan Airlines S.A.	Chile	0-E	BNP PARIBAS	USA	US$	22,804	68,853	184,909	186,958	437,868	901,392	3 months	4.51%	737,991	4.02%
		Lan Airlines S.A.	Chile	0-E	RBS	USA	US$	6,083	18,250	48,667	48,667	123,763	245,430	3 months	6.40%	185,106	5.67%
		Lan Airlines S.A.	Chile	0-E	WELLS FARGO	USA	US$	5,616	16,861	44,891	44,816	146,903	259,087	3 months	3.64%	211,919	3.53%
Lease-purchase	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	USA	US$	3,924	11,752	31,040	26,473	18,314	91,503	3 months	4.31%	83,315	3.85%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US$	2,268	6,902	18,633	23,831	47,433	99,067	3 months	1.43%	91,208	1.41%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	USA	US$	1,653	5,140	30,341	-	-	37,134	3 months	1.42%	36,006	1.37%
		Lan Airlines S.A.	Chile	0-E	S. CHARTERED	USA	US$	5,638	11,424	18,945	3,790	-	39,797	3 months	1.30%	38,907	1.10%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.036.000-K	SANTANDER	Chile	US$	-	26,576	25,677	-	-	52,253	6 months	3.64%	50,000	3.55%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.023.000-9	CORPBANCA	Chile	CLP	11,140	10,974	21,492	-	-	43,606	6 months	3.05%	42,033	2.94%
		Lan Airlines S.A.	Chile	76.645.030-K	ITAU	Chile	CLP	-	17,966	17,464	-	-	35,430	6 months	3.02%	34,175	2.94%
		Lan Airlines S.A.	Chile	97.006.000-6	BCI	Chile	CLP	-	32,176	30,970	-	-	63,146	6 months	4.05%	60,125	3.96%
		Lan Airlines S.A.	Chile	97.030.000-7	ESTADO	Chile	CLP	-	39,419	38,304	-	-	77,723	6 months	3.01%	74,928	2.94%
Other loans	89.862.200-2	Lan Airlines S.A.	Chile	0-E	SANTANDER MADRID	Spain	US$	1,544	1,424	133,887	-	-	136,855	3 months	3.53%	133,887	3.53%
Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHER	-	US$	3,652	15,445	57,518	31,429	11,755	119,799	-	-	118,138	-
Non-hedging derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHER	-	US$	1,541	4,381	10,308	7,481	283	23,994	-	-	23,490	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries	MISCELLANEOUS	-	MISCELLANEOUS	-	Miscellaneous	396,868	84,545	-	-	-	481,413	-	-	481,413	-
Non-current liabilities		Lan Airlines S.A. and Subsidiaries	MISCELLANEOUS	-	MISCELLANEOUS	-	US$	-	-	54,000	-	-	54,000	-	-	54,000	-
Intercompany accounts payable		Lan Airlines S.A. and Subsidiaries	MISCELLANEOUS	-	MISCELLANEOUS	-	US$	287	-	-	-	-	287	-	-	287	-

Type of liability for analysis of liquidity risk, grouped by maturity as of December 31, 2009

Type of liability	Debtor I.D. No.	Name of Debtor	Country of debtor	Creditor I.D. No.	Creditor name	Country of debtor	Description of currency	Up to 90 days KUS$	More than 90 days un to one year KUS$	More than 1 up to 3 years KUS$	More than 3 up 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.	Chile	0-E	ING	USA	US$	7,355	22,153	59,137	47,630	116,885	253,160	3 months	5.19%	201,409	4.63%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US$	20,878	62,824	166,879	67,336	40,878	358,795	3 months	5.01%	325,998	5.01%
		Lan Airlines S.A.	Chile	0-E	PEFCO	USA	US$	19,830	59,513	158,706	158,703	279,604	676,356	3 months	5.14%	552,605	4.58%
		Lan Airlines S.A.	Chile	0-E	BNP PARIBAS	USA	US$	24,127	72,581	195,244	197,936	529,928	1,019,816	3 months	3.86%	840,814	3.72%
		Lan Airlines S.A.	Chile	0-E	RBS	USA	US$	6,083	18,250	48,667	48,667	135,929	257,596	3 months	6.40%	191,879	5.67%
		Lan Airlines S.A.	Chile	0-E	WELLS FARGO	USA	US$	1,551	5,637	15,009	14,975	52,100	89,272	3 months	3.61%	72,770	3.50%
Lease-purchase	89.862.200-2	Lan Airlines S.A.	Chile	0-E	ING	USA	US$	3,940	11,790	31,105	51,561	-	98,396	3 months	4.45%	89,389	3.98%
		Lan Airlines S.A.	Chile	0-E	CALYON	France	US$	2,215	6,659	18,054	31,643	41,394	99,965	3 months	1.26%	95,036	1.24%
		Lan Airlines S.A.	Chile	0-E	CITIBANK	USA	US$	1,585	4,920	33,656	-	-	40,161	3 months	1.10%	39,018	1.03%
		Lan Airlines S.A.	Chile	0-E	S. CHARTERED	USA	US$	9,709	19,053	29,958	-	-	58,720	3 months	0.89%	58,247	0.73%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.036.000-K	SANTANDER	Chile	US$	930	13,435	52,335	-	-	66,700	6 months	3.77%	50,000	3.68%
Bank loans	89.862.200-2	Lan Airlines S.A.	Chile	97.023.000-9	CORPBANCA	Chile	CLP	643	11,993	34,991	-	-	47,627	6 months	2.92%	45,356	2.82%
		Lan Airlines S.A.	Chile	76.645.030-K	ITAU	Chile	CLP	-	10,348	28,504	-	-	38,852	6 months	3.14%	36,876	3.06%
		Lan Airlines S.A.	Chile	97.006.000-6	BCI	Chile	CLP	-	18,390	50,287	-	-	68,677	6 months	3.38%	64,879	3.30%
		Lan Airlines S.A.	Chile	97.030.000-7	ESTADO	Chile	CLP	-	22,721	62,520	-	-	85,241	6 months	3.12%	80,852	3.06%
Derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHER	-	US$	5,118	16,647	39,874	11,326	(2,279)	70,686	-	-	69,433	-
Non-hedging derivatives	89.862.200-2	Lan Airlines S.A.	Chile	-	OTHER	-	US$	511	1,484	3,364	2,557	263	8,179	-	-	7,839	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries	MISCELLANEOUS	-	MISCELLANEOUS	-	Miscellaneous	392,294	84,303	-	-	-	476,597	-	-	476,597	-
Non-current liabilities		Lan Airlines S.A. and Subsidiaries	MISCELLANEOUS	-	MISCELLANEOUS	-	US$	-	-	54,000	18,000	-	72,000	-	-	72,000	-
Intercompany accounts payable		Lan Airlines S.A. and Subsidiaries	MISCELLANEOUS	-	MISCELLANEOUS	-	Miscellaneous	297	-	-	-	-	297	-	-	297	-

The Company has defined fuel hedging and interest rate 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.

At the close of 2009, the Company had delivered US$40.4 million in collateral for derivative margins, corresponding to cash and stand-by letter of credits. At the close of June 30, 2010, US$53.4 million had been delivered additionally as collateral corresponding to cash due to maturity and the acquisition of fuel and rate agreements, the rise in the price of fuel, and the decrease in the interest rates.

3.2 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 from operating leases 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 has not changed since 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, 2010 and December 31, 2009 were:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Total loans	3,152,133	3,074,425
Revenues in the last twelve months x 8	761,064	669,696
Less:		
Cash and marketable securities	(647,635)	(791,912)
Total net adjusted debt	3,265,562	2,952,209
Net equity	1,125,028	1,098,827
Net hedging reserves	158,464	92,230

Total capital	4,549,054	4,143,266
Leverage indicator	71.8%	71.3%

3.3 Estimation of Fair Value

As of June 30, 2010, the Company held financial instruments that must be recorded at their fair value. These are:

(i) Investments in short-term mutual funds (cash equivalent),
(ii) Interest rate derivatives,
(iii) Fuel derivatives; and
(iv) Currency derivatives.

The Company has classified the measurement of the fair value using a hierarchy that reflects the level of information used in the appraisal. This hierarchy is comprised of 3 levels: (I) fair value based on the quotation in active markets for a similar class of asset or liability, (II) fair value based on valuation techniques using information on market prices or derivatives of the market prices for similar financial instruments, (III) fair value based on valuation models that do not use market information.

The fair value of financial instruments quoted on active markets, such as investments acquired for trading, is based on market quotes at the close of the fiscal year using the current buying price. The fair value of financial assets not quoted on active markets (derivatives) is determined using the valuation techniques that maximize the use of market information available. The valuation techniques generally used by the Company are: market quotations for similar instruments and/or estimates of the present value of future cash flows using the curves of future market prices at the close of the period.

The following table shows the classification of financial instruments according to fair value as of June 30, 2010, by the level of information used in the valuation:

	Fair value at June 30	Measurement of fair value using		
	2010	Level I	Level II	Level III
	KUS$	KUS$	KUS$	KUS$
Assets				
Short-term mutual funds	95,093	95,093	-	-
Fair value of interest rate derivatives	635	-	635	-
Fair value of fuel derivatives	2,148	-	2,148	-
Fair value of foreign currency derivatives	16,814	-	16,814	-
Liabilities				
Fair value of interest rate derivatives	120,794	-	120,794	-
Fair value of foreign currency derivatives	3,772	-	3,772	-
Fair value of fuel derivatives	3,901	-	3,901	-
Interest rate derivatives not accounted for	22,344	-	22,344	-

as hedging

In addition, as of June 30, 2010, the Company held financial instruments that are not recorded at their fair value. In order to meet the fair value disclosure requirements, the Company has valued these instruments as shown in the next table:

	At June 30, 2010		At December 31, 2009	
	Book value	Fair value	Book value	Fair value
	KUS$	KUS$	KUS$	KUS$
Cash	2,970	2,970	2,707	2,707
Bank balances	25,025	25,025	31,176	31,176
Time deposits	469,375	469,375	522,077	522,077
Other current financial assets	55,172	58,448	60,415	63,341
Trade receivables, other accounts receivable and non-current rights receivable	433,882	433,882	430,929	430,929
Intercompany accounts receivable	41	41	38	38
Other financial liabilities	2,845,290	2,907,053	2,774,942	2,900,232
Non-current liabilities	54,000	54,000	72,000	72,000
Trade receivables and other accounts payable	481,413	481,413	476,597	476,597
Intercompany accounts payable	287	287	297	297

The book amount of accounts receivable and payable is near their fair values because of their short-term nature. The fair value of cash, bank balances, time deposits and non-current financial liabilities is rounded to their book value.

The fair value of other financial liabilities is calculated by discounting the future cash flows under contracts at the interest rate on the market available for similar financial instruments. For other financial liabilities, the valuation was made according to the market quotation at the close of the period.

NOTE 4 – 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 need to establish provisions and the amount of those provisions, if pertinent.

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 5 – 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).

	Air Transport Segment			
	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010 KUS$	2009 KUS$	2010 KUS$	2009 KUS$
Income from ordinary activities with external customers	2,068,520	1,667,313	1,033,622	785,139
Interest income	5,106	7,579	1,796	5,113
Interest expense	(78,500)	(78,104)	(40,737)	(40,363)
Total net interest expense	(73,394)	(70,525)	(38,941)	(35,250)
Depreciation and amortization	(163,269)	(149,464)	(81,628)	(76,064)
Gain of the segment reported	148,929	69,247	60,630	4,233
Share of the entity in income of associates	119	168	110	107
Expense on income tax	(30,070)	(13,827)	(11,980)	(783)
Segment assets	5,907,519	5,449,963	5,907,519	5,449,963
Amount in investments in associates	1,245	1,242	1,245	1,242
Disbursements of non-monetary assets in the segment	337,010	63,915	173,005	45,100

The Company's revenues by geographic area are:

	For the 6 months ending on June 30	For the 3 months ending on June 30

	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Peru	257,932	197,169	134,461	96,654
Argentina	218,607	191,634	122,845	82,927
USA	403,214	315,864	201,029	144,460
Europe	209,316	144,470	91,373	62,153
Chile	572,698	469,341	285,986	226,889
Other (*)	406,753	348,835	197,928	172,056
Total (**)	2,068,520	1,667,313	1,033,622	785,139

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 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.

NOTE 6 – CASH AND CASH EQUIVALENT

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Cash flow	2,970	2,707
Balances in banks	25,025	31,176
Time deposits	469,375	522,077
Other	95,093	175,537
Total	592,463	731,497

The balances comprising cash and cash equivalent by currency are shown below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
Type of currency	KUS$	KUS$
U.S. Dollar	194,425	228,879
Chilean peso (*)	343,054	435,514
Euro	10,579	13,255
Argentine peso	5,337	6,105

Brazilian real	886	3,041
Other currencies	38,182	44,703
Total	592,463	731,497

(*) The Company signed forwards amounting to KUS$323,210 as of June 30, 2010 (KUS$367,412 as of December 31, 2009) for the translation of investments in Chilean pesos into U.S. dollars.

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. As of June 30, 2010, the amount subject to these restrictions in U.S. dollars was KUS$27,345 (KUS$26,196 as of December 31, 2009).

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

NOTE 7 – FINANCIAL INSTRUMENTS

7.1 Financial Instruments by Category

At June 30, 2010

Assets	Held until maturity	Loans and receivables	Hedging derivatives	Held for trading	Total
	KUS$	KUS$	KUS$	KUS$	KUS$
Cash and cash equivalent	-	497,370	-	95,093	592,463
Other financial assets (*)	55,678	115,482	19,597	-	190,757
Trade receivables and other current accounts receivable	-	427,190	-	-	427,190
Non-current rights receivable	-	6,692	-	-	6,692
Intercompany receivables	-	41	-	-	41
Total	55,678	1,046,775	19,597	95,093	1,217,143

Liabilities	Other financial liabilities	Hedging derivatives	Kept for trading	Total
	KUS$	KUS$	KUS$	KUS$

Other financial liabilities	2,845,290	128,467	22,344	2,996,101
Non-current liabilities	360,843	-	-	360,843
Trade payables and other accounts payable	383,322	-	-	383,322
Intercompany accounts payable	287	-	-	287
Total	3,589,742	128,467	22,344	3,740,553

(*) The value kept until maturity corresponds mainly to domestic and foreign bonds.

December 31, 2009

Assets	Held until maturity	Loans and receivables	Hedging derivatives	Held for trading	Total
	KUS$	KUS$	KUS$	KUS$	KUS$
Cash and cash equivalent	-	555,960	-	175,537	731,497
Other financial assets (*)	60,923	26,719	43,049	-	130,691
Trade receivables and other current accounts receivable	-	423,739	-	-	423,739
Non-current rights receivable	-	7,190	-	-	7,190
Intercompany receivables	-	38	-	-	38
Total	60,923	1,013,646	43,049	175,537	1,293,155

Liabilities	Other financial liabilities	Hedging derivatives	Held for trading	Total
	KUS$	KUS$	KUS$	KUS$
Other financial liabilities	2,774,942	78,333	7,835	2,861,110
Non-current liabilities	371,483	-	-	371,483
Trade payables and other accounts payable	377,438	-	-	377,438
Intercompany accounts payable	297	-	-	297
Total	3,524,160	78,333	7,835	3,610,328

(*) The value kept until maturity corresponds mainly to domestic and foreign bonds.

7.2 Financial instruments per currency:

	As of June 30, 2010 MUS$	As of December 31, 2009 MUS$
a) Assets		
Cash and cash equivalent	**592,463**	**731,497**
U.S. dollar	194,425	228,879

Chilean peso	343,054	435,514
Euro	10,579	13,255
Argentine peso	5,337	6,105
Brazilian real	886	3,041
Other currencies	38,182	44,703
Other financial assets	**190,757**	**130,691**
U.S. dollar	181,867	122,122
Brazilian real	5,367	5,334
Other currencies	3,523	3,235
Trade receivables and other current accounts receivable	**427,190**	**423,739**
U.S. dollar	294,002	319,980
Chilean peso	66,000	52,073
Euro	7,645	5,192
Argentine peso	18,314	15,158
Brazilian real	17,767	11,190
Australian dollar	8,348	7,595
Other currencies	15,114	12,551
Non-current rights receivable	**6,692**	**7,190**
U.S. dollar	9	9
Chilean peso	6,669	7,179
Other currencies	14	2
Intercompany accounts receivable	**41**	**38**
U.S. dollar	29	29
Chilean peso	12	9
Total assets	**1,217,143**	**1,293,155**
U.S. dollar	670,332	671,019
Chilean peso	415,735	494,775
Euro	18,224	18,447
Argentine peso	23,651	21,263
Brazilian peso	24,020	19,565
Australian dollar	8,348	7,595
Other currencies	56,833	60,491

b) Liabilities

The information on liabilities is in Note 3: Management of Financial Risk.

7.3 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 8 – TRADE RECEIVABLES, OTHER ACCOUNTS RECEIVABLE AND NON-CURRENT RIGHST RECEIVABLE

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Trade receivables	401,047	407,320
Other accounts receivable and rights receivable	56,474	47,426
Total trade receivables and other accounts receivable	457,521	454,746
Less: Provision for impairment loss	(23,639)	(23,817)
Total trade receivables and other accounts receivable - net	433,882	430,929
Less: Non-current portion – rights receivable	(6,692)	(7,190)
Trade receivables and other accounts receivable - current	427,190	423,739

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

There are receivables that are past due, but not impaired. The age of these receivables is as follows:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
3 months or less	13,883	10,094
Between 3 and 6 months	9,164	8,718
Total	23,047	18,812

The trade receivables and other accounts receivable that are individually impaired are:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Judicial and preliminary collection	12,555	10,383
Receivables in preliminary collection	4,992	5,031

Total	17,547	15,414

The balances per currency forming Trade receivables, Other Accounts Receivable and Non-current Rights Receivable as of June 30, 2010 and December 31, 2009 are as follows:

	At June 30, 2010	At December 31, 2009
Type of currency	KUS$	KUS$
U.S. dollar	294,011	319,989
Chilean peso	72,669	59,252
Euro	7,645	5,192
Argentine peso	18,314	15,158
Brazilian real	17,767	11,190
Australian dollar	8,348	7,595
Other currencies	15,128	12,553
Total	433,882	430,929

The Company establishes provisions when there is evidence of impairment to trade receivables. The criteria used to determine whether there is objective evidence of an impairment loss are the maturity of the portfolio, concrete events of impairment (default) and concrete signs from the market.

Maturity	**Impairment**
Assets in judicial and preliminary collection	100%
Beyond 1 year	100%
From 6 to 12 months	50%

The activity of impairment loss provisions for trade receivables and accounts receivable between January 1, 2009 and June 30, 2010 was as follows:

	KUS$
At January 1, 2009	(22,790)
Write-offs	1,243
Provision increases	(3,146)
Balance at June 30, 2010	(24,693)
At July 1, 2009	(24,693)
Write-offs	4,867
Provision increases	(3,991)
Balance at December 31, 2009	(23,817)
At January 1, 2010	(23,817)
Write-offs	2,356
Provision increases	(2,178)

Balance at June 30, 2010	(23,639)

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.

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

	As of June 30, 2010			As of December 31, 2009		
	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
Trade receivables	401,047	(23,639)	377,408	407,320	(23,817)	383,503
Other accounts receivable	56,474	-	56,474	47,426	-	47,426

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.

NOTE 9 – INTERCOMPANY ACCOUNTS RECEIVABLE AND PAYABLE

Intercompany accounts receivable and payable are described below as of June 30, 2010 and December 31, 2009:

a) Accounts receivable

Related Party Id. No.	Related party	Nature of the relationship	Country of origin	As of June 30, 2010 KUS$	As of December 31, 2009 KUS$	Type of currency or adjustment unit KUS$	Transaction term	How transaction will be settled
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	3	6	CLP	30 to 45 days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	1	-	CLP	30 to 45 days	Monetary
96.669.520-K	Red de Television Chilevision S.A.	Other related parties	Chile	-	3	CLP	30 to 45 days	Monetary
96.812.280-0	San Alberto S.A. and subsidiaries	Other related parties	Chile	29	29	US$	30 to 45 days	Monetary
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	8	-	CLP	30 to 45 days	Monetary
	Total current assets			41	38			

There are no provisions for uncollectibles for the balances corresponding to June 30, 2010 and December 31, 2009.

b) Accounts payable

Related Party Id. No.	Related party	Nature of the relationship	Country of origin	As of June 30, 2010 KUS$	As of December 31, 2009 KUS$	Type of currency or adjustment unit KUS$	Transaction term	How transaction will be settled
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	200	246	US$	30 to 45 days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	-	6	CLP	30 to 45 days	Monetary
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	-	10	CLP	30 to 45 days	Monetary
Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	87	35	US$	30 to 45 days	Monetary
	Total current liabilities			287	297			

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

NOTE 10 – INVENTORIES

Inventories as of June 30, 2010 and December 31, 2009 were as follows:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Technical inventories	36,640	35,684
Non-technical inventories	13,001	10,879
Total	49,641	46,563

The items included here are spare parts and materials that will be used mainly in on-board service and in own maintenance and third-party maintenance. They are appraised at the average acquisition cost, net of the obsolescence provision that amounted to KUS$680 as of June 30, 2010 (KUS$808 as of December 31, 2009). The resulting amounts do not exceed the realization values.

At June 30, 2010, the Company recorded KUS$15,433 in income, mainly because of on-board service consumption and maintenance. That amount was KUS$15,266 at June 30, 2009.

NOTE 11 – OTHER FINANCIAL ASSETS

The composition of Other Financial Assets is as follows:

	As of June 30, 2010 MUS$	As of December 31, 2009 MUS$
Current		
a) Other financial assets	153,223	72,027
b) Hedging assets	16,816	38,640
Total current	170,039	110,667
Non-current		
a) Other financial assets	17,937	15,615
b) Hedging assets	2,781	4,409
Total current	20,718	20,024

a) Other financial assets

	As of June 30, 2010 MUS$	As of December 31, 2009 MUS$

Current		
Derivative margin collateral	55,775	2,400
Local and foreign bonds	55,172	60,415
Deposits in guarantee (PDP financing)	33,500	-
Deposits in guarantee (aircraft)	2,068	308
Other collateral granted	6,708	8,904
Total current	153,223	72,027
Non-current		
Deposits in guarantee (aircraft)	13,780	13,780
Other collateral granted	3,651	1,327
Other investments	506	508
Total non-current	17,937	15,615
Total other financial assets	171,160	87,642

b) Hedging assets

Hedging assets are described below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Current		
Interest accrued from the last date of payment of currency swap	82	-
Fair value of interest rate derivatives	2	501
Fair value of foreign currency derivatives	16,732	23,691
Fair value of fuel price derivatives	-	14,448
Total current	16,816	38,640
Non-current		
Fair value of interest rate derivatives	633	2,628
Fair value of foreign currency derivatives	-	1,781
Fair value of fuel price derivatives	2,148	-
Total non-current	2,781	4,409
Total hedging assets	19,597	43,049

Foreign currency derivatives correspond to Forwards and Cross-Currency Swaps.

Note 20 shows the type of derivative for hedging contracts of the Company at the close of each period.

NOTE 12 – OTHER NON-FINANCIAL ASSETS

The composition of Other Non-financial Assets is as follows:

	At June 30, 2010 MUS$	At December 31, 2009 MUS$
Current		
a) Prepaid payments	24,725	15,258
b) Other assets	1,816	1,870
Total current	26,541	17,128
Non-current		
a) Prepaid payments	3,708	713
b) Other assets	19,434	28,023
Total non-current	23,142	28,736

a) Prepayments

Prepayments are described below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010 KUS$	At December 31, 2009 KUS$
Current		
Aviation insurance and other	14,893	5,978
Aircraft lease	6,213	6,204
Other	3,619	3,076
Total current	24,725	15,258
Non-current		
Handling services	2,995	-
Other	713	713
Total non-current	3,708	713
Total other assets	28,433	15,971

b) Other assets

Other assets are described below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Current		
Other	1,816	1,870
Total current	1,816	1,870
Non-current		
Expense deferred in aircraft leases	6,156	7,328
Other	13,278	20,695
Total non-current	19,434	28,023
Total Other Assets	21,250	29,893

NOTE 13 – NON-CURRENT ASSETS OR GROUPS OF ASSETS FOR DISPOSAL HELD FOR SALE

Non-current assets and disposal groups held for sale are described below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Engines	3,229	5,603
Inventories in consignment	1,860	2,348
Aircraft	1,537	1,537
Dismantled aircraft	880	880
Rotables	177	551
Total	7,683	10,919

In the period between January 1 and June 30, 2010, rotables, inventories in consignment and one engine were sold, all of the foregoing belonging to the Boeing 737 fleet.

An engine, rotables and inventories maintained in consignment were sold in the same period in 2009, all forming part of the Boeing 737 fleet.

Balances in this line are shown net of provisions amounting to KUS$5,631 as of June 30, 2010 (KUS$4,179 as of December 31, 2009).

The Company has no operations that were discontinued as of June 30, 2010.

NOTE 14 – 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 includes special-purpose companies.

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

As of June 30, 2010

	Assets	Liabilities
	KUS$	KUS$
Current	343,786	403,271
Non-current	1,949,422	837,785
Total	2,293,208	1,241,056

As of December 31, 2009

	Assets	Liabilities
	KUS$	KUS$
Current	261,917	359,230
Non-current	1,246,141	757,164
Total	1,508,058	1,116,394

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Sum of ordinary income	872,299	941,208	430,731	445,521
Sum of expenses	(849,307)	(925,444)	(424,745)	(467,097)

Sum of net gain (loss)	22,992	15,764	5,986	(21,576)

Description of material subsidiaries at June 30, 2010

Name of material subsidiary	Country of incorporation	Functional currency	% Interest	Type and scope of significant restrictions to transfer funds to controller
Lan Peru S.A.	Peru	US$	70.00000	No significant restrictions
Lan Cargo S.A.	Chile	US$	99.89804	No significant restrictions
Lan Argentina S.A.	Argentina	ARS	99.00000	No significant restrictions
Transporte Aereo S.A.	Chile	US$	100.00000	No significant restrictions
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	Ecuador	US$	71.91673	No significant restrictions

Summary of financial information of material subsidiaries at June 30, 2010

	Statement of Financial Situation as of June 30, 2010						Profit (loss) at June 30, 2010	
Name of the material subsidiary	Total assets	Current assets	Non-current assets	Total liabiltities	Current liabilities	Non-current liabilities	Ordinary income	Net profit (loss)
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Lan Peru S.A.	116,616	106,084	10,532	105,865	105,055	810	344,496	199
Lan Cargo S.A.	703,451	139,370	564,081	359,278	106,522	252,756	92,165	5,990
Lan Argentina S.A.	91,456	60,700	30,756	68,487	67,734	753	172,207	706
Transporte Aereo S.A.	337,759	221,609	116,150	125,658	30,791	94,867	133,972	11,194
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	51,394	27,407	23,987	60,240	47,041	13,199	108,075	(4,528)

Description of material subsidiaries at December 31, 2009

Name of material subsidiary	Country of incorporation	Functional currency	% Interest	Type and scope of significant restrictions to transfer funds to controller
Lan Peru S.A.	Peru	US$	70.00000	No significant restrictions
Lan Cargo S.A.	Chile	US$	99.89804	No significant restrictions
Lan Argentina S.A.	Argentina	ARS	99.00000	No significant restrictions
Transporte Aereo S.A.	Chile	US$	100.00000	No significant restrictions
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	Ecuador	US$	71.91673	No significant restrictions

Summary of financial information of material subsidiaries at December 31, 2009

	Statement of Financial Situation as of December 31, 2009						Profit (loss) at June 30, 2009	
Name of the material subsidiary	Total assets	Current assets	Non-current assets	Total liabiltities	Current liabilities	Non-current liabilities	Ordinary income	Net profit (loss)
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Lan Peru S.A.	85,773	75,886	9,887	75,221	74,607	614	302,502	2,833
Lan Cargo S.A.	744,176	174,147	570,029	374,378	87,213	287,165	72,491	6,592
Lan Argentina S.A.	96,720	66,020	30,700	73,194	72,521	673	154,682	4,800
Transporte Aereo S.A.	319,340	202,246	117,094	118,433	21,256	97,177	180,895	5,125
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	43,638	19,137	24,501	47,955	34,953	13,002	89,539	2,161

NOTE 15 – INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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, 2010 and December 31, 2009 and statements of income for the periods from January to June 2010 and January to June 2009.

	Assets	Liabilities
	KUS$	KUS$
As of June 30, 2010		
Current	4,693	544
Non-current	367	-
Total	5,060	544
As of December 31, 2009		
Current	5,338	736
Non-current	356	-
Total	5,694	736

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Sum of ordinary income	1,322	3,449	559	1,647
Sum of ordinary expenses	(965)	(2,604)	(397)	(1,387)
Sum of net gain (loss)	357	845	162	260

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 first semester of 2010.

Company	Country of Incorporation	Functional currency	Percentage Interest		Cost of investment	
			As of June 30, 2010	As of December 31, 2009	As of June 30, 2010	As of December 31, 2009
			%	%	KUS$	KUS$
Austral Sociedad Concesionaria S.A.	Chile	CLP	20.00	20.00	661	661
Lufthansa Lan Technical Training S.A.	Chile	CLP	50.00	50.00	702	702
Concesionaria Chucumata S.A.	Chile	CLP	16.70	16.70	119	119

These companies are not subject to significant restrictions on the transfer of funds.

The investment activity in associates between January 1, 2009 and June 30, 2010 was:

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

	KUS$
Initial balance at July 1, 2009	1,242
Share in earnings	148
Dividends received	(154)
Total changes in investments in associates	(6)
Final balance at December 31, 2009	1,236

	KUS$
Initial balance at January 1, 2010	1,236
Share in earnings	119
Dividends received	(110)
Total changes in investments in associates	9
Final balance at June 30, 2010	1,245

The Company recognizes the profit or loss on its investments in associates monthly in the consolidated statement of income, using the equity method. The Company does not have investments in associates accounted for in another way.

Associates have not recognized changes in net equity in the periods that must be recognized by the Company.

NOTE 16 – INTANGIBLE ASSETS OTHER THAN GOODWILL

Composition and activity of intangible assets

Intangible assets are described below:

Type of intangible assets (net)	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Software (net)	33,718	34,087
Other assets (net)	660	727
Total	34,378	34,814

Type of intangible assets (gross)	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Software (gross)	67,764	63,585
Other assets (gross)	808	808
Total	68,572	64,393

The movement of software and other assets between January 1, 2009 and June 30, 2010 was as follows:

	Data Processing Software (net)	Other assets (net)	Total (net)
	KUS$	KUS$	KUS$
At January 1, 2009	27,447	-	27,447
Additions	4,660	-	4,660
Retirements	(73)	-	(73)
Amortization	(4,249)	-	(4,249)
Balances at June 30, 2009	27,785	-	27,785

	Data Processing Software (net)	Other assets (net)	Total (net)
	KUS$	KUS$	KUS$

At July 1, 2009	27,785	-	27,785
Additions	10,221	808	11,029
Amortization	(3,919)	(81)	(4,000)
Balances at December 31, 2009	34,087	727	34,814

	Data Processing Software (net)	Other assets (net)	Total (net)
	KUS$	KUS$	KUS$
At January 1, 2010	34,087	727	34,814
Additions	4,857	-	4,857
Retirements	(776)	-	(776)
Carryovers	98	-	98
Amortization	(4,548)	(67)	(4,615)
Balances at June 30, 2010	33,718	660	34,378

Intangible assets with a defined useful life consist mainly of licenses and 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.

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 administrative expenses in the consolidated statement of income. The cumulative amortization of data processing software was KUS$34,046 at June 30, 2010 (KUS$29,498 at December 31, 2009). The cumulative amortization of other identifiable intangible assets was KUS$148 at June 30, 2010 (KUS$81 at December 31, 2009).

NOTE 17 - GOODWILL

Composition and movement of goodwill.

Goodwill was as follows:

	At June 30, 2010 MUS$	At December 31, 2009 MUS$
Goodwill (net)	63,773	63,793
Total	63,773	63,793

	At June 30, 2010 MUS$	At December 31, 2009 MUS$

Goodwill (gross)	63,773	63,793
Total	63,773	63,793

Management did not detect signs of impairment in goodwill.

Movement of goodwill between January 1, 2009 and June 30, 2010 is as follows:

	KUS$
Initial balance at January 1, 2009	62,927
Decrease in foreign currency conversion	(54)
Balances at June 30, 2009	62,873
Initial balance at July 1, 2009	62,873
Additions	920
Balance at December 31, 2009	63,793
Initial balance at January 1, 2010	63,793
Decrease in foreign currency conversion	(20)
Balance at June 30, 2010	63,773

NOTE 18 – PROPERTY, PLANT AND EQUIPMENT

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

	Gross property, plant & equipment		Cumulative depreciation		Net property, plant & equipment	
	At June 30, 2010	At December 31, 2009	At June 30, 2010	At December 31, 2009	At June 30, 2010	At December 31, 2009
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Constructions under way	446,229	264,259	--	--	446,229	264,259
Land	35,538	35,538	--	--	35,538	35,538
Buildings	100,056	100,662	(19,842)	(18,696)	80,214	81,966
Plant and equipment	4,330,765	4,051,718	(1,002,238)	(820,036)	3,328,527	3,231,682
IT equipment	76,476	75,185	(62,402)	(60,142)	14,074	15,043
Fixed installations and accessories	49,691	45,526	(23,811)	(21,867)	25,880	23,659
Motor vehicles	2,618	2,853	(1,713)	(1,902)	905	951
Improvement of leased assets	83,442	76,536	(34,619)	(26,250)	48,823	50,286
Other property, plant and equipment	716,998	863,620	(311,021)	(370,448)	405,977	493,172
TOTAL	5,841,813	5,515,897	(1,455,646)	(1,319,341)	4,386,167	4,196,556

Movement of the different categories of property, plant and equipment between January 1, 2009 and June 30, 2010 is as follows:

a) As of June 30, 2009

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment (net)	Fixed installations and accesories (net)	Motor vehicles (net)	Improvement in leased assets (net)	Other property, plant and equipment (net)	Property, plant and equipment (net)
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
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	3,966,063
Additions	7,308	-	20	284,987	2,846	1,666	290	-	6,637	303,754
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)	(25,824)	-	-	(119,306)	(3)	319	-	6,963	103,798	(34,053)
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

b) As of December 31, 2009

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment (net)	Fixed installations and accesories (net)	Motor vehicles (net)	Improvement in leased assets (net)	Other property, plant and equipment (net)	Property, plant and equipment (net)
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Initial balance as of July 1, 2009	249,266	35,538	77,178	3,135,301	16,565	22,357	1,006	47,252	508,878	4,093,341
Additions	7,924	-	-	246,051	1,179	443	51	863	6,314	262,825
Disposals	-	-	-	(1,128)	-	(16)	(25)	-	(1)	(1,170)
Transfers to (from) non-current assets and groups	-	-	-	(4,029)	-	-	-	-	-	(4,029)
Retirements	-	-	-	(320)	(14)	(1)	(2)	-	(579)	(916)
Depreciation expenses	-	-	(1,062)	(98,340)	(2,870)	(1,094)	(94)	(7,111)	(21,986)	(133,367)
Increases (decreases) in currency exchange	6	-	-	26	82	62	6	-	33	215
Other increases (decreases)	7,063	-	5,850	(45,879)	101	2,718	9	9,282	513	(20,343)
Total changes	14,993	-	4,788	96,381	(1,522)	1,302	(55)	3,034	(15,706)	103,215
Final balance at December 31, 2009	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556

c) As of June 30, 2010

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment (net)	Fixed installations and accesories (net)	Motor vehicles (net)	Improvement in leased assets (net)	Other property, plant and equipment (net)	Property, plant and equipment (net)
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Initial balance as of January 1, 2010	264,259	35,538	81,966	3,231,682	15,043	23,659	951	50,286	493,172	4,196,556
Additions	7,967	-	37	141,700	2,139	378	55	1,160	3,810	157,246
Disposals	-	-	-	(21)	-	-	(7)	-	-	(28)
Transfers to (from) non-current assets and groups	-	-	-	1,821	-	-	-	-	-	1,821
Retirements	-	-	-	(1,293)	(20)	-	(3)	-	(113)	(1,429)
Depreciation expenses	-	-	(1,136)	(108,629)	(2,620)	(1,959)	(93)	(8,368)	(21,431)	(144,236)
Increases (decreases) in currency exchange	(9)	-	-	(651)	(149)	(246)	-	-	(33)	(1,088)
Other increases (decreases)	174,012	-	(653)	63,918	(319)	4,048	2	5,745	(69,428)	177,325
Total changes	181,970	-	(1,752)	96,845	(969)	2,221	(46)	(1,463)	(87,195)	189,611
Final balance at June 30, 2010	446,229	35,538	80,214	3,328,527	14,074	25,880	905	48,823	405,977	4,386,167

d) Fleet Composition

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

Aircraft	Model	At June 30, 2010	At December 31, 2009
Boeing 737	200ADV (*)	2	2
Boeing 767	300ER	18	17
Boeing 767	300F	8	8
Boeing 767	200ER (**)	1	1
Airbus A318	100	15	15
Airbus A319	100	20	20
Airbus A320	200	16	16
Airbus A340	300	4	4
Total		84	83

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

Leased aircraft:

Aircraft	Model	At June 30, 2010	At December 31, 2009
Boeing 767	300ER	10	10
Boeing 767	300F	1	1
Boeing 777	Freighter	2	2
Airbus A320	200	2	2
Airbus A340	300	1	1
Total		16	16
Total fleet		100	99

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

	Depreciation method	Useful life Minimum	Useful life Maximum
Buildings	Straight-line method with no residual value	20	50
Plants and equipment	Straight-line method with 20% residual value in the short-range fleet and 36% in the long-range fleet	5	20
IT equipment	Straight-line method with no residual value	5	10
Fixed installations and	Straight-line method with no residual value	5	10

accessories			
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 20% residual value in the short-range fleet and 36% in the long-range fleet	3	20

The debit against income for depreciation in the fiscal year shown in the consolidated statement of income totaled KUS$144,236 (KUS$133,488 at June 30, 2009). This debit is recorded in cost of sales and administrative expenses in the consolidated statement of income.

f) Additional information on property, plant and equipment

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

In the period ending on June 30, 2010, a direct guarantee was added for one Boeing 767-300 added to the fleet. Moreover, the Company exercised the purchase option for two Boeing 767-300 aircraft to Condor Leasing LLC.

Description of property, plant and equipment given in guarantee:

			At June 30, 2010		At December 31, 2009	
Guarantee in favor of	Assets compromised	Fleet	Outstanding debt	Book value	Outstanding debt	Book value
			KUS$	KUS$	KUS$	KUS$
Wilmington Trust Company	Planes and engines	Boeing 767	1,093,548	1,340,079	1,069,077	1,289,471
BNP Paribas	Planes and engines	Airbus A319	311,082	379,185	324,584	389,071
		Airbus A318	311,813	370,183	323,947	380,928
		Airbus A320	115,096	136,617	119,567	140,501
Calyon	Planes and engines	Airbus A319	45,689	53,167	48,157	53,998
Total direct guarantees			1,877,228	2,279,231	1,885,332	2,253,969

The outstanding debt shown is nominal. The book value corresponds to the collateral.

Moreover, there are indirect guarantees associated with assets recorded in property, plant and equipment. They totaled KUS$249,435 as of June 30, 2010 (KUS$281,691 as of December 31, 2009).

(ii) Commitments and Other

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

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Gross value of any fully depreciated property, plant and equipment still in use (1)	57,920	53,417
Commitments in the acquisition of aircraft	9,000,000	8,880,000

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

In December 2009, a purchase promise was signed with Airbus for the acquisition of 30 more aircraft in the A320 family, to be delivered between 2011 and 2014. According to the manufacturer's price list, the amount is approximately KUS$2,000,000.

Therefore, at June 30, 2010, 45 airbus aircraft in the A320 family were pending delivery between 2010 and 2014 under the different aircraft purchase agreements with Airbus S.A.S. According to the manufacturer's price list, the amount is approximately KUS$3,200,000.

As of June 30, 2010, a total of 3 B767-300ER aircrafts were pending delivery before December 2011 under the Aircraft Purchase Agreements with the Boeing Company, 3 767-300 Freighter aircraft deliverable between 2013 and 2014, 1 B777-Freighter deliverable in 2012 and 26 787 Dreamliners aircraft deliverable between 2011 and 2018. The amount is approximately KUS$5,800,000 according to the manufacturer's price list. The Company also holds purchase options for 2 777-Freighter aircraft and 15 B787 Dreamliner aircrafts.

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

		For the periods ending on June 30	
		2010	2009
Compounding rate of compounded interest costs	%	3.82	4.59
Compounded interest costs	KUS$	7,177	4,749

(iv) Lease-purchases

The main lease-purchases break down as follows:

Lessor	Aircraft	At June 30, 2010	At December 31, 2009
Condor Leasing LLC	Boeing 767	1	3
Bluebird Leasing LLC	Boeing 767	2	2
Eagle Leasing LLC	Boeing 767	2	2
Seagull Leasing LLC	Boeing 767	1	1
Linnet Leasing Limited	Airbus A320	4	4

Total	10	12

The lease-purchase contracts in which the parent company is the lessee of the aircraft sets down a duration of 12 years and quarterly payments. Moreover, the lessee is obligated to contract and carry aircraft insurance, to perform aircraft maintenance at its own expense, and to update the airworthiness certificates.

Property, plant and equipment acquired under lease-purchases are classified in other property, plant and equipment. At June 30, 2010, the Company accounted for 10 aircraft and 1 spare engine (12 aircraft and 1 spare engine at December 31, 2009) in this category.

The company exercised the option to purchase two Boeing 767-300 aircrafts from Condor Leasing LLC in the period ending June 30, 2010. As a result, both aircrafts were reclassified from Other Property, Plant and Equipment to Plant and Equipment.

The net value of lease-purchase assets was KUS$371,494 at June 30, 2010 (KUS$458,417 at December 31, 2009).

The minimum payments under lease-purchases are:

As of June 30, 2010

	Gross	Interest	Present value
	KUS$	KUS$	KUS$
Not exceeding one year	66,068	(4,331)	61,737
Exceeding one year but less than five years	196,301	(8,326)	187,975
Total	262,369	(12,657)	249,712

As of December 31, 2009

	Gross	Interest	Present value
	KUS$	KUS$	KUS$
Not exceeding one year	59,871	(4,846)	55,025
Exceeding one year but less than five years	195,102	(9,584)	185,518
More than five years	41,395	(129)	41,266
Total	296,368	(14,559)	281,809

NOTE 19 – TAXES AND 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:

	Assets		Liabilities	
	At June 30, 2010	At December 31, 2009	At June 30, 2010	At December 31, 2009
Concepts	KUS$	KUS$	KUS$	KUS$
Depreciation	(454)	(476)	250,538	221,712
Amortization	1,474	2,103	25,456	24,556
Provisions	3,083	2,995	22,229	5,097
Post-employment benefits obligations	192	333	(845)	(850)
Revaluation of financial instruments	-	-	(32,456)	(18,891)
Fiscal losses	5,288	5,013	-	-
Other	667	684	(7,856)	8,995
Total	10,250	10,652	257,066	240,619

Unrecognized deferred tax assets were:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Temporary differences	2,152	2,152
Fiscal losses	1,311	3,629
Total unrecognized deferred tax assets	3,463	5,781

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$1,311 (KUS$3,629 as of December 31, 2009) offsettable against losses totaling around KUS$8,331 (KUS$11,456 as of December 31, 2009) that will be offset in future fiscal years against fiscal benefits.

Deferred tax expenses (income) and income tax for the years ending on June 30, 2010 and June 30, 2009 are allocable as follows:

For the 6 months ending on   For the 3 months ending on

	June 30		June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Expenses for current taxes on gains				
Current tax expense	2,641	2,320	940	(278)
Adjustments to current taxes in the previous period	(2,938)	(2,436)	(2,938)	(3,296)
Other current tax expenses	(272)	1,818	(351)	1,857
Total net current tax expense	(569)	1,702	(2,349)	(1,717)
Expenses for deferred taxes on gains				
Deferred expense for taxes relating to the creation and reversal of temporary differences	32,957	14,503	16,525	5,332
Increase (reduction) in value of deferred tax assets during the evaluation of utility	(2,318)	(2,378)	(2,196)	(2,832)
Total net deferred tax expense	30,639	12,125	14,329	2,500
Gains tax expense	30,070	13,827	11,980	783

The composition of gains tax expenses (income) was:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Current tax expense, net, foreign	274	2,528	(40)	389
Current tax expense, net, local	(843)	(826)	(2,309)	(2,106)
Current tax expense, net, total	(569)	1,702	(2,349)	(1,717)
Deferred tax expense, net, foreign	489	856	(2,690)	(4,592)
Deferred tax expense, net, local	30,150	11,269	17,019	7,092
Deferred tax expense, net, total	30,639	12,125	14,329	2,500
Gains tax expense	30,070	13,827	11,980	783

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

	For the periods ending on June 30	
	2010	2009
	KUS$	KUS$
Taxable expense using the legal rate	30,430	14,123

Tax effect of rates in other jurisdictions	1,963	1,154
Tax effect of non-taxable ordinary income	(5,117)	(4,662)
Tax effect of expenses that are not tax deductions	769	399
Tax effect of using fiscal losses not previously recognized	2,318	2,378
Other increases (decreases) in debits for legal taxes	(293)	435
Total adjustments to tax expense using the legal rate	(360)	(296)
Tax expense using the effective rate	30,070	13,827

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

	For the periods ending on June 30	
	2010	2009
	%	%
Legal tax rate	17.00	17.00
Effect of rate in other jurisdictions on tax rate	1.10	1.39
Effect of non-taxable ordinary income on tax rate	(2.86)	(5.61)
Effect of non-deductible expenses on tax rate	0.43	0.48
Effect of using previously unrecognized fiscal losses on tax rate	1.29	2.86
Other increases (decreases) in legal tax rate	(0.16)	0.52
Total adjustment of legal tax rate	(0.20)	(0.36)
Total effective tax rate	16.80	16.64

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

	For the 6 months ending on June 30		For the 3 months ending June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Aggregate deferred taxation in items debited against net equity	(13,790)	(35,616)	(12,836)	(24,065)
Total deferred taxation in items debited against net equity	(13,790)	(35,616)	(12,836)	(24,065)

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

	At June 30, 2010		
	Income before taxes	Expense (income) for gains tax	Income after taxes
	KUS$	KUS$	KUS$
Cash flow hedging	79,800	(13,566)	66,234

Translation adjustment	2,769	(471)	2,298
		(14,037)	

	At June 30, 2009		
	Income before taxes	Expense (income) for gains tax	Income after taxes
	KUS$	KUS$	KUS$
Cash flow hedging	(214,551)	36,474	(178,077)
Translation adjustment	(233)	(1,234)	(1,467)
		35,240	

NOTE 20 – OTHER FINANCIAL LIABILITIES

Other financial liabilities are broken down below:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Current		
a) Interest-bearing loans	442,603	385,421
b) Other financial liabilities	5,530	2,031
c) Hedging liabilities	24,608	30,480
Total current	472,741	417,932
Non-current		
a) Interest-bearing loans	2,402,687	2,389,521
b) Other financial liabilities	16,814	5,804
c) Hedging liabilities	103,859	47,853
Total Non-current	2,523,360	2,443,178

a) Interest-bearing loans

Bank debt and debt securities:

At June 30, 2010	At December 31, 2009
KUS$	KUS$

Current		
Bank loans	132,151	71,124
Secured obligations	256,483	245,717
Lease-purchases	52,679	68,076
Other loans	1,290	504
Total current	442,603	385,421
Non-current		
Bank loans	130,101	207,657
Secured obligations	1,880,385	1,933,607
Lease-purchases	197,033	213,733
Other loans	195,168	34,524
Total non-current	2,402,687	2,389,521
Total bank debt	2,845,290	2,774,942

All interest-bearing liabilities are recorded according to the effective rate method. Pursuant to IRFS regulations, the effective rate on fixed-rate loans does not change throughout the term, while the effective rate on variable interest rate loans changes on the date of each debt repricing.

As of June 30, 2010 and December 31, 2009, the balances per currency in interest-bearing loans are expressed in the following currencies:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
U.S. dollars	2,633,318	2,546,411
Chilean peso (*)	211,972	228,531
Total	2,845,290	2,774,942

(*) The Company signed cross-currency swaps setting the payment of KUS$170,741 of the debt in U.S. dollars.

b) Other financial liabilities

Other financial liabilities are broken down below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010 KUS$	At December 31, 2009 KUS$
Current		
Interest rate derivatives not accounted for as hedges	5,530	2,031
Total current	5,530	2,031

Non-current		
Interest rate derivatives not accounted for as hedges	16,814	5,804
Total non-current	16,814	5,804
Total other financial liabilities	22,344	7,835

c) Hedging liabilities

Hedge liabilities break down as follows as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Current		
Interest accrued from the last interest rate swap payment date	2,656	2,935
Fair value of interest rate derivatives	17,204	21,580
Fair value of foreign currency derivatives	847	5,089
Fair value of fuel price derivatives	3,901	876
Total current	24,608	30,480
Non-current		
Fair value of interest rate derivatives	100,934	47,853
Fair value of foreign currency derivatives	2,925	-
Total non-current	103,859	47,853
Total Hedging Liabilities	128,467	78,333

The foreign currency hedges correspond to forwards and cross-currency swaps.

Hedging transactions

The fair value, by derivative, of contracts accounted for by hedging methodology, is as follows:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Forward starting swaps (FSS) (1)	(79,127)	(31,928)
Interest rate options (2)	635	3,129
Interest rate swaps (3)	(41,667)	(37,506)
Cross-currency swaps (CCIRS) (4)	3,450	19,706
Fuel collars (5)	6,543	5,329
Fuel swaps (6)	(8,296)	8,244
Currency forwards (7)	9,592	677

(1) They hedge material variations in cash flows associated with the market risk implicit in changes in the 3-month Libor in long-term loans secured for the acquisition of aircraft, starting from the future date of the agreement. These agreements are recorded as cash flow hedges.
(2) They hedge material variations in cash flows associated with the market risk implicit in increases in the 3-month Libor in long-term loans secured for the acquisition of aircraft. These agreements are recorded as cash flow hedges.
(3) They hedge material variations in cash flows associated with the market risk implicit in increases in the 3-to-6-month Libor in long-term loans secured for the acquisition of aircraft and bank loans. These agreements are recorded as cash flow hedges.
(4) They hedge material variations in cash flows associated with the market risk implicit in changes of the 180-day bank rate and the U.S. dollar/Chilean peso exchange rate in bank loans. These contracts are recorded as cash flow hedges.
(5) They hedge material variations in cash flows associated with the market risk implicit in changes in the fuel price in future purchases.
(6) They hedge material variations in cash flows associated with the market risk implicit in increases in the fuel price in future purchases.
(7) They hedge investments in Chilean pesos against changes in the U.S. dollar-Chilean peso exchange rate in order to secure the U.S. dollar investment.

In the periods presented, the Company has contracted only cash flow hedging. The cash flows in fuel hedging will occur and affect income between 1 and 18 months from the date of the consolidated statement of financial position. Interest rate hedging cash flow will occur and affect income throughout the life of the associated loans, which are in effect for 12 years. The impact on income from interest rate and currency hedging, will occur continuously during the term of the contract (3 years), while flows will occur quarterly. Lastly, investment hedging will affect income continuously during the term of the investment (up to 3 months) and the flow will occur at the expiration of the investment.

There has been no hedging in the periods presented for future transactions that are highly likely not to have been realized.

No hedging inefficacy has been accounted for in the consolidated statement of income in the periods presented.

No portion of the income from derivatives recognized in net equity was transferred to the initial value of this type of assets because no hedging resulted in non-financial assets.

Below are the amounts recognized in comprehensive income in the fiscal year and transferred from net equity to income in the period:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009

	KUS$	KUS$	KUS$	KUS$
Credit (debit) recognized in comprehensive income in the period	(79,800)	214,551	(75,350)	146,601
Credit (debit) transferred from net equity to income in the period	(19,503)	(139,829)	(9,369)	(76,775)

NOTE 21 – TRADE PAYABLES AND OTHER ACCOUNTS PAYABLE

Trade payables and other accounts payable are broken down below:

	At June 30, 2010 MUS$	At December 31, 2009 MUS$
Current		
a) Trade payables and other accounts payable	383,322	377,438
b) Liabilities accrued at the reporting date	98,091	99,159
Total trade payables and other accounts payable	481,413	476,597

Trade payables and other accounts payable are broken down below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010 KUS$	At December 31, 2009 KUS$
Trade payables	311,080	311,441
Lease liabilities	11,828	9,441
Other accounts payable (*)	60,414	56,556
Total	383,322	377,438

(*) It includes the Plea Agreement signed with the U.S. Department of Justice. See Note 22.

Below is the opening statement of trade payables and other accounts payable:

	At June 30, 2010 KUS$	At December 31, 2009 KUS$
Fuel	88,372	71,881
Boarding fees	51,761	72,291
Airport and overflight fees	34,081	34,321
Technical goods suppliers	33,638	24,784

Handling and ground handling	22,097	25,885
U.S. Department of Justice (*)	18,194	18,097
Professional assistance and service	17,503	18,536
Other personnel expenses	17,052	16,938
Maintenance	15,652	15,821
Aviation insurance	12,120	4,976
Plane and engine leases	11,828	9,441
Goal performance	11,584	13,228
Advertising	11,367	11,624
Crew	9,254	6,400
On-board services	9,249	10,253
Other	19,840	22,962
Total trade receivables and other accounts payable	383,322	377,438

(*) It includes the Plea Agreement signed with the U.S. Department of Justice. See Note 22.

b) The liabilities accrued as of June 30, 2010 and December 31, 2009 are described below:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Aircraft and engine maintenance	29,709	29,055
Accounts payable to personnel	21,106	33,890
Accrued personnel expenses	34,999	24,576
Other accrued liabilities	12,277	11,638
Total	98,091	99,159

NOTE 22 – OTHER PROVISIONS

Other Provisions are itemized below as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Current provisions		
Provisions for legal claims (1)	850	970
Total other short-term provisions	850	970
Non-current provisions		
Provision for legal claims (1)	1,588	1,834
Provision for European Commission Investigation (2)	25,000	25,000

Total other long-term provisions	26,588	26,834
Total Other Provisions	27,438	27,804

(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, 2010 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.

Provisions are itemized below as of January 1, 2009 and June 30, 2010:

	Legal claims	European Commission Investigation	Total
	KUS$	KUS$	KUS$
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	2,562	25,000	27,562
At July 1, 2009	2,562	25,000	27,562
Increase in provisions	264	-	264
Provision used	(274)	-	(274)
Exchange differential	252	-	252
Balance at December 31, 2009	2,804	25,000	27,804
At January 1, 2010	2,804	25,000	27,804
Increase in provisions	142	-	142
Provision used	(251)	-	(251)
Exchange differential	(257)	-	(257)
Balance at June 30, 2010	2,438	25,000	27,438

European Commission Provision: (a) This provision was established because of the investigation begun by the Directorate General for Competition of the European Commission of more than 25 cargo airlines, including Lan Cargo S.A., as part of a global investigation begun in

2006 regarding possible unfair competition on the air cargo market. This was a joint investigation by the European and U.S. authorities. The start of the investigation was disclosed through a material event notice given December 27, 2007. The U.S. portion of the global investigation concluded with respect to Lan Cargo S.A. and its subsidiary, Aerolíneas Brasileiras S.A. (“ABSA”) by the signature of a *Plea Agreement* with the U.S. Department of Justice, as disclosed in a material event notice on January 21, 2009.

(b) There is no specific information on the date when the Directorate General for Competition of the European Commission will render a decision on this investigation, but it is expected to be during 2010 at the latest. The decision by the Directorate General can be appealed to the Court of First Instance in Luxembourg and the decision on that appeal can be further appealed to the Court of Justice of the European Union.

(c) Although Lan Cargo is a participant in the European Commission’s Leniency Program because of its collaboration in that investigation, which will result in significant discounts on the fine set by that authority, there are different variables that make it impossible to predict the fine with any certainty. In the opinion of our outside attorneys in Brussels, Belgium, in view of the directives of the European Commission on the matter and taking into account the inherent uncertainties of the fine range, the Company decided to make a provision for KUS$25,000 (twenty-five million dollars of the United States of America). The EC’s decision may stipulate that Lan Cargo S.A. and its parent company, Lan Airlines S.A., are both liable for the payment of any fine.

NOTE 23 – OTHER CURRENT NON-FINANCIAL LIABILITIES

Other current non-financial liabilities break down as follows as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Deferred income	536,525	542,832
Dividends payable	44,773	70,387
Other miscellaneous liabilities	2,951	3,037
Total other current non-financial liabilities	584,249	616,256

NOTE 24 – NON-CURRENT PROVISIONS FOR EMPLOYEE BENEFITS

Non-current provisions for Employee Benefits break down as follows as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Retirement benefits	2,346	2,588
Resignation benefits	1,126	1,053
Other benefits	1,768	1,914
Total non-current provisions for employee benefits	5,240	5,555

(a) Between January 1, 2009 and June 30, 2010, retirement, resignation and other benefits break down as follows:

	KUS$
At January 1, 2009	3,865
Increase (decrease) in provision for current services	(126)
Benefits paid	(254)
Balance at June 30, 2009	3,485
At July 1, 2009	3,485
Increase (decrease) in provision for current services	3,831
Benefits paid	(1,761)
Balance at December 31, 2009	5,555
At January 1, 2010	5,555
Increase (decrease) in provision for current services	199
Benefits paid	(514)
Balance at June 30, 2010	5,240

(b) Short-term benefits break down as follows as of June 30, 2010 and December 31, 2009:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Share in profits and bonuses	21,340	29,596

Share in profits and bonds corresponds to an annual, goal-based incentive plan.

The types of expenses per employee were as follows:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Wages and salaries	276,556	227,682	142,246	118,551
Short-term benefits for employees	29,720	22,160	12,310	7,524
Severance benefits	5,145	8,605	2,878	3,656
Other personnel expenses	50,226	38,685	27,390	19,322
Total	361,647	297,132	184,824	149,053

NOTE 25 – NON-CURRENT LIABILITIES

At June 30, 2010 and December 31, 2009, non-current liabilities are as follows:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Fleet financing (JOL)	306,843	299,483
Other accounts payable (*)	54,000	72,000
Aircraft and engine maintenance	46,662	46,644
Vacation and bonuses provision	6,454	6,212
Other miscellaneous liabilities	3,483	2,182
Total non-current liabilities	417,442	426,521

(*) Plea Agreement signed with the U.S. Department of Justice. The short-term portion is in trade payables and other accounts payable. See Note 22.

NOTE 26 – 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, 2010 and December 31, 2009. 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 interest in equity

Other interest in equity between January 1, 2009 and June 30, 2010 were as follows:

	Stock option plans	Other reserves	Total
	KUS$	KUS$	KUS$
At January 1, 2009	1,801	(52)	1,749
Stock option plans	413	-	413
Deferred taxes	(376)	-	(376)
Legal reserves	-	65	65
Balances at June 30, 2009	1,838	13	1,851

	Stock option plans	Other reserves	Total
	KUS$	KUS$	KUS$
At July 1, 2009	1,838	13	1,851
Stock option plans	770	-	770
Deferred taxes	(131)	-	(131)
Balances at December 31, 2009	2,477	13	2,490

	Stock option plans	Other reserves	Total
	KUS$	KUS$	KUS$
At January 1, 2010	2,477	13	2,490
Stock option plans	1,452	-	1,452
Deferred taxes	(247)	-	(247)
Other	-	49	49

	Stock option plans	Other reserves	Total
	KUS$	KUS$	KUS$
Balances at June 30, 2010	3,682	62	3,744

(c.1) Reserves for stock option plans

These reserves refer to "Share-based Payments," explained in Note 36.

(c.2) Other Miscellaneous Reserves

The balance in Other Miscellaneous Reserves breaks down as follows:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
Reserve for adjustment to value of PPE (1)	2,620	2,620
Cost of issuing and placing shares (2)	(2,672)	(2,672)
Other	114	65
Total	62	13

(1) This corresponds to the technical reappraisal of property, plant and equipment authorized by the Securities and Insurance Commission in 1979, in Circular No. 1,529. The reappraisal was optional and it could be made only once. The resulting reserves are not distributable and they can only be capitalized.

(2) 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) Other reserves

Other reserves between January 1, 2009 and June 30, 2010 were as follows:

	Translation reserve	Reserve for cash flow hedging	Other reserves	Total
	KUS$	KUS$	KUS$	KUS$
At January 1, 2009	(6,193)	(301,813)	-	(308,006)
Profit (loss) in derivative valuation	-	214,551	-	214,551
Deferred taxes	1,234	(36,474)	-	(35,240)
Subsidiaries' translation differences	(316)	-	-	(316)

	Translation reserve	Reserve for cash flow hedging	Other reserves	Total
	KUS$	KUS$	KUS$	KUS$
Balances at June 30, 2009	(5,275)	(123,736)	-	(129,011)

	Translation reserve	Reserve for cash flow hedging	Other reserves	Total
	KUS$	KUS$	KUS$	KUS$
At July 1, 2009	(5,275)	(123,736)	-	(129,011)
Profit (loss) in derivative valuation	-	37,957	-	37,957
Deferred taxes	(225)	(6,451)	-	(6,676)
Subsidiaries' translation differences	576	-	-	576
Other	-	-	(2,657)	(2,657)
Balances at December 31, 2009	(4,924)	(92,230)	(2,657)	(99,811)

	Translation reserve	Reserve for cash flow hedging	Other reserves	Total
	KUS$	KUS$	KUS$	KUS$
At January 1, 2010	(4,924)	(92,230)	(2,657)	(99,811)
Profit (loss) in derivative valuation	-	(79,800)	-	(79,800)
Deferred taxes	465	13,566	-	14,031
Subsidiaries' translation differences	(2,735)	-	-	(2,735)
Balances at June 30, 2010	(7,194)	(158,464)	(2,657)	(168,315)

(d.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 in 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.

(d.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.

(d.3) Other reserves

They come from the acquisition of investment interest from minority interest.

(e) Retained earnings

The activity in retained earning reserves was as follows between January 1, 2009 and June 30, 2010:

	KUS$
At January 1, 2009	614,588
Profit (loss) in the period	69,247
Other increases	242
Dividends	(20,762)
Balance at June 30, 2009	663,315

	KUS$
At July 1, 2009	663,315
Profit (loss) in the period	161,879
Other increases	1,370
Dividends	(83,860)
Balance at December 31, 2009	742,704

	KUS$
At January 1, 2010	742,704
Profit (loss) in the period	148,929
Other increases	(129)
Dividends	(55,349)
Balance at June 30, 2010	836,155

f) Dividends per share

At June 30, 2010

Description of Dividend	Final dividends in 2009	Minimum mandatory dividend
Dividend date	4-29-2010	6-30-2010
Value of dividend (KUS$)	10,940	44,409
Number of shares on which dividend is calculated	338,790,909	338,790,909

Dividend per share (US$)	0.032291	0.13108

At December 31, 2009

Description of Dividend	Interim dividends in 2009	Interim dividends in 2009
Dividend date	7-28-2009	12-29-2009
Value of dividend (KUS$)	34,621	70,001
Number of shares on which dividend is calculated	338,790,909	338,790,909
Dividend per share (US$)	0.10219	0.20662

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, 2010, mandatory minimum dividends are provisioned representing 30% of the Company's profits. This amount is shown in Other Current Non-Financial Liabilities.

NOTE 27 – INCOME FROM ORDINARY ACTIVITIES

Income from Ordinary Activities is broken down below:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Passenger	1,421,669	1,198,511	680,880	546,918
Cargo	587,963	397,438	321,852	200,756
Total	2,009,632	1,595,949	1,002,732	747,674

NOTE 28 – COSTS AND EXPENSES BY TYPE

a) Operating costs and expenses

The main operating and administrative costs and expenses are as follows:

	For the 6 months ending on June 30	For the 3 months ending on June 30

	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Other leases and aviation fees	266,432	237,130	135,222	118,795
Fuel	549,118	453,443	277,353	225,176
Fees	79,581	67,673	38,329	31,140
Other operating costs	234,591	170,345	124,168	79,518
Plane leases	47,480	36,059	24,000	20,338
Maintenance	59,518	59,672	30,571	29,560
Passenger services	51,377	43,422	24,904	20,583
Total	1,288,097	1,067,744	654,547	525,110

b) Depreciation and amortization

Depreciation and amortization are as follows:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Depreciation (*)	158,653	145,215	79,259	73,946
Amortization	4,616	4,249	2,369	2,118
Total	163,269	149,464	81,628	76,064

(*) This figure includes depreciation of property, plant and equipment and maintenance of planes under operating leases.

c) Personnel expenses

These expenses are reported in Non-current Provisions for Employee Benefits (Note 24).

d) Financial costs

Financial costs are described below:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$

Interest on bank loans	59,100	57,659	30,764	28,858
Lease-purchases	3,069	2,935	1,470	1,380
Other financial instruments	16,339	17,510	8,503	10,125
Total	78,500	78,104	40,737	40,363

The sum of costs and expenses by nature shown in this Note are equal to the sum of the cost of sale, marketing costs, distribution costs, administrative expenses, other expenses by function and finance costs, shown in the consolidated statement of income.

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

The gains (losses) on the sale of non-current assets not held for sale broke down as follows as of June 30, 2010 and 2009:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Property, plant and equipment	(700)	4,895	(348)	5,043
Investments in subsidiaries, associates and joint businesses	-	(2)	-	(2)
Total	(700)	4,893	(348)	5,041

Sales revenues in the period are shown in Other Operating Income.

NOTE 30 – OTHER INCOME BY FUNCTION

Other income by function breaks down as follows:

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Duty free	5,594	4,342	2,831	1,862
Plane leases	5,821	10,979	2,982	4,598
Logistics and courier	18,217	16,662	8,476	8,359
Customs and storage	11,064	7,947	5,839	4,218

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Tours	9,850	16,097	5,310	7,399
Other miscellaneous income	8,342	15,337	5,452	11,029
Total	58,888	71,364	30,890	37,465

NOTE 31 – FOREIGN CURRENCY AND TRANSLATION DIFFERENCES

a) Foreign currency

Current and non-current assets per foreign currency are as follows:

	As of June 30, 2010 MUS$	As of December 31, 2009 MUS$
Current Assets		
Cash and cash equivalent	**398,038**	**502,618**
Chilean peso	343,054	435,514
Euro	10,579	13,255
Argentine peso	5,337	6,105
Brazilian real	886	3,041
Other currencies	38,182	44,703
Other financial assets, current	**6,370**	**8,041**
Brazilian real	5,325	5,288
Other currencies	1,045	2,753
Other non-financial assets, current	**2,266**	**1,983**
Chilean peso	821	784
Argentine peso	585	273
Brazilian real	75	-
Other currencies	785	926
Trade receivables and other current accounts receivable	**133,188**	**103,759**
Chilean peso	66,000	52,073
Euro	7,645	5,192
Argentine peso	18,314	15,158
Brazilian real	17,767	11,190

Australian dollar	8,348	7,595
Other currencies	15,114	12,551
Intercompany accounts receivable, current	**12**	**9**
Chilean peso	12	9
Assets for current taxes	**59,604**	**50,734**
Chilean peso	18,164	11,420
Argentine peso	11,533	8,668
Brazilian real	5,549	5,575
Mexican peso	19,235	16,554
Other currencies	5,123	8,517
Total current assets	**599,478**	**667,144**
Chilean peso	428,051	499,800
Euro	18,224	18,447
Argentine peso	35,769	30,204
Brazilian real	29,602	25,094
Mexican peso	19,235	16,554
Australian dollar	8,348	7,595
Other currencies	60,249	69,450

	As of June 30, 2010 MUS$	As of December 31, 2009 MUS$
Non-current Assets		
Other non-current financial assets	**2,520**	**528**
Brazilian real	42	46
Other currencies	2,478	482
Other non-current non-financial assets	**1,705**	**4**
Argentine peso	1,705	-
Other currencies	-	4
Non-current rights receivable	**6,683**	**7,181**
Chilean peso	6,669	7,179
Other currencies	14	2
Investments accounted for using the equity method	**1,245**	**1,236**
Chilean peso	1,245	1,236

Total non-current assets	**12,153**	**8,949**
Chilean peso	7,914	8,415
Argentine peso	1,705	-
Brazilian real	42	46
Other currencies	2,492	488

Current and non-current liabilities per foreign currency are follows:

	Up to 90 days		91 days to 1 year	
	At June 30, 2010	At December 31, 2009	At June 30, 2010	At December 31, 2009
	MUS$	MUS$	MUS$	MUS$
Current liabilities				
Other current financial liabilities	**10,871**	**1,231**	**95,895**	**56,991**
Chilean peso	10,871	1,231	95,895	56,991
Trade receivables and other accounts payable	**152,221**	**155,819**	**13,203**	**11,150**
Chilean peso	39,603	35,326	7,341	8,209
Euro	7,183	9,138	-	-
Argentine peso	30,994	33,377	1,084	2,211
Brazilian real	15,279	13,334	484	-
Other currencies	59,162	64,644	4,294	730
Intercompany accounts payable, current	**-**	**6**	**-**	**10**
Chilean peso	-	6	-	10
Liabilities for current taxes	**4,494**	**6,230**	**1,215**	**4,262**
Chilean peso	2,334	2,920	558	945
Argentine peso	972	1,223	632	751
Brazilian real	790	1,487	5	-
Other currencies	398	600	20	2,566
Other current non-financial liabilities	**154**	**375**	**915**	**934**
Brazilian real	-	-	911	930
Other currencies	154	375	4	4
Total current liabilities	**167,740**	**163,661**	**111,228**	**73,347**
Chilean peso	52,808	39,483	103,794	66,155
Euro	7,183	9,138	-	-

Argentine peso	31,966	34,600	1,716	2,962
Brazilian real	16,069	14,821	1,400	930
Other currencies	59,714	65,619	4,318	3,300

Non-current liabilities

	More than 1 up to 3 years		More than 3 years up to 5 years		More than 5 years	
	At June 30, 2010	At December 31, 2009	At June 30, 2010	At December 31, 2009	At June 30, 2010	At December 31, 2009
	MUS$	MUS$	MUS$	MUS$	MUS$	MUS$
Other non-current financial liabilities	**105,206**	**170,309**	**-**	**-**	**-**	**-**
Chilean peso	105,206	170,309	-	-	-	-
Non-current liabilities	**6,201**	**5,776**	**923**	**1,256**	**2**	**39**
Chilean peso	5,341	5,114	45	195	2	39
Brazilian real	-	-	669	844	-	-
Other currencies	860	662	209	217	-	-
Non-current provisions for employee benefits	**-**	**-**	**-**	**-**	**544**	**457**
Argentine peso	-	-	-	-	544	457
Total non-current liabilities	**111,407**	**176,085**	**923**	**1,256**	**546**	**496**
Chilean peso	110,547	175,423	45	195	2	39
Argentine peso	-	-	-	-	544	457
Brazilian real	-	-	669	844	-	-
Other currencies	860	662	209	217	-	-

General summary of foreign currencies:

	At June 30, 2010	At December 31, 2009
	MUS$	MUS$
Total assets	**611,631**	**676,093**
Chilean peso	435,965	508,215
Euro	18,224	18,447
Argentine peso	37,474	30,204
Brazilian real	29,644	25,140
Mexican peso	19,235	16,554
Australian dollar	8,348	7,595
Other currencies	62,741	69,938
Total liabilities	**391,844**	**414,845**
Chilean peso	267,196	281,295
Euro	7,183	9,138
Argentine peso	34,226	38,019
Brazilian real	18,138	16,595
Mexican peso	-	-
Australian dollar	-	-
Other currencies	65,101	69,798
Net position	**219,787**	**261,248**
Chilean peso	168,769	226,920
Euro	11,041	9,309
Argentine peso	3,248	(7,815)
Brazilian real	11,506	8,545
Mexican peso	19,235	16,554
Australian dollar	8,348	7,595
Other currencies	(2,360)	140

a) Exchange differential

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, 2010 and 2009, this represented a debit of KUS$2,386 and a credit of KUS$12,902, respectively. This meant a debit of KUS$702 in the second quarter of 2010 and a credit of KUS$313 in the second quarter of 2009.

The exchange differentials recognized as reserves for exchange differentials due to translations in equity signified a debit of KUS$2,769 in the six month period ending June 30, 2010 and a credit of KUS$233 for the six month period ending June 30, 2009. In the second quarter of 2010, the debit was KUS$1,402 while in the second quarter of 2009 there was a credit of KUS$2,457.

Below are the exchange rates for the American dollar in the dates indicated:

	At June 30, 2010	At December 31, 2009
Chilean peso	547.19	507.10
Argentine peso	3.93	3.80
Brazilian real	1.80	1.74
New sol (Peru)	2.83	2.89
Australian dollar	1.19	1.12
Bolivar (strong)	4.30	2.14
Bolivian	6.97	7.00
Uruguayan peso	20.85	19.45
Mexican peso	12.92	13.06
Colombian peso	1,898.93	2,043.07
New Zealand dollar	1.46	1.39
Euro	0.82	0.70

NOTE 32 – EARNINGS PER SHARE

Basic earnings

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Profit attributable to equity holders of the controller (KUS$)	148,929	69,247	60,630	4,233
Weighted average of number of shares, basic	338,790,909	338,790,909	338,790,909	338,790,909
Basic earnings per share (US$)	0.44	0.20	0.18	0.01

Diluted earnings

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Profit attributable to equity holders of the controller (KUS$)	148,929	69,247	60,630	4,233
Weighted average of number of shares, diluted	339,168,560	338,790,909	339,252,852	338,790,909
Diluted earnings per share (US$)	0.44	0.20	0.18	0.01

NOTE 33 - 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 KUS$
Atlantic Aviation Investments LLC (AAI)	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, interest and costs to AAI is pending enforcement in Switzerland. The attachment on funds of Variglog in Switzerland by AAI remains in place. Variglog is in the process of a judicial recovery (recuperacao judicial) in Brazil.	17,100, plus interest and costs
Atlantic Aviation Investments LLC	Supreme Court of the State of New York, County of New York	602286-09	Atlantic Aviation Investments LLC sued Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP and Volo Logistics LLC (a) as alter egos of Variglog, for failure to pay the four loans indicated in the previous note; and (b) for a default on their obligation of guarantors and other obligations under the Memorandum of Understanding signed by the parties on September 29, 2006.	The court partially dismissed and partially sustained the motion to dismiss filed by the respondents who in turn filed cross-claims in the case. The parties continue with the discover stage.	17,100, plus interest, costs and damages
Aerolane, 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
Lan Argentina S.A.	15th national First Instance Commercial Court, Buenos Aires	10587/09	A petition for the bankruptcy of Southern Wings for diverse unpaid credits.	Direct negotiations with the debtor successfully ended and the bankruptcy request was waived. Two agreements were signed, one for Lan Argentina and the other one for LAN AIRLINES, where all debt was recognized. In the case of Lan Argentina, the agreement stipulated a payment of US$66,428 in 30 installments. There is uncertainty on collection.	66

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

Company	Court	Case Number	Reason	Procedure Stage and Instance	Committed Amounts KUS$
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 (Celotto) who claims he has a labor relationship with Lan Airlines S.A.	On March 31, 2010, the Eighth Room of the Labor Appellate Chamber revoked the first instance decision in favor of Lan and condemned it to pay Celloto the sum of KUS$440, plus interest and costs. An extraordinary remedy was filed with that room which was dismissed so on July 5, 2010, a remedy of complaint was filed with the Supreme Court of Justice of the Nation.	880
Lan Airlines S.A.	2nd 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.	Decision in favor of LAN. An appeal by the other party is pending.	Undetermined
Lan Airlines S.A. and Lan Cargo S.A.	European Commission, Canada	-	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 S.A.	Court with jurisdiction in the U.S. and Canada to hear class actions	-	As a consequence of the investigation of eventual antitrust violations by cargo airlines, especially for the fuel surcharge.	Discovery process is underway.	Undetermined
Lan Logistics, Corp.	Federal Court, Florida, USA	-	A claim was filed in mid-June, 2008, for the right to a purchase option in the sale of	A ruling against Lan Logistics, Corp. for US$5 million which is being	Undetermined

			LanBox.	appealed before the Appellate Court. The appeal process will take from 6 months to 1 year.	
Aerolinhas Brasileiras S.A.	Court with jurisdiction in the U.S. to hear class actions	-	As a consequence of the investigation of eventual antitrust violations by cargo airlines, especially for the fuel surcharge.	The investigation is ongoing.	Undetermined
Aerolinhas Brasileiras S.A.	Administrative Economic Defense Counsel, Brazil	-	An investigation of potential infringements of fair competition by cargo airlines, especially the fuel surcharge.	The investigation is ongoing.	Undetermined

As of June 30, 2010, 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.

NOTE 34 – 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. In relation to the spare engine financing for the Boeing 767 and 777 fleets, with the guarantee of the U.S. Export-Import Bank, restrictions have been established on the share composition of the guarantors and their legal successor in event of a merger.

Limits have been established on some financial indicators of the parent company, on a consolidated basis, in the loan agreements the Company has made with banks from the same region in this period. The Company was in compliance with these covenants as of June 30, 2010.

(b) Lessee commitments under operating leases

The main operating leases are itemized below:

Lessor	Aircraft	At June 30, 2010	At December 31, 2009
International Lease Finance Corporation	Boeing 767	8	8
Orix Aviation Systems Limited	Airbus 320	2	2
Celestial Aviation Trading 35 Limited	Boeing 767	1	1
MSN 167 Leasing Limited	Airbus 340	1	1
Celestial Aviation Trading 16 Limited	Boeing 767	1	1
CIT Aerospace International	Boeing 767	1	1
Celestial Aviation Trading 39 Ltd. - GECAS (WFBN)	Boeing 777	1	1
Celestial Aviation Trading 23 Ltd. - GECAS (WFBN)	Boeing 777	1	1
Total		16	16

The portion of rent installments accrued is shown in income as they accrue.

Future non-cancellable minimum rent payments are:

	At June 30, 2010	At December 31, 2009
	KUS$	KUS$
One year or less	93,263	90,731
More than one year and less than five years	265,608	273,055
More than five years	61,428	80,165
Total	420,299	443,951

The minimum rent payments recognized in income are:

	For the periods ending on June 30	
	2010	2009
	KUS$	KUS$
Minimum payments under operating leases	44,762	35,041
Total	44,762	35,041

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, ended in September 2009 and was returned in October 2009.

As from October 2009, the periods of lease were modified for seven Boeing 767-300ER aircraft. The leases of five aircraft were extended between 3 and 7 years, while for two aircraft they were reduced by 2 and 3 years. In June 2010, the lease of another Boeing 767-300 ER air craft was extended for two years, ending in May 2013.

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.

(c) Other commitments

As of June 30, 2010, the Company had letters of credit and bank bonds in effect as follows:

Collateral in favor of	Borrower's name	Type	Amount in KUS$	Release Date
Deutsche Bank A.G.	Lan Airlines S.A.	Two letters of credit	20,000	31-Jan-11
The Royal Bank of Scotland plc	Lan Airlines S.A.	Two letters of credit	18,000	8-Jan-11

Chilean Civil Aviation Board	Lan Airlines S.A.	35 bank guarantee bonds	5,256	21-Jul-10
Sectional Customs Bureau of Bogota	Linea Aerea Carguera de Colombia S.A.	Two bond insurance policies	2,430	7-April-14
Washington International Insurance	Lan Airlines S.A.	Four letters of credit	2,200	10-Dec-10
Metropolitan Dade County	Lan Airlines S.A.	Five letters of credit	1,675	31-May-11

NOTE 35 - INTERCOMPANY TRANSACTIONS

a) Intercompany transactions in the period ending June 30, 2010

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Type of currency or adjustment unit	Value of intercompany transaction
							KUS$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	Investments	Building leased granted	CLP	33
					Ticket service	CLP	5
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building leased granted	US$	8
					Training	US$	111
					Debt assignment	US$	8
					Other payments on account	US$	156
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation fees	CLP	30
					Basic utilities	CLP	6
					Aviation concessions	CLP	136
					Dividend distribution	CLP	73
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Ticket service	CLP	20
96.669.520-K	Red de Televisión Chilevision S.A.	Other related parties	Chile	Television	Ticket service	CLP	65
					Advertising	CLP	100
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional assistance	Professional assistance	CLP	7
Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	Investments	Building leased received	US$	203
					Other services rendered	US$	8

b) Intercompany transactions in the period ending June 30, 2009

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Type of currency or adjustment unit	Value of intercompany transaction
							KUS$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	Investments	Building leased granted	CLP	34
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building leased granted	CLP	9
					Training	CLP	409
					Debt assignment	CLP	9
					Other payments on account	CLP	59
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation fees	CLP	44
					Basic utilities	CLP	10
					Aviation concessions	CLP	161
					Dividend distribution	CLP	7
78.005.760-2	Sociedad de Seguridad Aérea S.A.	Other related parties	Chile	Security services	Security services	CLP	575
					Other payments on account	CLP	1,018
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Ticket service	CLP	18
96.669.520-K	Red de Television Chilevision S.A.	Other related parties	Chile	Television	Advertising	CLP	533
					Ticket service	CLP	342
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional assistance	Professional assistance	CLP	69
Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	Investments	Building leased received	US$	160

(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 on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
	KUS$	KUS$	KUS$	KUS$
Compensation	3,476	3,110	1,773	1,511
Management fees	60	62	31	33
Adjustments in value and non-cash benefits	168	172	84	84
Short-term benefits	3,419	3,429	2,322	1,195
Share-based payments	1,452	413	1,255	265
Other	-	782		
Total	8,575	7,968	5,465	3,088

NOTE 36 – 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.

In the last quarter of 2009, the amendment was approved to the original terms and conditions of the plan, through which options for subscription and payment were granted. These amendments were performed in the first quarter of 2010 and they set a new term and fiscal year price.

The original granting and their subsequent amendments 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:

Percentage	Period
30%	From October 29, 2010 through December 31, 2011
70%	From October 30, 2011 through December 31, 2011

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

All these options expire on December 31, 2011.

	Number of Stock Options
Stock option in a share-based payment agreement, balance as of January 1, 2010	1,311,000
Stock options granted	898,000
Stock options annulled	-
Stock options exercised	-
Stock options in share-based payment agreement balance as of June 30, 2010	2,209,000

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

Average Weighted Share Price	Strike Price	Expected Volatility	Option Period	Expected Dividends	Risk-Free Interest
US$17.3	US$14.5	33.2%	1.9 years	50%	3.48%

NOTE 37 – ENVIRONMENT

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

NOTE 38 – 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 January 8, 2009, 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 rejected by majority votes on March 8, 2010. On March 25, 2010, Mr. Juan Jose Cueto's attorneys filed a remedy of cassation in form and another one in substance against the aforesaid decision. These remedies 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 quarter ending June 30, 2010.

(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, 2010.

NOTE 39 – EVENTS SUBSEQUENT TO THE DATE OF THE BALANCE SHEET

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of June 30, 2010 were approved by the Special Board Meeting held April 27, 2010 at which the following directors were present:

1. Jorge Awad Mehech
2. Dario Calderon Gonzalez

3. Jose Cox Donoso
4. Juan Jose Cueto PlazaRamon Eblen Kadis
5. Bernardo Fontaine Talavera and
6. Juan Gerardo Jofre Miranda

There is no knowledge of other financial or other events that materially affect the balances or interpretation of these financial statements after June 30, 2010 through the date of issuance.

MATERIAL EVENTS

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

1. On July 20, 2010, pursuant to articles 9 and 10 of Securities Market Law 18,045 and General Rule 30 of 1989 of the Commission, Lan Airlines S.A. ("LAN") disclosed that it had made an agreement with Airbus S.A.S. for the acquisition of 50 Airbus A320 aircraft that will gradually be added to LAN's operations from 2012 to 2016. These aircrafts include Airbus models A319 and A320 and for the first time A321 with a capacity to carry around 210 passengers. The aircraft are appraised at approximately US$4.15 billion according to their list price.

LAN also disclosed that it had made an agreement with CFM International, Inc. to purchase CFM 56-5B turbines to install on the Airbus A320 family aircraft that will be added to the fleet starting in 2011.

The purchase of these aircraft is part of the long-term fleet strategic plan. This plan also involves the sale of 15 Airbus A318 aircraft from 2011 to 2013.

These agreements are subject to negotiation, execution and delivery of the final contracts that will include the terms and conditions applicable to the transactions described in the disclosure, which are expected to be concluded in the coming months.

2. On May 10, 2010, LAN disclosed, in relation to Ordinary Official Letter 7007 of May 7, 2010, to the press and the market in general the transaction queried in such official letter by an official press release of LAN that was amply distributed and also published in the investor section on the Company's website (www.lan.com), all within the purview of the Manual on Handling Information of Interest to the market that was approved in due course by the Company's Board of Directors and can be found on the website of the Securities and Insurance Commission. The press release issued by LAN on May 6, 2010 was attached.

Nonetheless, LAN reiterated that it had signed a technical assistance and service agreement with AEROASIS S.A., a Colombian airline, to undertake all measures and fulfill the conditions necessary to obtain an operations permit from the Special Civil Aviation Administrative Unit of the Republic of Colombia (hereinafter Aerocivil) in the period expiring February 2011. These activities include hiring personnel, preparing all technical material and choosing and purchasing equipment, according to laws and regulations governing the matter in such country. LAN issued such press release and the same date when official notice was given to Aerocivil of the commencement of such Aviation Certification Process by Aeroasis with the Technical Support of LAN.

In fact, Aeroasis S.A. is a Colombian company that only holds traffic rights to operate domestic passenger air transportation in Colombia but it has not obtained the necessary operating permits from the Civil Aviation of Colombia to exploit those traffic rights and thus far it has no employees, aircraft or equipment, among other requirements, required to obtain those permits. So, Aeroasis S.A. has resorted to the technical assistance and services of LAN to conduct the activities and perform the tasks necessary to fulfill the conditions required to obtain those permits. Moreover, as long as the processing of such operating permit is pending with Aerocivil, the shareholders in Aeroasis S.A. cannot sell or assign their shares or amend certain matters in the by-laws of the Company, among other restrictions.

Therefore, LAN has a firm interest in making Aeroasis S.A. a member of the LAN Group of Companies after it obtains such operating permit. Should that occur, at LAN's option, joint venture and integration agreements can be materialized which by nature, must be submitted previously to the consideration of the competent authorities in the Republic of Colombia, as relevant.

3. On April 29, 2010, Pursuant to articles 9 and 10 of Securities Market Law 18,045 and General Rule No. 30 of 1989, it was disclosed that the shareholders in LAN elected the members of a Board of Directors of LAN at a Regular Shareholders meeting (the "Meeting") of LAN Airlines S.A. (LAN) held on April 29, 2010. Such members will hold office for two years.

The following individuals were elected directors at that meeting:

1. Juan Cueto Sierra
2. Juan José Cueto Plaza;
3. José Cox Donoso;
4. Dario Calderón González
5. Carlos Heller Solari;
6. Ramón Eblen Kadis;
7. Jorge Alberto Awad Mehech;
8. Bernardo Fontain Talavera; and
9. Juan Gerardo Jofré Miranda.

The directors indicated in numbers 6, 7, 8 and 9 were elected in the condition of independent directors pursuant to article 50-bis of Company's Laws 18,046.

4. On April 29, 2010, pursuant to articles 9 and 10 of Securities Market Law 18,045 and General Rule No. 30 of 1989, it was disclosed that the shareholders of LAN approved payment of a final dividend proposed by the Board at its Meeting held April 27th amounting to 49.99932% of the 2009 fiscal year profits, equal to US$115,561,579.33. This approval was given at the Regular Shareholders Meeting held April 29, 2010.

This dividend will be allocated to the two interim dividends 38 and 39 reported and paid previously by LAN which combined are equal to US$104,622,020.61. Consequently, the amount effectively payable was US$10,939,558.72.

An Appendix 1 was attached to this disclosure in compliance with Circular No. 660 of 1986 that provides further information on this dividend.

5. As provided in Articles 9 and 10 of Law 18,045 on the Securities Market and the General Rule No. 30, on March 11, 2010, it was reported that at the Special Board Meeting held March 11, 2010, the Board of Lan Airlines S.A. (hereinafter "the Company") agreed to convene a Regular Shareholders Meeting to be held on April 29, 2010, 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, 2009;

b) Approval of the distribution of a final dividend on account of profits from the 2009 fiscal year, imputing toward such amount the interim dividends of US$0.10219 per share, paid in August 2009, and US$0.20662 per share, paid in January 2010;

c) Election of the Company's Board of Directors;

d) The compensation of the Company's Board for the fiscal year ending December 31, 2010;

e) The compensation of the Board Committee and calculation of the budget for the fiscal year ending December 31, 2010;

f) Appointment of External Auditors, of Risk Rating Agencies; a report on matters within the purview of Title XVI of Companies Law No. 18,046;

g) Information on processing, printing and information dispatch costs as indicated in Circular No. 1816 of the Securities and Insurance Commission;

h) Designation of the newspaper in which the Company's information will be published; and

i) Other matters of corporate interest inherent to the Regular Shareholders Meeting.

6. On March 10, 2010, by virtue of the provisions in Articles 9 and 10 of Law No. 18,045 on Securities Market, and the General Rule No. 30, yesterday's acquisition by Costa Verde Aeronautica S.A. ("CVA") of 29,000,000 shares from Axxion S.A. and Inversiones Santa Cecilia S.A. in LAN Airlines S.A., representing approximately 8.56% of the Company's shares (the "Transaction") was reported as a material event.

This transaction was executed according to the Shareholders Agreement of LAN entered into on December 14, 2000 and its Supplement on July 5, 2004, signed between Axxion

S.A., Inversiones Santa Cecilia S.A. and CVA. Additionally, we have become aware that the Joint Operation Agreement signed on July 5, 2004 was terminated by the same parties.

Pursuant to the foregoing, CVA has become the owner of 107,575,407 shares in LAN Airlines S.A., representing approximately 31.75% of the subscribed capital, thereby becoming the controller of this company according to the provisions in articles 97 and 99 of the Market Securities Law. This meant a big change in the Company's ownership and has been reported as a material event.

Additionally, Inversiones Mineras del Cantabrico S.A., a related company of CVA, is the owner of 7,824,095 shares of LAN Airlines S.A., representing approximately 2.31% of the subscribed capital.

Finally, all of the foregoing has been recorded as material events of Costa Verde Aeronáutica S.A. on February 22 and March 9, 2010.

7. On March 3, 2010, by virtue of the provisions in Articles 9 and 10 of Law No. 18,045 on Securities Market, and the provisions of Circular Letter No. 574 of 2010 from the Securities and Insurance Commission, the following was reported as a material event on occasion of the earthquake affecting central and south areas of the country on February 27, 2010:

1. <u>Situation of Operations</u>

1.1 <u>Abroad</u>

The operations of LAN Airlines and its subsidiaries abroad, including Lan Cargo, Lan Peru, Lan Ecuador and Lan Argentina, both passenger and cargo, are absolutely normal, excepting flights from and to Santiago, Chile.

1.2 <u>Chile</u>

1.2.1 <u>Passengers</u>

As it is of public knowledge, facilities in the Santiago airport were damaged as a result of the earthquake. As there is no alternative airport in the Metropolitan Region for our local and international operations, a situation that affects all airlines operating in the country, the passenger traffic operation was suspended until March 1, 2010. To that date, only the seventeen (17) international LAN flights with destination to Santiago arrived in this airport. They had been deviated to other airports abroad due to the earthquake.

After big efforts and coordination between the different authorities and entities involved in the Santiago airport operation, yesterday an emergency airport was installed which allowed us to resume operations. Thus, today LAN expects to operate approximately 45% of its normal operations for purposes of local and international passenger transportation. Additionally, the local airport will begin international operations today, which means an increase in passenger transportation. Pursuant to the foregoing, at March 7, 2010, LAN is expected to operate in Chile at approximately 60% as compared to normal operations.

Itineraries of local and international flights are being informed in different means, specially our web site (www.lan.com), call centers (600 526 2000) and sale offices. Such itineraries will increase slowly until recovering normal operations. The Company cannot estimate when the Santiago operations will be normal, as such fact depends on the Santiago airport capacity to return to normal operations.

1.2.2 Cargo Transportation

Lan Cargo's operations in cargo transportation were not substantially affected by the earthquake and Lan Cargo is currently in full capacity to offer its services. Cargo transportation activities are operating normally in view of the (i) re-start of operations, even though with a limited passenger capacity, (ii) resumption yesterday of the customs and agriculture services for cargo and merchandise and (iii) flexibility in using the cargo fleet, including redesign of itineraries to compensate for the reduction of passenger fleet operations to and from Chile.

2. Impairment of Facilities, Plants and other Goods

The Company suffered damages in certain buildings, such as the old sector of the Maintenance Base and the Corporate Building located in front of the south side of the Santiago airport. The earthquake also caused minor damages in five (5) aircrafts and in some spare parts and equipment, which are being repaired. None of these damages has a significant or relevant effect on the Company's operations.

3. Insurance

All LAN's facilities, buildings, equipment and aircraft are duly insured against damage risk, including fire and earthquake coverage. The sum of deductibles for the affected goods amounted to US$3,000,000 (three million U.S. dollar) approximately.

8. The following material event was reported on January 26, 2010, 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 year and in the fourth quarter ending December 31, 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 2009 in the deadlines established by the Securities and Insurance Commission.

9. The following material event was reported on December 29, 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:

The Board of Lan Airlines S.A. determined that the following transactions are ordinary and, therefore, they can be performed with related parties without the requirements and procedures set down in numbers 1 to 7 of article 147 of the Companies Law (Law 18,046), which were to take effect January 1, 2010. These transactions are part of the ordinary corporate business or are closely related thereto pursuant to the general policies on habituality defined by the Company Board:

i. Contracting cargo, merchandise and passenger transportation services.
ii. Entering into aircraft exploitation or operation agreements for air transportation, whether passenger or merchandise or cargo in general, under any denomination or modality, including, but not limited to, wet leases, leases, subleases, freight, interchange and charters.
iii. Leases for cargo space and bellies.
iv. Major and line maintenance contracts, sale, lease and supply of engines, aircraft and engine spare parts and components, handling, fuel supply and ground and airport maintenance services of any kind or nature.
v. Association, shared code and alliance agreements, in any form or modality, interline and pro rata agreements, frequent flyer and customer loyalty programs in general, and single-code ticket issuance and sale agreements.
vi. Contracts for the sale, marketing and distribution of passenger, cargo or merchandise transportation services.
vii. Contracts for the lease of real estate and any kind of chattel, such as equipment, vehicles, lifts and machinery in general as well as contracts for construction, maintenance, repair and remodeling.
viii. Advertising agreements and marketing agreements in general, trademark and domain licenses, on-board supply services and

ground services agreements, such as hotel, car rental and travel agencies, in general.

ix. Data processing, infrastructure, maintenance and data archive, software, hardware and, in general, services relating to information technology.

x. Financial transactions among companies in the Lan Airlines Group, such as funding through trade accounts, direct financing, collateral and security of any kind and nature, the assignment of credits, debt and obligations, the contracting of forwards and derivatives on underlying assets relating to the business of the company or its subsidiaries, such as fuel, currency and interest rate hedges.

xi. Transactions relating to management, administration and commercial, financial or managerial planning, back-office support in general, such as accounting services, human resources, tax planning, treasury and banks, insurance, security, comptrollership, income management, procurement and suppliers, legal and regulatory compliance and internal auditing.

10. On December 29, 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$0.20662 per share on account of 2009 fiscal year profits at its regular meeting held December 29, 2009. This dividend will be paid starting January 21, 2010 and all shareholders who are shareholders on the fifth business day prior to that date are entitled to this dividend.

11. The following material event was reported on December 23, 2009, according to article 9 and subparagraph 2 of article 10 of Securities Market Law No. 18,045:

On this date, Lan Airlines S.A. signed a purchase agreement with Airbus S.A. for the purchase of thirty (30) new aircraft in the A320 family for a price of US$1,972 million, according to the list price, which will be delivered in 2011 and 2016.

The acquisition of these aircraft forms part of the revised strategic fleet plan of Lan Airlines S.A. for the long-term. This plan also includes the sale of 5 A318 aircraft in 2011.

12. On September 21, 2009, the material event was disclosed that at the Special Board Meeting held September 21, 2009, the Board of Lan Airlines S.A. agreed to convene a Special Shareholders Meeting to be held on October 29, 2009, at 11:00 a.m., in order to decide on the following matters:

(a) To set the placement price of the shares for compensation plans under the terms of article 24 of Companies Law No. 18,046, as decided by the Special Shareholders Meeting held April 5, 2007, or to empower the Board to such purpose; and

(b) To adopt all other resolutions necessary to implement and enforce the aforesaid resolution, including amply authorizing the Company's Board to determine, modify, set and freely agree to the terms of the aforesaid compensation plans.

13. 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.

14. 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.

EXPLANATORY ANALYSIS

A comparative analysis and explanation of the principal trends:

1. Consolidated Financial Situation

At June 30, 2010, the assets of the Company had increased KUS$135,547 in comparison to the 2009 fiscal year, which is equal to a percentage change of 2.3%.

The current assets of the Company fell by KUS$47,817 (3.4%) compared to the 2009 fiscal year. The main negative variation was in Cash and Cash equivalent (19.0%), partially of set by the increase in Other Current Financial Assets (53.6%) because of the increase in collateral granted for derivatives margins and deposits in guarantee for PDP financing. Other items that varied positively were Current Tax Assets (28.0%) and Other Current Non-financial Assets (55.0%).

The liquidity ratio of the Company decreased 4.9%, going from 0.92 in the 2009 fiscal year to 0.88 in the 2010 period. Current assets decreased 3.4%, while Current Liabilities increased by 1.6%. The acid-test ratio also varied downwards (20.3%) from 0.48 in the 2009 fiscal year to 0.38 in the 2010 period.

Non-Current Assets of the Company increased KUS$183,364 (4.2%) as compared to the 2009 fiscal year. The main positive variation was in Property, Plant and Equipment, which totaled KUS$4,386,167 as of June 30, 2010, increasing by net 4.5% compared to the 2009 fiscal year when it was KUS$4,196,556. This change is due mainly to the net effect from Plant and Equipment sub-lines as a result of the addition of one Boeing 767 aircraft for passenger transport; rotable units to support fleet operation; the acquisition of computer equipment, ground support equipment, tools and the like; and to the increase in the on-going Construction sub-line, mainly as a result of the payment of advances on the purchase of aircraft, and to the increase in the Cumulative Depreciation resulting from the depreciation in the period.

The Company's current liabilities rose by KUS$23,968 (1.6%), to close the second quarter of 2010 at KUS$1,547,307. This variation was mainly due to the increase in Other Current Financial Liabilities (13.1%), mainly because of the reclassification of loans obtained on the local market in 2009 to Other Non-current Financial Liabilities in the short term, offset by the decrease in Other Current Non-financial Liabilities (5.2%).

The debt ratio of the Company's Current Liabilities decreased 0.8% from 1.39 in the 2009 fiscal year to 1.38 in the 2010 period. Its share as compared to total debt decreased by 0.8%, going from 32.6% in the 2009 fiscal year to 32.4% in the 2010 period.

Non-current liabilities rose KUS$86,989 (2.8%), closing the second quarter of 2010 at KUS$3,229,696. This variation was mainly due to the increase in Other Non-current Financial Liabilities (3.3%) due to the increase in the fair value of long-term foreign currency and interest rate derivatives. Deferred tax liabilities also rose 6.8%.

At June 30, 2010, approximately 95.1% of the debt had fixed interest rates through financial instruments so the average rate is 5.0% considering debt and such instruments.

The Non-current Liabilities debt ratio of the Company increased 0.4% from 2.86 in the 2009 fiscal year to 2.87 in the 2010 period. Its share of the total debt increased 0.4%, from 67.3% in the 2009 fiscal year to 67.6% in the 2010 period.

The total debt-net equity ratio of the Company did not change, being 4.25.

The variation in Net Equity is due mainly to the results obtained in the 2010 period, the recognition of 30% of the minimum dividend as stipulated in the governing laws and the final dividends on 2009 profits and the decrease in Reserves for Hedging Operations.

2. Consolidated Income Statement

The net profit of the controller was KUS$148,929 at June 30, 2010, representing an increase of KUS$79,682, equal to a positive variation of 115.1% in comparison to the same period in the previous year. The net margin for the semester rose from 4.2% in 2009 to 7.2% in 2010. Operating income totaled KUS$255,528, or an increase of 67.0% (KUS$102,545) in comparison to the same period in 2009. The operating margin for this semester rose from 9.2% to 12.4%.

Operating income amounted to KUS$2,068,520, which means an increase of 24.1% compared to the same period in 2009. This reflects an increase of 18.6% in passenger revenues; 47.9% in cargo revenues and a decrease of 17.5% in other revenues.

Passenger revenues totaled KUS$1,421,669, or an increase of 18.6% in comparison to the KUS$1,198,512 recorded for the same period in 2009. This variation was due to a 9.7% increase in yield, combined with an 8.1% rise in traffic. The cabin factor remained stable at 76.0% compared to 75.9% in the same period in 2009, while capacity grew 7.9%. Passenger traffic in this semester was affected by a drop in demand because of the earthquake that shook Chile on February 27, 2010. ASK Revenues rose 10.0%. Traffic growth was due to an 8.8% rise in domestic traffic (including the domestic operations of LAN and its subsidiaries in Chile, Argentina, Peru and Ecuador), as well as a 7.7% increase in international traffic. This latter figure accounted for 70% of all traffic during the period. Yield rose 9.7%, mainly because of the increase in the fuel charge and higher nominal rates because of a stronger demand.

As of June 2010, cargo revenues totaled KUS$587,963, representing an increase of 47.9% compared to the same period in 2009. This rise was due to a 10.8% increment in yields and a 33.6% increment in traffic. Capacity rose 25.2% in the period so the cabin factor grew from 65.5% to 69.9% while ATK revenues rose 18.1% compared to the same period in 2009.

On the other hand, other income fell by KUS$12,476, equal to a negative variation of 17.5%, due to a drop in revenues from third-party aircraft leases.

Operating cost totaled KUS$1,812,992, which represents an increase of KUS$298,662, or 19.7%, compared to June 2009. The unit costs (ATK) rose 4.0% in comparison to the first half of 2009. Higher fuel prices in this semester led to a cost increase of US$45.5 million (net of fuel hedging). The unit cost excluding fuel rose 3.9%, mainly due to higher salary costs, an appreciation in local currencies in comparison to the dollar and because of cost of sale, marketing and other operating costs. The variation in each item can be explained as follows:

a) Salaries and benefits rose by KUS$64,186 in comparison to the same period in the previous year, varying 21.6% mainly because of an increase in the average number of employees in this semester in line with the close in operations and an appreciation in local currencies.

b) Fuel expense rose 21.1% compared to the same period in the previous year, equal to KUS$ 95,675 in higher costs. This was due to a 43.8% rise in prices combined with an 11.1% increase in consumption. The company also recognized a loss of US$1.3 million on fuel hedging compared to a loss of US$110.6 million in the same period in 2009.

c) Commissions rose KUS$11,908, or a variation of 17.6% in comparison to the same period in 2009. This rise was mainly due to the 25.9% increase in the combined traffic revenues from passenger and cargo, which were partially offset by a 0.3% reduction in the average commissions as less commissions were paid in the passenger business.

d) Depreciation and Amortization expenses increased 13.3%, totaling KUS$19,461, due mainly to the addition of three new Boeing 767 aircraft.

e) Expenses on other leases and land fees rose KUS$29,313, or a variation of 12.4% compared to the same period in the previous year. This was mainly caused by an increase in aviation and handling fees in line with the growth in operation.

f) Passenger service expenses rose 18.3% compared to the same period in 2009, mainly because of a 9.7% rise in the number of passengers carried and compensation paid to passengers during the semester.

g) The expense of aircraft leases increase 31.7% to KUS$11,421 because of the rise in the average lease cost due to the arrival of 2 Boeing 777 cargo aircraft in April and May 2009.

h) Maintenance costs fell by KUS$154, or a variation of 0.3% compared to the same period in 2009. This was caused by a decrease in outsourcing of maintenance services and a lower maintenance provision because of a greater proportion of new aircraft, which was partially of set by escalation in the maintenance contracts.

i) The operating expenses rose 34.2% compared to June 2009, equal to KUS$58,908. This decrease was due to higher expenses on advertising, marketing, per diems and increase in sales selling expenses.

Financial income fell 32.6% to KUS$5,106 in 2010 compared to KUS$7,579 accumulated in the same period of 2009. The reason was mainly a drop in interest rates in the semester.

Financial expenses rose 0.5% to KUS$396 because of an increase in the average debt needed to finance the fleet, which was offset by a drop in interest rates.

There was a loss of KUS$4,686 in other income-expenses compared to a gain of KUS$1,738 between January and June 2009. This was related to an exchange differential loss.

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

The company's operating flow varied positively by KUS$133,762 compared to the same period in the previous year, mainly because of less fuel hedge payments included in Other Receipts (outlays) of Cash, which varied KUS$108,863; because of the net effect between collections from sales of good and rendering of services, payments to suppliers for the supply of goods and services and payments to and for account of employees (13.4%).

The investment flow varied negatively by KUS$286,206 compared to the same period in the previous year. This variation is mainly due to the 98.2% decrease in the recovery of collateral for derivatives, the establishment of collateral for derivatives contracts and deposits in guarantee of PDP financing. Their negative variation in this flow is also affected by the increase in the addition of property, plant and equipment (29.1%), the result large of advances on the purchase of aircraft and the addition of a Boeing 767 passenger aircraft to the fleet.

The financing flow varied negatively by KUS$224,466 compared to the same period in the previous year. This variation was due to the net effect of amounts from long-term loans and loan payments (70.4%) and the reduction and Other Cash Receipts totaling KUS$17,677. This negative variation is offset in part by lower dividend payments (23.1%).

Finally, the net flow of the Company during the 2010 period dropped by KUS$376,910, compared to the same period in the previous year. The negative balances of the investment and finance flow has been totally covered by the positive flow of Investment Flow and the balance of the previous year.

4. Market Risk Analysis

Credit risk concentration

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

Hedging Instruments: Administration of fuel price risk

The variation in fuel prices depends significantly on the world's oil supply and demand, the decisions adopted by the OPEC, the world's refining capacity, inventory levels and factors, such as weather and politics. In order to reduce the risk of price variations to which the Company might be exposed, the Company signed several fuel hedging agreements with different financial institutions for a part of the total estimated fuel consumption of the Company for 2010 and 2011. The agreements were (a) swaps, which allow setting a price, (b) call options, which allow limiting a price increase, and (c) price collars, which allow setting a maximum and a minimum price. In swaps, 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 set level, 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 set prices, the Company neither receives nor pays any price.

The Company made a net set-off payment of KUS$1,340 under these agreements as of June 2010. The losses or earnings on these agreements are recognized as a component of Hedging Reserves in the Company's net equity. As of June 30, 2010, the market value of the existing fuel hedges was KUS$1,753 (negative).

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, additionally, interest rate hedge agreements were signed in advance in order to finance 15 Airbus planes to be delivered between 2010 and 2011, five Boeing 767-300 planes that will be delivered between 2009 and 2011, and one Boeing 777-F aircraft that will be delivered in 2012.

In 2009, the Company signed a cross-currency swap to hedge the debt cash flow 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 6-month LIBOR. The purpose is to have a percentage of the debt at (i) a fixed rate (such as swaps and fixed-rate debt) and (ii) another percentage of the debt at a floating rate, but limited to a maximum (such as calls), together with (iii) limiting the interest rate exposure in future financing. This way, the Company significantly decreases the risk of an increase in interest rates. In relation to such agreements, the Company (i) pays, receives or, as the case may be, (ii) only receives, the difference between the agreed fixed rate and the floating rate calculated on the unpaid principal of each agreement. The Company recognized a cumulative loss of KUS$15,407 on these agreements in the period. The losses and earnings on interest rate swaps together with the premiums and interest rate call earnings are recognized as a component of Financial Expenses, based on the amortization of the hedged loan. As of June 30, 2010, the market value of the outstanding swaps, calls and pre-set interest rate agreements was KUS$(120,159).

As of June 30, approximately 95.1% of the debt was fixed using any of the above-mentioned instruments at an average rate of 5.0%.

5. Chilean Economic Environment

In order to analyze the economic environment where the Company operates, below is a brief discussion of the situation and evolution of the leading economies affecting it, both national and regional and global.

The world economy is evolving better than expected. The strength of consumer and enterprise trust and the increase in demand have led to a world economic recovery in intactly. However, the turbulence on the financial markets generated by the debt crisis in the Euro zone has been a limiting factor that might affect world growth. This year the global economy is projected to grow close to 4.2% (-0.8% in 2009).

In Europe, the economic scenario is recovery slowly which has translated into a standstill in unemployment and an increase in exports because of the depreciation of the Euro. Fiscal incentives have also helped the economies recover and public spending has fallen but the debt crisis and the announcements of government cuts in countries like Spain and Greece are starting to reduce the confidence of investors which brakes capital flows into the region. Taking into account these factors, a growth of close to 1% is predicted for this year (-3.9% in 2009).

The US economy continues to recover production and employment constantly. At the same time, inventory levels have fallen, which is a sign of a greater demand. Yet there are risks of a deterioration in the property sector that may affect growth this year. In this context, growth projections are at 3.0% for 2010 (-2.4% in 2009).

For the region, the latest indicators continue to be positive. Financial conditions have improved and the recovery is grounded on the increase and exports, demand and the price of commodities. This recovery is led by Brazil, with a growth of close to 6.5%, mainly because of a strong raw material demand. Other countries that are presenting highly dynamic economies are Chile and Peru. On the contrary, Colombia and Venezuela show lower growth rates. A growth of around 4.0% is predicted for 2010 (-2.3% in 2009).

Despite the drop in domestic activity after the earthquake and tsunami last February, the Chilean economy is starting to recover with force. Internal demand has been dynamics, exports have normalized and investment has increased due to reconstruction, which have all led to an improvement in economic expectations. Moreover, the latest unemployment figure shows an increase in job creation and in the labor force, bringing the unemployment rate to 8.5%. A growth of close to 5.0% is expected this year (-1.5% in 2009).

In this economic setting, the international aviation industry has evolved positively in both passenger and cargo businesses. The flexibility of the business model implemented by the company has led to positive results consistently over time.

EXPLANATORY ANALYSIS

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

	06/30/2010	12/31/2009	06/30/2009
LIQUIDITY INDICATORS			
Current ratio			
(current assets/current liabilities)	0.88	0.92	0.93
Acid-test ratio			
(cash/current liabilities)	0.38	0.48	0.49
DEBT INDICATORS			
Debt ratio			
(current liabilities + non-current liabilities/net equity)	4.25	4.25	4.50
Current debt/total debt (%)	32.39	32.65	29.11
Non-current debt/total debt (%)	67.61	67.35	70.90
Financial expense ratio			
(RAII/financial expenses)	3.42	3.06	2.19
ACTIVITY INDICATORS			
Total Assets	5,907,519	5,771,972	5,449,963
Investments	119,141	838,535	237,574
Sales	6,469	21,088	14,738

PROFIT INDICATORS

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

	06/30/2010	12/31/2009	06/30/2009
Return on equity (net profit/average net equity)	0.14	0.25	0.07
Return on assets (net profit/average assets)	0.03	0.04	0.01
Return on operating assets (operating income/average operating assets) (**)	0.04	0.08	0.03

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

	06/30/2010	12/31/2009	06/30/2009
Per-Share Profit (fiscal year profit/number of subscribed and paid-in shares)	0.44	0.68	0.20
Return on dividends (dividends paid/market price)	0.02	0.02	0.03

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

	For the 6 months ending on June 30		For the 3 months ending on June 30	
	2010	2009	2010	2009
INCOME INDICATORS				
Revenues	**2,068,520**	**1,667,313**	**1,033,622**	**785,139**
Passenger	1,421,669	1,198,512	680,880	546,918
Cargo	587,963	397,437	321,852	200,756
Other	58,888	71,364	30,890	37,465
Operating Costs	**1,812,992**	**1,514,330**	**921,000**	**750,214**
Other leases and landing fees	266,433	237,130	135,222	118,795
Fuel	549,118	453,443	277,353	225,176
Commissions	79,581	67,673	38,329	31,140
Salaries	361,911	297,725	184,959	149,313
Other operating costs	231,343	172,435	122,258	83,087
Plane leases	47,480	36,059	24,000	20,338
Maintenance	59,518	59,672	30,571	29,560
Depreciation and amortization	166,232	146,771	83,404	72,222
Passenger service	51,376	43,422	24,904	20,583
Operating income	255,528	152,983	112,622	34,925
Operating margin	12.35%	9.18%	10.90%	4.45%
Financial income	5,106	7,579	1,796	5,113
Financial expense	-78,500	-78,104	-40,737	-40,363
Other income / costs	-4,686	1,738	-2,589	2,517
Profit before taxes and minority interest	177,448	84,196	71,092	2,192
Taxes	-30,070	-13,827	-11,980	-783
Profit before Minority Interest	147,378	70,369	59,112	1,409
Attributable to:				
Investors in parent company	148,929	69,247	60,630	4,233
Minority interest	-1,551	1,122	-1,518	-2,824
Net profit	148,929	69,247	60,630	4,233
Net margin	7.20%	4.15%	5.87%	0.54%
Real tax rate	-16.80%	-16.64%	-16.50%	-15.61%
Total number of shares	338,790,909	338,790,909	338,790,909	338,790,909
Net profit per share (US$)	0.44	0.20	0.18	0.01
RAIIDAIE	418,625	300,370	194,955	112,488

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, 2010:

	INDIVIDUAL	CONSOLIDATED
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.

Name	Title	Taxpayer Number	Signature
JORGE AWAD MEHECH	CHAIRMAN	4.756.185-K	
DARIO CALDERON GONZALEZ	DIRECTOR	5.078.327-8	
JOSE COX DONOSO	DIRECTOR	6.065.868-4	
JUAN JOSE CUETO PLAZA	DIRECTOR	6.694.240-6	
RAMON EBLEN KADIS	DIRECTOR	4.346.062-5	
BERNARDO FONTAINE TALAVERA	DIRECTOR	6.371.763-0	
JUAN GERARDO JOFRE MIRANDA	DIRECTOR	5.672.444-3	
IGNACIO CUETO PLAZA	GENERAL MANAGER	7.040.324-2	
ALEJANDRO DE LA FUENTE G.	VICE-PRESIDENT, FINANCE	6.947.715-1	

Date: July 27, 2010