LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2009

CONTENTS

US$ - AMERICAN DOLLARS

KUS$ - THOUSANDS OF AMERICAN DOLLARS

Report by the External Auditors

Santiago, February 17, 2010

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

We have reviewed the consolidated statement of the financial position of Lan Airlines S.A. and subsidiaries as of December 31, 2009 and 2008, the opening consolidated statement of financial position as of January 1, 2008 and the consolidated statements of comprehensive income, of changes in equity and of cash flows for the years ending December 31, 2009 and 2008. The management of Lan Airlines S.A. is responsible for the preparation of these financial statements (and corresponding notes). Our responsibility is to issue a report on such interim financial information based on our review.

We have conducted our audit according to auditing standards generally accepted in Chile. Those standards require that we plan and perform the audit in order to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by the Company's management, as well as evaluating the overall financial statement presentation. We believe that our audits constitute a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above fairly present, in all material respects, the financial position of Lan Airlines S.A. and its subsidiaries as of December 31, 2009 and 2008 and as of January 1, 2008, the comprehensive results of its operations and its cash flows for the years ended on December 31, 2009 and 2008, according to the Financial Reporting Standards of Chile/International Financial Reporting Standards.

Renzo Corona Spedaliere
Taxpayer I.D.: 6.373.028-9

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED CLASSIFIED STATEMENT OF FINANCIAL POSITION

	Note	At December 31, 2009 KUS$	At December 31, 2008 KUS$	At January 1, 2008 KUS$
ASSETS				
Current assets				
Current assets in operation				
Cash and cash equivalent	7	731,497	400,972	445,583
Other financial assets	8	60,415	10,065	21,439
Trade receivables and other accounts receivable	9	423,739	342,665	349,433
Intercompany accounts receivable	10	38	1,117	228
Inventories	11	46,563	45,950	46,104
Hedging assets	12	38,640	612	5,356
Prepayments	13	15,258	11,518	11,563
Tax receivables		68,420	72,125	65,990
Other current assets	14	13,482	181,722	8,206
Subtotal current assets in operation		1,398,052	1,066,746	953,902
Non-current assets and disposal groups held for sale	15	10,919	10,444	10,784
Total current assets		1,408,971	1,077,190	964,686
Non-current assets				
Other financial assets	8	508	506	1,808
Trade receivables and other accounts receivable	9	7,190	3,574	4,543
Intercompany accounts receivable	10	-	251	-
Investments in associates accounted for by the equity method	17	1,236	1,389	1,484
Intangible assets	18	98,607	90,374	88,857
Property, plant and equipment	19	4,196,556	3,966,063	3,449,448
Deferred tax assets	20	10,652	12,585	20,378
Hedging assets	12	4,409	2,733	1,806
Other non-current assets	14	43,843	42,201	33,689
Total non-current assets		4,363,001	4,119,676	3,602,013
Total assets		5,771,972	5,196,866	4,566,699

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED CLASSIFIED STATEMENT OF FINANCIAL POSITION

	Note	At December 31, 2009	At December 31, 2008	At January 1, 2008
LIABILITIES AND NET EQUITY				
Current liabilities		KUS$	KUS$	KUS$
Current liabilities in operation				
Interest-bearing loans	21	385,421	284,028	235,935
Other financial liabilities	22	2,031	1,345	1,586
Trade payables and other accounts payable	23	377,438	388,777	364,369
Intercompany accounts payable	10	297	302	355
Provisions	24	970	2,217	-
Taxes payable		11,287	7,858	15,374
Other liabilities	25	73,424	109,764	121,637
Deferred income		542,832	446,381	433,882
Hedging liabilities	27	30,480	180,113	6,936
Accrued liabilities on the reporting date	28	99,159	130,675	114,499
Total current liabilities		1,523,339	1,551,460	1,294,573
Non-current liabilities				
Interest-bearing loans	21	2,389,521	2,087,859	1,791,468
Other financial liabilities	22	305,287	285,313	271,853
Trade payables and other accounts payable	23	72,000	90,000	-
Provisions	24	26,834	26,344	25,399
Deferred tax liabilities	20	240,619	167,372	171,046
Other liabilities	25	55,038	47,664	61,586
Long-term and post-employment benefit liabilities	26	5,555	3,865	4,082
Hedging liabilities	27	47,853	168,385	47,815
Total non-current liabilities		3,142,707	2,876,802	2,373,249
Total liabilities		4,666,046	4,428,262	3,667,822
NET EQUITY				
Net equity attributable to equity holders in controller				
Issued capital	29	453,444	453,444	453,444
Other reserves	29	(97,321)	(306,256)	(45,477)
Retained earnings	29	742,704	614,587	485,721
Subtotal - net equity attributable to equity holders in controller		1,098,827	761,775	893,688
Minority interest		7,099	6,829	5,189
Total net equity		1,105,926	768,604	898,877
Total liabilities and net equity		5,771,972	5,196,866	4,566,699

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

	Note	For the fiscal years ending as of December 31, 2009 KUS$	2008 KUS$
Ordinary income	30	3,519,162	4,140,245
Cost of sales		(2,522,778)	(2,893,944)
Gross margin		996,384	1,246,301
Other operating income	33	154,534	161,422
Marketing costs		(114,462)	(107,304)
Distribution costs		(326,964)	(366,652)
Administration expenses		(155,126)	(167,646)
Other miscellaneous operating expenses		(100,483)	(127,864)
Finance costs (of non-financial activities)	31	(153,109)	(125,488)
Share in earnings of associates accounted for using the equity method	17	315	696
Translation differences	34	(11,237)	23,443
Profit (loss) because of units of adjustment		(605)	1,229
Loss purchased and immediately recorded		-	581
Other net gains (losses)		(11,728)	(135,312)
Gain before gains tax		277,519	403,406
Gains tax	20	(44,487)	(65,094)
EARNINGS IN THE FISCAL YEAR		233,032	338,312
		======	======
Earnings in the fiscal year attributable to equity holders in the controller		231,126	336,480
Earnings (loss) in the fiscal year attributable to minority interest		1,906	1,832
Earnings in the fiscal year		233,032	338,312
		======	======
EARNINGS PER SHARE			
Basic and diluted earnings per share (US$)	35	0.68	0.99

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME BY FUNCTION

	Note	For the fiscal years ending on December 31, 2009	2008
		KUS$	KUS$
EARNINGS IN THE PERIOD		233,032	338,312
Other income and expenses debited or credited to net equity:			
Cash flow hedging	29	252,508	(308,901)
Translation adjustments	34	1,442	(7,371)
Other reserves	29	(2,657)	-
Gains tax related to components of other income and expenses debited or credited to net equity	20	(41,917)	52,513
Integral income and expenses in the fiscal year		209,376	(263,759)
Integral profit (loss) in the fiscal year		442,408	74,553
		======	======
Integral profit (loss) attributable to:			
Majority shareholders		439,320	73,900
Minority interests		3,088	653
INTEGRAL PROFIT (LOSS) IN THE FISCAL YEAR		442,408	74,553
		======	======

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

LAN AIRLINES S.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET EQUITY

	Note	Changes in issued capital	Changes in other reserves: Option Reserve	Changes in other reserves: Translation Reserve	Changes in other reserves: Hedging Reserves	Changes in other reserves: Other Misc. Reserves	Changes in retained earnings	Changes in net equity attributable to controller	Changes in equity - minority interests	Changes in total net equity
		KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Initial balance at January 1, 2009		453,444	1,801	(6,192)	(301,813)	(52)	614,587	761,775	6,829	768,604
Issuance of stock option certificates	29-39	-	676	-	-	-	-	676	-	676
Integral profit (loss) in the fiscal year		-	-	1,268	209,583	(2,657)	231,126	439,320	3,088	442,408
Dividends	29	-	-	-	-	-	(104,622)	(104,622)	-	(104,622)
Other increases (decreases) in net equity	29	-	-	-	-	65	1,613	1,678	(2,818)	(1,140)
Final balance at December 31, 2009		453,444	2,477	(4,924)	(92,230)	(2,644)	742,704	1,098,827	7,099	1,105,926

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

LAN AIRLINES S.A. AND SUBSIDIARIES

STATEMENT OF CHANGES IN NET EQUITY

	Note	Changes in issued capital	Option Reserve	Translation Reserve	Hedging Reserves	Other Misc. Reserves	Changes in retained earnings	Changes in net equity attributable to controller	Changes in equity - minority interests	Changes in total net equity
			Changes in other reserves							
		KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Initial balance at January 1, 2008		453,444	-	-	(45,425)	(52)	485,721	893,688	5,189	898,877
Issuance of stock option certificates	29-39	-	1,801	-	-	-	-	1,801	-	1,801
Integral profit (loss) in the fiscal year		-	-	(6,192)	(256,388)	-	336,480	73,900	653	74,553
Dividends	29	-	-	-	-	-	(207,614)	(207,614)	-	(207,614)
Other increases (decreases) in net equity		-	-	-	-	-	-	-	987	987
Final balance at December 31, 2008		453,444	1,801	(6,192)	(301,813)	(52)	614,587	761,775	6,829	768,604

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

LAN AIRLINES S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS – DIRECT METHOD

	Note	For the fiscal years ended on December 31	
		2009	2008
		KUS$	KUS$
Cash flow from operations			
Customer collections		3,871,189	4,648,591
Supplier payments		(2,494,716)	(3,243,160)
Payroll		(636,603)	(614,528)
Value-added tax payments and remittances		40,319	(40,063)
Cash flows from operations, total		780,189	750,840
Cash flow from other operating activities			
Interest received classified as from operation		13,542	8,226
Earnings tax returns		15,460	-
Earnings tax payments		(5,156)	(26,994)
Other receipts (outlays) from other operating activities		41,792	(100,997)
Cash flow from other operating activities, total		65,638	(119,765)
Net cash flows from operating activities		845,827	631,075
Net cash flows used in investment activities			
Disposals of property, plant and equipment		10,777	6,625
Disposals of subsidiaries, net of disposed cash		1,568	6,708
Disposal of other financial assets		8,743	14,511
Other cash flows from (used in) investment activities		-	5
Dividends classified as investment activities		414	813
Interest received classified as investment		2,637	2,743
Addition of property, plant and equipment		(538,576)	(779,315)
Payments in the acquisition of subsidiaries, net of cash		(3,360)	(698)
Payments to purchase other financial assets		(58,983)	(2,607)
Other investment disbursements		(12,888)	(23,388)
Net cash flows used in investment activities		(589,668)	(774,603)
Net cash flows from financing activities			
Loans obtained		671,425	574,874
Loan payments		(261,705)	(102,644)
Reimbursement of lease-purchase liabilities		(62,858)	(52,386)
Payments for interest classified as financial interest		(129,323)	(81,421)
Dividend payments to minority interests		(315)	(417)
Dividend payments by the reporting entity		(139,622)	(222,386)
Other cash flows from financing activities		21,588	(15,210)
Net cash flows from financing activities		99,190	100,410
Net increase (decrease) in cash and cash equivalent		355,349	(43,118)
Effects of variations in exchange rates on cash and cash equivalent		(24,824)	(1,493)
CASH AND CASH EQUIVALENT, SHOWN IN THE CASH FLOW STATEMENT, INITIAL BALANCE	7	400,972	445,583
CASH AND CASH EQUIVALENT, SHOWN IN THE CASH FLOW STATEMENT, FINAL BALANCE	7	731,497	400,972
		======	======

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

TABLE OF CONTENTS

Note **Page**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009

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, Ecuador and Brazil and by several regional and international routes in America, Europe and Oceania. It conducts its business either directly or through its subsidiaries in different countries.

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

The Corporate Governance Practices of 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.

According to a Shareholders Agreement made in 2004, the Company is controlled jointly by the Cueto Group, represented by Costa Verde Aeronautica S.A. and Inversiones Mineras del Cantábrico S.A.; and the Piñera Group through Axxion S.A. and Inversiones Santa Cecilia S.A. At December 31, 2009, the Company had a total of 1,211 shareholders in its registry. On that date, 8.65% of the Company's shares were in the form of ADRs.

For the fiscal year ended on December 31, 2009, the Company employed an average of 16,579 people, ending the 2009 fiscal year with a total of 16,844, 3,106 employed in Management, 2,264 in Maintenance, 4,852 in Operations, 2,890 as Cabin Crew, 1,380 as Cockpit Crew and 2,352 in Sales.

Below are the subsidiaries included in these consolidated financial statements:

Company	Taxpayer Id. No.	At December 31, 2009		At December 31, 2008		At January 1, 2008	
		Direct %	Indirect %	Direct %	Indirect %	Direct %	Indirect %
Comercial Masterhourse S.A.	96.518.860-6	99.9900	0.0100	99.9900	0.0100	99.9900	0.0100
Inmobiliaria Aeronautica S.A.	96.763.900-1	99.0100	0.9900	99.0100	0.9900	99.0100	0.9900
Lan Card S.A.	96.967.400-9	0.0000	0.0000	0.0000	0.0000	99.0000	1.0000
Lan Pax Group S.A. and subsidiaries	96.969.680-0	99.8361	0.1639	99.8361	0.1639	99.8361	0.1639
Sistema de Distribucion Amadeus Chile S.A.	78.074.340-9	0.0000	0.0000	0.0000	0.0000	50.0000	50.0000
Lan Peru S.A.	Foreign	49.0000	21.0000	49.0000	21.0000	49.0000	21.0000
Lan Chile Investments Limited and subsidiaries	Foreign	99.9900	0.0100	99.9900	0.0100	99.9900	0.0100
Lan Cargo S.A. and subsidiaries	93.383.000-4	99.8939	0.0041	99.8939	0.0041	99.8939	0.0041
South Florida Air Cargo Inc.	Foreign	0.0000	0.0000	0.0000	0.0000	0.0000	100.0000
Connecta Corporation	Foreign	0.0000	100.0000	0.0000	100.0000	0.0000	0.0000
Prime Airport Services Inc.	Foreign	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Transporte Aereo S.A.	96.951.280-7	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Ediciones Ladeco America S.A.	96.634.020-7	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Aircraft International Leasing Limited	Foreign	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Fast Air Almacenes de Carga S.A.	96.631.520-2	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Ladeco Cargo S.A.	96.631.410-9	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Laser Cargo S.R.L.	Foreign	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Laser Cargo Overseas Limited and subsidiaries	Foreign	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Lan Cargo Inversiones S.A. and subsidiary	96.969.690-8	0.0000	100.0000	0.0000	100.0000	99.0000	1.0000
Blue Express INTL S.A. and subsidiary	96.801.150-2	0.0000	100.0000	0.0000	100.0000	0.0000	100.0000
Inversiones Lan S.A. and subsidiaries	96.575.810-0	99.7100	0.0000	99.7100	0.0000	99.7100	0.0000
Sociedad de Seguridad Aerea S.A.	78.005.760-2	0.0000	0.0000	0.0000	0.0000	0.0000	100.0000
Terminal de Exportacion Internacional S.A.	96.854.560-4	0.0000	0.0000	0.0000	0.0000	0.0000	100.0000

Moreover, as indicated in Note 3, the Company has consolidated certain special-purpose entities according to International Financial Reporting Interpretations Committee 12: Consolidation – Special-Purpose Entities (“IFRIC 12”).

All entities controlled have been included in the consolidation.

Changes in the perimeter of consolidation between January 1, 2008 and December 31, 2009 are as follows:

(1) Sale of companies

- Sistema de Distribucion Amadeus Chile S.A., a direct subsidiary of Lan Airlines S.A.
- Sociedad de Seguridad Aerea S.A., a direct subsidiary of Lan Cargo S.A.
- Terminal de Exportacion Internacional S.A., a direct subsidiary of Lan Cargo S.A.

(2) Companies dissolved

- Linea Aerea de Navegacion Dominicana S.A., an indirect subsidiary of Lan Chile Investments Limited
- South Florida Air Cargo Inc., a direct subsidiary of Lan Cargo S.A.
- Lan Card S.A., a direct subsidiary of Inversiones Lan S.A.
- Trinery S.A., an indirect subsidiary of Lan Chile Investments Limited
- Nigsy S.A., an indirect subsidiary of Lan Chile Investments Limited

(3) Addition or acquisition of companies

- Connecta Corporation, a direct subsidiary of Lan Cargo S.A.
- Linea Aerea Carguera de Colombia S.A., a direct subsidiary of Lan Cargo Inversiones S.A.
- Florida West Technical Services LLC, a direct subsidiary of Prime Airport Services Inc.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

Below is a description of the main accounting policies adopted in preparing these consolidated financial statements. As required by International Financial Reporting Standard 1: First Adoption ("IFRS 1"), these policies have been designed according to the IFRS in effect at December 31, 2009 and applied uniformly to all fiscal years shown in these consolidated financial statements.

2.1 Basis of Accounting

The consolidated interim financial statements of Lan Airlines S.A. as of December 31, 2009 correspond to the first annual financial statements of the Company 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. Previously, the group's consolidated financial statements were prepared according to generally accepted accounting principles of Chile (GAAP).

The consolidated financial statements have been prepared using the historic cost, albeit modified by the 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 5 discusses the areas that entail a greater degree of judgment or complexity or the areas where the assumptions and estimations are significant to the consolidated financial statements.

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:
IFRS 1 revised: First-time adoption of International Financial Reporting Standards	7/1/2009
IFRS 3 revised: Business Combinations	7/1/2009
Amendment to International Accounting Standard 27 ("IAS 27"): Consolidated and separate financial statements	7/1/2009
Amendment to IAS 39: Financial instruments: recognition and measurement	7/1/2009
Improvement of IFRS	1/1/2010
Amendment to IFRS 2: Share-based payments	1/1/2010
Amendment to IAS 1: Presentation of financial statements	1/1/2010
Amendment to IAS 32: Classification of rights issues	1/1/2010
Amendment to IAS 24: Related party disclosures	1/1/2011
IFRS 9: Financial instruments, classification	1/1/2013

and measurement

Interpretations	Mandatory: Fiscal years starting:
International Financial Reporting Interpretations Committee Standard 17 (“IFRIC 17”): Distributions of non-cash assets to owners	7/1/2009
IFRIC 18: Transfers of assets from customers	7/1/2009
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 2.5(a)).

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

(b) Minority Transactions and Interests

The Group applies the policy of considering transactions with minority shareholders to be transactions with third parties external to Lan Airlines S.A. and Subsidiaries. The sale of minority interests entails gains 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 fiscal year.

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 2.7).

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

2.5 Intangible Assets

(a) Goodwill

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

(b) Data Processing Software

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

The expenses of data processing software development or maintenance are recognized as an expense when disbursed. The costs directly related to production of unique and identifiable data processing software controlled by the Company are recognized as intangible assets 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 Interest Costs

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

2.7 Impairment Losses on Non-Financial Assets

Assets that have an indefinite useful life 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 indicates that the carrying amount might not be recoverable. An excess carrying value of the asset above its recoverable amount is recognized as an impairment loss. The recoverable amount is the fair value of an asset, less the cost of sale or of use, whichever of the two is higher. Assets are grouped together to evaluate impairment losses at the lowest level for which there are cash flows identifiable separately (CGU). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed once a year to check whether there were any reversals of the loss.

2.8 Financial Assets

The Company classifies its financial assets into the following categories: financial assets at fair value through profit or loss, loans and receivables 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 current assets.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They are recorded in current assets, except when they expire more than 12 months from the date of the 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 2.11).

(c) **Financial Assets kept through maturity**

Financial assets kept through maturity are non-derivative financial assets with fixed or determinable payments and a fixed maturity that the Company's management has the positive intention and capacity to keep through maturity. If the Company sells a material amount of the financial assets kept through maturity, the entire category will be reclassified as available for sale. These 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 current 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.

2.9 Derivatives and Hedging

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

(a) Hedging of the fair value of recognized assets (fair value hedge);

(b) Hedging of a concrete risk associated with a known liability or a highly likely transaction (cash flow hedge); or

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

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

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

(a) **Fair Value Hedge**

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

(b) **Cash Flow Hedge**

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

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

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

Any cumulative gain or loss in net equity when a hedge expires or is sold or does not meet the requirements for hedge accounting remains in the equity through that moment and is recognized when the forecasted transaction is finally recognized in the consolidated statement of income. When the forecasted transaction is not expected to take place, the cumulative gain or loss in net equity is immediately carried to "other net gains/(losses)" in the consolidated statement of income.

(c) **Non-Hedge Derivatives**

Certain derivatives do not qualify for hedge accounting. The changes in fair value of any derivative not qualifying for hedge accounting are immediately recognized in "other net gains/(losses)" in the consolidated statement of income.

2.10 Inventories

Inventories, described in Note 11, are accounted for at their cost or at their net realizable value, whichever is lower. Cost is determined by the average weighted price (AWP) method. The net realizable value is the estimated sale price in the normal course of business, less any variable cost of sale.

2.11 Trade Receivables and Other Receivables

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

2.12 Cash and Cash Equivalent

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

2.13 Issued Capital

Common stock is classified in net equity.

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

2.14 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.

2.15 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.

2.16 Deferred Taxes

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

2.17 Employee Benefits

(a) Employee vacations

The Company recognizes employee vacation expenses on an accrual basis.

(b) Stock-based compensation

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

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

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

2.18 Provisions

Provisions are recognized when:

(i) the Company has a present legal or implicit liability as a result of past occurrences;

(ii) it is likely that disbursements will be required to settle the liability; and

(iii) the amount has been reliably estimated.

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

2.19 Recognition of Income

Ordinary income includes the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Company's business. Ordinary income is shown net of 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.

2.20 Leases

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

The Company leases certain properties, plants and equipment where it assumes substantially all risks and advantages of the property. For that reason, it classifies them as lease-purchases. Lease-purchases are capitalized at the start of the lease, at the fair value of the leased property or at the present value of the minimum lease payments, whichever is lower. Each lease payment is distributed between liabilities and financial charges to obtain a constant interest rate for the balance pending payment. The corresponding lease liabilities, net of financial charges, are included in "interest-bearing loans." The interest component of the financial cost is debited in the consolidated statement of income during the term of the lease so as to obtain a constant periodic interest rate on the remaining balance of the liability in each fiscal year. The good acquired under a lease-purchase is depreciated over its useful life and is included in property, plant and equipment.

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

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

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

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

2.22 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.

2.23 Environment

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

NOTE 3 – TRANSITION TO THE IFRS

3.1 Basis for Transition to the IFRS

3.1.1. Application of IFRS 1

The consolidated financial statements of the Company correspond to the fiscal year ending December 31, 2009 and they were prepared according to the International Financial Reporting Standards (IFRS). The Company has applied IFRS 1 in preparing its consolidated financial statements.

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

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

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

(a) **Business combinations**

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

(b) **Fair value or reappraisal as attributable cost**

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

(c) **Employee benefits**

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

3.2 Conciliation of IFRS to Generally Accepted Accounting Principles of Chile

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

3.2.1 Net equity as of December 31, 2008
3.2.2 Net equity as of January 1, 2008
3.2.3 Consolidated Income for the fiscal year ending December 31, 2008
3.2.4 Consolidated statement of cash flow for the fiscal year ending December 31, 2008

3.2.1 Conciliation of consolidated net equity at December 31, 2008

	KUS$
GAAP in Chile	1,117,978
Lan Pass Program	(91,945)
Property, plant and equipment	38,122
Financial liabilities	10,450
Goodwill	30,598
Japanese Operating Lease ("JOL") Consolidation	(34,490)
Maintenance	14,723

Deferred taxes in complementary accounts	(8,169)
Reserve for derivative hedging	(301,813)
Minority interests	6,829
Translation adjustment	(6,192)
Other	(7,487)
Effect of transition to IFRS	(349,374)
Net equity according to IFRS	768,604

3.2.2 Conciliation of net equity at January 1, 2008

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

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

	KUS$
GAAP in Chile	335,739
JOL Consolidation	9,964
Maintenance	15,200
Property, plant and equipment	(12,960)
Financial liabilities	(4,434)
Lan Pass Program	(8,700)
Minority interests	1,831
Goodwill	3,018
Other	(1,346)
Effect of transition to IFRS	2,573
Profit (loss) in the fiscal year according to IFRS	338,312

Other income and expenses credited or debited to net equity:

Cash flow hedging	(308,901)
Translation adjustment	(7,371)
Tax on gains relating to components of other income and expenses credited or debited to net equity	52,513
Comprehensive income of the fiscal year according to IFRS	74,553

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

1. **Lan Pass Program**

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

2. **Property, Plant and Equipment**

In the initial adoption, the Company re-evaluated some components of property, plant and equipment, mainly buildings, land and other technical components. This reappraisal was made one-time only according to IFRS 1 and the new value represents the initial cost of the asset as of the transition date. The book value of goods reassessed as of January 1, 2008 amounts to KUS$66,249 and to KUS$62,559 as of December 31, 2008. The financing costs became a part of the effective interest rate on the loan to finance the fixed asset, which is deducted from the capitalized value.

3. **Financial Liabilities**

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

4. **Goodwill**

Under IFRS, the Company has considered goodwill to be an intangible with an indefinite useful life. At least once a year, the cash generating unit on which there is goodwill is evaluated for an eventual impairment in the fair value. If there is any evidence of impairment, the goodwill is adjusted by debiting income. In the initial adoption, the

Company decided to restate the business combinations since 1997 so goodwill amortization has been reversed since that date. No other effects occurred because of those restatements.

5. **JOL Consolidation**

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

6. **Maintenance**

Under Chilean GAAP, only major maintenance of the Company's fleet was recognized as an asset while the major maintenance of the leased fleet was recognized via provisions until the next maintenance was performed. Under IFRS, major maintenance of the entire fleet is capitalized and amortized. The obligations regarding the assets received are initially recognized for the fleet that is leased.

7. **Deferred Taxes – Complementary Accounts**

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

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

8. **Reserve for Derivative Hedges**

Under IFRS, in cash flow hedging, realized gains and/or losses under fuel hedges and/or interest rate hedges are recognized in the line for the hedged item (fuel and/or financial expenses) in the consolidated statement of income. In addition, the market value of derivative contracts in a cash flow hedge are deferred in an equity reserve account. This represents a change with respect to fuel hedges since under Chilean GAAP, realized gains or losses for this reason used to be recognized in non-operating income while the market value of fuel hedges and interest rate hedges was recognized in asset and liability accounts.

9. **Minority Interest**

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

10. **Translation Adjustment**

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

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

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

	Operating flow KUS$	Investment flow KUS$	Financing flow KUS$
Chilean GAAP	729,129	(830,545)	58,760
Interest paid	81,421	-	(81,421)
Interest earned	(2,743)	2,743	-
Dividends paid by associates	(813)	813	-
Leasing installment payment	-	52,386	(52,386)
Derivatives guarantees	(175,457)	-	175,457
Effects of change in functional currency	(462)	-	-
Effect of the IFRS transition	(98,054)	55,942	41,650
Cash flows according to IFRS	631,075	(774,603)	100,410

NOTE 4 – MANAGEMENT OF FINANCIAL RISK

4.1 Financial Risk Factors

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

(a) **Market risks**

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

(i) **Price of fuel**

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

The Company purchases Grade 54 Jet Fuel for aircraft. There is a benchmark index on the international market for this underlying asset, namely the US Gulf Coast Jet 54. However, the 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 2009 fiscal year, the Company recognized losses totaling US$128.7 million for fuel hedging. In the 2008 fiscal year, it had earnings of US$35.4 million for fuel hedging.

As of December 31, 2009, the market price of fuel positions totaled US$13.6 million (positive). At the close of December 2008, that market price was US$ 170.2 million (negative) and as of January 1, 2008, it was US$4.4 million (positive). The tables below show the notional value of the purchase positions and derivatives contracted for the different periods:

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

Positions at December 31, 2008

	Maturities					
	Q109	Q209	Q309	Q409	Q110	Total
Volume (000's of WTI barrels)	900	1,170	540	570	300	3,480
Agreed future price (US$ per barrel)*	107	104	93	92	92	98
Total (KUS$)	96,300	121,680	50,220	52,440	27,600	341,040
Approximate hedging percentage (on volume expected to be consumed)	33%	44%	19%	20%	10%	25%

*Weighted average between active collars and options

Positions at January 1, 2008

	Maturities				
	Q108	Q208	Q308	Q408	Total
Volume (000's of WTI barrels)	270	331	331	270	1,202
Agreed future price (US$ per barrel)*	91	86	87	91	89
Total (KUS$)	24,570	28,466	28,797	24,570	106,978
Approximate hedging percentage (on volume expected to be consumed)	10%	12%	12%	9%	10%

*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 2010. The calculations were made using a parallel movement of 5 dollars per barrel on the future reference price curve of WTI crude oil at the close of December 2009, 2008 and 2007.

WTI reference price (US$ per barrel)	Position at December 31, 2009 Effect on equity (US$ millions)	Position at December 31, 2008 Effect on equity (US$ millions)	Position at January 1, 2008 Effect on equity (US$ millions)
+5	+14.6	+15.7	+1.2
-5	-13.6	-16.1	-1.0

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 fiscal years presented.

The fuel hedge structure for 2009 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$31.6 million in the cost of fuel in 2009.

(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 December 31, 2009, effect on pre-tax gains (KUS$)**	**Position as of December 31, 2008, effect on pre-tax gains (KUS$)**
+100 base points	-0.87	-0.65

-100 base points	+0.87	+0.65

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

Increase (decrease) in futures curve of three-month Libor	Position as of December 31, 2009, effect on equity (KUS$)	Position as of December 31, 2008, effect on equity (KUS$)	Position as of January 1, 2008, effect on equity (KUS$)
+100 base points	49.64	63.37	59.2
-100 base points	(53.23)	(68.94)	(64.2)

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

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 fiscal year.

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

(c) **Liquidity risk**

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

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

Therefore, the Company manages its cash and cash equivalent 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 December 31, 2009

Type of liability	Debtor I.D. No.	Name of Debtor	Description of currency	Lender name	Up to 1 month	From 1 to 3 months	3 to 12 months	1 to 5 years	5 years or more	Total	Type of amortization	Effective Rate	Nominal value	Nominal rate
					KUS$	KUS$	KUS$	KUS$	KUS$	KUS$		%	KUS$	%
Secured debt	89.862.200-2	Lan Airlines S.A.	US$	ING	4,859	2,496	22,153	106,767	116,885	253,160	3 months	5.19%	201,409	4.63%
		Lan Airlines S.A.	US$	CALYON	8,099	12,779	62,824	234,215	40,878	358,795	3 months	5.01%	325,998	5.01%
		Lan Airlines S.A.	US$	PEFCO	5,939	13,891	59,513	317,409	279,604	676,356	3 months	5.14%	552,605	4.58%
		Lan Airlines S.A.	US$	BNP PARIBAS	7,823	16,304	72,581	393,180	529,928	1,019,816	3 months	3.86%	840,814	3.72%
		Lan Airlines S.A.	US$	RBS	2,034	4,049	18,250	97,334	135,929	257,596	3 months	6.40%	191,879	5.67%
		Lan Airlines S.A.	US$	WELLS FARGO	-	1,551	5,637	29,984	52,100	89,272	3 months	3.61%	72,770	3.50%
Lease-purchase	89.862.200-2	Lan Airlines S.A.	US$	ING	3,940	-	11,790	82,666	-	98,396	3 months	4.45%	89,389	3.98%
		Lan Airlines S.A.	US$	CALYON	550	1,665	6,659	49,697	41,394	99,965	3 months	1.26%	95,036	1.24%
		Lan Airlines S.A.	US$	CITIBANK	-	1,585	4,920	33,656	-	40,161	3 months	1.10%	39,018	1.03%
		Lan Airlines S.A.	US$	S. CHARTERED	4,232	5,477	19,053	29,958	-	58,720	3 months	0.89%	58,247	0.73%
Bank loans	89.862.200-2	Lan Airlines S.A.	US$	SANTANDER	-	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.	CLP	CORPBANCA	-	643	11,993	34,991	-	47,627	6 months	2.92%	45,356	2.82%
		Lan Airlines S.A.	CLP	ITAU	-	-	10,348	28,504	-	38,852	6 months	3.14%	36,876	3.06%
		Lan Airlines S.A.	CLP	BCI	-	-	18,390	50,287	-	68,677	6 months	3.38%	64,879	3.30%
		Lan Airlines S.A.	CLP	ESTADO	-	-	22,721	62,520	-	85,241	6 months	3.12%	80,852	3.06%
Derivatives	89.862.200-2	Lan Airlines S.A.	US$	OTHER	1,706	3,412	16,647	51,200	(2,279)	70,686	-	-	-	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries		MISCELLANEOUS	142,338	235,100	-	72,000	-	449,438	-	-	-	-

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

Type of liability	Debtor I.D. No.	Name of Debtor	Description of currency	Lender name	Up to 1 month	From 1 to 3 months	3 to 12 months	1 to 5 years	5 years or more	Total	Type of amortization	Effective Rate	Nominal value	Nominal rate
					KUS$	KUS$	KUS$	KUS$	KUS$	KUS$		%	KUS$	%
Secured debt	89.862.200-2	Lan Airlines S.A.	US$	ING	2,934	2,521	16,005	80,577	83,287	185,324	3 months	5.34	147,811	4.86
		Lan Airlines S.A.	US$	CALYON	9,359	14,949	69,166	345,897	142,471	581,842	3 months	4.21	493,629	5.46
		Lan Airlines S.A.	US$	PEFCO	5,939	11,611	52,665	280,925	349,840	700,980	3 months	5.27	554,927	4.74
		Lan Airlines S.A.	US$	BNP PARIBAS	6,670	15,007	63,104	343,427	517,761	945,969	3 months	5.63	732,412	4.87
		Lan Airlines S.A.	US$	RBS	2,034	4,049	18,250	97,334	160,263	281,930	3 months	6.31	204,689	5.67
Lease-purchase	89.862.200-2	Lan Airlines S.A.	US$	ING	4,224	-	12,035	63,899	37,361	117,519	3 months	5.58	101,071	5.18
		Lan Airlines S.A.	US$	CITIBANK	-	1,714	4,951	41,756	-	48,421	3 months	3.05	44,741	2.75
		Lan Airlines S.A.	US$	S. CHARTERED	4,210	5,498	28,872	62,132	-	100,712	3 months	1.59	95,252	2.72
Bank loans	89.862.200-2	Lan Airlines S.A.	US$	OTHER	-	3,465	3,465	-	-	6,930	3 months	6.98	6,752	6.96
Derivatives	89.862.200-2	Lan Airlines S.A.	US$	OTHER	19,576	39,968	119,696	112,822	55,562	347,624	-	-	-	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries		MISCELLANEOUS	94,889	293,888	-	90,000	-	478,777	-	-	-	-

Type of liability for analysis of liquidity risk, grouped by maturity as of January 1, 2008

Type of liability	Debtor I.D. No.	Name of Debtor	Description of currency	Lender name	Up to 1 month	From 1 to 3 months	3 to 12 months	1 to 5 years	5 years or more	Total	Type of amortization	Effective Rate	Nominal value	Nominal rate
					KUS$	KUS$	KUS$	KUS$	KUS$	KUS$		%	KUS$	%
Secured debt	89.862.200-2	Lan Airlines S.A.	US$	ING	2,978	593	10,606	55,801	39,677	109,655	3 months	5.42	88,731	5.23
		Lan Airlines S.A.	US$	CALYON	9,621	16,293	76,143	401,963	204,287	708,307	3 months	5.61	561,753	6.70
		Lan Airlines S.A.	US$	PEFCO	5,939	9,669	46,841	249,721	361,582	673,752	3 months	5.23	525,519	4.69
		Lan Airlines S.A.	US$	BNP PARIBAS	1,605	10,246	35,315	188,972	297,305	533,443	3 months	6.04	395,698	5.41
		Lan Airlines S.A.	US$	RBS	-	2,009	6,028	32,150	56,263	96,450	3 months	6.29	69,397	5.65
Lease-purchase	89.862.200-2	Lan Airlines S.A.	US$	ING	4,626	-	13,575	68,345	53,715	140,261	3 months	5.76	113,221	5.49
		Lan Airlines S.A.	US$	CITIBANK	-	2,040	5,947	52,226	-	60,213	3 months	3.80	50,103	5.55
		Lan Airlines S.A.	US$	S. CHARTERED	4,286	5,975	30,515	102,234	-	143,010	3 months	2.76	130,124	5.27
Derivatives	89.862.200-2	Lan Airlines S.A.	US$	OTHER	-	284	3,640	46,344	1,471	51,739	-	-	-	-
Trade receivables and other accounts payable		Lan Airlines S.A. and Subsidiaries		MISCELLANEOUS	89,433	274,936	-	-	-	364,369	-	-	-	-

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. During 2008, the Company was forced to provide cash collateral due to the drop in fuel prices.

At the close of 2008, the Company had delivered US$177.8 million in collateral for derivative margins. At the close of December 31, 2009, US$175.4 million had been recovered because of the expiration of fuel contracts, the rise in the price of fuel and rates, and the replacement of cash collateral by stand-by letters of credit.

4.2 Capital Risk Management

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

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

The Company tracks capital according to a leverage indicator in line with the sector practice. This indicator is calculated as adjusted net debt divided by capital. The adjusted net debt is calculated as the total financial debt 8 times revenues 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 December 31, 2009, December 31, 2008 and January 1, 2008 were:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Total loans	3,074,425	2,657,200	2,299,256
Revenues in the last twelve months x 8	669,696	564,216	567,448
Less:			
Cash and marketable securities	(791,912)	(411,037)	(467,022)
Total net adjusted debt	2,952,209	2,810,379	2,399,682
Net equity	1,098,827	761,775	893,688
Fair value of derivatives	92,230	301,813	45,425
Total capital	4,143,266	3,873,967	3,338,795
Leverage indicator	71.3%	72.5%	71.9%

4.3 Estimation of Fair Value

As of December 31, 2009, 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 fiscal year.

The following table shows the classification of financial instruments according to fair value as of December 31, 2009, by the level of information used in the valuation:

	Fair value at December 31, 2009	Measurement of fair value using		
		Level I	Level II	Level III
	KUS$	KUS$	KUS$	KUS$
Assets				
Short-term mutual funds	175,537	175,537	-	-
Interest rate derivatives	3,129	-	3,129	-
Fair value of fuel derivatives	14,448	-	14,448	-
Fair value of foreign currency derivatives	25,472	-	25,472	-
Liabilities				
Fair value of interest rate derivatives	69,433	-	69,433	-
Fair value of fuel derivatives	876	-	876	-
Fair value of foreign currency derivatives	5,089	-	5,089	-

In addition, as of December 31, 2009, 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 December 31, 2009		At December 31, 2008	
	Book value	Fair value	Book value	Fair value
	KUS$	KUS$	KUS$	KUS$
Cash	2,707	2,707	2,729	2,729
Bank balances	31,176	31,176	9,378	9,378
Time deposits	522,077	522,077	259,019	259,019
Other financial assets	60,415	63,641	10,065	9,016
Trade receivables and other accounts receivable	430,929	430,929	346,239	346,239

Intercompany accounts receivable	38	38	1,368	1,368
Financial liabilities	2,774,942	2,900,232	2,371,887	2,706,668
Other financial liabilities	307,318	307,318	286,658	286,658
Trade receivables and other accounts payable	449,438	449,438	478,777	478,777
Intercompany accounts payable	297	297	302	302

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 other financial liabilities is rounded to their book value.

The fair value of 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 fiscal year.

NOTE 5 – ESTIMATES AND ACCOUNTING JUDGMENTS

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

1. The evaluation of potential impairment losses in certain assets.
2. The useful life and residual value of material and intangible assets.
3. The criteria used in appraising certain assets.
4. The amount of plane tickets sold that will ultimately not be used.
5. The calculation of deferred revenues at the close of the fiscal year corresponding to Lan Pass customer kilometers pending use.
6. The 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 6 – REPORTING BY SEGMENT

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

	For the fiscal years ending on December 31	
	2009	2008
	KUS$	KUS$
Income from ordinary activities with external customers	3,655,513	4,283,187
Interest income	18,183	18,480
Interest expense	(153,109)	(125,488)
Total net interest expense	(134,926)	(107,008)
Depreciation and amortization	(304,062)	(256,499)
Gain of the segment reported	231,126	336,480
Share of the entity in income of associates	315	696
Expense on income tax	(44,487)	(65,094)
Segment assets	5,771,972	5,196,866
Amount in investments in associates	1,236	1,389
Disbursements of non-monetary assets in the segment	555,279	788,906

The Company's revenues by geographic area are:

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Peru	458,384	432,979
Argentina	404,795	437,759
USA	680,179	946,235
Europe	343,819	380,824
Chile	1,004,291	1,149,084
Other (*)	764,045	936,306
Total (**)	3,655,513	4,283,187

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, other operating income, net of interest income shown in Note 33.

NOTE 7 – CASH AND CASH EQUIVALENT

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Cash flow	2,707	2,729	3,113
Balances in banks	31,176	9,378	8,361
Time deposits	522,077	259,019	308,585
Other	175,537	129,846	125,524
Total	731,497	400,972	445,583

The balances comprising cash and cash equivalent by currency are shown below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
Type of currency	KUS$	KUS$	KUS$
Argentine peso	6,105	8,235	3,620
Euro	13,255	6,053	2,299
Brazilian real	3,041	2,155	322
Chilean peso	435,514 (*)	124,932	145,737
U.S. Dollar	228,879	212,721	267,376
Other currencies	44,703	46,876	26,229
Total	731,497	400,972	445,583

(*) The Company signed forwards amounting to KUS$367,412 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 December 31, 2009, the amount subject to these restrictions in U.S. dollars was KUS$26,196 (KUS$40,220 as of December 31, 2008 and KUS$25,316 as of January 1, 2008).

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

NOTE 8 – FINANCIAL INSTRUMENTS

8.1 Financial Instruments by Category

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	-	-	-	60,923
Trade receivables and other accounts receivable	-	430,929	-	-	430,929
Intercompany receivables	-	38	-	-	38
Hedging assets	-	-	43,049	-	43,049
Other assets	-	26,719	-	-	26,719
Total	60,923	1,013,646	43,049	175,537	1,293,155

(*) They correspond mainly to domestic and foreign bonds

Liabilities	Other financial liabilities	Hedging derivatives	Kept for trading	Total
	KUS$	KUS$	KUS$	KUS$
Interest-bearing loans	2,774,942	-	-	2,774,942
Other financial liabilities	299,483	-	7,835	307,318
Trade payables and other accounts payable	449,438	-	-	449,438
Intercompany accounts payable	297	-	-	297
Hedging liabilities	-	78,333	-	78,333
Total	3,524,160	78,333	7,835	3,610,328

December 31, 2008

Assets	Held until maturity	Loans and receivables	Hedging derivatives	Held for trading	Total
	KUS$	KUS$	KUS$	KUS$	KUS$
Cash and cash equivalent	-	271,126	-	129,846	400,972
Other financial assets (*)	10,571	-	-	-	10,571
Trade receivables and other accounts receivable	-	346,239	-	-	346,239
Intercompany receivables	-	1,368	-	-	1,368
Hedging assets	-	-	3,345	-	3,345
Other assets	-	196,182	-	-	196,182
Total	10,571	814,915	3,345	129,846	958,677

(*) They correspond mainly to domestic and foreign bonds

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

Interest-bearing loans	2,371,887	-	-	2,371,887
Other financial liabilities	285,313	-	1,345	286,658
Trade payables and other accounts payable	478,777	-	-	478,777
Intercompany accounts payable	302	-	-	302
Hedging liabilities	-	348,498	-	348,498
Total	3,136,279	348,498	1,345	3,486,122

January 1, 2008

Assets	Held until maturity	Loans and receivables	Hedging derivatives	Held for trading	Total
	KUS$	KUS$	KUS$	KUS$	KUS$
Cash and cash equivalent	-	320,059	-	125,524	445,583
Other financial assets (*)	23,247	-	-	-	23,247
Trade receivables and other accounts receivable	-	353,976	-	-	353,976
Intercompany receivables	-	228	-	-	228
Hedging assets	-	-	7,162	-	7,162
Other assets	-	22,277	-	-	22,277
Total	23,247	696,540	7,162	125,524	852,473

(*) They correspond mainly to domestic and foreign bonds

Liabilities	Other financial liabilities	Hedging derivatives	Held for trading	Total
	KUS$	KUS$	KUS$	KUS$
Interest-bearing loans	2,027,403	-	-	2,027,403
Other financial liabilities	271,853	-	1,586	273,439
Trade payables and other accounts payable	364,369	-	-	364,369
Intercompany accounts payable	355	-	-	355
Hedging liabilities	-	54,751	-	54,751
Total	2,663,980	54,751	1,586	2,720,317

8.2 Credit Quality of Financial Assets

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

NOTE 9 – TRADE RECEIVABLES AND OTHER ACCOUNTS RECEIVABLE

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Trade receivables	407,320	297,603	309,728
Other accounts receivable	47,426	71,426	66,194
Total trade receivables and other accounts receivable	454,746	369,029	375,922
Less: Provision for impairment loss	(23,817)	(22,790)	(21,946)
Total trade receivables and other accounts receivable - net	430,929	346,239	353,976
Less: Non-current portion	(7,190)	(3,574)	(4,543)
Trade receivables and other accounts receivable - current	423,739	342,665	349,433

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 December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
3 months or less	10,094	13,333	14,178
Between 3 and 6 months	8,718	20,578	14,845
Total	18,812	33,911	29,023

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

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$

Judicial and preliminary collection	10,383	8,749	5,346
Receivables in preliminary collection	5,031	4,926	4,917
Total	15,414	13,675	10,263

The carrying value of accounts receivable of the Company are expressed in the following currencies:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
Type of currency	KUS$	KUS$	KUS$
U.S. dollar	307,685	191,749	209,799
Chilean peso	59,252	69,730	66,982
Euro	17,496	35,055	18,445
Argentine peso	15,158	16,445	14,464
Brazilian real	11,190	14,117	15,963
Australian dollar	7,595	6,745	6,476
Other currencies	12,553	12,398	21,847
Total	430,929	346,239	353,976

The Company establishes provisions when there is evidence of impairment to trade receivables. Impairment applies to the customer in particular or is based on market signs.

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

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

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

The activity of impairment loss provisions for trade receivables and accounts receivable between January 1, 2008 and December 31 was as follows:

	KUS$
At January 1, 2008	(21,946)
Write-offs	4,797
Provision increases	(5,641)
Balance at December 31, 2008	(22,790)
At January 1, 2009	(22,790)
Write-offs	6,110
Provision increases	(7,137)
Balance at December 31, 2009	(23,817)

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 December 31, 2009			As of December 31, 2008			As of January 1, 2008		
	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	Gross exposure according to balance sheet	Gross impairment exposure	Net exposure in concentrated risk
Trade receivables	407,320	(23,817)	383,503	297,603	(22,790)	274,813	309,728	(21,946)	287,782
Other accounts receivable	47,426	-	47,426	71,426	-	71,426	66,194	-	66,194

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 10 – INTERCOMPANY ACCOUNTS RECEIVABLE AND PAYABLE

Intercompany accounts receivable and payable are described below as of December 31, 2009, December 31, 2008 and January 1, 2008:

a) Accounts receivable

Related Party Id. No.	Related party	Nature of the relationship	Country of origin	As of December 31, 2009 KUS$	As of December 31, 2008 KUS$	As of January 1, 2008 KUS$	Transaction term	How transaction will be settled
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	-	12	6	30 to 45 days	Monetary
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	6	3	-	30 to 45 days	Monetary
9.259.640-0	Claudia Urrutia U.	Other related parties	Chile	-	139	-	30 to 45 days	Monetary
56.080.790-2	Asamblea de Comuneros de Valle Escondido	Other related parties	Chile	-	-	55	30 to 45 days	Monetary
74.501.400-3	Club de Golf Valle Escondido	Other related parties	Chile	-	-	5	30 to 45 days	Monetary
78.005.760-2	Sociedad de Seguridad Aerea S.A.	Other related parties	Chile	-	905	-	30 to 45 days	Monetary
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	-	13	-	30 to 45 days	Monetary
96.669.520-K	Red de Television Chilevision S.A.	Other related parties	Chile	3	16	121	30 to 45 days	Monetary
96.718.470-5	Valle Escondido	Other related parties	Chile	-	-	10	30 to 45 days	Monetary
96.812.280-0	San Alberto S.A. and subsidiaries	Other related parties	Chile	29	29	29	30 to 45 days	Monetary
96.969.680-0	Lan Pax Group S.A.	Other related parties	Chile	-	-	2	30 to 45 days	Monetary
	Total current assets			38	1,117	228		

Related Party Id. No.	Related party	Nature of the relationship	Country of origin	As of December 31, 2009 KUS$	As of December 31, 2008 KUS$	As of January 1, 2008 KUS$	Transaction term	How transaction will be settled
9.259.640-0	Claudia Urrutia U.	Other related parties	Chile	-	251	-	More than 1 year	Monetary
	Total non-current assets			-	251	-		
	Total accounts receivable			38	1,368	228		

b) Accounts payable

Related Party Id. No.	Related party	Nature of the relationship	Country of origin	As of December 31, 2009 KUS$	As of December 31, 2008 KUS$	As of January 1, 2008 KUS$	Transaction term	How transaction will be settled
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	-	-	3	30 to 45 days	Monetary
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	246	255	259	30 to 45 days	Monetary
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	6	2	33	30 to 45 days	Monetary
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	10	-	-	30 to 45 days	Monetary
96.888.630-4	Sociedad Concesionaria Aero Sur S.A.	Other related parties	Chile	-	-	50	30 to 45 days	Monetary
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	-	19	10	30 to 45 days	Monetary
Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	35	26	-	30 to 45 days	Monetary
	Total current liabilities			297	302	355		

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

NOTE 11 – INVENTORIES

Inventories as of December 31, 2009, December 31, 2008 and January 1, 2008 were as follows:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Technical inventories	35,684	35,798	33,405
Non-technical inventories	10,879	10,152	12,699
Total	46,563	45,950	46,104

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$808 as of December 31, 2009 (KUS$567 as of December 31, 2008 and KUS$197 as of January 1, 2008). The resulting amounts do not exceed the realization values.

At December 31, 2009, the Company recorded KUS$32,677 in income, mainly because of on-board service consumption and maintenance. That amount was KUS$35,147 at December 31, 2008.

NOTE 12 – HEDGING ASSETS

Hedging assets are described below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current			
Fair value of interest rate derivatives	501	612	971
Fair value of foreign currency derivatives	23,691	-	-
Fair value of fuel price derivatives	14,448	-	4,385
Total current	38,640	612	5,356

Non-current			
Fair value of interest rate derivatives	2,628	2,733	1,806
Fair value of foreign currency derivatives	1,781	-	-
Total non-current	4,409	2,733	1,806
Total hedging assets	43,049	3,345	7,162

Foreign currency derivatives correspond to Cross-Currency Swaps taken to hedge the cash flow in liabilities expressed in Chilean pesos and Forwards to hedge the fair value of investments in Chilean pesos.

Note 27 shows hedging contracts of the Company at the close of the fiscal year.

NOTE 13 - PREPAYMENTS

Prepayments are described below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Aviation insurance and other	5,978	5,078	4,133
Aircraft lease	6,204	4,080	5,333
Other	3,076	2,360	2,097
Total	15,258	11,518	11,563

NOTE 14 – OTHER ASSETS

Other assets are described below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current			

Derivative margin collateral	2,400	177,840	-
Deposits in guarantee (aircraft)	308	-	3,634
Other guarantees granted	8,904	1,864	2,121
Other	1,870	2,018	2,451
Total current	13,482	181,722	8,206
Non-current			
Deposits in guarantee (aircraft)	13,780	13,680	13,780
Deferred expense in aircraft leases	7,328	9,847	15,253
Other guarantees granted	1,327	2,798	2,742
Other	21,408	15,876	1,914
Total	43,843	42,201	33,689
Total Other Assets	57,325	223,923	41,895

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

Non-current assets and disposal groups held for sale are described below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Engines	4,180	4,751	-
Inventories in consignment	2,348	4,564	6,192
Dismantled aircraft	3,840	911	2,429
Rotables	551	218	2,163
Total	10,919	10,444	10,784

In the 2009 fiscal year, two aircraft and eleven engines (four and five, respectively, in the 2008 fiscal year) in the Boeing 737 fleet were sold. One aircraft and one engine were added in this item (three and five, respectively, in the 2008 fiscal year), all in the Boeing 737 fleet.

Balances in this line are shown net of provisions amounting to KUS$4,179 as of December 31, 2009 (KUS$2,155 as of December 31, 2008 and KUS$4,749 as of January 1, 2008).

The Company has no operations that were discontinued as of December 31, 2009.

NOTE 16 – INVESTMENTS IN SUBSIDIARIES

The Company holds investments in companies that have been recognized as investments in subsidiaries. All companies defined as subsidiaries have been consolidated in the financial statements of Lan Airlines S.A. and Subsidiaries. The consolidation also include special-purpose companies.

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

As of 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

As of December 31, 2008

	Assets	Liabilities
	KUS$	KUS$
Current	261,128	351,673
Non-current	1,298,674	819,751
Total	1,559,802	1,171,424

As of January 1, 2008

	Assets	Liabilities
	KUS$	KUS$
Current	262,474	330,250
Non-current	1,417,520	1,106,476
Total	1,679,994	1,436,726

For the fiscal years ending December 31

	2009	2008
	KUS$	KUS$
Sum of ordinary income	1,567,503	1,615,280
Sum of expenses	(1,483,185)	(1,747,050)
Sum of net gain (loss)	84,318	(131,770)

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

Name of the material subsidiary	Total assets	Current assets	Non-current assets	Total liabiltities	Current liabilities	Non-current liabilities	Profit (loss) at December 31, 2009 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	683,453	4,830
Lan Cargo S.A.	744,176	174,147	570,029	374,378	87,213	287,165	175,734	97,186
Lan Argentina S.A.	96,720	66,020	30,700	73,194	72,521	673	316,859	10,205
Transporte Aereo S.A.	319,340	202,246	117,094	118,433	21,256	97,177	251,398	38,759
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	43,638	19,137	24,501	47,955	34,953	13,002	195,718	1,651

Description of material subsidiaries at December 31, 2008

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, 2008

Name of the material subsidiary	Total assets	Current assets	Non-current assets	Total liabiltities	Current liabilities	Non-current liabilities	Profit (loss) at December 31, 2008 Ordinary income	Net profit (loss)
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Lan Peru S.A.	91,097	80,409	10,688	84,333	84,012	321	661,813	748
Lan Cargo S.A.	741,869	189,375	552,494	469,257	145,647	323,610	228,091	(60,452)
Lan Argentina S.A.	98,327	69,610	28,717	81,439	60,300	21,139	287,794	16,299
Transporte Aereo S.A.	288,793	160,470	128,323	126,645	28,330	98,315	431,095	66,708
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	36,965	17,832	19,133	42,933	30,242	12,691	193,950	(3,585)

Description of material subsidiaries at January 1, 2008

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 January 1, 2008

Name of the material subsidiary	Total assets	Current assets	Non-current assets	Total liabiltities	Current liabilities	Non-current liabilities
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Lan Peru S.A.	96,853	87,569	9,284	89,448	89,116	332
Lan Cargo S.A.	749,449	173,312	576,137	374,237	73,158	301,079
Lan Argentina S.A.	63,940	42,813	21,127	61,521	61,521	-
Transporte Aereo S.A.	237,235	101,246	135,989	141,795	34,954	106,841
Aerolane Lineas Aereas Nacionales de Ecuador S.A.	29,868	26,984	2,884	32,252	24,638	7,641

NOTE 17 – INVESTMENTS IN ASSOCIATES

Summary financial information is presented below on the sum of financial statements of affiliates corresponding to the statement of financial situation as of December 31, 2009, December 31, 2008 and January 1, 2008 and statements of income for the fiscal years ending on December 31, 2009 and December 31, 2008.

	Assets	Liabilities
	KUS$	KUS$
As of December 31, 2009		
Current	5,338	736
Non-current	356	-
Total	5,694	736
As of December 31, 2008		
Current	3,831	576
Non-current	1,300	238
Total	5,131	814
As of January 1, 2008		
Current	4,221	1,179
Non-current	3,478	215
Total	7,699	1,394

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Sum of ordinary income	5,981	5,972
Sum of expenses	(4,486)	(4,130)
Sum of net gain (loss)	1,495	1,842

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 2009 fiscal year.

Company	Country of Incorporation	Functional currency	Percentage Interest			Cost of investment		
			As of December 31, 2009	As of December 31, 2008	As of January 1, 2008	As of December 31, 2009	As of December 31, 2008	As of January 1, 2008
			%	%	%	KUS$	KUS$	KUS$
Austral Sociedad Concesionaria S.A.	Chile	CLP	20.00	20.00	20.00	661	661	661
Lufthansa Lan Technical Training S.A.	Chile	CLP	50.00	50.00	50.00	702	702	702
Concesionaria Chucumata S.A.	Chile	CLP	16.70	16.70	16.70	119	119	119

These companies mainly engage in the following businesses:

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

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

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

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

The investment activity in associates between January 1, 2008 and December 31, 2009 was:

	KUS$
Initial balance at January 1, 2008	1,484
Share in earnings	696
Dividends received	(791)
Total changes in investments in associates	(95)
Final balance at December 31, 2008	1,389

	KUS$
Initial balance at January 1, 2009	1,389

Share in earnings	315
Share in items from previous fiscal years	(54)
Dividends received	(414)
Total changes in investments in associates	(153)
Final balance at December 31, 2009	1,236

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 2009 and 2008 fiscal years that must be recognized by the Company.

NOTE 18 – INTANGIBLE ASSETS

(a) Composition and activity of intangible assets

Intangible assets are described below:

Type of intangible assets (net)	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Goodwill (net)	63,793	62,927	63,544
Software (net)	34,087	26,382	24,348
Other assets (net)	727	1,065	965
Total	98,607	90,374	88,857

Type of intangible assets (gross)	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Goodwill (gross)	63,793	62,927	63,544
Software (gross)	63,585	48,205	40,526
Other assets (gross)	808	1,184	1,184
Total	128,186	112,316	105,254

The movement of software and other assets between January 1, 2008 and December 31, 2009 was as follows:

	Data Processing Software (net)	Other assets (net)	Total (net)
	KUS$	KUS$	KUS$
At January 1, 2008	24,348	965	25,313
Additions	9,591	1,170	10,761
Disposal by sale of business	-	(961)	(961)
Retirements	(875)	-	(875)
Amortization	(6,682)	(109)	(6,791)
Balances at December 31, 2008	26,382	1,065	27,447

	Data Processing Software (net)	Other assets (net)	Total (net)
	KUS$	KUS$	KUS$
At January 1, 2009	26,382	1,065	27,447
Additions	14,881	727	15,608
Retirements	(73)	-	(73)
Carryovers	1,065	(1,065)	-
Amortization	(8,168)	-	(8,168)
Balances at December 31, 2009	34,087	727	34,814

Intangible assets with a defined useful life consist mainly of computer software that have been purchased entirely from third parties. The Company has defined a useful life of 4 to 7 years for these assets.

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 fiscal year is recognized in in administrative expenses in the consolidated statement of income. The cumulative amortization of data processing software was KUS$29,498 at December 31, 2009 (KUS$21,823 at December 31, 2008 and KUS$16,397 at January 1, 2008). The cumulative amortization of other identifiable intangible assets was KUS$81 at December 31, 2009 (KUS$119 at December 31, 2008 and KUS$0 at January 1, 2008).

(b) **Goodwill**

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

Goodwill between January 1, 2008 and December 31, 2009 was as follows:

	KUS$
Initial balance at January 1, 2008	63,544
Retirement due to business disposal	(618)
Increase in foreign currency conversion	1
Balances at December 31, 2008	62,927
Initial balance at January 1, 2009	62,927
Additions	920
Decrease in foreign currency conversion	(54)
Final balance at December 31, 2009	63,793

NOTE 19 – PROPERTY, PLANT AND EQUIPMENT

(a) 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 December 31, 2009	At December 31, 2008	At January 1, 2008	At December 31, 2009	At December 31, 2008	At January 1, 2008	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Constructions under way	264,259	267,844	424,747	--	--	--	264,259	267,844	424,747
Land	35,538	35,538	23,564	--	--	--	35,538	35,538	23,564
Buildings	100,662	94,792	94,523	(18,696)	(16,582)	(14,464)	81,966	78,210	80,059
Plant and equipment	4,051,718	3,779,640	3,001,377	(820,036)	(699,729)	(583,069)	3,231,682	3,079,911	2,418,308
IT equipment	75,185	75,756	73,930	(60,142)	(59,420)	(56,668)	15,043	16,336	17,262
Fixed installations and accessories	45,526	40,118	40,058	(21,867)	(18,091)	(16,697)	23,659	22,027	23,361
Motor vehicles	2,853	2,654	2,855	(1,902)	(1,845)	(1,870)	951	809	985
Improvement of leased assets	76,536	59,428	27,515	(26,250)	(12,879)	(6,895)	50,286	46,549	20,620
Other property, plant and equipment	863,620	709,116	709,697	(370,448)	(290,277)	(269,155)	493,172	418,839	440,542
TOTAL	5,515,897	5,064,886	4,398,266	(1,319,341)	(1,098,823)	(948,818)	4,196,556	3,966,063	3,449,448

b) As of December 31, 2008

	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, 2008	424,747	23,564	80,059	2,418,308	17,262	23,361	985	20,620	440,542	3,449,448
Additions	5,430	11,974	238	873,329	5,381	1,942	62	-	17,912	916,268
Disposals	-	-	-	(225)	(1)	-	(2)	-	-	(228)
Transfers to (from) non-current assets and groups	-	-	-	(16,384)	-	-	-	-	-	(16,384)
Disposal by sale of business	(12)	-	-	(100)	(256)	(1,687)	(17)	-	(74)	(2,146)
Retirements	-	-	-	(3,155)	(41)	-	(16)	-	(692)	(3,904)
Depreciation expenses	-	-	(2,118)	(171,471)	(5,717)	(3,434)	(206)	(5,983)	(34,068)	(222,997)
Increases (decreases) in currency exchange	(11)	-	-	(633)	(296)	(620)	(8)	-	(66)	(1,634)
Other increases (decreases)	(162,310)	-	31	(19,758)	4	2,465	11	31,912	(4,715)	(152,360)
Total changes	(156,903)	11,974	(1,849)	661,603	(926)	(1,334)	(176)	25,929	(21,703)	516,615
Final balance at December 31, 2008	267,844	35,538	78,210	3,079,911	16,336	22,027	809	46,549	418,839	3,966,063

c) As of December 31, 2009

	Construction underway	Land	Buildings (net)	Plant and equipment (net)	IT Equipment	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	15,232	-	20	531,038	4,025	2,109	341	863	12,951	566,579
Disposals	(7)	-	-	(6,047)	-	(16)	(25)	-	(1)	(6,096)
Transfers to (from) non-current assets and groups	-	-	-	(4,029)	-	-	-	-	-	(4,029)
Retirements	-	-	-	(2,299)	(22)	(5)	(2)	-	(864)	(3,192)
Depreciation expenses	-	-	(2,114)	(199,673)	(5,672)	(3,777)	(179)	(13,371)	(42,069)	(266,855)
Increases (decreases) in currency exchange	(49)	-	-	(2,034)	278	284	(2)	-	5	(1,518)
Other increases (decreases)	(18,761)	-	5,850	(165,185)	98	3,037	9	16,245	104,311	(54,396)
Total changes	(3,585)	-	3,756	151,771	(1,293)	1,632	142	3,737	74,333	230,493
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

d) Fleet Composition

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

Aircraft	Model	At December 31, 2009	At December 31, 2008	At January 1, 2008
Boeing 737	200ADV (*)	2	5	6
Boeing 767	300ER	17	14	10
Boeing 767	300F	8	8	8
Boeing 767	200ER (**)	1	1	1
Airbus A318	100	15	15	5
Airbus A319	100	20	17	15
Airbus A320	200	16	16	14
Airbus A340	300	4	4	4
Total		83	80	63

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

Leased aircraft:

Aircraft	Model	At December 31, 2009	At December 31, 2008	At January 1, 2008
Boeing 737	200ADV	-	-	6
Boeing 767	300ER	10	12	12
Boeing 767	300F	1	1	1
Boeing 777	Freighter	2	-	-
Airbus A320	200	2	2	3
Airbus A340	300	1	1	1
Total		16	16	23
Total fleet		99	96	86

(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 Airbus fleet and 36% in the Boeing fleet	5	20
IT equipment	Straight-line method with no residual value	5	10
Fixed installations and accessories	Straight-line method with no residual value	10	10
Motor vehicles	Straight-line method with no residual value	10	10
Improvements of leased assets	Straight-line method with no residual value	5	5
Other property, plant and equipment	Straight-line method with 20% residual value in the Airbus fleet and 36% in the Boeing fleet	3	20

The debit against income for depreciation in the fiscal year shown in the consolidated statement of income totaled KUS$266,855 (KUS$222,997 at December 31, 2008). 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:

The Company sold its interest in Linnet Leasing Limited, a permanent establishment, in the fiscal year ending December 31, 2009. Linnet Leasing Limited is the owner of four Airbus A320. Moreover, direct guarantees were added for 3 Airbus A319 and 3 Boeing 767-300 aircraft that were added to the fleet and for 2 spare engines in the Boeing 767 fleet that were refinanced.

Description of property, plant and equipment given in guarantee:

			At December 31, 2009		At December 31, 2008		At January 1, 2008	
Guarantee in favor of	Assets compromised	Fleet	Outstanding debt	Book value	Outstanding debt	Book value	Outstanding debt	Book value
			KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Wilmington Trust Company	Planes and engines	Boeing 767	1,069,077	1,289,471	913,447	1,058,606	618,341	714,002
BNP Paribas	Planes and engines	Airbus A319	324,584	389,071	258,430	302,998	212,719	250,606
		Airbus A318	323,947	380,928	349,155	401,610	118,059	138,061
		Airbus A320	119,567	140,501	128,729	148,125	66,747	77,627
Calyon	Planes and engines	Airbus A319	48,157	53,998	53,407	57,904	58,087	62,137
		Airbus A320	-	-	103,026	105,939	110,551	110,719
Total direct guarantees			1,885,332	2,253,969	1,806,194	2,075,182	1,184,504	1,353,152

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$281,691 as of December 31, 2009 (KUS$242,541 as of December 31, 2008 and KUS$299,228 as of January 1, 2008).

(ii) Commitments and Other

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

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Gross value of any fully depreciated property, plant and equipment still in use (1)	53,417	49,046	35,050
Commitments in the acquisition of aircraft	8,880,000	7,390,000	7,090,000

(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 2016. According to the manufacturer's price list, the amount is approximately KUS$1,972,000.

Therefore, at December 31, 2009, 45 airbus aircraft in the A320 family were pending delivery between 2010 and 2016 under the different aircraft purchase agreements with Airbus S.A.S. According to the manufacturer's price list, the amount is approximately KUS$2,970,000.

As of December 31, 2009, a total of 7 B767-300ER aircrafts were pending delivery before December 2012 under the Aircraft Purchase Agreements with the Boeing Company, 1 B777-Freighter deliverable in 2012 and 26 B787 Dreamliners deliverable between 2015 and 2019. The amount is approximately KUS$5,910,000 according to the manufacturer's price list. The Company also holds purchase options for 2 B767-300 ER Aircraft and 15 B787 Dreamliner aircrafts.

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

		At December 31, 2009	At December 31, 2008
Compounding rate of compounded interest	%	4.33	5.26

costs			
Compounded interest costs	KUS$	9,943	18,821

(iv) **Lease-purchases**

The main lease-purchases break down as follows:

Lessor	Aircraft	At December 31, 2009	At December 31, 2008	At January 1, 2008
Condor Leasing LLC	Boeing 767	2	2	2
Condor Leasing LLC	Boeing 767	1	1	1
Bluebird Leasing LLC	Boeing 767	2	2	2
Eagle Leasing LLC	Boeing 767	1	1	1
Eagle Leasing LLC	Boeing 767	1	1	1
Seagull Leasing LLC	Boeing 767	1	1	1
Linnet Leasing Limited	Airbus A320	4	-	-
Total		12	8	8

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 December 31, 2009, the Company accounted for 12 aircraft and 1 spare engine in this line (8 aircraft and 1 spare engine at December 31, 2008 and 8 aircraft and one spare engine at January 1, 2008). The parent company increased its number of leased aircraft by 4 Airbus A320 in comparison to December 31, 2008, because it sold its interest in Linnet Leasing Limited in March 2009.

The net value of lease-purchase assets was KUS$458,417 at December 31, 2009 (KUS$382,530 at December 31, 2008 and KUS$397,423 at January 1, 2008).

The minimum payments under lease-purchases are:

As of December 31, 2009

	Gross	Interest	Present value
	KUS$	KUS$	KUS$
Not exceeding one year	54,473	4,846	49,627
Exceeding one year but less than five years	185,952	9,584	176,367

More than five years	41,266	129	41,137
Total	281,691	14,559	267,131

As of December 31, 2008

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

As of January 1, 2008

	Gross	Interest	Present value
	KUS$	KUS$	KUS$
Not exceeding one year	66,964	9,677	57,287
Exceeding one year but less than five years	222,804	29,310	193,494
More than five years	53,715	3,030	50,685
Total	343,483	42,017	301,466

NOTE 20 – DEFERRED TAXES

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

	Assets			Liabilities		
	At December 31, 2009	At December 31, 2008	At January 1, 2008	At December 31, 2009	At December 31, 2008	At January 1, 2008
Concepts	KUS$	KUS$	KUS$	KUS$	KUS$	KUS$
Depreciation	(476)	(442)	(289)	221,712	166,528	141,939
Amortization	2,103	27	320	24,556	29,858	17,978
Provisions	2,995	1,858	1,981	5,097	(2,224)	15,928
Post-employment benefits obligations	333	194	141	(850)	(659)	(694)
Revaluation of financial instruments	-	-	-	(18,891)	(61,817)	(9,304)
Fiscal losses	5,013	10,182	14,615	-	-	-
Other	684	766	3,610	8,995	35,686	5,199
Total	10,652	12,585	20,378	240,619	167,372	171,046

Unrecognized deferred tax assets were:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	
Temporary differences	2,152	2,152	6,402
Fiscal losses	3,629	1,972	11,859
Total unrecognized deferred tax assets	5,781	4,124	18,261

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$3,629 offsettable against losses totaling around KUS$11,456 that will be offset in future fiscal years against fiscal benefits.

Deferred tax expenses (income) and income tax for the years ending on December 31, 2009 and 2008 are allocable as follows:

	For the fiscal years ending December 31, 2009	2008
	KUS$	KUS$
Expenses for current taxes on gains		
Current tax expense	8,323	10,306
Adjustments to current taxes in the previous fiscal year	(2,177)	(1,254)
Other current tax expenses	5,556	(959)
Total net current tax expense	11,702	8,093
Expenses for deferred taxes on gains		
Deferred expense for taxes relating to the creation and reversal of temporary differences	31,128	70,598
Increase (reduction) in value of deferred tax assets during the evaluation of utility	1,657	(13,835)
Other deferred tax expenses	--	238
Total net deferred tax expense	32,785	57,001
Gains tax expense	44,487	65,094

The composition of gains tax expenses (income) was:

	For the fiscal years ending December 31, 2009	2008
	KUS$	KUS$

Current tax expense, net, foreign	2,185	818
Current tax expense, net, local	9,517	7,275
Current tax expense, net, total	11,702	8,093
Deferred tax expense, net, foreign	2,024	7,664
Deferred tax expense, net, local	30,761	49,337
Deferred tax expense, net, total	32,785	57,001
Gains tax expense	44,487	65,094

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

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Taxable expense using the legal rate	46,854	68,268
Tax effect of rates in other jurisdictions	6,792	7,684
Tax effect of non-taxable ordinary income	(10,556)	(8,225)
Tax effect of expenses that are not tax deductions	836	11,252
Tax effect of using fiscal losses not previously recognized	1,801	(14,137)
Other increases (decreases) in debits for legal taxes	(1,240)	252
Total adjustments to tax expense using the legal rate	(2,367)	(3,174)
Tax expense using the effective rate	44,487	65,094

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

	For the fiscal years ending December 31	
	2009	2008
	%	%
Legal tax rate	17.00	17.00
Effect of rate in other jurisdictions on tax rate	2.46	1.91
Effect of non-taxable ordinary income on tax rate	(3.83)	(2.05)
Effect of non-deductible expenses on tax rate	0.30	2.80
Effect of using previously unrecognized fiscal losses on tax rate	0.66	(3.51)
Other increases (decreases) in legal tax rate	(0.45)	0.06
Total adjustment of legal tax rate	(0.86)	(0.79)
Total effective tax rate	16.14	16.21

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

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Aggregate deferred taxation in items debited against net equity	(42,425)	52,513	9,304
Total deferred taxation in items debited against net equity	(42,425)	52,513	9,304

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

	At December 31, 2009		
	Income before taxes	Expense (income) for gains tax	Income after taxes
	KUS$	KUS$	KUS$
Cash flow hedging	(252,508)	42,925	(209,583)
Translation adjustment	5,929	(1,008)	4,921
		41,917	

	At December 31, 2008		
	Income before taxes	Expense (income) for gains tax	Income after taxes
	KUS$	KUS$	KUS$
Cash flow hedging	308,901	(52,513)	256,388

	At January 1, 2008		
	Income before taxes	Expense (income) for gains tax	Income after taxes
	KUS$	KUS$	KUS$
Cash flow hedging	54,729	(9,304)	45,425

NOTE 21 – INTEREST-BEARING LOANS

Bank debt and debt securities:

At December 31, 2009	At December 31, 2008	At January 1, 2008

	KUS$	KUS$	KUS$
Current			
Bank loans	71,124	6,752	12,826
Secured obligations	245,717	214,031	161,563
Lease-purchases	68,076	63,212	61,546
Other loans	504	33	-
Total current	385,421	284,028	235,935
Non-current			
Bank loans	207,657	-	6,753
Secured obligations	1,933,607	1,898,070	1,544,795
Lease-purchases	213,733	183,607	239,920
Other loans	34,524	6,182	-
Total non-current	2,389,521	2,087,859	1,791,468
Total bank debt	2,774,942	2,371,887	2,027,403

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. This means periodically recalculating the future cash flows so that they reflect the movement of interest rates on the market so as to obtain the new effective rate. The methodology used by the Company to calculate this effective rate is to determine the TIR of the loan assuming a constant principal payment and the payment of future interest using the Libor rate for 3 months, which reflects the future movement of the market. Moreover, the nominal rate is estimated as the spot Libor, plus the loan spread. This methodology may result in effective interest rates lower than the nominal interest rates since the interest accrual under both methodologies differs during the loan and will depend on the curve of the future Libo rates.

The book value of interest-bearing loans is expressed in the following currencies:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
U.S. dollars	2,546,411	2,371,887	2,027,403
Chilean peso	228,531(*)	-	-
Total	2,774,942	2,371,887	2,027,403

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

NOTE 22 – OTHER FINANCIAL LIABILITIES

Other financial liabilities are broken down below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current			
Interest rate derivatives	2,031	-	-
Derivative currency flow	-	1,345	1,586
Total current	2,031	1,345	1,586
Non-current			
Fleet financing (JOL)	299,483	285,313	271,853
Interest rate derivatives	5,804	-	-
Total non-current	305,287	285,313	271,853
Total Other Financial Liabilities	307,318	286,658	273,439

NOTE 23 – TRADE PAYABLES AND OTHER ACCOUNTS PAYABLE

Trade payables and other accounts payable are broken down below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current			
Trade payables	311,441	298,067	271,709
Lease liabilities	9,441	7,808	7,931
Other accounts payable	56,556 (*)	82,902 (*)	84,729
Total Current	377,438	388,777	364,369
Non-current			
Other accounts payable	72,000 (*)	90,000 (*)	-
Total Non-Current	72,000	90,000	-
Total Trade Payables and Other Accounts Payable	449,438	478,777	364,369

(*) It includes the Plea Agreement signed with the U.S. Department of Justice for the fiscal years corresponding to December 2009 and 2008. See Note 24.

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

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KU$S
Boarding fees	72,291	67,682	48,823
Fuel	71,881	69,396	103,133
Airport and overflight fees	34,321	31,183	26,687
Handling and ground handling	25,885	23,476	20,051
Technical goods suppliers	24,784	58,390	39,300
Professional assistance and service	18,536	17,126	10,263
Other personnel expenses	16,938	37,072	31,947
Goal performance	13,228	18,246	17,998
Maintenance	15,821	18,316	17,782
Advertising	11,624	9,876	10,592
On-board services	10,253	8,824	12,314
Plane and engine leases	9,441	7,808	10,366
U.S. Department of Justice (*)	90,000	109,000	-
Other	34,435	2,382	15,113
Total trade receivables and other accounts payable	449,438	478,777	364,369

(*) It includes the Plea Agreement signed with the U.S. Department of Justice for the fiscal years corresponding to December 2009 and 2008. See Note 24.

NOTE 24 – PROVISIONS

Provisions are itemized below as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current provisions			
Provisions for legal claims (1)	970	2,217	-
Total Current	970	2,217	-
Non-current provisions			
Provision for legal claims (1)	1,834	1,344	399
Provision for European Commission Investigation (2)	25,000	25,000	25,000
Total Non-Current	26,834	26,344	25,399
Total Provisions	27,804	28,561	25,399

(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 December 31, 2009 is expected to be applied during the course of the next 12 months.

(2) This provision was established because of proceedings under way by the European Commission for eventual antitrust infringements on the air cargo market.

Provisions are itemized below as of January 1, 2008 and December 31, 2009:

	Legal claims	U.S. Department of Justice	European Commission Investigation	Total
	KUS$	KUS$	KUS$	KUS$
At January 1, 2008	399	--	25,000	25,399
Increase in provisions	3,248	109,000	--	112,248
Provision used	(28)	(109,000)	--	(109,028)
Exchange differential	(58)	--	--	(58)
Balance at December 31, 2008	3,561	--	25,000	28,561
At January 1, 2009	3,561	--	25,000	28,561
Increase in provisions	1,607	--	--	1,607
Provision used	(2,679)	--	--	(2,679)
Exchange differential	315	--	--	315
Balance at December 31, 2009	2,804	--	25,000	27,804

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 25 – OTHER LIABILITIES

Other liabilities break down as follows as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current			
Dividends payable	70,387	105,330	120,074
Other guarantees received	2,102	1,620	891
Other miscellaneous liabilities	935	2,814	672
Total current	73,424	109,764	121,637
Non-current			
Aircraft and engine maintenance	46,644	37,007	43,988
Vacation and bonuses provision	6,212	6,699	8,485
Other miscellaneous liabilities	2,182	3,958	9,113
Total non-current	55,038	47,664	61,586
Total Other Liabilities	128,462	157,428	183,223

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

Post-employment and long-term benefit liabilities break down as follows as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Non-current			

Retirement benefits	2,588	2,121	1,737
Resignation benefits	1,053	863	1,438
Other benefits	1,914	881	907
Total non-current	5,555	3,865	4,082

(a) Between January 1, 2008 and December 31, 2009, retirement, resignation and other benefits break down as follows:

	KUS$
At January 1, 2008	4,082
Increase (decrease) in provision for current services	548
Benefits paid	(765)
Balance at December 31, 2008	3,865
At January 1, 2009	3,865
Increase (decrease) in provision for current services	3,705
Benefits paid	(2,015)
Balance at December 31, 2009	5,555

(b) Short-term benefits break down as follows as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Share in profits and bonuses	29,596	39,014	29,696

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

The types of expenses per employee were as follows:

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Wages and salaries	476,404	456,599
Short-term benefits for employees	58,530	54,148
Severance benefits	17,408	13,757
Other personnel expenses	84,329	83,433
Total	636,671	607,937

NOTE 27 – HEDGE LIABILITIES

Hedge liabilities break down as follows as of December 31, 2009, December 31, 2008 and January 1, 2008:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Current			
Interest accrued from the last interest rate swap payment date	2,935	873	-
Fair value of interest rate derivatives	21,580	19,491	6,936
Fair value of foreign currency derivatives	5,089	-	-
Fair value of fuel price derivatives	876	159,749	-
Total current	30,480	180,113	6,936
Non-current			
Fair value of interest rate derivatives	47,853	157,872	47,815
Fair value of fuel price derivatives	-	10,513	-
Total non-current	47,853	168,385	47,815
Total Hedging Liabilities	78,333	348,498	54,751

The foreign currency hedges correspond to forwards to hedge the fair value of investments in Chilean pesos.

Hedging transactions

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

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Forward starting swaps (FSS) (1)	(31,928)	(140,462)	(46,416)
Interest rate options (2)	3,129	3,344	2,777
Interest rate swaps (3)	(37,506)	(36,900)	(8,335)
Cross-currency swaps (CCIRS) (4)	19,706	-	-
Fuel collars (5)	5,329	(170,262)	4,385
Fuel swaps (6)	8,244	-	-
Currency forwards (7)	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.
(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 fiscal years presented, the Company has contracted only cash flow hedging. The cash flows in fuel hedging will occur and affect income between 1 and 12 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 fiscal years 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 fiscal years 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 fiscal year:

	At December 31, 2009	At December 31, 2008
	KUS$	KUS$

Credit (debit) recognized in comprehensive income in the fiscal year	252,508	(308,901)
Credit (debit) transferred from net equity to income in the fiscal year	(193,534)	(25,964)

NOTE 28 – LIABILITIES ACCRUED ON THE REPORTING DATE

The liabilities accrued as of December 31, 2009, December 31, 2008 and January 1, 2008 are described below:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Aircraft and engine maintenance	29,055	43,463	55,630
Accounts payable to personnel	33,890	43,825	38,939
Accrued personnel expenses	24,576	19,581	19,930
Other accrued liabilities	11,638	23,806	-
Total	99,159	130,675	114,499

NOTE 29 – EQUITY

(a) Capital

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

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

At the close of each fiscal year, 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 December 31, 2009, December 31, 2008 and January 1, 2008. 338,790,909 shares have been paid of the total subscribed and 2,209,091 shares have been reserved for issuance under option agreements.

(c) Other reserves

Other reserves between January 1, 2008 and December 31, 2009 were as follows:

	Translation reserve	Reserve for hedging transactions	Stock option plans	Other reserves	Total
	KUS$	KUS$	KUS$	KUS$	KUS$
At January 1, 2008	--	(45,425)	--	(52)	(45,477)
Profit (loss) in derivative valuation	--	(308,901)	--	--	(308,901)
Deferred taxes	--	52,513	--	--	52,513
Subsidiaries' translation differences	(6,192)	--	--	--	(6,192)
Stock option plans	--	--	1,801	--	1,801
Balances At December 31, 2008	(6,192)	(301,813)	1,801	(52)	(306,256)

	Translation reserve	Reserve for hedging transactions	Stock option plans	Other reserves	Total
	KUS$	KUS$	KUS$	KUS$	KUS$
At January 1, 2009	(6,192)	(301,813)	1,801	(52)	(306,256)
Profit (loss) in derivative valuation	--	252,508	--	--	252,508
Deferred taxes	1,009	(42,925)	(507)	-	(42,423)
Subsidiaries' translation differences	259	--	--	--	259
Stock option plans	--	--	1,183	--	1,183
Legal reserves	--	--	--	65	65
Other	--	--	--	(2,657)	(2,657)
Balances At December 31, 2009	(4,924)	(92,230)	2,477	(2,644)	(97,321)

(c.1) Translation Reserves

Translation reserves are set up because of the translation differences occurring in the conversion of a net investment in foreign entities (or national entities using a different functional currency than that of the parent) and 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.

(c.2) Hedge Reserves

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

(c.3) Stock Option Plan Reserves

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

(c.4) Other Miscellaneous Reserves

The balance in Other Miscellaneous Reserves breaks down as follows:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
Reserve for adjustment to value of PPE (1)	2,620	2,620	2,620
Cost of issuing and placing shares (2)	(2,672)	(2,672)	(2,672)
Purchase of minority investment	(2,657)	-	-
Other	65	-	-
Total	(2,644)	(52)	(52)

(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) Retained earnings

The activity in retained earning reserves was as follows between January 1, 2008 and December 31, 2009:

	KUS$
At January 1, 2008	485,721
Profit (loss) in the fiscal year	336,480
Dividends	(207,614)

Balance at December 31, 2008	614,587

	KUS$
At January 1, 2009	614,587
Profit (loss) in the fiscal year	231,126
Other increases	1,613
Dividends	(104,622)
Balance at December 31, 2009	742,704

e) Dividends per share

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

At December 31, 2008:

Description of Dividend	Final dividends in 2007	Interim dividends in 2008	Interim dividends in 2008
Dividend date	4/10/2008	7/29/2008	12/23/2008
Value of dividend (KUS$)	5,827	96,786	105,001
Number of shares on which dividend is calculated	338,790,909	338,790,909	338,790,909
Dividend per share (US$)	0.01720	0.28568	0.30993

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

At December 31, 2009, interim dividends had been declared representing 45.3% of the company's profits in the 2009 fiscal year.

NOTE 30 – ORDINARY INCOME

Ordinary income is broken down below:

For the fiscal years
ending December 31,

	2009	2008
	KUS$	KUS$
Passenger	2,623,608	2,820,830
Cargo	895,554	1,319,415
Total	3,519,162	4,140,245

NOTE 31 – COSTS AND EXPENSES BY TYPE

a) Operating costs and expenses

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

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Other leases and aviation fees	490,921	544,247
Fuel	959,608	1,388,826
Fees	143,900	190,224
Other operating costs	387,106	413,972
Plane leases	83,712	70,527
Maintenance	121,037	105,920
Passenger services	92,796	85,257
Total	2,279,080	2,798,973

b) Depreciation and amortization

Depreciation and amortization are as follows:

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Depreciation (*)	295,894	249,708
Amortization	8,168	6,791
Total	304,062	256,499

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

c) Personnel expenses

These expenses are reported in the Post-Employment Benefits (Note 26).

d) Financial costs

Financial costs are described below:

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Interest on bank loans	113,827	102,768
Lease-purchases	4,406	10,042
Other financial instruments	34,876	12,678
Total	153,109	125,488

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 oeprating expenses and finance costs, shown in the consolidated statement of income.

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

The gains (losses) on non-current assets not held for sale broke down as follows as of December 31, 2009 and 2008:

	For the fiscal years ending December 31,	
	2009	2008
	KUS$	KUS$
Property, plant and equipment	4,278	2,546
Investments in subsidiaries, associates and business combinations	(2)	3,664
Total	4,276	6,210

Sales revenues in the fiscal year are shown in Other Operating Income.

NOTE 33 – OTHER OPERATING INCOME

Other operating income breaks down as follows:

	For the fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Duty free	9,593	15,668
Plane leases	20,696	41,417
Logistics and courier	33,132	32,161
Customs and storage	18,682	25,375
Tours	31,088	3,187
Interest income	18,193	18,480
Other miscellaneous income	23,160	25,134
Total	154,534	161,422

NOTE 34 – TRANSLATION DIFFERENCES

Translation differences were recognized in income, except for financial instruments measured at fair value through profit or loss. On a cumulative basis as of December 31, 2009 and 2008, this represented a debit of KUS$11,237 and a credit of KUS$23,443, respectively.

Translation differences recognized in equity as translation reserves resulted in a credit of KUS$1,442 for the fiscal year ending December 31, 2009 and a debit of KUS$7,371 for the fiscal year ending December 31, 2008.

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

	At December 31, 2009	At December 31, 2008	At January 1, 2008
Chilean peso	507.10	636.45	496.89
Argentine peso	3.80	3.45	3.15
Brazilian real	1.74	2.34	1.77
New sol (Peru)	2.89	3.14	2.99
Australian dollar	1.12	1.45	1.15
Bolivar (strong)	2.14	2.14	2.14
Bolivian	7.00	6.97	7.53
Uruguayan peso	19.45	24.25	21.45
Mexican peso	13.06	13.82	10.90
Colombian peso	2,043.07	2,246.16	2,009.00
New Zealand dollar	1.39	1.73	1.30
Euro	0.70	0.71	0.68

NOTE 35 – EARNINGS PER SHARE

	For the fiscal years ending December 31, 2009	2008
Profit attributable to equity holders of the controller (KUS$)	231,126	336,480
Weighted average of number of shares, basic	338,790,909	338,790,909
Basic and diluted earnings per share (US$)	0.68	0.99

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

NOTE 36 - CONTINGENCIES

a) Lawsuits

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

Company	Court	Case Number	Reason	Procedure Stage and Instance	Committed Amounts 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 owed to AII is in the enforcement stage in Switzerland. We are awaiting a final determination by the New York court as to interest and costs in order to proceed with enforcement in Switzerland. The AAI’s lien on Variglog’s Swiss bank account continues in place. Varilog is seeking recovery through the courts 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 respondents filed a motion to dismiss that is pending before the court. In the interim, the court authorized the commencement of the discovery stage.	17,100, plus interest, costs and damages
Aerolane, Lineas Aereas Nacionales del Ecuador S.A.	Fiscal Court of Guayaguil	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.	Negotiations are underway directly with the debtor and the notice of the petition for bankruptcy will be executed if the negotiations fail.	3,200

a.2) Lawsuits filed against 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 who claims he has a labor relationship with Lan Airlines S.A.	The first-instance decision was in favor of Lan. A final decision by the Chamber is pending.	567
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 and South Korea	-	An investigation of potential infringements of fair competition by cargo airlines, especially the fuel surcharge. On December 26, 2007, the Competition Directorate-General of the European Commission notified Lan Cargo S.A. and Lan Airlines S.A. of the process against 25 cargo airlines, including Lan Cargo S.A., for alleged antitrust breaches on the European aviation cargo market, especially supposedly fixing a fuel and freight surcharges. It is not possible to predict the outcome of this process based on the current status and information provided by outside counsel in Europe.	The notification by the European Commission was answered on April 14, 2008.	Undetermined
Lan Cargo S.A. and Lan Airlines 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 LanBox.	This case is scheduled for trial in February 2010.	Undetermined
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 December 31, 2009, the Company has considered that there is no need to establish provisions for these cases given the stage of the process and/or the unlikelihood of an adverse ruling. Nonetheless, a provision of US$25 million was established for the case under investigation by the European Union regarding a possible infringement of the antitrust regulations in relation to a good number of international cargo airlines (including Lan Cargo S.A., a LAN subsidiary) charging fuel and other surcharges on the European air cargo markets.

NOTE 37 – COMMITMENTS

(a) Commitments under loans

Limits have been established on some financial indicators of the Parent Company on a consolidated basis under the different contracts made by Lan Airlines S.A. to finance the Boeing 767 Aircraft under the guarantee of the U.S. Export-Import Bank. Restrictions have been established on the Company's management under these same agreements in terms of share composition and disposal of assets. Furthermore, restrictions have also been established on the management of the parent company and its subsidiary, Lan Cargo S.A., in regard to share composition and asset disposal under the diverse contracts made by Lan Cargo S.A. to finance Boeing 767 Aircraft guaranteed by the U.S. Export-Import Bank. Limits have been established on some financial indicators of the Company under different agreements it has made to finance Airbus A320 Aircraft under the guarantee of European export credit agencies. These same agreements impose restrictions on the Company's management regarding share composition and asset disposal. 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 fiscal year. The Company was in compliance with these covenants as of December 31, 2009.

(b) Lessee commitments under operating leases

The main operating leases are itemized below:

Lessor	Aircraft	At December 31, 2009	At December 31, 2008	At January 1, 2008
International Lease Finance Corporation	Boeing 767	8	8	8
Orix Aviation Systems Limited	Airbus 320	2	2	2
Celestial Aviation Trading 35 Limited	Boeing 767	1	1	1
MSN 167 Leasing Limited	Airbus 340	1	1	1
Celestial Aviation Trading 16 Limited	Boeing 767	1	1	1
Nordea Finance Sweden PLC	Boeing 767	-	1	1
CIT Aerospace International	Boeing 767	1	1	1
The Boeing Company	Boeing 767	-	1	-

Celestial Aviation Trading 39 Ltd. - GECAS (WFBN)	Boeing 777	1	-	-
Celestial Aviation Trading 23 Ltd. - GECAS (WFBN)	Boeing 777	1	-	-
ADL Leasing LLC	Boeing 737	-	-	5
ACL Aviation Ltd.	Boeing 737	-	-	1
ACS 2007 – 1 Limited (WFBN)	Boeing 767	-	-	1
Aircastle Investment Holdings 2 Limited (WFBN)	Airbus 320	-	-	1
Total		16	16	23

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

Future non-cancellable minimum rent payments are:

	At December 31, 2009	At December 31, 2008	At January 1, 2008
	KUS$	KUS$	KUS$
One year or less	90,731	58,988	67,328
More than one year and less than five years	273,055	139,291	111,582
More than five years	80,165	8,266	8,169
Total	443,951	206,545	187,079

The minimum rent payments recognized in income are:

	At December 31, 2009	At December 31, 2008
	KUS$	KUS$
Minimum payments under operating leases	81,425	67,781
Total	81,425	67,781

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.

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 December 31, 2009, 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	1/30/10
The Royal Bank of Scotland plc	Lan Airlines S.A.	Two letters of credit	18,000	1/8/10
Chilean Civil Aviation Board	Lan Airlines S.A.	44 bank guarantee bonds	3,000	1/27/10
Sectional Customs Bureau of Bogota	Linea Aerea Carguera de Colombia S.A.	Two bond insurance policies	2,430	4/7/14
Washington International Insurance	Lan Airlines S.A.	Four letters of credit	1,900	4/5/10
Metropolitan Dade County	Lan Airlines S.A.	Five letters of credit	1,504	5/31/10

NOTE 38 - INTERCOMPANY TRANSACTIONS

a) Intercompany transactions at the close of the fiscal year ending December 31, 2009

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Value of intercompany transaction
						KUS$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	Investments	Building leased	65
					Ticket service	15
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Building leased	17
					Training	1,103
					Debt assignment	2
					Other payments on account	137
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation fees	93
					Basic utilities	11
					Aviation concessions	297
78.005.760-2	Sociedad de Seguridad Aerea S.A.	Other related parties	Chile	Security services	Security services	575
					Other payments on account	1,018
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Ticket service	29
96.669.520-K	Red de Televisión Chilevision S.A.	Other related parties	Chile	Television	Ticket service	623
					Advertising	949
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional assistance	Professional assistance	82
					Other payments on account	12

Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	Investments	Building leased	386

b) Intercompany transactions at December 31, 2008

Taxpayer Id. No.	Company	Nature of the relationship	Country of origin	Other information on related parties	Nature of intercompany transactions	Value of intercompany transaction
						KUS$
96.810.370-9	Inversiones Costa Verde Ltda. y CPA	Controller	Chile	Investments	Building leased	68
					Ticket service	14
96.778.310-2	Concesionaria Chucumata S.A.	Associate	Chile	Concessionaire	Aviation fees	5
					Basic utilities	90
					Aviation concessions	18
					Dividend payment	108
96.847.880-K	Lufthansa Lan Technical Training S.A.	Associate	Chile	Training center	Training	1,073
					Debt assignment	14
					Other payments on account	38
					Building leased	17
					Dividend payment	221
96.921.070-3	Austral Sociedad Concesionaria S.A.	Associate	Chile	Concessionaire	Aviation fees	58
					Basic utilities	15
					Aviation concessions	250
					Dividend payment	429
9.259.640-0	Claudia Urrutia	Other related parties	Chile	Other	Sale of Sociedad de Seguridad Aerea S.A.	382
56.080.790-2	Asamblea de Comuneros de Valle Escondido	Other related parties	Chile	Other	Other services	78
78.005.760-2	Sociedad de Seguridad Aérea S.A.	Other related parties	Chile	Security services	Other payments on account	1,493
					Safety services	1,842
87.752.000-5	Granja Marina Tornagaleones S.A.	Other related parties	Chile	Fish farming	Ticket service	43
96.669.520-K	Red de Television Chilevision S.A.	Other related parties	Chile	Television	Ticket service	589
					Advertising	650
96.787.990-8	Inmobiliaria Parque San Luis Uno S.A.	Other related parties	Chile	Real estate company	Purchase of fixed assets	11,895
96.888.630-4	Sociedad Concesionaria Aerosur S.A.	Other related parties	Chile	Concessionaire	Aviation fees	29
					Aviation concess.	258
					Basic utilities	8
96.894.180-1	Bancard Inversiones Ltda.	Other related parties	Chile	Professional assistance	Professional assistance	72
Foreign	Inversora Aeronautica Argentina	Other related parties	Argentina	Investments	Building leased	294

(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 fiscal years ending December 31	
	2009	2008
	KUS$	KUS$
Compensation	6,226	4,980
Management fees	131	132
Adjustments in value and non-cash benefits	340	335
Short-term benefits	4,480	3,990
Share-based payments	1,183	1,801
Other	780	--
Total	13,140	11,238

NOTE 39 – SHARE-BASED PAYMENTS

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

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

Percentage	Period
30%	From July 1, 2009 through September 30, 2011
30%	From July 1, 2010 through September 30, 2011
40%	From July 1, 2011 through September 30, 2011

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

All options expire on September 30, 2011.

	Number of Stock Options
Stock option in a share-based payment agreement, balance as of January 1, 2009	1,604,000
Stock options granted	19,000
Stock options annulled	(312,000)

Stock options in share-based payment agreement balance as of December 31, 2009	1,311,000

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

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

NOTE 40 – ENVIRONMENT

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

NOTE 41 – SANCTIONS

(a) By the Securities and Insurance Commission

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

No other sanctions have been applied against the Parent Company and its subsidiaries, directors or managers by the Securities and Insurance Commission during the period ending December 31, 2009.

(b) Other administrative authorities

No significant sanctions have been applied against the Parent Company and its subsidiaries, directors or administrators by other administrative authorities through December 31, 2009.

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

The consolidated financial statements of Lan Airlines S.A. and Subsidiaries as of December 31, 2009 were approved by the Special Board Meeting held February 17, 2010 at which the following directors were present:

Jorge Awad Mehech
Jose Cox Donoso
Juan José Cueto Plaza
Ramon Eblen Kadis
Andres Navarro Haeussler

There is no knowledge of other financial or other events that materially affect the balances or interpretation of these financial statements after December 31, 2009 through the date of issuance.

MATERIAL EVENTS

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

1. The following material event was reported on 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.

2. 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:

1. Contracting cargo, merchandise and passenger transportation services.
2. 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.

3. Leases for cargo space and bellies.
4. 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.
5. 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.
6. Contracts for the sale, marketing and distribution of passenger, cargo or merchandise transportation services.
7. 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.
8. 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.
9. Data processing, infrastructure, maintenance and data archive, software, hardware and, in general, services relating to information technology.
10. 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.
11. 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.

3. 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.

4. 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.

5. 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.

6. 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.

7. 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.

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

Starting in the first quarter of 2009, according to regulations of the Securities and Insurance Commission, Lan Airlines S.A. will be reporting its results according to IFRS. Lan Airlines S.A. will be one of the first companies in the nation to report its results according to IFRS. The results for the first quarter of 2008 will also be reported under IFRS in order to be comparable.

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

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

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

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

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

1. <u>Maximum combined amount under both bond facilities</u>: US$200,000,000 (two hundred million dollars of the United States of America) or the equivalent in other currencies or units of adjustment, as indicated in number 4 below;

2. <u>Maturity of the bond facilities</u>: The first bond facility will expire in no more than 10 years and the second in no more than 30 years as from their registration in the Securities Registry. Payment liabilities under the different bond issues against each facility must expire in those periods.

3. <u>Use of the funds</u>: The funding will be used to finance investments of the company and its subsidiaries and to refinance liabilities.

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

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

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

a) Approval of the Annual Report, General Balance Sheet and Financial Statements of the Company corresponding to the fiscal year ending December 31, 2008;

b) Approval of the distribution of a final dividend on account of profits from the 2008 fiscal year, imputing toward such amount the interim dividends of US$0.28568 per share, paid in August 2008, and US$0.30993 per share, paid in January 2009;

c) The compensation of the Board for the 2009 fiscal year;

d) The compensation of the Audit Committee and calculation of the budget for the 2009 fiscal year;

e) Appointment of External Auditors, of Risk Rating Agencies; a report on matters within the purview of article 44 of Companies Law No. 18,046;

f) Information on costs for processing, printing and sending the information indicated in Circular No. 1494 of the Securities and Insurance Commission; and

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

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

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

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

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

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

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

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

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

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

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

EXPLANATORY ANALYSIS

A comparative analysis and explanation of the principal trends:

1. Consolidated Statement of Financial Situation

At the close of the fiscal year, total assets of the Company had risen KUS$575,106 compared to the 2008 fiscal year, equal, percentage-wise, to 11.1%.

Current assets of the Company increased by KUS$331,781 (30.8%) compared to the 2008 fiscal year. The principal upward variations were in Cash and Cash Equivalent (82.4%) and Trade Receivables and Other Accounts Receivable (23.7%), which was offset by a decrease in Other Assets (92.6%) as a result of the recovery of collateral for derivative margins.

The liquidity ratio of the Company increased 33.2%, going from 0.69 in the 2008 fiscal year to 0.92 in the 2009 fiscal year. Current assets rose 30.8%, while Current Liabilities decreased 1.8%. The acid-test ratio also varied upwards (85.8%), going from 0.26 in the 2008 fiscal year to 0.48 in the 2009 fiscal year.

Non-Current Assets of the Company increased KUS$243,325 (5.9%) as compared to the 2008 fiscal year. The main positive variation was in Property, plant and equipment, which totaled KUS$4,196,556 as of December 31, 2009, increasing a net 5.8% compared to the 2008 fiscal year when it was KUS$3,966,063. This change is due mainly to the net effect in sub-lines Plants and Equipment as a result of the addition of three Airbus A319 aircraft and three Boeing 767 aircraft for passenger transport, the incorporation of one Boeing 777 engine and rotables to support fleet operation; the acquisition of computer equipment, ground support equipment, tools and the like; and to the decrease in Construction Underway, mainly as a result of the recovery of advances on the purchase of the aforesaid aircraft, and to the increase in the Cumulative Depreciation resulting from the depreciation in the fiscal year. Moreover, the Company reclassified 4 Airbus A320 aircraft from Plant and Equipment to Other Properties, Plant and Equipment because it sold its interest in the permanent establishment Linnet Leasing Limited, the owner of such aircraft while keeping the original lease-purchase in effect.

The current liabilities of the Company decreased KUS$28,121 (1.8%), closing at KUS$1,523,339 in the 2009 fiscal year. The variation is due mainly to the decrease in Other Liabilities (33.1%) because of the payment of interim dividends in the first quarter of 2009, Hedge Liabilities (83.1%) and Accrued Liabilities (24.1%). The main increase was in Interest-Bearing Loans (35.7%).

The debt ratio of the Company's Current Liabilities decreased 31.9%, going from 2.04 in the 2008 fiscal year to 1.39 in the 2009 fiscal year. Its share as compared to total debt decreased by 6.8%, going from 35.0% in the 2008 fiscal year to 32.6% in the 2009 fiscal year.

Non-current liabilities increased KUS$265,905 (9.2%), to close at KUS$3,142,707 in the 2009 fiscal year. This variation mainly comes from the increase in Loans accruing Interest (14.4%), as a result of the financing for the purchase of six aircraft, the financing of advances for the purchase of aircraft, and loans obtained on the local market to minimize the liquidity risk. This was slightly offset by the decrease in Hedge Liabilities (71.6%) and Trade Payables and Other Accounts Payable (20%).

At the close of the 2009 fiscal year, 95% of the Company's Loans accruing interest are accrued at interest at a fixed rate, including forwards.

The Non-current Liabilities debt ratio of the Company decreased 24.3%, going from 3.78 in the 2008 fiscal year to 2.86 in the 2009 fiscal year. Its share compared to total debt increased 3.7%, going from 65.0% in the 2008 fiscal year to 67.3% in the 2009 fiscal year.

The total debt-net equity ratio of the Company decreased 26.9%, going from 5.81 in the 2008 fiscal year to 4.25 in the 2009 fiscal year.

The variation in Net Equity is due mainly to the results obtained in the 2009 fiscal year, the distribution of interim dividends on account of 2009 profits, and to the positive evolution in Hedging Reserves.

2. Consolidated Income Statement

The net profit of the controlling company totaled KUS$231,126 at December 31, 2009, which meant a decrease of KUS$105,354, equal to a negative variation of 31.3% as compared to the previous fiscal year. Operating profit was KUS$435,691, a decrease of 29.7% as compared to the previous fiscal year, equal to KUS$184,099. This decrease was due mainly to the fuel hedging loss amounting to KUS$128,745, while the results of the 2008 fiscal year included a gain of KUS$35,406 for this reason. Excluding this impact, operating income was KUS$564,436, or a 3.4% increase and an operating margin of 15.4% compared to 13.6% attained in the previous fiscal year.

Operating income dropped 14.7% compared to 2008, to KUS$3,655,513. This reflects a decrease of 7.0% in passenger revenues, of 32.1% in cargo revenues and 4.6% in other revenues.

Passenger revenues amounted to KUS$2,623,608, or a decrease of 7.0% when compared to the KUS$2,820,830 earned in the previous fiscal year. This decrease was the product of a 16.0% drop in yields that was partially offset by a 10.7% increase in traffic. The cabin factor slightly grew from 76.6% to 76.9% as the growth in traffic was higher than the 10.2% increase in capacity. This traffic growth came from a 20.6% increase in domestic traffic and 6.9% increase in international traffic.

International traffic accounted for 70% of all traffic during the 2009 fiscal year. Yield dropped 16.0%, mainly because of the decrease in the fuel charge and lower nominal rates due to the increase in demand.

Cargo revenues totaled KUS$895,554, falling 32.1% with respect to 2008. This drop is due to the 24.8% decrease in yields and 9.7% drop in traffic. Cargo traffic was heavily impacted by the global economic slowdown and the weak seed season as well as a drop in salmon exports from Chile caused by the ISA virus. Capacity fell 6.0% in the fiscal year, causing the cabin factor to fall from 71.2% to 68.4%. Revenues measured in ATK decreased 27.8% with regard to 2008.

Moreover, Other Income fell by KUS$6,591, equal to a variation of 4.6%, due mainly to the drop in onboard sales and less income from plane leases and customs and storage services to third parties, which was partially offset by higher revenues from the sale of tourist packages.

Operating costs amounted to KUS$3,219,822, which represents a decrease of KUS$443,575 (variation of 12.1%) compared to the previous fiscal year. The variation in each item stems from the following:

a) Payroll and Benefits Expenses increased KUS$27,404 as compared to 2008, representing a variation of 4.5%, caused by an increase in the average staff, which was partially offset by the devaluation of local currencies.

b) Fuel expenses decreased 30.9% as compared to the previous year, equal to KUS$429,218. This is due mainly to the drop of 42.6% in prices, partially offset by an increase of 1.6% in consumption. Moreover, the company recorded a loss amounting to KUS$128,745 in fuel hedging as compared to the gain of KUS$35,406 in 2008.

c) Fees decreased KUS$46,324, equal to 24.4%, as compared to the previous fiscal year. This was due mainly to the decrease of 15.0% in traffic revenues from both businesses (passenger and cargo). Moreover, there was a drop of 0.5 percentage points in average fees, mainly caused by lower fees in the passenger business due to the increase in Internet sales and the passengers who fly in economy class.

d) Depreciation and Amortization expenses increased 18.0%, totaling KUS$46,300, due mainly to the addition of three new Boeing 767 aircraft and three Airbus A319 aircraft.

e) Other leases and landing expenses decreased KUS$53,326, which represents a variation of 9.8%, as compared to the previous fiscal year. It was caused mainly by the reduction in the use of cargo planes leased under the ACMI modality in the company's cargo business.

f) The passenger service expenses rose 8.8% as compared to 2008. The main cause was the 16.3% increase in the number of passengers carried in the fiscal year. This was partially offset by a renegotiation of contracts with outside suppliers and logistical efficiencies in the on-board supply process.

g) Plane lease expenses increased 18.7%, equal to KUS$13,185, due to the increase in the average number of leased planes, resulting from the delivery of 2 Boeing 777 F aircraft during the second quarter of 2009.

h) Maintenance costs rose KUS$15,117, equal to a 14.3% variation, as compared to the previous year, due to the growth in the fleet and escalation in maintenance contracts.

i) Other operating expenses decreased by 5.9%, as compared to 2008, equal to KUS$24,252. This decrease was in line with the drop in costs of sale and in on-board sales, lower employee transportation costs and a drop in overhead.

Financial income amounted to KUS$18,183, equal to a 1.6% drop as compared to the previous fiscal year, the product of lower interest rates, partially offset by an increase in cash.

Finance Costs increased 22.0%, equal to KUS$27,621, as a result of the average increase in long-term debt related to the financing of the fleet.

Other Income/Costs showed a loss of KUS$23,246, including a one-time charge of KUS$28,000 relating to the exchange rate for Venezuela (the Bolivar), which affected the operations of the Company in that country. In 2008, Other Income/Costs showed a loss of KUS$109,376, including expenses for KUS$109,000 associated with the global research performed by the U.S. Department of Justice of the air cargo market.

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

The operating flow of the Company increased KUS$214,752 compared to the previous fiscal year, mainly due to the net effect between Customer Collections, Supplier Payments and Salaries Paid (6.5%); to the increase in Other income from other operating activities (141.4%), as a result of the recovery of guarantees for derivative margins, partially offset by the payments made for fuel hedging; Income received because of interest classified as Operating Income (64.6%) and to the net effect (increase) between payments received and made for VAT, income received because of earning tax reimbursements and earnings tax payments (175.5%).

The investment flow rose by KUS$184,935 as compared to the previous fiscal year, mainly because of the addition of Property, Plant and Equipment (30.9%). Less aircraft were added to the fleet in comparison to the previous year, which was partially offset by the negative variation in Payments to acquire other financial assets totaling KUS$56,376.

The finance flow varied negatively by KUS$1,220 as compared to 2008, primarily due to the increase in Loans Paid (155.0%) and an increase in payments of interest classified as financial interest (58.8%). This negative variation was partially offset by the increase in Loans Obtained (16.8%), the decrease in Dividend Payments (37.2%) and the increase in Other Cash Flows from Finance Activities amounting to KUS$36,798.

Finally, the net flow of the Company during the 2009 fiscal year increased by KUS$398,467, compared to the previous fiscal year. The negative balance of the investment flow has been totally covered by the Operating and Financing Flows.

4. Market Risk Analysis

Credit risk concentration

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

Hedging instruments: Administration of fuel price risk

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

The Company made a net set-off payment of KUS$128,745 under these agreements as of December 2009. The losses or earnings on these agreements are recognized as part of Hedging Reserves in the Company's net equity. As of December 31, 2009, the market value of the existing fuel hedges was KUS$13,573.

Hedging instruments: Administration of interest rate risk

The Company signed interest rate swaps for the purpose of decreasing the risk of a rise in interest rates during the first half of 2001, the second half of 2005, and the first half of 2006. In the second half of 2003, all of 2004 and 2005, the Company also signed call options. Together with the foregoing, the debt for 2006, 2007 and 2008 was assumed at a fixed rate directly with the lending bank and, moreover, the interest rate hedges were made in advance for the financing of 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 cash flow of debt in Chilean pesos accruing interest at the nominal 180-day bank rate (TAB) rate; and interest rate swaps to reduce the risk of an eventual rise in rates on a dollar liability accruing interest at the 6-month LIBOR.

The purpose is to have a percentage of the debt at (i) a fixed rate (like for swaps and fixed-rate debt) and (ii) another percentage of the debt at a floating rate, but limited to a maximum (like the calls), together with (iii) limiting the interest rate exposure in future financing. Therefore, the Company significantly decreases the risk of an increase in interest rates. In relation to such agreements, the Company (i) pays, receives or (ii) only receives, as the case may be, the difference between the agreed fixed rate and the floating rate calculated on the unpaid principal of each agreement. The Company recognized a cumulative profit of KUS$26,374 on these agreements in the period. The losses and earnings on interest rate swaps together with the premiums and interest rate call earnings are recognized as a component of Interest Expense, based on the amortization of the hedged loan. As of December 31, 2009, the market value of the outstanding swaps, calls and pre-set interest rate agreements was KUS$(46,599).

As of December 31st, approximately 95% of the debt was fixed under one of the aforesaid instruments at an average rate of 5.0%.

5. **Chilean Economic Environment**

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

During the last months of 2009, the world economies were showing signs of a slow recovery and market stabilization after the worst slowdown in recent history. The financial conditions have improved and the growth outlook expects a recovery in production and trade. The world economy is predicted to grow -0.9% in 2009 and to expand 4% in 2010.

In Europe, the world financial crisis had a heavy impact on the different economies, the most affected being Spain, Portugal and Greece. Access to credit continued to be difficult, which puts a brake on activity, and the recovery in the prices of raw materials is contributing to growth. A negative growth of 3.9% is expected for 2009 and 1% for 2010, which is indicative of a slow recovery.

The U.S. economy has been recovering by leaps and bounds after hitting historic lows. The new initiatives by the Obama Administration could help growth even more and improve confidence in the markets. The economy is getting better and according to the most recent publications, manufacturing and non-financial services improved. This sector is predicted to continue leading in the creation of new jobs during 2010, but unemployment is expected to drop very slowly, to 9%, by the end of 2010. In this scenario, a negative growth of 2.5% is forecast for 2009 and a positive growth of 2.7% for 2010.

In Latin America, many countries have continued to show some signs of recovery in their economies. Prices of raw materials have improved, the unemployment rate has dropped and investment has increased. The growth is predicted to be near 2.3% in 2009. A growth of 3.8% is foreseen in 2010, led by Brazil, Peru and Chile.

The Chilean economy continued to show positive signs of reactivation, mainly because of fiscal spending, the price of raw materials, the increase in consumption and investment, and the decrease in unemployment. The inflation outlook remains under control, so the economy will recover its growth level in 2010. An approximate 1% contraction of the GDP is expected this year and a growth of close to 5% in 2010.

In this economic setting, the international and domestic airline industry was not immune to the impact of the world economic scenario, improving slightly in the last few months, after a profound crisis. However, the flexible business model implemented by the company has worked consistently well over time.

EXPLANATORY ANALYSIS

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

	12/31/2009	**12/31/2008**
LIQUIDITY INDICATORS		
Current ratio		
(current assets/current liabilities)	0.92	0.69
Acid-test ratio		
(cash/current liabilities)	0.48	0.26
DEBT INDICATORS		
Debt ratio		
(current liabilities + non-current		
liabilities/net equity)	4.25	5.81
Current debt/total debt (%)	32.65	35.04
Non-current debt/total debt (%)	67.35	64.96
Financial expense ratio		
(RAII/financial expenses)	3.06	4.77
ACTIVITY INDICATORS		
Total Assets	5,771,972	5,196,866
Investments	459,324	838,535
Sales	21,088	13,333

PROFIT INDICATORS

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

	12/31/2009	12/31/2008
Return on equity (net profit/average net equity)	0.25	0.41
Return on assets (net profit/average assets)	0.04	0.07
Return on operating assets (operating income/average operating assets) (**)	0.08	0.13

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

	12/31/2009	12/31/2008
Per-Share Profit (fiscal year profit/number of subscribed and paid-in shares)	0.68	0.99
Return on dividends (dividends paid/market price)	0.02	0.08

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

	For the fiscal years ending December 31	
	2009	**2008**
INCOME INDICATORS		
Revenues	**3,655,513**	**4,283,187**
Passenger	2,623,608	2,820,830
Cargo	895,554	1,319,415
Other	136,351	142,942
Operating Costs	**3,219,822**	**3,663,397**
Other leases and landing fees	490,921	544,247
Fuel	959,608	1,388,826
Commissions	143,900	190,224
Salaries	636,657	609,253
Other operating costs	387,303	411,555
Plane leases	83,712	70,527
Maintenance	121,037	105,920
Depreciation and amortization	303,888	257,588
Passenger service	92,796	85,257
Operating income	435,691	619,790
Operating margin	11.9%	14.5%
Financial income	18,183	18,480
Financial expense	-153,109	-125,488
Other income / costs	-23,246	-109,376
Profit before taxes and minority interest	277,519	403,406
Taxes	-44,487	-65,094
Profit before Minority Interest	233,032	338,312
Attributable to:		
Investors in parent company	231,126	336,480
Minority interest	1,906	1,832
Net profit	231,126	336,480
Net margin	6.3%	7.9%
Real tax rate	-16.1%	-16.2%
Total number of shares	338,790,909	338,790,909
Net profit per share (US$)	0.68	0.99
RAIIDAIE	714,427	766,170

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 **annual** report as of **December 31, 2009**:

	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	
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	
ANDRES NAVARRO HAEUSSLER	DIRECTOR	5.078.702-8	
IGNACIO CUETO PLAZA	GENERAL MANAGER	7.040.324-2	
ALEJANDRO DE LA FUENTE G.	VICE-PRESIDENT, FINANCE	6.947.715-1	

Date: February 17, 2010