

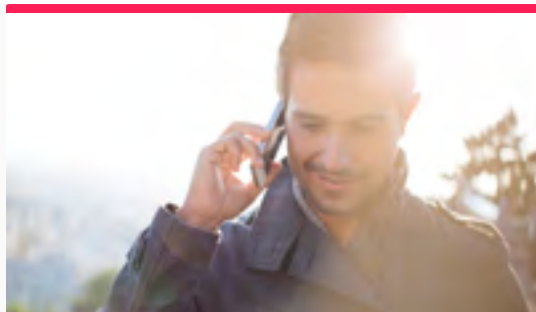
Annual Report 2016





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OUR COMPANY



Dear shareholders,

The year 2016 was characterized by a low growth period for the countries of Latin America and the Caribbean, which had a reduction of regional gross domestic product of the order of 1.1%, according to data from the Economic Commission for Latin America and the Caribbean (ECLAC). It should be noted that the region already came from a contraction of 0.4% in its economy.

South America was the most affected sub-region, with an expected decline of 2.5% of GDP in 2016. In the years 2015/2016 Brazil was responsible for the greatest negative impact on economic activity in the region. The country's GDP fell 3.8% in 2015 - the biggest drop in history - and 3.6% in 2016, establishing the largest wealth loss in Brazil's history.

Brazil is going through one of the biggest political crises in its history, with the consequences of the impeachment of the former President of the Republic amplified by an anti-corruption action, Lava Jato operation. As a result, the private sector has adopted defensive strategies, postponing investments, increasing unemployment and reducing stock replenishment in factories, which contributed sharply to the persistence of the recession in 2016.

Despite the poor performance of the Brazilian economy, it is important to note that government policies aimed at balancing public finances and structural reforms were initiated, not only approved by the markets, but have also revised their projections favorably for 2018.

Therefore, we can say that Brazil is emerging from a serious turbulence to have a more stable flight, which aims at a GDP growth that although still modest, has a highly positive effect on the economy of the whole continent.

One of the creative and renovating actions carried out by the Company during the year was the design of a new model to reduce the costs of passenger transportation. In it, customers can choose to fly by paying for additional services according to their needs. This initiative will put us in a more competitive position with any of our competitors, and may represent a 50% increase in the volume of passengers transported in the coming years.

In the area of sustainability, whose adherence and improvement are necessary conditions for competition in the market, we are rapidly advancing in new practices and the improvement of old ones, in order to maintain a leading position and create the bases for its permanence. A stimulating recognition was our inclusion in the Dow Jones Sustainability Index for the third consecutive year as one of the leading companies in sustainability, based on economic, social and environmental criteria.

Our long-term strategy has not changed. It can be mentioned in three cardinal points: a continent, a wide network of destinations and a brand. These three points are interconnected by common premises: being simpler, more efficient and more competitive.

In LATAM, constant attention to reducing costs to replace processes and equipment that have become costly and unproductive is an essential requirement. The restructuring of our fleet allowed a reduction of US\$ 2.2 billion of our fleet assets projected for 2018 during the last 12 months. In Brazil, where we are implementing changes due to the intense importance of that market for the company, the reduction of flight capacity reached 12% in 2016, preparing the way for a market recovery.

All the setbacks that emerged in this very complex period for the economy of our continent, and in particular for the civil aviation sector, only reinforce my conviction that the union of TAM and LAN could not have been more successful. I am very proud to have participated in the construction of this great company, which represents a milestone in the history of aviation. I think it was the most important experience of my professional and business life. If not for the creation of LATAM, the wind of the crisis could have shaken the structure of the founding companies and divert them to other non-successful routes.

In LATAM, my story had a new beginning. Starting with my friends and partners, the Cueto family, followed by executives and professionals from different areas, from TAM and LAN, or those who later joined us. They were enriching relationships from all angles - business, work and affection. I have learned a lot. I think I collaborated a lot too. I will always collaborate. But for LATAM, renewal is the first word of our informal nature, our conviction as shareholders and managers, the principle that governs the philosophy of the Company.

Mauricio Rolim Amaro

Chairman of the Board of LATAM Airlines Group



Dear shareholders,

2016 will be remembered as one of the most challenging years in our company's history, with us continuing to adapt to the volatile environment of recent years. We initiated big changes and major projects, so we can better deal with the evolving airline industry landscape and the slowdown of Latin American economies.

We seek to consolidate ourselves as the leading airlines group in the region, connecting the continent with an expansive network under a single brand. Guided by this long-term vision, we are proud to have successfully launched the unified brand LATAM, which combines the best of LAN and TAM and provides the client with a single image.

We have continued to strengthen our network – despite modest growth in the region – with the launch of 14 new routes in 2016 and the announcement of a further eight for this year; a record number for the group. Of these routes, we inaugurated four new destinations that improve connectivity both within the region and with the rest of the world: Puerto Natales, Jaén, Washington D.C., and Johannesburg. In doing so, we became the only Latin American airline to offer a direct service between Latin America and Africa.

Furthermore, as part of our commitment to further expand our network of flights and connections in South America, we continue to make progress towards achieving our 'Joint Business Agreements' with IAG (the holding company of British Airways and Iberia) and American Airlines, so we can connect more people in Latin America with the rest of the world. We are convinced that these agreements will strengthen the connectivity of our region and deliver access to a wider destination network, more flights, better connecting times and lower prices as well as contribute to the development of tourism in the region with the arrival of more travelers from the USA and Europe.

In 2016, we worked on one of the most significant changes for the company and our customers in our history with the renewal of the domestic flight model for the six countries in the region where we have national operations. The new model, which is already being gradually implemented in some markets, will give our customers the flexibility to choose how they want to fly, by only paying for the additional services they use. As a result, we will be able to offer fares up to 30% cheaper, allowing more people to choose flight as a means of transport as well as helping those who already fly, to do so more often. All of this will be supported by a new digital experience, where passengers can control their own flight experience using only their phone. In addition to the benefits for passengers, this change will allow us to better compete with the increasing number of low cost operators in the region. With the new travel model, we project to increase our passenger numbers for domestic flights by 50% by 2020,

helping to consolidate flight as a widely-accessible means of transport in the region and boost economic growth in the markets where the company operates.

The last three years have been very challenging. However, thanks to the work over this time, we have seen a significant improvement in our profitability, achieving a 6% EBIT margin in 2016 and the first positive net profit in five years. This improvement in profitability in a tough year showcases the resilience of our business model and demonstrates that we are on the right path with the strategic initiatives we have put in place. These positive results, together with the restructuring of our fleet plan and the strengthening of our balance sheet, have also been recognized by the financial markets, as demonstrated by the 53% recovery of the LATAM share in 2016.

In conclusion, I would like to thank our teams for all their work this year. Without their commitment and dedication it would have not been possible to carry out these significant changes we are currently implementing. I would also like to especially thank our shareholders – both new and long-standing – for their patience during the challenges of recent years, for their support in this period of adjustment and for the faith they have placed in our project. Our challenge and what motivates us is to maintain our industry leadership, strengthen our financial position and secure our long-term sustainability. For this reason, I invite everyone in the LATAM family to maintain their trust in this project and to continue moving forward together towards these objectives.

Enrique Cueto
CEO, LATAM Airlines Group



The leading airline group in Latin America

LATAM Airlines Group S.A. (hereinafter, without distinction “the Company”, “LATAM” or “LATAM Group”) is Latin America’s largest air transport company, resulting from the association of a Chilean (LAN) and a Brazilian (TAM) airline.

The Group has domestic operations in six South American countries – Argentina, Brazil, Chile, Colombia, Ecuador, and Peru – an advantage that allows it to provide the best connectivity at the regional level, as well as from South America to the rest of the world and vice versa, reaching some 135 destinations points in 25 different countries. In addition, this allows it to have a geographically diversified passenger and cargo revenue base.

At the end of April 2016, the Company formally submitted its unified LATAM brand, which started to be visible in the website, physical spaces and aircraft, among others, a brand under which we will continue along the leadership path started several decades ago by LAN, TAM and their respective subsidiaries. This change will allow us to provide a better service and consistent across our network, strengthening our position in the region.

During 2016, the Company went ahead in its process of becoming a more simple, lean and efficient organization to adapt to the changing dynamics of the industry and the needs of our customers.

This process considers a change in organizational culture, which began to be executed with greater force in 2016 through our Twist Project at airports, contact centers and service on board. The objective of this project is to strengthen the organization with empowered teams prepared to respond to the needs of the passengers more quickly and easily, always considering the impact that their decisions may have on our clients.

Company decisions always focus on customer satisfaction. This implies a constant work toward improving passenger

experience throughout the different stages of the journey, while always looking for differentiation in terms of service. This is how in 2016 LATAM continued to invest in the development of digital tools at all points of contact with the customer, in order to simplify the travel experience and provide a personalized service.

It is our permanent goal to incorporate best industry practices and adapt to industry-wide trends. By the end of 2016 the Company announced the redesign of its travel model in the six domestic markets where it operates. This will be implemented on a country-by-country basis and in stages starting in the first half of 2017. Indeed, this has become one of our projects with greater breadth and scope and relevance toward ensuring the sustainability of LATAM over the long term. This new model seeks to meet the needs of today’s passengers who appreciate the trip to be simple, efficient, and expeditious and wish to be empowered to make their own decisions and have the tools to actively influence and customize their own travel experience, thereby paying only for the services used. Passengers will be entitled to choose how to fly, paying for the additional services required and selecting the airfare that best suits their needs.

Thanks to this new form of travel, LATAM Group estimates it will increase by 50% the number of passengers transported in domestic markets by 2020, thereby consolidating air travel as a means of mass transport in the region progressively increasing the number of people able to fly, and that those who already do so may fly even more.

With respect to international operations, one of the year’s major milestones was the announcement of the execution of Joint Business Agreements (JBAs) with American Airlines and the IAG Group (Iberia’s and British Airways’ parent company), aimed at providing greater connectivity to passengers. With these agreements, the Company seeks to provide access to a wider network of international des-



tinations, more flights, better connection times and better prices to destinations not flown by LATAM. The Group expects the respective approval processes to make progress rapidly so as soon to become a reality, in order to connect more and more people from Latin America to the rest of the world and vice-versa.

In its continuous effort to strengthen the network, in 2016 the Company opened 18 new routes – a historical record for LATAM. Noteworthy among them is the first flight from Brazil to Johannesburg, becoming the only Latin American airline that now connects the region with the African continent. It should also be noted, moreover, that many of these new routes will help to further boost our main regional hubs, such as the Lima and Sao Paulo airports. LATAM reduced its fleet commitments through postponements and cancellations, and will also reduce its current fleet assets returning additional aircraft as compared to last year's fleet plan.

With this, the Company will have achieved a reduction of \$2.2 billion in fleet assets between 2016 and 2018, in line with previously announced plans to achieve a reduction of US\$ 2.0 to \$3.0 billion in our expected 2018 fleet assets.

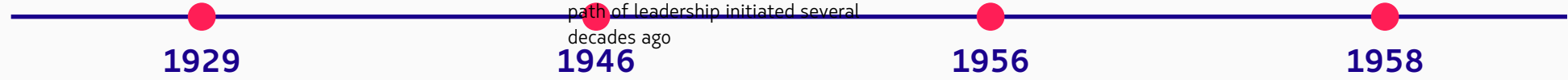
In line with the Company's strategy to make its operation more efficient, during 2016 LATAM received 24 aircraft of the more large, modern and efficient models that allow transporting more passengers consuming less fuel, thereby adapting to current market conditions in a more efficient manner. In line with the foregoing, LATAM keeps its commitment to offer its passengers the best fleet in Latin America. To that effect, in 2016 the company incorporated the first Airbus A320neo to its fleet; thus becoming the first airline in America to operate this ultra-efficient aircraft model, whose greater flying range does not only allow it to operate its domestic but also its regional network.

Additionally, LATAM incorporated six Airbus A350 to its fleet, ending the year with a total of seven aircraft of this model; which stands out because of a CASK up to 25% lower than similar size aircraft.

All things considered, in 2016 LATAM Group opened a new chapter in the history of world aviation. The new brand poses the challenge of delivering a unique and improved service experience, offering to the world the best of South America, while becoming a more efficient and productive group operating in simpler ways. The Company aspires to be among the best airlines in the world, and the initiatives that are currently underway indeed provide ample opportunity to achieve this objective.

OUR HISTORY

Under LATAM, we will continue the path of leadership initiated several decades ago



▶ Linea Aerea Nacional de Chile (LAN) founded by Comandante Arturo Merino Benítez.



▶ First LAN international flight: Santiago-Buenos Aires.



▶ Start of LAN services to Lima.



▶ Start of LAN services to Miami.

OUR HISTORY



1961



► TAM-Taxi Aéreo Marília created by five charter flight pilots



1970



► LAN begins flights to Europe.



► Foundation of TAM-Transportes Aéreos Regionais by Capitán Rolim Adolfo Amaro.

1975



► Launch of TAM services in Brazilian cities, especially Mato Grosso and São Paulo.

1976

OUR HISTORY



1983

1985

1986

1989



► Constitution of Linea Aerea Nacional - Chile Limitada, through CORFO

► LAN becomes a joint stock company

► TAM acquired Brasil Central Linhas Aéreas-VOTEC, a regional airline that served the North and Central West regions of Brazil.

► Start of privatization of LAN: the Chilean government sells a 51% stake to local investors and Scandinavian Airlines System (SAS).

OUR HISTORY

TAM

LANCHILE

1990

1993

1994

1996



► Brasil Central renamed TAM-Transportes Aéreos Meridionais



► Launch by TAM of TAM Fidelidade, Brazil's first frequent flyer program.



► Privatization of LAN completed with the acquisition of a 98.7% stake by its current controllers and other shareholders.



► Acquisition by TAM of Lapsa airline from the Paraguayan government and creation of TAM Mercosur; start of São Paulo

► Start of São Paulo – Asuncion flights

OUR HISTORY

1997

1998

1999

2000



▶ LAN lists on the New York Stock Exchange, becoming the first Latin American airline to trade ADRs on this important market.

▶ Arrival of first A330; first TAM international flight from São Paulo to Miami.

▶ LAN's expansion begins: start of operations of LAN Perú.

▶ LAN joins the oneworld alliance

OUR HISTORY



2001

2002

2003

2004



- ▶ LAN Alliance with Iberia and inauguration of Miami cargo terminal.
- ▶ Creation of TAM Technology Center and Service Academy in São Paulo.

- ▶ LAN Alliance with Qantas and Lufthansa Cargo

- ▶ LAN continues its expansion plan: start of operations of LAN Ecuador.

- ▶ Launch of new corporate image as LAN Airlines S.A.
- ▶ Start of TAM flights to Santiago.
- ▶ Launch of the new executive class for flights to Paris and Miami.

OUR HISTORY

2005

2006

2007

2008



- ▶ Further step in LAN's regional expansion plan: start of operations of LAN Argentina

- ▶ TAM S.A. lists on the BOVESPA stock market.

- ▶ Start of flights to New York and Buenos Aires.

- ▶ Launch of new LAN Premium Business Class.

- ▶ TAM S.A. lists on the NYSE

- ▶ Start of flights to London and, through agreement with Air France, to Zurich and Geneva

- ▶ Implementation of low-cost model in domestic markets.

- ▶ Capital increase of US\$320 million.

- ▶ Start of TAM flights to Milan and Córdoba; authorization from Brazil's National Civil Aviation Agency (ANAC) to start flights to Madrid and Frankfurt.

- ▶ Completion of renewal of LAN's short-haul fleet with aircraft from the Airbus A320 family.

- ▶ TAM receives its first Boeing 777-300ER.

OUR HISTORY



2009

2010

2011

2012



- ▶ Start of cargo operations in Colombia and domestic passenger operations in Ecuador.
- ▶ Launch of Multiplus Fidelidade.

- ▶ Acquisition of Colombia's Aires airline.
- ▶ TAM officially joins Star Alliance.

- ▶ LAN and TAM sign binding agreements related to the business combination of the two airlines.

- ▶ LATAM Airlines Group is born as a result of the business combination between LAN and TAM.
- ▶ Issuance of 2.9 million shares.

OUR HISTORY



2013

2014

2015

2016



▶ Capital increase for US\$ 940.5 million.

▶ TAM joins oneworld alliance, which becomes LATAM Airlines Group global alliance.

▶ LATAM launches its 2015- 2018 Strategic Plan.

▶ LATAM is Born: The New Brand for LAN Airlines, TAM Airlines and Affiliates.

▶ EETC structured bond issue for US \$ 1,020MM: First in Latin America.

▶ Capital increase of US \$ 608 million with which Qatar Airways acquires 10%* of the total of paid and subscribed shares of LATAM.

* Qatar owns 9.999999918% of total issued shares of LATAM.



Committed to provide the most advanced, efficient and comfortable fleet

During the year 2016, the LATAM Group operated a fleet comprised of 329 aircraft averaging approximately 7 years old, standing out among the newest in South America and the world.

One of this year's milestones was the launching of the unified LATAM Brand. As of December 2016, the Company had 43 aircraft already painted with the new logo; a progressive process expected to be completed in 2018, the year in which we project having the entire fleet designed with the new corporate logo. It is worth noting, however, that painting each aircraft takes an average between 6-12 days and that this operation is performed during each aircraft's routine maintenance work in order to optimize the efficiency of the entire process.

During this period, the Company continued to make progress in its fleet renewal plan, incorporating larger and more modern aircraft, while gradually disposing of the older models. In total, 23 aircraft were withdrawn and 24 new and more efficient models were incorporated, allocating them as most appropriate for the respective markets in which they operate.

In order to develop its short-range passenger operations (domestic and regional flights within South America), LATAM operated 243 aircraft, all of them of the Airbus A320 family. We received 11 Airbus A321 aircraft (the largest version of this family), totaling 47 aircraft of this operating as of this year's closing.

In the medium term, the Company is aiming at operating a short range fleet of only the A320 family, in its A320, A321 and A320neo versions. In 2016, we received the first two

aircraft of the latter type, thus becoming the first A320neo operator in the American continent. With a seat capacity for 174 passengers and an Airbus Space-Flex cabin configuration, LATAM expects to receive five additional such aircraft during 2017, from a total order portfolio of 34 aircraft. These aircraft incorporate state-of-the-art technology that includes new generation engines and sharklets (advance technology devices installed on the wings, designed to reduce aerodynamic resistance), permitting fuel savings of up to 15% and a resulting reduction in annual emissions of about 3,600 tons of CO₂ per aircraft.

In order to service its long-range flights, the LATAM Group used a fleet comprised of 76 aircraft during 2016; noteworthy among which was the Boeing 787 Dreamline in its versions 8 and 9, in addition to the new Airbus A350-900. The wide-body fleet plan is aimed at a renewal in order to incorporate the best technology and become leaders in terms of efficiency, reducing the number of aircraft but increasing capacity through larger models. In effect, during this period we incorporated five Boeing 787-9 aircraft, among whose advantages stands out its greater capacity, both in terms of passengers (+27%) and cargo volume (+23%), as compared to the Boeing 787-8. Designed for 313 passengers (283 Economy seats and 30 Premium Business seats), the Boeing 787-9 burns up to 20% less fuel than similar aircraft dropping its CO₂ emissions by up to 20%. As of December 2016, LATAM's Boeing 787 Dreamliner fleet included 12 Boeing 787-9 and 10 Boeing 787-8 aircraft.

Additionally, in 2016 the Company incorporated six Airbus A350-900 aircraft, adding seven units of this model by the closing of the year. The Company received the first such aircraft in December 2015, then becoming the first airline in America to operate it and the fourth worldwide. Designed for 348 passengers, 318 in Economy and 30 in Business Premium, the Airbus A350 is a medium-sized high-technology product; noteworthy for having a 25% lower CASK, as compared to similarly sized aircraft, such as the Airbus A330, and an equivalent drop in CO₂ emissions.



It should be noted that during 2016, LATAM ceased to operate the Airbus A330, a model that was fully removed from the fleet.

In the meantime, in order to develop its cargo operations, the Company closed the year with an operating fleet of 10 aircraft (one less than operated in 2015), comprised of eight Boeing 767-300F and two Boeing 777-200F; the latter being the most modern dedicated freighter of its type in the industry. Since the focus is now placed on optimizing the bellies (storage space) of passenger aircraft, LATAM has been gradually reducing its dedicated freighter fleet. Along such lines, during 2016 the Company maintained a lease contract for three of its Boeing 767-300F freighters and one Boeing 777-200F to cargo operators out of the region.

In response to the macroeconomic slowdown and the ensuing demand for air travel, LATAM continued to move forward in its plan to reduce the fleet, through postponements and sales of both its long as well as its short-range aircraft, with the main objective of adjusting its overall capacity to prevailing market conditions in the Latin American market. Within this context, in March 2016, the Company managed a US\$ 2.9 billion drop in its fleet commitments for the period 2016-18; which represents a 37% drop in this respect during the last year.

During 2016, the Company made significant progress in its plan to reduce total fleet assets and fleet commitments, reaching the lowest fleet commitment levels in the recent history of LATAM for 2017 and 2018. LATAM reduced its fleet commitments through deferrals and cancellations, and it will also reduce existing fleet assets by returning additional aircraft as compared to the previous year fleet plan. With this, the Company will have reached US\$2.2 billion reduction in fleet assets for 2016-2018, in line with our previously announced plans to achieve a decrease of US\$2.0 to US\$3.0 billion in our expected fleet assets by 2018.

Maintenance

The Company's major, line and component maintenance facilities are duly equipped and certified to look after its entire Airbus and Boeing fleet.

With facilities in Brazil (Sao Carlos) and Chile (Santiago), the LATAM Group's Maintenance, Repair and Revision Unit is responsible for major maintenance of the Group's aircraft; occasionally, it also does maintenance to third parties. Both of them provide 76% of the Company's total major maintenance requirements, while those that are not performed internally are contracted from among MRO's (Maintenance & Repair Organization) vast worldwide membership network. This unit is also responsible for the planning and execution of aircraft returns.

The Brazil MRO, which includes its own engineering and support capabilities and a full technical training center, is indeed prepared to look after up to eight aircraft simultaneously, with a specially-dedicated extraction and painting hangar. This facility is also equipped with 22 technical component shops, including a full repair shop to check landing systems, hydraulic, electronic and pneumatic equipment, electroplating, composite materials, wheels and brakes, interiors and emergency equipment. Moreover, it has its own exclusive 1,720-meter runway.

The Santiago MRO, located in the vicinity of the Comodoro Arturo Benítez International Airport, is equipped with two hangars capable of simultaneously servicing one wide-body and two narrow-body aircraft. It is also equipped with eight workshops ready to provide support to the hangars, with the cabins, galleys, composite structures and materials, and also to adapt aircraft interiors, including IFE (In-flight entertainment) systems and winglets.

On the other hand, our line maintenance network provides a range of full maintenance services to aircraft in order to



ensure that the fleet is always operating safely and according to all local and international regulations.

LATAM strives to provide the best experience to its passengers with the highest standards in terms of on-time performance and cabin image.

In 2016, our line maintenance network effectively used more than 2.1 million man-hours in both preventive as well as corrective tasks to LATAM's fleet. The Company also resorts to certified third-party services that are economically convenient; such as in Frankfurt, where its aircraft is looked after by *Lufthansa Technik*; in Milan, by *Air France-KLM*; and in Johannesburg, by *South African Airways*.

It is worth highlighting that ever since the year 2010, LATAM's maintenance has transformed production and support processes by means of the LEAN Methodology, which has translated into an automation and integration of processes, improving both the levels of productivity of the technical teams as well as response times when confronting contingencies, in addition to simplifying and strengthening the maintenance processes, making them more scalable and visible to the entire organization.

Along with the development of these data-processing systems, in 2016 we handed out 300 iPads to the Brazil maintenance network, in addition to the other 300 iPads delivered to the Spanish-speaking countries during 2015, in order to improve maintenance connectivity in the field.

The Company also has its own hangar (built in 2015) at the Miami International Airport. This city represents a strategic geographical advantage in order to secure supplies and services, as well as to gain access to a broader range of suppliers to cover more complex maintenance tasks. The hangar and the surrounding structures comprise an area of over 66,000 square feet and involved a US\$ 15 million investment.

As of December 31, 2016

| | Off-Balance | On-Balance | Total |
|---------------------------|-------------|------------|------------|
| Passenger Aircraft | | | |
| Airbus A319-100 | 12 | 36 | 48 |
| Airbus A320-200 | 53 | 93 | 146 |
| Airbus A320- Neo | 1 | 1 | 2 |
| Airbus A321-200 | 17 | 30 | 47 |
| Airbus A330-200 | - | - | - |
| Airbus A350-900 | 2 | 5 | 7 |
| Boeing 767-300 | 3 | 34 | 37 |
| Boeing 777-300 ER | 6 | 4 | 10 |
| Boeing 787-8 | 4 | 6 | 10 |
| Boeing 787-9 | 8 | 4 | 12 |
| TOTAL | 106 | 213 | 319 |
| Cargo Aircraft | | | |
| Boeing 777-200F | 2 | - | 2 |
| Boeing 767-300F | 3 | 8 | 11 |
| TOTAL | 5 | 8 | 13 |
| TOTAL FLEET | 111 | 221 | 332 |

Note: This table includes three B767-300F that Latam is currently leasing to a third party, does not include two B777-200F (one currently leasing to a third party), three A330 and one A320 that were reclassified from property plant and equipment to held for sale.



NARROW BODY

AIRBUS A319-100

Length 33.8 mts
 Width 34.1 mts
 Seats 144
 Cruising Speed 830 km/h
 Maximum weight at taken-off 70,000 kg

AIRBUS A320-200

Length 37.6 mts
 Width 34.1 mts
 Seats 156-168-174
 Cruising Speed 830 km/h
 Maximum weight at taken-off 77,000 kg

AIRBUS A320-200 neo

Length 37,6 mts
 Width 34,1 mts
 Seats 174
 Cruising Speed 830 Km/hr
 Maximum weight at taken-off 77,000 kg

AIRBUS A321-200

Length 44.5 mts
 Width 34.1 mts
 Seats 220
 Cruising Speed 830 km/h
 Maximum weight at taken-off 89,000 kg

WIDE BODY

AIRBUS A350-900

Length 66.8 mts
 Width 64.8 mts
 Seats 348
 Cruising Speed 903 km/h
 Maximum weight at taken-off 186,880 kg

BOEING 767-300

Length 54.9 mts
 Width 47.6 mts
 Seats 221 – 238
 Cruising Speed 851 km/h
 Maximum weight at taken-off 186,880 kg

BOEING 777-300 ER

Length 73.9 mts
 Width 64.8 mts
 Seats 379
 Cruising Speed 894 km/h
 Maximum weight at taken-off 346,500 kg

BOEING 787-8

Length 56.7 mts
 Width 60.2 mts
 Seats 247
 Cruising Speed 903 km/h
 Maximum weight at taken-off 227,900 kg

BOEING 787-9

Length 62.8 mts
 Width 60.2 mts
 Seats 313
 Cruising Speed 903 km/hr
 Maximum weight at taken-off 252,650 kg

FREIGHTER

BOEING 777-200F

Length 63.7 mts
 Width 64.8 mts
 Cargo Volume 652.7 m3
 Cruising Speed 894 km/h
 Maximum weight at taken-off 347,450 kg

BOEING 767-300F

Length 54.9 mts
 Width 47.6 mts
 Cargo Volume 445,3 m3
 Cruising Speed 851 km/h
 Maximum weight at taken-off 186,880 kg

INTERNATIONAL 27 DESTINATIONS

Build and ensure the best network in South America and its connection with the World





ARGENTINA

15 DESTINATIONS



BRASIL

41 DESTINATIONS



CHILE

16 DESTINATIONS

+ ISLA DE PASCUA



COLOMBIA

14 DESTINATIONS





ECUADOR

5 DESTINATIONS

GALÁPAGOS - BALTRA 

GALÁPAGOS - SAN CRISTÓBAL 

QUITO 

GUAYAQUIL 

CUENCA 



PERU

17 DESTINATIONS



CODESHARES



84 NORTH AMERICA
DESTINATIONS



46 EUROPE
DESTINATIONS



9 ASIA
DESTINATIONS



4 AFRICA
DESTINATIONS



22 AUSTRALASIA
DESTINATIONS

CARGO 11 DESTINATIONS*

SAN JOSÉ

KINGSTON

MÉRIDA

GUADALAJARA

CIUDAD DE GUATEMALA

CIUDAD DE PANAMÁ

SANTO DOMINGO

CABO FRÍO

AMSTERDAM

VALENCIA

BASEL

*Cargo exclusive



Generating a connection with our customers to create a distinctive experience

The LATAM group is an airline that stands out because of the multiculturalism of its teams. This is keenly reflected in the diversity of nationalities -more than 60- of its personnel and staff; which, by the end of the year totaled 45,916 persons distributed throughout 25 different countries.

During 2015 we began to execute the so-called *Twist Project* at airports, contact centers and on-board services. We continued to pursue this initiative during 2016 and it became the most relevant initiative in the area of persons, since it involves a new way of conceiving the delivery of services.

The main objective of this initiative is to generate an emotional connection between company employees and customers and, consequently, to achieve a greater passenger loyalty. This objective will be achieved upon adapting the work of our human teams to the evolution of the industry, to the empowering clients and to the size now reached by the LATAM Group, granting them with a greater degree of autonomy to respond to our customers' diverse needs in the different places where we operate and with the capacity of providing flexible service responses to these realities.

For example, at the Brasilia airport, 50% of the people using this airport are there flying for the first time; while only 5% of those using Sao Paulo's Guarulhos Airport are in that situation. This suggests that the way to inform and serve our customers in either one of these airports should be different in order to be successful. Consequently, our local teams must be empowered and trained to respond to customers in a customized way.

Through our *Twist Program* we teach and train our leaders how to get organized, motivate their teams and interact with our customers toward building a new relationship with each of them and enabling them to attain their own preferences.

As of December 2016, the company had some 9 thousand persons working under the *Twist* model; including all employees working at contact centers, airport hubs, half of Brazil's airports, major non-hub airports, and Chile's Wide Body fleet cabin crews.

We still have more than 50% of our customer-contact personnel to be trained by *Twist*. This poses an additional challenge to our company in order to change our way of working by applying a model with proven results. LATAM now needs to adopt *Twist* fully in order to be among the world's top airlines in the coming years

On the other hand, during 2016 we trained 3,705 workers in homologating frequent flyer plans; they were joined by other 1,208 persons working in CTOs, call centers and airports in our "*Favorite seat*" Program (prioritizing the sale of seats; i.e. those with more leg space and located toward the front part of the cabin), and other 2,864 persons on indirect sales, CUS, CTOs, call centers and airports in simplifying and automating re-emission processes.

Additionally, the company closed the year with more than 1,000 persons trained for on-board sales on domestic flights in Chile, Colombia, Argentina and Peru.

In the Support Area, we developed a "Management of emotions" course aimed at those who work in direct contact with clients, providing them with tools for handling their own emotions and teaching them to apply such strategies in their handling of passenger emotions. This project was executed through 2016 in training over 90% of our staff at airports and LATAM channels.

Concurrently, we introduced a *Child Tracker System* at airports, aimed at enabling parents to monitor their non-accompanied traveling minors, permitting them to know their



location and thus “accompany” them throughout the trip. Toward these purposes we trained 2,200 passenger service agents in Argentina, Chile, Peru and Colombia.

With respect to our Emergency Response Plan, the respective company department trained 2,391 persons in 11 subsidiaries (Chile, Brazil, Argentina, Peru, Colombia, Ecuador, United States, Paraguay, Spain, Mexico and the LATAM Office in Brazil) in how to respond in the event of a plane crash. In such case, the respective teams simulate an aircraft crash situation and must apply the procedures of the Emergency Response Plan in order to determine its effectiveness, level of coordination, eventual gaps and introduce the necessary corrections.

On the other hand, during 2016 the company worked on the collaborative construction of a Leadership Model that would reflect the major challenges that confront all those who lead person teams. Participatory workshops were held with leaders at all levels and with the information thus obtained we designed a LATAM leadership model aimed at aligning, directing and making transparent what the organization needs and expects from each of its leaders. Among the practices suggested by this leadership model is the *Barometer*, which seeks to promote conversations and personal closeness between leaders and their team, supported by a survey.

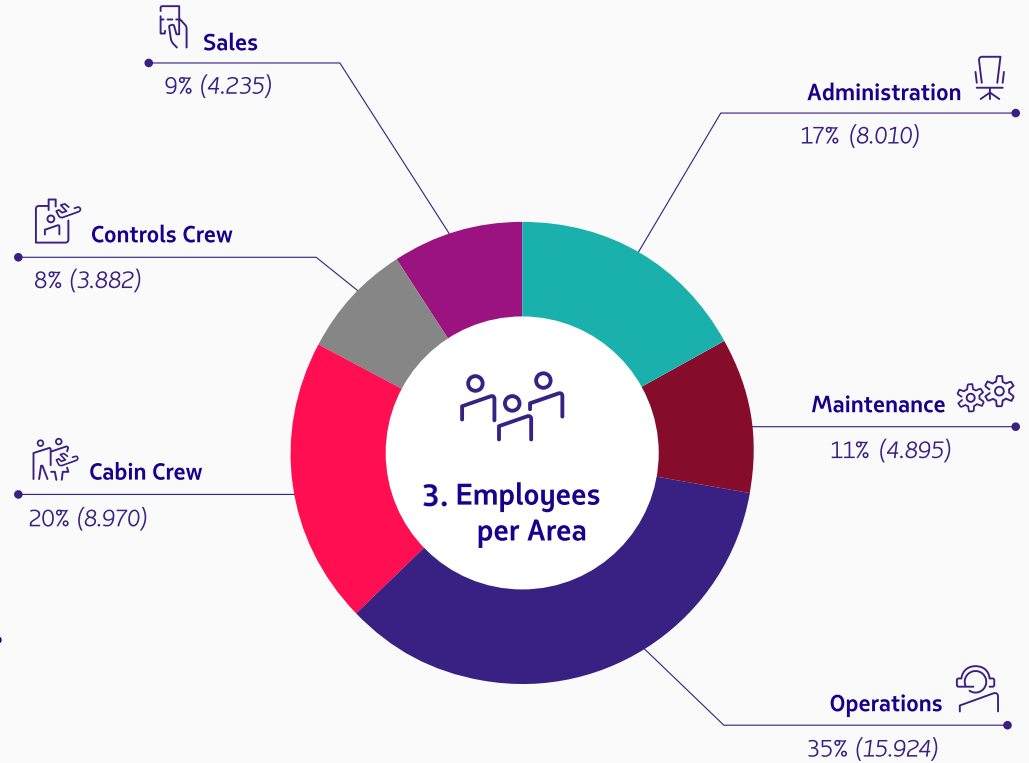
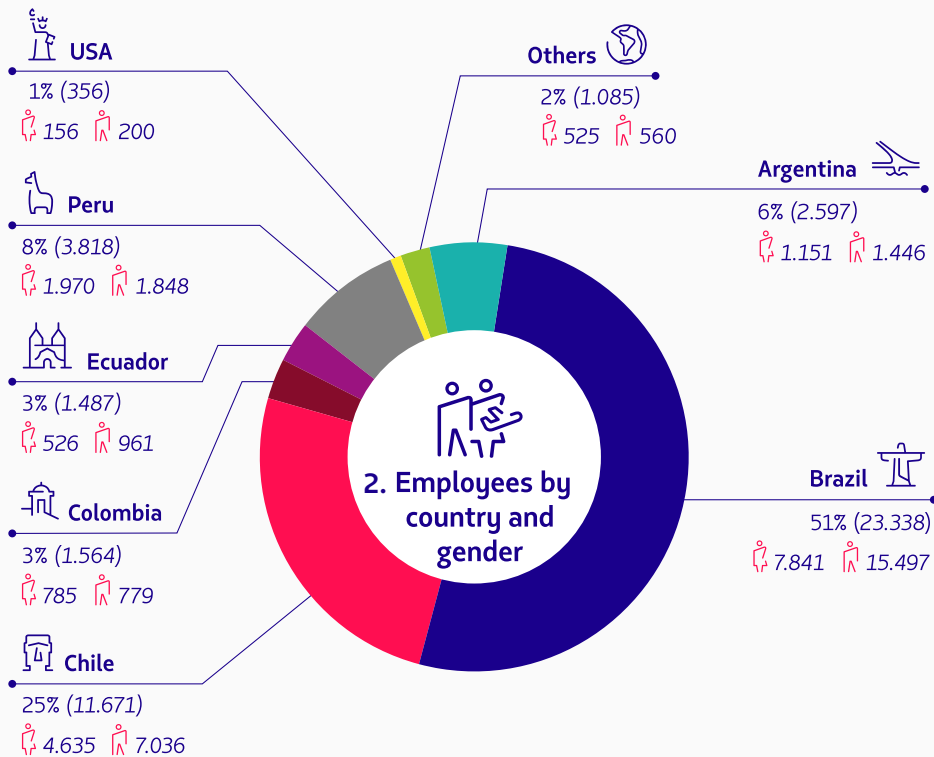
Moreover, during 2016 we offered 34 assertive Communication Workshops among LATAM Group executives. These workshops were imparted to 362 company executives, in pairs of executives especially prepared to play this role.

Finally, in order to acknowledge those who best represent LATAM’s guidelines of conduct (Safety, Attentionness and Efficiency), during 2016 we launched the LATAM Appreciation Platform, whereby persons who are part of the company can acknowledge the merits of a partner and at the same time be acknowledged by others, regardless of the type of job performed or the country of location, in an attempt to have a cross-sectional acknowledgement of all those persons who represent LATAM’s spirit of service.

GENERAL

1) Total Employees / Nationality / Country

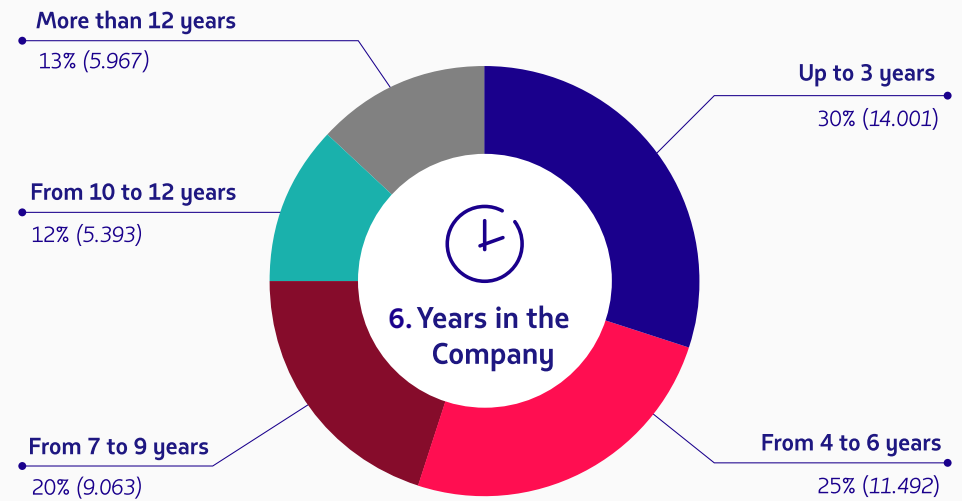
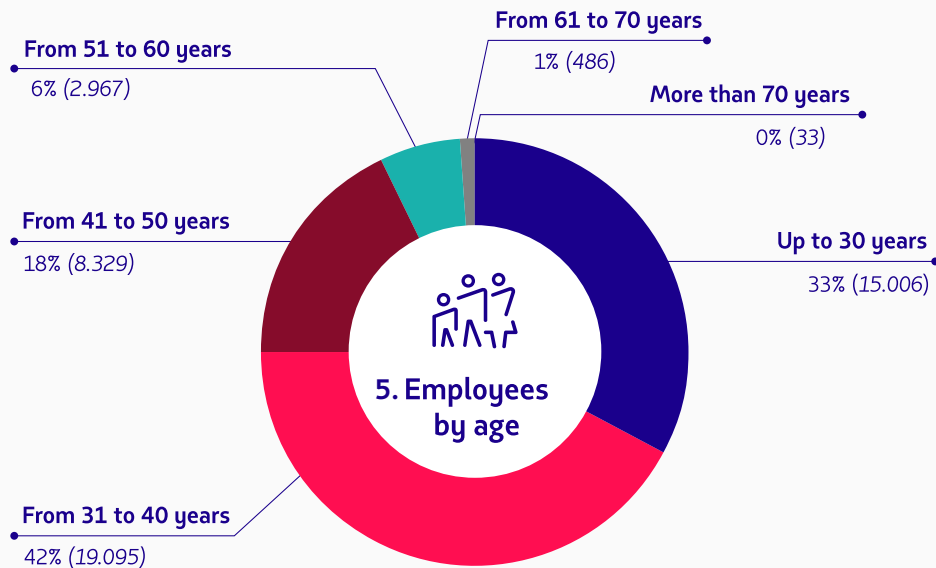
| | |
|---------------------|-------|
| Total Employees | 45916 |
| Total Nationalities | 64 |
| Total Country | 25 |



4. Proportion of Gross Salary by gender

| Level | Proportion of Gross Salary by gender |
|-----------------|--------------------------------------|
| Executive level | 1.37 times |
| Medium level | 1.10 times |
| General role | 0.98 times |



DIVERSITY OF THE ORGANIZATION





DIVERSITY OF THE MANAGEMENT

7. By country and gender

| Country |  |  | Total |
|--------------|---|---|--------------|
| Argentina | 10 | 28 | 38 |
| Brazil | 131 | 267 | 398 |
| Chile | 153 | 407 | 560 |
| Colombia | 10 | 24 | 34 |
| Ecuador | 7 | 13 | 20 |
| Peru | 11 | 29 | 40 |
| USA | 13 | 53 | 66 |
| Others | 14 | 37 | 51 |
| Total | 349 | 858 | 1.207 |

9. By years in the Company

| Years in LATAM | People | % |
|---------------------|-------------|-------------|
| Up to 3 years | 235 | 19% |
| From 4 to 6 years | 274 | 23% |
| From 7 to 9 years | 214 | 18% |
| From 10 to 12 years | 175 | 14% |
| More than 12 years | 309 | 26% |
| Total | 1207 | 100% |



8. By age

| Age | People | % |
|---------------------|-------------|-------------|
| Up to 30 years | 79 | 7% |
| From 31 to 40 years | 643 | 53% |
| From 41 to 50 years | 331 | 27% |
| From 51 to 60 years | 133 | 11% |
| From 61 to 70 years | 21 | 2% |
| Total | 1207 | 100% |



DIVERSITY OF BOARD OF DIRECTORS

10. By country and gender

| Country |  |  | Total |
|----------------|---|---|----------|
| Chile | - | 5 | 5 |
| Brazil | - | 2 | 2 |
| Spain | - | 1 | 1 |
| United Kingdom | - | 1 | 1 |
| Total | 0 | 9 | 9 |

12. By years in the Company

| Years in LATAM | N° Directors | % |
|---------------------|--------------|-------------|
| Up to 3 years | 2 | 22% |
| From 4 to 6 years | 5 | 56% |
| From 7 to 9 years | - | 0% |
| From 10 to 12 years | - | 0% |
| More than 12 years | 2 | 22% |
| Total | 9 | 100% |

11. By age

| Age | N° Directors | % |
|---------------------|--------------|-------------|
| Up to 30 years | - | 0% |
| From 31 to 40 years | 1 | 11% |
| From 41 to 50 years | 1 | 11% |
| From 51 to 60 years | 3 | 33% |
| From 61 to 70 years | 3 | 33% |
| More than 70 years | 1 | 11% |
| Total | 9 | 100% |



LATAM AIRLINES GROUP S.A.

Chilean Tax N° (RUT): 89.862.200-2

Residence: Santiago

Fantasy names: “LATAM Airlines”, “LATAM Airlines Group”, “LATAM Group”, “LAN Airlines”, “LAN Group” y/o “LAN”.

Incorporation: Established as a limited liability company by public deed of 30 December 1983, extended by Public Notary Eduardo Avello Arellano, an extract of which was recorded at Folio 20,341 N° 11,248 of 1983 of the Santiago Business Register and published in the Official Gazette of 31 December 1983.

By public deed of 20 August 1985, extended by Public Notary Miguel Garay Figueroa, the company became a joint stock company under the name of Línea Aérea Nacional de Chile S.A. (now LATAM Airlines Group S.A.). As regards aeronautical and radio communication concessions, traffic rights and other administrative concessions, this company was expressly designated by Law N°18.400 as the legal continuation of the state company created in 1929 under the name of Línea Aérea Nacional de Chile.

The Extraordinary Shareholders’ Meeting of LAN Chile S.A. held on 23 July 2004 agreed to change the company’s name to “LAN Airlines S.A.” and the Extraordinary Shareholders’ Meeting of LAN Airlines S.A. held on 21 December 2011 agreed to change the company’s name to “LATAM Airlines Group S.A.”, current corporate name of the Company. An extract of the public deed corresponding to the Meeting’s minutes was recorded on the Business Register of the Real Estate Registry Office at Folio 4,238 N° 2,921 of 2012 and was published in the Official Gazette of 14 January 2012. The change of name came into force on 22 June 2012.

LATAM Airlines Group S.A. is subject to the regulation applicable to listed joint stock companies and is registered

with the Superintendencia de Valores y Seguros (SVS), Chile’s stock market regulator, under Inscription N° 0306 of 22 January 1987.

The corporate purpose is: a) The commerce of air and / or land transport in any of its forms, whether of passengers, cargo, mail and everything that has direct or indirect relation with said activity, inside and outside the country, for own account or others; b) The provision of services related to the maintenance and repair of aircraft, own or third parties; c) The development and exploitation of other activities derived from the corporate purpose and / or related, related, auxiliary or complementary to it; d) The commerce and development of activities related to travel, tourism and hotels; and e) Participation in societies of any type or kind that allow society to fulfill its purposes.



CORPORATE HEADQUARTERS

Avenida Presidente Riesco 5711, Piso 19
Las Condes, Santiago, Chile
Tel: (56) (2) 2565 2525

MAINTENANCE CENTER

Aeropuerto Arturo Merino Benítez
Santiago, Chile
Tel: (56) (2) 2565 2525

TICKER SYMBOL

LAN- Santiago Stock Exchange
LFL- New York Stock Exchange

FINANCIAL INFORMATION

Investor Relations
LATAM Airlines Group S.A.
Avenida Presidente Riesco 5711, 20th Floor
Las Condes, Santiago, Chile
Tel: (56) (2) 2565 3944
Email: InvestorRelations@latam.com

SHAREHOLDER INQUIRIES

Depósito Central de Valores
Huérfanos 770, Piso 22
Santiago, Chile
Tel: (56) (2) 2393 9003
Email: atencionaccionistas@dvcv.cl

DEPOSITARY BANK ADRS

JPMorgan Chase Bank, N.A.
P.O. Box 64504
St. Paul, MN 55164-0504
Tel: General (800) 990-1135
Tel: From outside (651) 453-2128
Tel: Global Invest Direct (800) 428-4237
Email: jpmorgan.adr@wellsfargo.com

CUSTODIAN BANK ADRS

Banco Santander Chile
Bandera 140, Santiago
Custody Department
Tel: (56) (2) 2320 3320

EXTERNAL AUDITORS

Pricewaterhouse Coopers
Avenida Andrés Bello 2711, Piso 5
Santiago, Chile
Tel: (56) (2) 2940 0000

WEBSITES

Complete information about LATAM Airlines:
www.latamairlinesgroup.net
www.latam.com



VIP Lounge



CORPORATE GOVERNANCE

BOARD OF DIRECTORS

At the Ordinary Shareholders' Meeting of 2017, the Company's board of directors will be completely renewed

The Board of Directors was elected during the Shareholder's Meeting on April 28, 2015 for a period of two years.



Mauricio Rolim Amaro

Chairman of the Board

RUT: 48.143.165-4

Mr. Mauricio Rolim Amaro, has served as member of LATAM Airlines Group's board of directors since June 2012. He was reelected to the board of directors of LATAM in April 2015 and has served as Chairman since September 2012. Mr. Amaro has previously held various positions in the TAM Group and served as a professional pilot at TAM Linhas Aéreas S.A. and TAM Aviação Executiva S.A. Mr. Amaro has been a member of the Board of TAM S.A. since 2004, and vice-chairman of the Board since April 2007. He is also an executive officer at TAM Empreendimentos e Participações S.A. and chairman of the boards of Multiplus S.A. (subsidiary of TAM S.A.) and of TAM Aviação Executiva e Taxi Aéreo S.A.



Henri Philippe Reichstul

Director
RUT: 48.175.668-5

Mr. Henri Philippe Reichstul, joined LATAM's board of directors in April 2014. Mr. Reichstul has served as President of Petrobras and the IPEA-Institute for Economic and Social Planning and Executive Vice President of Banco Inter American Express S.A. Currently, in addition to his roles as Administrative Board member of TAM and LATAM Group, he is also a member of the Board of Directors of Repsol YPF, Peugeot Citroen, AES Brasil, and SEMCO Partners, among others. Mr. Reichstul is an economist with an undergraduate degree from the Faculty of Economics and Administration, University of São Paulo, and postgraduate work degrees in the same discipline—Hertford College—Oxford University.



Juan José Cueto Plaza

Director
RUT: 6.694.240-6

Mr. Juan José Cueto Plaza, has served on LAN's board of directors since 1994 and was reelected to the board of directors of LATAM in April 2015. Mr. Cueto currently serves as Executive Vice President of Inversiones Costa Verde S.A., a position he has held since 1990, and serves on the boards of directors of Consorcio Maderero S.A., Inversiones del Buen Retiro S.A., Costa Verde Aeronáutica S.A., Sinergia Inmobiliaria S.A., Valle Escondido S.A., Fundación Colunga and Universidad San Sebastián. Mr. Cueto is the brother of Messrs. Enrique and Ignacio Cueto Plaza, LATAM Airlines Group Executive Vice-President and LAN CEO, respectively. Mr. Cueto is a member of the Cueto Group (LATAM Airlines Group's Controlling Shareholder).



Georges de Bourguignon

Director
RUT: 7.269.147-4

Mr. Georges de Bourguignon, has served on LATAM Airlines Group's board of directors since September 2012 and was reelected to the board of directors of LATAM in April 2015. Mr. de Bourguignon has been a partner and executive director of Asset Chile S.A., a Chilean investment bank, since 1993. He is currently member of the board of directors K+S Chile S.A. and Embotelladora Andina S.A. In the past he has served in several other boards of public and private companies, as well as of boards of non profit organizations. Between 1990 and 1993, he was manager of the Financial Institutions Group at Citibank S.A. in Chile, and was a professor of economics at the Catholic University of Chile. He is an economist from Catholic University of Chile and a graduate of Harvard Business School.


Ramón Eblen Kadis

Vice-president of the Board
RUT: 4.346.062-5

Mr. Ramón Eblen Kadis, has served on LAN's board of directors since June 1994 and was reelected to the board of directors of LATAM in April 2015. Mr. Eblen has served as President of Comercial Los Lagos Ltda., Inversiones Santa Blanca S.A., Inversiones Andes SpA, Granja Marina Tornagaleones S.A. and TJC Chile S.A. Mr. Eblen is a member of the Eblen Group (a major shareholder of LATAM Airlines Group).


Carlos Heller Solar

Director
RUT: 8.717.000-4

Mr. Carlos Heller Solar, joined the board of LAN in May 2010 and was re-elected to the Board of Directors of LATAM in April 2015. Mr. Heller has vast experience in retail, communications, transport and agriculture industries. Mr. Heller is president of Bethia S.A. ("Bethia") (parent company of Axxion S.A. and Inversiones HS SpA). He is also President of the Boards of Falabella Retail S.A., Red Televisiva Megavisión S.A., Club Hípico de Santiago S.A., Sotraser S.A., Blue Express S.A., Aero Andina S.A. and "Azul Azul S.A." concessionaire of the Corporación de Fútbol Profesional de la Universidad de Chile. He is also a member of the Board of Directors of S.A.C.I Falabella, Viña Indómita S.A., Viña Santa Alicia S.A. and Viña Dos Andes S.A. Mr. Heller is a member of the Bethia Group (a major shareholder of LATAM Airlines Group).


Gerardo Jofré Miranda

Director
RUT: 5.672.444-3

Mr. Gerardo Jofré Miranda, joined LATAM Airlines' Board of directors on May 2010 and was reelected to the board of directors of LATAM in April 2015. Mr. Jofré is member of the board of directors of Codelco, Enel Chile and member of the Real Estate Investment Council of Santander Real Estate Funds. From 2010 to 2014 he served as president of the board of directors of Codelco. From 2005 to 2010 he served as member of the boards of directors of Endesa Chile S.A., Viña San Pedro Tarapacá S.A., D&S S.A., Inmobiliaria Titanium S.A. Construmart S.A., Inmobiliaria Playa Amarilla S.A. and Inmobiliaria Parque del Sendero S.A. and was President of Saber Más Foundation. Mr. Jofré was Director of Insurance for America for Santander Group of Spain between the years 2004 and 2005. From 1989 to 2004 he served on Santander Group in Chile, as Vice Chairman of the Group and as CEO, member of the boards of directors and Chairman of many of the Group's companies.



Giles Agutter

Director
Foreign

Mr. Giles Agutter is the owner and Chief Executive Officer of Southern Sky Ltd, an airline consultant company specializing in airline strategy, fleet planning, aircraft acquisition and aircraft financing. Mr. Agutter has had vast experience in advising airlines, including Qatar Airways, on significant Merger and Acquisition projects within the airline industry. Mr Agutter has a degree in Aerospace Engineering from Manchester University and he currently resides in England.



Francisco Luzón López

Director
RUT: 48.171.119-3

Mr. Francisco Luzón López, has served on LATAM Airlines Group's board of directors since September 2012 and was reelected to the board of directors of LATAM in April 2015. He has served as a consultant of the Inter-American Development Bank (IDB) and he has been Teacher "Visiting Leader" of the School of Business China-Europe ("CEIBS") in Shanghai (2012-2013). He is currently a member of the board of La Haya Real Estate and served as Independent Director at Willis Group between June 2013 and January 2016. Between 1999 and 2012, Mr. Luzon served as Executive Vice President for Latin America of Banco Santander. In this period, he was also Worldwide Vice President of Universia S.A. Between 1991 and 1996 he was Chairman and CEO of Argentaria Bank Group. Previously,

in 1987, he was appointed Director and General Manager of Banco de Vizcaya and in 1988, Counselor and General Director of Banking Group at BBV. During his career Mr. Luzon has held positions on the boards of several companies, most recently participating in the council of the global textile company Inditex-Zara from 1997 until 2012.

SENIOR MANAGEMENT

**Our experience
makes us unique**



Enrique Cueto Plaza

CEO LATAM Airlines Group

RUT: 6.694.239-2

Mr. Enrique Cueto Plaza, is LATAM Airlines Group's Chief Executive Officer ("CEO") and has been in this position since the combination between LAN and TAM in June 2012. From 1983 to 1993, Mr. Cueto was Chief Executive Officer of Fast Air, a Chilean Cargo airline. From 1993 to 1994, Mr Cueto was a member of the board of LAN Airlines. Thereafter, Mr. Cueto held the position of CEO of LAN until June 2012. Mr. Cueto has in-depth knowledge of passenger and cargo airline management, both in commercial and operational aspects, gained during his 30 years in the airline industry. Mr. Cueto is an active member of the oneworld® Alliance Governing Board, the IATA (International Air Transport Association) Board of Governors. He is also member of the Board of the Endeavor foundation, an organization dedicated to the promotion of entrepreneurship in Chile, and president of the Latin American and Caribbean Air Transport Association (ALTA).


Ignacio Cueto Plaza

CEO LAN
RUT: 7.040.324-2

Mr. Ignacio Cueto Plaza, is LAN's CEO. His career in the airline industry extends over 30 years. In 1985, Mr. Cueto assumed the position of Vice President of Sales at Fast Air Carrier, the biggest national cargo company of that time. In 1985, Mr. Cueto assumed as Service Manager and Commercial Manager for the Miami sales office. Mr. Cueto later served on the board of directors of Ladeco (from 1994 to 1997) and LAN (from 1995 to 1997). Mr. Cueto served as President of LAN Cargo from 1995 to 1998, as Chief Executive Officer-Passenger Business from 1999 to 2005, and as President and Chief Operating Officer of LAN since 2005 until the combination with TAM in 2012. Mr. Cueto also led the establishment of the different affiliates that the Company has in South America, as well as the implementation of key alliances with other airlines. Mr. Cueto is expected to leave the Company's senior management team in mid-April 2017 and is applying to become a member of LATAM's board of directors.


Armando Valdivieso

Senior Commercial Vice President of LATAM
RUT: 8.321.934-3

Mr. Armando Valdivieso Montes, is Senior Commercial Vice President of LATAM since 2015. After the combination between LAN and TAM in 2012, Mr. Valdivieso served as General Manager of LAN, and from 2006 until 2012 he served as the General Manager-Passenger. Between 1997 and 2005 he served as Chief Executive Officer-Cargo Business of LAN. From 1995 to 1997, Mr. Valdivieso was President of Fast Air, and from 1991 to 1994, Mr. Valdivieso served as Vice President, North America of Fast Air Miami. Mr. Valdivieso is a civil engineer and obtained an AMP (Advance Managements Program) from Harvard Business School. Mr. Valdivieso will leave the Company during August 2017 as was announced by the Company on March 16, 2017.


Claudia Sender

CEO TAM President
Foreign

Mrs. Claudia Sender Ramirez, has served as TAM Airlines' President since May 2013. Mrs. Sender joined the company in December 2011, as Commercial and Marketing Vice-President. After June 2012, with the conclusion of TAM-LAN combination and the creation of LATAM Airlines Group, she became the head of Brazil Domestic Business Unit, and her functions were expanded in order to include TAM's entire Customer Service structure. Mrs. Sender prior to joining LATAM Airlines, she was Marketing Vice-President at Whirlpool Latin America for seven years. She also worked as a consultant at Bain & Company, developing projects for large companies in various industries, including TAM Airlines and other players of the global aviation sector. She has a bachelor's degree in Chemical Engineering from the Polytechnic School at the University of São Paulo ("USP") and a MBA from Harvard Business School.



Ramiro Alfonsín
 Chief Financial Officer
 Rut: 22.357.225-1

Mr. Ramiro Alfonsín, is LATAM's Chief Financial Officer ("CFO"), a position he holds since July 2016. Over the past 16 years, before joining LATAM, he worked for Endesa, a leading utility company, in Spain, Italy and Chile, having served as Deputy Chief Executive Officer and Chief Financial Officer for their Latin American operations. Before joining the utility sector, he worked for 5 years in Corporate and Investment Banking in large European banks. Mr. Alfonsín holds a degree in business administration from Pontificia Universidad Católica de Argentina.



Juan Carlos Menció
 Senior Vice President of Legal Affairs
 RUT: 24.725.433-1

Mr. Juan Carlos Mencion is Senior Vice President of Legal Affairs and Compliance for LATAM Airlines Group since September 1, 2014. Mr. Mencion had previously held the position of General Counsel for North America for LATAM Airlines Group and its related companies, as well as General Counsel for its worldwide Cargo Operations, both since 1998. Prior to joining LAN, he was in private practice in New York and Florida representing various international airlines. Mr. Mencion obtained his Bachelor's Degree in International Finance and Marketing from the School of Business at the University of Miami and his Juris Doctor Degree from Loyola University.



Emilio del Real
 Senior Vice President of Human Resources
 RUT: 9.908.112-0

Mr. Emilio del Real Sota, is LATAM's HR Executive Vice-President, a position he assumed (with LAN) in August 2005. Between 2003 and 2005, Mr. del Real was the Human Resource Manager of D&S, a Chilean retail company. Between 1997 and 2003 Mr. del Real served in various positions in Unilever, including Human Resource Manager for Chile, and Training and Recruitment Manager and Management Development Manager for Latin America. Mr. del Real has a Psychology degree from Universidad Gabriela Mistral.


Board Members' Compensation

| 2016 | | | | | |
|---|--------------|---------------------------------|---|-------------------------------|--------------|
| Board members | Position | Board member's allowance (US\$) | Board member's Committee allowance (US\$) | Subcommittee allowance (US\$) | Total (US\$) |
| Maurício Amaro | President | 25,029 | - | 1,992 | 27,021 |
| Francisco Luzón López | Board member | 2,470 | - | - | 2,470 |
| Juan José Cueto Plaza | Board member | 19,071 | - | 13,879 | 32,950 |
| Ramón Eblen Kadis | Board member | 19,071 | 25,555 | 12,497 | 57,123 |
| Juan Gerardo Jofré Miranda | Board member | 19,071 | 25,555 | 12,497 | 57,123 |
| Carlos Heller Solari | Board member | 15,576 | - | - | 15,576 |
| Georges Antoine de Bourguignon Arndt | Board member | 19,071 | 25,555 | 12,489 | 57,115 |
| Ricardo J. Caballero | Board member | 6,212 | - | 2,976 | 9,188 |
| Henri Philippe Reichstul | Board member | 13,774 | - | 10,024 | 23,798 |

| 2015 | | | | | |
|---|--------------|---------------------------------|---|-------------------------------|--------------|
| Board members | Position | Board member's allowance (US\$) | Board member's Committee allowance (US\$) | Subcommittee allowance (US\$) | Total (US\$) |
| Maurício Amaro | President | 38,315 | - | 9,224 | 47,539 |
| Francisco Luzón López | Board member | 15,333 | - | 10,735 | 26,068 |
| Juan José Cueto Plaza | Board member | 21,106 | - | 13,839 | 34,945 |
| Ramón Eblen Kadis | Board member | 21,106 | 23,150 | 12,261 | 56,517 |
| Juan Gerardo Jofré Miranda | Board member | 21,106 | 28,282 | 15,344 | 64,732 |
| Carlos Heller Solari | Board member | 15,349 | - | 1,527 | 16,876 |
| Georges Antoine de Bourguignon Arndt | Board member | 21,106 | 28,282 | 12,252 | 61,640 |
| Ricardo J. Caballero | Board member | 15,360 | - | 9,233 | 24,593 |
| Henri Philippe Reichstul | Board member | 21,106 | - | 10,804 | 31,910 |

It should be noted that the compensations thus reported correspond to allowances for monthly attendance to Board of Directors' Meetings and Directors' Committee Meetings pursuant to the resolution approved by the Ord-

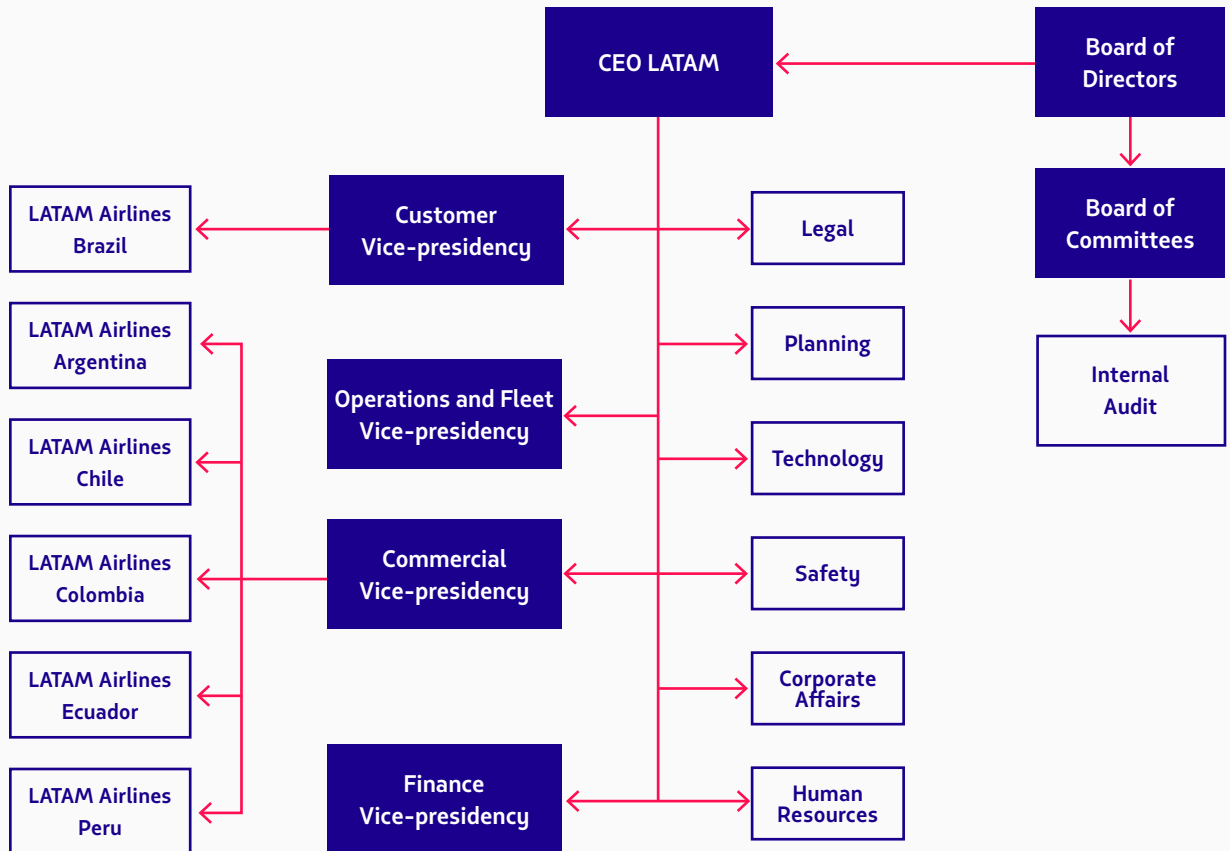
inary Shareholders Meeting of April 28, 2015. During the year 2016, neither the Board of Directors nor the Directors' Committee incurred in any additional consulting service costs.



Organizational chart

During 2017, the Company will implement a new organizational structure focused on four basic areas –Clients, Revenue, Operations and Fleet, and Finance– which will be the pillars of the Company’s business strategy and will report directly to the CEO LATAM. The new structure will be simpler, more efficient and more functional, and will enable the Company to face an increasingly competitive environment. With this reorganization that will focus on functions instead of business units, the Company expects to optimize its internal synergies and strengthen its structure.

The Clients area will be initially led by Claudia Sender. This area will focus on providing the client with a complete experience. The Revenues area, focused on maximizing revenues for the Company, will be initially led by Roberto Alvo Milosawlewitsch, who will be LATAM’s Chief Commercial Officer. The Operations and Fleet area will be initially led by Hernan Paskan, who will be responsible for the Operations and Fleet Vice-presidency. The Finance area will preserve its existing organization and structure, and will be led by Ramiro Alfonsín, the current Chief Financial Officer of the Company.





During the year 2016, the LATAM Airlines Group paid to all its senior executives a total of US\$ 40,194,453 and US\$ 14,980,291 corresponding to performance incentives paid in March 2017. Consequently, the company paid to its senior executives a total gross remuneration amounting to US\$ 55,174,744.

On the other hand, during the year 2015, the LATAM Airlines Group paid to all its senior executives a total of US\$ 40,404,395, in addition to US\$ 13,789,916 corresponding to performance incentives paid in March 2016. Consequently, the company paid to its senior executives a total gross remuneration amounting to US\$ 54,194,311.

Compensation plans

(a) Capital increase Compensation Plans

(a.1) 2011 Compensation Plan

On December 21, 2016, the subscription and payment period of the 4,800,000 shares corresponding to the compensation plan approved at the Extraordinary Shareholders Meeting held on December 21, 2011 (the “2011 Compensation Plan”), expired. Of the total shares allocated to the 2011 Compensation Plan, only 10,282 shares were subscribed and paid and were placed on the market in January 2014. At the expiration date, the 2011 Compensation Plan had a balance of 4,789,718 unsubscribed and unpaid shares, which was deducted from the authorized capital of the Company.

(a.2) 2013 Compensation Plan

At the Extraordinary Shareholders Meeting held on June 11, 2013, the Company’s shareholders approved a capital increase and the allocation of 1,500,000 shares to compensation plans for employees of the Company pursuant to Article 24 of the Chilean Corporations Law. The Company has not defined a date for implementation of this compensation plan yet.

(b) The 2016-2018 Compensation Plan

The Company implemented a long-term retention plan for executives, with an end date of December 2018 and a vesting period between October 2018 and March 2019. The plan contemplates an extraordinary bonus to be paid in cash, whose calculation formula based on the variation of the value of the Company’s shares over a certain period of time.

For more information, please see note 34 Note to our consolidated financial statements.



Corporate Governance Practices

LATAM Airlines Group S.A. is a listed joint stock company registered with the Superintendencia de Valores y Seguros (SVS), Chile's stock market regulator, under Inscription N°306. Its shares trade on the Santiago Stock Exchange, Chile's Electronic Stock Exchange and the Valparaíso Stock Exchange as well as on the New York Stock Exchange (NYSE) as American Depositary Receipts (ADRs)

LATAM Airlines Group's corporate governance practices are regulated by Chile's Securities Market Law (N° 18.045) and its Corporations Law N° 18.046 ("LSA"), including their associated norms, as well as other norms issued by the SVS, the legislation and regulation of the United States and that country's Securities and Exchange Commission (SEC) as they apply to the issue of ADRs.

The corporate governance practices of LATAM Airlines Group are subject to constant review in order to ensure that its internal self-regulation processes are totally aligned with the regulation in force and the LATAM's values.

LATAM Airlines Group's decisions and commercial activities are underpinned by the ethical principles established in LATAM's Code of Conduct.

The main bodies responsible for LATAM Airlines Group's corporate governance are its Board of Directors and the Directors' Committee (which also fulfills the functions of the Audit Committee required under the Sarbanes-Oxley Act of the United States), together with the Strategy, Finance, Leadership and Product, Brand and Frequent Flyer Program Committees created after the association between LAN Airlines and TAM. The main functions of these bodies are set out below.

BOARD OF DIRECTORS OF LATAM AIRLINES GROUP

LATAM Airlines Group's Board of Directors has nine members and is the body responsible for analyzing and defining LATAM's strategic vision, thereby playing a fundamental role in its corporate governance. All the Board seats come up for election every two years and, under LATAM Airlines Group's statutes, directors are elected through cumulative voting.

Each shareholder has one vote per share and can use all his or her votes to support one candidate or divide them among any number of candidates. This arrangement ensures that a shareholder with more than a 10% stake can elect at least one director. The present Board of Directors was elected by the Ordinary Shareholders' Meeting which took place on April 28th, 2015.

LATAM Airlines Group's Board holds ordinary monthly meetings and extraordinary meetings whenever the Company's affairs so require. Directors' fees must be approved by vote at the Ordinary Shareholders' Meeting. The Directors' Committee usually meets monthly and its functions and powers are those established by the applicable legislation and regulation.

DIRECTORS' COMMITTEE OF LATAM AIRLINES GROUP

Under Chilean law, listed joint stock companies must appoint at least one independent director and a Directors' Committee when they have a market capitalization of at least 1,500,000 unidades de fomento (an inflation-indexed currency unit) and at least 12.5% of the voting shares are held by shareholders who individually control or possess less than 10% of these shares. Three of the nine Board members form a Directors' Committee, which fulfills both the functions required under Chile's Corporations Law and those of the Audit Committee required under the Sarbanes-Oxley Act of the United States and the corresponding SEC norms.



The Directors' and Audit Committee has the functions established in Article 50 bis of Chile's Corporations Law and the other applicable regulation. These include:

- ▶ To examine the reports of LATAM Airlines Group's external auditors, general balance sheets and other financial statements that LATAM Airlines Group's administrators provide to shareholders and to express an opinion about these reports prior to their presentation for approval by shareholders.
- ▶ To put to the Board proposals as to the external auditors and credit rating agencies to be used.
- ▶ To examine internal control reports and any related complaints.
- ▶ To examine and report on all matters regarding related-party transactions.
- ▶ To examine the pay scale of LATAM's senior management.

The requirements for directors' independence are set out in Chile's Corporations Law (Nº 18.046) and its subsequent modifications under Law Nº 19.705 on the relationship between directors and LATAM's controlling shareholders.

A director is considered independent when he or she does not, in general, have ties, interests or economic, professional, credit or commercial dependence of a significant nature or size with or on the company, the other companies in the group of which it forms part, its controller or principal executives or a family relationship with the latter or any of the other types of ties specified in Law Nº 18.046.

Under US regulation, it is necessary to have an Audit Committee, comprising at least three Board members, that fulfills the independence requirements established under Rule 10A of the Exchange Act.

As of 31 December 2016, all the members of the Directors' Committee, who also act as part of the Audit Committee, were independent directors as defined under Rule 10A of the Exchange Act. At that date, its members were

Messrs. Ramón Eblen Kadis, Georges de Bourguignon Arndt and Juan Gerardo Jofré Miranda (chairman of the Committee). For the purposes of Chile's Corporations Law (Nº 18.046), Ramón Eblen Kadis is not considered an independent director. Committee members have not changed in the last two years.

DIRECTORS' COMMITTEE ANNUAL REPORT

In accordance with article 5º, subsection 8º of article 50 bis under the Corporations Law No. 18,046, the Directors' Committee of LATAM Airlines Group S.A. issues the annual management for 2016.

I. Integration of the Directors' Committee and Sessions

The members of the Directors' Committee of the Company are Messrs. Gerardo Jofré Miranda, Georges de Bourguignon Arndt and Ramón Eblen Kadis. Messrs. Jofré and De Bourguignon are considered independent directors of the Company. Gerardo Jofré Miranda chairs the Directors' Committee.

The directors were appointed in the Ordinary Shareholders' Meeting held on April 28, 2015, for a two-year period pursuant to the bylaws of the Company.

II. Report of the Committee's Activities.

During 2016, the Directors' Committee held twenty-one sessions, in order to exercise its functions and fulfill its obligations pursuant to article 50 Bis under the Corporations Law No. 18,046, and also to undertake those other issues that the Directors' Committee decided to review, revise or evaluate. Please find below the main topics covered.

Test and Review of the Balance Sheet and Financial Statements

The Directors' Committee tested and reviewed the financial statements of the Company as of December 31, 2015, as well as the quarterly statements as of March 31, June 30

and September 30 of 2016, understanding the tests of the respective reports of external auditors of the Company. The External Auditor of the Company participated in their respective sessions of the Committee, for the purpose of providing the opinion related to the audit and to inform the relevant issues of the review, the main aspects of internal control and communications required by the regulators of External Auditor, and including in every occasion the confirmation of (i) didn't experience any difficulties to carry out the audit, (ii) didn't have any difference of opinion with the Management, and (iii) didn't came up any facts that represented a threat to its independence.

Likewise, Ernst & Young (EY) in its capacity as external auditor of TAM S.A. and subsidiaries participated in the session of the Directors' Committee held in September 30, 2016, with the purpose of presenting the main aspects of the external audit of TAM, the main focuses of its review process and internal control aspects.

Review of the Cash Generating Units Impairment Reports

In the session held on March 7, 2016, the Directors' Committee examined and analyzed the impairment reports of the cash generating units of the Company for certain assets included in the Financial Statements as of December 31, 2015, in accordance with the reports issued by the management of the Company and by Deloitte, acting as the consulting firm, hired for the purpose, being present at the session.

In session held on August 1, 2016, the Directors' Committee examined and analyzed the impairment reports of the cash generating units of the Company for certain assets included in the Financial Statements as of June 30, 2016, in accordance with the reports issued by the management of the Company and by KPMG, acting as the consulting firm, hired for the purpose, being present at the session.

In session held on July 4, 2016, Comptroller Area of LATAM presented to the Directors' Committee a methodology developed internally to carry out the early evaluation of signs of

deterioration. This new methodological tool makes it possible to determine the need to perform in depth the proof of impairment of certain assets of the cash generating units.

Systems of Compensation for Executives and Employees

In session held on January 25, 2016, the Directors' Committee examined the systems of remunerations and compensation plans for managers, main executives and employees of the Company. This session examined the current remuneration policies and compensation plans of senior executives and the functioning of bonuses calculation. At the Directors' Committee meeting held on September 30, 2016, the accounting treatment of the long-term incentive plan for executives was reviewed.

In session held on November 7, 2016, the Directors' Committee reviewed the main topics discussed in the Leadership Committee during the year, which comprise the main leadership initiatives planned to be developed by the Company, the "Headcount Challenge" and the new LATAM Organizational Structure. In compensation matters, short-term incentive agreements and the long-term bonus program for executives and the performance evaluation of top executives were reviewed.

Review of Background Related to Related Party Transactions and Approval of Control Policy for Related Party Transactions

In sessions held on June 6, 2016 and June 29, 2016, the Directors' Committee reviewed and approved a proposal for a Control Policy for Related Party Transactions applicable to LATAM and its subsidiaries, which was recommended to and approved in the last instance by the Company's Board of Directors. This Policy considers the legal and accounting regulations related to the control and report of operations with related parties, the general policy of ordinary course of operations approved by the Board of Directors and informed by material fact, the controls associated with this type of transactions and the related information form that must be

completed by the Company's directors and executives. Additionally, the transactions that pursuant to the legal and accounting regulation applicable to the Company were reviewed, which are considered operations with related parties, and was approved by the Committee.

Corporate Governance Practices.

In order to comply with General Rule No. 385 of the Superintendence of Securities and Insurance ("NCG 385"), in the sessions held on June 6, 2016, November 10, 2016, January 23, 2017 and March 6, 2017, the Directors' Committee, analyzed and examined the corporate governance practices of LATAM for 2015, according to the questionnaire provided in Addendum I of General Rule No. 385. In those sessions the Committee evaluated corporate improvements to corporate governance practices of the Company, some of which were recommended to the Board of Directors for their implementation, such as training of Board members, annual planning and review of a plan for continuous improvement of the functions and organization of the Board of Directors, regular meetings with certain areas of the Company and implementation of procedures for the hiring of experts who advise the Board on specific matters.

Contracting of Additional Services from External Auditors

In the session held on April 1, 2016, the Directors' Committee examined and evaluated the rules and guidelines for future selections of external audit services, since the tenders that have been made in the past, such as those carried out in the future, demonstrate the firm intention of LATAM Airlines Group to ensure the independence of its external auditors and the willingness to proceed with its evaluation, change, replacement or rotation, to the extent deemed necessary for the purpose of securing an adequate performance over time of external audit services, without prejudice to the legal regulations in Chile and abroad that it applies to the Company, approving a Policy for the Selection of External Audit Services, which was recommended to and approved in the last instance by the Board of Directors of the Company.

Sustainability Policy

In sessions held on June 6, 2016 and July 4, 2016, the Directors' Committee reviewed the Sustainability Policy proposed by the Management, which was recommended to and approved by the Board of Directors of the Company. This Policy includes the objectives of LATAM in this area, the responsibilities assigned within the Administration to meet these objectives and the main guidelines, including international commitments, identification of stakeholders, goals and compliance.

Internal Audit

In ordinary sessions held on May 2, 2016, September 5, 2016 and December 6, 2016, the Directors' Committee examined and reviewed the audit and internal control reports issued by the internal auditor of LATAM. In these sessions the audit work performed in 2016 was approved, and throughout the year informed of its main results. In session held on June 6, 2016, the Directors' Committee reviewed the most relevant internal audit reports of LATAM Airlines Brazil issued as of April 2016.

Corporate Risk Management

In session held on May 2, 2016, the Directors' Committee received an update on the progress of the corporate risk management plan in the Company, including the risks detected, the state of progress of the project in the LATAM Group countries, advances in the management of the "risk table" and in subsequent sessions of July 4, 2016 and November 7, 2016, specific risk analyzes were carried out as requested by the Committee.

Compliance

In ordinary sessions held on January 25, 2016 and August 1, 2016, the Directors' Committee received training regarding the Compliance Program currently in force at the Company and its main contents, among which are the Code of Conduct, Policies and Procedures, Due Diligence of Third Party Intermediaries (TPIs), Crime Prevention Handbook, Continuing Compliance

Counseling, Ambassadors Program, Hotline and internal investigations, risk assessment, certification and training.

Recommendations of the Directors' Committee

On the other hand, the Directors' Committee made the recommendations mentioned below to this annual management report, with the occasion of the appointment of external auditors of the Company and the private risk rating agencies for 2016.

Activities by Session of the Directors' Committee Report

Notwithstanding the above, the Directors' Committee met and held sessions in the opportunities mentioned below, where we present a summary of the matters discussed in each session.

- 1) Ordinary Session N°162 25/01/2016
 - Deferred tax assets in TAM.
 - Presentation of the Compliance area.
 - Remuneration systems and compensation plan for LATAM Executives.
 - Response letter to the Chilean Superintendency of Securities (SVS).
- 2) Ordinary Session N°163 07/03/2016
 - Press release on financial results as of December 31, 2015 ("Press Release").
 - Analysis of the "Impairment" test of certain assets included in Financial Statements as of December 31, 2015.
 - Deferred tax assets in TAM.
 - Bidding for external audit services in 2016.
- 3) Sesión Extraordinaria N°42 15/03/2016
 - Analysis of the document required by the general rule 385.
- 4) Extraordinary Session N°43 21/03/2016
 - Review of Financial Statements as of December 31, 2015.

- 5) Extraordinary Session N°44 30/03/2016
 - Presentations of proposals for external audit services.
- 6) Ordinary Session N°164 01/04/2016
 - Proposition of External Auditors and Private Rating Risk Agencies for 2016.
 - Policy for the selection of External Audit Services of LATAM and Subsidiaries.
 - Annual Management Report of the Directors' Committee.
 - Annual Agenda of the Directors' Committee.
- 7) Ordinary Session N°165 02/05/2016
 - Reports of the Corporate Internal Audit.
 - Updating information on Corporate Risk Management.
 - Summary of requests made by the Directors' Committee.
- 8) Extraordinary Session N°45 de fecha 11/05/2016
 - Review of Financial Statements as of March 31, 2016.
 - Summary of requests made by the Directors' Committee.
- 9) Ordinary Session N°166 06/06/2016
 - Review of the status of pending issues requested by the Committee.
 - Presentation of the Internal Audit Reports on LATAM Airlines Brazil.
 - Analysis of the proposal for presentation to the Board of Directors of the Corporate Risk Management.
 - Analysis of the topics in charge of the Legal department included in the list of pending issues.
 - Summary of requests made by the Directors' Committee.
- 10) Extraordinary Session N°46 29/06/2016
 - Analysis of the proposed control policy for transactions with related parties LATAM.
- 11) Ordinary Session N°167 04/07/2016
 - Analysis of the proposed control policy for transactions with related parties LATAM.
 - Model of early evaluation of signs of deterioration.
 - SOX review, plan of the year.
 - Corporate risk management, risk analysis Olympic Games.

- Presentation on Sustainability and DJSI (Dow Jones Sustainability Index).
- Summary of requests made by the Directors' Committee.

12) Ordinary Session N°168 01/08/2016

- Analysis of the "Impairment" test of certain assets included in Financial Statements as of June 30, 2016.
- Letter received from the External Auditors.
- Presentation of the Revenue Accounting area.
- Presentation of the Compliance area.
- Summary of requests made by the Directors' Committee.

13) Extraordinary Session N°47 04/08/2016

- Review of the investigation related to the notification to TAM Linhas Aéreas S.A. ("TAM") by the Federal Revenue Secretariat of Brazil.

14) Extraordinary Session N°48 11/08/2016

- Review of Financial Statements as of June 30, 2016.
- Summary of requests made by the Directors' Committee.

15) Ordinary Session N°169 05/09/2016

- Internal Audit Plan.
- PwC External Audit Plan year 2016.
- Presentation on one aspect of the agreement with the SEC / DOJ.
- Summary of requests made by the Directors' Committee.

16) Ordinary Session N°170 30/09/2016

- Presentation of the firm of auditors EY on the revision of the Financial Statements of LATAM Airlines Brazil.
- Accounting treatment of the long-term incentive plan for executives.
- Compliance issues.
- Summary of requests made by the Directors' Committee.

17) Ordinary Session N°171 07/11/2016

- Tax issues.
- Corporate Risk Management: LATAM Data Centers.
- Compliance issues.
- Leadership Committee.

- Summary of requests made by the Directors' Committee.

18) Extraordinary Session N°49 10/11/2016

- Review of Financial Statements as of September 30, 2016.

- Summary of requests made by the Directors' Committee.

19) Extraordinary Session N°50 10/11/2016

- Analysis of the Corporate Governance practices of the Company under the general rule N° 385.

20) Ordinary Session N°172 06/12/2016

- Internal Audit Reports.
- Status of the "NOW" Project (LATAM Airlines Brazil).
- Status of progress SOX 2016 Review and internal control statutes.
- Letter received from the External Auditors.
- Legal and Compliance Issues.
- Summary of requests made by the Directors' Committee.

21) Extraordinary Session N° 51 16/12/2016

- Review of Legal and Compliance issues

III. Remunerations and Expenses of the Directors' Committee.

The Ordinary Shareholders Meeting of the Company, held on April 26, 2016, agreed that every member of the Committee receives a monthly allowance of the equivalent to 67 Unidades de Fomento for attending the Directors' Committee sessions.

For the operation of the Directors' Committee and its advisors, Corporations Law established that the expense budget has to be at least the same as the annual remuneration of the Committees' members, and therefore in the aforementioned Ordinary Shareholders Meeting a budget of 2,412 Unidades de Fomento for 2016 was approved.

Therefore, the expenses of the Directors' Committee are related with the monthly allowances for attendance to the sessions, without having any other expenses or outflows to inform.

IV. Recommendations of the Directors' Committee.

IV.1 Proposal of External Auditors' Appointment.

In session held on April 1, 2016, , In accordance with article 5°, subsection 8° of article 50 bis under the Corporations Law No. 18,046, the Directors' Committee agreed to propose to the Board of Directors the external auditors that were suggested at the Ordinary Shareholders Meeting held on April 26, 2016. The above, having previously at the session of the Directors' Committee dated March 30, 2016, reviewed the submissions of the audit firms participating in the tender process. In this regard, the Committee proposed to the Board of Directors the appointment of PriceWaterhouseCoopers Consultores, Auditores y Cía. Limitada ("PWC") Ernst & Young Servicios Profesionales de Auditoría y Asesorías Limitada ("EY") and KPMG Auditores Consultores Ltda ("KPMG") as Auditors of the Company, in this order of priority, but notwithstanding the recommendation to maintain PWC as the Audit Company for 2016. The Director's Committee recommendation to maintain PWC as the external auditor of the Company for 2015 is based on the following reasons and fundamentals:

- (i) The Company has carried out a bidding process for the External Audit services for the years 2016, 2017 and 2018, which is subject for each calendar year to the decision of the respective LATAM Shareholders' Meeting, all in accordance with article 5°, subsection 8° of article 50 bis under the Corporations Law No. 18,046. In this bidding process, the three firms mentioned above have participated. It is noted that for the aforementioned period, PWC was not asked to quote its external audit services for TAM S.A. and its subsidiaries. Only EY and KPMG were requested to make offers for external audit services for (a) LATAM Airlines Group S.A. and subsidiaries (excluding TAM S.A.), (b) TAM S.A. and subsidiaries, and (c) LATAM Airlines Group S.A. and subsidiaries and TAM S.A. and subsidiaries. In the case of TAM S.A. The decision on the election of the external auditor for each financial year corresponds to its respective board of directors and the tender in question does not con-

template the possibility of PWC being elected as the external auditor of TAM S.A. and subsidiaries.

- (ii) Concerning fees and hours and resources available in relation to LATAM Airlines Group S.A. and subsidiaries (excluding TAM S.A. which has a different auditing firm), there are differences between the three audit firms suggested to the shareholders of the Company, with PWC being the lowest bid in respect of audit services for LATAM Airlines Group S.A. and subsidiaries (excluding TAM S.A.). Likewise, it is considered that the professional level of the auditors of the three firms would be equivalent.
- (iii) All three audit companies have internal control systems that make us assume an adequate and equivalent level of independence when providing an audit service. Due to the above, even though PWC has been the external auditor of LATAM Airlines Group S.A. for the last twenty-four years, the independence of this audit company is guaranteed through the policy defined by PriceWaterhouseCoopers worldwide, with the change of the partner in charge each five years, which is in line with section f) of article 243 under the Securities Law No. 18,045. The current partner in charge of LATAM's audit has been in the role for four years.
- (iv) The quality of services provided by PWC to LATAM Airlines Group, doesn't have had any observations or objections from the Company's management or its Board of Directors.
- (v) Since 2014, the external auditor of TAM S.A. and its subsidiaries is KPMG Auditores Independientes, being part of the KPMG global network. In this regard, TAM S.A. and subsidiaries represent an important portion of the balance sheet and financial statements of LATAM Airlines Group S.A., so there's a second external audit firm, also among the most important worldwide, and in addition to PWC, would participate in the delivery of external audit services.

(vi) The interaction and coordination between the two external audit companies PWC and KPMG for the period 2014 and 2015, as external auditors of LATAM Airlines Group and TAM S.A., respectively, has been evaluated as positive.

(vii) On the other hand, and in accordance with the results of the aforementioned bidding process, the Board's recommendation, in accordance with the recommendation of the Directors' Committee, to the Board of Directors of TAM S.A., consists in the designation of EY as the external auditor of TAM S.A. and subsidiaries, replacing KPMG. This in consideration of the economic offer of EY and that this would allow in the future there are three auditing firms perfectly qualified to take charge of the external audit of LATAM.

IV.2 Proposal of Private Risk Rating Agencies.

The Directors' Committee in session held on April 1, 2016 and in accordance with article 2) subsection 8° of article 50 bis under the Corporations Law No. 18,046, agreed to propose the Board of Directors the risk rating agencies to be suggested at the Ordinary Shareholders Meeting to be held on April 26, 2016. In this regard, the Committee agreed to propose the Board of Directors of the Company the appointment of Fitch Chile Clasificadora de Riesgo Limitada and Feller-Rate Clasificadora de Riesgo Limitada.

COMMITTEES OF THE BOARD OF DIRECTORS OF LATAM AIRLINES GROUP

In accordance with the shareholders' agreement of 25 January 2012 between LATAM Airlines Group S.A. (previously LAN Airlines S.A.) and TEP Chile S.A., the Ordinary Board Session of August 3, 2012, established the following four committees to review, discuss and make recommendations to the Board about the issues related to their respective areas of responsibility:

- (i) Strategy Committee, (ii) Leadership Committee, (iii) Finance Committee, and (iv) Brand, Product and Frequent Flyer Program Committee. In accordance with the said sharehold-

ers' agreement, each subcommittee will comprise two or more directors of LATAM Airlines Group and at least one of their members must be a director elected by TEP Chile S.A.

The Strategy Committee will focus on corporate strategy, current strategic affairs and the three-year plans and budgets of the main business units and functional areas and high-level review strategies.

The Leadership Committee will focus on areas that include group culture, high-level organizational structure, appointment of the executive vice-president of LATAM Airlines Group (henceforth, "CEO of LATAM") and those who report to this person, the philosophy of corporate compensations, structures and levels of remunerations and objectives for the CEO of LATAM and other key staff, the succession or contingency plan for the CEO of LATAM and evaluation of the performance of the CEO of LATAM.

The Finance Committee will focus on financial policies and strategy, capital structure, control of compliance policies, tax optimization strategy and the quality and reliability of financial information.

Finally, the Brand, Product and Frequent Flyer Program Committee will focus on brand strategies and brand construction initiatives for corporate brands and those of the principal business units, the principal characteristics of products and services for each of the principal business units, the strategy of the Frequent Flyer Program and its key characteristics and regular auditing of the brand's performance.

In addition, by agreement of the Board of LATAM Airlines Group S.A., during the board of directors' meeting No. 389 on June 10, 2014, a Risk Committee was formed with the purpose of supervising the implementation of the Risk management success factor, included in LATAM's Strategic Plan, and particularly to oversee LATAM Airlines Group's risk management of risks of LATAM Airlines Group and ensure a corporate risk matrix structuring.

RELATED-PARTY TRANSACTIONS

On August 2, 2016, the Board of Directors of LATAM approved a Related Party Transactions' Control Policy applicable to LATAM and its subsidiaries, Under Chile's Corporations Law, which establishes that all the operations of a publicly traded company with a related party must contribute to the social interest, be carried out under market conditions, in addition to meeting certain requirements of prior examination by the directors' committee, authorization by the board of directors or shareholders meeting and disclosure, which are different from those that apply to a non-listed company. This policy includes the definition by the Board of Directors of those operations that are considered habitual, which was approved in a board session dated December 29, 2009 and was informed on the same date to the SVS through material fact. Operations indicated as usual may be executed without the requirements of prior examination and approval by the Board of Directors or Shareholders Meeting.

LATAM Airlines Group has carried out different transactions with its subsidiaries, including entities owned or controlled by some of its majority shareholders. In the normal course of LATAM's business, different types of services have been provided to or received from related companies, including the rental and exchange of aircraft, cargo transportation and booking services.

LATAM Airlines Group's policy is not to carry out transactions with or for the benefit of any shareholder or Board member or with any entity controlled by these persons or in which they have a significant economic interest, except when the transaction is related to LATAM and the price and other terms are at least as favorable for the LATAM as those which could be obtained from a third party under market conditions.

These transactions are summarized in the audited consolidated financial statements for the year ending on December 31, 2016.

PRINCIPLES OF GOOD CORPORATE GOVERNANCE

LATAM Airlines Group's good corporate governance is the result of the interaction of different individuals and stakeholders.

Although all employees share responsibility for compliance with the high standards of ethics and adherence to regulation established by LATAM Airlines Group's Board of Directors, it is the Board, the Directors' Committee and the Company's principal executives who are primarily responsible for LATAM Airlines Group's good corporate governance. In line with the above, LATAM Airlines Group is committed to transparency and compliance with the ethics and regulatory standards established for this purpose by its Board of Directors.

PILLARS OF LATAM AIRLINES GROUP'S CORPORATE GOVERNANCE

Notwithstanding the responsibilities of the Company's Board of Directors and its Directors' Committee, LATAM Airlines Group's administration has also taken a number of measures to ensure due corporate governance. These include principally:

1. Publication of the Code of Conduct for LATAM Airlines Group, unique for all of the Company's employees, which seeks to ensure that all employees adhere to the highest standards of ethics, transparency and compliance with regulation required by LATAM Airlines Group.

The LATAM Group has an Ethics Complaints Channel (www.etica-grupolatam.com). This facility provide employees with a direct and private online channel through which to report any concerns in the knowledge that these will be properly processed or investigated without any risk of reprisal against the person reporting them.

2. Code of Ethics for Senior Financial Executives. This fosters honest and ethical conduct in the disclosure of financial information, compliance with regulation and avoidance of conflicts of interest.

3. Manual for Management of Market-Sensitive Information. This is required by the Superintendencia de Valores y Seguros and, since Law N° 20.382 on Corporate Governance came into force, also by Chilean securities market legislation. LATAM Airlines Group, however, seeks to go further than these norms and regulates the criteria for disclosure of operations, periods of voluntary abstinence from the purchase and sale of LATAM's shares, mechanisms for continuous disclosure of market-sensitive information and mechanisms for the protection of confidential information by the Company's employees and executives.
4. Compliance Program. Managed by LATAM's Compliance Area, which forms part of the Legal Vice-Presidency, in coordination with and under the supervision of the Board of Directors and its Directors' Committee, this Program supervises compliance with the laws and regulation applicable to LATAM Airlines Group's businesses and activities in the different countries in which it operates.

CORPORATE GOVERNANCE PRACTICES

On March 28, 2017, the Report on LATAM's Corporate Practices which was approved by LATAM Airlines Group's Board of Directors and prepared in accordance with General Norm N° 385, previously N° 341, issued by the Superintendencia de Valores y Seguros (SVS) on June 8, 2015, was dispatched to this same organism. The information required under this norm is as of December 31 of each year and must be presented by March 31 of the subsequent year.

The information submitted annually to the SVS shall refer to the following matters:

- The functioning of the Board of Directors.
- The relation between LATAM, its shareholders and the general public.
- The replacement and compensation of main executives.
- The definition, implementation and supervision of the company internal control policies and procedures and risk management.

Property ownership structure and main shareholders

As of January 31, 2017, LATAM Airlines Group had a total of 1,585 shareholders on record and it is controlled by the Cueto Group.

Table 1: January 31, 2017

| Name or Business name | Shares paid and subscribed as of Jan 31, 2017 | Percentage |
|---|---|--------------------|
| Costa Verde Aeronautica SA | 90.427.620 | 14,9% |
| 2. Qatar Airways Investments (Uk) Ltd | 60.837.452 | 10,0% ¹ |
| 3. Costa Verde Aeronautica Tres SPA | 35.300.000 | 5,8% |
| 4. Banco de Chile por Cuenta de Terceros No Residentes | 28.809.081 | 4,8% |
| 5. J P Morgan Chase Bank | 27.608.310 | 4,6% |
| 6. Inversiones Nueva Costa Verde Aeronautica Ltda | 23.578.077 | 3,9% |
| 7. Banco Itau Corpbanca por Cta de Inversionistas Extranjeros | 21.481.918 | 3,5% |
| 8. Axxion S.A. | 18.473.333 | 3,0% |
| 9. Tep Chile S.A. | 18.342.913 | 3,0% |
| 10. Inversiones Andes SPA | 17.146.529 | 2,8% |
| 11. Inversiones HS SPA | 14.894.024 | 2,5% |
| 12. Costa Verde Aeronautica SPA | 12.000.000 | 2,0% |

31 de diciembre 2015

| Name or Business name | Shares paid and subscribed as of Dec 31, 2015 | Percentage |
|--|---|------------|
| 1. Costa Verde Aeronautica SA | 90.427.620 | 16,6% |
| 2. Tep Chile SA | 65.554.075 | 12,0% |
| 3. Inversiones Nueva Costa Verde Aeronautica Ltda | 23.578.077 | 4,3% |
| 4. Banco de Chile por Cuenta de Terceros No Residentes | 22.557.207 | 4,1% |
| 5. J P Morgan Chase Bank | 21.339.756 | 3,9% |
| 6. Banco Itau por Cuenta de Inversionistas Extranjeros | 18.653.574 | 3,4% |
| 7. Axxion SA | 18.473.333 | 3,4% |
| 8. Inversiones Andes SPA | 17.146.529 | 3,1% |
| 9. Inversiones HS SPA | 14.894.024 | 2,7% |
| 10. Larrain Vial S A Corredora de Bolsa | 12.986.050 | 2,4% |
| 11. Banchile C de B S A | 12.416.588 | 2,3% |
| 12. Costa Verde Aeronautica SPA | 12.000.000 | 2,2% |

1. Qatar owns 9.999999918% of total issued shares of LATAM.

| | January 31 2017 | December 31 2015 |
|--------------------------|--------------------|---------------------|
| Cueto Group | 171.430.090 | 136.394.023 |
| Qatar Airways | 60.837.452 | - |
| Eblen Group | 35.945.199 | 35.945.199 |
| Bethia Group | 33.367.357 | 33.367.357 |
| Amaro Group | 18.342.913 | 65.554.075 |
| ADRs | 27.608.310 | 21.339.756 |
| BDRs | - | 2.418.235 |
| AFPs | 117.687.316 | 102.265.164 |
| Foreign Investors | 61.700.947 | 51.909.593 |
| Others | 79.488.109 | 96.364.699 |
| Total | 606.407.693 | 545.558.101 |

| | 31 enero 2017 | 31 diciembre 2015 |
|--------------------------|--------------------|----------------------|
| Cueto Group | 28,3% | 25,0% |
| Qatar Airways | 10,0% ² | 0,0% |
| Eblen Group | 5,9% | 6,6% |
| Bethia Group | 5,5% | 6,1% |
| Amaro Group | 3,0% | 12,0% |
| ADRs | 4,6% | 3,9% |
| BDRs | 0,0% | 0,4% |
| AFPs | 19,4% | 18,7% |
| Foreign Investors | 10,2% | 9,5% |
| Others | 13,1% | 17,7% |

Below we show the percentage controlled, directly or indirectly, by the controller and by each of its members; we also identify the natural persons that stand behind such legal persons.

1. The Cueto Group is LATAM's controlling partner, whose property owners are: Messrs. Juan José Cueto Plaza (one of our board members), Ignacio Cueto Plaza (LAN CEO), Enrique Cueto Plaza (LATAM CEO) and other members of this family. As of January 31, 2017 the Cueto Group owned 28.27% of LATAM's ordinary shares of stock through the following companies (Table 1):

| Table 1 | | | |
|---------------------------|--|---------------------------------|---------------|
| RUT Taxpayer ID N° | Participant | Current number of shares | % |
| 81.062.300-4 | Costa Verde Aeronáutica S.A. | 90.427.620 | 14,91% |
| 76.116.741-3 | Inversiones Nueva Costa Verde Aeronáutica Ltda. | 23.578.077 | 3,89% |
| 76.213.859-K | Costa Verde Aeronáutica SpA | 12.000.000 | 1,98% |
| 76.237.329-7 | Inversiones Caravia Dos y Cia. Ltda. | 3.553.344 | 0,59% |
| 76.237.354-8 | Inversiones Priesca Dos y Cía. Ltda. | 3.568.352 | 0,59% |
| 76.237.343-2 | Inversiones El Fano Dos y Cía. Ltda. | 2.704.533 | 0,45% |
| 76.327.426-8 | Inv. La Espasa Dos y Cia. Ltda. | 252.097 | 0,04% |
| 76.809.120-K | Inv. La Espasa Dos S.A. | 32.324 | 0,01% |
| 96.625.340-1 | Inv. Mineras del Cantabrico S.A. | 13.743 | 0,00% |
| 76.592.181-3 | Costa Verde Aeronáutica Tres SpA | 35.300.000 | 5,82% |
| | Total GROUP | 171.430.090 | 28,27% |

2. Qatar owns 9.999999918% of total issued shares of LATAM.

2. The shareholders of **COSTA VERDE AERONÁUTICA S.A.**, are the following (Table 2):

| Table 2 | |
|--|------------|
| Shareholder | Percentage |
| Inversiones Costa Verde Aeronáutica Limitada | 77,96% |
| TEP Chile S.A. | 21,88% |
| Inversiones Mineras del Cantábrico S.A. | 0,0001% |
| Inversiones Costa Verde Limitada y CIA en C.P.A. | 0,13% |
| Accionistas minoritarios | 0,0001% |

3. In turn, the controlling company of the above-described Costa Verde Aeronáutica S.A., is COSTA VERDE AERONAUTICS limited (A in Table 2), whose partnership structure is as follows (Table 3):

| Table 3 | |
|--|------------|
| Shareholder | Percentage |
| Inversiones Costa Verde Limitada y CIA en C.P.A. | 99,85% |
| Inversiones Costa Verde y CIA Limitada | 0,131% |
| Inversiones Costa Verde Limitada | 0,014% |

4. The above-described **INVERSIONES COSTA VERDE LIMITADA - LIMITED JOINT-STOCK PARTNERSHIP**, (I in Table 3), has the following partnership structure (Table 4):

| Table 4 | | | |
|--|------------|--|--------------------|
| Shareholder | Percentage | Main partner | RUT Taxpayer ID N° |
| Inmobiliaria e Inversiones El Fano Limitada | 8% | Enrique Miguel Cueto Plaza | 6.694.239-2 |
| Inmobiliaria e Inversiones Caravia Limitada | 8% | Juan José Cueto Plaza | 6.694.240-6 |
| Inmobiliaria e Inversiones Priesca Limitada | 8% | Ignacio Javier Cueto Plaza | 7.040.324-2 |
| Inmobiliaria e Inversiones La Espasa Limitada | 8% | Juan Jose Cueto Plaza | 7.040.325-0 |
| Inmobiliaria e Inversiones Puerto Claro Limitada | 8% | Isidora Cueto, Felipe Cueto y María Emilia Cueto | 18.391.071-K |
| Inmobiliaria e Inversiones Colunga Limitada | 30% | Mismos accionistas de Inv. Mineras del Cantábrico S.A. | 76.180.199-6 |
| Inversiones del Cantábrico Limitada | 30% | Mismos accionistas de Inv. Mineras del Cantábrico S.A. | 76.006.936-1 |

5. With respect to **INMOBILIARIA E INVERSIONES COLUNGA LIMITADA e INVERSIONES DEL CANTÁBRICO LTDA.**

100% owned by the Cueto Group, its final shareholders are Messrs.: (i) Juan José Cueto Plaza, previously identified; (ii) Ignacio Javier Cueto Plaza, previously individualized; (i) Juan José Cueto Plaza, previously identified; (ii) Ignacio Javier Cueto Plaza, previously identified; (iii) Enrique Miguel Cueto Plaza, previously identified; (iv) María Esperanza Cueto Plaza, RUT taxpayer ID N° 7.040.325-0, (v) Isidora Cueto Cazes, RUT taxpayer ID N° 18.391.071-k; (vi) Felipe Jaime Cueto Ruiz-Tagle, RUT taxpayer ID N° 20.164.894-7 (vii) María Emilia Cueto Ruiz-Tagle, RUT taxpayer ID N° 20.694.332-7 (viii) Andrea Raquel Cueto Ventura, RUT taxpayer ID N° 16.098.115-6 (ix) Daniela Esperanza Cueto Ventura, 16.369.342-9; (x) Valentina Sara Cueto Ventura, RUT taxpayer ID N° 16.369.343-7 (xi) Alejandra Sonia Cueto Ventura, RUT taxpayer ID N°

17.700.406-5; (xii) Francisca María Cueto Ventura, RUT taxpayer ID N° 18.637.286-7; (xiii) Juan José Cueto Ventura, RUT taxpayer ID N° 18.637.287-5; (xiv) Manuela Cueto Sarquis, RUT taxpayer ID N° 19.078.071-6; (xv) Pedro Cueto Sarquis, RUT taxpayer ID N° 19.246.907-4; (xvi) Juan Cueto Sarquis, RUT taxpayer ID N° 19.639.220-3; (xvii) Antonia Cueto Sarquis, RUT taxpayer ID N° 20.826.769-8 (xviii) Fernanda Cueto Délano, RUT taxpayer ID N° 18.395.657-4 (xix) Ignacio Cueto Délano, RUT taxpayer ID N° 19.077.273-k; (xx) Javier Cueto Délano, RUT taxpayer ID N° 20.086.836-6 (xxi) Pablo Cueto Délano, RUT taxpayer ID N° 20.086.837-4 (xxii) José Cueto Délano, RUT taxpayer ID N° 20.963.574-7; (xxiii) Nieves Isabel Alcaíno Cueto, RUT taxpayer ID N° 18.636.911-4; (xxiv) María Elisa Alcaíno Cueto, RUT taxpayer ID N° 19.567.835-9, and (xxv) María Esperanza Alcaíno Cueto, RUT taxpayer ID N° 17.701.730-2.



6. The shareholder of **Costa Verde Aeronáutica Tres SpA** is (Table 5):

| Table 5 | | |
|------------------------------|------------|---|
| Shareholder | Percentage | Main partner |
| Costa Verde Aeronáutica S.A. | 100% | Inversiones Costa Verde Aeronáutica Limitada (77,96%) |

7. The shareholders of **INVERSIONES NUEVA COSTA VERDE AERONÁUTICA LIMITADA** are the following (Table 6):

| Table 6 | | |
|--|------------|--|
| Partners | Percentage | Main partner |
| Costa Verde Aeronáutica S.A. | 99,99% | Inversiones Costa Verde Aeronáutica Ltda (99,8%) |
| Inversiones Costa Verde Aeronáutica Ltda | 0,01% | Inv. Costa Verde Ltda y Cia en C.P.A. |

8. The shareholders of **COSTA VERDE AERONÁUTICA SpA** are the following (Table 7):

| Table 7 | |
|--|------------|
| Shareholder | Percentage |
| Inversiones Nueva Costa Verde Aeronáutica Dos Limitada | 100% |

9. The partners of **INVERSIONES PRIESCA DOS Y CIA. LTDA.** are the following (Table 8):

| Table 8 | |
|---------------|------------|
| Shareholder | Percentage |
| Ignacio Cueto | 99% |
| Others | 1% |

10. The partners of **INVERSIONES CARAVIA DOS Y CIA. LTDA.** are the following (Table 9):

| Table 9 | |
|-----------------|------------|
| Shareholder | Percentage |
| Juan José Cueto | 99% |
| Others | 1% |

11. The partners of **INVERSIONES EL FANO DOS Y CIA. LTDA.** are the following (Table 10):

| Table 10 | |
|---------------|------------|
| Shareholder | Percentage |
| Enrique Cueto | 99% |
| Others | 1% |

12. The partners of **INVERSIONES LA ESPASA DOS Y CIA. LTDA.** are the following (Table 11):

| Table 11 | |
|--|------------|
| Partners | Percentage |
| Inversiones La Espasa Dos S.A. | 99% |
| María Esperanza Alcaíno Cueto Uno y Cia. Ltda. | 1% |

13. The partners of **INVERSIONES LA ESPASA DOS S.A.** are the following (Table 12):

| Table 12 | |
|---|------------|
| Shareholder | Percentage |
| Inmobiliaria e Inversiones La Espasa Limitada | 99% |
| María Esperanza Alcaíno Cueto Uno y Compañía Limitada | 1% |

INVERSIONES MINERAS DEL CANTÁBRICO LIMITADA, is a company 100% owned by the Cueto Group, and its final shareholders are the persons identified in paragraph 5 above.

The rest of the shareholder base is composed of a diversity of institutional investors, legal entities and natural persons. As of January 31, 2017, 4.6% of LATAM's property ownership was in the form of ADRs.

Listed below are the controlling shareholders, other main shareholders and LATAM's minority shareholders who, either in and by themselves or along with others with whom they have a standing joint action agreement, may designate at least one company board member, or weigh 10% or more of the company's voting shares.

| Shareholding (as of January 31, 2017) | | |
|--|---|---|
| Shareholder | Number of subscribed and paid shares | Property ownership % over the subscribed and paid shares |
| Cueto Group³ | 171.430.090 | 28,3% |
| Costa Verde Aeronáutica S.A. | 90.427.620 | 14,9% |
| Costa Verde Aeronáutica Tres SpA | 35.300.000 | 5,8% |
| Inversiones Nueva Costa Verde Aeronáutica Ltda. | 23.578.077 | 3,9% |
| Costa Verde Aeronáutica SpA | 12.000.000 | 2,0% |
| Others | 10.124.393 | 1,7% |
| Qatar Airways | 60.837.452 | 10,0%⁴ |
| QATAR Airways Investments (UK) LTD | 60.837.452 | 10,0% |
| Amaro Group⁵ | 18.342.913 | 3,0% |
| TEP Chile S.A. | 18.342.913 | 3,0% |
| Eblen Group | 35.945.199 | 5,9% |
| Inversiones Andes SpA | 17.146.529 | 2,8% |
| Inversiones Andes II SpA | 8.000.000 | 1,3% |
| Inversiones Pia SpA | 5.403.804 | 0,9% |
| Comercial Las Vertientes SpA | 5.394.866 | 0,9% |
| Bethia Grupo | 33.367.357 | 5,5% |
| Axxion S.A. | 18.473.333 | 3,0% |
| Inversiones HS SpA | 14.894.024 | 2,5% |
| Other minority shareholders | 286.484.682 | 47,2% |
| Total | 286.484.682 | 47,2% |

³ The Cueto Group, whom we also refer to as "LATAM's Controlling Shareholders", have executed a Shareholders' Agreement with the controlling shareholders of LATAM, TEP Chile and TAM, whose terms and provisions are spelled out below.

⁴ Qatar owns 9.999999918% of total issued shares of LATAM.

⁵ The Amaro Group, whom we also refer to as "TAM's Controlling Shareholders", have executed a Shareholders' Agreement with LATAM and its controlling shareholders, whose terms and provisions are spelled out below.

Following the combination with TAM in 2012, the Amaro Group, which includes the Chairman of the Board of Directors, Mauricio Amaro and the former board of directors María Claudia Amaro, among others, also became the principal shareholder of LATAM Airlines Group, through TEP Chile SA (Rut No. 76.152.798-3), a company wholly owned by the Amaro Group and through the majority ownership of Holdco I, which owns 100% of TAM's common shares. During 2016, the Amaro Group decreased its stake in LATAM, being as of January 31, 2017, direct owner of 3.02% of LATAM Airlines Group common stock and 5.82% indirectly through 21.88 % ownership owned by Amaro Group in Costa Verde Aeronáutica SA, the main investment vehicle of the Cueto Group in LATAM.

Also in 2016, on the occasion of the capital increase approved at the Extraordinary Shareholders' Meeting held on August 18, 2016, Qatar Airways entered the property of LATAM, holding at January 31, 2017, 10.0%⁶ of the total The subscribed and paid-in shares of LATAM Airlines Group through the company Qatar Airways Investments (UK) Ltd.

Finally, we would like to point out that as of this date company shareholders have not submitted any comments or proposals with respect to the company's business affairs.

The table below shows the number of subscribed and paid shares and the percentage shareholding in LATAM's property ownership of each of the company's board members and senior executives:

| Board's total shares | | |
|---|---------------------|-------------------|
| | N° of shares | Percentage |
| Georges de Bourguignon Arndt⁴ | 0 | - |
| Juan José Cueto Plaza⁵ | 171.430.090 | 28,27% |
| Ramón Eblen Kadis⁵ | 35.945.199 | 5,93% |
| Carlos Heller Solari⁵ | 33.367.357 | 5,50% |
| Juan Gerardo Jofré | 81.882 | 0,01% |
| Maurício Rolim Amaro⁵ | 18.342.913 | 3,02% |
| Francisco Luzón López | 0 | - |
| Henri Philippe Reichstul | 0 | - |
| Giles Agutter | 0 | - |

| Executives' total shares | | |
|--|---------------------|-------------------|
| | N° of shares | Percentage |
| Enrique Cueto Plaza e Ignacio Cueto Plaza⁵ | 171.430.090 | 28,27% |
| Armando Valdivieso Montes | 95.859 | 0,02% |
| Ramiro Alfonsín | 0 | - |
| Claudia Sender | 0 | - |
| Juan Carlos Menció | 0 | - |
| Emilio del Real | 0 | - |

4. It should be noted that Georges de Bourguignon Arndt does not directly own any LATAM shares; but rather, that he is the Legal Representative of a company owned by his children that owns 3,153 LATAM shares.

5. It should be noted that Juan Jose Cueto Plaza, Enrique Cueto Plaza and Ignacio Cueto Plaza are part of the Cueto Group, Ramon Eblen Kadis is part of the Eblen Group, Carlos Heller Solari is part of the Bethia Group and Mauricio Rolim Amaro is part of the Amaro Group, since none of them own the above-mentioned shares on their own, but rather through the group in which they participate.

⁶ Qatar owns 9.999999918% of total issued shares of LATAM.

Shareholders' Agreement

Following the combination between LAN and TAM in June 2012, LAN Airlines S.A. was transformed into "LATAM Airlines Group S.A." and TAM continues to exist as a subsidiary Holdco I and LATAM. In order to execute this combination, TAM's controlling shareholders created four new closely-held stock companies pursuant to Chilean law: TEP Chile, Holdco I, Holdco II and Sister Holdco. Upon execution of the above-referred transaction, Holdco II and Sister Holdco ceased to exist.

Prior to such business combination, LATAM Airlines Group and its controlling shareholders executed several shareholders' agreements with TAM, its shareholders (acting through TEP Chile) and Holdco I, thus establishing agreements and restrictions related to corporate governance in an attempt to balance the interests of the LATAM Airlines Group, as the owner of substantially all economic rights in TAM, and TAM's controlling shareholders, as the continuing controlling shareholders of TAM pursuant to Brazilian law. In order to achieve these objectives, the various shareholders' agreements prohibited undertaking certain actions and making important corporate decisions without the prior approval of a qualified majority of its shareholders and/or the Board of Directors of Holdco I or TAM. Moreover, these shareholders' agreements also establish the parties' covenants regarding the governance and management of the LATAM Airlines Group, subsequent to the combination of LAN and TAM businesses.

The LATAM Group's governance and management

Insofar as the governance and management of the LATAM Group is concerned, there are different shareholders' agreements:

1. Shareholders' agreement of the controlling group: executed between the controlling shareholders of LATAM and TEP Chile, establishing agreements with respect to the corpo-

rate governance, control and operation of LATAM, Holdco I, TAM and their respective subsidiaries. It also governs the votes and transfers of the ordinary shares of the LATAM Airlines Group and the voting shares of Holdco I owned by TEP Chile.

2. Shareholders' agreement between the LATAM Airlines Group and TEP: executed between LATAM and TEP Chile; wherein, among other subject matters, it establishes agreements regarding the corporate governance, management and operation of LATAM. It also governs the relationships between LATAM and other LATAM Group members.
3. Shareholders' agreement of Holdco I: executed between LATAM, Holdco I and TEP Chile establishing agreements with respect to the corporate governance, management and operation of Holdco I, as well as the votes and transfer of the voting shares of Holdco I.
4. Shareholders' agreement of TAM: executed between LATAM, Holdco I, TAM and TEP Chile, establishing the agreements related to the corporate governance, management and operation of TAM and its subsidiaries.

Following the combination of the business of LAN and TAM, the Holdco I and the TAM shareholders' agreements establish the covenants between the parties with respect to the governance and management of Holdco I, TAM and its subsidiaries (collectively, the "TAM Group").

Following are the key provisions of the Shareholders' agreements referred to in paragraphs 1 and 2 above. It is important to note, however, that the rights and obligations of the members of the Controlling Group are indeed governed by the terms and conditions of such shareholders' agreements and not by the summary of any of such agreements contained in this annual report.

Board membership of the LATAM Airlines Group

Mr. Mauricio Rolim Amaro was re-elected as board member of the LATAM Airlines Group in April of 2015. If Mr. Amaro abandons and leaves his position vacant for any reason whatsoever during the two-year period, TEP Chile has the right to appoint his replacement in order to complete the mentioned period. Subsequently, the Board of Directors of the LATAM Airlines Group shall appoint any of its members as Chairman thereof, in accordance with existing statutes. Maria Cláudia Oliveira Amaro was elected as board member of the LATAM Airlines Group in June 2012, and resigned her position in September 2014. On the same date, and pursuant to Chilean law, Henri Philippe Reichstul, was appointed by the Board to replace Maria Cláudia Oliveira Amaro until the next shareholders' meeting that was held in Santiago, Chile on April 28, 2015, at which time he was confirmed as board member.

Management of the LATAM Airlines Group

In June 2012, Enrique Cueto Plaza became LATAM's CEO ("LATAM CEO"). The position of LATAM CEO is the top-ranking position in the LATAM Airlines Group, who reports directly to the LATAM's Board of Directors. The LATAM CEO is in charge of overall supervision, direction and control of the LATAM Airlines Group's business and certain other responsibilities set forth in the Shareholders' Agreement of the LATAM Airlines Group and TEP. Upon the eventual departure of LATAM's current CEO, the LATAM Board of Directors will appoint his successor after receiving a recommendation from the Leadership Committee.

In June 2012, Ignacio Cueto Plaza became LAN's CEO ("LAN CEO"). The LAN CEO reports directly to the LATAM CEO and is responsible for the general supervision, direction and control over the passenger and cargo operations of the LATAM Group, excluding those assumed by Holdco I, TAM and its subsidiaries, and those regarding the inter-

national passenger business of the LATAM Group. The LAN CEO, in conjunction with the TAM CEO, are responsible for recommending the LATAM CEO candidate to serve as head of the international passenger business of the LATAM Group (including long-haul and regional flights), who must report jointly with the LAN CEO and the TAM CEO. The key executives of the LATAM Group (in addition to the LATAM CEO and those of the TAM group) shall be appointed by and report directly or indirectly to the LATAM CEO. Ignacio Cueto is scheduled to leave his post as LAN CEO on April 15, 2017 in order to apply to LATAM's Board of Directors and, in line with the strategy of building a simpler company the position will not be replaced.

The main headquarters of the LATAM Airlines Group are still located in Santiago, Chile.

Following are the key provisions of the Shareholders' agreements referred to in the preceding paragraphs 3 and 4. It is important to note, however, that the rights and obligations of the members of the Controlling Group are indeed governed by the terms and conditions of such shareholders' agreements and not by the summary of any of such agreements contained in this a.

Board membership of Holdco I and TAM

The shareholders' agreement of Holdco I and the shareholders' agreement of TAM provide, in general terms, identical board memberships and the same Holdco I and TAM CEO; whereupon LATAM appoints two board members and TAM appoints four board members (including the Chairman of the Board).

Maria Cláudia Oliveira Amaro resigned from her position as board member on September 8, 2014 and in her replacement, the Board appointed, Mr. Henri Philippe Reichstul. TAM's Board membership was totally renewed on April 2015.

The shareholders' agreement of the controlling group establishes that the persons elected by or on behalf of LATAM's controlling shareholders or TAM's controlling shareholders, as board members of LATAM's Board of Directors, will also serve as members of the Board of Directors of Holdco I and TAM.

Management of Holdco I and TAM

The affairs and day-to-day business of Holdco I shall be managed by the CEO of the TAM Group under the supervision of the Board of Directors of Holdco I. The affairs and day-to-day business of TAM will be managed by the Board of Directors of TAM under the supervision of the Board of Directors of TAM. The "TAM Board" shall be comprised of the TAM Group's CEO, TAM's CFO, TAM's COO and TAM's CCO. Currently, the position of TAM CEO is being performed by Ms. Claudia Sender. The TAM Group's CEO will be in charge of overall supervision, direction and control over the business and operations of the TAM Group (on matters not related to the LATAM Group's international passenger business) and will perform all orders and resolutions issued by TAM board members. The initial TAM CEO, "CFO of TAM'S CFO" has been jointly appointed by LATAM and TEP Chile and any successor of the CFO shall be designated by TEP Chile from among three candidates proposed by LATAM. The TAM COO, "TAM's COO", and the commercial manager of TAM, "TAM's CCO", shall be jointly appointed and recommended to TAM's Board of Directors by the CEO of the TAM Group and TAM's CFO; additionally, he/she must be approved by TAM's Board of Directors. These shareholders' agreements also govern the composition of the board of directors of TAM's subsidiaries.

Following the combination, TAM still has its main headquarters located in São Paulo, Brazil.

Actions requiring qualified majority votes

Certain actions of Holdco I or TAM require approval by a qualified majority of the board or the shareholders of Holdco I or TAM; which, indeed require the approval of LATAM and TEP Chile before such actions can be carried out.

Those actions requiring qualified majority votes by the boards of Holdco I or TAM are the following:

- ▶ approving the annual budget and business plan and the multi-year business (collectively known as the "Approved Plans"), and also the amendments to these plans;
- ▶ carrying out or agreeing to carry out any action that causes, or that may reasonably cause, individually or in aggregate form any capital, operational or other costs of any TAM company and its subsidiaries greater than (i) the lesser of 1% of revenues or 10% of the profits under the Approved Plans, with respect to actions affecting income statement items; or (ii) the lesser of 2% of assets or 10% of cash and cash equivalents (as defined by the IFRS) as established in the provisions of the Approved Plans and in effect, in relation to actions affecting the cash flow statement;
- ▶ the creation, disposal or admission of new shareholders in one of the subsidiaries of the relevant company, except to the extent that it is expressly contemplated in the Approved Plans;
- ▶ approving the acquisition, disposal, modification or encumbrance by any TAM company of any assets above \$15 million or of any share value or securities convertible into shares of any TAM company or of the Company, except to the extent that it is expressly contemplated in the Approved Plans;
- ▶ approving any investment in assets not related to the corporate purpose of any TAM company, except to the extent that it is expressly contemplated in the Approved Plans;
- ▶ executing any contract amount in excess of \$15 million, except to the extent that it is expressly contemplated in the Approved Plans;

- ▶ executing any contract related to the distribution of profits, company associations, business collaborations, alliance memberships, code-sharing agreements, with the exception of those approved in the business plans and budget, except to the extent that they are expressly contemplated in the Approved Plans;
- ▶ setting, modifying or waiving any right or claim of a relevant company or its subsidiaries in excess of \$15 million, except to the extent that it is expressly contemplated in the Approved Plans;
- ▶ starting, participating in, committing or establishing any important action with respect to any litigation or legal proceeding in excess of \$15 million, related to the relevant company, except to the extent that it is expressly contemplated in the Approved Plans;
- ▶ approving the execution, modification, termination or ratification of agreements with third parties, except to the extent that they are expressly contemplated in the Approved Plans;
- ▶ approving any financial statement, modifications, or any accounting policy, regarding dividends or taxes relevant to the company;
- ▶ approving the granting of any interest of securities or guarantees of third party obligations;
- ▶ appointing executives other than the CEO of Holdco I or the Board of Directors of TAM or re-electing TAM's current CEO or CFO; and
- ▶ approving any voting of the relevant company or its subsidiaries in their capacity as shareholders.

Those actions requiring qualified majority votes by the shareholders are the following:

- ▶ approving any modification of the bylaws of any relevant company or its subsidiaries in relation to the following subject matters: (i) corporate objectives; (ii) corporate equity capital; (iii) rights inherent to each class of shares and their shareholders; (iv) the powers of ordinary shareholder meetings or limitations to the powers of the board of directors;

- (vi) the deadline; (vii) the change of the main headquarters of a relevant company; (viii) the composition, powers and commitments of the management of any relevant company; and dividends and other distributions;
- ▶ approving the dissolution, settlement or liquidation of a relevant company;
- ▶ approving the transformation, merger, division or any type of corporate reorganization of a relevant company;
- ▶ paying or distributing dividends or any other type of distribution to shareholders;
- ▶ approving the issue, withdrawal or amortization of debt instruments, shares or convertible securities;
- ▶ approving a disposal plan for the sale, encumbrance or other involving 50% or more of the assets, as determined by the previous-year balance sheet of Holdco I;
- ▶ approving the disposal for the sale, encumbrance or other involving over 50% of the assets of a Holdco I subsidiary representing at least 20% of Holdco I or approving to sell, encumber or dispose of shares in a manner such that Holdco I would lose control.
- ▶ approving the concession of interests over instruments of guarantees toward guaranteeing obligations in excess of 50% of the assets of a relevant company; and
- ▶ approving the execution, modification, terms or ratification of acts or agreements with related parties, but only in those cases in which the applicable law requires the approval of such matters.

Voting agreements, transfers and other agreements.

The controlling group of LATAM and TEP Chile has agreed, in the Shareholders' Agreement of the Controlling Group, to vote their respective ordinary LATAM Airlines Group shares as follows:

- ▶ until that moment, TEP Chile sells any of its ordinary LAN shares (other than the exempt shares, as defined herein below, and owned by TEP Chile), the Controlling Group of LATAM Airlines Group will vote its ordinary LATAM Airlines Group shares to elect to the Board of Directors of LATAM

Airlines Group any person designated by TEP Chile, unless TEP Chile owns enough ordinary shares of LATAM Airlines Group in order to directly elect two board members of the LATAM Airlines Group;

- ▶ the parties agree to vote their ordinary LATAM Airlines Group shares to support the other parties in removing or replacing board members or others designated by the Board of LATAM Airlines Group;
- ▶ the parties agree to consult among them and make use of their good faith efforts to achieve agreements and act jointly in all actions (except in those actions that require majority approval pursuant to the Chilean law) and be considered by the Board of Directors of the LATAM Airlines Group or by the shareholders of the LATAM Airlines Group;
- ▶ the parties agree to maintain the size of the Board of Directors of the LATAM Airlines Group at a total of nine (9) board members and maintain the quorum required by the majority of the Board of Directors of the LATAM Airlines Group; and
- ▶ in case that, after endeavoring in good faith efforts aimed at reaching an agreement with respect to any action requiring a qualified majority vote pursuant to the Chilean law and a period of mediation, the parties do not reach such agreement, then, TEP Chile has agreed to give its vote to the subject matter requiring a qualified majority vote as indicated by the controlling shareholders of the LATAM Airlines Group; which we refer to as "direct vote".

The number of TEP Chile "exempt shares" means that the number of ordinary shares of the LATAM Airlines Group that TEP Chile owns immediately after the effective date in excess of 12.5% of the valid ordinary shares of LATAM Airlines Group shall be determined on the basis of a total dilution.

The parties to the Holdco I Shareholders' Agreement and to the TAM Shareholders' Agreement have agreed to vote their Holdco I voting shares and TAM shares so as to make effective the agreements related to the above-discussed representation of the Board of Directors of TAM.

Restrictions to the transfers.

Pursuant to the Shareholders' Agreement of the Controlling Group, the controlling shareholders of the LATAM Airlines Group and TEP Chile are subject to certain restrictions regarding the sale, transfer and encumbrance of the ordinary shares of the LATAM Airlines Group and (only in the case of TEP Chile) the voting shares of Holdco I. With the exception of a limited amount of the ordinary shares of the LATAM Airlines Group, neither the controlling shareholders of the LATAM Airlines Group nor those of TEP Chile are authorized to sell the ordinary shares of the LATAM Airlines Group, nor can TEP Chile sell its shareholding rights to Holdco I until June 2015. Subsequently, the sale of the ordinary shares of the LATAM Airlines Group by any of the parties shall be allowed, subject to (i) certain limitations of volume and frequency of such sale, and (ii) only in the case of TEP Chile, the latter company must meet certain minimum property ownership requirements. After June 2022, TEP Chile shall be entitled to sell all its shares of the LATAM Airlines Group and shareholding rights over Holdco I in one block, subject to the following conditions: (i) LATAM Board's approval of the assignee; (ii) that the sale does not have an adverse effect; and (iii) that the preferred purchase option be in favor of the controlling shareholders of the LATAM Airlines Group; conditions to which we refer, collectively, as "block sale provisions".

An "adverse effect" is so defined in the Shareholders' Agreement of the Controlling Group as a significant adverse effect in the capacity of Holdco I to receive the total benefits of the property ownership of TAM and its subsidiaries in order to operate the airline business worldwide. The controlling group of the LATAM Airlines Group has agreed to transfer all the voting shares of Holdco I acquired pursuant to LATAM's preferred purchase option, for the same price paid for such shares.

Additionally, TEP Chile is entitled to sell as of June 2015 all the ordinary shares of the LATAM Airlines Group and voting shares of Holdco I, subject to meeting the block sale clause, should a liberation event (as described previously) should oc-

cur or if TEP Chile is required to exercise one or more directed votes during any 24-month period in two (consecutive or not) shareholders' meetings of the LATAM Airlines Group held at least 12 months apart, and if the LATAM Airlines Group would not have totally exercised the conversion of options described previously.

A "disclosure event" will occur if: (i) there is a capital increase of the LATAM Airlines Group; (ii) TEP Chile does not exercise all its preferred rights granted pursuant to the applicable Chilean law with respect to the capital increase in relation to all of LATAM Airlines Group's restricted ordinary shares; and, (iii) after completing the capital increase, the person designated by TEP Chile for the voting of the Board of Directors of the LATAM Airlines Group with the collaboration of the Controlling Group of the LATAM Airlines Group, is not elected as board member of the LATAM Airlines Group.

Additionally, after June 22, 2022 and before the capitalization date of the entire property (as described below under Section "Conversion option"), TEP Chile could sell all or part of its LATAM Airlines Group's ordinary shares, subject to: (i) the preferred option right in favor of LATAM's controlling shareholders; and (ii) the restrictions to the sale of ordinary shares of the LATAM Airlines Group more than once during a 12-month period.

The Shareholders' Agreement of the Controlling Group provides certain exceptions to these transfer restrictions for certain pledged shares of the LATAM Airlines Group realized by the parties and for transfers to subsidiary companies, in each case open to certain limited circumstances.

Additionally, TEP Chile accepted, in the Shareholders' Agreement of Holdco I, not to vote its Holdco I voting shares, or take any action in support of any transfer on the part of Holdco I of shares or convertible securities into shares issued by them or by TAM or by any of its subsidiaries without LATAM's prior written consent.

Restrictions to TAM shares transfers

In the Shareholders' Agreement of Holdco I, LATAM agreed not to sell or transfer TAM shares to any person (other than our subsidiaries), for as long as TEP Chile owns Holdco I voting shares. Without prejudice of the foregoing, LATAM shall be entitled to carry out such sales or transfers if, simultaneously with such sales or transfers, LATAM (or its assignee) would acquire all of Holdco I's voting shares owned by TEP Chile for an amount equal to TEP Chile's then in effect taxable base with respect to such shares and pay any cost in which TEP Chile might have to incur in order to carry out such sale or transfer. TEP Chile has irrevocably assigned to LATAM the assignable right to acquire all of Holdco I's voting shares owned by TEP Chile related to such sale.

Conversion option

Pursuant to the Shareholders' Agreement of the Controlling Group and the Shareholders' Agreement of Holdco I, LATAM is unilaterally entitled to convert our non-voting Holdco I shares into Holdco I voting shares up to the maximum allowed by law, and to increase our representation in the Boards of Directors of both TAM and Holdco I as permitted by the Brazilian laws that govern foreign property ownerships and by other applicable laws if the conversion would not have an adverse effect (as previously defined in the section on "Transfer Restrictions").

During or after June 2022, and after LATAM would have totally converted all its Holdco I non-voting shares into Holdco I voting shares, as allowed by Brazilian laws and other applicable laws, LATAM shall be entitled to acquire all of Holdco I's voting shares owned by TAM's controlling shareholders for an amount equal to their taxable base with respect to such shares and pay any cost that might be incurred in order to materialize such sale; an amount to which we shall refer as "sale consideration". If LATAM does not exercise its right to acquire such shares on a timely basis, or if, after June 2022 LATAM should be entitled, pursuant to Brazilian laws and other applicable laws, to convert all of Holdco I's non-voting



shares into Holdco I voting shares, and if such conversion would not have an adverse effect but we would not have exercised such right fully and totally during a specific period of time, then, the controlling shareholders of TAM would be entitled to offer us their Holdco I voting shares for an amount equal to the sale price.

Acquisition of TAM’s shares.

The parties hereto have agreed that all acquisitions of TAM’s ordinary shares by the LATAM Airlines Group, Holdco I, TAM or any of their respective subsidiaries as of and after the effective date of business combination shall be carried out by Holdco I.

Insofar as the main organs of Corporate Governance of the LATAM Airlines Group are concerned, they are: the Board of Directors and the Directors’ Committee (which, additionally, embodies the functions of Audit Committee for the purposes of the Sarbanes–Oxley Act of the United States of America), along with the Committees of Strategy, Finance, Leadership and Product, Brand and Frequent Flyer Program created following the association between LAN and TAM. The main powers of such corporate organs are specified below.

Dividends

In terms of dividends, the Company has established that they shall be equal to the minimum legally required; namely 30% of profits pursuant to current regulations. The foregoing is not inconsistent with the distribution of dividends over and above such mandatory minimum, in consideration of the peculiarities and circumstances of fact that might be perceived throughout the year.

Going forward, the Company does not expect any changes in its dividend distribution policy.

During the years 2014 and 2015, the Company did not show profits; consequently, no dividends were distributed. During the year 2016, however, the Company provisioned US\$ 20,766,119 associated to dividends to be payable during 2017.



Financial Policy

The Corporate Finance Department is responsible for managing the Company's Financial Policy. This policy enables responding effectively to changes in conditions other than the normal business operating conditions and, thus, maintaining and anticipating a continuous flow of funds toward ensuring operational continuity.

Additionally, the Finance Committee, integrated by the Executive Vice-president's Office and LATAM Board Members, meet periodically to review and propose to the Board of Directors the consideration and approval of topics not heretofore regulated by such Financial Policy.

The Financial Policy of the LATAM Airlines Group seeks to achieve the following objectives:

- ▶ To ensure a minimum level of operational liquidity. To preserve and maintain adequate cash flows in order to ensure operational requirements and growth. To maintain an adequate level of lines of credit with local and foreign banks in order to react before contingencies.
- ▶ To maintain an optimum level and profile of indebtedness in a proportion considered reasonable as a function of operational growth, while bearing in mind the objective of minimizing financing costs.
- ▶ To make cash surpluses yield profits, through financial investments that guarantee a risk and liquidity consistent with the Financial Investment Policy.
- ▶ To diminish impacts implying market risks such as fuel price changes, foreign exchange and interest rate fluctuations over the Company's net margin.
- ▶ To reduce Counterpart Risks, by diversifying and limiting investments in counterpart operations.
- ▶ To maintain a visibility of the Company's long-term financial projections, in order to anticipate situations of eventual breach of covenants (agreements), low liquidity, deterioration of financial ratios committed with rating agencies, etc.

The Company's Financial Policy issues guidelines and restrictions for the handling of Liquidity and Financial Investment Operations, Financing Activities, and Market Risk Management.

Liquidity and financial investment policy

During 2016, the LATAM Airlines Group maintained adequate liquidity levels in order to hedge against eventual external shocks and the volatility and cycles inherent to the industry, closing as of December 2016 with a liquidity ratio of approximately 19 % over total sales. Additionally, as of the closing of the year 2016, the Company kept a committed revolving line of credit for a total amount of US\$ 325 million with both local as well as foreign financial institutions; which, by the year's end were fully available.

Additionally, during this year 2016, the Company continued to finance with its own corporate equity an important part of the advance payments associated to aircraft manufacturing (pre-delivery payments) linked to the aircraft that LATA has ordered and will receive in the future, from both Boeing as Airbus; whose balance as of December 31, 2016 amounted to US\$170 million in pre-delivery payments financed with corporate equity.

During 2016, the Company managed to reduce its gross debt balance by approximately US\$ 412 million, which is explained by the pre-payment of debt maturities totaling approximately US\$ 1,816 million and the drawing new debt totaling US\$ 1,404 million. Among the main financing activities carried out during the year 2016 is the issue of debt linked to the acquisition of aircraft and engines for approximately US\$ 903 million, and US\$ 501 million of bank debt.

With respect to the Company's Financial Investment Policy, the objective is to centralize investment decisions so as to optimize profitability, corrected by currency risk and subject to maintaining an adequate level of safety and liquidity.



Additionally, such policy seeks to manage risk through the diversification of counterparts, deadlines, currencies and instruments (securities).

Financing Policy

The scope of LATAM's Financing Policy is to centralize financing activities and offset the useful life of assets with the maturity of the debt.

Most of the investments materialized by the LATAM Airlines Group correspond to fleet acquisition programs, which are generally financed through a combination of corporate equity and long-term structured financial debt. Normally, LATAM finances between 80-85% of such programs with bank loans or bonds secured by export promotion agencies, while the remaining portion is usually financed with commercial loans and corporate equity.

The payment terms of the different financing structures vary between 12-16 years, while the vast majority of them are at 12 years. Additionally, LATAM hires a significant percentage of its fleet acquisition commitments through operational leases as an additional financial tool.

With the objective of diversifying aircraft financing alternatives, on May 29, 2015 LATAM issued and placed private debt securities denominated Enhanced Equipment Trust Certificates ("EETC") for an aggregate amount of US\$ 1,020.8 million. The execution of this operation allowed financing the acquisition of eleven new Airbus A321-200, two Airbus A350-900 and four Boeing 787-9 that were delivered during 2015 and the first half of 2016. The total amount of debt securities issued during 2016 amounted to US\$ 345 million.

In addition, on May 18, 2016, the company executed commercial financing in the Senior and Junior formats for a total amount of US \$ 456 million to finance the acquisition of three Airbus A350-900s and one Airbus A320neo.

With respect to short-term financing, as of December 31, 2016, LATAM kept about 3% of its total debt in exporter and importer loans aimed at financing working capital requirements.

Another objective of the Company's Financial Policy consists in ensuring a stable profile of debt and lease commitment maturities, including servicing the debt and paying fleet leases, which would be consistent with LATAM's operating cash flow.

Market risks policy

Given the nature of its operations, the LATAM Airlines Group is exposed to market risks, such as: (i) fuel price risks; (ii) rate of interest risks; and, (iii) foreign exchange rate risks. With the objective of hedging against these risks, either totally or partially, LATAM operates with derivative instruments to fix or limit hikes in underlying assets. Market Risk Management is performed in an integral manner and considers the existing correlation of each exposure. In order to operate with each counterpart, the Company must have an approved line and a specific contract executed with the chosen counterpart. Such counterpart must have a Risk Classification, issued by an International Risk Classification Agency, equal or greater than an equivalent "A-" rating.

i. Fuel price risks:

Fuel price fluctuations significantly depend on: fuel supply and demand worldwide; the decisions adopted by the Organization of Petroleum Exporting Countries (OPEC); refining capacity worldwide; maintained inventory levels; the occurrence or lack of climactic phenomena; and, on geopolitical factors. LATAM purchases jet fuel denominated Grade 54 Jet Fuel. There is a reference index in the international market for this underlying asset; namely, the US Gulf Coast Jet 54, which was used by the LATAM Airlines Group for its 2016 hedging operations.

Our Fuel Hedging Policy restricts the minimum and maximum fuel range to hedge against, as a function of the capacity to pass these cost fluctuations onto prices and on the market scenario reflected in fuel prices. Additionally, it restricts the maximum hedging period and allows portfolio restructuring.

With respect to fuel hedging instruments, our Policy allows contracting Swaps and Options combined.

ii. Interest rate risks to the cash flow:

Interest rate fluctuations depend heavily on the state of the world economy. An upward movement of long-term economic prospects pushes long-term rates upward, while an economic slowdown causes them to drop driven by market forces. However, if governmental intervention is considered, during economic contraction periods referential rates often drop in order to boost aggregate demand upon making credit more available and, in turn, expanding production (in the same manner that such referential rates increase during economic expansion periods).

The existing uncertainty as to how the market and governments will behave and, consequently, as to how the rate of interest will fluctuate, represents a risk associated to LATAM's variable interest rate debt and its investments. The rate of interest risk on the debt is equivalent to the risk of the future cash flows of the financial instruments, given the fluctuation of market interest rates.

LATAM's exposure to market interest rate fluctuation risks is mostly related to variable-rate long-term debt.

In order to diminish the risk before eventual interest rate hikes, the LATAM Airlines Group maintains interest rate Swaps in effect.

The instruments approved by the Company's Rate of Interest Hedging Policy are: interest rate Swaps and Call Options.

iii. Foreign exchange rate fluctuation risks:

The functional currency used by the Parent Company is the United States Dollar (USD), in terms of the pricing of its services, the composition of its financial statement, and the effects on its operating results. There are two types of foreign exchange rate risks: cash flow risks and balance sheet risks. The cash flow risk is generated as a consequence of the net position of non-USD revenue and costs.

LATAM sells most of its services in USD, at prices equivalent to the USD and Brazilian Reals. Approximately 58% of the revenue is denominated in USD, while approximately 21% is denominated in Brazilian Reals. Most expenses are denominated in USD or USD equivalents, particularly fuel costs, aeronautic duties, aircraft leases, insurance, and aircraft parts and accessories. Payroll expenses are denominated in local currencies. The total percentage of USD-denominated costs is about 56%, while the approximate Brazilian-Real-denominated costs are 17%.

The LATAM Airlines Group maintains the majority of its international passenger and cargo business tariffs in USD. A portion of the tariffs of the international passenger business depends significantly from the Euro. In the domestic businesses, most fares are stated in local currency without any type of USD indexation. In the case of Ecuador's domestic business, both its tariffs as well as its sales are stated in USD. As a result of the foregoing, LATAM is indeed exposed to the fluctuation of various currencies, mainly the Brazilian Real and the Euro.

The LATAM Airlines Group has hedged against foreign exchange exposure risks mainly using currency forward and option contracts. Thus, as of December 31, 2016, LATAM is mainly hedged against the Brazilian Real for US\$ 60 million for the January-March 2017 period.

On the other hand, the balance sheet risk presents itself when balance sheet entries are exposed to foreign exchange rate fluctuation risks, since such entries are stated in a monetary unit other than the functional currency. Although

LATAM is entitled to execute derivative hedging contracts against the impact of the eventual appreciation or depreciation of currencies with respect to the functional currency used by the parent company, during the year 2016 LATAM did not execute any hedging contract against such eventual balance sheet risk.

The main mismatch factor here is generated in TAM S.A. since its functional currency is the Brazilian Real and a significant portion of its liabilities are stated in USD. At the closing of 2016, TAM entered into a derivative contract to partially hedge this balance sheet mismatch, whose net value on TAM's balance sheet amounted to approximately US\$1,100 million.



OPERATIONS



Twelve new international routes during 2016

The international passenger operation considers regional flights within South America and The Caribbean, and the long-range ones between this subcontinent and the rest of the world. In 2016, the company served 50 destinations in 25 countries, with 29 regional (including four cities in the Caribbean) and 32 long-haul routes.

During the year 2016, the international business continued to develop amidst a complex regional macroeconomic environment, characterized by the weak growth in the countries in which LATAM operates, added to Brazil's second decline year, in addition to a significant devaluation of Latin American currencies.

During this period, moreover, the market was characterized by a strong competitive pressure in the region, mostly attributable to the entry of new operators in international routes to/from Spanish-speaking countries, and by an increased supply in the industry in general, as a result of the adjustments introduced in Brazil and the subsequent reallocation of such capacity.

In order to mitigate the effects of this complex scenario, the LATAM Group intensified the downsizing of its supply of routes from Brazil to the United States, with reductions of up to 35% capacity toward the end of 2016. By contrast, it continued to boost its supply along those routes with greater demand, especially from Spanish-speaking countries, both for regional as well as long-haul flights, while also launching new routes to the United States, Europe and Africa.

As a result of the reduced capacity applied by different operators in Brazil, added to the appreciation of currencies, mainly the Brazilian Real, market conditions indeed improved as of the second half of the year, which resulted in a recovery of average tariffs on international flights.

Within this context, the LATAM Group remained the main operator in these regional flights, with 15 million passen-

gers transported; i.e. 6.7% more than in the previous year. Of the total passengers transported in this period, 9.2 million corresponded to passengers flying regional routes and 5.9 million to passengers flying long-haul flights.

Its consolidated traffic of passengers transported in international flights (measured in RPK) increased 7.4% as compared to the previous year, while its capacity (measured in ASK) increased by 5.6%, thereby turning out a healthy occupation factor of 82.6%; i.e. an increase of 1.4 percentage points in relation to 2015.

The LATAM Group's international operation has had a significant growth in recent years thanks to the delivery of a unique, improved and differentiating proposal and to the continued strengthening of the connections network; an attribute that is highly valued by the passengers in this type of operations.

In line with its objective of consolidating its network leadership while offering the best connectivity to its passengers, in 2016 the Company opened up 12 new international routes, seven of which are regional and five long-hauls.

Regional flights

At the regional level, in 2016 we opened the Lima-Montevideo routes, with five weekly flights; Lima-Rosario and Lima-Salta, with four and three weekly flights, respectively, thereby boosting the Peruvian capital as one of LATAM's main hubs in the region. Along the same lines, the Company announced the opening of the Lima-Cartagena de Indias (Colombia) route as of January 2017, thus becoming the first industry operator to connect these two cities. With four weekly frequencies, this new route aims at strengthening the connectivity between Peru and Colombia; which, as of this date, has seven weekly frequencies along the Lima-Bogota route operated by LATAM Peru and 14 weekly frequencies along the Bogota-Lima route operated by LATAM Colombia.



Additionally, the Company announced the opening of the Lima-Mendoza (Argentina) route as of February 2017. Thus, LATAM Peru will have added nine new international destinations in just two years, expanding to 29 its network of flights and direct connections from the capital of Peru to the world.

Other international routes inaugurated in 2016 are Bogota-Buenos Aires, Iquique-La Paz, Iquique-Santa Cruz and Santiago-La Paz. On the other hand, the Company announced the beginning of direct flights between Santiago, Chile to Santa Cruz, Bolivia as of March 2017, with three weekly frequencies, also becoming the only airline to operate direct services between the two cities, offering greater comfort and faster travel times than any other operator.

All things considered, in terms of regional routes, the Company maintained its market leadership increasing its market share to 45%, measured in terms of capacity (ASK). Its main competitors on these routes are: Avianca, Aerolíneas Argentinas and GOL, which achieved a market rate of 23%, 11% and 9%, respectively, among others.

Long-haul operations

On long-distance routes, the Company covered 20 destinations as of December 2016; with the United States and Europe remaining the most relevant markets and, consequently, the most strategic for LATAM.

During this year, the Company inaugurated five new routes, three of which are to the United States, prominent among which is a direct non-stop flight between Lima and Washington. This is the only regional airline to directly connect (with three weekly frequencies) the capitals of Peru and the United States. Washington thus became the fifth destination served by the LATAM Group in that country from Lima, adding to its operations in New York, Miami, Los Angeles and Orlando from where passengers can connect to over 60 cities within the United States, thanks to the agreements entered into with our partner airlines. The other two routes

to the United States inaugurated during this year are: Recife-Miami and Santiago-Los Angeles.

Moreover, in December 2016, the Company opened a non-stop route between Lima and Barcelona, with three flights per week; an operation that complements the LATAM Group's direct daily flights between Sao Paulo and Barcelona, as well as its direct services from Lima, Sao Paulo, Santiago and Guayaquil (Ecuador) to Madrid, whose passengers can make flight connections to/from Barcelona through Iberia, its OneWorld ally.

Among the main milestones of the year stands out the opening in October of direct flights between Guarulhos (Sao Paulo) to Johannesburg, South Africa's largest and most populated city, thus becoming the only Latin American airline connecting the region with a country of the African continent with its own flights and three weekly frequencies.

With respect to flights to North America (which, in addition to the five US destinations include Cancun and Mexico City), LATAM positioned itself as the second market operator (measured in ASK) with a 20% market share, after American Airlines' 21% and Copa's 13%, among its main competitors. Regarding operations to Europe, the Company stood in third place, with a 13% market share (versus 12% in 2015) measured in ASK; a market that is led by Air France-KLM and the IAG Group, with 21% and 19%, respectively.

In terms of Oceania operations, on the other hand, LATAM consolidated itself as the main operator, expanding its market share to 44% (versus 43% in 2015), where it competes the Australia's Qantas and Air New Zealand, which reached market shares of 36% and 20%, respectively. In this case, the Company flies to Auckland, Sydney, Papeete and Easter Island.

It is worth noting that in 2016 LATAM announced a new direct flight between Santiago, Chile and Melbourne, Australia beginning in October 2017, thereby reinforcing its commitment to the Asia Pacific region, as well as the



INTERNATIONAL



15,1 million passengers



122 aircraft



27 destinations

connectivity between South America and Oceania. With a stretch of 11,000 kilometers and duration of 15 hours, this will become the longest flight in LATAM's history. Moreover, it will become the first airline ever to link Latin American countries non-stop to Melbourne, Australia's second largest city with 4.5 million inhabitants. The Company is poised to operate this route three times per week, this becoming the second Australian city, along with Sydney, where LATAM operates (via Auckland in New Zealand).

Additionally, in 2016 the Company continued to strengthen its commercial alliances with other Airlines, such as inter-line agreements, shared codes and its OneWorld Alliance membership. In this realm, the shared code agreement entered into between LATAM Airlines Colombia and Iberia, aimed at strengthening non-stop flights to Europe, stands out. The routes offered via this agreement are: Bogota-Madrid, with seven weekly frequencies, Cali-Madrid and Medellin-Madrid, with three weekly frequencies, respectively.

In this respect, however, LATAM's most relevant and strategic project is its *Joint Business Agreement* (JBA) with American Airlines and the International Airlines Group (for its British Airways and Iberia airlines), which will permit to expand the Group's international network to over 420 destinations in North America and Europe, principally, offering more flights

and better connection times, in addition to better prices to destinations never before flown by LATAM. These agreements deepen the relationship between the LATAM Group and the other members of OneWorld Alliance, reflecting a worldwide industry trend that took off some two decades ago. The Company expects the respective approval processes to make quick progress and soon become a reality in order to connect ever more persons from Latin America with the rest of the world and vice-versa.

Fleet

In order to develop its international operations, in 2016 the Company used a fleet comprised of an average of 122 aircraft throughout the year. In order to serve its regional routes it operated aircraft of the Airbus A320 family. Whereas, for long-haul flights it used Boeing 767 and 787 aircraft (in their versions 8 and 9), in addition to the new Airbus A350 incorporated to its fleet, which as of December 2016 totaled seven such units. The latter aircraft were mostly allocated to boost the routes from Sao Paulo to Miami and Orlando, in the USA, and from Sao Paulo to Madrid and Milan, in Europe.

It is worth noting that in December we incorporated a third Boeing 767-300 to the fleet of LATAM Airlines Argentina (following 10 years of work and commitment in the country),

enabling it to expand its supply of flights along the Buenos Aires-Miami route, increasing such frequencies from 7 to 11 per week.

In terms of service, in addition to offering flights using the most modern fleet of the continent, the Company continued to invest this year in technological platforms and/or solutions to optimize its passengers travel experience. In addition to the entertainment system which they can access using their own mobile devices during the flights, it is worth highlighting an application that affords them greater control over their trip, such as checking-in, selecting their seat, saving their boarding passes without the need to print them, checking the status of the flight and carrying a register of all their trips in their smartphones, among other options.

Additionally, the LATAM Group made available to its clients yet another application permitting them to learn about the status of their flight and choose, via the airline's website, the best rescheduling alternatives in case of delays or contingencies, speeding up the entire process and making it more effective. All of the above, in line with the objective of improving and progressively simplifying the travel experience of its passengers.



BRAZIL

Improving connectivity from the main hubs: Sao Paulo and Brasilia

With 210 million inhabitants, Brazil is by far the largest South American domestic market and the third worldwide, with more than 88 million passengers transported within the country during 2016. This is a market with low penetration in air transportation and high growth potential, which is why it continues to be an opportunity for the LATAM Group.

The year 2016 it was particularly complex for the transport of passengers in Brazil, with its economy undergoing a severe recession. As a result, the 2016 projections of the International Monetary Fund are for a 3.5% GDP slowdown, this being the first time that the country undergoes two consecutive years of economic contraction. In 2015, the drop in GDP was 3.8%, the worst performance since 1990.

At the beginning of 2016 the U.S. dollar surpassed the level of R\$ 4, the highest in the history of the Real Plan; however, throughout the year it had a significant drop of 18%. Inflation, on the other hand, stood at 6.4%.

This recession had a direct impact on commercial aviation, particularly affecting the demand for corporate passengers (persons travelling on business). For the LATAM Group, Brazil's domestic operation represents approximately 43% of the total number of passengers transported; a number higher than the sum of all its local operations in the Spanish-speaking countries where it operates.

Key toward mitigating the impact of the country's slowdown and especially the weakness of the real has been the Company's supply discipline applied since entering Brazil in 2012; a market that is yet characterized by a situation of overcapacity.

During 2016 the company continued focused on maintaining its strategic position within Brazil, enhancing connectivity from its major hubs, as are the Guarulhos and Brasilia terminals.

In this context, during 2016 LATAM Airlines Brazil reduced its supply by 11.5%, measured in ASK (available seats per kilometer), which adds to the 2.5% decrease applied in 2015; from 1.4% in 2014 and 8.4% in 2013. On the other hand, demand decreased by 10.7% measured in RPK (rented kilometers per passenger), resulting in a healthy total occupancy factor of 82.3% for the year, thus representing an advance of 0.8 percentage points when compared to the previous year.

By December 2016 the company operated 44 airports, with approximately 580 daily domestic flights. With 29 million passengers transported in the year, representing a 9.7% decline when compared to 2015, the Company closed the year as the second major market operator in domestic routes -with a 35% market share, measured in RPK (passengers transported per kilometer); namely, 1 percentage point less than the GOL airline; next came Blue with 17%, among the major competitors.

In order to develop its domestic operations, the Company used an average fleet of 100 aircraft, which included 30 Airbus A321 -three more than in 2015- allowing it to more efficiently serve high density routes. It should be noted that the LATAM Group is currently the only operator of this type of aircraft in Brazil. Another important achievement of this year was adding the first A320neo aircraft of the Americas to the LATAM Airlines Brazil fleet, whose initial flight took place on September 19.



BRAZIL

 29 million passengers

 100 aircraft

 41 domestic destinations

 35% market share

Even amidst a challenging scenario, the company made great strides in the consolidation of its identity as LATAM Group; a brand that it used in its work as the official airline of the 2016 Olympic Games (August) and the 2016 Rio Paralympics (September). The first aircraft with the new corporate image took off from Rio de Janeiro on May 2, bound for Geneva, Switzerland, to pick up the torch and convey it to the Brasilia terminal, the country's most important hub for flights to the interior of the country. Subsequently, the company transported the Olympic flame over eight thousand kilometers in 12 domestic flights, for 15 days, landing in 13 cities of the North, Northeast and Central-West Brazil regions, in a special operation conducted over an Airbus A319 aircraft. In order to meet the demand stemming from the Olympic Games, the network of flights was fitted with more than 140 additional flights, whereas during the month of August the Rio-São Paulo system operated with an occupancy factor of 81% (compared to 68% in same month of 2015).

In 2016, and for the eighth consecutive year, TAM was the most recalled brand in the airlines category of the "Top of the Mind" ranking promoted by *Folha de Sao Paulo* newspaper. Also for the eighth consecutive year, the company won the airline category of the 19th Edition of the ranking of the most admired companies in Brazil, in the survey carried out by *Officina Sophia*.



ARGENTINA

We serve 15 domestic destinations in the country

With 11 years of operations in the country, LATAM Airlines Argentina has positioned itself as the second operator of that country's domestic flights, in a market characterized by a strong dominance of Aerolíneas Argentinas, the state flag company, which concentrates 75% of the business.

During the year 2016 the company transported 2.6 million passengers on domestic air routes, 7.0% more than in 2015, achieving a market share of 25%, with an increase of 0.6 percentage points over the previous year. The Company's consolidated traffic, measured in passengers per kilometer (RPK) grew 7.2%, while its capacity (ASK) increased 5.5%, representing an occupation factor of 77.0% with an increase of 1.3 percentage points in relation to the previous year.

This achievement has been possible thanks to persistent work focused on providing a differentiated value proposal, incorporating the highest standards of security and quality of service.

LATAM Airlines Argentina has 15 domestic destinations that connect Buenos Aires to/from the cities of Bahia Blanca, Bariloche, Comodoro Rivadavia, Cordoba, El Calafate, Iguazu, Mendoza, Neuquen, Río Gallegos, Rosario, Salta, San Juan, Tucuman and Ushuaia. Aiming to enhance connectivity to the interior of the country and respond to the demand, in 2016 the Company increased its daily flights from Buenos Aires to Córdoba from 5 to 6, reaching 40 weekly flights on this route; It also increased from 21 to 26 its weekly flights from Buenos Aires to Neuquén and boosted its flights to Tucumán, with three weekly flights.



ARGENTINA

 2,6 million passengers

 15 aircraft

 15 domestic destinations

 25% market share

In addition to strengthening the itineraries, check-in and preventive task processes were also strengthened to minimize delays, including the use aircraft access gateways (*mangas*) and the improvement in luggage delivery times at all airports of the country.

In order to fly domestic routes, the Company used 15 Airbus aircraft of the A320 family, one more than in the previous year. These aircraft are considered the most efficient in the industry for domestic operations, while offering the most spacious and comfortable passenger cabin in the category. Moreover, they are all equipped with the new IFE Wireless Entertainment Service on board, allowing the traveler to access movies, music, games and information content through their own mobile devices, thus making their flying experience more enjoyable.

Thanks to all these initiatives, the company was enshrined in 2016 as an aeronautical industry leader in terms of customer experience, according to the study that shows the percentage of “brand advocate persons”, which measures the relationship between customer loyalty and the creation of value in the companies.

LATAM Airlines Argentina operates from Buenos Aires at the Ministro Pistarini (Ezeiza) Airport and at the Aeroparque Jorge Newbery Airport, the country’s most important domestic terminal. The Company inaugurated its own hangar within that facility in November 2009.



CHILE

Record number of passengers transported during 2016

During the year 2016 air transport operations in Chile registered a dynamic behavior, which was reflected in the record number of passengers transported within the country, representing 10.6 million people and a growth of 9.4% (without considering Easter Island) when compared to the previous year, according to statistics prepared by the Civil Aeronautics Board (JAC, in its Spanish acronym). Although the local economy had a poor performance, with a GDP of 1.7% according to International Monetary Fund estimates, the sustained tariff reduction applied by the industry at large in recent years has been key in stimulating domestic air travel demand and, consequently, increased domestic air traffic.

Chile's aero-commercial policies allow all companies to enter the market provided that they meet certain technical requirements, where each airline is free to develop its own business; a situation that has also allowed introducing new low-cost business models in the market, both for domestic as well as international routes.

In this environment of increased competition, LATAM Airlines Chile has remained the leading operator in domestic routes, thanks to its continuous efforts to offer competitive rates, while maintaining its differentiated service proposal focused on customer satisfaction. This is how in 2016 the company transported more than 7.8 million passengers, 8.8% more than in 2015, reaching a market share of 73.1% measured in passengers carried, with a drop of 0.4 percentage points when compared to the previous year. On domestic routes it competes mainly against SKY Airlines, which this year raised its participation to 25.9%.

The Company's consolidated passenger traffic (RPK) grew 9.6% and its capacity increased 10.0% measured in ASK (seats per kilometer), as compared to the previous year; moreover, as a result of the foregoing, its average occupancy factor stood at 83.0%, similar to that obtained in 2015.

LATAM Airlines Chile serves 16 domestic destinations (not considering Easter Island), covering the main cities from north to south such as Santiago, Arica, Iquique, Calama, Antofagasta, Copiapo, La Serena, Concepcion, Temuco, Valdivia, Osorno, Puerto Montt, Castro, Balmaceda, Puerto Natales and Punta Arenas. It should be noted that Puerto Natales, located in the southernmost part of the country, south of the Chilean Patagonia, was inaugurated in December, initially with two weekly flights from Santiago and in January 2017 were expanded to four such weekly frequencies, which remained operational until February 2017.

With the opening of this new route, the Company seeks to continue to contribute to the development of the nation and its regions, and to draw all passengers near to one of the world's main tourist attractions, both national and international. According to National Geographic, Puerto Natales is the fifth most beautiful place on Earth, and more than five million people voted for it as "the eighth wonder of the world" in a survey conducted by the online travel guide *Virtual Tourist*.

Likewise, in 2016 the company significantly increased tourist route opportunities (17% more seats than in the previous year), including flights to Arica, Iquique, Puerto Montt, Castro, Balmaceda, Puerto Natales and Punta Are-



CHILE

 7,8 million passengers

 27 aircraft

 16 domestic destinations

 73% market share

nas. This was partly accomplished by increasing flight frequencies in these markets and also by using a greater percentage of A321 aircraft, with a capacity for 220 passengers; 46 seats more than the A320.

In the same vein, LATAM Airlines Chile modified its itinerary by offering a direct flight to the island of Chiloé (formerly with a stopover in Puerto Montt), reducing by more than one hour the time of travel to this island destination.

In order to serve its domestic routes, the company used a fleet composed by 27 aircraft of the Airbus A320 family, two more than in the previous year. During this period, four A321 aircraft joined the fleet, completing a total of 12 aircraft of this model by the end of the year. The Airbus A321 is the largest and most modern aircraft of this family whose technology, materials and aerodynamics allow a more efficient operation, a strong reduction of CO2 emissions and lower fuel consumption.

On its Easter Island route, on the other hand, the Company has been using its Boeing 787 Dreamliner since 2015.

It should be noted that LATAM Airlines Chile's entire fleet has been equipped with a modern on-board entertainment system upon installing, during the first quarter of the year, IFE Wireless technology in all its aircraft used to serve its domestic flights.



COLOMBIA

Colombia's most punctual airline for the fourth consecutive year

Colombia is Latin America's third largest air traffic market, with a rate of 0.7 trips per capita per year; an indicator that although exceeds the average of the countries of the region where the company operates, is still quite distant from the rates experienced in developed countries such as United States and England, with two or more trips by person per year.

The year 2016 posed significant challenges overall to the airline industry in Colombia, as a consequence of the increased value of the US dollar and of the economic slowdown in the country, compounded by an increasing competition that has been characterizing the market (at year's end began to operate *Wingo*, a new low-cost airline owned by Copa Airlines). Even though rates have fallen 13%, the number of passengers carried on domestic flights grew 4.4 percent, evidencing a slowdown in the dynamism shown by domestic operations during the last decade, with average expansion rates of 11% per year.

In this scenario, LATAM Airlines Colombia continued to strengthen its value proposal focused on the client and, at the same time, on its own competitiveness and efficiency by reducing operating costs and passing them on to lower rates and thus maintaining sustainable levels of profitability over time.

With five years of operation in the country, the Company remained during this year as the domestic market's second airline, with 4.8 million passengers transported in domestic flights, 4.4% more than in 2015 and achieving a market share of 21.1%, measured in RPK, growing 0.7 percentage points in relation to the previous year.

In domestic routes, the Company competes with the Colombian nation's flag carrier, Avianca, the market leader with a market share of 58.1%, besides Viva Colombia (13.8%); Satena (3.0%); Easy Fly; and, Copa/Wingo with less than 2% each, among the top ones.

LATAM Airlines Colombia serves 14 destinations in the local market, offering a wide connectivity from Bogotá and Medellín. In 2016, its consolidated air passenger traffic (RPK) grew 8.9% and its capacity increased by 6.8% (ASK); and, consequently its occupation factor stood at 80.3%, with an advance of 1.5 percentage points in relation to 2015. It should be highlighted that starting on July the company suspended the operation of the Cali-Medellin-Cali route that operated with two daily frequencies; however the connectivity between both cities was maintained without modifications from the city of Bogotá. The decision to suspend this route was adopted considering the low level of passenger occupancy of these flights.

Beginning in March 2017, the company will begin operating two new routes to the interior of the country, such as Cartagena-San Andres and Medellín-Santa Marta, initially with four weekly flights in each case. In this manner, the LATAM Group seeks to strengthen the network of connections in Colombia and continue boosting demand for travelers to the North of the country, with flights connecting directly with cities other than Bogotá, taking a new step toward decentralizing its domestic operations.

To serve its domestic flights, in 2016 the Company used a fleet composed by 17 Airbus aircraft of the A320 family, two more than in the previous year; eight of which correspond to Airbus A320 and nine to Airbus A319; a model



COLOMBIA

 4,8 million passengers

 17 aircraft

 14 domestic destinations

 21% market share

that LATAM Airlines Colombia began to operate in October of 2016. All of these aircraft are equipped with a modern on-board wireless entertainment system that operates through a mobile application.

In terms of service, one of the landmarks of the period is the consolidation of LATAM Airlines Colombia -for the fourth consecutive year- as the most punctual airline in the country on domestic flights, with 97.4% punctuality according to the latest airline compliance report prepared by Colombia's civil aviation authority covering the first half of 2016. This recognition is due to the Company's continuous effort toward promoting a culture of punctuality within the organization, by investing in training, technology and a modern fleet. For LATAM Airlines Colombia, punctuality is indeed an attribute that differentiates it before its clients.

On the other hand, the District's Environmental Secretariat (*Secretaría Distrital de Medio Ambiente*) distinguished LATAM Airlines Colombia as a leader in environmental man-

agement and performance in Bogotá (District's Program of Environmental Excellence – PREAD, in its Spanish acronym). Following a rigorous evaluation by over 100 companies, the Company joined the "Environmental Excellence, generating sustainable development" level, comprised of those organizations that, in addition to complying with environmental regulations, have an environmental management system in place based on continuous improvement permitting compliance with its environmental performance indicators.

Along this line, and for the third consecutive year, LATAM Airlines Colombia offset the CO₂ emissions of its 2015 land operations by acquiring 1,335 carbon bonds of the restoration project of degraded areas in Caceres, located in the northeast of Colombia in the Department of Antioquia. In total, the company has offset 3,346 tons of carbon dioxide emissions that correspond to their land emissions from 2013 to 2015.



ECUADOR

About 1 million passengers transported

During 2016, air operations in Ecuador developed in a complex economic environment derived mostly from the fall of petroleum prices (one of the country's main sources of income), the valuation of the US dollar, currency devaluations in neighboring countries, and the devastating earthquake that hit the country's east coast in April. All of these shocks had a profound economic impact. Thus, the country's GDP closed the year with a 2.3% drop, according to International Monetary Fund estimates; the region's worst economic performance after Brazil.

Within this context, LATAM Airlines Ecuador transported nearly 1.0 million passengers along domestic routes; a drop of 8.3% when compared to 2015. Its consolidated traffic of passengers slowed down by 2.4%, as measured by RPK, whereas its average capacity, measured in ASK, dropped by 0.7% as compared to the previous year. Consequently, the country's average occupation factor stood at 79.3%; a drop of 1.4 percentage points in relation to 2015.

The Company began its domestic operations in Ecuador in 2009 and since then it has been progressively positioning itself as a relevant actor in the country's domestic routes, thanks to continuous work aimed at giving its clients a differentiating value proposal in terms of service. In 2016, it achieved a market share of 30.5%, measured in ASK, with a slight increase of 0.2 percentage points with respect to the previous year. The Company's main competitors include the country's flag carrier, Tame, with 40.8% market share as of this closing, and Colombia's Avianca with 28.7%.

LATAM Airlines Ecuador operates in five cities of the country, via the Quito-Guayaquil and Quito-Cuenca routes, Quito-Guayaquil toward the St. Christopher Islands and Baltra in the Galapagos Archipelago, to which must be

added the direct flight Quito-Baltra inaugurated in 2016, offering connectivity that seeks to promote tourism and national economic development.

On the occasion of the strong earthquake that impacted the country, in April LATAM Airlines Ecuador and LATAM Airlines Cargo activated their Solidary Airplane Program which is triggered under emergency situations that require the urgent transportation of humanitarian aid. Thus, during one entire month the Company transported volunteers and more than 600 tons of humanitarian aid to earthquake-ridden zones. Moreover, the Company also activated solidary flights along the special Quito-Manta-Quito route for the transportation of donations and volunteers of the Quito Metropolitan District.

On the other hand, the Company's regular flights from/to Cuenca were affected toward the end of the month of April until mid-September because of the landing restriction on wet runway issued by the country's aeronautic authority and by the subsequent closure of the Mariscal del Mar Airport, for one entire month, for runway repair work. This situation derived in the cancellation of nearly 149 flights, affecting LATAM and Tame; the two airlines serving Cuenca. During this period, LAM Airlines Ecuador maintained its clients continuously informed and offered commercial facilities to affected passengers. The Company ultimately was able to renew its regular flight program on September 19, following the opening of the air terminal.

Among the initiatives implemented to encourage tourism travel, the Company launched a new catalog in Alliance with national and international operators, with a broad range of tariff promotions available at travel agencies. Until December 2016 nine destinations were offered with



ECUADOR

 1,0 million passengers

 3 aircraft

 5 domestic destinations

 31% market share

20 land service combinations, including lodging and routes provided by wholesale tour operators.

In order to serve the domestic routes, LATAM Airlines Ecuador used a fleet of three aircraft Airbus A319, without variations from the previous year. These aircraft are smaller in capacity, compared to the A320 and allow adapting to demand conditions in this market. Additionally, they are equipped with LATAM's modern on-board entertainment system, which offers the best travel experience to passengers.

In line with industry trends and the development of the digital experience at all stages of the trip, LATAM Airlines Ecuador transformed one of its commercial Quito offices into a kiosk, with three self-service modules. In each module the passengers can access www.latam.com to perform searches, book and pay tickets, manage LATAMPass accounts and inquire about products and services.

It is worth highlighting that in 2016 LATAM Airlines Ecuador was distinguished with the eCommerce awards, as an electronic commerce leader in the tourism category, an initiative of the eCommerce Institute co-organized by Ecuador's Chamber of Electronic Commerce; and the eDay Award in the Large Corporations category, the latter of which is awarded by the Guayaquil Chamber of Commerce. Both distinctions confirm and consolidate the Company's leadership in the field of electronic commerce.

Additionally, in 2016 LATAM Airlines Ecuador became worthy of the Recognition for Operational Security Management awarded by Mariscal Sucre International Airport. Among others, the Company also received recognitions from Ecuador's Red Cross and the Corps of Firefighters of Quito's Metropolitan District Firefighters, both for transporting humanitarian aid to the areas affected by the earthquake as well as for transporting firefighter volunteer to such areas.



PERU

Leaders in one of the best performing economies in the region

Peru once again on 2016 stood as one of the top performing economies in the region, closing the year with a GDP growth of around 3.8% (versus 3.3% in 2015), according to estimates prepared by the International Monetary Fund (IMF). In this context, domestic market passenger air traffic continued to grow, reaching over 10 million persons transported during the period.

With its 17-year presence in Peru, the bargain air tariff model promoted by the LATAM Group as of the year 2006 has been decisive in the growth of its domestic market, which tripled during the last decade.

With 6.6 million passengers transported in domestic flights (6.7% more than in 2015), LATAM Airlines Peru remained the main operator of these routes with a market share of 61.4%. Its main competitors are Peruvian Airlines and Avianca; which, during this period, reached market shares of 12.5% and 11.9%, respectively, followed by LC Peru with 8.4% and Star Peru with 4.5%.

Its consolidated passenger traffic (RPK) grew 6.5% and its capacity (ASK) increased by 8.0% as compared to 2015; consequently, the occupation factor stood at 80.4%, with a drop of 1.2 percentage points with respect to the previous year.

LATAM Airlines Peru serves 17 destinations in the country, offering a varied range of daily flights aimed at meeting the demand and generating greater passenger traffic. For example, it offers 22 daily flights to Cusco, 10 to Arequipa, 6 to Piura, 5 to Iquitos, 4 to Chiclayo, Juliaca, Tarapoto and Trujillo, 3 to Tacna and Pucallpa, 2 to Ayacucho, Cajamarca, Puerto Maldonado, Tumbes and Talara.

In September 2016, the Company opened up its domestic destination number 17 upon launching its new route to Jaen (Cajamarca province), with one daily flight from Lima. This was possible thanks to the improvements introduced by the Civil Aeronautics Board (DGAC, in its Spanish acronym) and Peru's Corporation of Airports and Commercial Aviation (CORPAC, in its Spanish acronym) in this city's air terminal located in Northeast Peru, whose touristic attraction is the archaeological site of Kuelap. In this manner, the Company made progress in its objective to continue to improve domestic connectivity, offering more flight options to Peruvians, while contributing toward the country's tourism and commercial development.

In order to serve its domestic operations, it deployed a fleet of 18 Airbus aircraft of the A320 family, one more than in 2015. As part of its continued passenger service improvement, during this period LATAM Airlines Peru launched its projected fleet renewal plan incorporating, during the month of October, five modern Airbus A320 to replace an equal number of Airbus A319 that remained in operation to that date. With a 174-passenger seat capacity, versus 144 in the A319, these aircraft enables transporting more persons without increasing frequencies, while introducing significant advantages in terms of efficiency and passenger comfort.

Among the most important milestones of the year, it is worth highlighting the acknowledgment obtained by LATAM Airlines Peru, for the second consecutive year, as one of "Peru's most admired 2016 companies" (EMA, in its Spanish acronym), in its fifth edition, ranking 5th in the international ranking prepared by PwC Peru and Revista G de Gestión management journal, a distinction that corresponds to an evaluation made by 4,500 country executives (from 1,500



PERU

 6,6 million passengers

 18 aircraft

 17 domestic destinations

 61% market share

companies) through a survey that determines corporate performance according to eight fundamental attributes in order to be considered of excellence. Additionally, the Company was chosen among the country's top 10 companies to work in and was ranked N°11 in the ranking of the 15 top 2016 Merco Preferred Employers (corporate reputation).

Moreover, for the second consecutive year, LATAM Airlines Peru was distinguished with the award of Spain's Co-responsible Foundation (*Fundación Corresponsables de España*) for its "Night Flights to Cusco with RNP (*Required Navigation Performance*) technology" project, within the scope of Corporate Social Responsibility (CSR). The RNP system applied to the Lima-Cusco route since September 2013 is an example of the Company's ongoing revenue generation practices. This technology uses advanced avionics (a discipline that studies the electronic techniques that are applied in air navigation) capacities and is supported via satellite guidance, permitting more precise routes while

operating safely under low visibility conditions, avoiding flight delays and cancellations.

On the other hand, for the third consecutive year, LATAM Airlines Peru became the only transportation company in the country and in South America to be distinguished as a Socially Responsible Company (ESR®), awarded by Peru's 2021 Civil Association in Mexico's Center for Philanthropy (CEMEFI, in its Spanish acronym). This recognition is given to companies that voluntarily and publicly undertake to apply socially-responsible management practices as part of their own corporate culture and business strategy.

The company was also awarded first and second place in the *Spot & Online Video* category of the 2016 DIGI Awards for its "Christmas in airplane mode" and "I love you to the sky" campaigns, respectively.



CARGO

We are the largest cargo operator in the region

LATAM is Latin America's largest cargo operator group, offering its clients the broadest connectivity between points in the region and around the world, with 139 destinations in 29 countries. The Company transports cargo in the holds (bellies) of 319 passenger aircraft and in 10 dedicated cargo aircraft (two Boeing 777-200F and eight Boeing 767-300F, excluding aircraft leased to other operators).

During the year 2016, the Company transported 944,000 tons; i.e. 6.4% less than in 2015. The supply, measured in available tons per kilometer (ATKs), dropped by 5.3% and its load factor hovered around 51.7%, with a 1.9 percentage-point drop as compared to the previous year. These results occurred within a complex air cargo demand scenario worldwide, which for years now has been showing low rates of growth. In 2016, it increased by only 2.6% as compared to the previous year.

Insofar as markets are concerned, the highly challenging economic and political conditions of the region continued to have a negative impact in the air cargo business. Although the flows from South America to the North benefited from the strengthening of the United States' economy, overall Latin America's air cargo traffic dropped by 5.7%.

Traffic within South America was the weakest (with an inter-annual contraction of 14%), with Brazil being the hardest hit and where the amount of kilograms transported at the domestic level dropped by 12%. This impacted LATAM Cargo with a 3 percentage-point market share loss. In spite of this, the Company remained as the country's leading operator in the business.

On the other hand, import markets continued to show weakness during 2016, mainly the cargo traffic into Brazil. In order to confront this situation, the Company reduced its

structural flight supply of cargo aircraft from Europe and the United States to this South American destination, as well as in its domestic operations.

With respect to Latin America's export markets, since Chile's salmon production was severely affected because of harmful algal blooms that increased fish mortality, this market dropped by 15% with respect to 2015. Fruit traffic from Chile and Argentina exhibited a healthy expansion and flowers from Colombia and Ecuador remained stable, albeit with a diminished LATAM share in such markets because of changes in the Company's strategy.

The downward pressure on rates continued during this period, where yields at the global level were 4.1% lower than those in 2015, mostly as a result of the region's oversupply of cargo fleet and passengers, in addition to low fuel prices. Although fuel prices increased by 48.5% throughout 2016, they remained at low levels if compared to those of the last years.

The Company remained focused on strengthening its operational efficiency in order to achieve a more agile and simpler organizational structure, aimed at providing a better experience to clients. Along these lines, we worked toward reducing and optimizing basic structural costs through a series of productivity initiatives, restructuring of the cargo fleet, third-party supplies and operation support processes.

In order to maximize the use of passenger aircraft holds (bellies), thereby yielding better asset profitability, LATAM Cargo continues adjusting its capacity.

During 2017, the Company will remove a Boeing 767F aircraft that was under lease, while also during the first quar-



CARGO

 0,9 million tons

 11 aircraft

 139 domestic destinations

 73% market share

ter of that same year it envisages removing another two Boeing 777-F cargo aircraft from its fleet.

Additionally, during this period we managed to increase the productivity of our dedicated cargo fleet by leasing services to external operators, thereby improving their usage. In this same sense, the year 2016 was also successful with respect to special operations and charters, totaling 176, principally in the region.

On the other hand, we developed LATAM Cargo's new product portfolio, with an innovative proposal aligned with our clients' needs, permitting us to deliver greater consistency and a clear promise to the market. Within this ambit, we made progress in transforming the Company's internal processes aimed at guaranteeing compliance with our commitments to clients and created the Continuous Improvement Area in order to focus and follow up projects.

At the same time, during the second half of the year we launched the Net Promoter Score (NPS) as an indicator to measure client loyalty; an initiative framed within the Company's will to put clients and their preferences at the center of our decision-making process.

All things considered, 2016 was indeed a challenging year for the LATAM Group's cargo unit, and one in which we managed to ride a complex domestic and foreign context, while making progress in consolidating an integrated cargo and passenger network, strengthening connectivity, reinforcing our value proposal and portfolio of products for all clients, while continuing to optimize processes and costs in order to ensure the Company's future competitiveness.



CUSTOMER LOYALTY PROGRAMS

More than 26 million registered members

Frequent flyer programs are intended to acknowledge the loyalty of those passengers that fly the most by giving them various benefits and awards. This is a distinctive feature of the LATAM Group airlines and one of the ways that companies have to thank their customer preference; one which is indeed highly valued by the passengers.

Within the framework of the unification process of the LATAM Brand, in 2016, the two loyalty programs offered by the Company adopted new names: *LATAM Pass* (formerly, LAN Pass), and *LATAM Fidelidade* (formerly, TAM Fidelidade), including improvements and more benefits that seek to contribute significantly to the LATAM Group travel experience.

Additionally, current member categories were unified, leaving four unique categories for all of the Group's affiliates: *Gold* (formerly, Premium and formerly Blue); *Platinum* (formerly, Silver and formerly Vermelho); *Black* (formerly, Commodore and formerly Vermelho Plus) and *Black Signature* (formerly Black in both programs). Moreover, these four categories retain their OneWorld equivalents; where Gold corresponds to Ruby, Platinum to Sapphire, while both Black and Black Signature correspond to Emerald.

It is worth highlighting that the benefits of these four new categories will remain the same for passengers flying with the LATAM Group Airlines, as well as with the other *OneWorld* alliance members.

The name change of the LATAM Group's Frequent Flyer Program incorporates improvements, facilitates the processes of kilometer accumulation, and enables access to superior categories expanding the benefits to customers. One of the most important changes is that now members applying for a courtesy upgrade will receive confirmation of the benefit 12 hours before the flight (before, such benefit

was granted upon the closing of the flight and its confirmation depended on the existence of available space). The members of *LATAM Pass* and *LATAM Fidelidade* that now have cabin upgrade coupons may access this benefit in all the flights of the Group's airlines, regardless of the program to which they are affiliated.

Insofar as the program's currency is concerned, they remain unchanged; namely, *LATAM Pass* members will continue to accumulate *kilometers* while *LATAM Fidelidade* members will continue to accumulate *points*.

As of the closing of the year 2016, the Company has more than 26 million registered members in its frequent flyer programs; i.e. a 15.4% increase as compared to 2015; with 13.0 million members under *LATAM Pass* (1.9 million more than in the previous year), and 13.2 million members under *LATAM Fidelidade* (1.6 million more than in the previous year).

In 2016, the LATAM Group had 2.3 million tickets redeemed; i.e. 31% more than the previous year.



13,0 Members (million)



13,2 Members (million)



Properties, Plant and Equipment

CHILE

Venue

Our main facilities are located near the international Comodoro Arturo Merino Benítez Airport. The complex includes offices, conference rooms and training facilities, dining rooms and simulation cabins used for crew instruction. Our corporate offices are located in a more central area of Santiago, Chile.

Maintenance base

Our Maintenance base is located in the grounds of the International Comodoro Arturo Merino Benítez Airport. These facilities include our aircraft hangar, warehouses, workshops and offices, and parking space for parking up to 30 short-range aircraft or 10 long-range aircraft.

Other facilities

We have a flight training center right beside the International Comodoro Arturo Merino Benítez Airport. We also developed a recreational facility for our employees, with the support of Airbus. The facility, denominated “LAN Park”, is located in an area of our property near the International Comodoro Arturo Merino Benítez Airport.

BRAZIL

Venue

TAM’s main facilities are located in São Paulo, in the hangars located in and around the Congonhas Airport. At the Congonhas Airport, TAM leases hangars which belong to INFRAERO (Local Airport Administrator). The Services Academy is located approximately at 2.5 km from the Congonhas Airport; it is separate property owned by LATAM Airlines Brazil exclusively dedicated to the areas of selection, medical care, training and simulations.

Maintenance base

LATAM Airlines Brazil maintains offices and hangars at the Congonhas Airport, which also include the areas of aircraft maintenance and procurement and logistics of aeronautical materials. In addition, LATAM Airlines Brazil has its aircraft maintenance facilities (MRO) in São Carlos (Brazil), which can serve up to eight aircraft simultaneously and comprises 22 technical component-workshops.

Other facilities

In Sao Paulo, LATAM Airlines Brazil has other facilities, such as the commercial center, the uniforms building, the Morumbi Office Tower and the call center building. Additionally, in São Paulo, LATAM Airlines Brazil has subsidiaries’ offices owned by the group, such as Multiplus and LATAM Travel.



OTHER LOCATIONS

LATAM has facilities at the Miami International Airport, rented out to them by the airport through a concession agreement. Such facilities include a corporate building of 4,150 m², cargo holds (including a refrigeration area) of around 35,300 m², and an aircraft parking platform of around 72,700 m², as well as fully equipped offices. Additionally, during 2015, the Company opened its first maintenance hangar in Miami, with an area of 6,140 m² for aircraft maintenance and adjacent infrastructure (workshop, stores and offices). The project entailed a final investment of US\$ 16.4 million, funded 100% by the company.

Moreover, LATAM keeps lease contracts through airport concessions, administrative and sale offices, hangars and areas of maintenance in Argentina, Colombia, Ecuador and Peru.



MANAGEMENT 2016



Emerging economies driving the industry

During the year 2016, world economic growth was slightly lower than in 2015 due to slower growth in advanced economies, mainly the United States and, to a lesser extent, the United Kingdom and the euro zone as a result of the uncertainty generated by the Brexit, while emerging economies remain with growths similar to those of the previous year. On the other hand, the global airline industry benefited from the fall in the fuel prices, which in January 2016 reached their lowest levels since 2003, and whose average stood at US\$ 53.1/barrel (Jet Fuel), a 16.8% lower than the average price for the year 2015.

In general, the year 2016 was a good year for the aeronautic industry, which is reflected in its 6.3% growth in passenger traffic during the period – surpassing the average growth of the last 10 years – while achieving historically high levels of occupancy factor, with 80.5% in 2016, which implied improvements in operational income and global industry profits, estimated at \$35.6 billion (vs \$35.3 billion in 2015).

At the domestic and regional level, we continue to see a trend toward low-cost models, where one can see a greater segmentation of passengers according to their travel needs. Additionally, the trend toward deepening alliances and cooperation agreements between airlines around the world continues; thus enhancing passenger connectivity.

With regard to the different geographical markets, the airlines of North America are those that had the best results in terms of profits, as a result of low fuel prices, added to a strong domestic demand and the operator's capacity discipline; all of which drove their occupation factors to the highest levels in the industry; with 83.5%.

In Europe, the growth of the airline industry was hit by different terrorist attacks in the region. On the other hand, there was greater competitive pressure from regional and international airlines. Despite this, however, starting in the

second half of the year, conditions improved along with better macroeconomic expectations and increases in consumer confidence levels; all of which led European airlines to secure profits similar to those of 2015.

The Asia-Pacific region was the second region with the highest growth in terms of passenger traffic (after the Middle East), driven primarily by a higher regional traffic. The Asian airlines obtained profits lower than those of the year 2015, mainly because of the weakness of the cargo business, which began to stabilize during the second half of the year.

In Latin America, during 2016, the largest economies of the region (Brazil and Argentina) showed contractions in their respective economies, which added to the weakness of other local markets and to the devaluation of the currencies of the region that impacted airline industry results during the year. On the other hand, starting on the second semester, a change of that trend began to be noticeable, with improvements in the results of the regional airlines, hand-in-hand with better macroeconomic perspectives and more appreciated currencies. Latin America was the most disciplined region in terms of capacity increase (+ 1.9% YoY), mainly due to adjustments made in Brazil's domestic and international markets. As a consequence of this, the airline industry obtained profits of \$0.3 billion [thousand millions], as compared to a loss of \$1.7 billion in 2015.

As for the cargo business, traffic increased by 3.8%, higher than the 2.2% growth in 2015. From the second half of the year; however, the cargo business began to see an increase in demand, attributed mainly to the regions of Europe (+ 7.6%) and the Middle East (+ 6.9%) On the other hand, the cargo business in Latin America was the worst performer, showing a drop in traffic of 4.2% as a result of lower imports from Brazil.



Given the current structure of the industry and the prospects of higher fuel prices, the International Air transport Association (IATA) expects a decline in profits for the global airline industry during the year 2017, reaching US\$ 28.9 billion and an operating margin of 6.6% (- 1.7 percentage points with respect to 2016). This drop would be explained by an increase in unit costs, in part by fuel prices higher than expected, and by demand growth that will fail to absorb the supply, pushing occupancy factors down. It is important to highlight that the drivers of global traffic growth in 2017 will continue to be the emerging economies, mainly those of the Asia-Pacific, Middle East and Latin American regions. This trend is likely to continue for the next 20 years, due to economic growth projections in these regions and the low penetration of air transport in their countries.

Regulatory Framework

Below we provide a brief reference about the important effects of aeronautic regulations, free competition and other type of regulations that apply in Chile.

Chile's Aeronautic Regulations

Both the General Bureau of Civil Aviation (DGAC, in its Spanish acronym) as well as the Civil Aeronautics Board (JAC, in its Spanish acronym) supervise and regulate Chile's aviation industry. The DGAC reports directly to the Chilean Air Force and is responsible for ensuring compliance of the country's laws and regulations governing aviation. The JAC is Chile's civil aviation authority.

Primarily by virtue of Executive Order N° 2,564, that governs civil aviation, the JAC regulates the allocation of domestic and international routes and the DGAC regulates flight operations, which include personnel, aircraft, security levels, air traffic control and airport management.

We obtained and continue to have the authorization that is required by the Chilean Government to perform flight operations, including the JAC certificates and the DGAC operative and technical certificates, whose period of effectiveness are subject to the continuous compliance with the statutes, rules and regulations that govern the aeronautic industry, including any rule or regulation to be issued in the future.

Chile is a signatory state as well as a permanent member of the International Civil Aviation Organization (ICAO), a United Nations organization established in 1947 aimed at assisting in the planning and development of international air transport.

The ICAO establishes the international aeronautic industry's technical guidelines; which, in turn, have been in-

corporated into our country's laws and regulations by the Chilean authorities.

In the absence of an applicable Chilean standard related to security or maintenance matters, the DGAC has incorporated most of OACI's technical guidelines by way of references. We are certain to comply with all relevant technical guidelines.

Routing Rights

► National routes

Chilean Airlines are not required to obtain permits to transport passengers or cargo on domestic routes, but only to comply with the technical and insurance requirements established by the DGAC and the JAC, respectively. Nevertheless, there are no regulatory barriers preventing foreign airlines to create a Chilean subsidiary company and enter the country's domestic market via such subsidiary. On January 18, 2012, Chile's Transportation Ministry and Economics Ministry announced that the country was adopting a unilateral open skies policy. The foregoing was subsequently confirmed on November 2013 and remains in effect to this date.

► International routes

As an airline that provides services in international routes, LATAM Airlines is also subject to a number of bilateral international civil transportation agreements that establish reciprocal air traffic rights between Chile and several other countries. Since there is no guarantee whatsoever that such currently existing bilateral agreements between Chile and those foreign governments will remain in effect, a modification, suspension or revocation of one or more of such international agreements could damage our operations and financial results.





International route rights, as well as their corresponding landing rights, are derived from a number of international transport agreements negotiated between Chile and other foreign governments. By virtue of such agreements, the government of one of such countries grants another government the right to assign the operation of scheduled flight services between certain destinations of that country to one or more of its domestic airlines.

When Chile opens routes to and from foreign cities, any airline that meets the necessary requirements may bid for their use. If there is more than one bidder for a given route, then, the JAC awards it for a 5-year period via a public contest. The JAC awards grants the use of routes under the condition that the awarded bidding airline operate them continuously. Were an airline to cease to operate a given route during a 6-month period or more, the JAC is entitled to revoke its rights over such route. International routes can transfer their use without cost. In the past, generally, we have only paid nominal amounts for the right to use international routes awarded via public contests in which we were the only bidder.

International Rate-Fixing Policy

Chilean airlines are free to fix their own domestic and international rates without any government regulation whatsoever.

In 1997, Resolution N° 496 issued by the Hon. Resolutive Commission (predecessor of the Hon. Free Competition Tribunal) approved a self-regulating tariff plan submitted by LATAM for its domestic operations in Chile. Said plan was submitted in compliance with what was ordered in 1995 by Resolution N° 445 of the Hon. Resolutive Commission. In general terms, according to this plan, we must ensure that the yields of routes classified as “non-competitive” by Resolution N° 445 do not exceed the yields of routes of a similar distance defined as “competitive” by the same resolution, and inform the JAC about tariff reduc-

tions or increases in “non-competitive” and “competitive” routes, in the manner and within the deadlines indicated in the referred self-regulation plan.

Aircraft Registration

The Chilean Aeronautics code (CAC, in its Spanish acronym) governs the registration of aircraft in Chile. In order for an aircraft to be registered or remain registered in Chile, its owner must be:

- ▶ A natural person of Chilean nationality.
- ▶ A juridical person incorporated in Chile whose main legal domicile and its real and effective headquarters are in Chile, and whose majority capital is owned by natural or juridical Chilean persons, among other requirements established in article 38 of the CAC.
- ▶ The Aeronautic Code expressly entitles the DGAC to permit registering aircraft whose property owners are not natural or juridical Chilean persons, provided that they have a permanent commercial domicile in Chile. Aircraft owned by foreigners, but that are operated by Chileans or by an airline affiliated to a Chilean aviation entity may, likewise, be registered in Chile. The registration of any aircraft can be revoked in case of failure to comply with the registration requirements and, particularly, in the following cases:
 - ▶ If its property ownership requirements are not met.
 - ▶ If the aircraft does not meet any of the applicable safety requirements established by the DGAC.

Prevention

The DGAC requires that any aircraft operated by a Chilean airline is registered before the DGAC or before another equivalent entity empowered as supervisor in another

country. Every aircraft must have its own airworthiness certificate; whether issued by the DGAC or by another equivalent non-Chilean entity with supervising powers. Moreover, the DGAC does not issue a maintenance permit to a Chilean airline until the DGAC has evaluated that airline's capacity to perform such maintenance.

The DGAC renews maintenance permits annually and has indeed approved our maintenance operations. Only such maintenance facilities certified by the DGAC or by an equivalent non-Chilean entity with supervising powers in the country in which the aircraft is registered may perform maintenance and repair work to aircraft operating in Chile.

Likewise, aircraft maintenance personnel working at such facilities must be certified by the DGAC or by an equivalent non-Chilean entity with supervising powers before assuming any aircraft maintenance position.

Safety

The DGAC establishes and supervises the execution of safety standards and regulations in Chile's commercial aeronautic industry.

Such standards and regulations are based on the standards developed by international commercial aeronautic organizations. Each of Chile's airlines and airports must submit before the DGAC an air safety manual describing the safety procedures that they execute in their daily commercial aviation operations, as well as their personnel training procedures with respect to safety. LATAM has already submitted its air safety manual to the DGAC. Chilean airlines operating international routes must adopt safety measures pursuant to the applicable requirements of international bilateral agreements.

Airport Policies

The DGAC supervises and manages Chile's domestic airports, including takeoff and landing charges. The DGAC proposes airport costs to be approved by the JAC, and the same are subsequently applied to all airports nationwide.

Ever since the mid 90's, a number of Chilean airports have been privatized, including Santiago's Arturo Merino Benítez International Airport. Airport Managers manage private airport facilities under the supervision of the DGAC and the JAC.

Environmental and Noise Regulations

There are no significant environmental standards or controls imposed on airlines applicable to aircraft nor that would affect us within Chile, except for the environmental laws and standards of general application. Currently, neither are there noise restriction standards applicable to aircraft within Chile. Nevertheless, Chilean authorities intend to issue environmental noise regulations to govern aircraft flying toward and within the country.

The regulation that has been proposed will require such aircraft to meet specific noise restrictions, which the market nowadays refers to as Stage 3 Standards.

Most of LATAM's fleet already meets the proposed restrictions; therefore, we consider that issuing such standards will not impose a significant burden to our operations.

Antitrust Legislation

Chile's antitrust authority, to which we refer to as the Free Competition Defense Tribunal (formerly, the Antitrust Commission, and heretofore the "TDLC"), oversees antitrust affairs governed by Executive Order N° 211 of 1973 and its eventual subsequent amendments, or the Antitrust Law. The Antitrust Law forbids any entity to impede, restrict or distort free competition in any market or any sector of any market.

The Antitrust Law forbids, additionally, any company having a dominant position in any market or that has dominates a substantial part of any market, to abuse its position.

Any damaged person is entitled to file suit for damages resulting from the non-compliance of the Antitrust Law and/or to file a claim before the Antitrust Tribunal so that the latter orders putting an end to such Antitrust Law infringement.

The Antitrust Tribunal is empowered to impose a variety of sanctions to Antitrust Law violations, including the termination of contracts that infringe the Antitrust Law, the dissolution of companies and the imposition of penalties and daily sanctions to companies. The courts of justice may order the payment of indemnity for damages, as well as other relief measures (such as injunction) whenever appropriate. In October 1997, the Antitrust Tribunal approved our self-regulating tariff plan.

Ever since October 1997, LAN Airlines S.A. and LAN Express abide by a self-regulating plan that was amended and approved by the Free Competition Tribunal in July 2005 and also in September 2011.

In February 2010, the National Economic Affairs Investigation Bureau (FNE, in its Spanish Acronym) completed the investigation initiated in 2007 with respect to our compliance with our self-regulating plan and no further observations were made.

By virtue of Resolution N° 37/2011, issued on September 21, 2011 (the "Resolution"), Chile's Hon. Free Competition Defense Tribunal approved the association between LAN and TAM, imposing 14 mitigation measures to LATAM, whose scope and regulation is established in the Resolution, as summarized below by way of reference:

1. To exchange 4 pairs of daily slots at the Guarulhos Airport in Sao Paulo, to be used exclusively for servicing non-stop flights along the SCL-GRU route.
2. To extend for a 5-year period its frequent flyer program to those airlines that operate (or state their interest in operating) the Santiago-Sao Paulo, Santiago-Rio de Janeiro, Santiago-Montevideo and Santiago-Asunción routes, that apply to LATAM for an extension of the referred program for such route(s).
3. To execute inter-line agreements along the Santiago-Sao Paulo, Santiago-Rio de Janeiro, and/or Santiago-Asunción routes, with those airlines interested in operating such routes and that so request it.
4. To adhere to certain temporary capacity and supply restrictions along the Santiago-Sao Paulo route.
5. To introduce and execute certain amendments into LATAM's Self-regulatory Tariff Plan, applicable to its domestic operations.
6. To renounce, before June 22, 2014, to one of the two worldwide alliances that LAN and TAM belonged to prior to the date of the Resolution.
7. To adhere to certain restrictions in the execution and maintenance of code-sharing agreements (without prior consultation with the Free Competition Defense Tribunal) along certain routes and with member airlines or associates of an alliance other than that to which LATAM belongs.
8. To adhere to certain restrictions, in their future bidding contest bids, regarding 3rd, 4th and 5th freedom rights between Santiago and Lima; and to renounce to four 5th freedom frequencies to Lima.
9. To express before air transport authorities their favorable opinion regarding Chile's unilateral open skies policy for domestic air traffic by airlines of other States, without requiring reciprocity.
10. To commit, in all pertinent matters, to promote the growth and normal operations of the airports of Guarulhos in São Paulo and Arturo Merino Benítez in Santiago.
11. To adhere to certain guidelines in the granting of incentives to travel agencies.
12. To temporarily maintain, except in cases of *force majeure*:
 - i) at least 12 non-stop round-trip flights per week, directly operated by LATAM, in the routes between Chile and the United States; and, ii) at least 7 non-stop round-trip flights per week, directly operated by LATAM, in the routes between Chile and Europe.
13. To adhere to certain restrictions: in the average price of passenger transport airfares, corresponding to the Santiago-Sao Paulo and Santiago Rio de Janeiro routes; and in the rates in effect and published, as of the date of the Resolution, for the transport of cargo in each of the routes between Chile and Brazil.
14. To hire an independent consultant, so that such third party provides advice to the FNE for a 3-year period in the supervision of LATAM's compliance with the Resolution.

between Sao Paulo and Santiago, Chile. The aforementioned conditions are consistent with the mitigation measures adopted in Chile by the TDLC.

Additionally, the association between LAN and TAM was submitted before the free competition authorities of Germany, Italy and Spain. All these jurisdictions granted their unconditional approval of this operation.

Brazil's Administrative Council for Economic Defense (CADE, in its Portuguese acronym) unanimously approved the association between LAN and TAM at its meeting on December 14, 2011, subject to the following conditions: (1) The new group (LATAM) must renounce to one of the two worldwide alliances in which it heretofore participated (Star Alliance or OneWorld); and, it must offer to exchange 2 pairs of slots at the Gaurulhos International Airport for them to be used by a third-party interested in offering direct non-stop flights



LATAM reports a net income of US\$ 69.2 million

The LATAM Airlines Group recorded an operating performance of US\$ 567.9 million during 2016; an increase of 10.5% as compared to the operating performance of the year 2015. The operating margin reached 6.0%, representing an increase of 0.9 percentage points with respect to the previous year. LATAM's improved financial performance is mostly explained by a reduction of its operating costs as a result of a drop in fuel prices and cost savings initiatives carried out by LATAM.

Total income for the year 2016 reached US\$ 9,527.1 million, as compared to US\$ 10,125.8 million in 2015. This 5.9% drop is explained by a 6.3% drop in passenger revenues and a 16.5% drop in cargo revenues, partially offset by a 39.7% increase in other revenues. Such revenue decrease was mainly explained by a weaker macroeconomic scenario in Latin America and by the devaluation of Latin American currencies throughout the period, especially the 59% devaluation of the Argentinean Peso, the 11% devaluation of the Colombian Peso, and 6% devaluation of the Peruvian Sol. In 2016, passenger and cargo income represented 82.7% and 11.7% of total operating revenues, respectively.

The 6.3% decrease in passenger income during the year reflects a 0.6% capacity increase, offset by a 6.9% decline in Revenue per Available Seat-Kilometer (RASK), in comparison to 2015. The RASK reduction was the result of a 8.1% reduction in yields and an increase of 1.1 p.p. in load factor, reaching 84.2%. Yield performance continued to be affected by the weak macroeconomic scenario in South America.

In terms of capacity, during the year 2016, LATAM experienced a 0.6% increase, explained mostly by a 5.6% increase in the capacity of the international business, centered around strengthening the capacity of our international hubs, from which we began operating new destinations, such as to Washington from Lima, and to Johannesburg from Sao Paulo, offset by a reduction of those

routes with less demand, such as the operations between Brazil and the United States. Moreover, the capacity of Spanish-speaking domestic markets expanded by 8.0%, boosted mostly by the Chilean and Peruvian markets. On the other hand, during 2016, we continued to downsize our operations in the Brazilian domestic market, reducing our supply for the fifth consecutive year, closing the year with a capacity 11.5% smaller than that of 2015 and leading the downsizing of capacities in that country.

Cargo revenues declined by 16.5% in 2016 as a result of an 8.7% decline in cargo demand and a 8.5% decrease in yields. Throughout the entire year, the demand for cargo services remained weak, especially in local markets and in Brazil's international market, as a result of a decline in that country's overall economic activity that directly impacted imports. To the latter, is added a drop in Chile's exports as a result of the algae bloom affecting its salmon production. The foregoing, added to the drop in fuel prices, explains most of the downturn in the yields of the cargo business.

Operating costs during the year 2016 reached US\$ 8,959.2 million, a 6.8% reduction as compared to the operating costs of 2015, resulting in a 5.1% reduction in Cost of Available Seat-Kilometer (CASK) equivalent (including net financial expenses). Such cost reduction is mostly attributable to the 16.8% drop in fuel prices, as well as to the result of the cost reduction program driven by the Company.

Fuel spending decreased by 22.4% reaching US\$ 2,056.6 million, as compared to the US\$ 2,651.7 million spent in 2015. Such fuel spending drop is attributable to the drop in fuel prices as well as to a 1.4% drop in fuel consumption per ASK-equivalent, as a result of the Company's fuel efficiency programs and an ever more efficient fleet.

Additionally, the Company recognized a fuel hedge loss of US\$ 48.1 million in 2016, as compared to the US\$ 239.4 million fuel hedge loss incurred in 2015. In terms of for-

foreign exchange hedges, the Company recognized a currency hedge loss of US\$ 40.8 million in 2016, versus a gain of US\$ 19.2 million in 2015.

Wages and benefits declined by 5.9% in the year 2016, mainly due to a reduction in the number of employees as compared to the year 2015, in line with the supply drop in Brazil, and the efficiency initiatives executed by the Company.

As to its non-operating performance, the company showed a non-cash profit caused by foreign exchange rate differences amounting to US\$ 121.7, mostly attributable to the appreciation of the Brazilian Real during the year, as compared to the US\$ 467.9 million loss acknowledged in the previous fiscal year.

In cumulative terms, LATAM recorded a net profit attributable to its controllers totaling US\$ 69.2 million, as compared to the net loss of US\$ 219.3 million incurred in 2015. The foregoing entails a positive net margin of 0.7%, which represents an increase of 2.9 percentage points, as compared to the net margin of the year 2015.

| | For the twelve month period ended December 31 | | |
|--|---|-------------------|----------------|
| | 2016 | 2015 | % Change |
| REVENUE | | | |
| Passenger | 7.877.715 | 8.410.614 | -6,3% |
| Cargo | 1.110.625 | 1.329.431 | -16,5% |
| Other | 538.748 | 385.781 | 39,7% |
| TOTAL OPERATING REVENUE | 9.527.088 | 10.125.826 | -5,9% |
| EXPENSES | | | |
| Wages and Benefits | -1.951.133 | -2.072.805 | -5,9% |
| Aircraft Fuel | -2.056.643 | -2.651.067 | -22,4% |
| Comissions to Agents | -269.296 | -302.774 | -11,1% |
| Depreciation and Amortization | -960.328 | -934.406 | 2,8% |
| Other Rental and Landing Fees | -1.077.407 | -1.109.826 | -2,9% |
| Passenger Services | -286.621 | -295.439 | -3,0% |
| Aircraft Rentals | -568.979 | -525.134 | 8,3% |
| Aircraft Maintenance | -366.153 | -437.235 | -16,3% |
| Other Operating Expenses | -1.422.625 | -1.283.221 | 10,9% |
| TOTAL OPERATING EXPENSES | -8.959.185 | -9.611.907 | -6,8% |
| OPERATING INCOME | 567.903 | 513.919 | 10,5% |
| Operating Margin | 6,0% | 5,1% | 0,9 pp |
| Interest Income | 74.949 | 75.080 | -0,2% |
| Interest Expense | -416.336 | -413.357 | 0,7% |
| Other Income (Expense) | 47.358 | -532.757 | -108,9% |
| INCOME BEFORE TAXES AND MINORITY INTEREST | 273.874 | -357.115 | -176,7% |
| Income Taxes | -163.204 | 178.383 | -191,5% |
| INCOME BEFORE MINORITY INTEREST | 110.670 | -178.732 | -161,9% |
| Attributable to: | | | |
| Shareholders | 69.220 | -219.274 | -131,6% |
| Minority Interest | 41.450 | 40.542 | 2,2% |
| NET INCOME | 69.220 | -219.274 | -131,6% |
| Net Margin | 0,7% | -2,2% | 2,9 pp |
| Effective Tax Rate | -59,6% | -50,0% | -9,6 pp |
| EBITDA | 1.528.231 | 1.448.325 | 5,5% |
| EBITDA Margin | 16,0% | 14,3% | 1,7 pp. |
| EBITDAR | 2.097.210 | 1.973.459 | 6,3% |
| EBITDAR Margin | 22,0% | 19,5% | 2,5 pp. |


For the twelve month period ended December 31

| | 2016 | 2015 | Var. % |
|---|---------|---------|---------|
| SYSTEM | | | |
| ASKs-equivalent (millions) | 205.538 | 208.723 | -1,5% |
| RPKs-equivalent (millions) | 150.110 | 151.478 | -0,9% |
| Overall Load Factor (based on ASK-equivalent)% | 73,0% | 72,6% | 0,5 pp |
| Break-Even Load Factor (based on ASK-equivalent)% | 71,2% | 71,3% | -0,1 pp |
| Yield based on RPK-equiv (US Cent) | 6,0 | 6,4 | -6,9% |
| Operating Revenues per ASK-equiv (US Cent) | 4,4 | 4,7 | -6,3% |
| Costs per ASK-equivalent (US Cent) | 4,52 | 4,77 | -5,1% |
| Costs per ASK-equivalent ex fuel (US Cents) | 3,52 | 3,50 | 0,8% |
| Fuel Gallons Consumed (millions) | 1.185,5 | 1.221,1 | -2,9% |
| Fuel Gallons Consumed per 1,000 ASKs-equivalent | 5,8 | 5,9 | -1,4% |
| Fuel Price (with hedge) | 1,7 | 2,2 | -22,9% |
| Fuel Price (without hedge) | 1,6 | 2,0 | -17,6% |
| Average Trip Length (km) | 1,7 | 1,6 | 3,2% |
| Total Number of Employees (average) | 49.619 | 52.887 | -6,2% |
| Total Number of Employees (end of the period) | 45.916 | 50.413 | -8,9% |
| PASSENGER | | | |
| ASKs (millions) | 134.968 | 134.167 | 0,6% |
| RPKs (millions) | 113.627 | 111.510 | 1,9% |
| Passengers Transported (thousands) | 66.960 | 67.835 | -1,3% |
| Load Factor (based on ASKs) % | 84,2% | 83,1% | 1,1 pp |
| Yield based on RPKs (US Cents) | 6,9 | 7,5 | -8,1% |
| Revenues per ASK (US cents) | 5,8 | 6,3 | -6,9% |
| CARGO | | | |
| ATKs (millions) | 6.704 | 7.083 | -5,3% |
| RTKs (millions) | 3.466 | 3.797 | -8,7% |
| Tons Transported (thousands) | 944 | 1.009 | -6,4% |
| Load Factor (based on ATKs) % | 51,7% | 53,6% | -1,9 pp |
| Yield based on RTKs (US Cents) | 32,0 | 35,0 | -8,5% |
| Revenues per ATK (US Cents) | 16,6 | 18,8 | -11,7% |

* Fuel Gallons Consumed per 1,000 ASKs-equivalent



| Thousands of US\$ | | | |
|---|-----------|-----------|--------|
| For the twelve month period ended December 31 | | | |
| | 2016 | 2015 | Var. % |
| Peru | 627.215 | 681.340 | -7,9% |
| Argentina | 1.030.973 | 979.324 | 5,3% |
| U.S.A | 933.130 | 1.025.475 | -9,0% |
| Europe | 714.436 | 723.062 | -1,2% |
| Colombia | 343.001 | 353.007 | -2,8% |
| Brazil | 2.974.234 | 3.464.297 | -14,1% |
| Ecuador | 198.171 | 238.500 | -16,9% |
| Chile | 1.512.570 | 1.575.519 | -4,0% |
| Asia Pacífico & Other Latin America | 654.610 | 699.521 | -6,4% |



Our most outstanding awards

The companies that belong to the LATAM Airlines Group received around 20 awards in various fields: services, sustainability, and on-board entertainment, among others. The following are the most notable recognitions received by the LATAM Group during the year 2016:

SERVICE AWARDS

World Line Airline Awards- Skytrax 2016: It is the most recognized award in the industry.

- ▶ LAN: First place in the “Best airline in South America” category.
- ▶ TAM: Fourth place in the “Best airline in South America” category
- ▶ LAN: Second place in the “Best service in South America” category.
- ▶ TAM: Fourth place in the “Best service in South America” category.

2016 Global Traveler’s - Tested Reader Survey awards

- ▶ LATAM: First place in the “Best airline to South America” category (for the third consecutive year).

SUSTAINABILITY AWARDS

2016 Dow Jones Sustainability Index:

- ▶ Third year in the “DJSI World” category.

Alas20 (Wings 20) Company award:

- ▶ First place in the “Leader in sustainability” category.
- ▶ Second place in the “Leader in sustainability” category.

Peru 2021 - Socially responsible company distinction-

- ▶ LATAM: distinguished for assuming a sustainable and responsible competitiveness culture.

Revista Capital

- ▶ Second place in the “ISC Corporate sustainability” index.

2016 Corporate transparency report – IdN

- ▶ LATAM: First place in the “Most transparent company in the services sector” category for Open Stock Companies (corporations).
- ▶ LATAM: Third place in the “2016 Best practices” category for Open Stock Companies (corporations).

OTHER AWARDS

Most admired companies (2016 EMA) – “G for Management” and PwC.

- ▶ LATAM: Outstanding commercial strategy.

Merco companies and Leaders Chile – 7th Edition.

- ▶ LATAM: Second place in the “Best corporate reputation” category.

IF Design Awards - World Design Guide: One of the most prestigious international design awards.

- ▶ LATAM and Interbrand: First place in the “New Brand Identity” category for the creation of the new LATAM Brand.

E Commerce Awards 2015: The most important e-commerce sector award.

- ▶ LAN CL: “e-Commerce leader in the tourism industry”.
- ▶ LAN PE: “e-Commerce leader in the tourism industry”.
- ▶ LAN EC: “e-Commerce leader in the tourism industry”.

2016 Fohla Top of Mind award (BR):

- ▶ TAM: Most recalled brand in the airline category (eighth consecutive occasion).

Hall of Fame (Valora Group): Great Chilean Brand distinction, because of its relevance abroad.



Material Facts

JANUARY 15 / CONTRACT EXECUTION OR RENEWAL

1. LATAM announces to have executed two independent commercial agreements. On the one hand, with British Airways and Iberia airlines of the International Airlines Group S.A. ("IAG") and, on the other hand, with American Airlines. These agreements represent an intensification of LATAM's collaboration with the members of the One-World Alliance.
2. These agreements will bring about important benefits to passengers and clients upon expanding the number of destinations available, providing access to more convenient prices, improving the travel experience by delivering more itinerary options with reduced connection times, while increasing the potential of opening up new routes and more direct flights to new destinations or currently operated by the mentioned airlines. These new services and options will also be made available to LANPASS and TAM Fidelidade frequent passengers. These agreements will also benefit South America upon improving its connectivity to/from the region to the world, boosting tourism and business travel
3. The mentioned agreements follow a worldwide industry trend, consisting in deepening collaboration between inter-alliance airlines, which most of the world's main Airlines have already executed.
4. The commercial agreement with British Airways and Iberia will include managing the operation of the routes between Europe and all the countries that operate these airlines in South America.
5. On the other hand, the agreement with American Airlines will include the flights between the United States of America and Canada and six South American countries; namely, Brazil, Chile, Colombia, Paraguay, Peru and Uruguay.
6. These two LATAM agreements with OneWorld members will allow, on the one hand, that the airlines that are part of the LATAM Airlines Group, British Airways and Iberia, manage the networks between South America and Europe; and, in case that the same airlines of the LATAM Airlines Group and American Airlines manage certain routes between South America and the United States / Canada.
7. These agreements are of a commercial nature; they do not involve any shareholding in LATAM nor imply any management change whatsoever in any of the airlines that comprise the LATAM Group. After its execution, each airline maintains its brand and operations independently as well as their control over their own flights.
8. The execution of these commercial agreements is subject to their approval by the pertinent authorities in the different countries in which the airlines that are part of such agreements operate; a process estimated to take anywhere between 12 to 18 months. Likewise, upon obtaining such approvals, each commercial agreement must be executed by their respective parties within the deadlines established to that effect and subject to completion of the commercial agreements in all pending aspects contemplated therein.

MARCH 8 / OTHERS

On this date, and without prejudice of the delivery of the corresponding financial statements within the applicable deadlines to that effect, the Directors' Committee and the Board of Directors of LATAM Airlines Group S.A., has approved the publication, by way of an Essential Fact, the financial information attached to this communication. This corresponds to a summary of the financial information taken from the company's Financial Statement and the Consolidated Balance Sheet, which will also incorporate a qualitative analysis of the company's operating perfor-



mance both during the year as during the fourth quarter of the year ended on December 31, 2015.

LATAM Airlines Group S.A. is providing this financial information to its shareholders, investors and market in general in order to deliver truthful, sufficient and timely advance information, prior to releasing the respective financial statements pursuant to the deadlines applicable to that effect.

Finally, it is here stated for the record that this financial information does not in any way replace or modify the corresponding financial statements of the company, which shall be released for the purposes of the year 2015 within the deadlines prescribed by the regulations issued by the Superintendence for Securities & Insurance.

MARCH 21 / EXTRAORDINARY SHAREHOLDERS' MEETING, SUMMONS, AGREEMENTS AND PROPOSALS.

At the Ordinary Shareholders' Meeting held on March 21, 2016, the Board of Directors of LATAM Airlines Group S.A. (hereinafter, the "Company"), Securities Register No. 306, agreed to summon to an Ordinary Shareholders' Meeting to be held on April 26, 2016 at 10:00 hours, in order to discuss the following agenda:

- a) To approve the Company's Balance Sheet and Financial Statements, corresponding to the year ended on December 31, 2015;
- b) To determine the remuneration of the Company's Board of Directors;
- c) To determine the remuneration of the Company's Directors' Committee and its budget;
- d) To designate the Company's external auditors; Risk Classification Agency; and, to report about those topics referred to under Title XVI of Law N° 18,046 on Corporations.

- e) To inform about the cost of processing, printing and delivering the information referred to under Circular Letter N° 1.816 of the Superintendence for Securities & Insurance;
- f) To designate the newspaper in which to make the publications of the Company; and,
- g) Other topics of corporate interest incumbent upon the Company's Ordinary Shareholders' Meeting.

APRIL 5 / OTHERS

- a) The Securities Commission (CVM, in its Portuguese acronym) of the Republic of Brazil, authorized on February 2, 2016 via Official Memorandum N° 70/2016-CVM/SRE/GER-2, the termination of the Brazilian Depositary Receipts ("BDRs") program of the LATAM Airlines Group S.A., which is to be executed pursuant to the procedure approved by said authority in the above-cited Official Memorandum (hereinafter, the "Termination Procedure").
- b) The Company reported on February 5, 2016, as market interest information, the CVM' approval of the project under evaluation to discontinue the BDR program, noting that such project should in the future be subjected to the consideration of the Company's Board of Directors.
- c) The Board of Directors of the LATAM Airlines Group S.A. approved as of this date to terminate the BDR program registered before the CVM, pursuant to the above-described Termination Procedure and, consequently the termination of its registration as foreign securities issuer before the CVM; all of it pursuant to the regulations of applicable in the Republic of Brazil. LATAM's Board of Directors calls the attention to the fact that the foregoing does not affect the LATAM Airlines Group's long-term commitment with Brazil.
- d) It is here stated for the record that each such BDR certificate represents one (1) common share (equity shares)

of the LATAM Airlines Group S.A. and that as of March 31, 2016 the BDR program represented 0.44% of all the shares of shares issued by the Company.

- e) Therefore, as of this date and for a 30-day period beginning on this date, BDR holders shall have the following options:
 - i. To adhere to the so-called “Sale Facility” procedure; or,
 - ii. To maintain their ownership title over LATAM Airlines Group S.A.’s common shares underlying the respective BDR.
- f) If a BDR holder does not state the option to which it adheres pursuant to the Procedure; then, for all purposes, it shall be understood to adhere to the so-called “Sale Facility” procedure.
- g) The “Sale Facility” procedure is executed by selling the underlying BDR common shares (the “Common Shares”) at the Santiago Stock Exchange. Those BDR holders to manifest their intention to remain the property owners of the respective Common Shares shall become shareholders of the LATAM Airlines Group S.A. by conveying such shares to a stock broker or custodian in Chile, pursuant to instruction to be executed subject to compliance with the terms and conditions set forth in the Cancellation Procedure.
- h) Attached is a copy of the free translation into Spanish of the corresponding Essential Fact (“*Fato Relevante*”) forwarded to the CVM as of this same date. It is here stated for the record that the notification to BDR Holders reporting the cancellation of the BDR program of LATAM Airlines Group S.A. as well as the instructions, terms and conditions applicable to the same, shall be communicated to the CVM on April 6 of the present year and published in Brazil by LATAM Airlines Group S.A. on April 7, 2016 in the Official Gazette of the State of Sao Paulo and in the LATAM website: <http://www.latamairlinesgroup.net>.
- i) Finally, we hereby state for the record that BDR are foreign securities that are not registered with the Superintendence for Securities & Insurance.

MAY 23 / OTHERS

- a) On April 5, 2016, LATAM reported, as an Essential Fact, the cancellation procedure of the *Brazilian Depositary Receipts* (BDR) program of the LATAM Airlines Group S.A., which must be executed according to the procedure approved and described in such communication (hereinafter, the “Cancellation Procedure”).
- b) According to the Cancellation Procedure, whose general terms were published by LATAM on April 7, 2016 in: the *Official Gazette* of the State of Sao Paulo, in *Economic Value*, and in LATAM’s website: <http://latamairlinesgroup.net> (hereinafter, the “Notification”), May 9, 2016 was the deadline for BDR holders to state their option to keep the underlying common stock of such BDR (the “Shares”) and, on May 23, 2016, BM&FBOVESPA blocked the respective balances of those BDR that opted in favor of adhering to the sale procedure of the Shares at the Santiago Stock Exchange, through the so-called *Sale Facility*.
- c) In tandem with such blockage, a theoretical sale value was attributed in Brazil to the sale of the Shares at the Santiago Stock Exchange in the amount of \$4,333,80 (four thousand three hundred and thirty three pesos and eighty cents, of Chile’s legal currency), corresponding to the market value of such Shares as of May 23, 2016, equivalent in Brazilian Reals to R\$22,25 (Twenty-two reals and twenty-five cents, of Brazil’s legal currency) per Share, converted on the basis of the PTAX rate of foreign exchange, which is defined as the average foreign exchange sale rate in the foreign exchange market in effect on May 23, 2016; an average that is released electronically by Brazil’s Central Bank via the internet.
- d) Additional information and instructions regarding the Cancellation Procedure may be obtained from the Essential Fact of last April 5 and the Notification.

- e) Finally, LATAM informs that the next Essential Fact regarding the Cancellation Procedure is scheduled to be published on June 9, 2016, in order to report about: the total amount of Shares sold in Chile according to the so-called *Sale Facility*; the average Chilean-peso price of each BDR; the payment date to BDR holders; and the final price in Reals (Brazil’s legal currency) payable for each BDR, among other relevant information with respect to the sale of the Shares.

JUNE 7 / CHANGES IN MANAGEMENT

On this date, the Board of Directors accepted the resignation submitted by Mr. Ricardo J. Caballero as Board Member, considering that he has assumed new functions in his country of residence; namely, the United States of America, that prevent him from discharging his duties as LATAM Board Member. For the time being, the Board did not agree to appoint a replacement, which could take place during the next Board Meeting. Likewise, the entire Board of Directors must be renewed at the Company’s upcoming Ordinary Shareholders’ Meeting.

JUNE 9 / OTHERS

- a) On April 5, 2016, LATAM reported, as an Essential Fact, the cancellation procedure of the *Brazilian Depositary Receipts* (BDR) program of the LATAM Airlines Group S.A., which must be executed according to the procedure approved and described in such communication (hereinafter, the “Cancellation Procedure”).
- b) According to the Cancellation Procedure, whose general terms were published by LATAM on April 7, 2016 in: the *Official Gazette* of the State of Sao Paulo, in *Economic Value*, and in LATAM’s website: <http://latamairlinesgroup.net> (hereinafter, the “Notification”), May 9, 2016 was the deadline for BDR holders to state their option to keep the underlying common stock of such BDR (the “Shares”) and, on May 23, 2016, BM&FBOVESPA blocked the respective balances of those BDR that opted in favor of adhering to the sale procedure of the Shares at the Santiago Stock Exchange, through the so-called *Sale Facility*.

- c) On May 24, 2016, LATAM reported, as an Essential Fact, occurring last May 23, of the deadline for BDR holders to state their option to keep the Shares and of the blockage on that same date on the part of BM&FBOVESPA of the respective Share balances of those BDR holders that opted in favor of adhering to sell their Shares through the procedure so-called *Sale Facility*, assigning them to that effect a theoretical sale value at the Santiago Stock Exchange.
- d) On this same date, we hereby report that BTG Pactual Chile S.A. Corredores de Bolsa stock brokerage company (“BTG Pactual Chile”), a Chilean institution contracted by the Company to that effect, sold at the Santiago Stock Exchange the Shares of the respective holders who had adhered to the *Sale Facility* procedure.
- e) In that sense, on June 2, 2016, via an auction sale at the Santiago Stock Exchange, were sold 672,500 (six hundred seventy-two thousand five hundred) Shares at an average price of \$4,150.038 (four thousand one hundred and fifty pesos and zero-thirty-eight cents, legal currency in Chile) per Shares, equivalent in reals to R\$20.528003378 (twenty reals and five-two-eight-zero-zero-three-three-seven-eight cents, legal currency in Brazil) per Shares, converted on the basis of the purchasing rate of the foreign currency exchange market of June 8, 2016; that being the price per BDF payable by the respective holders. The payment shall be made on July 16, 2016, via a transfer from Itaú Corretora de Valores S.A. (“Itaú Corretora”) to BM&FBOVESPA (which, in turn, shall be responsible for transferring such funds to their respective property owners, via their custody agents. Those BDR holders keeping their title certificates directly in Itaú Corretora shall receive their funds directly from said institution.
- f) For additional information and instructions with respect to the Cancellation Procedure you may refer to the Essential Facts of last April 5 and May 23 and to the Notification.

JULY 12 / OTHERS

1. Capital increase. At the next Ordinary Board of Directors’ Meeting, which is scheduled for no later than August 2, 2016, the Company will summon to an Extraordinary Shareholders’ Meeting (the “Shareholders’ Meeting”) with the purpose of proposing a capital increase of US\$ 613,164,240 by issuing 61,316,424 new cash shares (the “Cash Shares”) at a price per share of **US\$ 10** (the “Subscription Price”). Because of the Shareholders’ Meeting to be held by no later than September 2, 2016, the equity capital of LATAM Airlines will increase from the current 551,847,819 shares to 613,164,243 shares; thus, following the capital increase such Cash Shares will represent 10% of all Company shares.
2. Investor. As of this date, **Qatar Airways** (the “Investor”) has undertaken to acquire up to 10% of LATAM Airlines shares. The investor undertook to subscribe and pay the Cash Shares permitted by the Assignment of Options (as defined in the following paragraph) prior to the expiration of the subscription option period, as well as to subscribe such non-subscribed shares that the Company may offer it immediately following the completion of such period (jointly, the “Subscriptions”).
3. Support. On this same date, each one of the shareholders of the Cueto groups: Amaro, Eblen and Bethia (the “Support Shareholders”); which represent 49.72% of LATAM Airlines currently subscribed and paid shares, has undertaken to attend the Shareholders’ Meeting and vote in favor of the subject matters to be proposed therein. Likewise, as soon as the Company launches the subscription option period for the Cash Shares, each Support Shareholder has undertaken to assign and transfer to the Investor its right to subscribe its corresponding prorated amount of Cash Shares, at a nominal value (jointly with the “Assignment of Options”).
4. Purchase Order. In the event that, upon materializing the Subscriptions, the shares to which the Investor is the property owner were below 10% of all the shares issued by the Company, the Investor undertook to issue an unconditional

Purchase Order for a period of 20 days at the Santiago Stock Exchange for the balance, in a manner such as to reach 10% of the Company’s total shares, at a price per share equal to the Subscription Price (the “Purchase Order”).

5. Purchase from TEP. Only if upon materializing the Subscriptions and the Purchase Order, the shares of stock owned by the Investor were below 10% of all the shares issued by the Company, and with the sole purpose of facilitating the Investor reaching 10% of the Company’s total shares, the TEP Chile S.A. shareholder (a company owned by the Amaro Group) has undertaken to sell to the Investor, and the latter has undertaken to purchase, at a price per share equal to the Subscription Price, the balance of shares required to reach such 10% (the “Purchase from TEP”); in the understanding that such commitment does not extend beyond 2.5% of the total number of Company shares.
6. Market. In the event that, upon materializing the Subscriptions and the Purchase Order from TEP the shares of stock owned by the Investor were below 10% of all the shares issued by the Company, the Investor shall be entitled to purchase the remaining shares in Chile’s secondary market (shares traded at the stock exchange) and in New York (ADR at the *New York Stock Exchange*).
7. Transfers and Commitments. The Investor shall be free to transfer its stock ownership in the Company, after agreeing to certain registration rights aimed at an orderly secondary issue and other usual restrictions.

Recognizing the relevance that the OneWorld® Alliance has for the company, the Investor has undertaken that a sale of its shares in the company at an airline outside such Alliance requires the prior consent of the Board or must be executed through a mechanism that would allow all Company shareholders to sell.

In addition to the restrictions stated in the previous paragraph, in order not to cause major stock market disruptions, the Investor has undertaken not to sell, during the first year

following the last Subscription, shares representing over 2% of all Company shares, and not to exceed selling 5% of all Company shares within any 12-month period henceforth.

During a 30-month period counted from the last Subscription, the Investor undertook not to increase its Company shareholding over and above 10% of all Company shares and not to propose revoking the Board of Directors elected by the shareholders, nor a transition aimed at causing a change of control of the Company.

8. Board of Directors. If a vacancy were to arise in the Board of Directors prior to the 2017 Ordinary Shareholders' Meeting and the Investor owned at least a 7.4% shareholding of the total amount of shares issued by the Company; then, the Board shall nominate the person to be proposed by the Investor to replace such vacancy, provided it is acceptable to the Board.

Likewise, if at the 2014 Ordinary Shareholders' Meeting the Investor did not manage to elect a Board Member and, following such Shareholders' Meeting there is a vacancy in the Board of Directors and provided that the Investor owns at least a 7.4% shareholding of the total amount of shares issued by the Company; then, the Board shall nominate the person to be proposed by the Investor to replace such vacancy, provided it is acceptable to the Board.

As of this date, the communication reservation submitted as an Essential Fact on June 7, 2016, and whose content is refurbished with the agreements depicted in the present communication, is hereby removed.

As of this date it is not possible to determine the financial effects that the topics reported hereunder may have over the Company's assets, liabilities or income. It is estimated, however, that the Subscriptions will be materialized within the fourth quarter of 2016. The Company shall keep that Superintendence duly apprised of any relevant development occurring in relation to the events reported hereunder.

JULY 13 / OTHERS

In addition to the Essential Fact reported to that Superintendence on July 12, 2016, we hereby inform that the funds to be obtained from the capital increase to be proposed will be allocated to preserve the Company's balance sheet and pay short-term financial commitments (whose amount and definition is under evaluation). The foregoing will mean an increase of cash available for the end of the year 2016, estimated at US\$ 1,500 million, which, in turn will enable approaching LATAM's strategic plans on a solid financial basis.

At the time of publishing the first summons to the Shareholder Meeting we will upload, into to the Company's internet website: www.latamairlinesgroup.net, the background information that supports the proposals to be voted upon.

JULY 18 / EXTRAORDINARY SHAREHOLDERS' MEETING, SUMMONS, AGREEMENTS AND PROPOSALS

The Company's Board of Directors has agreed to summon to an Extraordinary Shareholders' Meeting to be held on August 18, 2016 in order to propose a capital increase to LATAM Airlines totaling US\$ 613,164,240 via the issue of 61,316,424 Cash Shares, all of them common stock, without any nominal value at an issue price of US\$ 10 per share, thereby authorizing the Company to place the remaining non-subscribed shares following the subscription period to be subscribed by Qatar Airways.

The notifications and summoning letters, as well as the background information that support the proposals to be submitted to a vote, shall be forwarded and made available to shareholders pursuant to the terms provide by the Law on Corporations ("*Ley Sobre Sociedades Anónimas*").

JULY 25 / OTHERS

LATAM informs that it executed agreements with the U.S. Department of Justice ("DOJ") and with the U.S. Securities and Exchange Commission ("SEC"), both of them authorities of the

United States of America in effect as of this date, the contents of which are essentially similar to that depicted in the reserved Essential Fact submitted before that Superintendence on May 3, 2016, a copy of which is attached to this Essential Fact and is an integral part of same for all purposes. The amounts ultimately agreed to be paid are: US\$ 12,750,000 to the DOJ and US\$ 6,700,000 plus interest to the SEC.

May3 / Essential and Reserved Fact

1. With respect to the investigation of the U.S. Securities and Exchange Commission ("SEC") and the U.S. Department of Justice ("DOJ"), both of them authorities of the United States of America, regarding payments totaling US\$ 1,150,000 made during 2006-2007 by LAN Airlines S.A. ("LAN") to a consultant that provided professional advice with respect to labor affairs in Argentina; investigation with which LATAM has cooperated actively, this Board of Directors hereby reports as an Essential and Reserved Fact that following an extensive exchange of opinions between LATAM lawyers with both SEC as well as DOJ representatives regarding the facts subject of that investigation and legal evaluation, the referred professional advisers arrived at the conclusion that the way available to put an end to it requires searching and executing agreements with such authorities that would consider the payment of fines and other provisions as described hereunder.

2. The purpose of the investigation was to inquire whether such payments infringed anticorruption regulations of the United States of America ("FCPA"); which: (i) bars the payment of bribes to foreign government officials in order to obtain commercial advantage; and (ii) requires the companies governed by such regulations to keep adequate accounting records, as well as maintaining an adequate system of internal controls. The alluded FCPA indeed applies to LATAM because of its ADR program that is currently in effect in the North American securities market.

3. Following an extensive investigation, the DOJ and the SEC concluded that there were no infringements of FCPA

regulations barring the payment of bribes, which is consistent with the results of LATAM's own internal investigation. Nevertheless, the DOJ and the SEC considered that LAN would have incorrectly registered the mentioned payments in its accounting and, consequently, that it would have violated that part of the FCPA that requires companies to enter and maintain precise accounting records. Moreover, the referred authorities considered that LAN's internal controls in place during 2006-2007 were indeed deficient; reason why LAN would have additionally violated FCPA regulations requiring the maintenance of adequate internal controls.

4. Under these circumstances, LATAM lawyers held numerous and extended exchanges of opinions and conversations with the DOJ and the SEC. On the basis of the information that about such exchanges and conversations was subsequently provided by LATAM lawyers, this Board of Directors has decided to seek and an agreement with both such US authorities.

5. In effect, LATAM lawyers recommended as of this date to this Board of Directors to reach an agreement with both such authorities that would consider the following terms and conditions:

a) With respect to the DOJ, the agreement would primarily consider: (i) executing a contract denominated *Deferred Prosecution Agreement* ("DPA"), which is a public contract by means of which the DOJ would publicly file charges alleging violation of the regulations regarding FCPA accounting records; LATAM would not be obligated to respond such charges, the DOJ would not prosecute such charges for a 3-year period and would dismiss the charges upon the expiration of such deadline assuming that LATAM met all DPA terms; the foregoing, in exchange for LATAM's admission of a number of negotiated facts to be described in the DPA and that it agrees to pay the negotiated fine mentioned herein below as well as the other conditions mentioned in such agreement; (ii) clauses by means of which LATAM would admit that

the accounting of the payments made to the consultant in Argentina was incorrect and that, at the time when such payments were made (years 2006-2007), it lacked adequate internal controls; (iii) the acceptance by LATAM of an external consultant, for 27 months, whose function would be to monitor, evaluate and report to the DOJ about the efficacy of LATAM's compliance program, and also the acceptance by LATAM to continue, for 9 months after completing the work of the external consultant, evaluating and directly informing the DOJ regarding the efficacy of the referred compliance program; and, (iv) pay an estimated fine of US\$ 12,500,000 as it may be agreed to in the DPA.

b) With respect to the SEC, the agreement would primarily consider: (i) executing a contract that would contain what is denominated a *Cease and Desist Order*, which is an SEC administrative resolution to close an investigation, by means of which LATAM would undertake certain obligations and statement of facts that would be described in the document; (ii) a reproduction of the obligations with respect to the consultant mentioned under the preceding number 5(a)(iii); and, (iii) and to pay the approximate amount of US\$ 6,500,000 plus interest.

6. The documents to be included in such agreements between LATAM and the DOJ and the SEC are yet undergoing negotiations; and it is relevant, for the purpose of determining whether or not final agreements will be executed, to review and agree each one of the facts to be described and the obligations to be undertaken in each of the documents that must be ultimately executed.

7. Considering that such negotiations are still pending, it is not possible at this time to state with certainty if final agreements will be eventually agreed to. Nevertheless, the Board has instructed the lawyers to continue their negotiations under the terms and conditions described in this instrument and to be kept duly apprised of same through the Company's Legal Department.

8. It is estimated that the information regarding this Essential and Reserved Fact will remain so for an approximate period of 60 days.

With the attendance of Board Members, Messrs. Henri Philippe Reichstul, Georges Antoine de Bourguignon Arndt, Ricardo J. Caballero Gibbons, Ramón Eblen Kadis, Carlos Alberto Heller Solari, Juan Gerardo Jofré Miranda and Juan José Cueto Plaza, the Board of Directors has instructed to issue this information in a reserved manner, since it refers to pending negotiations whose disclosure at this time might damage the interests of the Company, among other reasons, because the same US authorities that conduct the investigation have stated their objection to disclosing the contents of an eventual agreement for as long as negotiations remain pending.

Finally, we hereby inform that the following persons have been apprised of the resolution of this Board of Directors reported hereunder: the above-mentioned LATAM Board Members are: LATAM's General Manager, Mr. Enrique Miguel Cueto Plaza; the CEO of LAN Airlines S.A. Mr. Ignacio Cueto Plaza; LATAM's Senior Vice-president of Finance, Mr. Andrés Osorio Hermansen; the Senior Board Member of Investor Relations, Ms. Gisela Escobar Koch; LATAM's Vice-president for Corporate Affairs, Mr. Gonzalo Undurraga Pellegrini; LATAM's Senior Legal Vice-president Mr. Juan Carlos Menció; LATAM's Legal Vice-president, Mr. Cristián Toro Cañas; and the external legal consultants, Messrs. Roger Witten, Claudio Salas, Cristóbal Eyzaguirre Baeza, José Miguel Huerta Molina, Juan Pablo Celis Morgan and Tomás Ignacio Krefte Carreño.

OCTOBER 5 / PLACEMENT OF SECURITIES IN INTERNATIONAL AND/OR DOMESTIC MARKETS

(a) LATAM Airlines Group S.A. ("LATAM" or the "Company"), has announced its intention to issue and place in the international markets, non-guaranteed long-term bonds under the aegis of Norm 144-A and Regulation S of the securities laws of the United States of America (the "144-A Bonds" or the "Issue");

- (b) In order to materialized such bond Issue, a special investment vehicle has been incorporated, denominated Latam Finance Limited (“LATAM Finance”), a legal entity incorporated in the Cayman Islands 100% owned by LATAM, which shall be the issuer of the 144A Bonds and whose obligations, assumed by virtue of the Issue, shall be guaranteed by LATAM, all of which has been duly approved by the Company’s Board of Directors.
- (c) Citigroup Global Markets Inc. (the “Bidder”), by virtue of an Offer to Purchase drafted in English as of this same date (hereinafter, the “Bid”) and, in turn, in representation of LATAM Finance, TAM Capital Inc. (“TK”) and TAM Capital 3 Inc. (“TK3”) (these two latter companies being TAM S.A. subsidiaries, duly incorporated and existing pursuant to the laws of the Cayman Islands) has announced the buy-back, exchange and partial redemption of a portion to be determined of the remainder (balance) of TAM Capital Inc.’s bonds (“TK”) and TAM Capital 3 Inc. (“TK3”) (“*Intermediated Tender Offer*”), which were placed in the market as follows: (i) TK in the year 2007 at a rate of 7.375% for an amount of US\$ 300,000,000 with original expiration in the year 2017 (“TAM 2017”), and (ii) TK3 in the year 2011, at a rate of 8.375% for an amount of US\$ 500,000,000 with original expiration in the year 2021 (“TAM 2021”). Both bond issues were materialized pursuant to Norm 144-A and Regulation S of the securities laws of the United States of America.

It is the intention of the Bidder that all TAM 2021 Bonds and TAM 2017 Bonds to be acquired by virtue of the referred Bid be exchanged by the Bidder with LATAM Finance, for a portion of the 144-A Bonds issued and placed by LATAM Finance by virtue of the Issue. Therefore, the objective of placing the 144-Bonds shall be: (i) to finance in part the buy-back, exchange and redemption of the TAM 2021 Bonds and TAM 2017 Bonds; and, (ii) should there be any remaining (residual) bonds, to finance other general corporate ends.

Such buy-back, exchange and partial redemption Bid for the TAM 2021 Bonds and the TAM 2017 Bonds shall be executed

in a staggered manner; the TAM 2021 Bonds first in a portion to be determined and decided by the Company, and, afterwards, depending on the outcome of the Issue, the TAM 2021 Bonds in an amount to be determined and decided by the Company.

Pursuant to the provisions of Circular Letter N° 988 of the Superintendencia for Securities & Insurance, we hereby report to you that at this stage it is not possible to quantify the effects that this operation will have on LATAM’s income position, should it be materialized.

Finally, we hereby state for the record that LATAM Airlines Group S.A. will issue, as information of market interest, the press releases that are attached to the present Essential Fact in order to provide further background information with respect to the operations regarding the issuance of the 144-A Bonds and the buy-back, exchange and partial redemption of the TAM 2021 Bonds and TAM 2017, to be distributed in the relevant markets in which such operations are to take place.

OCTOBER 6 / OTHERS

In a manner complementary to the Essential Fact reported by LATAM to that Superintendencia on October 5, 2016, we hereby attach the press releases issued by way of market interest information.

OCTOBER 20 / PLACEMENT OF SECURITIES IN INTERNATIONAL AND/OR DOMESTIC MARKETS

LATAM Airlines Group S.A. (the “Company”) has decided not to pursue the purchasing bid submitted via Citigroup Global Markets Inc. on October 5, 2016, denominated “*Offer to Purchase*”, whose objective was to buy-back, exchange and redeem a portion of the remaining (residual) bonds issued by TAM Capital Inc. and TAM Capital 3 Inc., both of them subsidiary companies of TAM S.A., legally incorporated pursuant to the laws of the Cayman Islands, whose expiration had been set for the years 2017 and 2021, respectively (hereinafter,

the “Bid”), all of which was duly reported to this Superintendencia last October 5.

The referred *Offer to Purchase* included certain conditions in order to activate the Offer, one of which was indeed not met; which, in turn, led the Company to discontinue it and not go forward with its intention to issue and place non-guaranteed long-term bonds in the international market under the aegis of Norm 144-A and Regulation S of the securities laws of the United States of America, according to the terms and conditions set forth in the referred Essential Fact reported last October 5.



Stock Market Information

During 2016, the local share of LATAM Airlines Group showed a positive profitability of 51.6%. Likewise, its ADR (American Depositary Receipts) and BDR (Brazilian Depositary Receipts) also showed a positive profitability of 51.8%. As of December 31, 2016, the Company's stock market capitalization amounted to US\$ 4,475.2 million. Throughout all of 2016, the share of LATAM Airlines Group showed a profitability higher than that of the IPSA (Select Share Price Index); an index that showed a positive profitability of 12.8% during such period. With respect to the trading of the stock at the Santiago Stock Exchange, the LATAM Airlines Group share had a stock market presence of 100%.

VOLUMES TRADED PER QUARTER LOCAL SHARE (Santiago Stock Exchange, SSE)

| 2014 | N° of shares traded | Average price (CLP) | Total amount (CLP) |
|-----------------------|---------------------|---------------------|--------------------|
| First Quarter | 61,484,884 | 8,211 | 504,829,447,686 |
| Second Quarter | 35,965,643 | 8,131 | 292,436,121,151 |
| Third Quarter | 35,231,909 | 7,191 | 253,336,632,783 |
| Fourth Quarter | 44,766,542 | 6,939 | 310,646,587,594 |
| 2015 | | | |
| First Quarter | 35,580,564 | 6,408 | 228,009,403,400 |
| Second Quarter | 44,884,792 | 5,311 | 238,380,996,445 |
| Third Quarter | 39,396,992 | 3,945 | 155,423,718,868 |
| Fourth Quarter | 27,348,459 | 3,790 | 103,651,321,266 |
| 2016 | | | |
| First Quarter | 31,693,231 | 4,014 | 127,210,391,201 |
| Second Quarter | 25,756,176 | 4,510 | 116,170,253,790 |
| Third Quarter | 65,396,759 | 5,411 | 353,855,527,638 |
| Fourth Quarter | 29,632,143 | 5,950 | 176,318,488,865 |



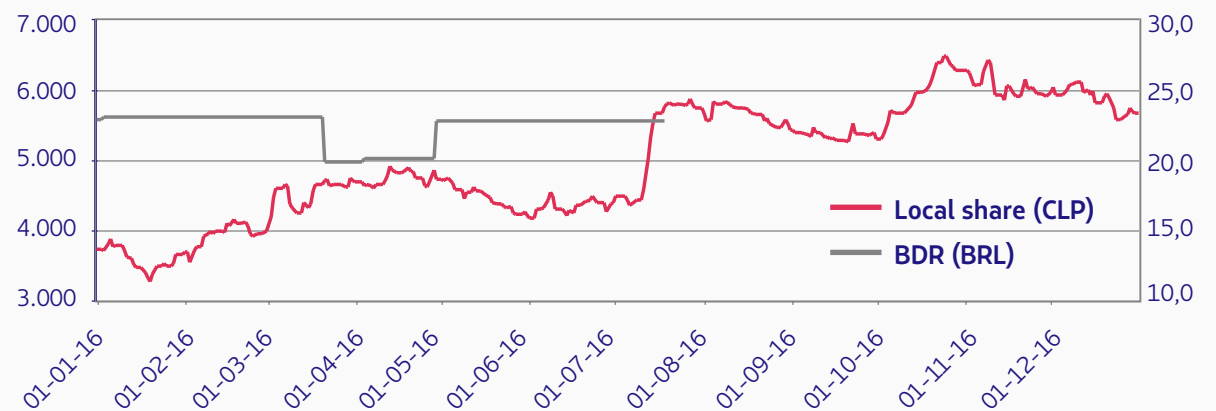
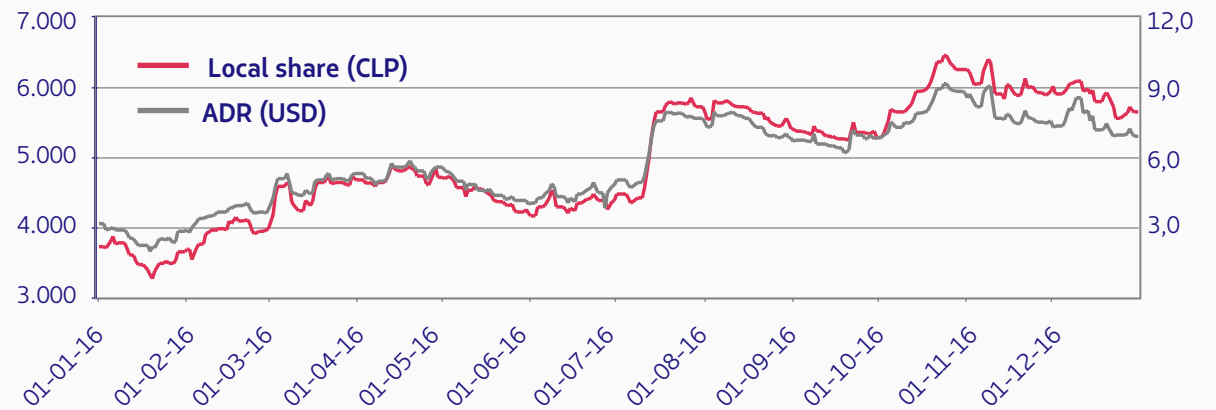
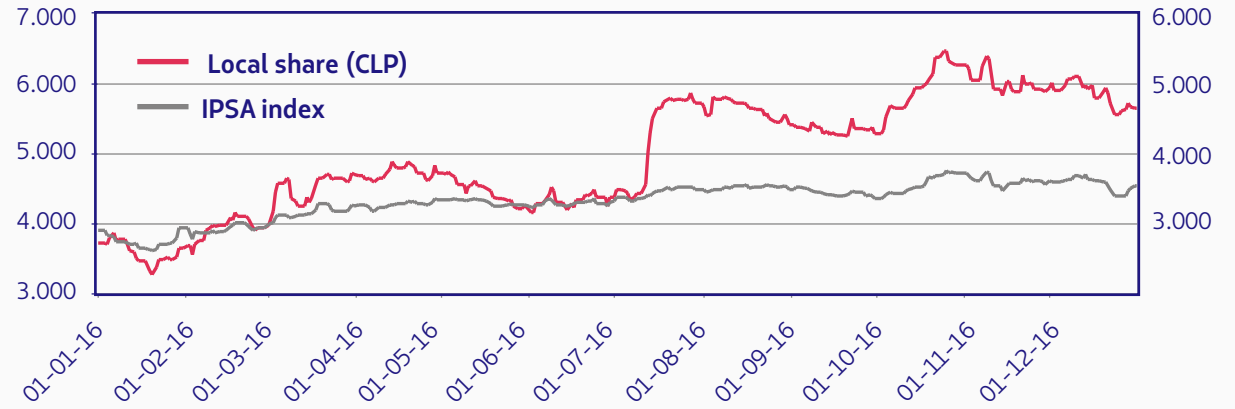
Note: On July 18, 2016, LATAM received the approval of Brazil's CVM (Securities Commission) for a discontinuation of the Level III Brazil Depositary Receipts ("BDR") program, supported by the Company's common shares and, consequently, of the Foreign Issuer's Register.

VOLUMES TRADED PER QUARTER ADR (New York Stock Exchange, NYSE)

| 2014 | N° of shares traded | Average price (USD) | Total amount (USD) |
|----------------|---------------------|---------------------|--------------------|
| First Quarter | 39,001,153 | 14,9 | 580,445,848 |
| Second Quarter | 37,203,364 | 14,7 | 545,714,297 |
| Third Quarter | 39,309,163 | 12,4 | 487,095,808 |
| Fourth Quarter | 35,321,250 | 11,6 | 409,025,594 |
| 2015 | | | |
| First Quarter | 50,592,157 | 10,2 | 515,359,910 |
| Second Quarter | 58,290,119 | 8,5 | 497,760,607 |
| Third Quarter | 40,747,698 | 5,8 | 236,597,688 |
| Fourth Quarter | 27,744,021 | 5,5 | 152,171,620 |
| 2016 | | | |
| First Quarter | 32,739,012 | 5,8 | 189,108,047 |
| Second Quarter | 33,327,301 | 6,6 | 220,309,082 |
| Third Quarter | 42,231,494 | 8,2 | 347,459,617 |
| Fourth Quarter | 30,197,724 | 8,9 | 268,457,766 |

VOLUMES TRADED PER QUARTER BDR (Sao Paulo Securities, Merchandise & Futures Exchange, BOVESPA)

| 2014 | N° of shares traded | Average price (BRL) | Total amount (BRL) |
|----------------|---------------------|---------------------|--------------------|
| First Quarter | 223,600 | 34,7 | 7,765,397 |
| Second Quarter | 90,000 | 33,1 | 2,977,950 |
| Third Quarter | 147,600 | 26,9 | 3,966,750 |
| Fourth Quarter | 105,600 | 28,5 | 3,008,393 |
| 2015 | | | |
| First Quarter | 145,600 | 28,3 | 4,125,576 |
| Second Quarter | 264,900 | 26,1 | 6,911,535 |
| Third Quarter | 28,200 | 19,9 | 561,627 |
| Fourth Quarter | 59,700 | 21,4 | 1,279,542 |
| 2016 | | | |
| First Quarter | 50,500 | 21,7 | 1,096,860 |
| Second Quarter | 29,700 | 21,3 | 633,798 |
| Third Quarter | - | - | - |
| Fourth Quarter | - | - | - |





Risk Factors

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

Risk Factors Relating to our Company

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

Due to Brazilian law restrictions on foreign ownership of Brazilian airlines, LATAM does not control the voting shares or board of directors of TAM. As of January 31, 2017, the ownership structure of TAM is as follows:

- ▶ Holdco I owns 100% of the TAM common shares previously outstanding;
 - the Amaro family (the “Amaro Group”) own approximately 51% of the outstanding Holdco I voting shares through TEP Chile (a Chilean entity wholly owned by the TAM Controlling Shareholders) and LAN owns the remainder of the voting shares;
 - LATAM owns 100% of the outstanding Holdco I non-voting shares, entitling it to substantially all of the economic rights in respect of the TAM common shares held by Holdco I; and
- ▶ LATAM owns 100% of the TAM preferred shares previously outstanding.

As a result of this ownership structure:

- ▶ The Amaro Group Controlling Shareholders retain voting and board control of TAM and each subsidiary of TAM; and

- ▶ LATAM is entitled to substantially all of the economic rights in TAM.

LATAM Airlines Group and TEP Chile and other parties have entered into shareholders’ agreements that establish agreements and restrictions relating to corporate governance with respect to TAM. Certain specified actions require supermajority approval, which in turn means they require the prior approval of both LATAM and TEP Chile. Examples of actions requiring supermajority approval by the board of directors of Holdco I or TAM include, among others, entering into acquisitions or business collaborations, amending or approving budgets, business plans, financial statements and accounting policies, incurring indebtedness, encumbering assets, entering into certain agreements, making certain investments, modifying rights or claims, entering into settlements, appointing executives, creating security interests, issuing, redeeming or repurchasing securities and voting on matters as a shareholder of affiliates of TAM. Actions requiring supermajority shareholder approval of Holdco I or TAM include, among others, certain changes to the by-laws of Holdco I, TAM or TAM’s affiliates or any dissolution/liquidation, corporate reorganization, payment of dividends, issuance of securities, disposal or encumbrance of certain assets, creation of security interests or entering into guarantees and agreements with related parties. For more information on the shareholders’ agreements, see “Item 7. Controlling Shareholders and Related Party Transactions—Shareholders’ Agreements.”

Our assets include a significant amount of goodwill.

Our assets included US\$2,710.4 million of goodwill as of December 31, 2016, US\$2,582.5 million of which results from the combination of LAN and TAM. Under IFRS, goodwill is subject to an annual impairment test and may be required to be tested more frequently if events or circumstances indicate a potential impairment. In 2016, mainly as a result of the appreciation of the Brazilian real against the



U.S. dollar, the value of our goodwill increased by 18.8% as compared with 2015. Any impairment could result in the recognition of a significant charge to earnings in our statement of income, which could materially and adversely impact our consolidated results for the period in which the impairment occurs.

A failure to successfully implement our strategy or a failure adjusting the strategy to the current economic situation would harm our business and the market value of our ADSs and common shares.

We have developed a strategic plan with the goal of becoming one of the best airlines in the world and renewing our commitment to sustained profitability and superior returns to shareholders. Our strategy requires us to identify value propositions that are attractive to our clients, to find efficiencies in our daily operations, and to transform ourselves into a stronger and more risk-resilient company. A tenet of our strategic plan is the adoption of a new travel model for domestic services in the six countries where we have domestic operations to address the changing dynamics of customers and the industry, and to increase our competitiveness. The new travel model is based on a continued reduction in air fares that makes air travel accessible to a wider audience, and in particular to those wish to fly more frequently. This model requires continued cost reduction efforts, and in order to achieve this the Company is implementing a series of initiatives to reduce cost per ASK in all its domestic operations.

Difficulties in implementing our strategy may adversely affect our business, results of operation and the market value of our ADSs and common shares.

A failure to successfully transfer the value proposition of the LAN and TAM brands to a new single brand, may adversely affect our business and the market value of our ADSs and common shares.

Following the combination in 2012, LAN and TAM continued to operate with their original brands. During 2016, we

began the transition of LAN and TAM into a single brand. LAN and TAM had different value propositions, and there can be no assurances that we will be able to fully transfer the value of the original LAN and TAM brands to our new single brand “LATAM”. Difficulties in implementing our single brand may prevent us from consolidating as a customer preferred carrier and may adversely affect our business and results of operations and the market value of our ADSs and common shares.

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

We have integrated the separate frequent flyer programs of LAN and TAM so that passengers can use frequent flyer miles earned with either LAN or TAM interchangeably. During 2016, LAN and TAM announced their revamped frequent flyer programs, which have new names: LATAM Pass and LATAM Fidelidade, respectively. The change is part of the process of consolidating the airline group’s new brand identity (LATAM) and the evolution of the programs, which enhances existing benefits and introduces new benefits for program members. However, there is no guarantee that full integration of the two plans will be completed in the near term or at all. Even if the integration occurs, the successful integration of these programs will involve some time and expense. Moreover, during 2016, LATAM Pass and LATAM Fidelidade approved changes in their mileage earning policy which may impact the attractiveness of the programs to passengers. Until we effectively combine these programs, passengers may prefer frequent flyer programs offered by other airlines, which may adversely affect our business.

Our financial results are exposed to foreign currency fluctuations.

We prepare and present our consolidated financial statements in U.S. dollars. LATAM and its affiliates operate in numerous countries and face the risk of variation in foreign currency exchange rates against the U.S. dollar or between the currencies of these various countries. Changes in the

exchange rate between the U.S. dollar and the currencies in the countries in which we operate could adversely affect our business, financial condition and results of operations. If the value of the Brazilian real, Chilean peso or other currencies in which revenues are denominated declines against the U.S. dollar, our results of operations and financial condition will be affected. The exchange rate of the Chilean peso, Brazilian real and other currencies against the U.S. dollar may fluctuate significantly in the future.

Changes in Chilean, Brazilian and other governmental economic policies affecting foreign exchange rates could also adversely affect our business, financial condition, results of operations and the return to our shareholders on their common shares or ADSs.

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

We maintain a number of alliances and other commercial relationships in many of the jurisdictions in which LATAM and its affiliates operate. These alliances or commercial relationships allow us to enhance our network and, in some cases, to offer our customers services that we could not otherwise offer. If any of our strategic alliances or commercial relationships, deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be adversely affected.

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

Our business depends upon our access to key routes and airports. Bilateral aviation agreements between countries, open skies laws and local aviation approvals frequently involve political and other considerations outside of our control. Our operations could be constrained by any delay or inability to gain access to key routes or airports, including:

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

We operate numerous international routes, subject to bilateral agreements, and also internal flights within Chile, Peru, Brazil, Argentina, Ecuador, Colombia and other countries, subject to local route and airport access approvals. See “Item 4. Information on the Company—B. Business Overview—Regulation.”

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

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

Our cargo demand, especially from Latin American exporters, is concentrated in a small number of product categories, such as exports of fish, sea products and fruits from Chile, and asparagus from Peru, and exports of fresh flowers from Ecuador and Colombia. Events that adversely affect the production, trade or demand for these goods may adversely affect the volume of goods that we transport and may have a significant impact on our results of operations. Some of our

cargo products are sensitive to foreign exchange rates and, therefore, traffic volumes could be impacted by the appreciation or depreciation of local currencies.

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

Higher jet fuel prices could have a materially adverse effect on our business, financial condition and results of operations. Jet fuel costs have historically accounted for a significant amount of our operating expenses, and accounted for 23.0% of our operating expenses in 2016. Both the cost and availability of fuel are subject to many economic and political factors and events that we can neither control nor predict. We have entered into fuel hedging arrangements, but there can be no assurance that such arrangements will be adequate to protect us from an increase in fuel prices in the near future or in the long term. Also, while these hedging arrangements are designed to limit the effect of an increase in fuel prices, our hedging methods may also limit our ability to take advantage of any decrease in fuel prices, as was the case in 2015 and, to a lesser extent, in 2016. Although we have implemented measures to pass a portion of incremental fuel costs to our customers, our ability to lessen the impact of any increase in fuel costs using these types of mechanisms may be limited.

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

A key element of our strategy is to maintain a high daily aircraft utilization rate, which measures the number of flight hours we use our aircraft per day. High daily aircraft utilization allows us to maximize the amount of revenue we generate from our aircraft and absorb the fixed costs associated with our fleet and is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to increase the average hours flown per day. Our rate of aircraft utilization could be adversely affected by a number of different factors that are beyond our control, including air traffic and airport congestion, adverse weather conditions, unanticipated

maintenance and delays by third-party service providers relating to matters such as fueling and ground handling. If an aircraft falls behind schedule, the resulting delays could cause a disruption in our operating performance.

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

As our fleet has grown, our reliance on Airbus and Boeing has also grown. As of December 31, 2016, LATAM Airlines Group has a fleet of 250 Airbus and 82 Boeing aircraft. Risks relating to Airbus and Boeing include:

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

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

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

A large portion of our aircraft fleet is subject to long-term operating leases. Our operating leases typically run from three to 12 years from the date of delivery. We may face more compe-

tion for, or a limited supply of, leased aircraft, making it difficult for us to negotiate on competitive terms upon expiration of our current operating leases or to lease additional capacity required for our targeted level of operations. If we are forced to pay higher lease rates in the future to maintain our capacity and the number of aircraft in our fleet, our profitability could be adversely affected.

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

We have a high degree of debt and payment obligations under our aircraft operating leases and financial debt arrangements. We require significant amounts of financing to meet our aircraft capital requirements and may require additional financing to fund our other business needs. We cannot guarantee that we will have access to or be able to arrange for financing in the future on favorable terms. Following the combination of LAN and TAM, Fitch Ratings Inc. and Standard and Poor's downgraded LATAM Airlines Group S.A.'s credit rating to levels that are below investment grade. Any further securities rating agencies downgrades could increase our financing costs. Higher financing costs could affect our ability to expand or renew our fleet, which in turn could adversely affect our business.

In addition, the majority of our property and equipment is subject to liens securing our indebtedness. In the event that we fail to make payments on secured indebtedness, creditors' enforcement of liens could limit or end our ability to use the affected property and equipment to fulfill our operational needs and thus generate revenue.

Moreover, external conditions in the financial and credit markets may limit the availability of funding at particular times or increase its costs, which could adversely affect our profitability, our competitive position and result in lower net interest margins, earnings and cash flows, as well as lower returns on shareholders' equity and invested capital. Factors that may affect the availability of funding or cause an increase in our funding costs include global macro-economic crises, reduction of our credit rating, and other potential market disruptions.

We have significant exposure to LIBOR and other floating interest rates; increases in interest rates will increase our financing costs and may have adverse effects on our financial condition and results of operations.

We are exposed to the risk of interest rate variations, principally in relation to the U.S. dollar London Interbank Offer Rate ("LIBOR"). Many of our operating and financial leases are denominated in U.S. dollars and bear interest at a floating rate. 36.9% of our outstanding consolidated debt as of December 31, 2016 bears interest at a floating rate after giving effect to interest rate hedging agreements. Volatility in LIBOR or other reference rates could increase our periodic interest and lease payments and have an adverse effect on our total financing costs. We may be unable to adequately adjust our prices to offset any increased financing costs, which would have an adverse effect on our revenues and our results of operations.

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

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

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

Our operations, including our ability to deliver customer service, are dependent on the effective operation of our equipment, including our aircraft, maintenance systems and reservation systems. Our operations are also dependent on the effective operation of domestic and international air traffic control systems and the air traffic control infrastructure by the corresponding authorities in the markets in which we op-

erate. Equipment failures, personnel shortages, air traffic control problems and other factors that could interrupt operations could adversely affect our operations and financial results as well as our reputation.

We depend on a limited number of suppliers for certain aircraft and engine parts.

We depend on a limited number of suppliers for aircraft, aircraft engines and many aircraft and engine parts. As a result, we are vulnerable to any problems associated with the supply of those aircraft, parts and engines, including design defects, mechanical problems, contractual performance by the suppliers, or adverse perception by the public that would result in customer avoidance or in actions by the aviation authorities resulting in an inability to operate our aircraft.

Our business relies extensively on third-party service providers. Failure of these parties to perform as expected, or interruptions in our relationships with these providers or their provision of services to us, could have an adverse effect on our financial position and results of operations.

We have engaged a significant number of third-party service providers to perform a large number of functions that are integral to our business, including regional operations, operation of customer service call centers, distribution and sale of airline seat inventory, provision of information technology infrastructure and services, provision of aircraft maintenance and repairs, catering, ground services, and provision of various utilities and performance of aircraft fueling operations, among other vital functions and services. We do not directly control these third-party service providers, although we do enter into agreements with many of them that define expected service performance. Any of these third-party service providers, however, may materially fail to meet their service performance commitments, may suffer disruptions to their systems that could impact their services, or the agreements with such providers may be terminated. For example, flight reservations booked by customers and/or travel agencies via third-party GDSs (Global Distribution Systems) may be ad-

versely affected by disruptions in our business relationships with GDS operators. Such disruptions, including a failure to agree upon acceptable contract terms when contracts expire or otherwise become subject to renegotiation, may cause the carriers' flight information to be limited or unavailable for display, significantly increase fees for both us and GDS users, and impair our relationships with customers and travel agencies. The failure of any of our third-party service providers to adequately perform their service obligations, or other interruptions of services, may reduce our revenues and increase our expenses or prevent us from operating our flights and providing other services to our customers. In addition, our business, financial performance and reputation could be materially harmed if our customers believe that our services are unreliable or unsatisfactory.

Disruptions or security breaches of our information technology infrastructure or systems could interfere with our operations, compromise passenger or employee information, and expose us to liability, possibly causing our business and reputation to suffer.

A serious internal technology error or failure impacting systems hosted internally at our data centers or externally at third-party locations, or large-scale interruption in technology infrastructure we depend on, such as power, telecommunications or the internet, may disrupt our technology network with potential impact on our operations. Our technology systems and related data may also be vulnerable to a variety of sources of interruption, including natural disasters, terrorist attacks, telecommunications failures, computer viruses, hackers and other security issues. While we have in place, and continue to invest in, technology security initiatives and disaster recovery plans, these measures may not be adequate or implemented properly so as to prevent a business disruption and its adverse financial and reputational consequences to our business.

In addition, as a part of our ordinary business operations, we collect and store sensitive data, including personal information of our passengers and employees and informa-

tion of our business partners. The secure operation of the networks and systems on which this type of information is stored, processed and maintained is critical to our business operations and strategy. Unauthorized parties may attempt to gain access to our systems or information through fraud or deception. Hardware or software we develop or acquire may contain defects that could unexpectedly compromise information security. The compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information, disruption to our operations and damage to our reputation, any or all of which could adversely affect our business.

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

Labor costs constitute a significant percentage of our total operating expenses (21.8% in 2016) and at times in our operating history we have experienced pressure to increase wages and benefits for our employees. A significant increase in our labor costs could result in a material reduction in our earnings.

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

As of December 31, 2016, approximately 72.9% of our employees, including administrative personnel, cabin crew, flight attendants, pilots and maintenance technicians are members of unions and have contracts and collective bargaining agreements which expire on a regular basis. Our business, financial condition and results of operations could be materially adversely affected by a failure to reach agreement with any labor union representing such employees or by an agreement with a labor union that contains terms that are not in line with our expectations or that prevent us from competing effectively with other airlines.

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

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

We may experience difficulty finding, training and retaining employees.

Our business is labor intensive. We employ a large number of pilots, flight attendants, maintenance technicians and other operating and administrative personnel. The airline industry has, from time to time, experienced a shortage of qualified personnel, especially pilots and maintenance technicians. In addition, as is common with most of our competitors, we may, from time to time, face considerable turnover of our employees. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, our training costs will be significantly higher. A failure to recruit, train and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

Risks Related to the Airline Industry and the Countries in Which We Operate

Our performance is heavily dependent on economic conditions in the countries in which we do business. Negative economic conditions in those countries could adversely impact our business and results of operations and cause the market price of our common shares and ADSs to decrease.

Passenger and cargo demand is heavily cyclical and highly dependent on global and local economic growth, economic expectations and foreign exchange rate variations, among other things. In the past, our business has been adversely affected by global economic recessionary conditions, weak

economic growth in Chile, recession in Brazil and Argentina and poor economic performance in certain emerging market countries in which we operate. The occurrence of similar events in the future could adversely affect our business. We plan to continue to expand our operations based in Latin America and our performance will, therefore, continue to depend heavily on economic conditions in the region.

Any of the following factors could adversely affect our business, financial condition and results of operations in the countries in which we operate:

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

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

We are exposed to increases in landing fees and other airport service charges that could adversely affect our margin and competitive position.

Airlines must pay fees to airport operators for the use of airport facilities. Passenger taxes and airport charges have increased substantially in recent years. We cannot assure you that the airports in which we operate will not increase or maintain high passenger taxes and service charges in the future. Any substantial increase in airport charges could have a material adverse impact on our results of operations. In addition, any increase in passenger taxes could negatively impact demand for air travel and affect our results.

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

Our business is highly regulated and depends substantially upon the regulatory environment in the countries in which we operate or intend to operate. For example, price controls on fares may limit our ability to effectively apply customer segmentation profit maximization techniques (“passenger revenue management”) and adjust prices to reflect cost pressures. High levels of government regulation may limit the scope of our operations and our growth plans. The possible failure of aviation authorities to maintain the required governmental authorizations or our failure to comply with applicable regulations, may adversely affect our business and results of operations.

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

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

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

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

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

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

Our business, financial condition and results of operations could be adversely affected by high levels of competition within the industry, particularly the entrance of new competitors into the markets in which we operate. Airlines compete primarily over fare levels, frequency and dependability of service, brand recognition, passenger amenities (such as frequent flyer programs) and the availability and convenience of other passenger or cargo services. New and existing airlines (and companies providing ground cargo or passenger transportation) could enter our markets and compete with us on any of these bases, including by offering lower prices, more attractive services or increasing their route offerings in an effort to gain greater market share.

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

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

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

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

tions and financial results. In addition, failure to comply with these regulations could adversely affect us in a variety of ways, including adverse effects on our reputation.

In 2016, the ICAO adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), providing a framework for a global market-based measure to stabilize carbon dioxide (“CO2”) emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). The CORSIA will be implemented in phases, starting with the participation of ICAO member states on a voluntary basis during a pilot phase (from 2021 through 2023), followed by a first phase (from 2024 through 2026) and a second phase (from 2027). Currently, CORSIA focuses on defining standards for monitoring, reporting and verification of emissions from air operators, as well as on defining steps to offset CO2 emissions after 2020. To the extent most of the countries in which we operate continue to be ICAO member states, in the future we may be affected by regulations adopted pursuant to the CORSIA framework.

The proliferation of national regulations and taxes on CO2 emissions in the countries that we have domestic operations, including recent environmental regulations that the airline industry is facing in Colombia, may also affect our costs of operations and our margins.

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

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

Revenues for airlines depend on the number of passengers carried, the fare paid by each passenger and service factors, such as the timeliness of flight departures and arrivals. During periods of fog, ice, low temperatures, storms or other adverse weather conditions, some or all of our flights may be cancelled or significantly delayed, reducing our revenues. In addition, fuel prices and supplies, which constitute a significant cost for us, may increase as a result of any future terrorist attacks, a general increase in hostilities or a reduction in output of fuel, voluntary or otherwise, by oil-producing countries. Such increases may result in both higher airline ticket prices and decreased demand for air travel generally, which could have an adverse effect on our revenues and results of operations.

We are subject to risks related to litigation and administrative proceedings that could adversely affect our business and financial performance in the event of an unfavorable ruling.

The nature of our business exposes us to litigation relating to labor, insurance and safety matters, regulatory, tax and administrative proceedings, governmental investigations, tort claims and contract disputes. Litigation is inherently costly and unpredictable, making it difficult to accurately estimate the outcome among other matters. Currently, as in the past, we are subject to proceedings or investigations of actual or potential litigation. Although we establish provisions as we deem necessary, the amounts that we reserve could vary significantly from any amounts we actually pay due to the inherent uncertainties in the estimation process. We cannot assure you that these or other legal proceedings will not materially affect our business.

We are subject to anti-corruption, anti-bribery, anti-money laundering and antitrust laws and regulations in Chile, the United States and in the various countries we operate. Violations of any such laws or regulations could have a material adverse impact on our reputation and results of operations and financial condition.

We are subject to anti-corruption, anti-bribery, anti-money laundering, antitrust and other international laws and regulations and are required to comply with the applicable laws

and regulations of Chile, the United States and certain other jurisdictions where we operate. In addition, we are subject to economic sanctions regulations that restrict our dealings with certain sanctioned countries, individuals and entities. There can be no assurance that our internal policies and procedures will be sufficient to prevent or detect all inappropriate practices, fraud or violations of law by our affiliates, employees, directors, officers, partners, agents and service providers or that any such persons will not take actions in violation of our policies and procedures. Any violations by us of anti-bribery and anti-corruption laws or sanctions regulations could have a material adverse effect on our business, reputation, results of operations and financial condition.

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

The Brazilian economy has been characterized by the significant involvement of the Brazilian government, which often changes monetary, credit, fiscal and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have involved wage and price controls, depreciation of the real, controls over remittance of funds abroad, intervention by the Central Bank to affect base interest rates and other measures. We have no control over, and cannot predict what measures or policies the Brazilian government may take in the future.

Risks Related to our Common Shares and ADSs

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

One of our major shareholder groups, the Cueto Group (the "LATAM Controlling Shareholders"), which as of January 31, 2017, beneficially owned 28.27% of our common shares, is entitled to elect three of the nine members of our board of directors and is in a position to direct our management. In addition, the LATAM Controlling Shareholders have en-

tered into a shareholders agreement with the Amaro Group, which as of January 31, 2017, held a 3.02% of LATAM shares through TEP Chile, in addition to the indirect stake they have through the 21.88% interest in Costa Verde Aeronáutica S.A., the main legal vehicle through which the Cueto Group holds LATAM shares, pursuant to which these two major shareholder groups have agreed to vote together to elect individuals to our board of directors in accordance with their direct and indirect shareholder interest in LATAM. Pursuant to a shareholders' agreement, the LATAM Controlling Shareholders and the Amaro Group have also agreed to use their good faith efforts to reach an agreement and act jointly on all actions to be taken by our board of directors or shareholders meeting, and if unable to reach to such agreement, to follow the proposal made by our board of directors. Decisions by the Company that require supermajority votes under Chilean law are also subject to voting arrangements by the LATAM Controlling Shareholders and the Amaro Group. In addition, another major shareholder, Qatar Airways Investments (UK) Ltd., which as of January 31, 2017, held 10.03%¹ of paid and subscribed shares, is entitled to appoint one individual to our board of directors. The interests of our major shareholders may differ from those of our other shareholders. See "Item 7. Controlling Shareholders and Related Party Transactions — A. Major Shareholders."

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

1. Qatar owns 9.999999918% of total issued shares of LATAM.

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

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

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

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

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

Equity investments in Chile by non-Chilean residents have been subject in the past to various exchange control regulations that govern investment repatriation and earnings



thereon. Although not currently in effect, regulations of the Central Bank of Chile have in the past required, and could again require, foreign investors acquiring securities in the secondary market in Chile to maintain a cash reserve or to pay a fee upon conversion of foreign currency to purchase such securities. Furthermore, future changes in withholding taxes could negatively affect non-Chilean residents that invest in our shares.

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

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

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

any other factors that may be considered appropriate at that time, and we will then make a decision as to whether we will file a registration statement. We cannot assure you that we will decide to file a registration statement or that such rights will be available to ADS holders and shareholders located in the United States.

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

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



Additional information

Suppliers

During the year 2016, and just like in previous years, the main suppliers of LATAM Airlines were the aircraft manufacturers, Airbus and Boeing. Along with them, LATAM Airlines has a number of other suppliers, primarily related to aircraft accessories, spare parts and components, such as: Pratt & Whitney, MTU Maintenance, Rolls-Royce, Pratt and Whitney Canada, CFM International, General Electric Commercial Aviation Services Ltd., General Electric Celma, General Electric Engines Service, Honeywell, Israel Aerospace Industries, Air France/KLM (engines and APU); Zodiac Seats US, Recaro, Zodiac Seats UK (seats); Teledyne (TCS B787-9); Honeywell y Rockwell Collins (Avionics); Air France/KLM, LUFTHANSA Technik (MRO components); Panasonic, Thales (On-board entertainment); SAFRAN Landing Systems (trains and brakes); UTC Aerospace (Nacelas). To these, we must be added our fuel suppliers, such as Raízen, World Fuel Services, YPF, Petrobras, Terpel, Repsol, Shell and Copec, among others.

Insurance

LATAM Airlines, in consideration of all those areas that involve a potential risk takes up insurance policies that can be classified in three main categories: Aviation Insurance, Hull and Legal Liabilities. These types of insurance cover all the risks inherent to commercial navigation such as aircraft, engines, spare parts and third-party civil liability insurance: passenger, cargo, baggage, products, airports, etc. After the Association of LAN with TAM, the insurance policies for both companies began to be purchased by the LATAM Airlines Group, generating increased trading volumes and resulting in lower operating costs.

General casualty insurance

This insurance group permits covering all risks that may affect the company's equity capital, particularly its physical and financial assets; all of which are protected through multi-risk insurance policies (which includes risks of fire, theft, computer equipment failure, consignments of values, crystals, and others based on a comprehensive coverage), along with the traditional coverage of motor vehicles, air and maritime transport, corporate civil liability, etc. plus life and casualty insurance. This group of insurance policies covers all company personnel: i.e. executives, employees in general, and flight crews.

Brands and patents

The company and its subsidiaries use different trademarks, which are duly registered with the competent agencies in the various countries in which they develop their operations or that constitute their origin and/or destination, with the purpose of differentiating and marketing their products and services in such country. Among the main brands are: LATAM Airlines, LATAM Airlines Argentina, LATAM Airlines Brazil, LATAM Airlines Chile, LATAM Airlines Colombia, LATAM Airlines Ecuador, LATAM Airlines Peru, LATAM Cargo, LATAM PASS, LATAM Fidelidade, LATAM Travel, among others.

Customers

The Company has no customers that individually represent more than 10% of sales.

Adjusting our fleet commitments

In 2012, the LATAM Group announced the execution of a fleet renewal plan aimed at reducing the variety of aircraft currently operating and to gradually withdraw those deemed less efficient. As of December 2016, the airline's plan continued to make progress, withdrawing a total of 23 aircraft during 2016, among which are the latest Airbus A330; a model that was completely eradicated from the fleet. Additionally, the company incorporated 24 new larger and more efficient aircraft, such as the Airbus A321, Airbus A350, Boeing 787-9 and the first Airbus A320neo's.

During 2016, the company made significant progress in its plan to reduce the fleet's total assets and commitments, reaching the lowest fleet commitment in LATAM's recent history for 2017 and 2018. LATAM reduced its fleet commitments through postponements and cancellations; moreover, it will also reduce its current fleet assets by returning additional aircraft as compared to last year's fleet plan. With this, the company achieved a reduction of US\$ 2.2 billion in fleet assets for the period between 2016-2018; all of it in line with its previously-announced plans to reduce its expected 2018 fleet assets by US\$ 2.0 to US\$ 3.0 billion

Such reductions will improve the Company's balance sheet and allow a greater flexibility to better respond to market conditions in the coming years. The benefits of such reductions will be observed during the next couple of years through lower lease and capital expenses, along with lower financing needs, thus improving the generation of the company's cash flow and strengthening its balance sheet.

Additionally, LATAM expects to have a non-fleet CAPEX (including intangible assets) of approximately US\$ 500 million per year, including maintenance, investments in engines and spare parts and the cost of executing the new domestic business model, among others.





| At year end | 2015 | 2016 | 2017E | 2018E |
|---|--------------|--------------|------------|------------|
| PASSENGER AIRCRAFT | | | | |
| Narrow Body | | | | |
| Airbus A319-100 | 50 | 48 | 45 | 45 |
| Airbus A320-200 | 154 | 146 | 126 | 116 |
| Airbus A320 Neo | - | 2 | 7 | 11 |
| Airbus A321-200 | 36 | 47 | 47 | 47 |
| Airbus A321 Neo | - | - | - | 2 |
| TOTAL | 240 | 243 | 225 | 221 |
| Wide Body | | | | |
| Airbus A330-200 | 10 | - | 0 | - |
| Boeing 767-300 | 38 | 37 | 36 | 36 |
| Airbus A350-900 | 1 | 7 | 7 | 9 |
| Airbus A350-1000 | - | - | - | - |
| Boeing 777-300 ER | 10 | 10 | 10 | 7 |
| Boeing 787-8 | 10 | 10 | 10 | 10 |
| Boeing 787-9 | 7 | 12 | 14 | 14 |
| TOTAL | 76 | 76 | 77 | 76 |
| CARGO AIRCRAFT | | | | |
| Boeing 777-200F | 3 | 2 | 1 | 1 |
| Boeing 767-300F | 8 | 8 | 8 | 8 |
| TOTAL FLEET | 327 | 329 | 311 | 306 |
| Subleases | | | | |
| Airbus A320-200 | - | - | 5 | 5 |
| Airbus A350-900 | - | - | 4 | - |
| Boeing 787-8 | - | - | 2 | 4 |
| Boeing 777-200F | 1 | 0 | 1 | 1 |
| Boeing 767-300F | 3 | 3 | 1 | 1 |
| TOTAL | 4 | 3 | 7 | 7 |
| Fleet commitments (US\$ million) | 1.689 | 1.952 | 469 | 555 |

Note: This table does not include 4 A350-900 that will be sub-leased to Qatar for periods of between six and 12 months during 2017 and 2018.

Does not include two B777-200F (one currently leased to a third party), three A330 and one A320 that were reclassified from property plant and equipment to hold for sale.



SUSTAINABILITY



Our aspiration to be more

LATAM's commitment to the creation of shared value for shareholders, the market, employees, clients, suppliers and society at large, is an integral part of the company's business strategy and decision-making guidelines. Sustainability advances, present through business practices, constitute an important thrust forward towards the aspiration of becoming one of the three largest airline groups in the world.

In 2016, what had already become a reality in the company's daily operations was then elevated to the category of company policy via the approval of LATAM's Sustainability Policy. This document, which was validated by the company's Board of Directors, the highest corporate governance body, establishes the main guidelines and principles to be adhered to in the development and articulation of sustainable development strategies and initiatives throughout the entire Group.

From a long-term perspective, the company's sustainability strategy is divided into three (3) dimensions:

► **Sustainable governance:**

the company established a clear and transparent position regarding its commitments and objectives, decision-making structures, execution and follow-up of results that support the application of such strategy;

► **Climate change:**

to balance out a risk mitigation vision and search for new opportunities in managing the real and potential impacts of the business, with an emphasis on the reduction of the carbon footprint and ecological actions;

► **Corporate citizenship:**

to make of LATAM's business and value network's relationships -with suppliers, employees, clients and society at large- socioeconomic catalyzers of the region's environmental equilibrium via the development of its

employees, its social investments, the promotion of tourism and good practices.

These dimensions group the major development objectives, which are broken down into objectives and goals, helping to systematize the continuous improvement process and quantify the results.

In order to put the focus on our efforts to improve performance, LATAM considers a structured process of the most relevant sustainability topics, including the real or potential impacts of the operation of its various stakeholders, the public's expectations, the company's future outlook and the commitments assumed, sector and international sustainability drivers and global trends.

The following is the list of the organization's most important topics:

► **Climate change mitigation:**

to continuously reduce the intensity of emissions and introduce the results of new energy technologies' research;

► **Efficient management:**

to achieve levels of excellence in the rational use of fuel and the management of resources;

► **Noise reduction and other emissions:**

to control de emission of aircraft noise in communities near airports and the impact of emissions on air quality;

► **Connectivity and customer relations:**

to pay attention to technological opportunities and trends and meet new client demands, investing in the quality of our services and in transparent and ethical communications;



► **Health and safety in the air and on the ground:**

to manage potential risks, including cyber risks and guarantee the highest standards of security to our customers, employees and the community;

► **Talent and productivity management:**

to improve the management of performance and of the career in the different business units, aimed at professional growth and the maintenance of a high-performance culture;

► **Relations with the Government, healthy competition and regulatory specifications:**

to pursue a continuous dialogue with governments, local authorities and representative industry organizations, focusing on compliance and the creation of responsible solutions.

► **Value chain:**

to promote the suppliers' good practices in terms of ethics, sustainability and the ecology and promote the development of those communities with which the company relates;

► **Economic and financial sustainability:**

to look for synergies in managing costs and assets, the planning of current and future investments focusing on the creation of value for the company and its shareholders.



Our sustainability management

LATAM's sustainability policy, approved in 2016, considered a number of international references and commitments, which should serve as a guide for its activities (see table), and it explains the correlation between various aspects of the business' sustainability and management. The clearest example is risk management: a matrix that guides risk mitigation, including those of the environmental, labor and linked to the relationship and reputation of the company with its own public. Management is performed in an integrated manner with other types of risk, such as the financial and operational, among others.

In order to ensure that information and the strategic view of the administration are indeed aligned to the objectives and progress of the company's sustainability policy, the Management Council will annually monitor the data. The new stage of strategic validation complements the supervision that was already being carried out periodically by the Council's Commission.

Additionally, whenever a member joins the company's senior management, he/she participates in immersion activities in the business strategy, where sustainability management is a focus of a specific module of this process.

International references

In order to promote improvements in sustainability management, LATAM is guided by a set of rules, standards, references and international commitments, the most important of which are the following:

- ▶ The ISSO 26000 standard: the first international standard for Corporate Social Responsibility (CSR).
- ▶ The Global Compact: is an initiative of the United Nations (UN) to promote the adoption of social responsibility practices in the areas of human rights, human rights at work, in the environment and in fighting corruption.
- ▶ Sustainable Development Objectives: is a worldwide development program promoted by the UN that defines the objectives and goals related to the eradication of poverty, food security, health, education, gender equality, the reduction of inequalities, energy, water and sanitation, sustainable production and consumption patterns, climate change, sustainable cities, the sustainable protection and use of ecosystems and inclusive economic growth, among other topics.
- ▶ Business-oriented Principles and Human Rights: is a kind of guide, prepared by the Special Representative of the Secretary General of the United Nations, John Ruggie, which brings together the parameters and guidelines to ensure the protection, respect and repair of human rights in business affairs.
- ▶ The Tripartite Declaration of Principles concerning Multinational Companies and Social Policy: it was prepared by the International Labor Organization (ILO) and it is aimed at promoting the active participation of multinational companies to economic and social progress, while minimizing the negative effects of their activities.
- ▶ The Guidelines of the Organization for Cooperation and Economic Development (OECD) for multinational companies: brings together recommendations for businesses and governments, and provides principles and voluntary standards for a business conduct consistent with applicable laws and internationally-recognized best practices.
- ▶ The GRI methodology: is the main reference of the sustainability reports. It was developed by the Global Reporting Initiative (GRI), a multi-sectoral international organization that seeks to promote the standardization and continuous improvement of sustainability management and communications in companies and organizations of different sizes and sectors around the world.



Progress measurement

The company's performance in the Dow Jones Sustainability Index (DJSI, for its acronym in English) is the main criterion of this development.

The DJSI is the main global economic, social and environmental performance reference of long-term value creation. The selection is based on a methodology known as *Best in Class*, which analyzes the performance of corporate governance issues and the economic, social and environmental practices of leading public companies in different economic sectors. Only the leading companies make up the final list, which is published annually. The DJSI membership selection process is carried out by RobecoSAM, an investment consulting firm specializing in sustainability.

LATAM is part of this index since its 2012 Edition, when it was selected in the Emerging Markets segment. Ever since the 2014 Edition, however, it is a member of the Global Index, which brings together the top 10% of the best companies invited. In 2016, this index analyzed the 2,500 largest companies (according to Standard and Poor's Broad Market Index) of 28 different countries, and 316 were selected. Only two airlines appear in that group.

Transparency in the donation process

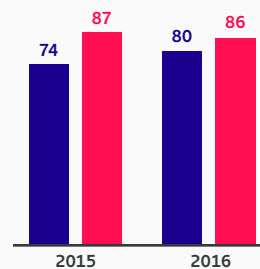
By the end of 2016, the Board of Directors approved the LATAM Group's donations policy. This policy applies to all company subsidiaries and it objectively sets out donation criteria as well as the stages and approval process, clearly defining the various roles and responsibilities.

According to this document, company donations must only be of services (free transport of persons or cargo), species or money contributions.

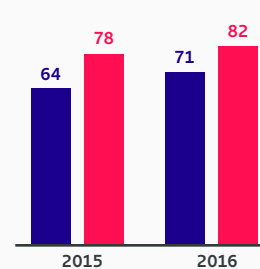
In line with the sustainability strategy of the group, donations must be aimed at projects that provoke positive social, environmental or cultural impacts and should be directed mainly to people of scarce resources or non-profit foundations of the region.

The donation approval process involves the Corporate, Legal and Compliance areas so as to ensure that they indeed meet the company's principles of ethics, transparency and abide by the pertinent legislation.

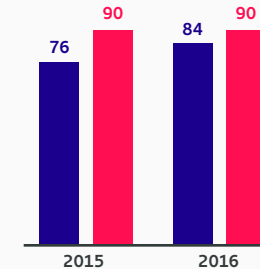
Economic dimension



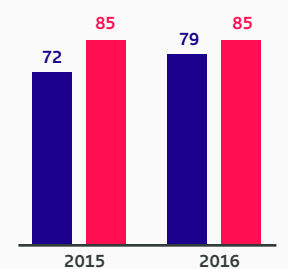
Social dimension



Environmental dimension



Total sustainability



● LATAM Performance ● Best in the industry



Our commitment to the environment

The United Nations Framework Convention on Climate Change defines this phenomenon as a change in the climate that alters the global atmosphere, generating significant adverse effects on the composition, resilience or productivity of natural ecosystems. Stabilizing and controlling the release of greenhouse gases is our primary objective to combat climate change. Aware as we are of the impacts generated by our industry (responsible for 2% of the greenhouse gas emissions attributable to human activity), we developed a climate change strategy that allows us to address initiatives in two areas: impact and profitability, with actions directly related to the impacts of our operations, which are approached from the point of view of risk management, and monitored and mitigated through our management system; plus involvement and recognition, focusing on awareness-raising initiatives, the training of our employees and the dissemination of actions and good environmental practices.

The LATAM Airlines Group's Environmental Management System aligned to ISO 14001 standards for land operations and the IATA Environmental Assessment (IEnvA) developed jointly with IATA by and for the airlines, especially for managing their air operations, establishing efficiency programs with respect to significant environmental aspects such as operating controls, process optimization and the management of associated risks and operating emissions.

During 2016 we had the following milestones:

1. We were acknowledged as Climate Strategy leaders in the Dow Jones Sustainability Index;
2. We maintained the certification under the international ISO14.001 standard in our Miami facilities, in addition to making implementation progress in those countries where the company runs major operations. We also want to emphasize that we were the first airline

to participate and support the design, implementation and certification of the IATA Environmental Assessment (IEnvA) system. Consequently, in our international operations in Chile we are now certified at the highest level of the system (Stage 2).

3. The Smart Fuel program allowed fuel savings of more than 41 million gallons. This means ceasing to emit more than 440 thousand tons of CO₂, as well as noise reduction and local air quality improvement.
4. CORSIA: Our industry achieved a milestone in 2016, since the member states of the International Civil Aviation Organization (ICAO) ratified the industry's commitment to limit the growth of CO₂ emissions in international flights beginning on 2020, thus becoming the first industry worldwide to reach an agreement to regulate CO₂ emissions.

In addition to in-flight fuel efficiency, we have on-land fuel efficiency initiatives in place. Added to that, ever since 2012 in Peru and 2014 in Colombia, we offset our land operating emissions through local reforestation programs. The strategic challenge of the LATAM Airlines Group is to become a worldwide leader in combating climate change, while contributing greater efficiency and competitiveness to the company.

LATAM is firmly committed to promoting the development of alternative and sustainable energy sources. Since this is very important to the air transport industry, our company is aligned with such efforts and will continue to work toward developing the future incorporation of sustainable alternative fuels. In turn, we call upon our region not to remain behind in assuming these challenges.



Our commitment to the region

Corporate citizenship seeks to enrich links with customers, employees, communities, governments and suppliers building positive relationships which, in turn, contribute to the company, to society and to the destinations where we operate. It allows obtaining the “Social License” to operate; namely, the vote of confidence of our stakeholders. Corporate citizenship includes philanthropy, but expands our framework of vision to include actions that improve social impact.

Our 2015-2018 Corporate Sustainability Strategy defines four action objectives, involving both the communities where we operate as well as persons:

1. To support the company’s internal culture and the well-being of our collaborators;
2. To incorporate social and environmental variables in products and services that improve customer experience;
3. To contribute to the economic development of those destinations where we operate; and
4. To contribute to the preservation of the cultural and environmental heritage of Latin America.

This outlook is aligned with two strategic company pillars: “Brand and customer experience” and “Organizational strength”; both of them essential to foster a culture where each of our actions and decisions should consider their impact in a balanced way, not only to our bottom line but also over persons and customers. In order to ensure that the differentiating experience that LATAM seeks to deliver to its customers is indeed consistent over time –regardless of the county of operation- the company has a common purpose that provides direction, motivation and mobilizes the actions of the more than 45 thousand persons that comprise its human team.

In order to comply with this objective, LATAM relies on three pillars that guide behavior toward providing a memorable and differentiating service:

- ▶ Safety: at all times we guarantee our safety and security, and that of our team and of our customers;
- ▶ Courtesy: we care about the needs and emotions of persons and strive to solve their problems gently;
- ▶ Efficiency: We endeavor to improve ourselves continuously.

The delivery services of excellence and providing a differentiating experience to customers are key aspects that explain the business success of the LATAM Group, both in its passenger as well as in its cargo segments. We seek to transform the experience of a traditional trip into something nimble, fast, with less waiting time at airports, less time between connections, more on-board entertainment options and more information in case of contingencies. The most important project related to customers experience, is the Twist Project.

Through Twist we seek that our teams know how to prioritize their agenda, review projects and customize the products or services that they deliver in order to generate a new relationship with each of our customers, thereby gaining their preference. The project ranges from how to apply company policies to the distribution of roles and responsibilities; also adopting tools for real-time monitoring of customer satisfaction. A key element has been our increased collaborator commitment given a greater decision-making autonomy.

By December 2016, the company ended up with approximately 9 thousand people working under the Twist model, which includes all employees working in the contact centers, the airports hubs, half of the airports in Brazil and large non-hub airports.



Since we operate in several countries of the region, the scope of our impact is quite broad; affecting all the communities that we operate through the connectivity generated and the local impact of our operations. This is why we have defined, within the framework of our bond with the communities that we will seek to contribute to the economic development and the conservation of the cultural and environmental heritage of Latin America. We seek to contribute to the development of the region by promoting sustainable tourism and by positioning ourselves as regional sustainability leaders.

Within the framework of sustainable tourism, since 2009, LATAM has been carrying out the “*I take care of my destination*” (CMD, in its Spanish acronym) program, adding Brazil to this initiative since 2015. Students and community members work together in the recovery of public spaces of touristic value, such as monuments or important buildings in each city. As part of such CMD Program, students and authorities receive training talks about tourist awareness, environment and local culture, thus promoting responsible tourism and the care of Latin America’s historical and cultural heritage. Since its inception, the program has developed 66 times in 26 locations in Latin America, with the participation of more than 3,500 students and volunteers from the LATAM Airlines Group.

Finally, through our operation we seek to support Social Investments; which we do via contributions to non-governmental organizations (NGO’s) whose work positively contributes toward the continent’s development, combating poverty, ensuring environmental preservation, citizenship participation and the protection of human rights. We also provide support by transporting volunteers or via direct donations. During 2016 were donated more than 3 thousand airline tickets and transported 672 tons of goods to provide support in disaster cases.

Relationships with stakeholders

For LATAM, relationships with different social stakeholders represent an opportunity for joint construction and a steady growth.

The main stakeholders of the LATAM Group were identified in a process carried out by the Vice President of Corporate Affairs aimed at defining critical issues and systematizing a management model of corporate relationships with stakeholders; identifying areas of bonding with each stakeholder group, including indicators and monitoring; establishing channels of communication and permanent bonding, coordinated, transparent and defined in order to achieve articulated and reliable relationships; and, finally, to generate joint actions that would permit identifying gaps and opportunities.

The main stakeholders thus identified are:

- ▶ Academia
- ▶ Shareholders
- ▶ Trade unions
- ▶ Risk classification (rating) agencies and market analysts
- ▶ Cargo clients
- ▶ Passenger clients
- ▶ Collaborators
- ▶ Local communities
- ▶ Airport concessionaires
- ▶ Public and regulatory entities
- ▶ Sector specialists
- ▶ Industry
- ▶ Investors
- ▶ The communications media
- ▶ NGO's / Foundations
- ▶ International organizations
- ▶ Primary suppliers
- ▶ Secondary suppliers
- ▶ Work unions
- ▶ Third parties and subcontractors

These categories were subdivided according to their potential impact to the company and their relative level of influence.

Through its relationships with governmental bodies and sector entities in the different markets in which it operates, LATAM keeps an active role on issues that have a direct or indirect bearing on its business strategy, which is always exercised in full compliance with the applicable legislation and with LATAM's rules as set forth in its Code of Conduct and its internal policies. Over time, we have sought to strengthen our participation in trade or industry bodies representing the airline industry. We act globally through IATA, which is a key forum to discuss new technologies, operational security and safety, as well as the current and future challenges of the aeronautic sector. At the regional level, we also participate in the Latin American and Caribbean Air Transport Association (ALTA, in its Spanish acronym), where Mr. Enrique Cueto, CEO of the LATAM Airlines Group, assumed as President in 2015, a circumstance that reinforces the commitment of the LATAM Airlines Group to the aviation industry. Always defending a legitimate and transparent dialogue, we look for joint solutions with a focus on efficiency and profitability. LATAM has teams responsible for monitoring and participating in such debates. In Chile and in other markets, we also work in studying routes and flights that would promote tourism, employment and profitability in locations where we do not currently operate, including the necessary coordination with the communities and their local governments.



FINANCIAL STATEMENTS



LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2016

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BRL/RS - BRAZILIAN REAL
THRS - THOUSANDS OF BRAZILIAN REAL
MXN - MEXICAN PESO
VEF - STRONG BOLIVAR



REPORT OF INDEPENDENT AUDITORS
(Free translation from the original in Spanish)

Santiago, March 15, 2017

To the Board of Directors and Shareholders
Latam Airlines Group S.A.

We have audited the accompanying consolidated financial statements of Latam Airlines Group S.A. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015 and the related statements of income, comprehensive income, changes in equity and cash flows for the years then ended, and the corresponding notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the International Financial Reporting Standards (IFRS). This responsibility includes the design, implementation and maintenance of a relevant internal control for the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Chilean generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. As a consequence we do not express that kind of opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

PwC Chile, Av. Andrés Bello 2711 - piso 5, Las Condes - Santiago, Chile
RUT: Bv.912.400-1 | Teléfono: (56 2) 2990-0000 | www.pwc.cl



Santiago, March 15, 2017
Latam Airlines Group S.A.
2

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects the financial position of Latam Airlines Group S.A. and subsidiaries as at December 31, 2016 and 2015, and the results of operations and cash flows for the years then ended in accordance with the International Financial Reporting Standards (IFRS).

Jonathan Yeomans Gibbons
RUT: 13.473.972-K

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LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| ASSETS | Note | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|---|--------|---|---|
| Current assets | | | |
| Cash and cash equivalents | 6 - 7 | 949,327 | 753,497 |
| Other financial assets | 7 - 11 | 712,828 | 651,348 |
| Other non-financial assets | 12 | 212,242 | 330,016 |
| Trade and other accounts receivable | 7 - 8 | 1,107,889 | 796,974 |
| Accounts receivable from related entities | 7 - 9 | 554 | 183 |
| Inventories | 10 | 241,363 | 224,908 |
| Tax assets | 18 | 65,377 | 64,015 |
| | | <u>3,289,580</u> | <u>2,820,941</u> |
| Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners | | | |
| | | <u>3,289,580</u> | <u>2,820,941</u> |
| Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners | | | |
| | 13 | 337,195 | 1,960 |
| | | <u>3,626,775</u> | <u>2,822,901</u> |
| Non-current assets | | | |
| Other financial assets | 7 - 11 | 102,125 | 89,458 |
| Other non-financial assets | 12 | 237,344 | 235,463 |
| Accounts receivable | 7 - 8 | 8,254 | 10,715 |
| Intangible assets other than goodwill | 15 | 1,610,313 | 1,321,425 |
| Goodwill | 16 | 2,710,382 | 2,280,575 |
| Property, plant and equipment | 17 | 10,498,149 | 10,938,657 |
| Tax assets | 18 | 20,272 | 25,629 |
| Deferred tax assets | 18 | 384,580 | 376,595 |
| | | <u>15,571,419</u> | <u>15,278,517</u> |
| | | <u>19,198,194</u> | <u>18,101,418</u> |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| LIABILITIES AND EQUITY | Note | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|--|--------|---|---|
| LIABILITIES | | | |
| Current liabilities | | | |
| Other financial liabilities | 7 - 19 | 1,839,528 | 1,644,235 |
| Trade and other accounts payables | 7 - 20 | 1,593,068 | 1,483,957 |
| Accounts payable to related entities | 7 - 9 | 269 | 447 |
| Other provisions | 21 | 2,643 | 2,922 |
| Tax liabilities | 18 | 14,286 | 19,378 |
| Other non-financial liabilities | 22 | 2,762,245 | 2,490,033 |
| | | <u>6,212,039</u> | <u>5,640,972</u> |
| Liabilities included in disposal groups classified as held for sale | | | |
| | | <u>10,152</u> | <u>-</u> |
| | | <u>6,222,191</u> | <u>5,640,972</u> |
| Non-current liabilities | | | |
| Other financial liabilities | 7 - 19 | 6,796,952 | 7,532,385 |
| Accounts payable | 7 - 24 | 359,391 | 417,050 |
| Other provisions | 21 | 422,494 | 424,497 |
| Deferred tax liabilities | 18 | 915,759 | 811,565 |
| Employee benefits | 23 | 82,322 | 65,271 |
| Other non-financial liabilities | 22 | 213,781 | 272,130 |
| | | <u>8,790,699</u> | <u>9,522,898</u> |
| | | <u>15,012,890</u> | <u>15,163,870</u> |
| EQUITY | | | |
| Share capital | 25 | 3,149,564 | 2,545,705 |
| Retained earnings | 25 | 366,404 | 317,950 |
| Treasury Shares | 25 | (178) | (178) |
| Other reserves | | 580,870 | (6,942) |
| Parent's ownership interest | | 4,096,660 | 2,856,535 |
| Non-controlling interest | 14 | 88,644 | 81,013 |
| | | <u>4,185,304</u> | <u>2,937,548</u> |
| | | <u>19,198,194</u> | <u>18,101,418</u> |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

| | Note | For the period ended December 31, | |
|---|------|--------------------------------------|--------------------|
| | | 2016 ThUS\$ | 2015 ThUS\$ |
| Revenue | 26 | 8,988,340 | 9,740,045 |
| Cost of sales | | <u>(6,967,037)</u> | <u>(7,636,709)</u> |
| Gross margin | | <u>2,021,303</u> | <u>2,103,336</u> |
| Other income | 28 | 538,748 | 385,781 |
| Distribution costs | | <u>(747,426)</u> | <u>(783,304)</u> |
| Administrative expenses | | <u>(872,954)</u> | <u>(878,006)</u> |
| Other expenses | | <u>(373,738)</u> | <u>(323,987)</u> |
| Other gains/(losses) | | <u>(72,634)</u> | <u>(55,280)</u> |
| Income from operation activities | | <u>493,299</u> | <u>448,540</u> |
| Financial income | | 74,949 | 75,080 |
| Financial costs | 27 | <u>(416,336)</u> | <u>(413,357)</u> |
| Share of profit of investments accounted for using the equity method | | - | 37 |
| Foreign exchange gains/(losses) | 29 | 121,651 | (467,896) |
| Result of indexation units | | <u>311</u> | <u>481</u> |
| Income (loss) before taxes | | 273,874 | (357,115) |
| Income (loss) tax expense / benefit | 18 | <u>(163,204)</u> | <u>178,383</u> |
| NET INCOME (LOSS) FOR THE PERIOD | | <u>110,670</u> | <u>(178,732)</u> |
| Income (loss) attributable to owners of the parent | | 69,220 | (219,274) |
| Income (loss) attributable to non-controlling interest | 14 | <u>41,450</u> | <u>40,542</u> |
| Net income (loss) for the year | | <u>110,670</u> | <u>(178,732)</u> |
| EARNINGS PER SHARE | | | |
| Basic earnings (losses) per share (US\$) | 30 | 0.12665 | (0.40193) |
| Diluted earnings (losses) per share (US\$) | 30 | 0.12665 | (0.40193) |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Note | For the period ended December 31, | |
|---|------|--------------------------------------|--------------------|
| | | 2016 ThUS\$ | 2015 ThUS\$ |
| NET INCOME (LOSS) | | 110,670 | (178,732) |
| Components of other comprehensive income that will not be reclassified to income before taxes | | | |
| Other comprehensive income, before taxes, gains (losses) by new measurements on defined benefit plans | 25 | <u>(3,105)</u> | <u>(14,631)</u> |
| Total other comprehensive income that will not be reclassified to income before taxes | | <u>(3,105)</u> | <u>(14,631)</u> |
| Components of other comprehensive income that will be reclassified to income before taxes | | | |
| Currency translation differences Gains (losses) on currency translation, before tax | 29 | <u>494,362</u> | <u>(1,409,439)</u> |
| Other comprehensive income, before taxes, currency translation differences | | <u>494,362</u> | <u>(1,409,439)</u> |
| Cash flow hedges Gains (losses) on cash flow hedges before taxes | 19 | <u>127,390</u> | <u>80,387</u> |
| Other comprehensive income (losses), before taxes, cash flow hedges | | <u>127,390</u> | <u>80,387</u> |
| Total other comprehensive income that will be reclassified to income before taxes | | <u>621,752</u> | <u>(1,329,052)</u> |
| Other components of other comprehensive income (loss), before taxes | | <u>618,647</u> | <u>(1,343,683)</u> |
| Income tax relating to other comprehensive income that will not be reclassified to income | | | |
| Income tax relating to new measurements on defined benefit plans | 18 | <u>921</u> | <u>3,911</u> |
| Accumulate income tax relating to other comprehensive income that will not be reclassified to income | | <u>921</u> | <u>3,911</u> |
| Income tax relating to other comprehensive income that will be reclassified to income | | | |
| Income tax related to cash flow hedges in other comprehensive income | | <u>(34,695)</u> | <u>(21,103)</u> |
| Income taxes related to components of other comprehensive income that will be reclassified to income | | <u>(34,695)</u> | <u>(21,103)</u> |
| Total Other comprehensive income | | <u>584,873</u> | <u>(1,360,875)</u> |
| Total comprehensive income (loss) | | <u>695,543</u> | <u>(1,539,607)</u> |
| Comprehensive income (loss) attributable to owners of the parent | | 648,539 | (1,551,331) |
| Comprehensive income (loss) attributable to non-controlling interests | | <u>47,004</u> | <u>11,724</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | <u>695,543</u> | <u>(1,539,607)</u> |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| Note | Attributable to owners of the parent | | | | | | | | | | | | |
|---|--------------------------------------|-----------------|------------------------------|---------------------------|--|-------------------------------|----------------------|---------------------|-------------------|-----------------------------|--------------------------|--------------|-----------|
| | Change in other reserves | | | | | | | | | | | Total equity | |
| | Share capital | Treasury shares | Currency translation reserve | Cash flow hedging reserve | Actuarial gains or losses on defined benefit plans reserve | Shares based payments reserve | Other sundry reserve | Total other reserve | Retained earnings | Parent's ownership interest | Non-controlling interest | | ThUS\$ |
| ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | |
| Equity as of January 1, 2016 | 2,545,705 | (178) | (2,576,041) | (90,510) | (10,717) | 35,647 | 2,634,679 | (6,942) | 317,950 | 2,856,535 | 810B | 2,937,548 | |
| Total increase (decrease) in equity | | | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | | | |
| Gain (losses) | 25 | - | - | - | - | - | - | - | 69,220 | 69,220 | 41,450 | 110,670 | |
| Other comprehensive income | | - | 489,486 | 92,016 | (2,183) | - | - | 579,319 | - | 579,319 | 5,554 | 584,873 | |
| Total comprehensive income | | - | 489,486 | 92,016 | (2,183) | - | - | 579,319 | 69,220 | 648,539 | 47,004 | 695,543 | |
| Transactions with shareholders | | | | | | | | | | | | | |
| Equity issue | 25-34 | 608,496 | - | - | - | - | - | - | - | 608,496 | - | 608,496 | |
| Dividends | 25 | - | - | - | - | - | - | - | (20,766) | (20,766) | - | (20,766) | |
| Increase (decrease) through transfers and other changes, equity | 25-34 | (4,637) | - | - | - | 2,891 | 5,602 | 8,493 | - | 3,856 | (39,373) | (35,517) | |
| Total transactions with shareholders | | 603,859 | - | - | - | 2,891 | 5,602 | 8,493 | (20,766) | 591,586 | (39,373) | 552,213 | |
| Closing balance as of | | | | | | | | | | | | | |
| December 31, 2016 | | 3,149,564 | (178) | (2,086,555) | 1,506 | (12,900) | 38,538 | 2,640,281 | 580,870 | 366,404 | 4,096,660 | 88,644 | 4,185,304 |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | | | | | | |
|--------------------------------------|--------------------------------------|----------------------|------------------------|-------------------------------------|----------------------------------|---|--------------------------------------|-----------------------------|----------------------------|--------------------------|------------------------------------|--------------|---------------------------------|
| | Change in other reserves | | | | | | | | | | | Total equity | |
| | <u>Note</u> | <u>Share capital</u> | <u>Treasury shares</u> | <u>Currency translation reserve</u> | <u>Cash flow hedging reserve</u> | <u>Actuarial gains or losses on defined benefit plans reserve</u> | <u>Shares based payments reserve</u> | <u>Other sundry reserve</u> | <u>Total other reserve</u> | <u>Retained earnings</u> | <u>Parent's ownership interest</u> | | <u>Non-controlling interest</u> |
| ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | |
| Equity as of January 1, 2015 | 2,545,705 | (178) | (1,193,871) | (151,340) | - | 29,642 | 2,635,748 | 1,320,179 | 536,190 | 4,401,896 | 101,799 | 4,503,695 | |
| Total increase (decrease) in equity | | | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | | | |
| Gain (losses) | 25 | - | - | - | - | - | - | - | (219,274) | (219,274) | 40,542 | (178,732) | |
| Other comprehensive income | | - | (1,382,170) | 60,830 | (10,717) | - | - | (1,332,057) | - | (1,332,057) | (28,818) | (1,360,875) | |
| Total comprehensive income | | - | (1,382,170) | 60,830 | (10,717) | - | - | (1,332,057) | (219,274) | (1,551,331) | 11,724 | (1,539,607) | |
| Transactions with shareholders | | | | | | | | | | | | | |
| Increase (decrease) through | | | | | | | | | | | | | |
| transfers and other changes, equity | 25-34 | - | - | - | - | - | 6,005 | (1,069) | 4,936 | 1,034 | 5,970 | (32,510) | (26,540) |
| Total transactions with shareholders | | - | - | - | - | - | 6,005 | (1,069) | 4,936 | 1,034 | 5,970 | (32,510) | (26,540) |
| Closing balance as of | | | | | | | | | | | | | |
| December 31, 2015 | | 2,545,705 | (178) | (2,576,041) | (90,510) | (10,717) | 35,647 | 2,634,679 | (6,942) | 317,950 | 2,856,535 | 81,013 | 2,937,548 |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

| | Note | For the periods ended | |
|---|------|-----------------------|-------------|
| | | 2016 | 2015 |
| | | ThUS\$ | ThUS\$ |
| Cash flows from operating activities | | | |
| Cash collection from operating activities | | | |
| Proceeds from sales of goods and services | | 9,918,589 | 11,372,397 |
| Other cash receipts from operating activities | | 70,359 | 88,237 |
| Payments for operating activities | | | |
| Payments to suppliers for goods and services | | (6,756,121) | (7,029,582) |
| Payments to and on behalf of employees | | (1,820,279) | (2,165,184) |
| Other payments for operating activities | | (162,839) | (351,177) |
| Interest received | | 11,242 | 43,374 |
| Income taxes refunded (paid) | | (59,556) | (57,963) |
| Other cash inflows (outflows) | 35 | (209,269) | (184,627) |
| Net cash flows from operating activities | | 992,126 | 1,715,475 |
| Cash flows used in investing activities | | | |
| Other cash receipts from sales of equity or debt instruments of other entities | | 2,969,731 | 519,460 |
| Other payments to acquire equity or debt instruments of other entities | | (2,706,733) | (704,115) |
| Amounts raised from sale of property, plant and equipment | | 76,084 | 57,117 |
| Purchases of property, plant and equipment | | (694,370) | (1,569,749) |
| Amounts raised from sale of intangible assets | | 1 | 91 |
| Purchases of intangible assets | | (88,587) | (52,449) |
| Other cash inflows (outflows) | 35 | 843 | 10,576 |
| Net cash flow from (used in) investing activities | | (443,031) | (1,739,069) |
| Cash flows from (used in) financing activities | | | |
| Amounts raised from issuance of shares | | 608,496 | - |
| Amounts raised from long-term loans | | 1,820,016 | 1,791,484 |
| Amounts raised from short-term loans | | 279,593 | 205,000 |
| Loans repayments | | (2,121,130) | (1,263,793) |
| Payments of finance lease liabilities | | (314,580) | (342,614) |
| Dividends paid | 35 | (41,223) | (35,032) |
| Interest paid | | (398,288) | (383,648) |
| Other cash inflows (outflows) | 35 | (229,163) | (99,757) |
| Net cash flows from (used in) financing activities | | (396,279) | (128,360) |
| Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change | | 152,816 | (151,954) |
| Effects of variation in the exchange rate on cash and cash equivalents | | 43,014 | (83,945) |
| Net increase (decrease) in cash and cash equivalents | | 195,830 | (235,899) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 35 | 753,497 | 989,396 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 6 | 949,327 | 753,497 |

The accompanying Notes 1 to 37 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2016
NOTE 1 - GENERAL INFORMATION

LATAM Airlines Group S.A. (the "Company") is a public company registered with the Chilean Superintendency of Securities and Insurance (SVS), under No.306, whose shares are quoted in Chile on the Stock Brokers - Stock Exchange (Valparaíso) - the Chilean Electronic Stock Exchange and the Santiago Stock Exchange; it is also quoted in the United States of America on the New York Stock Exchange ("NYSE") in New York in the form of American Depositary Receipts ("ADRs").

Its principal business is passenger and cargo air transportation, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil and in a developed series of regional and international routes in America, Europe and Oceania. These businesses are performed directly or through its subsidiaries in different countries. In addition, the Company has subsidiaries operating in the freight business in Mexico, Brazil and Colombia.

The Company is located in Santiago, Chile, at Avenida Américo Vespucio Sur No. 901, commune of Renca.

Corporate Governance practices of the Company are set in accordance with Securities Market Law the Corporations Law and its regulations, and the regulations of the SVS and the laws and regulations of the United States of America and the U.S. Securities and Exchange Commission ("SEC") of that country, with respect to the issuance of ADRs.

On July 18, 2016, LATAM received the approval by Comissão de Valores Mobiliários ("CVM") for a discontinuation of Brazilian LATAM depository receipts-BDRS level III ("BDRs"), supported by common shares of the Company and, consequently, our registration of the foreign issuer. On May 24, 2016, the Company reported as an Essential Fact the maturity date May 23, 2016 deadline for holders of BDRs to express their option to keep the shares and the blockade by BM&FBOVESPA with the same date of the respective balances of shares of the holders of BDRs who chose to adhere to the procedure for sale of shares through the procedure called Sale Facility and assigned for this purpose a theoretical value of sales in the Santiago Stock Exchange. On June 9, 2016, the Company reported that BTG Pactual Chile S.A. Stockbrokers ("BTG Pactual Chile"), a Chilean institution contracted by the Company, made the sale on the Santiago Stock Exchange of the shares of the respective holders who adhered to Sale Facility procedure.

As of December 31, 2015, the Company's subscribed and paid capital was represented by 545,558,101 commons shares, without par value. On August 18, 2016, the Company held an extraordinary shareholders' meeting in which it was approved to increase the capital by issuing 61,316,424 shares of payment, all of them commons shares, without par value. As of December 31, 2016, 60,849,592 shares, equivalent to this increase, had been placed, so that at that date the number of shares subscribed and paid by the Company amounted to 606,407,693 shares.

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At December 31, 2016, the Company's capital stock is represented by 608,374,525 shares, all common shares, without par value, which is divided into: (a) the 606,407,693 subscribed and paid shares mentioned above; And (b) 1,966,832 shares pending of subscription and payment, of which: (i) 1,500,000 shares are allocated to compensation stock option plan; And (ii) 466,832 correspond to the balance of shares pending of placement of the last capital increase.

It should be noted that the Company's capital stock was expressed in 613,164,243 shares, all ordinary shares, without nominal value. However, on December 21, 2016, the deadline for the subscription and payment of 4,789,718 shares that were also destined to compensation plans for the workers expired, so the Company's capital stock was fully reduced to the already mentioned 608.374.525 shares.

The Board of the Company is composed of nine members who are elected every two years by the ordinary shareholders' meeting. The Board meets in regular monthly sessions and in extraordinary sessions as the corporate needs demand. Of the nine board members, three form part of its Directors' Committee which fulfills both the role foreseen in the Corporations Law and the functions of the Audit Committee required by the Sarbanes Oxley Law of the United States of America and the respective regulations of the SEC.

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A., Costa Verde Aeronáutica SpA, Costa Verde Aeronáutica Tres SpA, Inversiones Nueva Costa Verde Aeronáutica Limitada, Inversiones Priesca Dos y Cia. Ltda., Inversiones Caravia Dos y Cia. Ltda., Inversiones El Fano Dos y Cia. Ltda., Inversiones La Espasa Dos S.A., Inversiones, Inversiones La Espasa Dos y Cia. Ltda. and Inversiones Mineras del Cantábrico S.A. owns 28.27% of the shares issued by the Company, and therefore is the controlling shareholder of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, given that there is a decisive influence on its administration.

As of December 31, 2016, the Company had a total of 1,566 registered shareholders. At that date approximately 4.69 % of the Company's share capital was in the form of ADRs.

For the period ended December 31, 2016, the Company had an average of 48,336 employees, ending this period with a total of 45,916 employees, spread over 8,010 Administrative employees, 4,895 in Maintenance, 15,924 in Operations, 8,970 in Cabin Crew, 3,882 in Controls Crew, and 4,235 in Sales.

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The main subsidiaries included in these consolidated financial statements are as follows:

a) Participation rate

| Tax No. | Company | Country of origin | Functional Currency | As December 31, 2016 | | | As December 31, 2015 | | |
|--------------|--|-------------------|---------------------|----------------------|----------|----------|----------------------|----------|----------|
| | | | | Direct | Indirect | Total | Direct | Indirect | Total |
| | | | | % | % | % | % | % | % |
| 96.58.860-6 | Latam Travel Chile S.A. and Subsidiary (*) | Chile | US\$ | 99.9900 | 0.0100 | 100.0000 | 99.9900 | 0.0100 | 100.0000 |
| 96.763.900-1 | Inmobiliaria Aeronáutica S.A. | Chile | US\$ | 99.0100 | 0.9900 | 100.0000 | 99.0100 | 0.9900 | 100.0000 |
| 96.969.680-0 | Lan Pax Group S.A. and Subsidiaries | Chile | US\$ | 99.8361 | 0.1639 | 100.0000 | 99.8361 | 0.1639 | 100.0000 |
| Foreign | Lan Perú S.A. | Peru | US\$ | 49.0000 | 21.0000 | 70.0000 | 49.0000 | 21.0000 | 70.0000 |
| Foreign | Lan Chile Investments Limited and Subsidiary | Cayman Island | US\$ | 0.0000 | 0.0000 | 0.0000 | 99.9900 | 0.0100 | 100.0000 |
| 93.383.000-4 | Lan Cargo S.A. | Chile | US\$ | 99.8939 | 0.0041 | 99.8980 | 99.8939 | 0.0041 | 99.8980 |
| Foreign | Connecta Corporation | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| Foreign | Prime Airport Services Inc. and Subsidiary | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| 96.951280-7 | Transporte Aéreo S.A. | Chile | US\$ | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| Foreign | Aircraft International Leasing Limited | U.S.A. | US\$ | 0.0000 | 0.0000 | 0.0000 | 0.0000 | 100.0000 | 100.0000 |
| 96.631520-2 | Fast Air Almacenes de Carga S.A. | Chile | CIP | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| Foreign | Laser Cargo S.R.L. | Argentina | ARS | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| Foreign | Lan Cargo Overseas Limited and Subsidiaries | Bahamas | US\$ | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| 96.969.690-8 | Lan Cargo Inversiones S.A. and Subsidiary | Chile | US\$ | 0.0000 | 100.0000 | 100.0000 | 0.0000 | 100.0000 | 100.0000 |
| 96.575.810-0 | Inversiones Lan S.A. and Subsidiaries | Chile | US\$ | 99.7100 | 0.2900 | 100.0000 | 99.7100 | 0.2900 | 100.0000 |
| 59.068.920-3 | Technical Training LATAM S.A. | Chile | CIP | 99.8300 | 0.1700 | 100.0000 | 99.8300 | 0.1700 | 100.0000 |
| Foreign | TAM S.A. and Subsidiaries (**) | Brazil | BRL | 63.0901 | 36.9099 | 100.0000 | 63.0901 | 36.9099 | 100.0000 |

(*) Lantours Division de Servicios Terrestres S.A. changes its name to Latam Travel Chile S.A.

(**) As of December 31, 2016, indirect ownership participation on TAM S.A. and subsidiaries is from Holdco I S.A., LATAM is entitled to 99,9983% of the economic rights and 49% of the rights politicians product of provisional measure No. 714 of the Brazilian government that allows foreign capital to have up to 49% of the property.

Thus, since April 2016, LATAM Airlines Group S.A. owns 901 voting shares of Holdco I S.A., equivalent to 49% of the total shares with voting rights of said company and TEP Chile S.A. owns 938 voting shares of Holdco I S.A., equivalent to 51% of the total voting shares of that company.

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b) Statement of financial position

| Tax No. | Company | Statement of financial position | | | | | | Net Income | |
|--------------|---|---------------------------------|-------------|-----------|-------------------------|-------------|-----------|------------------------------------|-----------|
| | | As of December 31, 2016 | | | As of December 31, 2015 | | | For the periods ended December 31, | |
| | | Assets | Liabilities | Equity | Assets | Liabilities | Equity | 2016 | 2015 |
| | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | Gain | (loss) |
| 96.538.860-6 | Latam Travel Chile S.A. and Subsidiary (*) | 5,468 | 2,727 | 2,741 | 5,613 | 5,522 | 91 | 2,650 | 2,341 |
| 96.763.900-1 | Inmobiliaria Aeronáutica S.A. | 36,756 | 8,843 | 27,913 | 39,302 | 14,832 | 24,470 | 3,443 | 1,404 |
| 96.969.680-0 | Lan Pax Group S.A. and Subsidiaries (**) | 475,763 | 1,045,761 | (561,472) | 519,663 | 1,049,232 | (521,907) | (36,331) | (35,187) |
| Foreign | Lan Perú S.A. | 306,111 | 294,912 | 11,899 | 255,691 | 240,938 | 14,753 | (2,164) | 5,068 |
| Foreign | Lan Chile Investments Limited and Subsidiary (**) | - | - | - | 2,015 | B | 2,002 | 23 | (13) |
| 93.383.000-4 | Lan Cargo S.A. | 480,908 | 239,728 | 241,880 | 483,033 | 217,037 | 265,966 | (24,813) | (74,408) |
| Foreign | Connecia Corporation | 31,981 | 23,525 | 8,456 | 37,070 | 38,298 | (1,228) | 9,684 | 994 |
| Foreign | Prime Airport Services Inc. and Subsidiary (**) | 7,385 | 11,294 | (3,909) | 6,683 | 11,800 | (4,497) | 588 | 279 |
| 96.951.280-7 | Transporte Aéreo S.A. | 340,940 | 124,805 | 216,135 | 331,117 | 122,666 | 208,451 | 8,206 | 5,878 |
| Foreign | Aircraft International Leasing Limited | - | - | - | - | 4 | (4) | 9 | (4) |
| 96.631.520-2 | Fast Air Almacenes de Carga S.A. | 10,023 | 3,645 | 6,378 | 8,985 | 4,641 | 4,344 | 1,717 | 1,811 |
| Foreign | Laser Cargo S.R.L. | 21 | 32 | (11) | 27 | 39 | (12) | (1) | 69 |
| Foreign | Lan Cargo Overseas Limited and Subsidiaries (**) | 54,092 | 35,178 | 15,737 | 62,406 | 43,759 | 15,663 | 176 | 3,344 |
| 96.969.690-8 | Lan Cargo Inversiones S.A. and Subsidiary (**) | 80,644 | 95,747 | (15,506) | 54,179 | 68,220 | (12,600) | (910) | 113 |
| 96.575.810-0 | Inversiones Lan S.A. and Subsidiaries (**) | 10,971 | 6,452 | 4,452 | 16,512 | 14,676 | 1,828 | 2,549 | 2,772 |
| 59.068.920-3 | Technical Training LATAM S.A. | 1,745 | 284 | 1,461 | 1,527 | 266 | 1,261 | 73 | (72) |
| Foreign | TAM S.A. and Subsidiaries (**) | 5,287,286 | 4,710,308 | 495,562 | 4,969,553 | 4,199,223 | 423,190 | 2,107 | (183,581) |

(*) Lantours Division de Servicios Terrestres S.A. changes its name to Latam Travel Chile S.A.

(**) The Equity reported corresponds to Equity attributable to owners of the parent, does not include Non-controlling interest.

Additionally, we have proceeded to consolidate the following special purpose entities: 1. JOL (Japanese Operating Lease) created in order to finance the purchase of certain aircraft; 2. Chercán Leasing Limited created to finance the pre-delivery payments on aircraft; 3. Guanay Finance Limited created to issue a bond collateralized with future credit card receivables; 4. Private investment funds and 5. Avoceta Leasing Limited created to finance the pre-delivery payments on aircraft. These companies have been consolidated as required by IFRS 10.

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2015 and December 31, 2016, are detailed below:

(1) Incorporation or acquisition of companies

- On October 2015, Rampas Airport Services S.A., subsidiary of Lan Pax Group S.A. increases its capital and paid in the amount of ThUS\$ 6,000 by issuing new shares, changing the property of the company as follows: Lan Pax Group S.A. increased its share to 99.99738%, Inversiones Lan S.A. decreased its stake to 0.00002% and Aeroline Líneas Aéreas Nacionales del Ecuador S.A. acquires stake for 0.0026%.

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- On January 2016 it was registered at the Public Registry of Commerce, the Increase in Share Capital and statutory modification for the purpose of creating a new class of shares of Lan Argentina S.A., subsidiary of Lan Pax Group S.A., for a total of 90,000,000 Class "C" shares registered non-endorseable and non-voting. Lan Pax Group S.A. participated in this capital increase, changing its ownership to 4.87%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 95.85660%

- On April 1, 2016, Multiplus Corretora de Seguros Ltda. was created, the ownership of which corresponds to 99.99% of Multiplus S.A. direct subsidiary of TAM S.A.

- During period 2016, Inversiones LAN S.A., subsidiary of LATAM Airlines Group S.A., acquired 4,767 shares of Aerovías de Integración Regional Aires S.A. a non-controlling shareholder, equivalent to 0.0914%, consequently, the indirect participation of LATAM Airlines Group S.A. increases to 99.19061%

(2) Dissolution of companies

- In July 2015, the Company Ladeco Cargo S.A., subsidiary of Lan Cargo S.A., was dissolved.

- During the period 2016, Lan Chile Investments Limited, subsidiary of LATAM Airlines S.A.; and Aircraft International Leasing Limited, subsidiary of Lan Cargo S.A., were dissolved.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following describes the principal accounting policies adopted in the preparation of these consolidated financial statements.

2.1. Basis of Preparation

The consolidated financial statements of LATAM Airlines Group S.A. for the period ended December 31, 2016, have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board ("IASB") incorporated therein and with the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC).

On October 17, 2014, the SVS issued Circular No. 856, instructing the audited entities to record in the year 2014, against equity the differences in assets and liabilities for deferred taxes produced by direct effect of the increase in the rate of First class taxes introduced by Law No. 20,780, which, considering that such treatment differs from those established by IAS 12, and, therefore, the preparation framework represented a change And presentation of financial information that had been adopted up to that date.

Considering that what was expressed in the previous paragraph represented a specific and temporary diversion of IFRS, starting in 2016 and in accordance with paragraph 4A of IFRS 1, the Company has decided to retroactively apply IFRS, in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors" as if it had never failed to apply such IFRS.

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As mentioned in the previous paragraph does not modify any of the accounts presented in the statements of financial position as of December 31, 2016 and 2015, as well as at December 31, 2015 and 2014, as expressed in paragraph 40A of IAS 1 "Presentation of Financial Statements", it is not necessary to present the statement of financial position as of January 1, 2015 (third column).

The consolidated financial statements have been prepared under the historic-cost criterion, although modified by the valuation at fair value of certain financial instruments.

The preparation of the consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to use its judgment in applying the Company's accounting policies. Note 4 shows the areas that imply a greater degree of judgment or complexity or the areas where the assumptions and estimates are significant to the consolidated financial statements.

During 2016 the Company recorded out of period adjustments resulting in an aggregate net decrease of US\$ 18.2 million to "Net income (loss) for the period" for the year ended December 31, 2016. These adjustments include US\$ 39.5 million (loss) resulting from an account reconciliation process initiated after the Company's affiliate TAM S.A. and its subsidiaries completed the implementation of the SAP system. A further US\$ 11.0 million (loss) reflect adjustments related to foreign exchange differences, also relating to the Company's subsidiaries in Brazil. The balance of US\$ 32.3 million (gain) includes principally the adjustment of unclaimed fees for expired tickets for the Company and its affiliates outside Brazil. Management of TAM S.A. has concluded that the out of period adjustments that have been identified are material to the 2015 financial statements of TAM S.A., which should therefore require a restatement in Brazil. However, Management of LATAM has evaluated the impact of all out of period adjustments, both individually and in the aggregate, and concluded that due to their relative size and to qualitative factors they are not material to the annual consolidated financial statements for 2016 of Latam Airlines Group S.A. or to any previously reported consolidated financial statements, therefore no restatement or revision is necessary.

(a) Accounting pronouncements with implementation effective from January 1, 2016:

| (i) Standards and amendments | Date of issue | Mandatory Application: Annual periods beginning on or after |
|---|---------------|---|
| Amendment to IFRS 11: Joint arrangements. | May 2014 | 01/01/2016 |
| Amendment to IAS 16: Property, plant and equipment, and IAS 38: Intangible assets. | May 2014 | 01/01/2016 |
| Amendment to IAS 27: Separate financial statements. | August 2014 | 01/01/2016 |
| Amendment IAS 1: Presentation of Financial Statements. | December 2014 | 01/01/2016 |
| Amendment to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of interests in other entities and IAS 28: Investments in associates and joint ventures. | December 2014 | 01/01/2016 |

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| (ii) Improvements | Date of issue | Mandatory Application: Annual periods beginning on or after |
|--|----------------|---|
| Improvements to International Financial Reporting Standards (2012-2014 cycle): IFRS 5 Non-current assets held for sale and discontinued operations; IFRS 7 Financial instruments: Disclosures; IAS 19 Employee benefits and IAS 34 Interim financial reporting. | September 2014 | 01/01/2016 |

The application of standards, amendments, interpretations and improvements had no material impact on the consolidated financial statements of the Company.

(b) Accounting pronouncements not yet in force for financial years beginning on January 1, 2016 and which has not been effected early adoption

| (i) Standards and amendments | Date of issue | Mandatory Application: Annual periods beginning on or after |
|--|----------------|---|
| Amendment to IAS 7: Statement of Cash Flows. | January 2016 | 01/01/2017 |
| Amendment to IAS 12: Income Taxes. | January 2016 | 01/01/2017 |
| IFRS 9: Financial instruments. | December 2009 | 01/01/2018 |
| Amendment to IFRS 9: Financial instruments. | November 2013 | 01/01/2018 |
| IFRS 15: Revenue from contracts with customers (1). | May 2014 | 01/01/2018 |
| Amendment to IFRS 15: Revenue from contracts with customers. | April 2016 | 01/01/2018 |
| Amendment to IFRS 2: Share-based payments | June 2016 | 01/01/2018 |
| Amendment to IFRS 4: Insurance contracts. | September 2016 | 01/01/2018 |
| Amendment to IAS 40: Investment property | December 2016 | 01/01/2018 |
| IFRS 16: Leases (2). | January 2016 | 01/01/2019 |
| Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures. | September 2014 | To be determined |

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| | Date of issue | Mandatory Application: Annual periods beginning on or after |
|---|---------------|---|
| (ii) Improvements | | |
| Improvements to International Financial Reporting Standards. (cycle 2012-2014) IFRS 1: First-time adoption of international financial reporting standards; IFRS 12 Disclosure of interests in other entities and IAS 28 investments in associates and joint ventures. | December 2016 | 01/01/2017 (improvements IFRS 12) |
| | | 01/01/2018 (improvements IFRS 1 and IAS 28) |
| (iii) Interpretations | | |
| IFRIC 22: Foreign currency transactions and advance consideration | December 2016 | 01/01/2018 |

The Company's management believes that the adoption of the standards, amendments and interpretations described above but not yet effective would not have a significant impact on the Company's consolidated financial statements in the year of their first application, except for IFRS 15 and IFRS 16:

- (1) IFRS 15 Revenue from Contracts with Customers supersedes actual standard for revenue recognition that actually uses the Company, as IAS 18 Revenue and IFRIC 13 Customer Loyalty Programmes. The core principle of IFRS 15 is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standards supersedes IFRS 15 supersedes, IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue - Barter Transactions Involving Advertising Services.

We are currently evaluating how the adoption of the revenue recognition standard will impact our Consolidated Financial Statements. Interpretations are on-going and could have a significant impact on our implementation. We currently believe the adoption will not have a significant impact on passenger and cargo revenue recognition. However, the impact in revenue and liability for frequent flyer program are still being analyzed.

- (2) The IFRS 16 Leases add important changes in the accounting for lessees by introducing a similar treatment to financial leases for all operating leases with a term of more than 12 months. This mean, in general terms, that an asset should be recognized for the right to use the underlying leased assets and a liability representing its present value of payments associate to the agreement. Monthly leases payments will be replace by the asset depreciation and a financial cost in the income statement.

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We are currently evaluating how the adoption of the leases recognition standard will impact our Consolidated Financial Statements. Interpretations are on-going and could have a material impact on our implementation. Currently, we expect that the adoption of the new lease standard will have a material impact on our consolidated balance sheet due to the recognition of right-of-use assets and lease liabilities principally for certain leases currently accounted for as operating leases.

LATAM Airlines Group S.A. and subsidiaries are still assessing these standard to determinate the effect on their Financial Statements, covenants and other financial indicators.

2.2. Basis of Consolidation

(a) Subsidiaries

Subsidiaries are all the entities (including special-purpose entities) over which the Company has the power to control the financial and operating policies, which are generally accompanied by a holding of more than half of the voting rights. In evaluating whether the Company controls another entity, the existence and effect of potential voting rights that are currently exercisable or convertible at the date of the consolidated financial statements are considered. The subsidiaries are consolidated from the date on which control is passed to the Company and they are excluded from the consolidation on the date they cease to be so controlled. The results and flows are incorporated from the date of acquisition.

Balances, transactions and unrealized gains on transactions between the Company's entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment loss of the asset transferred. When necessary in order to ensure uniformity with the policies adopted by the Company, the accounting policies of the subsidiaries are modified.

To account for and identify the financial information to be revealed when carrying out a business combination, such as the acquisition of an entity by the Company, shall apply the acquisition method provided for in IFRS 3: Business combination.

(b) Transactions with non-controlling interests

The Company applies the policy of considering transactions with non-controlling interests, when not related to loss of control, as equity transactions without an effect on income.

(c) Sales of subsidiaries

When a subsidiary is sold and a percentage of participation is not retained, the Company derecognizes assets and liabilities of the subsidiary, the non-controlling and other components of equity related to the subsidiary. Any gain or loss resulting from the loss of control is recognized in the consolidated income statement in Other gains (losses).

If LATAM Airlines Group S.A. and Subsidiaries retain an ownership of participation in the sold subsidiary, and does not represent control, this is recognized at fair value on the date that control is lost, the amounts previously recognized in Other comprehensive income are accounted as if the Company had disposed directly from the assets and related liabilities, which can cause these amounts are reclassified to profit or loss. The percentage retained valued at fair value is subsequently accounted using the equity method.

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(d) Investees or associates

Investees or associates are all entities over which LATAM Airlines Group S.A. and Subsidiaries have significant influence but have no control. This usually arises from holding between 20% and 50% of the voting rights. Investments in associates are booked using the equity method and are initially recognized at their cost.

2.3. Foreign currency transactions

(a) Presentation and functional currencies

The items included in the financial statements of each of the entities of LATAM Airlines Group S.A. and Subsidiaries are valued using the currency of the main economic environment in which the entity operates (the functional currency). The functional currency of LATAM Airlines Group S.A. is the United States dollar which is also the presentation currency of the consolidated financial statements of LATAM Airlines Group S.A. and Subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates on the transaction dates. Foreign currency gains and losses resulting from the liquidation of these transactions and from the translation at the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are shown in the consolidated statement of income by function except when deferred in Other comprehensive income as qualifying cash flow hedges.

(c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency other than the presentation currency are translated to the presentation currency as follows:

- (i) Assets and liabilities of each consolidated statement of financial position presented are translated at the closing exchange rate on the consolidated statement of financial position date;
- (ii) The revenues and expenses of each income statement account are translated at the exchange rates prevailing on the transaction dates, and
- (iii) All the resultant exchange differences by conversion are shown as a separate component in Other comprehensive income.

The exchange rates used correspond to those fixed in the country where the subsidiary is located, whose functional currency is different to the U.S. dollar.

Adjustments to the Goodwill and fair value arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate or period informed.

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2.4. Property, plant and equipment

The land of LATAM Airlines Group S.A. and Subsidiaries is recognized at cost less any accumulated impairment loss. The rest of the Property, plant and equipment are registered, initially and subsequently, at historic cost less the corresponding depreciation and any impairment loss.

The amounts of advance payments to aircraft manufacturers are capitalized by the Company under Construction in progress until receipt of the aircraft.

Subsequent costs (replacement of components, improvements, extensions, etc.) are included in the value of the initial asset or shown as a separate asset only when it is probable that the future economic benefits associated with the elements of Property, plant and equipment are going to flow to the Company and the cost of the element can be determined reliably. The value of the component replaced is written off in the books at the time of replacement. The rest of the repairs and maintenance are charged to the results of the year in which they are incurred.

Depreciation of Property, plant and equipment is calculated using the straight-line method over their estimated technical useful lives; except in the case of certain technical components which are depreciated on the basis of cycles and hours flown.

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

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is reduced immediately to its recoverable amount (Note 2.8).

Losses and gains on the sale of Property, plant and equipment are calculated by comparing the compensation with the book value and are included in the consolidated statement of income.

2.5. Intangible assets other than goodwill

(a) Airport slots and Loyalty program

Airport slots and the Coalition and Loyalty program are intangible assets of indefinite useful life and are subject to impairment tests annually as an integral part of each CGU, in accordance with the premises that are applicable, included as follows:

Airport slots – Air transport CGU
Loyalty program – Coalition and loyalty program Multiplus CGU
(See Note 16)

The airport slots correspond to an administrative authorization to carry out operations of arrival and departure of aircraft at a specific airport, within a specified period.

The Loyalty program corresponds to the system of accumulation and redemption of points that has developed Multiplus S.A., subsidiary of TAM S.A.

The Brands, airport Slots and Loyalty program were recognized in fair values determined in accordance with IFRS 3, as a consequence of the business combination with TAM and Subsidiaries.

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(b) Computer software

Licenses for computer software acquired are capitalized on the basis of the costs incurred in acquiring them and preparing them for using the specific software. These costs are amortized over their estimated useful lives, for which the Company has been defined useful lives between 3 and 10 years.

Expenses related to the development or maintenance of computer software which do not qualify for capitalization, are shown as an expense when incurred. The personnel costs and others costs directly related to the production of unique and identifiable computer software controlled by the Company, are shown as intangible Assets others than Goodwill when they have met all the criteria for capitalization.

(c) Brands

The Brands were acquired in the business combination with TAM S.A. And Subsidiaries and recognized at fair value under IFRS. During the year 2016, the estimated useful life of the brands change from an indefinite useful life to a five-year period, the period in which the value of the brands will be amortized (See Note 15).

2.6 Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the Company's participation in the net identifiable assets of the subsidiary or associate on the acquisition date. Goodwill related to acquisition of subsidiaries is not amortized but tested for impairment annually or each time that there is evidence of impairment. Gains and losses on the sale of an entity include the book amount of the goodwill related to the entity sold.

2.7 Borrowing costs

Interest costs incurred for the construction of any qualified asset are capitalized over the time necessary for completing and preparing the asset for its intended use. Other interest costs are recognized in the consolidated income statement when they are accrued.

2.8 Losses for impairment of non-financial assets

Intangible assets that have an indefinite useful life, and developing IT projects, are not subject to amortization and are subject to annual testing for impairment. Assets subject to amortization are subjected to impairment tests whenever any event or change in circumstances indicates that the book value of the assets may not be recoverable. An impairment loss is recorded when the book value is greater than the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In evaluating the impairment, the assets are grouped at the lowest level for which cash flows are separately identifiable (CGUs). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed if there are indicators of reverse losses at each reporting date.

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2.9 Financial assets

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at the time of initial recognition, which occurs on the date of transaction.

(a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial instruments held for trading and those which have been designated at fair value through profit or loss in their initial classification. A financial asset is classified in this category if acquired mainly for the purpose of being sold in the near future or when these assets are managed and measured using fair value. Derivatives are also classified as held for trading unless they are designated as hedges. The financial assets in this category and have been designated initial recognition through profit or loss, are classified as Cash and cash equivalents and Other current financial assets and those designated as instruments held for trading are classified as Other current and non-current financial assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments not traded on an active market. These items are classified in current assets except for those with maturity over 12 months from the date of the consolidated statement of financial position, which are classified as non-current assets. Loans and receivables are included in trade and other accounts receivable in the consolidated statement of financial position (Note 2.12).

The regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method. At the date of each consolidated statement of financial position, the Company assesses if there is objective evidence that a financial asset or group of financial assets may have suffered an impairment loss.

2.10 Derivative financial instruments and hedging activities

Derivatives are booked initially at fair value on the date the derivative contracts are signed and later they continue to be valued at their fair value. The method for booking the resultant loss or gain depends on whether the derivative has been designated as a hedging instrument and if so, the nature of the item hedged. The Company designates certain derivatives as:

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

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(b) Hedge of an identified risk associated with a recognized liability or an expected highly- Probable transaction (cash-flow hedge), or

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

The Company documents, at the inception of each transaction, the relationship between the hedging instrument and the hedged item, as well as its objectives for managing risk and the strategy for carrying out various hedging transactions. The Company also documents its assessment, both at the beginning and on an ongoing basis, as to whether the derivatives used in the hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the items being hedged.

The total fair value of the hedging derivatives is booked as Other non-current financial asset or liability if the remaining maturity of the item hedged is over 12 months, and as an other current financial asset or liability if the remaining term of the item hedged is less than 12 months. Derivatives not booked as hedges are classified as Other financial assets or liabilities.

(a) Fair value hedges

Changes in the fair value of designated derivatives that qualify as fair value hedges are shown in the consolidated statement of income, together with any change in the fair value of the asset or liability hedged that is attributable to the risk being hedged.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is shown in the statement of other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of income under Other gains (losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

In case of variable interest-rate hedges, the amounts recognized in the statement of Other comprehensive income are reclassified to results within financial costs at the same time the associated debts accrue interest.

For fuel price hedges, the amounts shown in the statement of Other comprehensive income are reclassified to results under the line item Cost of sales to the extent that the fuel subject to the hedge is used.

For foreign currency hedges, the amounts recognized in the statement of Other comprehensive income are reclassified to income as deferred revenue resulting from the use of points, are recognized as Income.

When hedging instruments mature or are sold or when they do not meet the requirements to be accounted for as hedges, any gain or loss accumulated in the statement of Other comprehensive income until that moment remains in the statement of other comprehensive income and is reclassified to the consolidated statement of income when the hedged transaction is finally recognized. When it is expected that the hedged transaction is no longer going to occur, the gain or

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loss accumulated in the statement of other comprehensive income is taken immediately to the consolidated statement of income as "Other gains (losses)".

(c) Derivatives not booked as a hedge

The changes in fair value of any derivative instrument that is not booked as a hedge are shown immediately in the consolidated statement of income in "Other gains (losses)".

2.11. Inventories

Inventories, detailed in Note 10, are shown at the lower of cost and their net realizable value. The cost is determined on the basis of the weighted average cost method (WAC). The net realizable value is the estimated selling price in the normal course of business, less estimated costs necessary to make the sale.

2.12. Trade and other accounts receivable

Trade accounts receivable are shown initially at their fair value and later at their amortized cost in accordance with the effective interest rate method, less the allowance for impairment losses. An allowance for impairment loss of trade accounts receivable is made when there is objective evidence that the Company will not be able to recover all the amounts due according to the original terms of the accounts receivable.

The existence of significant financial difficulties on the part of the debtor, the probability that the debtor is entering bankruptcy or financial reorganization and the default or delay in making payments are considered indicators that the receivable has been impaired. The amount of the provision is the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate. The book value of the asset is reduced by the amount of the allowance and the loss is shown in the consolidated statement of income in Cost of sales. When an account receivable is written off, it is charged to the allowance account for accounts receivable.

2.13. Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, time deposits in financial institutions, and other short-term and highly liquid investments.

2.14. Capital

The common shares are classified as net equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in net equity as a deduction from the proceeds received from the placement of shares.

2.15. Trade and other accounts payable

Trade payables and other accounts payable are initially recognized at fair value and subsequently at amortized cost.

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2.16. Interest-bearing loans

Financial liabilities are shown initially at their fair value, net of the costs incurred in the transaction. Later, these financial liabilities are valued at their amortized cost; any difference between the proceeds obtained (net of the necessary arrangement costs) and the repayment value, is shown in the consolidated statement of income during the term of the debt, according to the effective interest rate method.

Financial liabilities are classified in current and non-current liabilities according to the contractual payment dates of the nominal principal.

2.17. Current and deferred taxes

The expense by current tax is comprised of income and deferred taxes.

The charge for current tax is calculated based on tax laws in force on the date of statement of financial position, in the countries in which the subsidiaries and associates operate and generate taxable income.

Deferred taxes are calculated using the liability method, on the temporary differences arising between the tax bases of assets and liabilities and their book values. However, if the temporary differences arise from the initial recognition of a liability or an asset in a transaction different from a business combination that at the time of the transaction does not affect the accounting result or the tax gain or loss, they are not booked. The deferred tax is determined using the tax rates (and laws) that have been enacted or substantially enacted at the consolidated financial statements close, and are expected to apply when the related deferred tax asset is realized or the deferred tax liability discharged.

Deferred tax assets are recognized when it is probable that there will be sufficient future tax earnings with which to compensate the temporary differences.

The tax (current and deferred) is recognized in income by function, unless it relates to an item recognized in Other comprehensive income, directly in equity or from business combination. In that case the tax is also recognized in Other comprehensive income, directly in income by function or goodwill, respectively.

2.18. Employee benefits

(a) Personnel vacations

The Company recognizes the expense for personnel vacations on an accrual basis.

(b) Share-based compensation

The compensation plans implemented based on the shares of the Company are recognized in the consolidated financial statements in accordance with IFRS 2: Share-based payments, for plans based on the granting of options, the effect of fair value is recorded in equity with a charge to remuneration in a linear manner between the date of grant of said options and the date on which

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they become irrevocable, for the plans considered as cash settled award the fair value, updated as of the closing date of each reporting period, is recorded as a liability with charge to remuneration.

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

Provisions are made for these obligations by applying the method of the projected unit credit method, and taking into account estimates of future permanence, mortality rates and future wage increases determined on the basis of actuarial calculations. The discount rates are determined by reference to market interest-rate curves. Actuarial gains or losses are shown in other comprehensive income.

(d) Incentives

The Company has an annual incentives plan for its personnel for compliance with objectives and individual contribution to the results. The incentives eventually granted consist of a given number or portion of monthly remuneration and the provision is made on the basis of the amount estimated for distribution.

2.19. Provisions

Provisions are recognized when:

- (i) The Company has a present legal or implicit obligation as a result of past events;
- (ii) It is probable that payment is going to be necessary to settle an obligation; and
- (iii) The amount has been reliably estimated.

2.20. Revenue recognition

Revenues include the fair value of the proceeds received or to be received on sales of goods and rendering services in the ordinary course of the Company's business. Revenues are shown net of refunds, rebates and discounts.

(a) Rendering of services

(i) Passenger and cargo transport

The Company shows revenue from the transportation of passengers and cargo once the service has been provided.

Consistent with the foregoing, the Company presents the deferred revenues, generated by anticipated sale of flight tickets and freight services, in heading Other non - financial liabilities in the Statement of Financial Position.

(ii) Frequent flyer program

The Company currently has a frequent flyer programs, whose objective is customer loyalty through the delivery of kilometers or points fly whenever the programs holders make certain flights, use the

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services of entities registered with the program or make purchases with an associated credit card. The kilometers or points earned can be exchanged for flight tickets or other services of associated entities.

The consolidated financial statements include liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers or points accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

(iii) Other revenues

The Company records revenues for other services when these have been provided.

(b) Dividend income

Dividend income is booked when the right to receive the payment is established.

2.21. Leases

(a) When the Company is the lessee – financial lease

The Company leases certain Property, plant and equipment in which it has substantially all the risk and benefits deriving from the ownership; they are therefore classified as financial leases. Financial leases are initially recorded at the lower of the fair value of the asset leased and the present value of the minimum lease payments.

Every lease payment is separated between the liability component and the financial expenses so as to obtain a constant interest rate over the outstanding amount of the debt. The corresponding leasing obligations, net of financial charges, are included in Other financial liabilities. The element of interest in the financial cost is charged to the consolidated statement of income over the lease period so that it produces a constant periodic rate of interest on the remaining balance of the liability for each year. The asset acquired under a financial lease is depreciated over its useful life and is included in Property, plant and equipment.

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

Leases, in which the lessor retains an important part of the risks and benefits deriving from ownership, are classified as operating leases. Payments with respect to operating leases (net of any incentive received from the lessor) are charged in the consolidated statement of income on a straight-line basis over the term of the lease.

2.22. Non-current assets or disposal groups classified as held for sale

Non-current assets (or disposal groups) classified as assets held for sale are shown at the lesser of their book value and the fair value less costs to sell.

2.23. Maintenance

The costs incurred for scheduled heavy maintenance of the aircraft's fuselage and engines are capitalized and depreciated until the next maintenance. The depreciation rate is determined on technical grounds, according to the use of the aircraft expressed in terms of cycles and flight hours.

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In case of own aircraft or under financial leases, these maintenance cost are capitalized as Property, plant and equipment, while in the case of aircraft under operating leases, a liability is accrued based on the use of the main components is recognized, since a contractual obligation with the lessor to return the aircraft on agreed terms of maintenance levels exists. These are recognized as Cost of sales.

Additionally, some leases establish the obligation of the lessee to make deposits to the lessor as a guarantee of compliance with the maintenance and return conditions. These deposits, often called maintenance reserves, accumulate until a major maintenance is performed, once made, the recovery is requested to the lessor. At the end of the contract period, there is comparison between the reserves that have been paid and required return conditions, and compensation between the parties are made if applicable.

The unscheduled maintenance of aircraft and engines, as well as minor maintenance, are charged to results as incurred.

2.24. Environmental costs

Disbursements related to environmental protection are charged to results when incurred.

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company is exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The program overall risk management of the Company aims to minimize the adverse effects of financial risks affecting the company.

(a) Market risk

Due to the nature of its operations, the Company is exposed to market factors such as: (i) fuel-price risk, (ii) exchange -rate risk, and (iii) interest -rate risk.

The Company has developed policies and procedures for managing market risk, which aim to identify, quantify, monitor and mitigate the adverse effects of changes in market factors mentioned above.

For this, the Administration monitors the evolution of price levels and rates, and quantifies their risk exposures (Value at Risk), and develops and implements hedging strategies.

(i) Fuel-price risk:

Exposition:

For the execution of its operations the Company purchases a fuel called Jet Fuel grade 54 USGC, which is subject to the fluctuations of international fuel prices.

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Mitigation:

To cover the risk exposure fuel, the Company operates with derivative instruments (swaps and options) whose underlying assets may be different from Jet Fuel, being possible use West Texas Intermediate (“WTI”) crude, Brent (“BRENT”) crude and distillate Heating Oil (“HO”), which have a high correlation with Jet Fuel and are highly liquid.

Fuel Hedging Results:

During the period ended at December 31, 2016, the Company recognized losses of US\$ 48.0 million on fuel derivative. During the same period of 2015, the Company recognized losses of US\$ 239.4 million for the same reason.

At December 31, 2016, the market value of its fuel positions amounted to US\$ 8.1 million (positive). At December 31, 2015, this market value was US\$ 56.4 million (negative).

The following tables show the level of hedge for different periods:

| Positions as of December 31, 2016 (*) | Maturities | | |
|---|------------|------|-------|
| | Q117 | Q217 | Total |
| Percentage of the hedge of expected consumption value | 21% | 16% | 18% |

(*) The volume shown in the table considers all the hedging instruments (swaps and options).

| Positions as of December 31, 2015 (*) | Maturities | | | | |
|---|------------|------|------|------|-------|
| | Q116 | Q216 | Q316 | Q416 | Total |
| Percentage of the hedge of expected consumption value | 63% | 27% | 27% | 11% | 32% |

(*) The volume shown in the table considers all the hedging instruments (swaps and options).

Sensitivity analysis

A drop in fuel price positively affects the Company through a reduction in costs. However, also negatively affects contracted positions as these are acquired to protect the Company against the risk of a rise in price. The policy therefore is to maintain a hedge-free percentage in order to be competitive in the event of a drop in price.

The current hedge positions they are booked as cash flow hedge contracts, so a variation in the fuel price has an impact on the Company’s net equity.

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the last quarter of 2017.

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The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of September 2016 and the end of December, 2015.

| Benchmark price (US\$ per barrel) | Positions as of December 31, 2016 effect on equity (millions of US\$) | Positions as of December 31, 2015 effect on equity (millions of US\$) |
|--------------------------------------|---|---|
| +5 | +3.12 | +5.41 |
| -5 | - 4.78 | -2.78 |

Given the fuel hedge structure during the year 2016, which considers a hedge-free portion, a vertical fall by 5 dollars in the JET benchmark price (the monthly daily average), would have meant an impact of approximately US\$ 116.3 million in the cost of total fuel consumption for the same period. For the year 2016, a vertical rise by 5 dollars in the JET benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 114.5 million of increased fuel costs.

(ii) Foreign exchange rate risk:

Exposition:

The functional and presentation currency of the Financial Statements of the Parent Company is the United States dollar, so the risk of Transactional exchange rate and Conversion arises mainly from its own operating activities of the business, strategic and accounting of the Company are denominated in a different currency than the functional currency.

LATAM Subsidiaries are also exposed to currency risk that impacts the consolidated results of the Company.

Most currency exposure of LATAM comes from the concentration of business in Brazil, which are mostly denominated in Brazilian Real (BRL), being actively managed by the company.

Additionally, the company manages the economic exposure to operating revenues in Pound Sterling (GBP).

In lower concentrations the Company is therefore exposed to fluctuations in others currencies, such as: Euro, Australian Dollar, Colombian Peso, Chilean Peso, Argentine Peso, Paraguayan Guarani, Mexican Peso, Peruvian Sol and New Zealand Dollar.

Mitigation:

The Company mitigates currency risk exposures by contracting derivative instruments or through natural hedges or execution of internal operations.

FX Hedging Results:

With the aim of reducing exposure to exchange rate risk on operating cash flows in 2016 and 2017, and secure the operating margin, LATAM and TAM conduct hedging through FX derivatives.

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At December 31, 2016, the market value of its FX positions amounted to US\$ 1.1 million (negative). At end of December 2015 the market value was of US\$ 8.0 million (positive).

During the period ended at December 31, 2016 the Company recognized losses of US\$ 40.3 million on hedging FX. During the same period of 2015 the Company recognized gains of US\$ 19.0 million on hedging FX.

At end of December 2016, the Company has contracted FX derivatives for US\$ 60 million to BRL and US\$ 10 million to GBP. At end of December 2015, the Company had contracted FX for US\$ 270 million to BRL, US\$ 30 million to EUR and US\$ 15 million to GBP.

Sensitivity analysis:

A depreciation of exchange rate RS/ US\$ and US\$/GBP, affects negatively the Company for a rise of its costs in US\$, however, it also affects positively the value of contracted derivate positions.

The FX derivatives are registered for as hedges of cash flow, therefore, a variation in the exchange rate has an impact on the market value of derivatives, whose changes impact on the Company's net equity.

The following table presents the sensitivity of derivative FX Forward instruments agrees with reasonable changes to exchange rate and its effect on equity. The projection term was defined until the end of the last current contract hedge, being the last business day of the first quarter of 2017:

| Appreciation (depreciation)* of RS /GBP | Effect at December 31, 2016 Millions of US\$ | Effect at December 31, 2015 Millions of US\$ |
|--|---|---|
| -10% | -1.02 | -21.28 |
| +10% | +3.44 | +16.71 |

In the case of TAM S.A. which operates with the Brazilian Real as its functional currency, a large proportion of the company's assets liabilities are expressed in United States Dollars. Therefore, this subsidiary's profit and loss varies when its financial assets and liabilities, and its accounts receivable listed in dollars are converted to Brazilian Reals. This impact on profit and loss is consolidated in the Company.

In order to reduce the volatility on the financial statements of the Company caused by rises and falls in the RS/US\$ exchange rate, the Company has contracted hedging derivatives has conducted transactions for to reduce the net US\$ liabilities held by TAM S.A.

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The following table shows the variation of financial performance to appreciate or depreciate 10% exchange rate RS/US\$:

| Appreciation (depreciation)* of RS/US\$ | Effect at December 31, 2016 Millions of US\$ | Effect at December 31, 2015 Millions of US\$ |
|--|---|---|
| -10% | +119.2 | +67.6 |
| +10% | -119.2 | -67.6 |

(*) Appreciation (depreciation) of US\$ regard to the covered currencies.

Effects of exchange rate derivatives in the Financial Statements

The profit or losses caused by changes in the fair value of hedging instruments are segregated between intrinsic value and temporary value. The intrinsic value is the actual percentage of cash flow covered, initially shown in equity and later transferred to income, while the hedge transaction is recorded in income. The temporary value corresponds to the ineffective portion of cash flow hedge which is recognized in the financial results of the Company (Note 19).

Due to the functional currency of TAM S.A. and Subsidiaries is the Brazilian real, the Company presents the effects of the exchange rate fluctuations in Other comprehensive income by converting the Statement of financial position and Income statement of TAM S.A. and Subsidiaries from their functional currency to the U.S. dollar, which is the presentation currency of the consolidated financial statement of LATAM Airlines Group S.A. and Subsidiaries. The Goodwill generated in the Business combination is recognized as an asset of TAM S.A. and Subsidiaries in Brazilian real whose conversion to U.S. dollar also produces effects in Other comprehensive income.

The following table shows the change in Other comprehensive income recognized in Total equity in the case of appreciate or depreciate 10% the exchange rate RS/US\$:

| Appreciation (depreciation) of RS/US\$ | Effect at December 31, 2016 Millions of US\$ | Effect at December 31, 2015 Millions of US\$ |
|---|---|---|
| -10% | +351.04 | +296.41 |
| +10% | -287.22 | -242.52 |

(iii) Interest -rate risk:

Exposition:

The Company is exposed to fluctuations in interest rates affecting the markets future cash flows of the assets, and current and future financial liabilities.

The Company is exposed in one portion to the variations of London Inter-Bank Offer Rate ("LIBOR") and other interest rates of less relevance are Brazilian Interbank Deposit Certificate ("ILC"), and the Interest Rate Term of Brazil ("TJLP").

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Mitigation:

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 63% (71% at December 31, 2015) of the debt is fixed to fluctuations in interest rate.

Rate Hedging Results:

At December 31, 2016, the market value of the positions of interest rate derivatives amounted to US\$ 17.2 million (negative). At end of December 2015 this market value was US\$ 39.8 million (negative).

Sensitivity analysis:

The following table shows the sensitivity of changes in financial obligations that are not hedged against interest-rate variations. These changes are considered reasonably possible, based on current market conditions each date.

| Increase (decrease) futures curve in libor 3 months | Positions as of December 31, 2016 effect on profit or loss before tax (millions of US\$) | Positions as of December 31, 2015 effect on profit or loss before tax (millions of US\$) |
|---|--|--|
| +100 basis points | -32.16 | -26.70 |
| -100 basis points | +32.16 | +26.70 |

Much of the current rate derivatives are registered for as hedges of cash flow, therefore, a variation in the exchange rate has an impact on the market value of derivatives, whose changes impact on the Company's net equity.

The calculations were made increasing (decreasing) vertically 100 basis points of the three-month Libor futures curve, being both reasonably possible scenarios according to historical market conditions.

| Increase (decrease) futures curve in libor 3 months | Positions as of December 31, 2016 effect on equity (millions of US\$) | Positions as of December 31, 2015 effect on equity (millions of US\$) |
|---|---|---|
| +100 basis points | +3.93 | +8.71 |
| -100 basis points | -4.03 | -9.02 |

The assumptions of sensitivity calculation must assume that forward curves of interest rates do not necessarily reflect the real value of the compensation flows. Moreover, the structure of interest rates is dynamic over time.

During the periods presented, the Company has no registered amounts by ineffectiveness in consolidated statement of income for this kind of hedging.

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(b) Credit risk

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due or financial instrument, leading to a loss in market value of a financial instrument (only financial assets, not liabilities).

The Company is exposed to credit risk due to its operative and financial activities, including deposits with banks and financial institutions, investments in other kinds of instruments, exchange-rate transactions and the contracting of derivative instruments or options.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities in Brazil with travel agents).

As a way to mitigate credit risk related to financial activities, the Company requires that the counterparty to the financial activities remain at least investment grade by major Risk Assessment Agencies. Additionally the company has established maximum limits for investments which are monitored regularly.

(i) Financial activities

Cash surpluses that remain after the financing of assets necessary for the operation are invested according to credit limits approved by the Company's Board, mainly in time deposits with different financial institutions, private investment funds, short-term mutual funds, and easily-liquidated corporate and sovereign bonds with short remaining maturities. These investments are booked as Cash and cash equivalents and Other current financial assets.

In order to reduce counterparty risk and to ensure that the risk assumed is known and managed by the Company, investments are diversified among different banking institutions (both local and international). The Company evaluates the credit standing of each counterparty and the levels of investment, based on (i) their credit rating, (ii) the equity size of the counterparty, and (iii) investment limits according to the Company's level of liquidity. According to these three parameters, the Company chooses the most restrictive parameter of the previous three and based on this, establishes limits for operations with each counterparty.

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

The Company has four large sales "clusters": travel agencies, cargo agents, airlines and credit-card administrators. The first three are governed by International Air Transport Association, international ("IATA") organization comprising most of the airlines that represent over 90% of scheduled commercial traffic and one of its main objectives is to regulate the financial transactions between airlines and travel agents and cargo. When an agency or airline does not pay their debt, they are excluded from operating with IATA's member airlines. In the case of credit-card administrators, they are fully guaranteed by 100% by the issuing institutions.

The exposure consists of the term granted, which fluctuates between 1 and 45 days.

One of the tools the Company uses for reducing credit risk is to participate in global entities related to the industry, such as IATA, Business Sales Processing (“BSP”), Cargo Account Settlement Systems (“CASS”), IATA Clearing House (“ICH”) and banks (credit cards). These institutions fulfill the role of collectors and distributors between airlines and travel and cargo agencies. In the case of the Clearing House, it acts as an offsetting entity between airlines for the services provided between them. A reduction in term and implementation of guarantees has been achieved through these entities. Currently the sales invoicing of TAM Linhas Aéreas S.A. related with travel agents and cargo agents for domestic transportation in Brazil is done directly by TAM Linhas Aéreas S.A.

Credit quality of financial assets

The external credit evaluation system used by the Company is provided by IATA. Internal systems are also used for particular evaluations or specific markets based on trade reports available on the local market. The internal classification system is complementary to the external one, i.e. for agencies or airlines not members of IATA, the internal demands are greater.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities of TAM Linhas Aéreas S.A. with travel agents). The bad-debt rate in the principal countries where the Company has a presence is insignificant.

(c) Liquidity risk

Liquidity risk represents the risk that the Company has no sufficient funds to meet its obligations.

Because of the cyclical nature of the business, the operation, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, plus the financing needs, the Company requires liquid funds, defined as cash and cash equivalents plus other short term financial assets, to meet its payment obligations.

The liquid funds, the future cash generation and the capacity to obtain additional funding, through bond issuance and banking loans, will allow the Company to obtain sufficient alternatives to face its investment and financing future commitments.

The liquid funds balance as of December 31, 2016 is US\$ 1,486 million (US\$ 1,360 million at December 31, 2015), invested in short term instruments through financial high credit rating levels entities.

In addition to the liquid funds, the Company has access to short term credit line. As of December 31, 2016, LATAM has working capital credit lines with multiple banks and additionally has a US\$ 325 million undrawn committed credit line (US\$ 130 million at December 31, 2015).

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate | Nominal rate |
|-------------------------------------|--------------------------|------------------|----------|----------------|---------------------|--------------------|---------------------|------------------|------------------|------------------|---------------|----------------|--------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Loans to exporters | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | 75,212 | - | - | - | - | 75,212 | 75,000 | At Expiration | 1.85 | 1.85 |
| 97.032.000-8 | BBVA | Chile | UF | - | 52,675 | - | - | - | 52,675 | 50,381 | At Expiration | 5.23 | 4.43 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 30,193 | - | - | - | - | 30,193 | 30,000 | At Expiration | 2.39 | 2.39 |
| 97.030.000-7 | ES TADO | Chile | US\$ | 40,191 | - | - | - | - | 40,191 | 40,000 | At Expiration | 1.91 | 1.91 |
| 97.003.000-K | BANCO DO BRASIL | Chile | US\$ | 72,151 | - | - | - | - | 72,151 | 70,000 | At Expiration | 3.08 | 3.08 |
| 97.951.000-4 | HSBC | Chile | US\$ | 12,054 | - | - | - | - | 12,054 | 12,000 | At Expiration | 1.79 | 1.79 |
| Obligations with the public | | | | | | | | | | | | | |
| 97.023.000-9 | CORP BANCA | Chile | UF | 20,808 | 61,112 | 63,188 | 16,529 | - | 161,637 | 153,355 | Quarterly | 4.06 | 4.06 |
| 0-E | BLADEX | U.S.A. | US\$ | - | 14,579 | 31,949 | - | - | 46,528 | 42,500 | Semiannual | 5.14 | 5.14 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 145 | 199 | 28,911 | - | - | 29,255 | 28,911 | Quarterly | 1.86 | 1.86 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 1,497 | 4,308 | 160,556 | - | - | 166,361 | 158,194 | Quarterly | 3.55 | 3.55 |
| Obligations with the public | | | | | | | | | | | | | |
| 0-E | BANK OF NEW YORK | U.S.A. | US\$ | - | 36,250 | 72,500 | 518,125 | - | 626,875 | 500,000 | At Expiration | 7.77 | 7.25 |
| Guaranteed obligations | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | France | US\$ | 11,728 | 30,916 | 65,008 | 33,062 | 3,760 | 144,474 | 138,417 | Quarterly | 2.21 | 1.81 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 13,805 | 56,324 | 142,178 | 141,965 | 376,894 | 731,166 | 628,118 | Quarterly | 2.97 | 2.96 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 35,896 | 107,830 | 287,878 | 288,338 | 411,076 | 1,131,018 | 1,056,345 | Quarterly | 2.37 | 1.68 |
| 0-E | WILMINGTON TRUST COMPANY | U.S.A. | US\$ | 25,833 | 79,043 | 206,952 | 200,674 | 733,080 | 1,245,582 | 967,336 | Quarterly | 4.25 | 4.25 |
| 0-E | CITIBANK | U.S.A. | US\$ | 20,224 | 61,020 | 164,077 | 166,165 | 184,053 | 595,539 | 548,168 | Quarterly | 2.72 | 1.96 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,857 | 17,697 | 47,519 | 48,024 | 26,448 | 145,545 | 138,574 | Quarterly | 1.98 | 1.44 |
| 0-E | BTMU | U.S.A. | US\$ | 3,163 | 9,568 | 25,752 | 26,117 | 27,270 | 91,870 | 85,990 | Quarterly | 2.31 | 1.72 |
| 0-E | APPLE BANK | U.S.A. | US\$ | 1,551 | 4,712 | 12,693 | 12,891 | 13,857 | 45,704 | 42,754 | Quarterly | 2.29 | 1.69 |
| 0-E | US BANK | U.S.A. | US\$ | 18,563 | 55,592 | 147,357 | 146,045 | 230,747 | 598,304 | 532,608 | Quarterly | 3.99 | 2.81 |
| 0-E | DELTS CHE BANK | U.S.A. | US\$ | 6,147 | 18,599 | 31,640 | 31,833 | 48,197 | 136,416 | 117,263 | Quarterly | 3.86 | 3.86 |
| 0-E | NATIXS | France | US\$ | 14,779 | 44,826 | 116,809 | 96,087 | 206,036 | 478,537 | 422,851 | Quarterly | 2.60 | 2.57 |
| 0-E | P K AirFinance | U.S.A. | US\$ | 2,265 | 6,980 | 19,836 | 25,610 | 3,153 | 57,844 | 54,787 | Monthly | 2.40 | 2.40 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 2,503 | 7,587 | 18,772 | 9,178 | - | 38,040 | 36,191 | Quarterly | 2.55 | 2.55 |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 1,982 | 5,972 | 16,056 | 7,766 | - | 31,776 | 30,199 | Monthly | 2.49 | 2.49 |
| 0-E | INVES TEC | England | US\$ | 1,880 | 10,703 | 25,369 | 25,569 | 23,880 | 87,401 | 72,202 | Semiannual | 5.67 | 5.67 |
| Other guaranteed obligations | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | France | US\$ | 1,501 | 4,892 | 268,922 | - | - | 275,315 | 256,860 | At Expiration | 2.85 | 2.85 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 5,889 | 17,671 | 34,067 | 12,134 | - | 69,761 | 63,698 | Quarterly | 5.62 | 4.96 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 1,788 | 5,457 | - | - | - | 7,245 | 7,157 | Quarterly | 1.85 | 1.85 |
| 0-E | CITIBANK | U.S.A. | US\$ | 6,083 | 18,250 | 48,667 | 14,262 | - | 87,262 | 78,249 | Quarterly | 6.40 | 5.67 |
| 0-E | PEFCO | U.S.A. | US\$ | 17,558 | 50,593 | 67,095 | 3,899 | - | 139,145 | 130,811 | Quarterly | 5.39 | 4.79 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 13,744 | 41,508 | 79,165 | 22,474 | - | 156,891 | 149,119 | Quarterly | 3.69 | 3.26 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 5,591 | 16,751 | 44,615 | 44,514 | 1,880 | 113,351 | 103,326 | Quarterly | 3.98 | 3.54 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 4,773 | 9,541 | - | - | - | 14,314 | 14,127 | Quarterly | 2.57 | 2.57 |
| 0-E | RRPF ENGINE | England | US\$ | - | - | 8,248 | 8,248 | 12,716 | 29,212 | 25,274 | Monthly | 2.35 | 2.35 |
| Other loans | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | 163 | 320 | 26,214 | - | - | 26,697 | 26,214 | At Expiration | 2.35 | 2.35 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | 25,802 | 77,795 | 207,001 | 103,341 | - | 413,939 | 370,389 | Quarterly | 6.00 | 6.00 |
| Hedging derivatives | | | | | | | | | | | | | |
| - | OTHERS | - | US\$ | 7,364 | 15,479 | 7,846 | - | - | 30,689 | - | - | - | - |
| Total | | | | 508,683 | 944,749 | 2,476,840 | 2,002,850 | 2,303,047 | 8,236,169 | 7,257,368 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016
 Debtor: TAMS A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal | Amortization | Effective | Nominal | |
|-----------------------------------|--|------------------|----------|---------------|---------------------|--------------------|---------------------|---------------|------------------|------------------|----------------------|-----------|---------|---|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | value | | rate | rate | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | % | % |
| Bank loans | | | | | | | | | | | | | | |
| 0-E | NEDERLANDS CHE CREDITVERZEKERINGMAATSCHAPPIJ | Holland | US\$ | 179 | 493 | 1,315 | 1,314 | 54 | 3,355 | 2,882 | Monthly | 6.01 | 6.01 | |
| 0-E | CITIBANK | U.S.A. | US\$ | 1,528 | 203,150 | - | - | - | 204,678 | 200,000 | At Expiration | 3.39 | 3.14 | |
| Obligation with the public | | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A. | US\$ | - | 352,938 | 83,750 | 562,813 | - | 999,501 | 800,000 | At Expiration | 8.17 | 8.00 | |
| Financial leases | | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT ILLC | U.S.A. | US\$ | 2,733 | 7,698 | 20,522 | 8,548 | - | 39,501 | 35,448 | Monthly | 1.25 | 1.25 | |
| 0-E | DVB BANK S.E | U.S.A. | US\$ | 120 | 165 | - | - | - | 285 | 282 | Monthly | 2.50 | 2.50 | |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 3,852 | 5,098 | - | - | - | 8,950 | 8,846 | Monthly | 2.30 | 2.30 | |
| 0-E | KFW IPEX BANK | Germany | US\$ | 592 | 1,552 | - | - | - | 2,144 | 2,123 | Monthly/Quarterly | 2.80 | 2.80 | |
| 0-E | NATIXIS | France | US\$ | 4,290 | 7,837 | 22,834 | 40,968 | 41,834 | 117,763 | 107,443 | Quarterly/Semiannual | 4.90 | 4.90 | |
| 0-E | WACAP OU LEASINGS A. | Luxemburg | US\$ | 833 | 2,385 | 6,457 | 6,542 | - | 16,217 | 14,754 | Quarterly | 3.00 | 3.00 | |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 11,875 | 32,116 | 85,995 | 171,553 | - | 301,539 | 279,335 | Quarterly | 4.18 | 4.11 | |
| 0-E | BANCO IBMS A. | Brazil | BRL | 380 | 1,161 | 35 | - | - | 1,576 | 1,031 | Monthly | 13.63 | 13.63 | |
| 0-E | HP FINANCIAL SERVICE | Brazil | BRL | 225 | - | - | - | - | 225 | 222 | Monthly | 10.02 | 10.02 | |
| 0-E | SOCIÉTÉ GÉNÉRALE | France | BRL | 146 | 465 | 176 | - | - | 787 | 519 | Monthly | 13.63 | 13.63 | |
| Total | | | | 26,753 | 615,058 | 221,084 | 791,738 | 41,888 | 1,696,521 | 1,452,885 | | | | |

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Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2016
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate % | Nominal rate % |
|---|---|------------------|------------------|------------------|---------------------|--------------------|---------------------|------------------|-------------------|------------------|--------------|------------------|----------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| Trade and other accounts payables | | | | | | | | | | | | | |
| - | OTHERS | OTHERS | US\$ | 549,897 | 21,215 | - | - | - | 571,112 | 571,112 | - | - | - |
| | | | CLP | 48,842 | (30) | - | - | - | 48,812 | 48,812 | - | - | - |
| | | | BRL | 346,037 | 27 | - | - | - | 346,064 | 346,064 | - | - | - |
| | | | Other currencies | 140,471 | 11,467 | - | - | - | 151,938 | 151,938 | - | - | - |
| Accounts payable to related parties currents | | | | | | | | | | | | | |
| 0-E | Consultoria Administrativa Profesional S.A. de C.V. | Mexico | MXN | 170 | - | - | - | - | 170 | 170 | - | - | - |
| 78.997.060-2 | Viajes Falabella Ltda. | Chile | CLP | 46 | - | - | - | - | 46 | 46 | - | - | - |
| 0-E | TAM Aviação Executiva e Taxi Aéreo S.A. | Brazil | BRL | 28 | - | - | - | - | 28 | 28 | - | - | - |
| 65.216.000-K | Comunidad Mujer | Chile | CLP | 13 | - | - | - | - | 13 | 13 | - | - | - |
| 78.591.370-1 | Bethia S.A. y Filiales | Chile | CLP | 6 | - | - | - | - | 6 | 6 | - | - | - |
| 79.773.440-3 | Transportes San Felipe S.A. | Chile | CLP | 4 | - | - | - | - | 4 | 4 | - | - | - |
| 0-E | Inversora Aeronáutica Argentina | Argentina | US\$ | 2 | - | - | - | - | 2 | 2 | - | - | - |
| Total | | | | 1,085,516 | 32,679 | - | - | - | 1,118,195 | 1,118,195 | | | |
| Total consolidated | | | | 1,620,952 | 1,592,486 | 2,697,924 | 2,794,588 | 2,344,935 | 11,050,885 | 9,828,448 | | | |

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total | Nominal value | Amortization | Effective rate | Nominal rate |
|-------------------------------------|------------------|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------|------------------|---------------|----------------|--------------|
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Loans to exporters | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | 100,253 | - | - | - | - | 100,253 | 100,000 | At Expiration | 1.00 | 1.00 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 100,363 | - | - | - | - | 100,363 | 100,000 | At Expiration | 1.44 | 1.44 |
| 97.030.000-7 | ESTADO | Chile | US\$ | 55,172 | - | - | - | - | 55,172 | 55,000 | At Expiration | 1.05 | 1.05 |
| 97.004.000-5 | BANCO DE CHILE | Chile | US\$ | 50,059 | - | - | - | - | 50,059 | 50,000 | At Expiration | 1.42 | 1.42 |
| 97.003.000-K | BANCO DO BRASIL | Chile | US\$ | 70,133 | - | - | - | - | 70,133 | 70,000 | At Expiration | 1.18 | 1.18 |
| 97.951.000-4 | HSBC | Chile | US\$ | 12,020 | - | - | - | - | 12,020 | 12,000 | At Expiration | 0.66 | 0.66 |
| Bank loans | | | | | | | | | | | | | |
| 97.023.000-9 | CORPBANCA | Chile | UF | 19,873 | 58,407 | 112,252 | 35,953 | - | 226,485 | 211,135 | Quarterly | 4.18 | 4.18 |
| 0-E | BANCO BLADEX | U.S.A. | US\$ | - | 9,702 | 30,526 | 15,514 | - | 55,742 | 50,000 | Semiannual | 4.58 | 4.58 |
| 0-E | DVB BANKSE | U.S.A. | US\$ | 146 | 430 | 154,061 | - | - | 154,637 | 153,514 | Quarterly | 1.67 | 1.67 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 1,053 | - | 226,712 | - | - | 227,765 | 226,712 | Quarterly | 2.24 | 2.24 |
| Obligations with the public | | | | | | | | | | | | | |
| 0-E | BANK OF NEW YORK | U.S.A. | US\$ | - | 36,250 | 72,500 | 554,375 | - | 663,125 | 500,000 | At Expiration | 7.77 | 7.25 |
| Guaranteed obligations | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | Francia | US\$ | 3,1813 | 92,167 | 2,10,541 | 55,381 | 12,677 | 402,579 | 389,027 | Quarterly | 1.83 | 1.66 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 9,899 | 29,975 | 82,094 | 83,427 | 148,904 | 354,299 | 319,397 | Quarterly | 2.29 | 2.22 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 35,636 | 106,990 | 285,967 | 286,959 | 554,616 | 1,270,168 | 1,180,751 | Quarterly | 2.27 | 1.57 |
| 0-E | WILMINGTON TRUST | U.S.A. | US\$ | 6,110 | 69,232 | 135,334 | 133,363 | 539,019 | 883,058 | 675,696 | Quarterly | 4.25 | 4.25 |
| 0-E | CITIBANK | U.S.A. | US\$ | 19,478 | 58,741 | 158,957 | 162,459 | 266,273 | 665,908 | 617,002 | Quarterly | 2.40 | 1.64 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,585 | 16,848 | 45,653 | 46,740 | 50,124 | 164,950 | 159,669 | Quarterly | 1.47 | 0.93 |
| 0-E | BTMU | U.S.A. | US\$ | 2,992 | 9,035 | 24,541 | 25,214 | 39,930 | 101,712 | 96,594 | Quarterly | 1.82 | 1.22 |
| 0-E | APPLE BANK | U.S.A. | US\$ | 1,471 | 4,445 | 12,079 | 12,431 | 20,099 | 50,525 | 48,142 | Quarterly | 1.72 | 1.12 |
| 0-E | US BANK | U.S.A. | US\$ | 18,643 | 55,824 | 147,994 | 146,709 | 303,600 | 672,770 | 591,039 | Quarterly | 3.99 | 2.81 |
| 0-E | DEUTSCHE BANK | U.S.A. | US\$ | 5,923 | 17,881 | 39,185 | 30,729 | 63,268 | 156,986 | 136,698 | Quarterly | 3.40 | 3.40 |
| 0-E | NATIXIS | France | US\$ | 13,740 | 41,730 | 115,026 | 100,617 | 249,194 | 520,307 | 469,423 | Quarterly | 2.08 | 2.05 |
| 0-E | HSBC | U.S.A. | US\$ | 1,590 | 4,790 | 12,908 | 13,112 | 25,175 | 57,575 | 53,583 | Quarterly | 2.40 | 1.59 |
| 0-E | PK AirFinance | U.S.A. | US\$ | 2,172 | 6,675 | 18,928 | 20,812 | 18,104 | 66,691 | 62,514 | Monthly | 2.04 | 2.04 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 728 | 2,232 | 5,684 | 4,131 | 1,658 | 14,433 | 13,593 | Quarterly | 2.45 | 2.45 |
| Other guaranteed obligations | | | | | | | | | | | | | |
| 0-E | DVB BANKSE | U.S.A. | US\$ | 8,225 | 24,695 | - | - | - | 32,920 | 32,492 | Quarterly | 2.32 | 2.32 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 9,214 | 26,054 | 41,527 | 28,234 | - | 105,029 | 94,998 | Quarterly | 5.13 | 4.57 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 1,711 | 5,236 | 7,216 | - | - | 14,163 | 13,955 | Quarterly | 1.28 | 1.28 |
| 0-E | CITIBANK | U.S.A. | US\$ | 6,083 | 18,250 | 48,667 | 38,596 | - | 111,596 | 97,383 | Quarterly | 6.40 | 5.67 |
| 0-E | PEFCO | U.S.A. | US\$ | 17,556 | 52,674 | 115,934 | 23,211 | - | 209,375 | 192,914 | Quarterly | 5.37 | 4.77 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 113,668 | 34,292 | 86,206 | 3,1782 | - | 163,648 | 153,107 | Quarterly | 4.08 | 3.64 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 5,594 | 16,768 | 44,663 | 44,565 | 24,125 | 135,715 | 121,628 | Quarterly | 3.98 | 3.54 |
| 0-E | DVB BANKSE | U.S.A. | US\$ | 4,732 | 14,225 | 14,269 | - | - | 33,226 | 32,567 | Quarterly | 2.06 | 2.06 |
| 0-E | BANC OF AMERICA | U.S.A. | US\$ | 703 | 2,756 | - | - | - | 3,459 | 2,770 | Monthly | 1.41 | 1.41 |
| Other loans | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | 655 | 533 | 151,362 | - | - | 152,550 | 151,362 | At Expiration | 1.80 | 1.80 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | 25,820 | 77,850 | 207,190 | 206,749 | - | 517,609 | 450,000 | Quarterly | 6.00 | 6.00 |
| Hedging derivatives | | | | | | | | | | | | | |
| - | OTROS | - | US\$ | 12,232 | 33,061 | 40,986 | 3,688 | 16 | 89,983 | 85,653 | - | - | - |
| | Total | | | 668,745 | 927,748 | 2,648,962 | 2,104,751 | 2,316,782 | 8,666,988 | 7,770,678 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015
 Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate | Nominal rate |
|-----------------------------------|---|------------------|----------|---------------|---------------------|--------------------|---------------------|----------------|------------------|------------------|----------------------|----------------|--------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Bank loans | | | | | | | | | | | | | |
| 0-E | NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ | Holland | US\$ | 181 | 493 | 1,315 | 1,314 | 712 | 4,015 | 3,353 | Monthly | 6.01 | 6.01 |
| Obligation with the public | | | | | | | | | | | | | |
| 0-E | BANK OF NEW YORK | U.S.A. | US\$ | 440 | 65,321 | 397,785 | 86,590 | 521,727 | 1,071,863 | 800,000 | At Expiration | 8.17 | 8.00 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT IX LLC | U.S.A. | US\$ | 2,771 | 7,700 | 20,527 | 18,808 | - | 49,806 | 43,505 | Monthly | 1.25 | 1.25 |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 3,715 | 11,054 | 21,830 | 15,730 | - | 52,329 | 49,995 | Monthly | 1.43 | 1.43 |
| 0-E | CREDIT AGRICOLE - CIB | France | US\$ | 4,542 | - | - | - | - | 4,542 | 4,500 | Quarterly/Semiannual | 3.25 | 3.25 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 123 | 361 | 284 | - | - | 768 | 755 | Monthly | 1.64 | 1.64 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 3,834 | 11,437 | 9,050 | - | - | 24,321 | 23,761 | Monthly | 1.25 | 1.25 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 3,345 | 6,879 | 15,973 | 12,429 | - | 38,626 | 36,899 | Monthly/Quarterly | 1.72 | 1.72 |
| 0-E | NATIXIS | France | US\$ | 4,338 | 7,812 | 22,635 | 23,030 | 70,925 | 128,740 | 115,020 | Quarterly/Semiannual | 3.85 | 3.85 |
| 0-E | PK AIR FINANCE US, INC. | U.S.A. | US\$ | 1,428 | 21,992 | - | - | - | 23,420 | 23,045 | Monthly | 1.75 | 1.75 |
| 0-E | WACAPOU LEASING S.A. | Luxemburg | US\$ | 520 | 1,386 | 3,198 | 14,567 | - | 19,671 | 18,368 | Quarterly | 2.00 | 2.00 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 11,993 | 31,874 | 85,695 | 214,612 | - | 344,174 | 312,486 | Quarterly | 3.63 | 3.55 |
| 0-E | BANCO IBM S.A. | Brazil | BRL | 267 | 846 | 1,230 | - | - | 2,343 | 1,728 | Monthly | 14.14 | 14.14 |
| 0-E | HP FINANCIAL SERVICE | Brazil | BRL | 188 | 564 | 188 | - | - | 940 | 882 | Monthly | 10.02 | 10.02 |
| 0-E | SOCIÉTÉ GÉNÉRALE | France | BRL | 104 | 330 | 626 | - | - | 1,060 | 775 | Monthly | 14.14 | 14.14 |
| Total | | | | 37,789 | 168,049 | 580,336 | 387,080 | 593,364 | 1,766,618 | 1,435,072 | | | |

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2015
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate % | Nominal rate % |
|--|--|------------------|-------------------|------------------|---------------------|--------------------|---------------------|------------------|-------------------|-------------------|--------------|------------------|----------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| Trade and other accounts payables | | | | | | | | | | | | | |
| - | OTHERS | OTHERS | US\$ | 442,320 | 14,369 | - | - | - | 456,689 | 456,689 | - | - | - |
| | | | CLP | 39,823 | 114 | - | - | - | 39,937 | 39,937 | - | - | - |
| | | | BRL | 301,569 | 16 | - | - | - | 301,585 | 301,585 | - | - | - |
| | | | Others currencies | 218,347 | 9,016 | - | - | - | 227,363 | 227,363 | - | - | - |
| Accounts payable to related parties currents | | | | | | | | | | | | | |
| 65.216.000-K | COMUNIDAD MUJER | Chile | CLP | 10 | - | - | - | - | 10 | 10 | - | - | - |
| 78.591.370-1 | BETHA S.A. Y FILIALES | Chile | CLP | 5 | - | - | - | - | 5 | 5 | - | - | - |
| 78.997.060-2 | Viajes Falabella Ltda. | Chile | CLP | 68 | - | - | - | - | 68 | 68 | - | - | - |
| 0-E | Consultoría Administrativa Profesional | Mexico | MXN | 342 | - | - | - | - | 342 | 342 | - | - | - |
| 0-E | INVERSORA AERONÁUTICA ARGENTINA | Argentina | US\$ | 22 | - | - | - | - | 22 | 22 | - | - | - |
| | Total | | | 1,002,506 | 23,515 | - | - | - | 1,026,021 | 1,026,021 | | | |
| | Total consolidated | | | 1,709,040 | 1,119,312 | 3,229,298 | 2,491,831 | 2,910,146 | 11,459,627 | 10,231,771 | | | |

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The Company has fuel, interest rate and exchange rate hedging strategies involving derivatives contracts with different financial institutions. The Company has margin facilities with each financial institution in order to regulate the mutual exposure produced by changes in the market valuation of the derivatives.

At the end of 2015, the Company provided US\$ 49.6 million in derivative margin guarantees, for cash and stand-by letters of credit. At December 31, 2016, the Company had provided US\$ 30.2 million in guarantees for Cash and cash equivalent and stand-by letters of credit. The decrease was due at: i) maturity of hedge contracts, ii) acquire of new fuel purchase contracts, and iii) changes in fuel prices, exchange rate and interest rates.

3.2. Capital risk management

The Company's objectives, with respect to the management of capital, are (i) to comply with the restrictions of minimum equity and (ii) to maintain an optimal capital structure.

The Company monitors its contractual obligations and the regulatory limitations in the different countries where the entities of the group are domiciled to assure they meet the limit of minimum net equity, where the most restrictive limitation is to maintain a positive net equity.

Additionally, the Company periodically monitors the short and long term cash flow projections to assure the Company has adequate sources of funding to generate the cash requirement to face its investment and funding future commitments.

The Company international credit rating is the consequence of the Company capacity to face its long terms financing commitments. As of December 31, 2016 the Company has an international long term credit rating of BB- with negative outlook by Standard & Poor's, a B+ rating with negative outlook by Fitch Ratings and a B1 rating with stable outlook by Moody's.

3.3. Estimates of fair value.

At December 31, 2016, the Company maintained financial instruments that should be recorded at fair value. These are grouped into two categories:

1. Hedge Instruments:

This category includes the following instruments:

- Interest rate derivative contracts,
- Fuel derivative contracts,
- Currency derivative contracts.

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2. Financial Investments:

This category includes the following instruments:

- Investments in short-term Mutual Funds (cash equivalent),
- Private investment funds.

The Company has classified the fair value measurement using a hierarchy that reflects the level of information used in the assessment. This hierarchy consists of 3 levels (I) fair value based on quoted prices in active markets for identical assets or liabilities, (II) fair value calculated through valuation methods based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) and (III) fair value based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets, such as investments acquired for trading, is based on quoted market prices at the close of the period using the current price of the buyer. The fair value of financial assets not traded in active markets (derivative contracts) is determined using valuation techniques that maximize use of available market information. Valuation techniques generally used by the Company are quoted market prices of similar instruments and / or estimating the present value of future cash flows using forward price curves of the market at period end.

The following table shows the classification of financial instruments at fair value, depending on the level of information used in the assessment:

| | As of December 31, 2016 | | | | As of December 31, 2015 | | | |
|---|--|---------|----------|-----------|--|---------|----------|-----------|
| | Fair value measurements using values considered as | | | | Fair value measurements using values considered as | | | |
| | Fair value | Level I | Level II | Level III | Fair | Level I | Level II | Level III |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Assets | | | | | | | | |
| Cash and cash equivalents | 15,522 | 15,522 | - | - | 26,600 | 26,600 | - | - |
| Short-term mutual funds | 15,522 | 15,522 | - | - | 26,600 | 26,600 | - | - |
| Other financial assets, current | 548,402 | 536,991 | 11,411 | - | 622,963 | 606,385 | 16,578 | - |
| Fair value of fuel derivatives | 10,088 | - | 10,088 | - | 6,293 | - | 6,293 | - |
| Fair value of foreign currency derivatives | 1,259 | - | 1,259 | - | 9,888 | - | 9,888 | - |
| Interest accrued since the last payment date of Cross Currency Swap | 64 | - | 64 | - | 397 | - | 397 | - |
| Private investment funds | 536,991 | 536,991 | - | - | 448,810 | 448,810 | - | - |
| Domestic and foreign bonds | - | - | - | - | 157,575 | 157,575 | - | - |
| Liabilities | | | | | | | | |
| Other financial liabilities, current | 24,881 | - | 24,881 | - | 14,089 | - | 14,089 | - |
| Fair value of interest rate derivatives | 9,579 | - | 9,579 | - | 33,518 | - | 33,518 | - |
| Fair value of fuel derivatives | - | - | - | - | 39,818 | - | 39,818 | - |
| Fair value of foreign currency derivatives | 13,155 | - | 13,155 | - | 56,424 | - | 56,424 | - |
| Interest accrued since the last payment date of Currency Swap | 2,147 | - | 2,147 | - | 4,329 | - | 4,329 | - |
| Interest rate derivatives not recognized as a hedge | - | - | - | - | - | - | - | - |
| Other financial liabilities, non current | 6,679 | - | 6,679 | - | 16,128 | - | 16,128 | - |
| Fair value of interest rate derivatives | 6,679 | - | 6,679 | - | 16,128 | - | 16,128 | - |

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Additionally, at December 31, 2016, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values, the Company has valued these instruments as shown in the table below:

| | As of December 31, 2016 | | As of December 31, 2015 | |
|---|-------------------------|----------------------|-------------------------|----------------------|
| | Book value ThUS\$ | Fair value ThUS\$ | Book value ThUS\$ | Fair value ThUS\$ |
| Cash and cash equivalents | 933,805 | 933,805 | 726,897 | 726,897 |
| Cash on hand | 8,630 | 8,630 | 10,656 | 10,656 |
| Bank balance | 255,746 | 255,746 | 255,421 | 255,421 |
| Overnight | 295,060 | 295,060 | 267,764 | 267,764 |
| Time deposits | 374,369 | 374,369 | 193,056 | 193,056 |
| Other financial assets, current | 164,426 | 164,426 | 28,385 | 28,385 |
| Other financial assets | 164,426 | 164,426 | 28,385 | 28,385 |
| Trade and other accounts receivable current | 1,107,889 | 1,107,889 | 796,974 | 796,974 |
| Accounts receivable from related entities | 554 | 554 | 183 | 183 |
| Other financial assets, non current | 102,125 | 102,125 | 89,458 | 89,458 |
| Accounts receivable | 8,254 | 8,254 | 10,715 | 10,715 |
| Other financial liabilities, current | 1,814,647 | 2,022,290 | 1,510,146 | 1,873,552 |
| Trade and other accounts payables | 1,593,068 | 1,593,068 | 1,483,957 | 1,483,957 |
| Accounts payable to related entities | 269 | 269 | 447 | 447 |
| Other financial liabilities, non current | 6,790,273 | 6,970,375 | 7,516,257 | 7,382,221 |
| Accounts payable, non-current | 359,391 | 359,391 | 417,050 | 417,050 |

The book values of accounts receivable and payable are assumed to approximate their fair values, due to their short-term nature. In the case of cash on hand, bank balances, overnight, time deposits and accounts payable, non-current, fair value approximates their carrying values.

The fair value of Other financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments (Level II). In the case of Other financial assets, the valuation was performed according to market prices at period end.

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NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

The Company has used estimates to value and record certain assets, liabilities, revenue, expenditure, and commitments. Basically, these estimates relate to:

(a) Evaluation of possible losses through impairment of goodwill and intangible assets with an indefinite useful life.

As of December 31, 2016 goodwill amounted to ThUS\$ 2,710,382 (ThUS\$ 2,280,575 at December 31, 2015), while intangible assets with an indefinite useful life comprised airport slots for ThUS\$ 978,849 (ThUS\$ 816,987 at December 31, 2015), Loyalty Program for ThUS\$ 326,262 (ThUS\$ 272,312 at December 31, 2015) and Trademarks (*) for ThUS\$ 52,981 at December 31, 2015.

At least once per year the Company verifies whether goodwill and intangible assets with an indefinite useful life have suffered any losses through impairment. For the purposes of this evaluation, the Company has identified two cash-generating units (CGUs): "Air transport" and "Multiplus loyalty and coalition program." The book value of goodwill assigned to each CGU as of December 31, 2016, amounted to ThUS\$ 2,176,634 and ThUS\$ 533,748 (ThUS\$ 1,835,088 and ThUS\$ 445,487 at December 31, 2015), which included intangible assets with undefined useful life:

| | Air Transport CGU | | Coalition and loyalty Program Multiplus CGU | |
|-----------------|---|---|--|---|
| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
| Airport Slots | 978,849 | 816,987 | - | - |
| Trade marks (*) | - | 52,981 | - | - |
| Loyalty program | - | - | 326,262 | 272,312 |

(*) At December 31, 2016, the Company has changed the estimated useful life of the brands from an indefinite useful life to a five-year period (See Note 15).

The recoverable value of these cash-generating units (CGUs) has been determined based on calculations of their value in use. The principal assumptions used by the management include: growth rate, exchange rate, discount rate, fuel prices, and other economic assumptions. The estimation of these assumptions requires significant judgment by the management, as these variables feature inherent uncertainty; however, the assumptions used are consistent with Company's internal planning. Therefore, management evaluates and updates the estimates on an annual basis, in light of conditions that affect these variables. The mainly assumptions used as well as, the corresponding sensitivity analyses are showed in Note 16.

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(b) Useful life, residual value, and impairment of property, plant, and equipment

The depreciation of assets is calculated based on the linear model, except for certain technical components depreciated on cycles and hours flown. These useful lives are reviewed on an annual basis according with the Company's future economic benefits associated with them.

Changes in circumstances such as: technological advances, business model, planned use of assets or capital strategy may render the useful life different to the lifespan estimated. When it is determined that the useful life of property, plant, and equipment must be reduced, as may occur in line with changes in planned usage of assets, the difference between the net book value and estimated recoverable value is depreciated, in accordance with the revised remaining useful life.

Residual values are estimated in accordance with the market value that these assets will have at the end of their useful life. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, once a year. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.8).

(c) Recoverability of deferred tax assets

Deferred taxes are calculated in accordance with the liability method, applied over temporary differences that arise between the fiscal based of assets and liabilities, and their book value. Deferred tax assets for tax losses are recognized to the extent that the realization of the related tax benefit through future taxable profits is probable. The Company makes tax and financial projections to evaluate the realization of deferred tax asset over the course of time. Additionally, these projections are ensured to be consistent with those used to measure other long term assets. As of December 31, 2016 the company recognized deferred tax assets amounting to ThUS\$ 384,580 (ThUS\$ 376,595 at December 31, 2015), and had ceased to recognize deferred tax assets for tax losses amounting to ThUS\$ 115,801 (ThUS\$ 15,513 at December 31, 2015) (Note 18).

(d) Air tickets sold that are not actually used.

The Company advance sales of tickets as deferred revenue. Revenue from ticket sales is recognized in the income statement when the service is provided or when the tickets expires unused, reducing the corresponding deferred revenue. The Company evaluates monthly the probability that tickets expiry unused, based on the history of used tickets. Changes in the exchange probability would have an impact our revenue in the year in which the change occurs and in future years. As of December 31, 2016, deferred revenue associated with air tickets sold amounted to ThUS\$ 1,535,229 (ThUS\$ 1,223,886 as of December 31, 2015). An hypothetical change of 1% in passenger behavior regarding to the ticket usage, - that is, if during the next six months after sells probability of used were 89% rather than 90%, as we consider, it would lead to a change in the expiry period from six to seven months, which, as of December 31, 2016, would have an impact of up to ThUS\$ 20,000.

(e) Valuation of loyalty points and kilometers granted to loyalty program members, pending usage.

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As of December 31, 2016 and December 31, 2015, the Company operated the following loyalty programs: LATAM Pass, LATAM Fidelidade and Multiplus, with the objective of enhancing customer loyalty by offering points or kilometers (see Note 22).

When kilometers and points are redeemed for products and services other than the services provided by the Company, revenue is recognized immediately; when they are redeemed for air tickets on airlines from to LATAM Airlines Group S.A. and subsidiaries, revenue is deferred until the transport service is provided or the corresponding tickets expired.

Deferred revenue from loyalty programs at the closing date corresponds to the valuation of points and kilometers granted to loyalty program members, pending of use, and the probability to be redeemed.

According to IFRIC-13, kilometers and points value that the Company estimate are not likely to be redeemed ("breakage"), they recognize the associated value proportionally during the period in which the remaining kilometers or points are expected to be redeemed. The Company uses statistical models to estimate the breakage, based on historical redemption patterns Changes in the breakage would have a significant impact on our revenue in the year in which the change occurs and in future years.

As of December 31, 2016, deferred revenue associated with the LATAM Pass loyalty program amounted to ThUS\$ 896,190 (ThUS\$ 973,264 at December 31, 2015). As of December 31, 2016 a hypothetical change of 1% in the probability of usage would result in an impact of approximately ThUS\$ 30,632 and ThUS\$ 30,000 at the same period of 2015. Meanwhile, deferred revenue associated with the LATAM Fidelidade and Multiplus loyalty programs amounted to ThUS\$ 392,107 (ThUS\$ 452,264 at December 31, 2015). As of December 31, 2016 a hypothetical change of 2% in the probability of usage would result in an impact of approximately ThUS\$ 14,639 and ThUS\$ 11,755 at the same period of 2015.

The fair value of kilometers is determined by the Company based in its best estimate of the price at which they have been sold in the past. As of December 31, 2016 a hypothetical change of 1% in the fair value of the unused kilometers would result in an impact of approximately ThUS\$ 8,400 and ThUS\$ 8,800 at the same period of 2015.

(f) Provisions needs, and their valuation when required

Known contingencies are recognized when: the Company has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. The Company applies professional judgment, experience, and knowledge to use available information to determine these values, in light of the specific characteristics of known risks. This process facilitates the early assessment and valuation of potential risks in individual cases or in the development of contingent eventualities.

(g) Investment in subsidiary (TAM)

The management has applied its judgment in determining that LATAM Airlines Group S.A. controls TAM S.A. and Subsidiaries, for accounting purposes, and has therefore consolidated the financial statements.

The grounds for this decision are that LATAM issued ordinary shares in exchange for the majority of circulating ordinary and preferential shares in TAM, except for those TAM shareholders who did not accept the exchange, which were subject to a squeeze out, entitling LATAM to substantially all economic benefits generated by the LATAM Group, and thus exposing it to substantially all risks relating to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the controlling shareholders of TAM, thus insuring that the shareholders and directors of TAM shall have no incentive to exercise their rights in a manner that would be beneficial to TAM but detrimental to LATAM. Furthermore, all significant actions necessary of the operation of the airlines require votes in favor by the controlling shareholders of both LATAM and TAM.

Since the integration of LAN and TAM operations, the most critical airline operations in Brazil have been managed by the CEO of TAM while global activities have been managed by the CEO of LATAM, who is in charge of the operation of the LATAM Group as a whole and reports to the LATAM Board.

The CEO of LATAM also evaluates the performance of LATAM Group executives and, together with the LATAM Board, determines compensation. Although Brazilian law currently imposes restrictions on the percentages of voting rights that may be held by foreign investors, LATAM believes that the economic basis of these agreements meets the requirements of accounting standards in force, and that the consolidation of the operations of LAN and LATAM is appropriate.

These estimates were made based on the best information available relating to the matters analyzed.

In any case, it is possible that events that may take place in the future could lead to their modification in future reporting periods, which would be made in a prospective manner.

NOTE 5 - SEGMENTAL INFORMATION

The Company has determined that it has two operating segments: the air transportation business and the coalition and loyalty program Multiplus.

The Air transport segment corresponds to the route network for air transport and it is based on the way that the business is run and managed, according to the centralized nature of its operations, the ability to open and close routes and reallocate resources (aircraft, crew, staff, etc.) within the network, which is a functional relationship between all of them, making them inseparable. This segment definition is the most common level used by the global airline industry.

The segment of loyalty coalition called Multiplus, unlike LATAM Pass and LATAM Fidelidade, is a frequent flyer programs which operate as a unilateral system of loyalty that offers a flexible coalition system, interrelated among its members, with 16.5 million of members, along with being a regulated entity with a separately business and not directly related to air transport.

| For the periods ended | Air transportation | | Coalition and loyalty program Multiplus | | Eliminations | | Consolidated | |
|---|--------------------|------------|---|-----------|-----------------|-----------|-----------------|------------|
| | At December 31, | | At December 31, | | At December 31, | | At December 31, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Income from ordinary activities from external customers (*) | 8,587,772 | 9,278,041 | 400,568 | 462,004 | - | - | 8,988,340 | 9,740,045 |
| LAN passenger | 4,104,348 | 4,241,918 | - | - | - | - | 4,104,348 | 4,241,918 |
| TAM passenger | 3,372,799 | 3,706,692 | 400,568 | 462,004 | - | - | 3,773,367 | 4,168,696 |
| Freight | 1,110,625 | 1,329,431 | - | - | - | - | 1,110,625 | 1,329,431 |
| Income from ordinary activities from transactions with other operating segments | 400,568 | 462,004 | 65,969 | 67,826 | (466,537) | (529,830) | - | - |
| Other operating income | 364,551 | 230,823 | 174,197 | 154,958 | - | - | 538,748 | 385,781 |
| Interest income | 27,287 | 21,818 | 58,380 | 63,647 | (10,718) | (10,385) | 74,949 | 75,080 |
| Interest expense | (427,054) | (423,742) | - | - | 10,718 | 10,385 | (416,336) | (413,357) |
| Total net interest expense | (399,767) | (401,924) | 58,380 | 63,647 | - | - | (341,387) | (338,277) |
| Depreciation and amortization | (952,285) | (923,311) | (8,043) | (11,095) | - | - | (960,328) | (934,406) |
| Material non-cash items other than depreciation and amortization | 10,069 | (507,921) | (991) | 1,893 | - | - | 9,078 | (506,028) |
| Disposal of fixed assets and inventory losses | (82,734) | (20,932) | - | - | - | - | (82,734) | (20,932) |
| Doubtful accounts | (29,674) | (18,292) | (476) | 611 | - | - | (30,150) | (17,681) |
| Exchange differences | 122,129 | (469,178) | (478) | 1,282 | - | - | 121,651 | (467,896) |
| Result of indexation units | 348 | 481 | (37) | - | - | - | 311 | 481 |
| Income (loss) attributable to owners of the parents | (83,653) | (356,039) | 152,873 | 136,765 | - | - | 69,220 | (219,274) |
| Participation of the entity in the income of associates | - | 37 | - | - | - | - | - | 37 |
| Expenses for income tax | (92,476) | 249,090 | (70,728) | (70,707) | - | - | (163,204) | 178,383 |
| Segment profit / (loss) | (42,203) | (315,497) | 152,873 | 136,765 | - | - | 110,670 | (178,732) |
| Assets of segment | 17,805,749 | 16,924,200 | 1,400,432 | 1,182,111 | (7,987) | (4,893) | 19,198,194 | 18,101,418 |
| Amount of non-current asset additions | 1,481,090 | 1,492,281 | - | - | - | - | 1,481,090 | 1,492,281 |
| Property, plant and equipment | 1,390,730 | 1,439,057 | - | - | - | - | 1,390,730 | 1,439,057 |
| Intangibles other than goodwill | 90,360 | 53,224 | - | - | - | - | 90,360 | 53,224 |
| Segment liabilities | 14,469,505 | 14,700,072 | 572,065 | 490,076 | (28,680) | (26,278) | 15,012,890 | 15,163,870 |
| Purchase of non-monetary assets of segment | 782,957 | 1,622,198 | - | - | - | - | 782,957 | 1,622,198 |

(*) The Company does not have any interest revenue that should be recognized as income from ordinary activities by interest.

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The Company's revenues by geographic area are as follows:

| | For the period ended | |
|--|----------------------|------------------|
| | At December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Peru | 627,215 | 681,340 |
| Argentina | 1,030,973 | 979,324 |
| U.S.A. | 933,130 | 1,025,475 |
| Europe | 714,436 | 723,062 |
| Colombia | 343,001 | 353,007 |
| Brazil | 2,974,234 | 3,464,297 |
| Ecuador | 198,171 | 238,500 |
| Chili | 1,512,570 | 1,575,519 |
| Asia Pacific and rest of Latin America | 654,610 | 699,521 |
| Income from ordinary activities | <u>8,988,340</u> | <u>9,740,045</u> |
| Other operating income | <u>538,748</u> | <u>385,781</u> |

The Company allocates revenues by geographic area based on the point of sale of the passenger ticket or cargo. Assets are composed primarily of aircraft and aeronautical equipment, which are used throughout the different countries, so it is not possible to assign a geographic area.

The Company has no customers that individually represent more than 10% of sales.

NOTE 6 - CASH AND CASH EQUIVALENTS

| | As of | As of |
|---------------------------------|----------------|----------------|
| | December 31, | December 31, |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Cash on hand | 8,630 | 10,656 |
| Bank balances | 255,746 | 255,421 |
| Overnight | <u>295,060</u> | <u>267,764</u> |
| Total Cash | <u>559,436</u> | <u>533,841</u> |
| Cash equivalents | | |
| Time deposits | 374,369 | 193,056 |
| Mutual funds | 15,522 | 26,600 |
| Total cash equivalents | <u>389,891</u> | <u>219,656</u> |
| Total cash and cash equivalents | <u>949,327</u> | <u>753,497</u> |

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Cash and cash equivalents are denominated in the following currencies:

| Currency | As of | As of |
|--------------------|----------------|----------------|
| | December 31, | December 31, |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Argentine peso | 7,871 | 18,733 |
| Brazilian real | 97,401 | 106,219 |
| Chilean peso | 30,758 | 17,978 |
| Colombian peso | 4,336 | 14,601 |
| Euro | 1,695 | 10,663 |
| US Dollar | 780,124 | 564,214 |
| Strong bolivar (*) | 61 | 2,986 |
| Other currencies | 27,081 | 18,103 |
| Total | <u>949,327</u> | <u>753,497</u> |

(*) At December 31, 2015, the Company reflected an exchange rate loss of ThUS\$ 40,968 consequence change in the SICAD rate of Venezuela (13.5 VEF/US\$) at the SIMADI rate equivalent to 198.70 VEF/US\$.

As of December 31, 2016, the DICOM rate, which replaces SIMADI (February 2016), and to this date is 673.76 VEF/US\$, Applied to cash and cash equivalents in VEF, represented a balance of ThUS\$ 61 (ThUS\$ 2,986 at December 31, 2015)

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NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2016

| Assets | Loans and receivables | Hedge derivatives | Held for trading | Initial designation as fair value through profit and loss | |
|--|-----------------------|-------------------|------------------|---|------------------|
| | | | | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | 933,805 | - | - | 15,522 | 949,327 |
| Other financial assets, current (*) | 164,426 | 11,411 | - | 536,991 | 712,828 |
| Trade and others | | | | | |
| accounts receivable, current | 1,107,889 | - | - | - | 1,107,889 |
| Accounts receivable from related entities, current | 554 | - | - | - | 554 |
| Other financial assets, non current (*) | 101,603 | - | 522 | - | 102,125 |
| Accounts receivable, non current | 8,254 | - | - | - | 8,254 |
| Total | 2,316,531 | 11,411 | 522 | 552,513 | 2,880,977 |

| Liabilities | Other financial liabilities | Hedge derivatives | Total | |
|---|-----------------------------|-------------------|-------------------|--------|
| | | | ThUS\$ | ThUS\$ |
| Other liabilities, current | 1,814,647 | 24,881 | 1,839,528 | |
| Trade and others accounts payable, current | 1,593,068 | - | 1,593,068 | |
| Accounts payable to related entities, current | 269 | - | 269 | |
| Other financial liabilities, non-current | 6,790,273 | 6,679 | 6,796,952 | |
| Accounts payable, non-current | 359,391 | - | 359,391 | |
| Total | 10,557,648 | 31,560 | 10,589,208 | |

(*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

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As of December 31, 2015

| Assets | Loans and receivables | Hedge derivatives | Held for trading | Initial designation as fair value through profit and loss | |
|--|-----------------------|-------------------|------------------|---|------------------|
| | | | | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | 726,897 | - | - | 26,600 | 753,497 |
| Other financial assets, current (*) | 28,385 | 16,578 | 157,575 | 448,810 | 651,348 |
| Trade and others | | | | | |
| accounts receivable, current | 796,974 | - | - | - | 796,974 |
| Accounts receivable from related entities, current | 183 | - | - | - | 183 |
| Other financial assets, non current (*) | 88,820 | - | 638 | - | 89,458 |
| Accounts receivable, non current | 10,715 | - | - | - | 10,715 |
| Total | 1,651,974 | 16,578 | 158,213 | 475,410 | 2,302,175 |

| Liabilities | Other financial liabilities | Hedge derivatives | Total | |
|---|-----------------------------|-------------------|-------------------|--------|
| | | | ThUS\$ | ThUS\$ |
| Other liabilities, current | 1,510,146 | 134,089 | 1,644,235 | |
| Trade and others accounts payable, current | 1,483,957 | - | 1,483,957 | |
| Accounts payable to related entities, current | 447 | - | 447 | |
| Other financial liabilities, non-current | 7,516,257 | 16,128 | 7,532,385 | |
| Accounts payable, non-current | 417,050 | - | 417,050 | |
| Total | 10,927,857 | 150,217 | 11,078,074 | |

(*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

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7.2. Financial instruments by currency

| a) Assets | As of | As of |
|---|--------------------------------|--------------------------------|
| | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ |
| Cash and cash equivalents | 949,327 | 753,497 |
| Argentine peso | 7,871 | 8,733 |
| Brazilian real | 97,401 | 106,219 |
| Chilean peso | 30,758 | 17,978 |
| Colombian peso | 4,336 | 14,601 |
| Euro | 1,695 | 10,663 |
| US Dollar | 780,124 | 564,214 |
| Strong bo lvar | 61 | 2,986 |
| Other currencies | 27,081 | 18,103 |
| Other financial assets (current and non-current) | 814,953 | 740,806 |
| Argentine peso | 337 | 157,281 |
| Brazilian real | 686,501 | 449,934 |
| Chilean peso | 668 | 640 |
| Colombian peso | 1,023 | 16,700 |
| Euro | 6,966 | 634 |
| US Dollar | 117,346 | 128,620 |
| Strong bo lvar | 76 | 22 |
| Other currencies | 2,036 | 2,025 |
| Trade and other accounts receivable, current | 1,107,889 | 796,974 |
| Argentine peso | 82,770 | 71,438 |
| Brazilian real | 551,260 | 191,037 |
| Chilean peso | 92,791 | 57,755 |
| Colombian peso | 16,454 | 13,208 |
| Euro | 21,923 | 30,006 |
| US Dollar | 312,394 | 344,153 |
| Strong bo lvar | 43 | 7,225 |
| Other currencies (*) | 30,254 | 82,152 |
| Accounts receivable, non-current | 8,254 | 10,715 |
| Brazilian real | 4 | 521 |
| Chilean peso | 8,250 | 5,041 |
| US Dollar | - | 5,000 |
| Other currencies (*) | - | 153 |
| Accounts receivable from related entities, current | 554 | 83 |
| Brazilian real | - | 2 |
| Chilean peso | 554 | 81 |
| Total assets | 2,880,977 | 2,302,175 |
| Argentine peso | 90,978 | 247,452 |
| Brazilian real | 1,335,166 | 747,713 |
| Chilean peso | 133,021 | 81,595 |
| Colombian peso | 218,133 | 294,479 |
| Euro | 30,584 | 41,283 |
| US Dollar | 1,209,864 | 1,041,987 |
| Strong bo lvar | 180 | 10,233 |
| Other currencies | 59,371 | 102,433 |

(*) See the composition of the others currencies in Note 8 Trade, other accounts receivable and non-current accounts receivable.

b) Liabilities

Liabilities information is detailed in the table within Note 3 Financial risk management.

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NOTE 8 - TRADE AND OTHER ACCOUNTS RECEIVABLE CURRENT, AND NON-CURRENT ACCOUNTS RECEIVABLE

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|---|---|---|
| Trade accounts receivable | 1,022,933 | 685,733 |
| Other accounts receivable | 170,264 | 182,028 |
| Total trade and other accounts receivable | 1,193,197 | 867,761 |
| Less: Allowance for impairment loss | (77,054) | (60,072) |
| Total net trade and accounts receivable | 1,116,143 | 807,689 |
| Less: non-current portion – accounts receivable | (8,254) | (10,715) |
| Trade and other accounts receivable, current | <u>1,107,889</u> | <u>796,974</u> |

The fair value of trade and other accounts receivable does not differ significantly from the book value.

The maturity of these accounts at the end of each period is as follows:

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|--|---|---|
| Fully performing | 896,040 | 577,902 |
| Matured accounts receivable, but not impaired | | |
| Expired from 1 to 90 days | 38,969 | 28,717 |
| Expired from 91 to 180 days | 9,303 | 10,995 |
| More than 180 days overdue (*) | 1,567 | 8,047 |
| Total matured accounts receivable, but not impaired | <u>49,839</u> | <u>47,759</u> |
| Matured accounts receivable and impaired | | |
| Judicial, pre-judicial collection and protested documents | 34,909 | 24,304 |
| Debtor under pre-judicial collection process and portfolio sensitization | 42,145 | 35,768 |
| Total matured accounts receivable and impaired | <u>77,054</u> | <u>60,072</u> |
| Total | <u>1,022,933</u> | <u>685,733</u> |

(*) Value of this segment corresponds primarily to accounts receivable that were evaluated in their ability to recover, therefore not requiring a provision.

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Currency balances that make up the Trade and other accounts receivable and non-current accounts receivable are the following:

| Currency | As of | As of |
|--------------------|-------------------|-------------------|
| | December 31, 2016 | December 31, 2015 |
| | ThUS\$ | ThUS\$ |
| Argentine Peso | 82,770 | 71,438 |
| Brazilian Real | 551,264 | 191,558 |
| Chilean Peso | 101,041 | 62,796 |
| Colombian peso | 16,454 | 13,208 |
| Euro | 21,923 | 30,006 |
| US Dollar | 312,394 | 349,153 |
| Strong bolivar | 43 | 7,225 |
| Other currency (*) | 30,254 | 82,305 |
| Total | 1,116,143 | 807,689 |

| (*) Other currencies | | |
|----------------------|---------------|---------------|
| Australian Dollar | 5,487 | 26,185 |
| Chinese Yuan | 271 | 4,282 |
| Danish Krone | 151 | 164 |
| Pound Sterling | 3,904 | 7,228 |
| Indian Rupee | 303 | 3,070 |
| Japanese Yen | 2,601 | 4,343 |
| Norwegian Kroner | 184 | 221 |
| Swiss Franc | 1,512 | 1,919 |
| Korean Won | 4,241 | 4,462 |
| New Taiwanese Dollar | 662 | 3,690 |
| Other currencies | 10,938 | 26,741 |
| Total | 30,254 | 82,305 |

The Company records allowances when there is evidence of impairment of trade receivables. The criteria used to determine that there is objective evidence of impairment losses are the maturity of the portfolio, specific acts of damage (default) and specific market signals.

| Maturity | Impairment |
|---|------------|
| Judicial and pre-judicial collection assets | 100% |
| Over 1 year | 100% |
| Between 6 and 12 months | 50% |

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Movement in the allowance for impairment loss of Trade and other accounts receivables are the following:

| Periods | Opening | Write-offs | (Increase) | Closing |
|-------------------------------------|----------|------------|------------|----------|
| | balance | Write-offs | Decrease | balance |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2015 | (71,042) | 10,120 | 850 | (60,072) |
| From January 1 to December 31, 2016 | (60,072) | 20,910 | (37,892) | (77,054) |

Once pre-judicial and judicial collection efforts are exhausted, the assets are written off against the allowance. The Company only uses the allowance method rather than direct write-off, to ensure control.

Historic and current re-negotiations are not relevant and the policy is to analyze case by case in order to classify them according to the existence of risk, determining whether it is appropriate to re-classify accounts to pre-judicial recovery. If such re-classification is justified, an allowance is made for the account, whether overdue or falling due.

The maximum credit-risk exposure at the date of presentation of the information is the fair value of each one of the categories of accounts receivable indicated above.

| | As of December 31, 2016 | | | As of December 31, 2015 | | |
|---------------------------|-------------------------------------|-------------------------|-------------------------------------|-------------------------------------|-------------------|-------------------------------------|
| | Gross exposure according to balance | Gross impaired exposure | Exposure net of risk concentrations | Gross exposure according to balance | Impaired exposure | Exposure net of risk concentrations |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Trade accounts receivable | 1,022,933 | (77,054) | 945,879 | 685,733 | (60,072) | 625,661 |
| Other accounts receivable | 170,264 | - | 170,264 | 182,028 | - | 182,028 |

There are no relevant guarantees covering credit risk and these are valued when they are settled; no materially significant direct guarantees exist. Existing guarantees, if appropriate, are made through IATA.

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NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES
(a) Accounts Receivable

| Tax No. | Related party | Relationship | Country of origin | Currency | As of | As of |
|----------------------|---|--------------------|-------------------|----------|-------------------|-------------------|
| | | | | | December 31, 2016 | December 31, 2016 |
| | | | | | ThUS\$ | ThUS\$ |
| 78.591.370-1 | Bethia S.A. and Subsidiaries | Related director | Chile | CLP | 538 | 167 |
| 87.752.000-5 | Granja Marina Tornagaleones S.A. | Common shareholder | Chile | CLP | 14 | 14 |
| 96.810.370-9 | Inversiones Costa Verde Ltda. y CPA. | Controller | Chile | CLP | 2 | - |
| Foreign | TAM Aviação Executiva e Taxi Aéreo S.A. | Related director | Brazil | BRL | - | 2 |
| Total current assets | | | | | <u>554</u> | <u>183</u> |

(b) Accounts payable

| Tax No. | Related party | Relationship | Country of origin | Currency | As of | As of |
|---------------------------|---|------------------|-------------------|----------|-------------------|-------------------|
| | | | | | December 31, 2016 | December 31, 2015 |
| | | | | | ThUS\$ | ThUS\$ |
| Foreign | Consultoria Administrativa Profesional S.A. de C.V. | Associate | Mexico | MXN | 170 | 342 |
| 65.216.000-K | Viajes Falabella Ltda. | Related director | Chile | CLP | 46 | 68 |
| 79.773.440-3 | TAM Aviação Executiva e Taxi Aéreo S.A. | Related director | Brazil | BRL | 28 | - |
| 65.216.000-K | Comunidad Mujer | Related director | Chile | CLP | 13 | 10 |
| 78.591.370-1 | Bethia S.A. and Subsidiaries | Related director | Chile | CLP | 6 | 5 |
| 79.773.440-3 | Transportes San Felipe S.A | Common property | Chile | CLP | 4 | - |
| Foreign | Inversora Aeronáutica Argentina | Related director | Argentina | US\$ | 2 | 22 |
| Total current liabilities | | | | | <u>269</u> | <u>447</u> |

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties. The transaction times are between 30 and 45 days, and the nature of settlement of the transactions is monetary.

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NOTE 10 -INVENTORIES

The composition of Inventories is as follows:

| | As of December 31, 2016 | As of December 31, 2015 |
|---------------------|-------------------------------|-------------------------------|
| | ThUS\$ | ThUS\$ |
| Technical stock | 191,864 | 192,930 |
| Non-technical stock | 49,499 | 31,978 |
| Total | <u>241,363</u> | <u>224,908</u> |

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence, as per the following detail:

| | As of December 31, 2016 | As of December 31, 2015 |
|--|-------------------------------|-------------------------------|
| | ThUS\$ | ThUS\$ |
| Provision for obsolescence Technical stock | 31,647 | 13,303 |
| Provision for obsolescence Non-technical stock | 3,429 | 2,589 |
| Total | <u>35,076</u> | <u>15,892</u> |

As of December 31, 2016, the Company recorded ThUS\$ 167,365 (ThUS\$ 160,030 at December 31, 2015) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of Cost of sales.

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NOTE 11 - OTHER FINANCIAL ASSETS

The composition of Other financial assets is as follows:

| | Current Assets | | Non-current assets | | Total Assets | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| (a) Other financial assets | | | | | | |
| Private investment funds | 536,991 | 448,810 | - | - | 536,991 | 448,810 |
| Deposits in guarantee (aircraft) | 16,819 | 16,532 | 56,846 | 58,483 | 73,665 | 75,015 |
| Guarantees for margins of derivatives | 939 | 4,456 | - | - | 939 | 4,456 |
| Other investments | - | - | 522 | 638 | 522 | 638 |
| Domestic and foreign bonds | - | 157,575 | - | - | - | 157,575 |
| Other guarantees given | 140,733 | 6,360 | 44,757 | 30,337 | 185,490 | 36,497 |
| Other | 5,935 | 1,237 | - | - | 5,935 | 1,237 |
| Subtotal of other financial assets | 701,417 | 634,770 | 102,125 | 89,458 | 803,542 | 724,228 |
| (b) Hedging assets | | | | | | |
| Interest accrued since the last payment date of Cross currency swap | 64 | 397 | - | - | 64 | 397 |
| Fair value of foreign currency derivatives (*) | 1,259 | 9,888 | - | - | 1,259 | 9,888 |
| Fair value of fuel price derivatives | 10,088 | 6,293 | - | - | 10,088 | 6,293 |
| Subtotal of hedging assets | 11,411 | 16,578 | - | - | 11,411 | 16,578 |
| Total Other Financial Assets | 712,828 | 651,348 | 102,125 | 89,458 | 814,953 | 740,806 |

(*) The foreign currency derivatives correspond to forward and combination of options.

The types of derivative hedging contracts maintained by the Company at the end of each period are described in Note 19.

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NOTE 12 - OTHER NON-FINANCIAL ASSETS

The composition of Other non-financial assets is as follows:

| | Current assets | | Non-current assets | | Total Assets | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| (a) Advance payments | | | | | | |
| Aircraft leases | 37,560 | 33,305 | 14,065 | 22,569 | 51,625 | 55,874 |
| Aircraft insurance and other | 14,717 | 12,408 | - | - | 14,717 | 12,408 |
| Others | 4,521 | 16,256 | 1,573 | 33,781 | 6,094 | 50,037 |
| Subtotal advance payments | 56,798 | 61,969 | 15,638 | 56,350 | 72,436 | 118,319 |
| (b) Other assets | | | | | | |
| Aircraft maintenance reserve (*) | 51,576 | 99,112 | 90,175 | 64,366 | 141,751 | 163,478 |
| Sales tax | 102,351 | 158,134 | 40,232 | 45,061 | 142,583 | 203,195 |
| Other taxes | 500 | 4,295 | - | - | 500 | 4,295 |
| Contributions to Société Internationale de Télécommunications Aéronautiques ("SITA") | 406 | 505 | 591 | 547 | 997 | 1,052 |
| Judicial deposits | - | - | 90,604 | 67,980 | 90,604 | 67,980 |
| Others | 611 | 6,001 | 104 | 1,159 | 715 | 7,160 |
| Subtotal other assets | 155,444 | 268,047 | 221,706 | 179,113 | 377,150 | 447,160 |
| Total Other Non-Financial Assets | 212,242 | 330,016 | 237,344 | 235,463 | 449,586 | 565,479 |

(*) Aircraft maintenance reserves reflect prepayment deposits made by the group to lessors of certain aircraft under operating lease agreements in order to ensure that funds are available to support the scheduled heavy maintenance of the aircraft.

These amounts are calculated based on performance measures, such as flight hours or cycles, are paid periodically (usually monthly) and are contractually required to be repaid to the lessee upon the completion of the required maintenance of the leased aircraft. At the end of the lease term, any unused maintenance reserves are either returned to the Company in cash or used to offset amounts that we may owe the lessor as a maintenance adjustment.

In some cases (five lease agreements), if the maintenance cost incurred by LATAM is less than the corresponding maintenance reserves, the lessor is entitled to retain those excess amounts at the time the heavy maintenance is performed. The Company periodically reviews its maintenance reserves for each of its leased aircraft to ensure that they will be recovered, and recognizes an expense if any such amounts are less than probable of being returned. Since the acquisition of TAM in June 2012, the cost of aircraft maintenance has been higher than the related maintenance reserves for all aircraft.

As of December 31, 2016, LATAM had ThUS\$ 141,751 in maintenance reserves (ThUS\$ 163,478 at December 31, 2015), corresponding to two aircraft with contracts that establish periodic payments and whose expiration date is in 2017 and 21 aircraft that maintains remaining balances, which will be liquidated in the next maintenance or return.

Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (Note 2.23)

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NOTE 13 - NON-CURRENT ASSETS AND DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE

Non-current assets and in disposal groups held for sale at December 31, 2016 and December 31, 2015 are detailed below:

| | As of December 31, 2016 | As of December 31, 2015 |
|----------------------------|-------------------------------|-------------------------------|
| | ThUS\$ | ThUS\$ |
| Current assets | | |
| Aircraft | 281,158 | 263 |
| Engines and rotables | 29,083 | 1,697 |
| Other assets | <u>26,954</u> | <u>-</u> |
| Total | <u>337,195</u> | <u>1,960</u> |
| Current liabilities | | |
| Other liabilities | <u>10,152</u> | <u>-</u> |
| Total | <u>10,152</u> | <u>-</u> |

The balances are presented at the lower of book value and fair value less cost to sell. The fair value of these assets were determined based on quoted prices in active markets for similar assets or liabilities. This is a level II measurement as per the fair value hierarchy set out in note 3.3 (2). There were no transfers between levels for recurring fair value measurements during the year.

- (a) Assets reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale

In the period ended December 31, 2016, two Airbus A319 aircraft, two Airbus A320 aircraft, six Airbus A330 aircraft, two Boeing 777 aircraft, eight A330 spare engines, A330 rotables and two buildings were reclassified from Property, plant and equipment to Non-current assets or groups of assets for disposal classified as held for sale.

During the period ended December 31, 2016, two Airbus A319 aircraft, one Airbus A320 aircraft and two Airbus A330 aircraft were sold. Additionally an A330 spare engine and D200 rotables were sold.

As a result, an adjustment of US \$ 55 million was recorded to write down these assets to their net

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The detail of fleet classified as non-current assets or groups of assets for disposal classified as held for sale is the following:

| | As of December 31, 2016 | As of December 31, 2015 |
|----------------------|-------------------------------|-------------------------------|
| <u>Aircraft</u> | | |
| Boeing 777 Freighter | 2 (*) | - |
| Airbus A330-200 | 4 | - |
| Airbus A320-200 | 1 | - |
| ATR42-300 | <u>1</u> | <u>1</u> |
| Total | <u>8</u> | <u>1</u> |

(*) One aircraft leased to DHL.

NOTE 14 - INVESTMENTS IN SUBSIDIARIES*

- (a) Investments in subsidiaries

The Company has investments in companies recognized as investments in subsidiaries. All the companies defined as subsidiaries have been consolidated within the financial statements of LATAM Airlines Group S.A. and Subsidiaries. The consolidation also includes special-purpose entities.

Detail of significant subsidiaries and summarized financial information:

| Name of significant subsidiary | Country of incorporation | Functional currency | Ownership | |
|--|--------------------------|---------------------|-------------------------------|-------------------------------|
| | | | As of December 31, 2016 | As of December 31, 2015 |
| | | | % | % |
| Lan Perú S.A. | Peru | US\$ | 70.00000 | 70.00000 |
| Lan Cargo S.A. | Chile | US\$ | 99.89803 | 99.89803 |
| Lan Argentina S.A. | Argentina | ARS | 95.85660 | 94.99055 |
| Transporte Aéreo S.A. | Chile | US\$ | 99.89804 | 99.89804 |
| Aerolineas Líneas Aéreas Nacionales del Ecuador S.A. | Ecuador | US\$ | 100.00000 | 100.00000 |
| Aerovías de Integración Regional, AIRES S.A. | Colombia | COP | 99.19056 | 99.01646 |
| TAM S.A. | Brazil | BRL | 99.99938 | 99.99938 |

The consolidated subsidiaries do not have significant restrictions for transferring funds to controller.

Summary financial information of significant subsidiaries

| Name of significant subsidiary | Statement of financial position as of December 31, 2016 | | | | | | Results for the period ended December 31, 2016 | |
|--|---|----------------|--------------------|-------------------|---------------------|-------------------------|--|------------|
| | Total Assets | Current Assets | Non-current Assets | Total Liabilities | Current Liabilities | Non-current Liabilities | Revenue | Net Income |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 306,111 | 283,691 | 22,420 | 294,912 | 293,602 | 1,310 | 967,787 | (2,164) |
| Lan Cargo S.A. | 480,908 | 144,309 | 336,599 | 239,728 | 211,395 | 28,333 | 266,296 | (24,813) |
| Lan Argentina S.A. | 216,331 | 194,306 | 22,025 | 200,172 | 197,330 | 2,842 | 371,896 | (29,572) |
| Transporte Aéreo S.A. | 340,940 | 36,986 | 303,954 | 124,805 | 59,668 | 65,137 | 297,247 | 8,206 |
| Aerolane Líneas Aéreas Nacionales del Ecuador S.A. | 89,667 | 56,064 | 33,603 | 81,101 | 75,985 | 5,116 | 219,676 | (1,281) |
| Aerovías de Integración Regional, AIRES S.A. | 129,734 | 55,132 | 74,602 | 85,288 | 74,160 | 11,128 | 277,503 | (13,675) |
| TAM S.A. (*) | 5,287,286 | 1,794,189 | 3,493,097 | 4,710,308 | 2,837,620 | 1,872,688 | 4,145,951 | 2,107 |

| Name of significant subsidiary | Statement of financial position as of December 31, 2015 | | | | | | Results for the period ended December 31, 2015 | |
|--|---|----------------|--------------------|-------------------|---------------------|-------------------------|--|------------|
| | Total Assets | Current Assets | Non-current Assets | Total Liabilities | Current Liabilities | Non-current Liabilities | Revenue | Net Income |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 255,691 | 232,547 | 23,144 | 240,938 | 239,521 | 1,417 | 1,078,992 | 5,068 |
| Lan Cargo S.A. | 483,033 | 159,294 | 323,739 | 217,037 | 147,423 | 69,614 | 278,117 | (74,408) |
| Lan Argentina S.A. | 195,756 | 180,558 | 15,198 | 170,384 | 168,126 | 2,258 | 443,317 | 9,432 |
| Transporte Aéreo S.A. | 331,117 | 41,756 | 289,361 | 122,666 | 44,495 | 78,171 | 324,464 | 5,878 |
| Aerolane Líneas Aéreas Nacionales del Ecuador S.A. | 126,001 | 80,641 | 45,360 | 116,153 | 111,245 | 4,908 | 246,402 | (1,278) |
| Aerovías de Integración Regional, AIRES S.A. | 130,039 | 62,937 | 67,102 | 75,003 | 64,829 | 10,174 | 291,354 | (34,079) |
| TAM S.A. (*) | 4,711,316 | 1,350,377 | 3,360,939 | 4,199,223 | 1,963,400 | 2,235,823 | 4,597,611 | (183,812) |

(*) Correspond to consolidated information of TAM S.A. and Subsidiaries.

(b) Non-controlling interest

| Equity | Tax No. | Country of origin | As of | As of | As of | As of |
|---|--------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| | | | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | | | % | % | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 0-E | Peru | 30.00000 | 30.00000 | 3,360 | 4,426 |
| Lan Cargo S.A. and Subsidiaries | 93.383.000-4 | Chile | 0.10196 | 0.10605 | 957 | 974 |
| Promotora Aérea Latinoamericana S.A. and Subsidiaries | 0-E | Mexico | 51.00000 | 51.00000 | 3,162 | 3,084 |
| Inversora Cordillera S.A. and Subsidiaries | 0-E | Argentina | 0.70422 | 0.70422 | 515 | (1,386) |
| Lan Argentina S.A. | 0-E | Argentina | 0.13440 | 1.00000 | (311) | 29 |
| Americonsult de Guatemala S.A. | 0-E | Guatemala | 1.00000 | 1.00000 | 1 | 5 |
| Americonsult Costa Rica S.A. | 0-E | Costa Rica | 1.00000 | 1.00000 | 12 | 12 |
| Línea Aérea Carguera de Colombiana S.A. | 0-E | Colombia | 10.00000 | 10.00000 | (905) | (811) |
| Aerolíneas Regionales de Integración Aires S.A. | 0-E | Colombia | 0.80944 | 0.98307 | 436 | 540 |
| Transportes Aereos del Mercosur S.A. | 0-E | Paraguay | 5.02000 | 5.02000 | 1,104 | 1,256 |
| Multiplus S.A. | 0-E | Brazil | 27.26000 | 27.26000 | 80,313 | 72,884 |
| Total | | | | | <u>88,644</u> | <u>81,013</u> |

| Incomes | Tax No. | Country of origin | As of | As of | For the period ended | |
|---|--------------|-------------------|-------------------|-------------------|----------------------|-------------------|
| | | | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | | | % | % | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 0-E | Peru | 30.00000 | 30.00000 | (649) | 1,521 |
| Lan Cargo S.A. and Subsidiaries | 93.383.000-4 | Chile | 0.10196 | 0.10605 | (7) | (69) |
| Promotora Aerea Latinoamericana S.A. and Subsidiaries | 0-E | Mexico | 51.00000 | 51.00000 | 96 | 1,349 |
| Inversora Cordillera S.A. and Subsidiaries | 0-E | Argentina | 0.70422 | 0.70422 | 364 | 281 |
| Lan Argentina S.A. | 0-E | Argentina | 0.13440 | 1.00000 | 77 | 61 |
| Americonsult de Guatemala S.A. | 0-E | Guatemala | 1.00000 | 1.00000 | (4) | 1 |
| Americonsult Costa Rica S.A. | 0-E | Costa Rica | 1.00000 | 1.00000 | - | 5 |
| Línea Aérea Carguera de Colombiana S.A. | 0-E | Colombia | 10.00000 | 10.00000 | (106) | 14 |
| Aerolíneas Regionales de Integración Aires S.A. | 0-E | Colombia | 0.80944 | 0.98307 | (140) | (335) |
| Transportes Aereos del Mercosur S.A. | 0-E | Paraguay | 5.02000 | 5.02000 | 146 | 431 |
| Multiplus S.A. | 0-E | Brazil | 27.26000 | 27.26000 | 41,673 | 37,283 |
| Total | | | | | <u>41,450</u> | <u>40,542</u> |

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NOTE 15 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

| | Classes of intangible assets (net) | | Classes of intangible assets (gross) | |
|---------------------|---------------------------------------|-------------------------------|---|-------------------------------|
| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Airport slots | 978,849 | 816,987 | 978,849 | 816,987 |
| Loyalty program | 326,262 | 272,312 | 326,262 | 272,312 |
| Computer software | 157,016 | 104,258 | 419,652 | 324,043 |
| Developing software | 91,053 | 74,887 | 91,053 | 74,887 |
| Trademarks (1) | 57,133 | 52,981 | 63,730 | 52,981 |
| Other assets | - | - | 808 | 808 |
| Total | <u>1,610,313</u> | <u>1,321,425</u> | <u>1,880,354</u> | <u>1,542,018</u> |

Movement in Intangible assets other than goodwill:

| | Computer software Net | Developing software | Airport slots (2) | Trademarks and loyalty program (1) (2) | Other assets Net | Total |
|--|-----------------------------|------------------------|----------------------|--|------------------------|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2015 | 126,797 | 74,050 | 1,201,028 | 478,204 | - | 1,880,079 |
| Additions | 4,954 | 48,270 | - | - | - | 53,224 |
| Withdrawals | (4,612) | (162) | - | (1) | - | (4,775) |
| Transfer software | 28,726 | (30,426) | - | - | - | (1,700) |
| Foreign exchange | (14,871) | (16,845) | (384,041) | (152,910) | - | (568,667) |
| Amortization | (36,736) | - | - | - | - | (36,736) |
| Closing balance as of December 31, 2015 | <u>104,258</u> | <u>74,887</u> | <u>816,987</u> | <u>325,293</u> | <u>-</u> | <u>1,321,425</u> |
| Opening balance as of January 1, 2016 | 104,258 | 74,887 | 816,987 | 325,293 | - | 1,321,425 |
| Additions | 6,688 | 83,672 | - | - | - | 90,360 |
| Withdrawals | (736) | (191) | - | - | - | (927) |
| Transfer software | 85,029 | (74,376) | - | - | - | 10,653 |
| Foreign exchange | 5,689 | 7,061 | 161,862 | 64,447 | - | 239,059 |
| Amortization | (43,912) | - | - | (6,345) | - | (50,257) |
| Closing balance as of December 31, 2016 | <u>157,016</u> | <u>91,053</u> | <u>978,849</u> | <u>383,395</u> | <u>-</u> | <u>1,610,313</u> |

- (1) After the extensive integration work following the combination between LAN and TAM, during which there has been solid progress in the homologation of the optimization processes of its air connections, in addition to the restructuring and modernization of the fleet of aircraft, the Company has resolved to adopt a unique name and identity, and announce that the brand of the group will be "LATAM", which would unite all companies under a single image.

Given the above, we have proceeded to review the brands useful life, concluding that these should go from an indefinite to defined useful life. The estimated new useful life is 5 years, equivalent to the period for finishing all the image changes necessary.

- (2) See Note 2.5

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The amortization of the period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of December 31, 2016 amounts to ThUS\$ 270,041 (ThUS\$ 220,593 at December 31, 2015).

NOTE 16 - GOODWILL

The Goodwill amount at December 31, 2016 is ThUS\$ 2,710,382 (ThUS\$ 2,280,575 at December 31, 2015). Movement of Goodwill separated by CGU it includes the following:

| | Air Transport | Coalition and loyalty program Multiplus | Total |
|--|------------------|--|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2015 | 2,658,503 | 654,898 | 3,313,401 |
| Increase (decrease) due to exchange rate differences | (823,415) | (209,411) | (1,032,826) |
| Closing balance as of December 31, 2015 | <u>1,835,088</u> | <u>445,487</u> | <u>2,280,575</u> |
| Opening balance as of January 1, 2016 | 1,835,088 | 445,487 | 2,280,575 |
| Increase (decrease) due to exchange rate differences | 341,813 | 88,261 | 430,074 |
| Others | (267) | - | (267) |
| Closing balance as of December 31, 2016 | <u>2,176,634</u> | <u>533,748</u> | <u>2,710,382</u> |

The Company has two cash-generating units (CGUs), "Air transportation" and "Coalition and loyalty program Multiplus". The CGU "Air transport" considers the transport of passengers and cargo, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil, and in a developed series of regional and international routes in America, Europe and Oceania, while the CGU "Coalition and loyalty program Multiplus" works with an integrated network associated companies in Brazil.

The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of expected cash flows, 5 years after tax, which are based on the budget approved by the Board. Cash flows beyond the budget period are extrapolated using the estimated growth rates, which do not exceed the average rates of long-term growth.

Management establishes rates for annual growth, discount, inflation and exchange for each cash generating, as well as fuel prices, based on their key assumptions. The annual growth rate is based on past performance and management's expectations over market developments in each country where it operates. The discount rates used are in American Dollars for the CGU "Air transportation" and Brazilian Reals for CGU "Program coalition loyalty Multiplus", both of them before tax and reflect specific risks related to each country where the Company operates. Inflation and exchange rates are based on available data for each country and the information provided by the Central Bank of each country, and the fuel price is determined based on estimated production levels, competitive environment market in which they operate and its business strategy.

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As of December 31, 2016 the recoverable values were determined using the following assumptions presented below:

| | | Air transportation CGU | Coalition and loyalty program Multiplus CGU (2) |
|---|------------|---------------------------|--|
| Annual growth rate (Terminal) | % | 1.0 - 2.0 | 4.0 - 5.0 |
| Exchange rate (1) | RS/US\$ | 3.9 - 4.4 | 3.9 - 4.4 |
| Discount rate based on the weighted average cost of capital (WACC) | % | 8.27 - 9.27 | - |
| Discount rate based on cost of equity (Ke) | % | - | 12.3 - 13.3 |
| Fuel Price from futures price curves commodities markets | US\$/baril | 61-76 | - |

(1) In line with the expectations of the Central Bank of Brazil

(2) The flow, as well as annual growth rate and discount, are denominated in real.

The result of the impairment test, which includes a sensitivity analysis of the main variables, showed that the estimated recoverable amount is higher than carrying value of the book value of net assets allocated to the cash generating unit, and therefore impairment was not detected.

CGU's are sensitive to rates for annual growth, discount and exchanges rates. The sensitivity analysis included the individual impact of changes in estimates critical in determining the recoverable amounts, namely:

| | Increase Maximum WACC | Increase Maximum Ke | Decrease Minimum terminal growth rate |
|---|-----------------------------|---------------------------|--|
| Air transportation CGU | 9.27 | - | 1.0 |
| Coalition and loyalty program Multiplus CGU | - | 13.3 | 4.0 |

In none of the previous cases impairment in the cash- generating unit was presented.

NOTE 17 - PROPERTY, PLANT AND EQUIPMENT

The composition by category of Property, plant and equipment is as follows:

| | Gross Book Value | | Accumulated depreciation | | Net Book Value | |
|--------------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ |
| Construction in progress (*) | 470,065 | 1,142,812 | - | - | 470,065 | 1,142,812 |
| Land | 50,148 | 45,313 | - | - | 50,148 | 45,313 |
| Buildings | 190,771 | 131,816 | (60,552) | (40,325) | 130,219 | 91,491 |
| Plant and equipment | 10,099,587 | 9,683,764 | (2,350,045) | (2,392,463) | 7,749,542 | 7,291,301 |
| Own aircraft | 9,436,684 | 9,118,396 | (2,123,025) | (2,198,682) | 7,313,659 | 6,919,714 |
| Other (**) | 662,903 | 565,368 | (227,020) | (193,781) | 435,883 | 371,587 |
| Machinery | 39,246 | 36,569 | (26,821) | (21,220) | 12,425 | 15,349 |
| Information technology equipment | 163,695 | 154,093 | (123,981) | (110,204) | 39,714 | 43,889 |
| Fixed installations and accessories | 178,363 | 179,026 | (94,451) | (90,068) | 83,912 | 88,958 |
| Motor vehicles | 96,808 | 99,997 | (67,855) | (64,047) | 28,953 | 35,950 |
| Leasehold improvements | 192,100 | 124,307 | (87,559) | (70,219) | 104,541 | 54,088 |
| Other property, plants and equipment | 3,005,981 | 3,279,902 | (1,177,351) | (1,150,396) | 1,828,630 | 2,129,506 |
| Financial leasing aircraft | 2,905,556 | 3,151,405 | (1,152,190) | (1,120,682) | 1,753,366 | 2,030,723 |
| Other | 100,425 | 128,497 | (25,161) | (29,714) | 75,264 | 98,783 |
| Total | 14,486,764 | 14,877,599 | (3,988,615) | (3,938,942) | 10,498,149 | 10,938,657 |

(*) It includes pre-delivery payments to aircraft manufacturers for ThUS\$ 434,250 (ThUS\$ 1,016,007 as of December 31, 2015)

(**) Mainly considers rotatable and tools.

(a) Movement in the different categories of Property, plant and equipment:

| | Construction in progress | Land | Buildings net | Plant and equipment net | Information technology equipment net | Fixed installations & accessories net | Motor vehicles net | Leasehold improvements net | Other property, plant and equipment net | Property, Plant and equipment net |
|---|-----------------------------|----------|------------------|-------------------------------|---|--|--------------------------|----------------------------------|---|--|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2015 | 937,279 | 57,988 | 167,006 | 6,954,089 | 51,009 | 43,783 | 1,965 | 56,523 | 2,503,434 | 10,773,076 |
| Additions | 39,711 | - | 439 | 1,304,199 | 15,322 | 1,692 | 280 | 13,188 | 64,226 | 1,439,057 |
| Disposals | - | - | (500) | (76,675) | (27) | - | (8) | - | (11) | (77,221) |
| Retirements | (1,262) | - | (956) | (38,240) | (104) | (476) | (4) | - | (8,902) | (49,944) |
| Depreciation expenses | - | - | (7,161) | (521,688) | (16,196) | (11,649) | (378) | (13,973) | (174,474) | (745,519) |
| Foreign exchange | (932) | (11,786) | (18,248) | (129,933) | (6,126) | (13,269) | (638) | (1,659) | (252,709) | (435,300) |
| Other increases (decreases) | 168,016 | (889) | (49,089) | (150,677) | 11 | 68,877 | 308 | 9 | (2,058) | 34,508 |
| Changes, total | 205,533 | (12,675) | (75,515) | 386,986 | (7,120) | 45,175 | (440) | (2,435) | (373,928) | 165,581 |
| Closing balance as of December 31, 2015 | 1,142,812 | 45,313 | 91,491 | 7,341,075 | 43,889 | 88,958 | 1,525 | 54,088 | 2,129,506 | 10,938,657 |
| Opening balance as of January 1, 2016 | 1,142,812 | 45,313 | 91,491 | 7,341,075 | 43,889 | 88,958 | 1,525 | 54,088 | 2,129,506 | 10,938,657 |
| Additions | 14,481 | - | 272 | 1,301,093 | 7,392 | 292 | 6 | 54,181 | 13,013 | 1,390,730 |
| Disposals | - | - | - | (16,918) | (59) | - | (32) | - | (2,972) | (19,981) |
| Retirements | (284) | - | (68) | (39,816) | (55) | (1,258) | - | - | (2,604) | (44,085) |
| Depreciation expenses | - | - | (6,234) | (562,131) | (14,909) | (13,664) | (293) | (23,283) | (124,038) | (744,552) |
| Foreign exchange | 5,081 | 4,835 | 2,538 | 51,770 | 2,924 | 9,384 | 223 | 2,849 | 93,383 | 172,987 |
| Other increases (decreases) | (692,025) | - | 42,220 | (285,198) | (532) | 200 | (384) | 16,706 | (277,658) | (1,195,607) |
| Changes, total | (672,747) | 4,835 | 38,728 | 448,800 | (4,175) | (5,046) | (480) | 50,453 | (300,876) | (440,508) |
| Closing balance as of December 31, 2016 | 470,065 | 50,148 | 130,219 | 7,789,875 | 39,714 | 83,912 | 1,045 | 104,541 | 1,828,630 | 10,498,149 |

(1) During the first half of 2015 three Airbus A340 aircraft were sold.

During the second half of 2015 seven Dash-200 aircraft were sold.

During the second half of 2015 two Airbus A319 aircraft were sold.

(2) During the first quarter of 2016 one Airbus A330 aircraft were sold.

(3) During 2016 two Airbus A319 aircraft, two Airbus A320 aircraft, six Airbus A330 and two Boeing 777 aircraft were reclassified to non-current assets and disposal group classified as held for sale (See Note 13).

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(b) Composition of the fleet:

| Aircraft | Model | Aircraft included in Property, plant and equipment | | Operating leases | | Total fleet | |
|--------------|-----------|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| | | Boeing 767 | 300ER | 34 | 34 | 3 | 4 |
| Boeing 767 | 300F | 8 ⁽¹⁾ | 8 ⁽¹⁾ | 3 | 3 | 11 ⁽¹⁾ | 11 ⁽¹⁾ |
| Boeing 777 | 300ER | 4 | 4 | 6 | 6 | 10 | 10 |
| Boeing 777 | Freighter | - | 2 ⁽²⁾ | 2 | 2 | 2 | 4 ⁽²⁾ |
| Boeing 787 | 800 | 6 | 6 | 4 | 4 | 10 | 10 |
| Boeing 787 | 900 | 4 | 3 | 8 | 4 | 12 | 7 |
| Airbus A319 | 100 | 36 | 38 | 12 | 12 | 48 | 50 |
| Airbus A320 | 200 | 93 | 95 | 53 | 59 | 146 | 154 |
| Airbus A320 | NEO | 1 | - | 1 | - | 2 | - |
| Airbus A321 | 200 | 30 | 26 | 17 | 10 | 47 | 36 |
| Airbus A330 | 200 | - | 8 | - | 2 | - | 10 |
| Airbus A350 | 900 | 5 | 1 | 2 | - | 7 | 1 |
| Total | | 221 | 225 | 111 | 106 | 332 | 331 |

(1) Three aircraft leased to FEDEX

(2) One aircraft leased to DHL

(c) Method used for the depreciation of Property, plant and equipment:

| | Method | Useful life (years) | |
|-------------------------------------|--|---------------------|---------|
| | | minimum | maximum |
| Buildings | Straight line without residual value | 20 | 50 |
| Plant and equipment | Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*) | 5 | 23 |
| Information technology equipment | Straight line without residual value | 5 | 10 |
| Fixed installations and accessories | Straight line without residual value | 10 | 10 |
| Motor vehicle | Straight line without residual value | 10 | 10 |
| Leasehold improvements | Straight line without residual value | 5 | 5 |
| Other property, plant and equipment | Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*) | 10 | 23 |

(*) Except for the Boeing 767 300ER and Boeing 767 300F fleets which consider a lower residual value due to the extension of their useful life to 22 and 23 years respectively. Additionally certain technical components, which are depreciated based on the basis of cycles and flight hours.

The aircraft with remarketing clause (**) under modality of financial leasing, which are depreciated according to the duration of their contracts, between 12 and 18 years. Its residual values are estimated according to market value at the end of such contracts.

(**) Aircraft with remarketing clause are those that are required to sell at the end of the contract.

The depreciation charged to income in the period, which is included in the consolidated statement of income, amounts to ThUS\$ 744,552 (ThUS\$ 745,519 at December 31, 2015). Depreciation charges for the year are recognized in Cost of sales and administrative expenses in the consolidated statement of income.

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(d) Additional information regarding Property, plant and equipment:

(i) Property, plant and equipment pledged as guarantee:

In the period ended December 31, 2016, direct guarantees by five Airbus A319-100 aircraft, two Airbus A320-200 aircraft, one Airbus A320 NEO aircraft, four Airbus A321-200 aircraft, four Airbus A350-900 aircraft and one Boeing 787-9 aircraft were added.

Description of Property, plant and equipment pledged as guarantee:

| Creditor of guarantee | Assets committed | Fleet | As of December 31, 2016 | | As of December 31, 2015 | |
|-------------------------------|----------------------|---|-------------------------------|---------------------------------|-------------------------------|---------------------------------|
| | | | Existing Debt ThUS\$ | Book Value ThUS\$ | Existing Debt ThUS\$ | Book Value ThUS\$ |
| Wilmington Trust Company | Aircraft and engines | Airbus A321/ A350 Boeing 767 Boeing 787 | 596,224 811,723 739,031 | 722,979 1,664,364 899,445 | 374,609 907,356 712,059 | 478,667 1,220,541 834,567 |
| Banco Santander S.A. | Aircraft and engines | Airbus A330 Airbus A320 Airbus A321 | 50,671 462,950 32,853 | 91,889 709,788 44,227 | 58,527 524,682 36,334 | 95,387 749,892 45,380 |
| BNP Paribas | Aircraft and engines | Airbus A330 Airbus A320 | 134,346 128,173 | 228,384 81,838 | 154,828 85,506 | 229,798 892,957 |
| Credit Agricole | Aircraft and engines | Airbus A330 Airbus A320 Airbus A321 | 26,014 71,794 40,609 | 37,389 84,157 93,180 | 37,755 115,339 50,591 | 84,129 214,726 97,257 |
| JP Morgan | Aircraft and engines | Boeing 777 | - | - | 215,265 | 263,366 |
| Wells Fargo | Aircraft and engines | Airbus A320 | 252,428 | 333,419 | 279,478 | 348,271 |
| Bank of Utah | Aircraft and engines | Airbus A320 / A350 | 670,826 | 709,280 | 240,094 | 312,573 |
| Natisis | Aircraft and engines | Airbus A320 Airbus A321 | 45,748 377,304 | 66,738 514,625 | 56,223 413,201 | 81,355 542,594 |
| Citibank N. A. | Aircraft and engines | Airbus A320 Airbus A321 | 111,243 42,867 | 86,370 70,166 | 127,135 49,464 | 172,918 73,122 |
| HSBC | Aircraft and engines | Airbus A320 | - | - | 53,583 | 64,241 |
| KWIP EX-Bank | Aircraft and engines | Airbus A330 Airbus A320 | 7,494 28,696 | 6,360 36,066 | - 15,593 | - 16,838 |
| Airbus Financial Services | Aircraft and engines | Airbus A330 | 30,899 | 33,823 | - | - |
| P K AirFinance US, Inc. | Aircraft and engines | Airbus A320 | 54,786 | 46,341 | 62,514 | 48,691 |
| Banco BBVA | Land and buildings | | 50,381 | 69,498 | - | - |
| Total direct guarantee | | | 4,766,160 | 6,370,256 | 4,628,146 | 6,166,570 |

The amounts of existing debt are presented at nominal value. Book value corresponds to the carrying value of the goods provided as guarantees.

Additionally, there are indirect guarantees related to assets recorded in Property, plant and equipment whose total debt at December 31, 2016 amounted to ThUS\$ 913,494 (ThUS\$ 1,311,088 at December 31, 2015). The book value of assets with indirect guarantees as of December 31, 2016 amounts to ThUS\$ 1,740,815 (ThUS\$ 2,001,605 as of December 31, 2015).

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(ii) Commitments and others

Fully depreciated assets and commitments for future purchases are as follows:

| | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS |
|--|--|--|
| Gross book value of fully depreciated property, plant and equipment still in use | 116,386 | 129,766 |
| Commitments for the acquisition of aircraft (*) | 15,100,000 | 19,800,000 |

(*) According to the manufacturer's price list.

Purchase commitment of aircraft

| Manufacturer | Year of delivery | | | | | | Total |
|--------------------|------------------|-----------|-----------|-----------|-----------|----------|-----------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | |
| Airbus S.A.S. | 5 | 16 | 14 | 16 | 21 | 2 | 74 |
| A320-NEO | 5 | 5 | 8 | 8 | 8 | - | 34 |
| A321 | - | 1 | - | - | - | - | 1 |
| A321-NEO | - | 6 | 2 | 6 | 5 | - | 19 |
| A350-1000 | - | - | 2 | 2 | 8 | 2 | 14 |
| A350-900 | - | 4 | 2 | - | - | - | 6 |
| The Boeing Company | 1 | - | 6 | 2 | 2 | - | 11 |
| Boeing 777 | - | - | 2 | - | - | - | 2 |
| Boeing 787-9 | 1 | - | 4 | 2 | 2 | - | 9 |
| Total | <u>6</u> | <u>16</u> | <u>20</u> | <u>18</u> | <u>23</u> | <u>2</u> | <u>85</u> |

In April 2015 the change of eight Boeing 787-8 aircraft for eight Boeing 787-8 aircraft was signed.

In September 2015 the change of six Airbus A350-900 aircraft for six Airbus A350-1000 aircraft was signed. Additionally, in November 2015 the change of six Airbus A350-900 aircraft to six Airbus A350-1000 aircraft was signed. In April 2016 the change of four Airbus A320 NEO aircraft to four Airbus A321 NEO aircraft was signed. In August 2016 a cancellation of 12 Airbus A320 NEO aircraft and the change of two Airbus A350-900 to two Airbus A350-1000 were signed.

As of December 31, 2016, as a result of the different aircraft purchase agreements signed with Airbus S.A.S., 54 aircraft Airbus A320 family, with deliveries between 2017 and 2021, and 20 Airbus aircraft A350 family with deliveries between 2017 and 2022 remain to be received.

The approximate amount is ThUSS 12,400,000, according to the manufacturer's price list. Additionally, the Company has valid purchase options for 4 Airbus A350 aircraft.

In May 2016 the change of four Boeing 787-8 aircraft for four Boeing 787-9 aircraft was signed.

As of December 31, 2016, and as a result of different aircraft purchase contracts signed with The Boeing Company, a total of nine Boeing 787 Dreamliner aircraft, with delivery dates between 2017 and 2021, and two Boeing 777 with delivery expected for 2019 remain to be received.

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The approximate amount, according to the manufacturer's price list, is ThUSS 2,700,000.

(iii) Capitalized interest costs with respect to Property, plant and equipment.

| | | For the periods ended December 31, | |
|--|-------|---------------------------------------|--------|
| | | 2016 | 2015 |
| Average rate of capitalization of capitalized interest costs | % | 3.54 | 2.79 |
| Costs of capitalized interest | ThUSS | (696) | 22,551 |

(iv) Financial leases

The detail of the main financial leases is as follows:

| Lessor | Aircraft | Model | As of | As of |
|---|-------------|-------|----------------------|----------------------|
| | | | December 31, 2016 | December 31, 2015 |
| Agonandra Statutory Trust | Airbus A320 | 200 | - | 2 |
| Becacina Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| Caiquen Leasing LLC | Boeing 767 | 300F | 1 | 1 |
| Cernicalo Leasing LLC | Boeing 767 | 300F | 2 | 2 |
| Chirihue Leasing Trust | Boeing 767 | 300F | - | 2 |
| Cisne Leasing LLC | Boeing 767 | 300ER | 2 | 2 |
| Codorniz Leasing Limited | Airbus A319 | 100 | 2 | 2 |
| Conure Leasing Limited | Airbus A320 | 200 | 2 | 2 |
| Flamenco Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| FLYAFI 1 S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| FLYAFI 2 S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| FLYAFI 3 S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| Forderum Holding B.V. (GECAS) | Airbus A320 | 200 | - | 2 |
| Garza Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| General Electric Capital Corporation | Airbus A330 | 200 | 3 | 3 |
| Intraelo BETA Corporation (KFW) | Airbus A320 | 200 | 1 | 1 |
| Juliana Leasing Limited | Airbus A320 | 200 | - | 2 |
| Loica Leasing Limited | Airbus A319 | 100 | 2 | 2 |
| Loica Leasing Limited | Airbus A320 | 200 | 2 | 2 |
| Mirlo Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| NBB Rio de Janeiro Lease CO and Brasilia Lease LLC (BBAM) | Airbus A320 | 200 | 1 | 1 |
| NBB São Paulo Lease CO. Limited (BBAM) | Airbus A321 | 200 | 1 | 1 |
| Osprey Leasing Limited | Airbus A319 | 100 | 8 | 8 |
| Petrel Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| Pilpilén Leasing Limited | Airbus A320 | 200 | 4 | 4 |
| Poehard Leasing LLC | Boeing 767 | 300ER | 2 | 2 |
| Qetroit Leasing LLC | Boeing 767 | 300ER | 3 | 3 |
| SG Infrastructure Italia S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| SL Alcyone LTD (Showa) | Airbus A320 | 200 | 1 | 1 |
| TMF Interlease Aviation B.V. | Airbus A330 | 200 | - | 1 |
| TMF Interlease Aviation II B.V. | Airbus A319 | 100 | - | 5 |
| TMF Interlease Aviation II B.V. | Airbus A320 | 200 | - | 2 |
| Tricahue Leasing LLC | Boeing 767 | 300ER | 3 | 3 |
| Wacapou Leasing S.A | Airbus A320 | 200 | 1 | 1 |
| Total | | | <u>50</u> | <u>66</u> |

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Financial leasing contracts where the Company acts as the lessee of aircrafts establish duration between 12 and 18 year terms and semi-annual, quarterly and monthly payments of obligations.

Additionally, the lessee will have the obligation to contract and maintain active the insurance coverage for the aircrafts, perform maintenance on the aircrafts and update the airworthiness certificates at their own cost.

Fixed assets acquired under financial leases are classified as Other property, plant and equipment. As of December 31, 2016 the Company had fifty aircrafts (sixty six aircraft as of December 31, 2015).

As of December 31, 2016, as a result of the transfer plan fleet of TAM Linhas Aéreas S.A. to LATAM Airlines Group S.A., the Company declined its number of aircraft leasing in five Airbus A319-100, eight Airbus A320-200 and one Airbus A330-200 aircraft.

The book value of assets under financial leases as of December 31, 2016 amounts to ThUS\$ 1,753,366 (ThUS\$ 2,030,723 at December 31, 2015).

The minimum payments under financial leases are as follows:

| | As of December 31, 2016 | | | As of December 31, 2015 | | |
|----------------------------|-------------------------|------------------|----------------|-------------------------|------------------|------------------|
| | Gross Value | Present Interest | Value | Gross Value | Present Interest | Value |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| No later than one year | 285,168 | (32,365) | 252,803 | 360,862 | (47,492) | 313,370 |
| Between one and five years | 704,822 | (43,346) | 661,676 | 1,003,237 | (75,363) | 927,874 |
| Over five years | 43,715 | (120) | 43,593 | 95,050 | (1,406) | 93,644 |
| Total | 1,033,703 | (75,631) | 958,072 | 1,459,149 | (24,261) | 1,334,888 |

NOTE 18 - CURRENT AND DEFERRED TAXES

In the period ended December 31, 2016, the income tax provision was calculated for such period, applying the rate of 24% for the business year 2016, in accordance with the Law No. 20,780 published in the Official Journal of the Republic of Chile on September 29, 2014.

Among the main changes is the progressive increase of the First Category Tax which will reach 27% in 2018 if the "Partially Integrated Taxation System" is chosen. Alternatively, if the Company chooses the "Attributed Income Taxation System" the top rate would reach 25% in 2017.

As LATAM Airlines Group S.A. is a public company, by default it must choose the "Partially Integrated Taxation System"(*), unless a future Extraordinary Meeting of Shareholders of the Company agrees, by a minimum of 2/3 of the votes, to choose the "Attributed Income Taxation System"(*). This decision was taken in the last quarter of 2016.

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On February 8, 2016, an amendment to the abovementioned Law was issued (as Law 20,899) stating, as its main amendments, that Companies such Latam Airlines Group S.A. had to mandatorily choose the "Partially Integrated Taxation System"(*) and could not elect to use the other system.

Assets and deferred tax liabilities are offset if there is a legal right to offset the assets and liabilities, always correspond to the same entity and tax authority.

(*) The Partially Integrated Taxation System is based on the taxation by the perception of profits and the Attributed Income Taxation System is based on the taxation by the accrual of profits.

(a) Current taxes

(a.1) The composition of the current tax assets is the following:

| | Current assets | | Non-current assets | | Total assets | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Provisional monthly payments (advances) | 43,821 | 43,935 | - | - | 43,821 | 43,935 |
| Other recoverable credits | 21,556 | 20,080 | 20,272 | 25,629 | 41,828 | 45,709 |
| Total assets by current tax | 65,377 | 64,015 | 20,272 | 25,629 | 85,649 | 89,644 |

(a.2) The composition of the current tax liabilities are as follows:

| | Current liabilities | | Non-current liabilities | | Total liabilities | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Income tax provision | 9,632 | 19,001 | - | - | 9,632 | 19,001 |
| Additional tax provision | 4,654 | 377 | - | - | 4,654 | 377 |
| Total liabilities by current tax | 14,286 | 19,378 | - | - | 14,286 | 19,378 |

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(b) Deferred taxes

The balances of deferred tax are the following:

| Concept | Assets | | Liabilities | |
|--------------------------------------|----------------|----------------|----------------|----------------|
| | As of | As of | As of | As of |
| | December 31, | December 31, | December 31, | December 31, |
| | 2016 | 2015 | 2016 | 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation | 11,735 | (14,243) | 1,387,760 | 1,116,748 |
| Leased assets | (35,922) | (25,299) | 203,836 | 226,003 |
| Amortization | (15,820) | (5,748) | 61,660 | 65,416 |
| Provisions | 222,253 | 210,992 | (59,096) | (167,545) |
| Revaluation of financial instruments | - | 709 | (3,223) | (7,575) |
| Tax losses | 202,536 | 212,067 | (1,126,200) | (797,715) |
| Intangibles | - | - | 430,705 | 364,314 |
| Others | (202) | (1,883) | 20,317 | 11,919 |
| Total | 384,580 | 376,595 | 915,759 | 811,565 |

The balance of deferred tax assets and liabilities are composed primarily of temporary differences to be reversed in the long term.

Movements of Deferred tax assets and liabilities

(a) From January 1 to December 31, 2015

| Concept | Opening | Recognized in | Recognized in | Exchange | Ending | |
|--------------------------------------|----------------------|----------------|-----------------|-----------------|-------------------|------------------|
| | balance | consolidated | comprehensive | rate | | |
| | Assets/(liabilities) | income | income | variation | | |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | |
| | ThUS\$ | ThUS\$ | ThUS\$ | Others | Asset (liability) | |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation | (871,640) | (267,891) | - | 8,540 | - | (1,130,991) |
| Leased assets | (85,775) | (73,330) | - | 7,803 | - | (251,302) |
| Amortization | (160,400) | 84,330 | - | 4,606 | - | (71,464) |
| Provisions | 351,077 | 150,362 | 3,911 | (126,813) | - | 378,537 |
| Revaluation of financial instruments | 12,806 | 19,760 | (21,003) | (3,179) | - | 8,284 |
| Tax losses (*) | 722,749 | 320,397 | - | (33,364) | - | 1,009,782 |
| Intangibles | (523,275) | (8,362) | - | 167,323 | - | (364,314) |
| Others | 9,587 | 45,638 | - | (62,822) | (6,845) | (18,802) |
| Total | (644,571) | 270,904 | (17,192) | (37,266) | (6,845) | (434,970) |

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(b) From January 1 to December 31, 2016

| Concept | Opening | Recognized in | Recognized in | Exchange | Ending | |
|--------------------------------------|----------------------|-----------------|-----------------|---------------|-------------------|------------------|
| | balance | consolidated | comprehensive | rate | | |
| | Assets/(liabilities) | income | income | variation | | |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | |
| | ThUS\$ | ThUS\$ | ThUS\$ | Others | Asset (liability) | |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation | (1,130,991) | (241,435) | - | (3,599) | - | (1,376,025) |
| Leased assets | (251,302) | 14,833 | - | (3,289) | - | (239,758) |
| Amortization | (71,164) | (4,375) | - | (1,941) | - | (77,480) |
| Provisions | 378,537 | (149,969) | 921 | 53,448 | (1,568) | 281,569 |
| Revaluation of financial instruments | 8,284 | 28,294 | (34,695) | 1,340 | - | 3,223 |
| Tax losses (*) | 1,009,782 | 304,892 | - | 14,062 | - | 1,328,736 |
| Intangibles | (364,314) | 4,131 | - | (70,522) | - | (430,705) |
| Others | (18,802) | (30,185) | - | 22,234 | 124 | (20,539) |
| Total | (434,970) | (73,814) | (33,774) | 11,733 | (354) | (531,179) |

Deferred tax assets not recognized:

| | As of | As of |
|---|----------------|---------------|
| | December 31, | December 31, |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Tax losses | 115,801 | 15,513 |
| Total Deferred tax assets not recognized | 115,801 | 15,513 |

Deferred tax assets on tax loss, are recognized to the extent that it is likely probable the realization of future tax benefit. By the above at December 31, 2016, the Company has not recognized deferred tax assets of ThUS\$ 115,801 (ThUS\$ 15,513 at December 31, 2015) according with a loss of ThUS\$ 340,591 (ThUS\$ 45,628 at December 31, 2015).

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Deferred tax expense and current income taxes:

| | For the period ended | |
|--|----------------------|------------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Current tax expense | | |
| Current tax expense | 87,307 | 92,916 |
| Adjustment to previous period's current tax | 2,083 | (395) |
| Total current tax expense, net | 89,390 | 92,521 |
| Deferred tax expense | | |
| Deferred expense for taxes related to the creation and reversal of temporary differences | 73,814 | (270,904) |
| Total deferred tax expense, net | 73,814 | (270,904) |
| Income tax expense | 163,204 | (178,383) |

Composition of income tax expense (income):

| | For the period ended | |
|---|----------------------|------------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Current tax expense, net, foreign | 80,600 | 89,460 |
| Current tax expense, net, Chile | 8,790 | 3,061 |
| Total current tax expense, net | 89,390 | 92,521 |
| Deferred tax expense, net, foreign | 119,175 | (280,445) |
| Deferred tax expense, net, Chile | (45,361) | 9,541 |
| Deferred tax expense, net, total | 73,814 | (270,904) |
| Income tax expense | 163,204 | (178,383) |

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Profit before tax by the legal tax rate in Chile (24% and 22.5% at December 31, 2016 and 2015, respectively)

| | For the period ended | | For the period ended | |
|--|----------------------|------------------|----------------------|--------------|
| | December 31, | | December 31, | |
| | 2016 | 2015 | 2016 | 2015 |
| | ThUS\$ | ThUS\$ | % | % |
| Tax expense using the legal rate (*) | 65,449 | (89,472) | 24.00 | 22.50 |
| Tax effect of rates in other jurisdictions | 16,333 | (21,803) | 5.99 | 5.48 |
| Tax effect of non-taxable operating revenues | (62,419) | (106,381) | (22.89) | 26.75 |
| Tax effect of disallowable expenses | 132,469 | 38,677 | 48.58 | (9.73) |
| Other increases (decreases) in legal tax charge | 11,372 | 596 | 4.17 | (0.15) |
| Total adjustments to tax expense using the legal rate | 97,755 | (88,911) | 35.85 | 22.35 |
| Tax expense using the effective rate | 163,204 | (178,383) | 59.85 | 44.85 |

(*) On September 29, 2014, Law No. 20,780 "Amendment to the system of income taxation and introduces various adjustments in the tax system." was published in the Official Journal of the Republic of Chile. Within major tax reforms that this law contains, the First- Category Tax rate is gradually modified from 2014 to 2018 and should be declared and paid in tax year 2015.

Thus, at December 31, 2016 the Company presents the reconciliation of income tax expense and legal tax rate considering the rate increase.

Deferred taxes related to items charged to net equity:

| | For the period ended | |
|---|----------------------|----------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Aggregate deferred taxation of components of other comprehensive income | (33,774) | (17,192) |
| Aggregate deferred taxation related to items charged to net equity | (807) | (992) |

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NOTE 19 - OTHER FINANCIAL LIABILITIES

The composition of Other financial liabilities is as follows:

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|----------------------------|---|---|
| Current | | |
| (a) Interest bearing loans | 1,814,647 | 1,510,146 |
| (b) Hedge derivatives | <u>24,881</u> | <u>134,089</u> |
| Total current | <u>1,839,528</u> | <u>1,644,235</u> |
| Non-current | | |
| (a) Interest bearing loans | 6,790,273 | 7,516,257 |
| (b) Hedge derivatives | <u>6,679</u> | <u>16,128</u> |
| Total non-current | <u>6,796,952</u> | <u>7,532,385</u> |

(a) Interest bearing loans

Obligations with credit institutions and debt instruments:

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|---|---|---|
| Current | | |
| Loans to exporters | 278,164 | 387,409 |
| Bank loans (1) | 290,810 | 80,188 |
| Guaranteed obligations | 578,014 | 591,148 |
| Other guaranteed obligations | <u>1,908</u> | <u>32,513</u> |
| Subtotal bank loans | 1,148,896 | 1,091,258 |
| Obligation with the public | 312,043 | 10,999 |
| Financial leases | 268,040 | 324,859 |
| Other loans | <u>85,668</u> | <u>83,030</u> |
| Total current | <u>1,814,647</u> | <u>1,510,146</u> |
| Non-current | | |
| Bank loans | 294,477 | 564,128 |
| Guaranteed obligations | 4,180,538 | 4,122,995 |
| Other guaranteed obligations | <u>254,512</u> | <u>-</u> |
| Subtotal bank loans | 4,729,527 | 4,687,123 |
| Obligation with the public (2) | 997,302 | 1,294,882 |
| Financial leases | 754,321 | 1,015,779 |
| Other loans | <u>309,123</u> | <u>518,473</u> |
| Total non-current | <u>6,790,273</u> | <u>7,516,257</u> |
| Total obligations with financial institutions | <u>8,604,920</u> | <u>9,026,403</u> |

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(1) On September 29, 2016 TAM Linhas Aéreas S.A. obtained financing for US \$ 200 million, guaranteed with 18% of the shares of Multiplus S.A., percentage adjustable depending on the shares price. Additionally, TAM obtained a Cross Currency Swap for the same amount and period, in order to convert the commitment currency from US\$ to BRL.

(2) On June 9, 2015 LATAM Airlines Group S.A. has issued and placed on the international market under Rule 144-A and Regulation S of the securities laws of the United States of America, unsecured long-term bonds in the amount of US\$ 500,000,000, maturing 2020, interest rate of 7.25% per annum.

As reported in the Essential Matter of May 20 and June 5, 2015, the Issuance and placement of the Bonds 144-A shall be: (i) finance the repurchase, conversion and redemption of secured long-term bonds issued by the company TAM Capital 2 Inc., under Rule 144-A and Regulation S of the securities laws of the United States of America, maturing 2020; (ii) in the event there is any remnant fund other general corporate purposes. The aforementioned bonds TAM Capital 2 Inc. were redeemed in whole (US\$ 300,000,000) through a process of exchange for new bonds dated June 9, 2015 and then the remaining bonds were redeemed by running the prepay dated June 18, 2015.

All interest-bearing liabilities are recorded using the effective interest rate method. Under IFRS, the effective interest rate for loans with a fixed interest rate does not vary throughout the loan, while in the case of loans with variable interest rates, the effective rate changes on each date of reprising of the loan.

Currency balances that make the interest bearing loans:

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|---------------------|---|---|
| Currency | | |
| Brazilian real | 1,253 | 3,387 |
| Chilean peso (U.F.) | 203,194 | 210,423 |
| US Dollar | <u>8,400,473</u> | <u>8,812,593</u> |
| Total | <u>8,604,920</u> | <u>9,026,403</u> |

Interest-bearing loans due in installments to December 31, 2016
 Debtor: LATAM Airlines Group S. A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective rate % | Nominal rate % |
|-------------------------------------|-----------------------|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|---------------|------------------|----------------|
| | | | | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | | |
| | | | | | | | | | | | | | | | | | | |
| Loans to exporters | | | | | | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | 75,000 | - | - | - | - | 75,000 | 75,234 | - | - | - | - | 75,234 | At Expiration | 1.85 | 1.85 |
| 97.032.000-8 | BBVA | Chile | UF | - | 50,381 | - | - | - | 50,381 | - | 50,324 | - | - | - | 50,324 | At Expiration | 5.23 | 4.43 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 30,000 | - | - | - | - | 30,000 | 30,183 | - | - | - | - | 30,183 | At Expiration | 2.39 | 2.39 |
| 97.030.000-7 | ESTADO | Chile | US\$ | 40,000 | - | - | - | - | 40,000 | 40,098 | - | - | - | - | 40,098 | At Expiration | 1.91 | 1.91 |
| 97.003.000-K | BANCO DOBRAS IL | Chile | US\$ | 70,000 | - | - | - | - | 70,000 | 70,323 | - | - | - | - | 70,323 | At Expiration | 3.08 | 3.08 |
| 97.951.000-4 | HSBC | Chile | US\$ | 12,000 | - | - | - | - | 12,000 | 12,002 | - | - | - | - | 12,002 | At Expiration | 1.79 | 1.79 |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 97.023.000-9 | CORP BANCA | Chile | UF | 19,229 | 57,686 | 60,186 | 16,254 | - | 153,355 | 19,819 | 57,686 | 59,176 | 16,189 | - | 152,870 | Quarterly | 4.06 | 4.06 |
| 0-E | BLADEX | U.S.A. | US\$ | - | 12,500 | 30,000 | - | - | 42,500 | - | 12,667 | 29,625 | - | - | 42,292 | Semiannual | 5.14 | 5.14 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | - | - | 28,911 | - | - | 28,911 | 3 | - | 28,911 | - | - | 28,914 | Quarterly | 1.86 | 1.86 |
| 97.036.000-K | SANTANDER | Chile | US\$ | - | - | 158,194 | - | - | 158,194 | 542 | - | 158,194 | - | - | 158,736 | Quarterly | 3.55 | 3.55 |
| Obligations with the public | | | | | | | | | | | | | | | | | | |
| 0-E | BANK OF NEW YORK | U.S.A. | US\$ | - | - | - | 500,000 | - | 500,000 | 2,291 | - | - | 489,885 | - | 492,176 | At Expiration | 7.77 | 7.25 |
| Guaranteed obligations | | | | | | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | France | US\$ | 11,073 | 29,252 | 62,209 | 32,172 | 3,711 | 138,417 | 11,454 | 29,252 | 60,781 | 31,221 | 3,631 | 136,339 | Quarterly | 2.21 | 1.81 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 10,496 | 42,401 | 111,962 | 118,181 | 345,078 | 628,118 | 12,792 | 43,023 | 108,271 | 116,067 | 341,481 | 621,634 | Quarterly | 2.97 | 2.96 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 31,448 | 95,186 | 260,112 | 269,512 | 400,087 | 1,056,345 | 35,211 | 95,186 | 233,012 | 257,387 | 391,253 | 1,012,049 | Quarterly | 2.37 | 1.68 |
| 0-E | WILMINGTON TRUST | U.S.A. | US\$ | 15,554 | 49,236 | 135,254 | 140,848 | 626,444 | 967,336 | 20,997 | 49,236 | 130,792 | 138,455 | 622,153 | 961,633 | Quarterly | 4.25 | 4.25 |
| 0-E | CITIBANK | U.S.A. | US\$ | 17,495 | 53,162 | 146,932 | 154,774 | 175,805 | 548,168 | 19,059 | 53,162 | 138,257 | 150,891 | 172,087 | 533,456 | Quarterly | 2.72 | 1.96 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,347 | 16,204 | 44,472 | 46,386 | 26,165 | 138,574 | 5,680 | 16,204 | 42,707 | 45,815 | 26,063 | 136,469 | Quarterly | 1.98 | 1.44 |
| 0-E | BTMU | U.S.A. | US\$ | 2,787 | 8,470 | 23,393 | 24,635 | 26,705 | 85,990 | 3,001 | 8,470 | 22,132 | 24,149 | 26,519 | 84,271 | Quarterly | 2.31 | 1.72 |
| 0-E | APPLEBANK | U.S.A. | US\$ | 1,364 | 4,167 | 11,516 | 12,146 | 13,561 | 42,754 | 1,538 | 4,166 | 10,889 | 11,902 | 13,464 | 41,959 | Quarterly | 2.29 | 1.69 |
| 0-E | US BANK | U.S.A. | US\$ | 14,817 | 44,958 | 123,705 | 129,462 | 219,666 | 532,608 | 17,298 | 44,958 | 104,709 | 120,509 | 211,895 | 499,369 | Quarterly | 3.99 | 2.81 |
| 0-E | DELITS CHE BANK | U.S.A. | US\$ | 4,992 | 15,365 | 24,725 | 26,984 | 45,197 | 117,263 | 5,570 | 15,365 | 24,023 | 26,515 | 44,522 | 115,995 | Quarterly | 3.86 | 3.86 |
| 0-E | NATIXIS | France | US\$ | 12,289 | 37,388 | 98,873 | 82,066 | 192,235 | 422,851 | 13,038 | 37,388 | 97,469 | 81,130 | 190,048 | 419,073 | Quarterly | 2.60 | 2.57 |
| 0-E | P K AIRFINANCE | U.S.A. | US\$ | 2,018 | 6,268 | 18,413 | 24,944 | 3,144 | 54,787 | 2,071 | 6,269 | 18,412 | 24,944 | 3,144 | 54,840 | Monthly | 2.40 | 2.40 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 2,288 | 7,015 | 17,869 | 9,019 | - | 36,191 | 2,319 | 7,015 | 17,869 | 9,019 | - | 36,222 | Quarterly | 2.55 | 2.55 |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 1,797 | 5,476 | 15,262 | 7,664 | - | 30,199 | 1,841 | 5,477 | 15,261 | 7,664 | - | 30,243 | Monthly | 2.49 | 2.49 |
| 0-E | INVES TEC | England | US\$ | 1,298 | 7,526 | 19,290 | 21,667 | 22,421 | 72,202 | 1,771 | 7,733 | 18,533 | 21,368 | 22,309 | 71,714 | Semiannual | 5.67 | 5.67 |
| - | SWAP Aviones llegados | - | US\$ | 403 | 1,067 | 1,658 | 158 | - | 3,286 | 403 | 1,067 | 1,658 | 158 | - | 3,286 | Quarterly | - | - |
| Other guaranteed obligations | | | | | | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | France | US\$ | - | - | 256,860 | - | - | 256,860 | 1,908 | - | 254,512 | - | - | 256,420 | Quarterly | 2.85 | 2.85 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 5,089 | 15,653 | 31,151 | 11,805 | - | 63,698 | 5,641 | 15,652 | 30,577 | 11,771 | - | 63,641 | Quarterly | 5.62 | 4.96 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 1,754 | 5,403 | - | - | - | 7,157 | 1,780 | 5,403 | - | - | - | 7,183 | Quarterly | 1.85 | 1.85 |
| 0-E | CITIBANK | U.S.A. | US\$ | 4,956 | 15,312 | 44,177 | 13,804 | - | 78,249 | 5,622 | 15,312 | 43,413 | 13,762 | - | 78,109 | Quarterly | 6.40 | 5.67 |
| 0-E | PEFCO | U.S.A. | US\$ | 15,979 | 47,048 | 63,957 | 3,827 | - | 130,811 | 16,852 | 47,048 | 63,072 | 3,819 | - | 130,791 | Quarterly | 5.39 | 4.79 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 12,520 | 38,494 | 75,958 | 22,147 | - | 149,119 | 13,122 | 38,494 | 74,776 | 22,079 | - | 148,471 | Quarterly | 3.69 | 3.26 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 4,678 | 14,261 | 39,862 | 42,663 | 1,862 | 103,326 | 5,018 | 14,260 | 38,834 | 42,430 | 1,861 | 102,403 | Quarterly | 3.98 | 3.54 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 4,680 | 9,447 | - | - | - | 14,127 | 4,713 | 9,448 | - | - | - | 14,161 | Quarterly | 2.57 | 2.57 |
| 0-E | RRP ENGINE | England | US\$ | - | - | 6,402 | 6,955 | 11,917 | 25,274 | - | - | 6,402 | 6,955 | 11,917 | 25,274 | Monthly | 2.35 | 2.35 |
| Other loans | | | | | | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | - | - | 26,214 | - | - | 26,214 | 185 | - | 26,214 | - | - | 26,399 | At Expiration | 2.35 | 2.35 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | 20,555 | 63,942 | 184,866 | 101,026 | - | 370,389 | 21,541 | 63,942 | 182,043 | 100,866 | - | 368,392 | Quarterly | 6.00 | 6.00 |
| Total | | | | 451,906 | 753,268 | 2,122,383 | 1,819,099 | 2,113,998 | 7,260,654 | 480,920 | 754,207 | 2,040,524 | 1,774,950 | 2,082,347 | 7,132,948 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Interest-bearing loans due in installments to December 31, 2016
 Debtor: TAMS. A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective Nominal | |
|-----------------------------------|--|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|----------------------|-------------------|-------|
| | | | | Upto 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Upto 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | rate | rate |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 0-E | NEDERLANDS CHE CREDITVERZEKERINGMAATSCHAPPIJ | Holland | US\$ | 122 | 378 | 1,094 | 1,234 | 54 | 2,882 | 137 | 378 | 1,094 | 1,233 | 55 | 2,897 | Monthly | 6.01 | 6.01 |
| 0-E | CITIBANK | U.S.A | US\$ | - | 200,000 | - | - | - | 200,000 | (151) | 199,729 | - | - | - | 199,578 | At Expiration | 3.39 | 3.14 |
| Obligation with the public | | | | | | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A | US\$ | - | 300,000 | - | 500,000 | - | 800,000 | 8,173 | 301,579 | 4,119 | 503,298 | - | 817,169 | At Expiration | 8.17 | 8.00 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT IXLIC | U.S.A | US\$ | 2,086 | 6,437 | 18,556 | 8,369 | - | 35,448 | 2,253 | 6,437 | 18,556 | 8,369 | - | 35,615 | Monthly | 1.25 | 1.25 |
| 0-E | DVB BANK SE | U.S.A | US\$ | 118 | 164 | - | - | - | 282 | 119 | 164 | - | - | - | 283 | Monthly | 2.50 | 2.50 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A | US\$ | 3,771 | 5,075 | - | - | - | 8,846 | 3,794 | 5,075 | - | - | - | 8,869 | Monthly | 2.30 | 2.30 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 579 | 1,544 | - | - | - | 2,123 | 583 | 1,544 | - | - | - | 2,127 | Monthly/Quarterly | 2.80 | 2.80 |
| 0-E | NATIS | France | US\$ | 2,675 | 5,732 | 18,485 | 38,820 | 41,731 | 107,443 | 3,533 | 5,732 | 18,485 | 38,820 | 41,731 | 108,301 | Quarterly/Semiannual | 4.90 | 4.90 |
| 0-E | WACAPOU LEASINGS A. | Luxemburg | US\$ | 668 | 2,038 | 5,768 | 6,280 | - | 14,754 | 709 | 2,038 | 5,768 | 6,280 | - | 14,795 | Quarterly | 3.00 | 3.00 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 8,547 | 26,275 | 74,783 | 169,730 | - | 279,335 | 9,779 | 26,275 | 74,783 | 169,730 | - | 280,567 | Quarterly | 4.18 | 4.11 |
| 0-E | BANCO BMS A | Brazil | BRL | 260 | 749 | 22 | - | - | 1,031 | 260 | 749 | 21 | - | - | 1,030 | Monthly | 13.63 | 13.63 |
| 0-E | HP FINANCIALS SERVICE | Brazil | BRL | 222 | - | - | - | - | 222 | 222 | - | - | - | - | 222 | Monthly | 10.02 | 10.02 |
| 0-E | SOCIÉTÉ GÉNÉRALE | France | BRL | 102 | 307 | 110 | - | - | 519 | 102 | 307 | 110 | - | - | 519 | Monthly | 13.63 | 13.63 |
| Total | | | | 19,150 | 548,699 | 118,818 | 724,433 | 41,785 | 1,452,885 | 29,513 | 550,007 | 122,936 | 727,730 | 41,786 | 1,471,972 | | | |
| Total consolidated | | | | 471,056 | 1,301,967 | 2,241,201 | 2,543,532 | 2,155,783 | 8,713,539 | 510,433 | 1,304,214 | 2,163,460 | 2,502,680 | 2,124,133 | 8,604,920 | | | |

Interest-bearing loans due in installments to December 31, 2015
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective rate % | Nominal rate % |
|-------------------------------------|-----------------------|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|---------------|------------------|----------------|
| | | | | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | |
| Loans to exporters | | | | | | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | 100,000 | - | - | - | - | 100,000 | 100,183 | - | - | - | - | 100,183 | At Expiration | 1.00 | 1.00 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 100,000 | - | - | - | - | 100,000 | 100,067 | - | - | - | - | 100,067 | At Expiration | 1.44 | 1.44 |
| 97.030.000-7 | ESTADO | Chile | US\$ | 55,000 | - | - | - | - | 55,000 | 55,088 | - | - | - | - | 55,088 | At Expiration | 1.05 | 1.05 |
| 97.004.000-5 | CHILE | Chile | US\$ | 50,000 | - | - | - | - | 50,000 | 50,006 | - | - | - | - | 50,006 | At Expiration | 1.42 | 1.42 |
| 97.003.000-K | BANCO DOBRAS IL | Chile | US\$ | 70,000 | - | - | - | - | 70,000 | 70,051 | - | - | - | - | 70,051 | At Expiration | 1.18 | 1.18 |
| 97.951.000-4 | HSBC | Chile | US\$ | 12,000 | - | - | - | - | 12,000 | 12,014 | - | - | - | - | 12,014 | At Expiration | 0.66 | 0.66 |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 97.023.000-9 | CORP BANCA | Chile | UF | 17,631 | 52,893 | 105,837 | 34,774 | - | 211,135 | 18,510 | 52,892 | 104,385 | 34,635 | - | 210,422 | Quarterly | 4.18 | 4.18 |
| 0-E | BLADEX | U.S.A. | US\$ | - | 7,500 | 27,500 | 15,000 | - | 50,000 | 134 | 7,500 | 27,125 | 14,875 | - | 49,634 | Semiannual | 4.58 | 4.58 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | - | - | 153,514 | - | - | 153,514 | 14 | - | 153,514 | - | - | 153,528 | Quarterly | 1.67 | 1.67 |
| 97.036.000-K | SANTANDER | Chile | US\$ | - | - | 226,712 | - | - | 226,712 | 650 | - | 226,712 | - | - | 227,362 | Quarterly | 2.24 | 2.24 |
| Obligations with the public | | | | | | | | | | | | | | | | | | |
| 0-E | BANK OF YORK | U.S.A. | US\$ | - | - | - | 500,000 | - | 500,000 | 2,383 | - | - | 486,962 | - | 489,345 | At Expiration | 7.77 | 7.25 |
| Guaranteed obligations | | | | | | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | France | US\$ | 29,633 | 88,188 | 204,722 | 54,074 | 12,410 | 389,027 | 30,447 | 88,189 | 203,286 | 54,074 | 12,410 | 388,406 | Quarterly | 1.83 | 1.66 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 8,162 | 25,012 | 70,785 | 75,028 | 140,410 | 319,397 | 9,243 | 25,012 | 70,335 | 74,917 | 140,407 | 319,914 | Quarterly | 2.29 | 2.22 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 30,895 | 93,511 | 255,536 | 264,770 | 536,039 | 1,180,751 | 34,933 | 93,511 | 227,704 | 252,054 | 525,257 | 1,133,459 | Quarterly | 2.27 | 1.57 |
| 0-E | WILMINGTON TRUST | U.S.A. | US\$ | - | 48,264 | 85,183 | 90,694 | 451,555 | 675,696 | 5,691 | 48,263 | 81,867 | 88,977 | 448,016 | 672,814 | Quarterly | 4.25 | 4.25 |
| 0-E | CITIBANK | U.S.A. | US\$ | 17,042 | 51,792 | 143,168 | 150,792 | 254,208 | 617,002 | 18,545 | 51,792 | 133,740 | 146,362 | 249,406 | 599,845 | Quarterly | 2.40 | 1.64 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,233 | 15,862 | 43,552 | 45,416 | 49,606 | 159,669 | 5,514 | 15,862 | 41,434 | 44,599 | 49,281 | 156,690 | Quarterly | 1.47 | 0.93 |
| 0-E | BTMU | U.S.A. | US\$ | 2,714 | 8,250 | 22,801 | 24,007 | 39,182 | 96,954 | 2,897 | 8,250 | 21,336 | 23,376 | 38,789 | 94,648 | Quarterly | 1.82 | 1.22 |
| 0-E | APLEBANK | U.S.A. | US\$ | 1,333 | 4,055 | 11,211 | 11,828 | 19,715 | 48,142 | 1,478 | 4,056 | 10,483 | 11,513 | 19,515 | 47,045 | Quarterly | 1.72 | 1.12 |
| 0-E | US BANK | U.S.A. | US\$ | 14,483 | 43,948 | 120,924 | 126,550 | 285,134 | 591,039 | 17,232 | 43,948 | 102,607 | 117,968 | 277,195 | 558,950 | Quarterly | 3.99 | 2.81 |
| 0-E | DEUTSCHE BANK | U.S.A. | US\$ | 4,767 | 14,667 | 32,449 | 25,826 | 58,989 | 136,698 | 5,342 | 14,666 | 32,448 | 25,826 | 58,989 | 137,271 | Quarterly | 3.40 | 3.40 |
| 0-E | NATIXIS | France | US\$ | 11,698 | 35,914 | 97,434 | 83,289 | 241,088 | 469,423 | 12,351 | 35,914 | 97,434 | 83,289 | 241,088 | 470,076 | Quarterly | 2.08 | 2.05 |
| 0-E | HSBC | U.S.A. | US\$ | 1,374 | 4,180 | 11,533 | 12,112 | 24,384 | 53,583 | 1,504 | 4,180 | 11,533 | 12,112 | 24,384 | 53,713 | Quarterly | 2.40 | 1.59 |
| 0-E | PK AIRFINANCE | U.S.A. | US\$ | 1,882 | 5,846 | 17,171 | 19,744 | 17,871 | 62,514 | 1,937 | 5,846 | 17,171 | 19,744 | 17,871 | 62,569 | Monthly | 2.04 | 2.04 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 653 | 2,028 | 5,314 | 3,958 | 1,640 | 13,593 | 655 | 2,028 | 5,314 | 3,958 | 1,640 | 13,595 | Quarterly | 2.45 | 2.45 |
| - | SWAP Aviones llegados | - | US\$ | 502 | 1,360 | 2,521 | 765 | - | 5,148 | 502 | 1,360 | 2,521 | 765 | - | 5,148 | Quarterly | - | - |
| Other guaranteed obligations | | | | | | | | | | | | | | | | | | |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 8,054 | 24,438 | - | - | - | 32,492 | 8,075 | 24,438 | - | - | - | 32,513 | Quarterly | 2.32 | 2.32 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 8,108 | 23,191 | 36,868 | 26,831 | - | 94,998 | 8,894 | 23,191 | 36,066 | 26,682 | - | 94,833 | Quarterly | 5.13 | 4.57 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 1,666 | 5,131 | 7,158 | - | - | 13,955 | 1,700 | 5,131 | 7,158 | - | - | 13,989 | Quarterly | 1.28 | 1.28 |
| 0-E | CITIBANK | U.S.A. | US\$ | 4,687 | 14,447 | 41,726 | 36,523 | - | 97,383 | 5,509 | 14,447 | 40,684 | 36,330 | - | 96,970 | Quarterly | 6.40 | 5.67 |
| 0-E | PEFCO | U.S.A. | US\$ | 15,246 | 46,858 | 108,403 | 22,407 | - | 192,914 | 16,536 | 46,858 | 106,757 | 22,324 | - | 192,475 | Quarterly | 5.37 | 4.77 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 9,956 | 30,678 | 81,373 | 31,100 | - | 153,107 | 10,494 | 30,678 | 79,983 | 30,958 | - | 152,113 | Quarterly | 4.08 | 3.64 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 4,519 | 13,784 | 38,531 | 41,238 | 23,556 | 121,628 | 4,919 | 13,784 | 37,247 | 40,819 | 23,486 | 120,255 | Quarterly | 3.98 | 3.54 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 4,567 | 13,873 | 14,127 | - | - | 32,567 | 4,625 | 13,873 | 14,127 | - | - | 32,625 | Quarterly | 2.06 | 2.06 |
| 0-E | BANC OF AMERICA | U.S.A. | US\$ | 674 | 2,096 | - | - | - | 2,770 | 676 | 2,096 | - | - | - | 2,772 | Monthly | 1.41 | 1.41 |
| Other loans | | | | | | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | - | - | 151,362 | - | - | 151,362 | 2,294 | - | 151,363 | - | - | 153,657 | At Expiration | 1.80 | 1.80 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | 19,361 | 60,251 | 174,178 | 196,210 | - | 450,000 | 20,485 | 60,251 | 174,178 | 192,932 | - | 447,846 | Quarterly | 6.00 | 6.00 |
| Total | | | | 611,840 | 738,017 | 2,291,593 | 1,892,936 | 2,155,787 | 7,690,173 | 641,578 | 738,016 | 2,218,512 | 1,846,051 | 2,127,734 | 7,571,891 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Interest-bearing loans due in installments to December 31, 2015
 Debtor: TAMS.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective rate % | Nominal rate % |
|------------------------------------|---|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|----------------------|------------------|----------------|
| | | | | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 0-E | NEDERLANDS CHE CREDITVERZEKERING MAATSCHAPPIJ | Holland | US\$ | 115 | 356 | 1,031 | 1,162 | 689 | 3,353 | 132 | 356 | 1,031 | 1,162 | 689 | 3,370 | Monthly | 6.01 | 6.01 |
| Obligations with the public | | | | | | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A. | US\$ | - | - | 300,000 | - | 500,000 | 800,000 | 7,506 | 1,110 | 301,722 | 5,171 | 501,027 | 816,536 | At Expiration | 8.17 | 8.00 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT I LLC | U.S.A. | US\$ | 1,972 | 6,085 | 17,540 | 17,908 | - | 43,505 | 2,176 | 6,085 | 17,540 | 17,908 | - | 43,709 | Monthly | 1.25 | 1.25 |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 3,370 | 10,397 | 20,812 | 15,416 | - | 49,995 | 3,461 | 10,396 | 20,813 | 15,416 | - | 50,086 | Monthly | 1.43 | 1.43 |
| 0-E | CREDIT AGRICOLE-CIB | U.S.A. | US\$ | 4,500 | - | - | - | - | 4,500 | 4,528 | - | - | - | - | 4,528 | Quarterly | 3.25 | 3.25 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 118 | 355 | 282 | - | - | 755 | 120 | 355 | 282 | - | - | 757 | Monthly | 1.64 | 1.64 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 3,654 | 11,137 | 8,970 | - | - | 23,761 | 3,697 | 11,137 | 8,970 | - | - | 23,804 | Monthly | 1.25 | 1.25 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 3,097 | 6,401 | 15,186 | 12,215 | - | 36,899 | 3,163 | 6,401 | 15,186 | 12,215 | - | 36,965 | Monthly/Quarterly | 1.72 | 1.72 |
| 0-E | NATIS | France | US\$ | 2,505 | 5,387 | 17,359 | 19,682 | 70,087 | 115,020 | 3,476 | 5,387 | 17,360 | 19,682 | 70,088 | 115,993 | Quarterly/Semiannual | 3.85 | 3.85 |
| 0-E | PK AIR FINANCEUS, INC. | U.S.A. | US\$ | 1,276 | 21,769 | - | - | - | 23,045 | 1,316 | 21,769 | - | - | - | 23,085 | Monthly | 1.75 | 1.75 |
| 0-E | WACAP OULEASINGS A. | Luxemburg | US\$ | 383 | 1,101 | 2,617 | 14,267 | - | 18,368 | 418 | 1,101 | 2,617 | 14,267 | - | 18,403 | Quarterly | 2.00 | 2.00 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 8,148 | 25,003 | 71,311 | 208,024 | - | 312,486 | 9,552 | 25,003 | 71,311 | 208,024 | - | 313,890 | Quarterly | 3.63 | 3.55 |
| 0-E | BANCO BMS A | Brazil | BRL | 217 | 651 | 860 | - | - | 1,728 | 217 | 651 | 860 | - | - | 1,728 | Monthly | 14.14 | 14.14 |
| 0-E | HP FINANCIALS SERVICE | Brazil | BRL | 168 | 529 | 185 | - | - | 882 | 169 | 529 | 185 | - | - | 883 | Monthly | 10.02 | 10.02 |
| 0-E | SOCIÉTÉ GÉNÉRALE | France | BRL | 85 | 256 | 434 | - | - | 775 | 85 | 256 | 434 | - | - | 775 | Monthly | 14.14 | 14.14 |
| Total | | | | 29,608 | 89,427 | 456,587 | 288,674 | 570,776 | 1,435,072 | 40,016 | 90,536 | 458,311 | 293,845 | 571,804 | 1,454,512 | | | |
| Total consolidated | | | | 641,448 | 827,444 | 2,748,180 | 2,181,610 | 2,726,563 | 9,125,245 | 681,594 | 828,552 | 2,676,823 | 2,139,896 | 2,699,538 | 9,026,403 | | | |

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(b) Hedge derivatives

| | Current liabilities | | Non-current liabilities | | Total hedge derivatives | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Accrued interest from the last date of interest rate swap | 2,148 | 4,329 | - | - | 2,148 | 4,329 |
| Fair value of interest rate derivatives | 9,578 | 33,518 | 6,679 | 16,128 | 16,257 | 49,646 |
| Fair value of fuel derivatives | - | 56,424 | - | - | - | 56,424 |
| Fair value of foreign currency derivative: | 13,155 | 39,818 | - | - | 13,155 | 39,818 |
| Total hedge derivatives | 24,881 | 134,089 | 6,679 | 16,128 | 31,560 | 150,217 |

The foreign currency derivatives exchanges are FX forward and cross currency swap.

Hedging operation

The fair values of net assets/ (liabilities), by type of derivative, of the contracts held as hedging instruments are presented below:

| | As of December 31, 2016 | As of December 31, 2015 |
|---|-------------------------|-------------------------|
| | ThUS\$ | ThUS\$ |
| Cross currency swaps (CCS) (1) | (12,286) | (49,311) |
| Interest rate swaps (2) | (16,926) | (44,085) |
| Fuel options (3) | 10,088 | (50,131) |
| Currency forward - options US\$/GBP\$ (4) | 618 | 7,432 |
| Currency forward - options US\$/EUR\$ (4) | 109 | 1,438 |
| Currency options R\$/US\$ (4) | (1,752) | 933 |
| Currency options CLP/US\$ (4) | - | 85 |

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate and the exchange rate US\$/UF and US\$/BRL of bank loans. These contracts are recorded as cash flow hedges and fair value.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 months LIBOR interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (3) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases. These contracts are recorded as cash flow hedges.
- (4) Covers the foreign exchange risk exposure of operating cash flows caused mainly by fluctuations in the exchange rate R\$/US\$ and US\$/GBP. These contracts are recorded as cash flow hedges.

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During the periods presented, the Company only maintains cash flow hedges and fair value (in the case of CCS). In the case of fuel hedges, the cash flows subject to such hedges will impact results in the next six months from the consolidated statement of financial position date, meanwhile in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid initially for 12 years. The hedges on investments will impact results continuously throughout the life of the investment, while the cash flows occur at the maturity of the investment. In the case of currency hedges through a CCS, are generated two types of hedge accounting, a cash flow component by US\$/UF and US\$/BRL, and other fair value by US\$ floating rate component.

During the periods presented, no hedging operations of future highly probable transaction that have not been realized have occurred.

Since none of the coverage resulted in the recognition of a non-financial asset, no portion of the result of the derivatives recognized in equity was transferred to the initial value of such assets.

The amounts recognized in comprehensive income during the period and transferred from net equity to income are as follows:

| | For the period ended December 31, | |
|--|-----------------------------------|-----------|
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Debit (credit) recognized in comprehensive income during the period | 127,390 | 80,387 |
| Debit (credit) transferred from net equity to income during the period | (113,403) | (151,244) |

NOTE 20 - TRADE AND OTHER ACCOUNTS PAYABLES

The composition of Trade and other accounts payables is as follows:

| | As of December 31, 2016 | As of December 31, 2015 |
|---|-------------------------|-------------------------|
| | ThUS\$ | ThUS\$ |
| Current | | |
| (a) Trade and other accounts payables | 1,117,926 | 1,025,574 |
| (b) Accrued liabilities at the reporting date | 475,142 | 458,383 |
| Total trade and other accounts payables | <u>1,593,068</u> | <u>1,483,957</u> |

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(a) Trade and other accounts payable:

| | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS |
|------------------------|--|--|
| Trade creditors | 868,833 | 758,783 |
| Leasing obligation | 10,446 | 18,784 |
| Other accounts payable | 238,647 | 248,007 |
| Total | <u>1,117,926</u> | <u>1,025,574</u> |

The details of Trade and other accounts payables are as follows:

| | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS |
|---|--|--|
| Aircraft Fuel | 188,276 | 148,612 |
| Boarding Fee | 149,880 | 175,900 |
| Airport charges and overflight | 90,327 | 94,139 |
| Handling and ground handling | 87,406 | 88,629 |
| Other personnel expenses | 81,632 | 72,591 |
| Professional services and advisory | 79,270 | 63,302 |
| Land services | 74,260 | 80,387 |
| Marketing | 61,053 | 45,997 |
| Services on board | 44,589 | 32,993 |
| Leases, maintenance and IT services | 44,287 | 25,558 |
| Suppliers' technical purchases | 40,305 | 52,160 |
| Crew | 29,074 | 23,834 |
| Maintenance | 25,962 | 18,573 |
| Achievement of goals | 17,801 | 15,386 |
| Distribution system | 15,710 | 17,531 |
| Airlines | 13,264 | 3,890 |
| Aircraft and engines leasing | 10,446 | 19,146 |
| Aviation insurance | 7,694 | 7,655 |
| Communications | 7,500 | 6,731 |
| SEC agreement (*) | 4,719 | - |
| Others | 44,471 | 32,560 |
| Total trade and other accounts payables | <u>1,117,926</u> | <u>1,025,574</u> |

(*) Provision made for payments of fines, on July 25, 2016 LATAM reached agreements with the U.S. Department of Justice ("DOJ") U.S. and the Securities and Exchange Commission ("SEC") both authorities of the United States of America, in force as of this date, regarding the investigation on payments by LAN Airlines S.A. made in 2006-2007 to a consultant who advised on the resolution of labor matters in Argentina. The amount to the SEC agreement is ThUS\$ 6,744 plus interests of ThUS\$ 2,694.

As of December 31, the balance payable to the SEC is ThUS \$ 4,719.

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(b) Liabilities accrued:

| | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS |
|-----------------------------------|--|--|
| Aircraft and engine maintenance | 244,949 | 246,454 |
| Accrued personnel expenses | 113,785 | 108,058 |
| Accounts payable to personnel (*) | 89,523 | 81,368 |
| Others accrued liabilities | 26,885 | 22,503 |
| Total accrued liabilities | <u>475,142</u> | <u>458,383</u> |

(*) Profits and bonds participation (Note 23 letter b)

NOTE 21 - OTHER PROVISIONS

Other provisions:

| | Current liabilities | | Non-current liabilities | | Total Liabilities | |
|--|--|--|--|--|--|--|
| | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS | As of December 31, 2016 ThUSS | As of December 31, 2015 ThUSS |
| Provision for contingencies (1) | | | | | | |
| Tax contingencies | 1,425 | 1,297 | 313,064 | 350,418 | 314,489 | 351,715 |
| Civil contingencies | 993 | 1,476 | 56,413 | 37,555 | 57,406 | 39,031 |
| Labor contingencies | 225 | 149 | 29,307 | 15,648 | 29,532 | 15,797 |
| Other | - | - | 15,046 | 11,910 | 15,046 | 11,910 |
| Provision for European Commission investigation (2) | - | - | 8,664 | 8,966 | 8,664 | 8,966 |
| Total other provisions (3) | <u>2,643</u> | <u>2,922</u> | <u>422,494</u> | <u>424,497</u> | <u>425,137</u> | <u>427,419</u> |

(1) Provisions for contingencies:

The tax contingencies correspond to litigation and tax criteria related to the tax treatment applicable to direct and indirect taxes, which are found in both administrative and judicial stage.

The civil contingencies correspond to different demands of civil order filed against the company.

The labor contingencies correspond to different demands of labor order filed against the company.

The Provisions are recognized in the consolidated income statement in administrative expenses or tax expenses, as appropriate.

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- (2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.
- (3) Total other provision at December 31, 2016, and at December 31, 2015, include the fair value correspond to those contingencies from the business combination with TAM S.A and subsidiaries, with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be recognized in the context of a business combination in accordance with IFRS 3.

Movement of provisions:

| | Legal claims (1) ThUS\$ | European Commission Investigation (2) ThUS\$ | Total ThUS\$ |
|---|----------------------------|---|-----------------|
| Opening balance as of January 1, 2015 | 705,552 | 9,999 | 715,551 |
| Increase in provisions | 54,675 | - | 54,675 |
| Provision used | (19,522) | - | (19,522) |
| Difference by subsidiaries conversion | (220,266) | - | (220,266) |
| Reversal of provision | (100,740) | - | (100,740) |
| Exchange difference | (1,246) | (1,033) | (2,279) |
| Closing balance as of December 31, 2015 | <u>418,453</u> | <u>8,966</u> | <u>427,419</u> |
| Opening balance as of January 1, 2016 | 418,453 | 8,966 | 427,419 |
| Increase in provisions | 141,797 | - | 141,797 |
| Provision used | (21,997) | - | (21,997) |
| Difference by subsidiaries conversion | 79,396 | - | 79,396 |
| Reversal of provision | (201,425) | - | (201,425) |
| Exchange difference | 249 | (302) | (53) |
| Closing balance as of December 31, 2016 | <u>416,473</u> | <u>8,664</u> | <u>425,137</u> |

- (1) The accumulated balance includes US\$ 115 million as judicial deposit granted as guarantee, related to the "Fundo Aeroviário" (FA). This deposit was made with the purpose of suspending the application of the tax credit. The company is discussing over the Tribunal the constitutionality about the requirement made by FA in a legal action. Initially it was covered by the effects of a precautionary measure, meaning that, the company was not the obligation to collect the tax as long as there no judicial decision in this regard. However, the decision taken by a judge in the first instance was publicized in an unfavorable published, reversing the precautionary measure. As the legal claim is still in progress (TAM appealed this first decision), the company needed to make the judicial deposit for the suspension of the enforceability of the tax credit; it deposit was classified in this category deducting the existing provision for that purpose. Finally, if the final decision is favorable to the company, the deposit already made will return to TAM. On the other hand, if the tribunal confirms the first decision, such deposit will be converted in a definitive payment in favor of the Brazilian Government. The procedural stage at December 31, 2016 is disclosed in Note 31 in the case role N° 2001.51.01.012530-0.
- (2) European Commission Provision:

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This provision was established because of the investigation brought by the Directorate General for Competition of the European Commission against more than 25 cargo airlines, including Lan Cargo S.A., as part of a global investigation that began in December 2007 regarding possible unfair competition on the air cargo market. This was a joint investigation done by the European and U.S.A. authorities. The global investigation concluded when Lan Cargo S.A. and its subsidiary, Aerolíneas Brasileiras S.A. ("ABSA") signed a *Plea Agreement* with the U.S.A. Department of Justice. The General Direction of Competition it imposed fines totaling € 799,445,000 (seven hundred and ninety nine million four hundred and forty-five thousand Euros) for infringement of European Union regulations on free competition against eleven (11) airlines, among which you can find LATAM Airlines Group S.A. and Lan Cargo S.A. Jointly, LATAM Airlines Group S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (eight million two hundred twenty thousand Euros) for said infractions, which was provisioned in the financial statements of LATAM Airlines Group S.A. On January 24, 2011, LATAM Airlines Group S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. On December 16, 2015 The European Commission does not appeal the sentence, but can issue a new decision correcting the failures specified in the Judgment and it has a period of 5 years which is fulfilled in 2021 the Court European resolved the appeal and annulled the European Commission. The procedural stage at December 31, 2016 is disclosed in Note 31, in (ii) lawsuits received by Latam Airlines Group S.A. and Subsidiaries.

NOTE 22 - OTHER NON-FINANCIAL LIABILITIES

| | Current liabilities | | Non-current liabilities | | Total liabilities | |
|---------------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Deferred revenues (*) | 2,655,086 | 2,423,703 | 213,781 | 272,130 | 2,868,867 | 2,695,833 |
| Sales tax | 19,402 | 10,379 | - | - | 19,402 | 10,379 |
| Retentions | 45,542 | 33,125 | - | - | 45,542 | 33,125 |
| Others taxes | 7,465 | 11,211 | - | - | 7,465 | 11,211 |
| Dividends | 25,518 | 3,980 | - | - | 25,518 | 3,980 |
| Other sundry liabilities | 9,232 | 7,635 | - | - | 9,232 | 7,635 |
| Total other non-financial liabilities | <u>2,762,245</u> | <u>2,490,033</u> | <u>213,781</u> | <u>272,130</u> | <u>2,976,026</u> | <u>2,762,163</u> |

(*) Note 2.20.

The balance comprises, mainly, deferred income by services not yet rendered and programs such as: LATAM Pass, LATAM Fidelidade y Multiplus:

LATAM Pass is the frequent flyer program created by LAN to reward the preference and loyalty of its customers with many benefits and privileges, by the accumulation of kilometers that can be exchanged for free flying tickets or a wide range of products and services. Customers accumulate LATAM Pass kilometers every time they fly with LAN, TAM, in companies that are members of oneworld® and other airlines associated with the program, as well as when they buy on the stores or use the services of a vast network of companies that have an agreement with the program around the world.

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Thinking on people who travel constantly, TAM created the program LATAM Fidelidade, in order to improve the passenger attention and give recognition to those who choose the company. By using this program, customers accumulate points in a variety of programs loyalty in a single account and can redeem them at all TAM destinations and related airline companies, and even more, participate in the Red Multiplus Fidelidade.

Multiplus is a coalition of loyalty programs, aiming to operate activities of accumulation and redemption of points. This program has an integrated network by associates including hotels, financial institutions, retail companies, supermarkets, vehicle rentals and magazines, among many other partners from different segments.

NOTE 23 - EMPLOYEE BENEFITS

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|--|---|---|
| Retirements payments | 49,680 | 42,117 |
| Resignation payments | 10,097 | 8,858 |
| Other obligations | 22,545 | 14,296 |
| Total liability for employee benefits | 82,322 | 65,271 |

(a) The movement in retirements and resignation payments and other obligations:

| | Opening balance ThUS\$ | Increase (decrease) current service provision ThUS\$ | Benefits paid ThUS\$ | Change of model ThUS\$ | Actuarial (gains) losses ThUS\$ | Currency translation ThUS\$ | Closing balance ThUS\$ |
|--|------------------------------|---|----------------------------|------------------------------|--|-----------------------------------|------------------------------|
| From January 1 to December 31, 2015 | 74,102 | (13,609) | (3,824) | - | 14,631 | (6,029) | 65,271 |
| From January 1 to December 31, 2016 | 65,271 | 19,900 | (4,536) | - | 1,687 | - | 82,322 |

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The principal assumptions used in the calculation to the provision in Chile are presented below:

| Assumptions | As of December 31, | |
|----------------------------------|-----------------------|---------|
| | 2016 | 2015 |
| Discount rate | 4.54% | 4.84% |
| Expected rate of salary increase | 4.50% | 4.50% |
| Rate of turnover | 6.16% | 6.16% |
| Mortality rate | RV-2009 | RV-2009 |
| Inflation rate | 2.86% | 2.92% |
| Retirement age of women | 60 | 60 |
| Retirement age of men | 65 | 65 |

The discount rate is determined by reference to free risk 20 years Central Bank of Chile BCP bond. Mortality table RV – 2009, established by Chilean Superintendency of Securities and Insurance and inflation rate performance curve of Central Bank of Chile instruments long term BCU and BCP.

The obligation is determined based on the actuarial value of the accrued cost of the benefit and it is sensibility to main actuarial assumptions used for the calculation. The Following is a sensitivity analysis based on increased (decreased) on the discount rate, increased wages, rotation and inflation:

| | Effect on the liability | |
|---|---|---|
| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
| Discount rate | | |
| Change in the accrued liability an closing for increase in 100 p.b. | (5,665) | (4,669) |
| Change in the accrued liability an closing for decrease of 100 p.b. | 5,952 | 5,345 |
| Rate of wage growth | | |
| Change in the accrued liability an closing for increase in 100 p.b. | 6,334 | 5,309 |
| Change in the accrued liability an closing for decrease of 100 p.b. | (5,644) | (4,725) |

(b) The liability for short-term:

| | As of December 31, 2016 ThUS\$ | As of December 31, 2015 ThUS\$ |
|--------------------------------|---|---|
| Profit-sharing and bonuses (*) | <u>89,523</u> | <u>81,368</u> |

(*) Accounts payables to employees (Note 20 letter b)

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The participation in profits and bonuses correspond to an annual incentives plan for achievement of objectives.

(c) Employment expenses are detailed below:

| | For the periods ended December 31, | |
|------------------------------|---------------------------------------|------------------|
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Salaries and wages | 1,549,402 | 1,631,320 |
| Short-term employee benefits | 132,436 | 171,366 |
| Termination benefits | 79,062 | 51,684 |
| Other personnel expenses | 190,233 | 218,435 |
| Total | 1,951,133 | 2,072,805 |

NOTE 24 - ACCOUNTS PAYABLE, NON-CURRENT

| | As of | As of |
|--|----------------|----------------|
| | December 31, | December 31, |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Aircraft and engine maintenance | 347,085 | 371,419 |
| Fleet financing (JOL) | - | 35,042 |
| Provision for vacations and bonuses | 12,080 | 10,365 |
| Other sundry liabilities | 226 | 224 |
| Total accounts payable, non-current | 359,391 | 417,050 |

NOTE 25 - EQUITY

(a) Capital

The Company's objective is to maintain an appropriate level of capitalization that enables it to ensure access to the financial markets for carrying out its medium and long-term objectives, optimizing the return for its shareholders and maintaining a solid financial position.

The Capital of the Company is managed and composed in the following form:

The paid capital of the Company at December 31, 2016 amounts to ThUS\$ 3,149,564 (*) divided into 606,407,693 common stock of a same series (ThUS\$ 2,545,705, divided into 545,547,819 shares as of December 31, 2015), a single series nominative, ordinary character with no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

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(*) Include a deduction for issuance costs ThUS\$ 4,793 and adjustment by 10,282 placement shares for ThUS\$ 156.

(b) Subscribed and paid shares

As of December 31, 2015, the Company's subscribed and paid-in capital was represented by 545,558,101 shares, all common shares, without par value.

On August 18, 2016, the Company held an extraordinary meeting of shareholders in which it was approved to increase the capital by issuing 61,316,424 shares of payment, all ordinary shares, without par value. As of December 31, 2016, 60,849,592 shares had been placed against this increase, according to the following breakdown: (a) 30,499,685 shares subscribed and paid at the end of the preferred subscription period, which expired on, December 2016, raising the equivalent of US\$ 304,996,850; And (b) 30,349,907 additional shares subscribed on December 28, 2016, earning the equivalent of US \$ 303,499,070.

As a result of the last placement, as of December 31, 2016, the number Company shares subscribed and paid amounts to 606,407,693.

At December 31, 2016, the Company's capital stock is represented by 608,374,525 shares, all common shares, without no par value, which is divided into: (a) the 606,407,693 subscribed and paid shares mentioned above; And (b) 1,966,832 shares pending subscription and payment, of which: (i) 1,500,000 shares are allocated to compensation stock option plans; And (ii) 466,832 correspond to the balance of shares pending placement of the last capital increase.

It should be noted that during the year the Company's capital stock was expressed in 613,164,243 shares, all ordinary shares, without nominal value, that is, 551,847,819 shares already authorized at the beginning of the year and 61,316,424 shares authorized in the last Capital increase dated August 18, 2016. However, on December 21, 2016, the deadline for the subscription and payment of 4,789,718 shares that were destined to compensation plans for workers expired, so that the Company's capital stock was reduced to 608,374,525 shares.

The following table shows the movement of the authorized and fully paid shares described above:

| Movement of authorized shares | Nro. Of shares |
|---|----------------|
| Authorized shares as of January 1, 2015 | 551,847,819 |
| No movement of authorized shares during 2015 | - |
| Authorized shares as of December 31, 2015 | 551,847,819 |
| Authorized shares as of January 1, 2016 | 551,847,819 |
| Increase capital approved at Extraordinary Shareholders meeting dated August 18, 2016 | 61,316,424 |
| Full capital decrease due to maturity of the subscription and payment period of the compensation plan 2011, December 21, 2016 (*) | (4,789,718) |
| Authorized shares as of December 31, 2016 | 608,374,525 |

(*) See Note 34 (a.1)

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Movement fully paid shares

| increase (decrease) through transfers and other changes | N° of shares | Movement value of shares | Cost of issuance and placement of shares (2) | Paid-in Capital |
|--|------------------------|--------------------------|--|------------------|
| | | (1) | of shares (2) | |
| | shares | ThUS\$ | ThUS\$ | ThUS\$ |
| Paid shares as of January 1, 2015 | 545,547,819 | 2,552,066 | (6,361) | 2,545,705 |
| No movement of paid shares during 2015 | - | - | - | - |
| Paid shares as of December 31, 2015 | <u>545,547,819</u> | <u>2,552,066</u> | <u>(6,361)</u> | <u>2,545,705</u> |
| Paid shares as of January 1, 2016 | 545,547,819 | 2,552,066 | (6,361) | 2,545,705 |
| Placement capital increase | | | | |
| Approved at Extraordinary Shareholders meeting dated August 18, 2016 | 60,849,592 | 608,496 | - | 608,496 |
| Capital reserve | - | - | (4,793) | (4,793) |
| Increase (decrease) by transfers and other changes (4) | 10,282 | 156 | - | 156 |
| Paid shares as of December 31, 2016 | <u>606,407,693 (3)</u> | <u>3,160,718</u> | <u>(11,154)</u> | <u>3,149,564</u> |

- (1) Amounts reported represent only those arising from the payment of the shares subscribed.
- (2) Decrease of capital by capitalization of reserves for cost of issuance and placement of shares established according to Extraordinary Shareholder's Meetings, where such decreases were authorized.
- (3) At December 31, 2016, the difference between authorized shares and fully paid shares are 1,966,832 shares, of which 1,500,000 correspond to compensation plans for executives of LATAM Airlines Group S.A. and subsidiaries (see Note 34(a.1)) and 466,832 correspond to the shares issued and unsubscribed from the capital increase approved at the Extraordinary Shareholders' Meeting held on August 18, 2016.
- (4) In January 2014, these 10,282 shares were placed and charged to the Compensation plan 2011 (See Note 34 (a.1))

(c) Treasury stock

At December 31, 2016, the Company held no treasury stock, the remaining of ThUS\$ (178) corresponds to the difference between the amount paid for the shares and their book value, at the time of the full right decrease of the shares which held in its portfolio.

(d) Reserve of share- based payments

Movement of Reserves of share- based payments:

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| Periods | Opening balance | Stock option plan | Deferred tax | Net movement of the period | Closing balance |
|-------------------------------------|-----------------|-------------------|--------------|----------------------------|-----------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2015 | 29,642 | 8,924 | (2,919) | 6,005 | 35,647 |
| From January 1 to December 31, 2016 | 35,647 | 3,698 | (807) | 2,891 | 38,538 |

These reserves are related to the "Share-based payments" explained in Note 34.

(e) Other sundry reserves

Movement of Other sundry reserves:

| Periods | Opening balance | Legal reserves | Closing balance |
|-------------------------------------|-----------------|----------------|-----------------|
| | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2015 | 2,635,748 | (1,069) | 2,634,679 |
| From January 1 to December 31, 2016 | 2,634,679 | 5,602 | 2,640,281 |

Balance of Other sundry reserves comprises the following:

| | As of December 31, 2016 | As of December 31, 2015 |
|---|-------------------------|-------------------------|
| | ThUS\$ | ThUS\$ |
| Higher value for TAM S.A. share exchange (1) | 2,665,692 | 2,665,692 |
| Reserve for the adjustment to the value of fixed assets (2) | 2,620 | 2,620 |
| Transactions with non-controlling interest (3) | (25,911) | (25,891) |
| Cost of issuance and placement of shares | 9 | (4,793) |
| Others | (2,129) | (2,949) |
| Total | <u>2,640,281</u> | <u>2,634,679</u> |

- (1) Corresponds to the difference in the shares value of TAM S.A. acquired (under subscriptions) by Sister Holdco S.A. and Holdco II S.A. (under the Exchange Offer), as stipulated in the Declaration of Posting of Merger by Absorption and the fair value of these exchange shares of LATAM Airlines Group S.A. at June 22, 2012.
- (2) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1979, in Circular N° 1529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.
- (3) The balance at December 31, 2016, correspond to the loss generated by the participation of Lan Pax Group S.A. and Inversiones Lan S.A. in the acquisition of shares of Aerovías de Integración Regional Aires of ThUS\$ (3,480) and ThUS\$ (20), respectively; the acquisition

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of TAM S.A. of the minority holding of Aerolinhas Brasileiras S.A. of ThUS\$ (885) and the acquisition of minority interest of Aerolane S.A. by Lan Pax group S.A. through Holdco Ecuador S.A. for US\$ (21,526).

(f) Reserves with effect in other comprehensive income.

Movement of Reserves with effect in other comprehensive income:

| | Currency translation reserve | Cash flow hedging reserve | Actuarial gain or loss on defined benefit plans reserve | Total |
|---|------------------------------|---------------------------|---|--------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2015 | (1,193,871) | (151,340) | - | (1,345,211) |
| Derivatives valuation gains (losses) | - | 82,730 | - | 82,730 |
| Deferred tax | - | (21,900) | - | (21,900) |
| Actuarial reserves | | | | |
| by employee benefit plans | - | - | (14,627) | (14,627) |
| Deferred tax actuarial IAS | | | | |
| by employee benefit plans | - | - | 3,910 | 3,910 |
| Difference by subsidiaries conversion | (1,382,170) | - | - | (1,382,170) |
| Closing balance as of December 31, 2015 | <u>(2,576,041)</u> | <u>(90,510)</u> | <u>(10,717)</u> | <u>(2,677,268)</u> |
| Opening balance as of January 1, 2016 | (2,576,041) | (90,510) | (10,717) | (2,677,268) |
| Derivatives valuation gains (losses) | - | 126,360 | - | 126,360 |
| Deferred tax | - | (34,344) | - | (34,344) |
| Actuarial reserves | | | | |
| by employee benefit plans | - | - | (3,104) | (3,104) |
| Deferred tax actuarial IAS | | | | |
| by employee benefit plans | - | - | 921 | 921 |
| Difference by subsidiaries conversion | 489,486 | - | - | 489,486 |
| Closing balance as of December 31, 2016 | <u>(2,086,555)</u> | <u>1,506</u> | <u>(12,900)</u> | <u>(2,097,949)</u> |

(f.1) Currency translation reserve

These originate from exchange differences arising from the translation of any investment in foreign entities (or Chilean investment with a functional currency different to that of the parent), and from loans and other instruments in foreign currency designated as hedges for such investments. When the investment (all or part) is sold or disposed and loss of control occurs, these reserves are shown in the consolidated statement of income as part of the loss or gain on the sale or disposal. If the sale does not involve loss of control, these reserves are transferred to non-controlling interests.

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(f.2) Cash flow hedging reserve

These originate from the fair value valuation at the end of each period of the outstanding derivative contracts that have been defined as cash flow hedges. When these contracts expire, these reserves should be adjusted and the corresponding results recognized.

(g) Retained earnings

Movement of Retained earnings:

| Periods | Opening balance | Result for the period | Dividends | Other increase (decreases) | Closing balance |
|-------------------------------------|-----------------|-----------------------|-----------|----------------------------|-----------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2015 | 536,190 | (219,274) | - | 1,034 | 317,950 |
| From January 1 to December 31, 2016 | 317,950 | 69,220 | (20,766) | - | 366,404 |

(h) Dividends per share

| Description of dividend | Minimum mandatory dividend 2016 | Final dividend dividend 2015 |
|--|---------------------------------|------------------------------|
| | 2016 | 2015 |
| Date of dividend | 12-31-2016 | 12-31-2015 |
| Amount of the dividend (ThUS\$) | 20,766 | - |
| Number of shares among which the dividend is distributed | 606,407,693 | 545,547,819 |
| Dividend per share (US\$) | 0.0342 | - |

As of December 31, 2016 and 2015, the Company has not been paid dividends.

NOTE 26 - REVENUE

The detail of revenues is as follows:

| | For the periods ended | |
|----------------|-----------------------|------------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Passengers LAN | 4,104,348 | 4,241,918 |
| Passengers TAM | 3,773,367 | 4,168,696 |
| Cargo | <u>1,110,625</u> | <u>1,329,431</u> |
| Total | <u>8,988,340</u> | <u>9,740,045</u> |

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NOTE 27 - COSTS AND EXPENSES BY NATURE

(a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

| | For the periods ended | |
|--------------------------------|-----------------------|------------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Aircraft fuel | 2,056,643 | 2,651,067 |
| Other rentals and landing fees | 1,077,407 | 1,109,826 |
| Aircraft rentals | 568,979 | 525,134 |
| Aircraft maintenance | 366,153 | 437,235 |
| Commissions | 269,296 | 302,774 |
| Passenger services | 286,621 | 295,439 |
| Other operating expenses | 1,424,595 | 1,293,320 |
| Total | 6,049,694 | 6,614,795 |

(b) Depreciation and amortization

Depreciation and amortization are detailed below:

| | For the period ended | |
|------------------|----------------------|----------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Depreciation (*) | 910,071 | 897,670 |
| Amortization | 50,257 | 36,736 |
| Total | 960,328 | 934,406 |

(*) Include the depreciation of Property, plant and equipment and the maintenance cost of aircraft held under operating leases. The amount of maintenance cost included within the depreciation line item at December 31, 2016 is ThUS\$ 345,651 and ThUS\$ 345,192 for the same period of 2015.

(c) Personnel expenses

The costs for personnel expenses are disclosed in Note 23 liability for employee benefits.

(d) Financial costs

The detail of financial costs is as follows:

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| | For the period ended | |
|-----------------------------|----------------------|----------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Bank loan interest | 352,405 | 331,511 |
| Financial leases | 32,573 | 42,855 |
| Other financial instruments | 31,358 | 38,991 |
| Total | 416,336 | 413,357 |

Costs and expenses by nature presented in this note plus the Employee expenses disclosed in Note 23, are equivalent to the sum of cost of sales, distribution costs, administrative expenses, other expenses and financing costs presented in the consolidated statement of income by function.

(e) Restructuring Costs

As part of the ongoing process of reviewing its fleet plan, in December 2015 the company recognized a negative impact on results of US\$ 80 million before tax associated with the output of the rest of the A330 fleet, including engines and technical materials is recognized. These expenses are recognized at "Other Gain and Losses" of the Consolidated Statement of Income by Function.

NOTE 28 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

| | For the period ended | |
|---|----------------------|----------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Coalition and loyalty program Multiplus | 174,197 | 154,958 |
| Tours | 133,575 | 113,225 |
| Aircraft leasing | 65,011 | 46,547 |
| Customs and warehousing | 24,548 | 25,457 |
| Maintenance | 17,090 | 11,669 |
| Duty free | 11,141 | 16,408 |
| Other miscellaneous income | 113,186 | 17,517 |
| Total | 538,748 | 385,781 |

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NOTE 29 - FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

The functional currency of LATAM Airlines Group S.A. is the US dollar, also it has subsidiaries whose functional currency is different to the US dollar, such as the Chilean peso, Argentine peso, Colombian peso and Brazilian real.

The functional currency is defined as the currency of the primary economic environment in which an entity operates and in each entity and all other currencies are defined as foreign currency.

Considering the above, the balances by currency mentioned in this note correspond to the sum of foreign currency of each of the entities that make LATAM Airlines Group S.A. and Subsidiaries.

(a) Foreign currency

The foreign currency detail of balances of monetary items in current and non-current assets is as follows:

| <u>Current assets</u> | As of | As of |
|---------------------------------|--------------|--------------|
| | December 31, | December 31, |
| | <u>2016</u> | <u>2015</u> |
| | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | 201,416 | 182,089 |
| Argentine peso | 4,438 | 11,611 |
| Brazilian real | 9,705 | 8,810 |
| Chilean peso | 30,221 | 17,739 |
| Colombian peso | 1,137 | 1,829 |
| Euro | 1,695 | 10,663 |
| U.S. dollar | 128,694 | 112,422 |
| Strong bolivar | 61 | 2,986 |
| Other currency | 25,465 | 16,029 |
| Other financial assets, current | 14,573 | 124,042 |
| Argentine peso | 12 | 108,592 |
| Brazilian real | 734 | 1,263 |
| Chilean peso | 585 | 563 |
| Colombian peso | - | 1,167 |
| U.S. dollar | 12,879 | 12,128 |
| Strong bolivar | 76 | 22 |
| Other currency | 287 | 307 |

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| <u>Current assets</u> | As of | As of |
|--|--------------|--------------|
| | December 31, | December 31, |
| | <u>2016</u> | <u>2015</u> |
| | ThUS\$ | ThUS\$ |
| Other non - financial assets, current | 107,789 | 126,130 |
| Argentine peso | 16,086 | 14,719 |
| Brazilian real | 20,158 | 15,387 |
| Chilean peso | 1,619 | 10,265 |
| Colombian peso | 713 | 486 |
| Euro | 1,563 | 1,983 |
| U.S. dollar | 50,157 | 61,577 |
| Strong bolivar | 3 | - |
| Other currency | 17,490 | 21,713 |
| Trade and other accounts receivable, current | 251,204 | 247,229 |
| Argentine peso | 54,356 | 30,563 |
| Brazilian real | 30,675 | 11,136 |
| Chilean peso | 90,482 | 55,169 |
| Colombian peso | 9,720 | 1,195 |
| Euro | 21,923 | 30,006 |
| U.S. dollar | 14,086 | 29,937 |
| Strong bolivar | 43 | 7,225 |
| Other currency | 29,919 | 81,998 |
| Accounts receivable from related entities, current | 554 | 181 |
| Chilean peso | 554 | 181 |
| Tax current assets | 28,198 | 22,717 |
| Argentine peso | 1,798 | 2,371 |
| Brazilian real | 2,462 | 5 |
| Chilean peso | 6,333 | 3,615 |
| Colombian peso | 1,418 | 1,275 |
| Euro | 273 | 14 |
| U.S. dollar | 177 | 1,394 |
| Peruvian sol | 14,387 | 12,572 |
| Other currency | 1,350 | 1,471 |
| Total current assets | 603,734 | 702,388 |
| Argentine peso | 76,690 | 167,856 |
| Brazilian real | 63,734 | 36,601 |
| Chilean peso | 129,794 | 87,532 |
| Colombian peso | 12,988 | 5,952 |
| Euro | 25,454 | 42,666 |
| U.S. Dollar | 205,993 | 217,458 |
| Strong bolivar | 183 | 10,233 |
| Other currency | 88,898 | 134,090 |

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| Non-current assets | As of | As of |
|---|----------------------|----------------------|
| | December 31, 2016 | December 31, 2015 |
| | ThUS\$ | ThUS\$ |
| Other financial assets, non-current | 26,772 | 20,767 |
| Argentine peso | - | 22 |
| Brazilian real | 2,769 | 1,478 |
| Chilean peso | 83 | 77 |
| Colombian peso | 285 | 162 |
| Euro | 6,966 | 614 |
| U.S. dollar | 14,920 | 16,696 |
| Other currency | 1,749 | 1,718 |
| Other non - financial assets, non-current | 19,069 | 60,215 |
| Argentine peso | 142 | 169 |
| Brazilian real | 6,029 | 4,454 |
| U.S. dollar | 8,309 | 50,108 |
| Other currency | 4,589 | 5,484 |
| Accounts receivable, non-current | 7,356 | 9,404 |
| Chilean peso | 7,356 | 4,251 |
| U.S. dollar | - | 5,000 |
| Other currency | - | 153 |
| Deferred tax assets | 2,110 | 2,632 |
| Colombian peso | 117 | 336 |
| Other currency | 1,993 | 2,296 |
| Total non-current assets | 55,307 | 93,018 |
| Argentine peso | 142 | 191 |
| Brazilian real | 8,798 | 5,932 |
| Chilean peso | 7,439 | 4,328 |
| Colombian peso | 402 | 498 |
| Euro | 6,966 | 614 |
| U.S. dollar | 23,229 | 71,804 |
| Other currency | 8,331 | 9,651 |

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The foreign currency detail of balances of monetary items in current liabilities and non-current is as follows:

| Current liabilities | Up to 90 days | | 91 days to 1 year | |
|---|----------------------|----------------------|----------------------|----------------------|
| | As of | As of | As of | As of |
| | December 31, 2016 | December 31, 2015 | December 31, 2016 | December 31, 2015 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other financial liabilities, current | 287,175 | 94,199 | 455,086 | 141,992 |
| Chilean peso | 55,962 | 54,655 | 108,010 | 52,892 |
| U.S. dollar | 231,213 | 39,544 | 347,076 (*) | 89,100 |
| Trade and other accounts payables, current | 585,149 | 482,402 | 16,097 | 14,981 |
| Argentine peso | 20,838 | 20,772 | 907 | 2,072 |
| Brazilian real | 40,740 | 37,572 | 27 | 16 |
| Chilean peso | 60,701 | 40,219 | 12,255 | 10,951 |
| Colombian peso | 9,049 | 5,271 | 578 | 155 |
| Euro | 23,445 | 5,275 | 5 | 618 |
| U.S. dollar | 374,431 | 310,565 | 962 | 839 |
| Strong bolivar | 761 | 2,627 | - | - |
| Peruvian sol | 33,701 | 28,293 | 1,093 | 87 |
| Mexican peso | 1,535 | 15,248 | - | 225 |
| Pound sterling | 1,769 | 7,819 | 246 | - |
| Uruguayan peso | 6,899 | 6,005 | - | - |
| Other currency | 11,280 | 2,736 | 24 | 18 |
| Accounts payable to related entities, current | 220 | 447 | - | - |
| Chilean peso | 23 | 83 | - | - |
| U.S. dollar | 8 | 22 | - | - |
| Other currency | 189 | 342 | - | - |
| Other provisions, current | - | - | 511 | 457 |
| Chilean peso | - | - | 28 | 21 |
| Other currency | - | - | 483 | 436 |
| Tax liabilities, current | (145) | 36 | 2,442 | 9,037 |
| Argentine peso | - | - | 2,501 | 9,036 |
| Brazilian real | (3) | - | - | - |
| Chilean peso | - | - | (25) | - |
| U.S. dollar | - | 27 | - | - |
| Other currency | (142) | 9 | (34) | 1 |

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| | <u>Up to 90 days</u> | | <u>91 days to 1 year</u> | |
|--|----------------------|--------------|--------------------------|--------------|
| | As of | As of | As of | As of |
| | December 31, | December 31, | December 31, | December 31, |
| | <u>2016</u> | <u>2015</u> | <u>2016</u> | <u>2015</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| <u>Current liabilities</u> | | | | |
| Other non-financial liabilities, current | 33,439 | 40,432 | - | - |
| Argentine peso | 13,463 | (2,387) | - | - |
| Brazilian real | 430 | 4,297 | - | - |
| Chilean peso | 14,999 | 32,228 | - | - |
| Colombian peso | 578 | 145 | - | - |
| Euro | 168 | 2,706 | - | - |
| U.S. dollar | 684 | (3,238) | - | - |
| Strong bolivar | 2 | 2,490 | - | - |
| Other currency | 3,115 | 4,191 | - | - |
| Total current liabilities | 905,838 | 617,516 | 474,136 | 166,467 |
| Argentine peso | 34,301 | 18,385 | 3,408 | 11,108 |
| Brazilian real | 41,167 | 41,869 | 27 | 16 |
| Chilean peso | 131,685 | 127,185 | 120,268 | 63,864 |
| Colombian peso | 9,627 | 5,416 | 578 | 155 |
| Euro | 23,613 | 7,981 | 5 | 618 |
| U.S. dollar | 606,336 | 346,920 | 348,038 | 89,939 |
| Strong bolivar | 763 | 5,117 | - | - |
| Other currency | 58,346 | 64,643 | 1,812 | 767 |

(*) See Note 19.a (2)

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| Non-current liabilities | More than 1 to 3 years | | More than 3 to 5 years | | More than 5 years | |
|--|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|--------------------------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ |
| Other financial liabilities, non-current | 178,793 | 561,217 | 747,218 | 328,480 | 41,785 | 571,804 |
| Chilean peso | 59,177 | 104,385 | 16,189 | 34,635 | - | - |
| U.S. dollar | 119,616 | 456,832 | 731,029 | 293,845 | 41,785 | 571,804 |
| Accounts payable, non-current | 195,333 | 239,029 | 268 | 168 | 28 | 8 |
| Chilean peso | 10,178 | 8,058 | 268 | 168 | 28 | 8 |
| U.S. dollar | 183,904 | 229,005 | - | - | - | - |
| Other currency | 1,251 | 1,966 | - | - | - | - |
| Other provisions, non-current | 39,513 | 27,780 | - | - | - | - |
| Argentine peso | 635 | 797 | - | - | - | - |
| Brazilian real | 23,541 | 11,009 | - | - | - | - |
| Chilean peso | 38 | - | - | - | - | - |
| Colombian peso | 569 | 198 | - | - | - | - |
| Euro | 8,664 | 8,966 | - | - | - | - |
| U.S. dollar | 6,066 | 6,810 | - | - | - | - |
| Provisions for employees benefits, non-current | 68,774 | 56,306 | - | - | - | - |
| Brazilian real | 28 | - | - | - | - | - |
| Chilean peso | 68,380 | 56,306 | - | - | - | - |
| U.S. dollar | 366 | - | - | - | - | - |
| Other non-financial liabilities, non-current | 3 | - | - | - | - | - |
| Colombian peso | 3 | - | - | - | - | - |
| Total non-current liabilities | 482,416 | 884,332 | 747,486 | 328,648 | 41,813 | 571,812 |
| Argentine peso | 635 | 797 | - | - | - | - |
| Brazilian real | 23,569 | 11,009 | - | - | - | - |
| Chilean peso | 137,773 | 168,749 | 16,457 | 34,803 | 28 | 8 |
| Colombian peso | 572 | 198 | - | - | - | - |
| Euro | 8,664 | 8,966 | - | - | - | - |
| U.S. dollar | 309,952 | 692,647 | 731,029 | 293,845 | 41,785 | 571,804 |
| Other currency | 1,251 | 1,966 | - | - | - | - |

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| General summary of foreign currency: | As of | As of |
|--------------------------------------|--------------------------------|--------------------------------|
| | December 31, 2016 ThUS\$ | December 31, 2015 ThUS\$ |
| Total assets | 659,041 | 795,406 |
| Argentine peso | 76,832 | 168,047 |
| Brazilian real | 72,532 | 42,533 |
| Chilean peso | 137,233 | 91,860 |
| Colombian peso | 13,390 | 6,450 |
| Euro | 32,420 | 43,280 |
| U.S. dollar | 229,222 | 289,262 |
| Strong bolivar | 183 | 10,233 |
| Other currency | 97,229 | 143,741 |
| Total liabilities | 2,651,689 | 2,568,775 |
| Argentine peso | 38,344 | 30,290 |
| Brazilian real | 64,763 | 52,894 |
| Chilean peso | 406,211 | 394,609 |
| Colombian peso | 10,777 | 5,769 |
| Euro | 32,282 | 17,565 |
| U.S. dollar | 2,037,140 | 1,995,155 |
| Strong bolivar | 763 | 5,117 |
| Other currency | 61,409 | 67,376 |
| Net position | | |
| Argentine peso | 38,488 | 137,757 |
| Brazilian real | 7,769 | (10,361) |
| Chilean peso | (268,978) | (302,749) |
| Colombian peso | 2,613 | 681 |
| Euro | 138 | 25,715 |
| U.S. dollar | (1,807,918) | (1,705,893) |
| Strong bolivar | (580) | 5,116 |
| Other currency | 35,820 | 76,365 |

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(b) Exchange differences

Exchange differences recognized in the income statement, except for financial instruments measured at fair value through profit or loss, for the period ended December 31, 2016 and 2015, generated a debit of ThUS\$ 121,651 and a charge ThUS\$ 467,896, respectively.

Exchange differences recognized in equity as reserves for currency translation differences for the period ended December 31, 2016 and 2015, represented a debit of ThUS\$ 494,362 and a charge ThUS\$ 1,409,439, respectively.

The following shows the current exchange rates for the U.S. dollar, on the dates indicated:

| | As of December 31, | | |
|--------------------|--------------------|----------|----------|
| | 2016 | 2015 | 2014 |
| Argentine peso | 15.84 | 12.97 | 8.55 |
| Brazilian real | 3.25 | 3.98 | 2.66 |
| Chilean peso | 669.47 | 710.16 | 606.75 |
| Colombian peso | 3,000.25 | 3,183.00 | 2,389.50 |
| Euro | 0.95 | 0.92 | 0.82 |
| Strong bolivar | 673.76 | 198.70 | 12.00 |
| Australian dollar | 1.38 | 1.37 | 1.22 |
| Boliviano | 6.86 | 6.85 | 6.86 |
| Mexican peso | 20.63 | 17.34 | 14.74 |
| New Zealand dollar | 1.44 | 1.46 | 1.28 |
| Peruvian Sol | 3.35 | 3.41 | 2.99 |
| Uruguayan peso | 29.28 | 29.88 | 24.25 |

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NOTE 30 - EARNINGS / (LOSS) PER SHARE

| | For the period ended December 31, | |
|---|--------------------------------------|-------------|
| | 2016 | 2015 |
| Basic earnings / (loss) per share | | |
| Earnings / (loss) attributable to owners of the parent (ThUS\$) | 69,220 | (219,274) |
| Weighted average number of shares, basic | 546,559,599 | 545,547,819 |
| Basic earnings / (loss) per share (US\$) | 0.12665 | (0.40193) |

| | For the period ended December 31, | |
|---|--------------------------------------|-------------|
| | 2016 | 2015 |
| Diluted earnings / (loss) per share | | |
| Earnings / (loss) attributable to owners of the parent (ThUS\$) | 69,220 | (219,274) |
| Weighted average number of shares, basic | 546,559,599 | 545,547,819 |
| Weighted average number of shares, diluted | 546,559,599 | 545,547,819 |
| Diluted earnings / (loss) per share (US\$) | 0.12665 | (0.40193) |

In the calculation of diluted earnings per share have not been considered the compensation plan disclosed in Note 33 (a.1), because the average market price is lower than the price of options.

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NOTE 31 – CONTINGENCIES

I. Lawsuits

1) Lawsuits filed by LATAM Airlines Group S.A. and Subsidiaries

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committe d (*) ThUS\$</u> |
|--|--|--------------------|---|--|--|
| Atlantic Aviation Investments LLC (AAI). | Supreme Court of the State of New York County of New York. | 07-6022920 | Atlantic Aviation Investments LLC ("AAI"), an indirect subsidiary LATAM Airlines Group S.A., incorporated under the laws of the State of Delaware, sued in August 29 th , 2007 Varig Logistics S.A. ("Variglog") for non-payment of four documented loans in credit agreements governed by New York law. These contracts establish the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A. | In implementation stage in Switzerland, the conviction stated that Variglog should pay the principal, interest and costs in favor of AAI. It keeps the embargo of Variglog funds in Switzerland with AAI. In Brazil a Settlement Agreement was signed and it is awaiting for approval from the Bankruptcy Court of that country and Variglog has asked Switzerland to recognize the judgment that declared the state of judicial recovery and subsequent bankruptcy. | 17,100 Plus interests and costs |
| Lan Argentina S.A. | National Administrative Court. | 36337/13 | ORSNA Resolution No. 123 which directs Lan Argentina to vacate the hangar located in the Airport named Aeroparque Metropolitano Jorge Newberry, Argentina. | On February 25, 2016, Lan Argentina S.A. and ORSNA informed the Court of their decision to put an end to the lawsuit and guarantee use of the hangar by Lan. The parties agreed to maintain the precautionary measure in effect allowing Lan to use the hangar indefinitely until the parties reach a final agreement. The court agreed, so the precautionary measure was extended indefinitely. Resolution 112/2016 of the National Airport Regulatory Agency (ORSNA) was published on December 30, 2016, which terminated the hangar dispute. This latest resolution repealed the previous resolution, 123/16, that ordered vacation of the LAN hangar at AEP. Consequently, the legal structure created by the ORSNA through the 2012 Resolution was left without any effect in 2016. Apart from the matter now having been resolved both materially and judicially, this resolution puts a definitive end to the hangar dispute. | -0- |

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2) Lawsuits received by LATAM Airlines Group S.A. and Subsidiaries

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed (*)</u> ThUS\$ |
|--|----------------------|--------------------|--|--|--|
| LATAM Airlines Group S.A. y Lan Cargo S.A. | European Commission. | - | Investigation of alleged infringements to free competition of cargo airlines, especially fuel surcharge. On December 26 th , 2007, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the instruction process against twenty five cargo airlines, including Lan Cargo S.A., for alleged breaches of competition in the air cargo market in Europe, especially the alleged fixed fuel surcharge and freight. | On April 14 th , 2008, the notification of the European Commission was replied. The appeal was filed on January 24, 2011. On May 11, 2015, we attended a hearing at which we petitioned for the vacation of the Decision based on discrepancies in the Decision between the operating section, which mentions four infringements (depending on the routes involved) but refers to LATAM in only one of those four routes; and the ruling section (which mentions one single conjoint infraction). On November 9 th , 2010, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the imposition of a fine in the amount of THUS\$ 8,664. (8.220.000 Euros) This fine is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. On December 16, 2015, the European Court of Justice revoked the Commission's decision because of discrepancies. The European Commission did not appeal the resolution, but rather confirmed, on May 20, 2016, that it will issue a new decision curing the rulings specified in the Decision. It has a period of 5 years to do this, or until 2021. | 8,664 |

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| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed (*)</u> ThUS\$ |
|--|---|---------------------------|--|---|--|
| Lan Cargo S.A. y LATAM Airlines Group S.A. | In the High Court of Justice Chancery División (England) Ovre Romerike District Court (Norway) y Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands) , Cologne Regional Court (Landgericht Köln Germany). | - | Lawsuits filed against European airlines by users of freight services in private lawsuits as a result of the investigation into alleged breaches of competition of cargo airlines, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A., have been sued in court proceedings directly and/or in third party, based in England, Norway, the Netherlands and Germany. | Cases are in the uncovering evidence stage. | -0- |
| Aerolinhas Brasileiras S.A. | Federal Justice. | 0008285-53.2015.403.6105 | An action seeking to quash a decision and petitioning for early protection in order to obtain a revocation of the penalty imposed by the Brazilian Competition Authority (CADE) in the investigation of cargo airlines alleged fair trade violations, in particular the fuel surcharge. | This action was filed by presenting a guaranty – policy – in order to suspend the effects of the CADE’s decision regarding the payment of the following fines: (i) ABSA: ThUS\$10,438; (ii) Norberto Jochmann: ThUS\$201; (iii) Hernan Merino: ThUS\$ 102; (iv) Felipe Meyer :ThUS\$ 102. The action also deals with the affirmative obligation required by the CADE consisting of the duty to publish the condemnation in a widely circulating newspaper. This obligation had also been stayed by the court of federal justice in this process. Awaiting CADE’s statement. | 10,438 |
| Aerolinhas Brasileiras S.A. | Federal Justice. | 0001872-58.2014.4.03.6105 | An annulment action with a motion for preliminary injunction, was filed on 28/02/2014, in order to cancel tax debts of PIS, CONFINS, IPI and II, connected with the administrative process 10831.005704/2006.43. | We have been waiting since August 21, 2015 for a statement by Serasa on TAM’s letter of indemnity and a statement by the Union. The statement was authenticated on January 29, 2016. A petition on evidence and replications were filed on June 20, 2016. | 11,140 |

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| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed (*)</u> ThUS\$ |
|------------------------|---|--|--|---|--|
| Tam Linhas Aéreas S.A. | Department of Federal Revenue of Brazil | 19515.722556/2012-21 | Alleged irregularities in the SAT payments for the periods 01/2009 to 13/2009. | A judgment by the Administrative Council of Tax Appeals (CARF) has been pending since February 27, 2015. | 2,151 |
| Tam Linhas Aéreas S.A. | Department of Federal Revenue of Brazil | 19515.721155/2014-15 | Alleged irregularities in the SAT payments for the periods 01/2010 to 13/2010. | A decision was rendered in favor of Tam Linhas Aéreas S.A. on August 22, 2016. The Attorney General has said it will not appeal. | 25,515 |
| Tam Linhas Aéreas S.A. | Department of Federal Revenue of Brazil | 19515.720476/2015-83 | Alleged irregularities in the SAT payments for the periods 01/2011 to 12/2012 | A judgment by CARF is pending since April 12, 2016. | 52,414 |
| Tam Linhas Aéreas S.A. | Court of the Second Region. | 2001.51.01.012530-0 | Ordinary judicial action brought for the purpose of declaring the nonexistence of legal relationship obligating the company to collect the Air Fund. | Unfavorable court decision in first instance. Currently expecting the ruling on the appeal filed by the company. In order to suspend chargeability of Tax Credit a Guaranty Deposit to the Court was delivered for MUSS115. The court decision requesting that the Expert make all clarifications requested by the parties in a period of 30 days was published on March 29, 2016. The plaintiffs' submitted a petition on June 21, 2016 requesting acceptance of the opinion of their consultant and an urgent ruling on the dispute. No amount additional to the deposit that has already been made is required if this case is lost. | 115,265 |
| Tam Linhas Aéreas S.A. | Administrative Council of Tax Appeals | 19.515.002963/2009-12, 19515.722555/2012-86, 19515.721154/2014-71, 19515.720475/2015-39 | Collection of contributions to the Aviation Fund for the periods from 01/2004 to 12/2004, from 12/2006 to 12/2008, from 01/2009 to 12/2010, and from 01/2011 to 10/2012. | A judgment is pending by CARF since February 5, 2016. | 65,788 |

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| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed (*)</u> ThUS\$ |
|--|--|----------------------|--|---|--|
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil. | 16643.000087/2009-36 | This is an administrative proceeding arising from an infraction notice issued on 15.12.2009, by which the authority aims to request social contribution on net income (CSL) on base periods 2004 to 2007, due to the deduction of expenses related to suspended taxes. | The appeal filed by the company was dismissed in 2010. In 2012 the voluntary appeal was also dismissed. Consequently, the special appeal filed by the company awaits judgment of admissibility, since 2012. | 22,225 |
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil. | 10880.725950/2011-05 | Compensation credits of the Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS) Declared on DCOMPS. | The objection (<i>manifestação de inconformidade</i>) filed by the company was rejected, which is why the voluntary appeal was filed. The case was assigned to the 1st Ordinary Group of Brazil's Administrative Council of Tax Appeals (CARF) on June 8, 2015. TAM's appeal was included in the CARF session held August 25, 2016. | 43,341 |
| Aerovías de Integración Regional, AIRES S.A. | United States Court of Appeals for the Eleventh Circuit, Florida, U.S.A. | 2013-20319 CA 01 | <p>The July 30th, 2012 LAN COLOMBIA AIRLINES initiated a legal process in Colombia against Regional One INC and Volvo Aero Services LLC, to declare that these companies are civilly liable for moral and material damages caused to LAN COLOMBIA AIRLINES arising from breach of contractual obligations of the aircraft HK-4107.</p> <p>The June 20th, 2013 AIRES SA And / Or LAN AIRLINES COLOMBIA was notified of the lawsuit filed in U.S. for Regional One INC and Dash 224 LLC for damages caused by the aircraft HK-4107 arguing failure of LAN COLOMBIA AIRLINES customs duty to obtain import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.</p> | <p>This case is being heard by the 45th Civil Court of the Bogota Circuit. In an interim decree issued August 16, 2016, the hearing under article 101 was set for February 2, 2017, this hearing was postponed at request of the parties and the Judge must resolve on a new date. When a reconciliation will be attempted, facts of the case will be set, the parties will conduct depositions and evidence will be decreed.</p> <p>The Federal Court of the State of Florida decided on March 26, 2016 to approve Lan Colombia Airlines's request to suspend the proceedings in the USA until the claim under way in Colombia is decided. The U.S. Court judge also closed the case administratively. The Federal Court of Appeal ratified the case closing in the U.S.A. on April 1, 2015. On October 1, 2015, Regional One petitioned that the U.S. court reopen the case. Lan Colombia Airlines presented its arguments and the Court sustained them on August 23, 2016, ratifying the closing of the case in the United States, so it continues to be closed.</p> | 12,443 |

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| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed (*)</u> ThUS\$ |
|------------------------|---|---|--|---|--|
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil | 10880.722.355/2014-52 | On August 19th , 2014 the Federal Tax Service issued a notice of violation stating that compensation credits Program (PIS) and the Contribution for the Financing of Social Security COFINS by TAM are not directly related to the activity of air transport. | An administrative objection was filed on September 17th, 2014. A first-instance ruling was rendered on June 1, 2016 that was partially favorable. The separate fine was revoked. A voluntary appeal was filed on June 30, 2016, which is pending a decision by CARF. | 53,967 |
| Tam Viagens S.A. | Department of Finance to the municipality of São Paulo. | 67.168.795 / 67.168.833 / 67.168.884 / 67.168.906 / 67.168.914 / 67.168.965 | A claim was filed alleging infraction and seeking a fine because of a deficient basis for calculation of the service tax (ISS) because the company supposedly made incorrect deductions. | We received notice of the petition on December 22, 2015. The objection was filed on January 19, 2016. The company was notified on November 23, 2016 of the decision that partially sustained the interim infringement ruling. An ordinary appeal was filed on December 19, 2016 before the Municipal Tax Council of Sao Paulo and a judgment is pending. | 89,624 |
| Tam Linhas Aéreas S.A. | Labor Court of São Paulo. | 0001734-78.2014.5.02.0045 | Action filed by the Ministry of Labor, which requires compliance with legislation on breaks, extra hours and others. | Early stage. Eventually could affect the operations and control of working hours of employees. The company won in the first instance, but an appeal by the Union is expected. | 16,211 |
| TAM S.A. | Conselho Administrativo de Recursos Fiscais. | 13855.720077/2014-02 | Notice of an alleged infringement presented by Secretaria da Receita Federal do Brasil requiring the payment of IRPJ and CSLL, taxes related to the income earned by TAM on March, 2011, in relation of the reduction of the statute capital of Multiplus S.A. | On January 12, 2014, it was filed an appeal against the object of the notice of infringement. Currently, the company is waiting for the court judgment regarding the appeal filed in the Conselho Administrativo de Recursos Fiscais (CARF) The case will be put into the system again for re-assignment for hearing and reporting because of the departure of Eduardo de Andrade, a CARF council member. | 104,423 |

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| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed (*)</u> ThUS\$ |
|-----------------------------|--|-----------------------------|--|--|--|
| Tam Linhas Aereas S.A. | 1° Civil Court of Comarca of Bauru/SP. | 0049304-37.2009.8.26.0071/1 | That action is filed by the current complainants against the defendant, TAM Linhas Aéreas S / A, for receiving compensation for material and moral damages suffered as a result of an accident with one of its aircraft, which landed on adjacent lands to the Bauru airport, impacting the vehicle of Ms. Savi Gisele Marie de Seixas Pinto and William Savi de Seixas Pinto, causing their death. The first was the wife and mother of the complainants and the second, son and brother, respectively. | Currently under the enforcement phase of the sentence. ThUS\$4.770 in cash was deposited in guarantee. A procedural agreement was made for 23 million reals (ThUS\$7,057) on September 23, 2016. | 7,057 |
| Aerolinhas Brasileiras S.A. | Labor Court of Campinas. | 0010498-37.2014.5.15.0095 | Lawsuit filed by the National Union of aeronauts, requiring weekly rest payment (DSR) scheduled stopovers, displacement and moral damage. | An agreement for ThUS\$2,732 was reached with the Union on August 2, 2016. Payment is now being made. | 16.365 |
| TAM Linhas Aéreas S.A. | Sao Paulo Labor Court, Sao Paulo | 0000009-45.2016.5.02.090 | The Ministry of Labor filed an action seeking that the company adapt the ergonomics and comfort of seats. | The case will be closed next month because the Ministry of Labor withdrew its complaint. | 15,917 |

- In order to deal with any financial obligations arising from legal proceedings in effect at December 31, 2016, whether civil, tax, or labor, LATAM Airlines Group S.A. and Subsidiaries, has made provisions, which are included in Other non-current provisions that are disclosed in Note 21.
- The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.

(*) The Company has reported the amounts involved only for the lawsuits for which a reliable estimation can be made of the financial impacts and of the possibility of any recovery, pursuant to Paragraph 86 of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

II. Governmental Investigations.

- 1) On July 25, 2016, LATAM reached agreements with the *U.S. Department of Justice* (“DOJ”) and the *U.S. Securities and Exchange Commission* (“SEC”) regarding the investigation of payments for US\$1,150,000 by Lan Airlines S.A. in 2006-2007 to a consultant advising it in the resolution of labor matters in Argentina.

The purpose of the investigation was to determine whether these payments violated the U.S. Foreign Corrupt Practices Act (“FCPA”) that: (i) forbids bribery of foreign government authorities in order to obtain a commercial advantage; and (ii) requires the companies that must abide by the FCPA to keep appropriate accounting records and implant an adequate internal control system. The FCPA is applicable to LATAM because of its ADR program in effect on the U.S. securities market.

After an exhaustive investigation, the DOJ and SEC concluded that there was no violation of the bribery provisions of the FCPA, which is consistent with the results of LATAM’s internal investigation. However, the DOJ and SEC consider that LAN accounted for these payments incorrectly and, consequently, infringed the part of the FCPA requiring companies to keep accurate accounting records. These authorities also consider that LAN’s internal controls in 2006-2007 were weak, so LAN would have also violated the provisions in the FCPA requiring it to maintain an adequate internal control system.

The agreements signed, included the following:

(a) The agreement with the DOJ involves: (i) entering into a Deferred Prosecution Agreement (“DPA”), which is a public contract under which the DOJ files public charges alleging an infringement of the FCPA accounting regulations. LATAM is not obligated to answer these charges, the DOJ will not pursue them for a period of 3 years, and the DOJ will dismiss the charges after expiration of that 3-year period provided LATAM complies with all terms of the DPA. In exchange, LATAM admitted events described in the DOJ charges for infringement to the FCPA rules on accounting records and agreed to pay the negotiated fine explained below and abide by other terms stipulated in the agreement; (ii) clauses in which LATAM admits that the payments to the consultant in Argentina were incorrectly accounted for and that at the time those payments were made (2006-2007), it did not have adequate internal controls in place; (iii) LATAM’s agreement to have an outside consultant monitor, evaluate and report to the DOJ on the effectiveness of LATAM’s compliance program for a period of 27 months; and LATAM’s agreement to continue evaluating and reporting directly to the DOJ on the effectiveness of its compliance program for a period of 9 months after the consultant’s work concludes; and (iv) paying a fine estimated to total approximately ThUS\$ 12,750.

(b) The agreement with the SEC involves: (i) accepting a Cease and Desist Order, which is an administrative resolution of the SEC closing the investigation, in which LATAM will accept certain obligations and statements of fact that are described in the document; (ii) accepting the same obligations regarding the consultant mentioned above; and (iii) paying the sum of ThUS\$ 6,744, plus interest of ThUS\$ 2,694.

As at December 31, 2016, a balance of ThUS\$ 4,719 was payable to the SEC, as reported in Note 20 - Trade payables and other payables.

- 2) LATAM Airlines Ecuador was given notice on August 26, 2016 of an investigation of LATAM Airlines Ecuador and two other airlines begun, at its own initiative, by one of the Investigative Departments of the Ecuadoran Market Power Control Commission, limited to alleged signs of conscious parallelism in relation to specific fares on one domestic route in Ecuador from August 2012 to February 2013. The Investigative Department had 180 days (due February 21, 2017) extendable for another 180 days, to resolve on whether to close the investigation or file charges against two or more of the parties involved, only event in which a process will be opened. On February 21, 2017, the period of 180 days was extended for another 180 days requesting additional information. LATAM Airlines Ecuador is cooperating with the authority and has hired a law firm and an economist expert in the subject to advise the company during this process.
- 3) LATAM received two Information Requests from the Central-North Metropolitan Region Prosecutor’s Office, one on October 25, 2016 and the other on November 11, 2016, requesting information relating to the investigation of payments made by Lan Airlines S.A. to a consultant advising it on the solution to labor matters in Argentina in the years 2006-2007. The information requested in both Requests has been provided.

NOTE 32 - COMMITMENTS
(a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 767F, 777F and 787 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the Company’s financial indicators on a consolidated basis. Moreover, and related to these same contracts, restrictions are also in place on the Company’s management in terms of its ownership and disposal of assets.

The Company and its subsidiaries do not maintain financial credit contracts with banks in Chile that indicate some limits on financial indicators of the Company or its subsidiaries.

On March 30, 2016, LATAM structured a Revolving Credit Facility granted by with aircraft, engines, spare parts and supplies for a total amount available of US\$ 325 million, this line includes restrictions minimum liquidity level as the consolidated company and individual level as for companies LATAM Airlines Group S.A. and TAM Linhas Aereas S.A.

At December 31, 2016, the Company is in compliance with all indicators detailed above.

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(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

| <u>Lessor</u> | <u>Aircraft</u> | <u>As of December 31, 2016</u> | <u>As of December 31, 2015</u> |
|---|-----------------|--|--|
| Aircraft 76B-26329 Inc. | Boeing 767 | 1 | 1 |
| Aircraft 76B-27615 Inc. | Boeing 767 | 1 | 1 |
| Aircraft 76B-28206 Inc. | Boeing 767 | 1 | 1 |
| Aviación Centaurus, A.I.E. | Airbus A319 | 3 | 3 |
| Aviación Centaurus, A.I.E. | Airbus A321 | 1 | 1 |
| Aviación Real A.I.E. | Airbus A319 | 1 | 1 |
| Aviación Real A.I.E. | Airbus A320 | 1 | 1 |
| Aviación Tritón A.I.E. | Airbus A319 | 3 | 3 |
| Avolon Aerospace AOE 19 Limited | Airbus A320 | 1 | 1 |
| Avolon Aerospace AOE 20 Limited | Airbus A320 | 1 | 1 |
| Avolon Aerospace AOE 6 Limited | Airbus A320 | 1 | 1 |
| Avolon Aerospace AOE 62 Limited | Boeing 777 | 1 | 1 |
| AWAS 5125 Trust | Airbus A320 | - | 1 |
| AWAS 5178 Limited | Airbus A320 | - | 1 |
| AWAS 5234 Trust | Airbus A320 | 1 | 1 |
| Baker & Spice Aviation Limited | Airbus A320 | 1 | 1 |
| Bank of America | Airbus A321 | 2 | 3 |
| CIT Aerospace International | Airbus A320 | 2 | 2 |
| ECAF I 1215 DAC | Airbus A320 | 1 | 1 |
| ECAF I 2838 DAC | Airbus A320 | 1 | 1 |
| ECAF I 40589 DAC | Boeing 777 | 1 | 1 |
| Eden Irish Aircr Leasing MSN 1459 | Airbus A320 | 1 | 1 |
| GECAS Sverige Aircraft Leasing Worldwide AB | Airbus A320 | 1 | 3 |
| GFL Aircraft Leasing Netherlands B.V. | Airbus A320 | 1 | 1 |
| IC Airlease One Limited | Airbus A321 | 1 | - |
| International Lease Finance Corporation | Boeing 767 | - | 1 |
| JSA Aircraft 38484, LLC | Boeing 787 | 1 | 1 |
| JSA Aircraft 7126, LLC | Airbus A320 | 1 | - |
| JSA Aircraft 7128, LLC | Airbus A321 | 1 | - |
| JSA Aircraft 7239, LLC | Airbus A321 | 1 | - |
| JSA Aircraft 7298, LLC | Airbus A321 | 1 | - |
| Macquarie Aerospace Finance 5125-2 Trust | Airbus A320 | 1 | - |
| Macquarie Aerospace Finance 5178 Limited | Airbus A320 | 1 | - |
| Magix Airlease Limited | Airbus A320 | 1 | 2 |
| MASL Sweden (1) AB | Airbus A320 | - | 1 |
| MASL Sweden (2) AB | Airbus A320 | - | 1 |

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| <u>Lessor</u> | <u>Aircraft</u> | <u>As of December 31, 2016</u> | <u>As of December 31, 2015</u> |
|---|-----------------|--|--|
| MASL Sweden (7) AB | Airbus A320 | - | 1 |
| MASL Sweden (8) AB | Airbus A320 | 1 | 1 |
| Merlin Aviation Leasing (Ireland) 18 Limited | Airbus A320 | 1 | - |
| NBB Cuckoo Co., Ltd | Airbus A321 | 1 | 1 |
| NBB Grosbeak Co., Ltd | Airbus A321 | 1 | 1 |
| NBB Redstart Co. Ltd | Airbus A321 | 1 | - |
| NBB-6658 Lease Partnership | Airbus A321 | 1 | 1 |
| NBB-6670 Lease Partnership | Airbus A321 | 1 | 1 |
| Orix Aviation Systems Limited | Airbus A320 | 5 | 2 |
| PAAL Aquila Company Limited | Airbus A321 | 2 | - |
| PAAL Gemini Company Limited | Airbus A321 | 1 | - |
| SASOF II (J) Aviation Ireland Limited | Airbus A319 | 1 | 1 |
| Shenton Aircraft Leasing Limited | Airbus A320 | 1 | 1 |
| SKY HIGH V LEASING COMPANY LIMITED | Airbus A320 | - | 1 |
| Sky High XXIV Leasing Company Limited | Airbus A320 | 5 | 5 |
| Sky High XXV Leasing Company Limited | Airbus A320 | 2 | 2 |
| SMBC Aviation Capital Limited | Airbus A320 | 6 | 7 |
| SMBC Aviation Capital Limited | Airbus A321 | 2 | 2 |
| Sunflower Aircraft Leasing Limited | Airbus A320 | - | 2 |
| TC-CIT Aviation Ireland Limited | Airbus A320 | 1 | 1 |
| Volito Aviation August 2007 AB | Airbus A320 | 2 | 2 |
| Volito Aviation November 2006 AB | Airbus A320 | 2 | 2 |
| Volito November 2006 AB | Airbus A320 | 2 | 2 |
| Wells Fargo Bank North National Association | Airbus A319 | 3 | 3 |
| Wells Fargo Bank North National Association | Airbus A320 | 2 | 2 |
| Wells Fargo Bank Northwest National Association | Airbus A320 | 7 | 7 |
| Wells Fargo Bank Northwest National Association | Airbus A330 | - | 2 |
| Wells Fargo Bank Northwest National Association | Boeing 767 | 3 | 3 |
| Wells Fargo Bank Northwest National Association | Boeing 777 | 6 | 6 |
| Wells Fargo Bank Northwest National Association | Boeing 787 | 11 | 7 |
| Wells Fargo Bank Northwest National Association | Airbus A350 | 2 | - |
| Wilmington Trust Company | Airbus A319 | 1 | 1 |
| Total | | <u>111</u> | <u>106</u> |

The rentals are shown in results for the period for which they are incurred.

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The minimum future lease payments not yet payable are the following:

| | As of December 31, 2016 | As of December 31, 2015 |
|----------------------------|-------------------------------|-------------------------------|
| | ThUS\$ | ThUS\$ |
| No later than one year | 533,319 | 513,748 |
| Between one and five years | 1,459,362 | 1,281,454 |
| Over five years | 1,262,509 | 858,095 |
| Total | 3,255,190 | 2,653,297 |

The minimum lease payments charged to income are the following:

| | For the period ended December 31, | |
|----------------------------------|--------------------------------------|----------------|
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Minimum operating lease payments | 568,979 | 525,134 |
| Total | 568,979 | 525,134 |

In the first quarter of 2015, two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, two Airbus A320-200 aircraft were returned. In the second quarter of 2015, two Airbus A321-200 aircraft and one Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A320-200 aircraft and two Airbus A330-200 aircraft were returned. In the third quarter of 2015, five Airbus A321-200 aircraft and one Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A330-200 aircraft was returned. In the fourth quarter of 2015, one Airbus A330-200 aircraft was returned.

In the first quarter of 2016, two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand and one Airbus A320-200 aircraft was returned. In the second quarter of 2016, three Airbus A321-200 aircraft were leased for a period of ten years each and two Boeing 787-9 aircraft were leased for a period of twelve years each. On the other hand, one Airbus A320-200 aircraft and one Boeing 767-300ER aircraft were returned. In the third quarter of 2016, three Airbus A321-200 aircraft and one Airbus A320- NEO aircraft were leased for a period of ten years each, and one Airbus A350-900 aircraft was leased for a period of twelve years. On the other hand and one Airbus A320-200 aircraft was returned. In the fourth quarter of 2016, one Airbus A350-900 aircraft was leased for a period of twelve years and one Airbus A321-200 aircraft was leased for a period of ten years. On the other hand, three Airbus A320-200 aircraft and two Airbus A330-200 aircraft were returned.

The operating lease agreements signed by the Company and its subsidiaries state that maintenance of the aircraft should be done according to the manufacturer's technical instructions and within the margins agreed in the leasing agreements, a cost that must be assumed by the lessee. The lessee should also contract insurance for each aircraft to cover associated risks and the amounts of these assets. Regarding rental payments, these are unrestricted and may not be netted against other accounts receivable or payable between the lessor and lessee.

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At December 31, 2016 the Company has existing letters of credit related to operating leasing as follows:

| Creditor Guarantee | Debtor | Type | Value ThUS\$ | Release date |
|--------------------------------------|---------------------------|------------------------|-----------------|-----------------|
| GE Capital Aviation Services Limited | Lan Cargo S.A. | Two letter of credit | 7,530 | Sep 17, 2017 |
| Wells Fargo Bank North N.A. | Lan Cargo S.A. | One letter of credit | 5,000 | May 25, 2017 |
| Bank of America | LATAM Airlines Group S.A. | Three letter of credit | 1,044 | Jul 2, 2017 |
| Engine Lease Finance Corporation | LATAM Airlines Group S.A. | One letter of credit | 4,750 | Oct 8, 2017 |
| GE Capital Aviation Services Ltd. | LATAM Airlines Group S.A. | Eight letter of credit | 34,665 | Feb 7, 2017 |
| International Lease Finance Corp | LATAM Airlines Group S.A. | Three letter of credit | 1,450 | Feb 4, 2017 |
| ORIX Aviation Systems Limited | LATAM Airlines Group S.A. | One letter of credit | 3,255 | Aug 31, 2017 |
| SMBC Aviation Capital Ltd. | LATAM Airlines Group S.A. | Two letter of credit | 13,569 | Aug 14, 2017 |
| Wells Fargo Bank | LATAM Airlines Group S.A. | Nine letter of credit | 15,160 | Feb 8, 2017 |
| CIT Aerospace International | Tam Linhas Aéreas S.A. | One letter of credit | 6,000 | Oct 25, 2017 |
| RBS Aerospace Limited | Tam Linhas Aéreas S.A. | One letter of credit | 13,096 | Jan 29, 2017 |
| Wells Fargo Bank North N.A. | Tam Linhas Aéreas S.A. | One letter of credit | 5,500 | Jul 14, 2017 |
| | | | 111,019 | |

(c) Other commitments

At December 31, 2016 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

| Creditor Guarantee | Debtor | Type | Value ThUS\$ | Release date |
|---|---|----------------------------------|-----------------|-----------------|
| Servicio Nacional de Aduana del Ecuador | Lineas Aéreas Nacionales del Ecuador S.A. | Four letter of credit | 1,705 | Aug 5, 2017 |
| Corporación Peruana de Aeropuertos y Aviación Comercial | Lan Perú S.A. | Six letter of credit | 3,813 | Jan 31, 2017 |
| Lima Airport Partners S.R.L. | Lan Perú S.A. | Twenty two letter of credit | 3,805 | Mar 3, 2017 |
| Superintendencia Nacional de Aduanas y de Administración Tributaria | Lan Perú S.A. | Four letter of credit | 33,500 | Mar 20, 2017 |
| Aena Aeropuertos S.A. | LATAM Airlines Group S.A. | Four letter of credit | 2,014 | Nov 15, 2017 |
| American Alternative Insurance Corporation | LATAM Airlines Group S.A. | Six letter of credit | 3,490 | Apr 5, 2017 |
| Deutsche Bank A.G. | LATAM Airlines Group S.A. | One letter of credit | 30,000 | Mar 31, 2017 |
| Dirección General de Aeronáutica Civil | LATAM Airlines Group S.A. | Fifty two letter of credit | 18,477 | Jan 31, 2017 |
| Empresa Pública de Hidrocarburos del Ecuador EP Petroecuador | LATAM Airlines Group S.A. | One letter of credit | 5,500 | Jun 17, 2017 |
| JP Morgan Chase | LATAM Airlines Group S.A. | One letter of credit | 10,000 | Jun 17, 2017 |
| Metropolitan Dade County | LATAM Airlines Group S.A. | Ten letter of credit | 2,553 | Mar 13, 2017 |
| The Royal Bank of Scotland plc | LATAM Airlines Group S.A. | One letter of credit | 5,000 | May 20, 2017 |
| 4ª Vara Mista de Bayeux | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 1,060 | Mar 25, 2021 |
| 6ª Vara Federal da Subseção de Campinas SP | Tam Linhas Aéreas S.A. | Two insurance policies guarantee | 24,969 | Jan 4, 2018 |
| 8ª Vara Federal da Subseção de Campinas SP | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 12,894 | May 19, 2020 |
| Conselho Administrativo de Conselhos Federais | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 6,704 | Oct 20, 2021 |
| Fundação de Proteção de Defesa do Consumidor Procon | Tam Linhas Aéreas S.A. | Two insurance policies guarantee | 3,276 | Jan 21, 2021 |
| União Federal Vara Comarca de DF | Tam Linhas Aéreas S.A. | Two insurance policies guarantee | 2,696 | Nov 9, 2020 |
| União Federal Vara Comarca de SP | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 19,557 | Feb 22, 2021 |
| | | | 191,013 | |

NOTE 33 - TRANSACTIONS WITH RELATED PARTIES

(a) Details of transactions with related parties as follows:

| Tax No. | Related party | Nature of relationship with related parties | Country of origin | Nature of related parties transactions | Currency | Transaction amount with related parties As of December 31, | |
|--------------|---|---|-------------------|--|----------|--|---------|
| | | | | | | 2016 | 2015 |
| | | | | | | ThUS\$ | ThUS\$ |
| 96.810.370-9 | Inversiones Costa Verde Ltda. y CPA. | Related director | Chile | Tickets sales | CLP | 6 | 15 |
| 65.216.000-K | Comunidad Mujer | Related director | Chile | Services provided for advertising | CLP | (12) | (10) |
| | | | | Tickets sales | CLP | 9 | 2 |
| 78.591.370-1 | Bethia S.A and subsidiaries | Related director | Chile | Services received of cargo transport | CLP | (394) | (259) |
| | | | | Services received from National and Internat Courier | CLP | (285) | (227) |
| | | | | Services provided of cargo transport | CLP | 192 | 30 |
| 65.216.000-K | Viajes Falabella Ltda. | Related director | Chile | Sales commissions | CLP | (727) | (50) |
| 79.773.440-3 | Transportes San Felipe S.A | Related director | Chile | Services received of transfer of passengers | CLP | (84) | (127) |
| | | | | Tickets sales | CLP | 3 | 7 |
| 87.752.000-5 | Granja Marina Tornagaleones | Common shareholder | Chile | Tickets sales | CLP | 76 | 117 |
| Foreign | Consultoría Administrativa Profesional S.A. de C.V. | Associate | Mexico | Professional counseling services received | MXN | (2,563) | (1,191) |
| Foreign | Inversora Aeronáutica Argentina | Related director | Argentina | Leases as lessor | ARS | (264) | (269) |
| | | | | Revenue billboard advertising maintaining | US\$ | - | 1 |
| Foreign | TAM Aviação Executiva e Taxi Aéreo S/A | Related director | Brazil | Services provided by sale of tickets | BRL | 2 | 2 |
| | | | | Services proviived of cargo transport | BRL | (122) | (63) |
| | | | | Services received at airports | BRL | 7 | 5 |

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The balances of Accounts receivable and accounts payable to related parties are disclosed in Note 9.

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties.

(b) Compensation of key management

The Company has defined for these purposes that key management personnel are the executives who define the Company's policies and major guidelines and who directly affect the results of the business, considering the levels of Vice-Presidents, Chief Executives and Directors (Senior).

| | For the period ended | |
|-----------------------|----------------------|---------------|
| | December 31, | |
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Remuneration | 16,514 | 17,185 |
| Management fees | 556 | 547 |
| Non-monetary benefits | 778 | 864 |
| Short-term benefits | 23,459 | 19,814 |
| Share-based payments | 8,085 | 10,811 |
| Total | <u>49,392</u> | <u>49,221</u> |

NOTE 34 - SHARE-BASED PAYMENTS

(a) Compensation plan for increase of capital

Compensation plans implemented by providing options for the subscription and payment of shares that have been granted by LATAM Airlines Group S.A. to employees of the Company and its subsidiaries, are recognized in the financial statements in accordance with the provisions of IFRS 2 "Share-based Payment", showing the effect of the fair value of the options granted under compensation in linear between the date of grant of such options and the date on which these irrevocable.

(a.1) Compensation plan 2011

On December 21, 2016, the subscription and payment period of the 4,800,000 shares corresponding to the compensation plan approved at the Extraordinary Shareholders' Meeting held on December 21, 2011, expired.

Of the total shares allocated to the 2011 Compensation Plan, only 10,282 shares were subscribed and paid, having been placed on the market in January 2014. In view of the above, at the expiration

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date, the 2011 Compensation Plan had a balance of 4,789,718 shares pending of subscription and payment, which was deducted from the authorized capital of the Company.

| | Number of share options |
|--|-------------------------|
| Share options in agreements of share-based payments, as of January 1, 2015 | 4,202,000 |
| Share options granted | 406,000 |
| Share options cancelled | (90,000) |
| Share options in agreements of share-based payments, as of December 31, 2015 | <u>4,518,000</u> |
| Share options in agreements of share-based payments, as of January 1, 2016 | 4,518,000 |
| Executives resinged options (*) | (4,172,000) |
| Share options expired | (346,000) |
| Share options in agreements of share-based payments, as of December 31, 2016 | <u>-</u> |

These options was valued and recorded at fair value at the grant date, determined by the "Black-Scholes-Merton". The effect on income to December 2016 corresponds to ThUS\$ 2,989 (ThUS\$ 10,811 at December 31, 2015).

(a.2) Compensation plan 2013

At the Extraordinary Shareholders' Meeting held on June 11, 2013, the Company's shareholders approved motions including increasing corporate equity, of which 1,500,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, in conformity with the stipulations established in Article 24 of the Corporations Law. With regard to this compensation, a defined date for implementation does not exist.

(b) Compensation plan 2016-2018

The company implemented a retention plan long-term for executives, which lasts until December 2018, with a vesting period between October 2018 and March 2019, which consists of an extraordinary bonus whose calculation formula is based on the variation the value to experience the action of LATAM Airlines Group S.A. for a period of time.

This benefit is recognized in accordance with the provisions of IFRS 2 "Share-based Payments" and has been considered as cash settled award and therefore recorded at fair value as a liability, which is updated to the closing date of each financial statement with effect on profit or loss.

| | Unit bases granted |
|---|--------------------|
| Units bases, balance at December 31, 2016 | <u>4,719,720</u> |

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The fair value has been determined on the basis of the best estimate of the future value of the Company share multiplied by the number of units granted bases.

At December 31, 2016, the carrying amount of ThUS\$ 4,442, is classified under "Administrative expenses" in the Consolidated Statement of Income by Function.

(c) Subsidiaries compensation plans

(c.1) Stock Options

TAM Linhas Aereas S.A. and Multiplus S.A., both subsidiaries of TAM S.A., have outstanding stock options at December 31, 2016, which amounted to 96,675 shares and 394,698 shares, respectively (at December 31, 2015, the distribution of outstanding stock options amounted to 394,698 for Multiplus S.A. and 96,675 shares TAM Linhas Aéreas S.A.).

TAM Linhas Aéreas S.A.

| Description | 4th Grant | |
|--|------------|--------|
| | 05-28-2010 | Total |
| Outstanding option number as December 31, 2015 | 96,675 | 96,675 |
| Outstanding option number as December 31, 2016 | 96,675 | 96,675 |

Multiplus S.A.

| Description | 4th Extraordinary Grant | | | Total |
|--|-------------------------|-------------------------|------------|---------|
| | 3rd Grant 03-21-2012 | 4th Grant 04-03-2013 | 11-20-2013 | |
| Outstanding option number as December 31, 2015 | 102,621 | 255,995 | 159,891 | 518,507 |
| Outstanding option number as December 31, 2016 | 84,249 | 173,399 | 137,050 | 394,698 |

The Options of TAM Linhas Aéreas S.A., under the plan's terms, are divided into three equal parts and employees can run a third of its options after three, four and five years respectively, as long as they remain employees of the company. The agreed term of the options is seven years.

For Multiplus S.A., the plan's terms provide that the options granted to the usual prizes are divided into three equal parts and employees may exercise one-third of their two, three and four, options respectively, as long as they keep being employees of the company. The agreed term of the options is seven years after the grant of the option. The first extraordinary granting was divided into two equal parts, and only half of the options may be exercised after three years and half after four years. The second extraordinary granting was also divided into two equal parts, which may be exercised after one and two years respectively.

Both companies have an option that contains a "service condition" in which the exercise of options depends exclusively on the delivery services by employees during a predetermined period. Terminated employees will be required to meet certain preconditions in order to maintain their right to the options.

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The acquisition of the share's rights, in both companies is as follows:

| Company | Number of shares Accrued options | | Number of shares Non accrued options | |
|------------------------|-------------------------------------|-------------------------------|---|-------------------------------|
| | As of December 31, 2016 | As of December 31, 2015 | As of December 31, 2016 | As of December 31, 2015 |
| TAM Linhas Aéreas S.A. | - | - | 96,675 | 96,675 |
| Multiplus S.A. | - | - | 394,698 | 518,507 |

In accordance with IFRS 2 - Share-based payments, the fair value of the option must be recalculated and recorded as a liability of the Company once payment is made in cash (cash-settled). The fair value of these options was calculated using the "Black-Scholes-Merton" method, where the cases were updated with information LATAM Airlines Group S.A. There is no value recorded in liabilities and in income at December 31, 2016 (at December 31, 2015 not exist value recorded in liabilities and in incomes).

(c.2) Payments based on restricted stock

In May of 2014 the Management Council of Multiplus S.A. approved a plan to grant restricted stock, a total of 91,103 ordinary, registered book entry securities with no face value, issued by the Company to beneficiaries.

The quantity of restricted stock units was calculated based on employees' expected remunerations divided by the average price of shares in Multiplus S.A. traded on the BM&F Bovespa exchange in the month prior to issue, April of 2014. This benefits plan will only grant beneficiaries the right to the restricted stock when the following conditions have been met:

- Compliance with the performance goal defined by this Council as return on Capital Invested.
- The Beneficiary must remain as an administrator or employee of the Company for the period running from the date of issue to the following dates described, in order to obtain rights over the following fractions: (i) 1/3 (one third) after the 2nd year from the issue date; (ii) 1/3 (one third) after the 3rd year from the issue date; (iii) 1/3 (one third) after the 4th year from the issue date.

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Number shares in circulation

| | Opening balance | Granted | Exercised | Not acquired due to breach of employment retention conditions | Closing balance |
|-------------------------------------|-----------------|---------|-----------|---|-----------------|
| From January 1 to December 31, 2015 | 91,103 | 119,731 | - | (34,924) | 175,910 |
| From January 1 to December 31, 2016 | 175,910 | 138,282 | (15,811) | (60,525) | 237,856 |

NOTE 35 - STATEMENT OF CASH FLOWS

(a) The Company has done significant non-cash transactions mainly with financial leases, which are detailed in Note 17 letter (d), additional information in numeral (iv) Financial leases.

(b) Other inflows (outflows) of cash:

| | For the periods ended December 31, | |
|---|------------------------------------|------------------|
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Guarantees | (51,559) | (2,125) |
| Fuel hedge | (50,029) | (243,587) |
| Currency hedge | (39,534) | 1,802 |
| Court deposits | (33,635) | (6,314) |
| Change reservation systems | - | 11,000 |
| DOJ fine | (12,750) | - |
| Tax paid on bank transaction | (10,668) | (7,176) |
| Fuel derivatives premiums | (6,840) | (20,932) |
| SEC agreement | (4,719) | - |
| Bank commissions, taxes paid and other | (769) | (5,137) |
| Hedging margin guarantees | 1,184 | 87,842 |
| Others | 50 | - |
| Total Other inflows (outflows) Operation flow | (209,269) | (184,627) |
| Recovery loans convertible into shares | 8,896 | 20,000 |
| Certificate of bank deposits | - | 3,497 |
| Tax paid on bank transaction | (3,716) | (12,921) |
| Others | (4,337) | - |
| Total Other inflows (outflows) Investment flow | 843 | 10,576 |
| Aircraft Financing advances | (125,149) | (28,144) |
| Loan guarantee | (74,186) | - |
| Settlement of derivative contracts | (29,828) | (35,891) |
| Credit card loan manager | - | 3,227 |
| Early redemption of bonds TAM 2020 | - | (15,328) |
| Guarantees bonds emission | - | (26,111) |
| Others | - | 2,490 |
| Total Other inflows (outflows) Financing flow | (229,163) | (99,757) |

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(c) Dividends:

| | For the periods ended December 31, | |
|---------------------------------|------------------------------------|-----------------|
| | 2016 | 2015 |
| | ThUS\$ | ThUS\$ |
| Multipius S.A | (40,823) | (34,632) |
| Lan Perú S.A | (400) | (400) |
| Total dividends paid (*) | (41,223) | (35,032) |

(*) Dividends paid to minority shareholders

NOTE 36 - THE ENVIRONMENT

LATAM Airlines Group S.A. manages environmental issues at the corporate level, centralized in Environmental Management. There is a commitment to the highest level to monitor the company and minimize their impact on the environment, where continuous improvement and contribute to the solution of global climate change problems, generating added value to the company and the region, are the pillars of his administration.

One function of Environmental Management, in conjunction with the various areas of the Company, is to ensure environmental compliance, implementing a management system and environmental programs that meet the increasingly demanding requirements globally; well as continuous improvement programs in their internal processes that generate environmental and economic benefits and to join the currently completed.

The Environment Strategy LATAM Airlines Group S.A. is called Climate Change Strategy and it is based on the aim of being a world leader in Climate Change and Eco-efficiency, which is implemented under the following pillars:

- i. Carbon Footprint
- ii. Eco-Efficiency
- iii. Sustainable Alternative Energy
- iv. Standards and Certifications

For 2016, were established the following topics:

1. Advance in the implementation of an Environmental Management System;
2. Manage the Carbon Footprint of our emissions by ground operations;
3. Corporate Risk Management;
4. Corporate strategy to meet the global target of aviation to have a carbon neutral growth by 2020.

Thus, during 2016, we have worked in the following initiatives:

- Advance in the implementation of an Environmental Management System for main operations of the Company, with an emphasis on Santiago. It is highlighted that the company during 2016 has recertified a certified management system, under ISO 14.001 at its facility in Miami.

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- Certification of stage 2 of IATA Environmental Assessment (IEnvA), the most advanced of this certification, been the third airline in the world to achieve this certification.
- Preparation of the environmental chapter for reporting sustainability of the Company, to measure progress on environmental issues.
- Answer to the Dow Jones Sustainability Index 2016 questionnaire, which the company responds annually.
- Measurement and external verification of the Corporate Carbon Footprint.

It is highlighted that in the 2016 LATAM Airlines Group maintained its selection in the index Dow Jones Sustainability in the global category, being the only two airlines that belong to this select group.

NOTE 37 - EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

On January 18, 2017, the Company was notified of a civil suit filed by Inversiones Ranco Tres S.A., represented by Mr. Jorge Enrique Said Yarur against LATAM Airlines Group S.A., for supposed non-compliance of contractual obligations from the social contract of the Company, as well as the directors Ramón Eblen Kadiz, Jorge Awad Mehech, Juan Jose Cueto Plaza and main executives of the Company, Enrique Cueto Plaza and Ignacio Cueto Plaza, for the supposed noncompliance of their duties as directors and main executives of the Company. LATAM has hired specialist lawyers to answer the lawsuit. On March 10, 2017, the Court rejected the dilatory exceptions presented by LATAM.

On March 8th, 2017, LATAM received a third Requirement of Information from the Central-North Metropolitan Region Prosecutor's Office requesting information relating to the investigation of payments made by Lan Airlines S.A. to a consultant advising it on the solution to labor matters in Argentina in the years 2006-2007.

Subsequent at December 31, 2016 until the date of issuance of these financial statements, there is no knowledge of financial facts or otherwise, that could significantly affect the balances or interpretation thereof.

LATAM Airlines Group S.A. and Subsidiaries' consolidated financial statements as at December 31, 2016, have been approved by the Board of Director's in an extraordinary meeting held on March 15, 2017.

Filiales y Coligadas

LATAM AIRLINES GROUP S.A

Name: LATAM Airlines Group S.A., R.U.T. 89.862.200-2

Legal incorporation: It is legally incorporated as a limited liability company, by virtue of public deed dated December 30, 1983, executed at the Notary Public's Office of Eduardo Avello Arellano, having registered an abstract of it in the Santiago Register of Commerce on sheet 20,341 number 11,248 of the year 1983 and published in the Official Gazette of December 31, 1983.

By public deed dated August 20, 1985, executed at the Notary Public's Office of Miguel Garay Figueroa, the company was transformed into a stock company (corporation), under the name of Línea Aérea Nacional Chile S.A. (nowadays, LATAM Airlines Group S.A.); which, by express provision of Law N°18,400, is the legal continuation of the public state company created in the year 1929 under the name of Línea Aérea Nacional de Chile, with respect to aeronautic concessions and radio communications, traffic rights and other administrative concessions.

The Extraordinary Shareholders' Meeting of Lan Chile S.A. held on July 23, 2004 agreed to change the company's name to "Lan Airlines S.A." An abstract of the public deed with the abridged Minutes of such Meeting was registered in the Register of Commerce of the Registrar of Lands on sheet 25,128, number 18,764 corresponding to the year 2004 and that was published in the Official Gazette of August 21, 2004. The effective date of the change of name was September 8, 2004.

The Extraordinary Shareholders' Meeting of Lan Airlines S.A. of December 21, 2011 agreed to change the company name to "LATAM Airlines Group S.A." An abstract of the public deed with the abridged Minutes of such Meeting was registered in the Register of Commerce of the Registrar of Lands on sheet 4,238 NUBER 2,921 corresponding to the year 2012 and was published in the Official Gazette

of January 14, 2012. The effective date of the change of name was June 22, 2012.

LATAM Airlines Group S.A. is governed by the regulations applicable to open stock companies, for which purposes it is registered under N° 0306 of January 22, 1987 in the Securities Register of the Superintendence for Securities and Insurance Companies.

Note: The financial statements of the subsidiaries are shown in this report in a summarized manner. The complete information is available to the public in our offices and at the Superintendence for Securities and Insurance Companies.

TAM S.A. Y FILIALES

Legal incorporation: Stock company incorporated in Brazil in Mayo of the year 1997.

Object:

To participate as shareholder in other companies, especially in companies that develop scheduled air transport services domestically and internationally and in other related activities either related or complementary to scheduled air transport services.

Subscribed and paid capital: MUS\$ 2,304,021

Year's income: MUS\$ 43,925

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over parent company's assets: 3.01%

Chairman of the board:

Claudia Sender Ramirez

Board members:

Ruy Antonio Mendes Amparo

Federico Herman Germani

TAM S.A.'s subsidiary companies
► TAM Linhas Aereas S.A. and subsidiaries

Identification: Stock company incorporated in Brazil.

Object: (a) development of scheduled air transport passengers services, cargo or mailbags, in accordance to the legislation in force; (b) development of complementary activities of air transport services for passengers, cargo and mailbags; (c) provision of maintenance services, aircraft repair, of own or third parties, engines, spare parts and pieces; (d) provision of hangarage (hangar space) for aircraft; (e) provision of patio and runway services, flight attendant services and cleaning of aircraft; (f) provision of engineering services, technical assistance and other activities related to the aeronautic industry; (g) conducting of education and training related to aeronautical activities; (h) analysis and development of programs and systems; (i) the purchase and sale of parts, accessories and aircraft equipment; (j) development and implementation of other connected or complementary activities related to air transport, in addition to those expressly listed above; (k) import and export of finished lubricating oil; and (l) development of correspondent banking services.

Subscribed and paid capital: MUS\$ 1.839.233

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.49377%

Chairman of the board:

Cláudia Sender Ramirez

Board members:

Ruy Antonio Mendes Amparo

Daniel Levy

► ABSA: Aerolinhas Brasileiras S.A. and subsidiary

Identification: Stock company incorporated in Brazil

Object: (a) development of scheduled air transport services of passengers, cargo or postal bags, domestic or international, according to the legislation in force; (b) development of ancillary air transport activities, such as attendance, cleaning and towing of aircraft, cargo monitoring, flight dispatch, check-in and check-out, and other services contemplated in its own bylaws; (c) leasing and operating aircraft and chartering; (d) development of maintenance services and marketing of spare parts, aircraft parts and equipment; and (e) development and implementation of other connected or complementary activities related to air transport, in addition to those expressly listed above.

Subscribed and paid capital: MUS\$ 62,752

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.15770%

Chairman of the board:

Luis Quintiliano

Board members:

Dario Matsuguma

Daniel Levy

► Multiplus S.A.

Identification: Stock company incorporated in Brazil.

Object: i. development and management of customer loyalty programs according related to the consumption of goods and services offered by the partners of the company; ii. the marketing of rights of redemption of awards under the customer loyalty program; iii. the creation of databases of individuals and legal entities; iv. the obtaining and processing of transactional information relating to consumption habits; v. the representation of other companies Brazilian or foreign companies; and vi. providing ancillary services to the trading of goods and products, including, but not limited to, imports and exports, in addition to the acquisition of items and related products, directly and indirectly, resulting from the activities described above.

Subscribed and paid capital: MUS\$ 32,923

2016 Shareholding: 72.40%

Year-to-year variation: 0.00%

% over parent company's assets: 1.11628%

Chairman of the board:

Roberto José Maris DE Medeiros

Board members:

Ronald Domingues

Ricardo Gazetta

Ricardo Birtel Mendes de Freitas

► **Transportes Aereos del Mercosur S.A.**

Identification: Stock company incorporated in Paraguay

Object: It has a broad business object that includes aeronautic, commercial, touristic, service, financing, representation and investment activities with an emphasis on scheduled and non-scheduled airline transportation services, domestic and international of persons, things and/or correspondence, among others, commercial and for delivering maintenance services and technical assistance for all types of aircraft, equipment, accessories and air navigation materials, among others.

Subscribed and paid capital: MUS\$ 17.251
2016 Shareholding: 94.98%
Year-to-year variation: 0.00%
% over parent company's assets: 0.12835%

Chairman of the board

Gustavo Lopegui

Board members

Enrique Alcaide Hidalgo
 Darío Maciel Martínez
 Hernán Pablo Morosuk (Interim)

Management:

Enrique Alcaide Hidalgo
 Esteban Burt Artaza
 Hernan Pablo Morosuk
 Gabriela Terrazas Domaniczky
 Maria Emiliana Duarte León

General manager

Rosario Altgelt

► **Corsair Participações Ltda**

Identification: Stock company incorporated in Brazil.

Object: (i) participating in other civil or commercial companies, as shareholder or stockholder; and (ii) managing its own assets.

Subscribed and paid capital: MUS\$ 59
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00135%

Chairman of the board:

Ruy Antonio Mendes Amparo

Board members:

Euzébio Angelotti Neto

► **TP Franchising Limited**

Identification: Limited liability company incorporated in Brazil.

Object: (a) the granting of franchises; (b) temporary assignments, free of charge or for valuable consideration, to its franchisees, of rights to use trademarks, systems, knowledge, methods, patents, technology and any other rights, interests or property, movable or immovable, tangible or intangible, of our company, that either is or will be a licensee, related to the development, execution, operation or management of the franchises to be granted; (c) the development of any activities necessary to ensure, as far as possible, the maintenance and continuous improvement of the standards of operation of its franchise network; (d) the development of models of execution, operation and management of the network of franchises and its transmission to the franchisees; and (e) the distribution, sale and marketing of airline tickets and related products, as well as of any related business or accessories toward its main objective, entitled to participate in other companies as

a partner or shareholder, in Brazil or abroad, or in consortia, as well as undertaking its own projects, or join the projects of third parties, including those for the purpose of benefiting of tax incentives, in accordance with the legislation in force.

Subscribed and paid capital: MUS\$ 9
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00478%

Management:

Cláudia Sender Ramirez
 Marcelo Eduardo Guzzi Dezem
 Daniel Levy

► **TAM Capital Inc**

Identification: Stock company incorporated in Brazil.

Object: The company is entitled to exercise any activity not contrary to the law.

Subscribed and paid capital: MUS\$ 133,139
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.0%

Board members:

José Zaidan Maluf,
 Bruno Macarenco Aléssio
 Euzébio Angelotti Neto

► **TAM Capital 2 Inc.**

Identification: Stock company incorporated in Brazil.

Object: The company is entitled to exercise any activity not contrary to the law.

Subscribed and paid capital: MUS\$ 94,614

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.0%

Board members:

José Zaidan Maluf,
Bruno Macarenco Aléssio
Euzébio Angelotti Neto

► **TAM Capital 3 Inc.**

Identification: Stock company incorporated in Brazil.

Object: The company is entitled to exercise any activity not contrary to the law.

Subscribed and paid capital: MUS\$ 213,734

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.96502%

Board members:

José Zaidan Maluf,
Bruno Macarenco Aléssio
Euzébio Angelotti Neto

LAN CARGO S.A AND SUBSIDIARIES

Legal incorporation: Incorporated as a closely-held stock company by virtue of public deed dated May 22, 1970, executed before the Notary Public's Office of Sergio Rodríguez Garcés; a legal incorporation that was materialized with the contribution of assets and liabilities of the company Línea Aérea del Cobre Limitada (Ladeco Limitada), in turn incorporated on September 3, 1958 at the Public Notary's Office of Jaime García Palazuelos. The company has experienced several forms, the last of which is recorded in the public deed dated November 20, 1998, whose abstract was registered on sheet 30,091 number 24,117 of the Santiago Register of Commerce and published in the Official Gazette of December 3, 1998, by virtue of which Ladeco S.A. was merged by incorporation into the Lan Chile S.A. subsidiary denominated Fast Air Carrier S.A.

Via public deed dated October 22, 2001 with the abridgement of the minutes of the Extraordinary Shareholders' Meeting of Ladeco S.A. of such same date, the business name was changed to "Lan Chile Cargo S.A." An abstract of such public deed was registered in the Register of Commerce of the Santiago Registrar of Lands on sheet 27,746 number 22,624 corresponding to the year 2001 and was published in the Official Gazette of November 5, 2001. The name change became effective on December 10, 2001.

By virtue of the public deed August 23, 2004, into which were abridged the minutes of the Extraordinary Shareholders' Meeting of Lan Chile Cargo S.A. of August 17, 2004, the company's business name was changed to "Lan Cargo S.A." An abstract of such public deed was registered in the Register of Commerce of the Santiago Registrar of Lands on sheet 26.994 number 20.082 corresponding to the year 2004 and was published in the Official Gazette August 30, 2004.

Object: To carry out and develop, either on its own or with third parties: the transport, in general and in any of its forms and, particularly, the air transport of passengers, cargo and correspondence, inside and outside the country; tourist and hotel industry activities and activities complementary to them,

in any of their forms, inside and outside of the country; the purchase, sale, manufacture and/or integration, maintenance, lease or any other form of usufruct, either on its own or with third parties, of aircraft, aeronautic spare parts and equipment, and their development in any capacity whatsoever; to provide all kinds of services and consulting services related to transportation in general and, particularly, to air transport in any of its forms, whether of land support, maintenance, technical advisory or of another kind, inside and outside of the country, and all kinds of activities and services related to the tourist and hotel industry and other above-referred goods and services, inside and outside of the country. In compliance with the preceding objectives, the company may materialize investments or participate as partner in other companies, either acquiring shares or rights or interests in any other type of association, be that in existing ones or in those to be created in the future and, in general, to execute all acts and subscribe all contracts necessary and pertinent toward attaining the indicated objectives.

Subscribed and paid capital: MUS\$ 83,226

Year's income: MUS\$ (7,705)

2016 Shareholding: 99.898%

Year-to-year variation: 0.00%

% over parent company's assets: 1.90%

Board members:

Juan José Cueto Plaza (Board Member LATAM)
Cristián Ureta Larrain (Managers LATAM)
Ignacio Cueto Plaza (Managers LATAM)
Enrique Cueto Plaza (Managers LATAM)
Ramiro Alfonsín Balza (Managers LATAM)

General manager:

Alvaro Carril Muñoz

Subsidiary companies of Lan Cargo S.A

► *Laser Cargo S.R.L.*

Identification: Limited liability company incorporated in Argentina.

Object: To provide, on its own or with third parties, services as agent of air and sea cargo, operate air and sea containers, control the loading and unloading of conventional aircraft, freight, conventional ships and container ships, consolidation and deconsolidation, operations and contracts with transportation companies, of distribution and promotion of air cargo, sea, river and land and related activities and services, imports and exports: such operations are to be carried out in the manner stipulated by the laws of the country and the regulations governing these professions and activities, the customs provisions and regulations of Argentina's Naval Prefecture (PNA), Argentina's Air Force, as well as by entrusting third parties to carry out tasks assigned by the current legislation to freight forwarders; also, the deposit and transport by its own account and/or via third parties of fruit, products, basic products, merchandise in general and all type of documentation: the packing of goods or merchandise in general, on its own account and/or via third parties. In the performance of these functions, the company may register as maritime agent, air, importer and exporter, contractor and maritime and air supplier before the competent authorities. At the same time, it will develop postal activities aimed at the admission, classification, transportation, distribution and delivery of correspondence, letters, portals, parcel posts up to 50 kilograms all of it within the Republic of Argentina and to/from overseas destinations. This activity includes those developed by de so-called couriers or courier companies and any other assimilated or assimilable activities pursuant to Art. 4 of Executive Decree 1187/93. The company shall be also entitled to develop the logistics process consisting in the transfer, storage, assembly, fractioning, packing, preparation of merchandise in general for its subsequent transportation and distribution to the end customer jointly with the managing of the information pertinent to the compliance with this

objective; namely, from the logistics process of intaking raw materials from suppliers up to the delivery of the finished products to clients, including the regulation of information to guarantee the efficiency of this process.

Subscribed and paid capital: MUS\$ 68
2016 Shareholding: 99.99%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00000%

Board members:
 Esteban Bojanich

Management:
 Esteban Bojanich,
 Rosario Altgelt
 María Marta Forcada,
 Facundo Rocha
 Gonzalo Perez Corral
 Nicolás Obejero
 Norberto Díaz

► *Fast Air Almacenes de Carga S.A.*

Identification: Stock company incorporated in Chile.

Object: To carry out and develop the operation or management of stores or customs deposit facilities, in which to store any good or merchandise up until their they are picked up, for import, export or other custom destination, pursuant to the terms and conditions set forth in the Customs Ordinance, its regulations and other pertinent norms.

Subscribed and paid capital: MUS\$ 6.741
2016 Shareholding: 99.89%
Year-to-year variation: 0.00%
% over parent company's assets: 0.03322%

Board members:

Juan José Cueto Plaza (Board Member LATAM)
 Ramiro Alfonsín Balza (Managers LATAM)
 Andrés del Valle Eitel (Managers LATAM)
 Enrique Elsaca Hirmas (Managers LATAM)

General manager:
 Javier Cáceres Celia

► *Prime Airport Services Inc. and subsidiary*

Identification: Stock Company (corporation) legally incorporated in the United States of America.

Object: To carry out and develop the operation or management of stores or customs deposit facilities, in which to store any good or merchandise up until their they are picked up, for import, export or other custom destination, pursuant to the terms and conditions set forth in the Customs Ordinance, its regulations and other pertinent norms.

Subscribed and paid capital: MUS\$ 2
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%

% over parent company's assets: 0.00000%

Board members:
 Carlos Larrain

General manager:
 Rene Pascua

► **Lan Cargo Overseas Limited and subsidiaries**

Identification: Limited Liability Company incorporated in Bahamas.

Object: To participate in any act or activity not expressly prohibited by any law currently in effect in The Bahamas.

Subscribed and paid capital: MUS\$ 1,183
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.08198%

Board members:
 Andres del Valle Eitel (Managers LATAM)
 Cristian Toro (Managers LATAM)

Management:
 Andres del Valle Eitel (Managers LATAM)
 Cristian Toro (Managers LATAM)

► **Transporte Aéreo S.A.**

Identification: Stock company incorporated in Chile.

Object: To participate in any act or activity not expressly prohibited by any law currently in effect in The Bahamas.

Subscribed and paid capital: MUS\$ 11,800
2016 Shareholding: 99.99%
Year-to-year variation: 0.00%
% over parent company's assets: 1.12581%

Board members:
 Ramiro Alfonsín Balza
 Roberto Alvo Milosawlewitsch
 Enrique Elsaca Hirmas

General manager:
 Enrique Elsaca Hirmas

Management:

Ramiro Alfonsín Balza
 Roberto Alvo Milosawlewitsch
 Enrique Elsaca Hirmas

► **Consortio Fast Air Almacenes de Carga S.A. - Laser Cargo S.R.L.**

Identification: Temporary union of companies legally incorporated in Argentina.

Object: To submit a bid before the National and International Bidding Contest N° 11/2000, aimed at awarding a Use Permit toward the installation and operation of a Fiscal Deposit Area at the Rosario International Airport.

Subscribed and paid capital: MUS\$ 132
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00021%

Board members:
 Esteban Bojanich

Management:
 Esteban Bojanich

► **Lan Cargo Inversiones S.A. y filial**

Identification: Stock company incorporated in Chile

Object: a) To perform commercial air transportation activities in any of its forms, either of passengers, mail and/or cargo and everything that might be directly or indirectly related to such activity, inside or outside of the country, by its own account or with third parties; b) to provide services related to the maintenance and repair of aircraft, of its own or of third parties; c) commerce and development of activities related to the travel, tourism and hotel business; d) the development and/or

participation in all kinds of investments, both in Chile as well as abroad, on subject matters directly or indirectly related to aeronautic affairs and/or to any of its other business objectives; and, e) the development and operation of any activity derived from the business objective and/or linked, connected, coadjuvating or complementary to the same.

Subscribed and paid capital: MUS\$ 125
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00000%

Board members:
 Ignacio Cueto Plaza (Managers LATAM)
 Ramiro Alfonsín Balza (Managers LATAM)
 Roberto Alvo Milosawlewitsch (Managers LATAM)

► **Connecta Corporation**

Identification: Stock Company (corporation) legally incorporated in the United States of America.

Object: Property ownership, operating lease and subleasing of aircraft.

Subscribed and paid capital: MUS\$ 1
2016 Shareholding: 100.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00000%

General manager:
 Ernesto Ramirez

► **Línea Aérea Carguera de Colombia (Subsidiary of LAN Cargo Inversiones)**

Identification: Stock company incorporated in Colombia

Object: To provide public commercial air transport services of cargo and mail inside and outside of the territory of the Republic of Colombia, and to/from Colombia. As secondary objective, the company shall be entitled to provide maintenance services to itself and to third parties; run its own school of operations and provide practical and theoretical instruction services and training to aeronautic personnel of its own or of third parties in its different modalities and specialties; import for itself or for third parties any spare parts and pieces related to the aeronautic activity; provide airport services to third parties, represent or act as agent on behalf of national or foreign airlines for passengers or cargo and, in general, to any company providing services in the aeronautic sector.

Subscribed and paid capital: MUS\$ 774

2016 Shareholding: 90.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.03758%

Board members:

Alberto Davila Suarez

Pablo Canales

Jaime Antonio Gongora Esguerra

Fernando García Poitevin (Interim)

Jorge Nicolas Cortazar Cardoso (Interim)

Management:

Jaime Antonio Gongora Esguerra

Erika Zarante Bahamon (Interim)

► **Mas Investment Limited (Subsidiary of LAN Overseas Limited)**

Identification: Limited Liability Company incorporated in Bahamas.

Object: To participate in any act or activity not expressly prohibited by any law currently in effect in The Bahamas and, specifically, to own property (stakes) in other LAN subsidiaries.

Subscribed and paid capital: MUS\$1,446

2016 Shareholding: 100,000

Year-to-year variation: 0.00%

% over parent company's assets: 0.03482%

Board members:

J. Richard Evans

Carlton Mortimer

Charlene Y. Wels

Geoffrey D. Andrews.

► **Promotora Aérea Latinoamérica S.A and subsidiaries (Subsidiary of Mas Investment Limited)**

Identification: Variable Equity Stock Company incorporated in México.

Object: To promote, incorporate, organize, operate and take participation in the capital and equity of all kinds of commercial companies, civilian, industrial associations or companies, commercial, of service or of any other nature, both domestic and foreign, as well as to participate in their management or liquidation.

* The acquisition, sale and in general the negotiation with any type of shares, social (company) parties, and of any title or value permitted by law...* To provide or hire technical, consulting and advisory services, as well as to execute contracts or agreements toward the achievement of these objectives.

Subscribed and paid capital: MUS\$ 2,216

2016 Shareholding: 49.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.02456%

Management:

Luis Ignacio Sierra Arriola

► **Inversiones Áreas S.A (Subsidiary of Mas Investment Limited)**

Identification: Stock company incorporated in Peru.

Object: To promote, incorporate, organize, operate and take participation in the capital and equity of all kinds of commercial companies, civilian, industrial associations or companies, commercial, of service or of any other nature, both domestic and foreign, as well as to participate in their management or liquidation.

* The acquisition, sale and in general the negotiation with any type of shares, social (company) parties, and of any title or value permitted by law...* To provide or hire technical, consulting and advisory services, as well as to execute contracts or agreements toward the achievement of these objectives.

Subscribed and paid capital: MUS\$ 428

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over parent company's assets: 0.02922%

Board members:

Andrés Enrique del Valle Eitel

Cristian Eduardo Toro Cañas

General manager:

Carlos Schacht Rotter

► **Americonsul S.A de C.V. (Subsidiary of Promotora Aérea Latinoamérica S.A and subsidiaries)**

Identification: Variable Equity Stock Company incorporated in México.

Object: To provide and receive all kinds of technical, management and advisory services to/from industrial, commercial and service companies; promote, organize, manage, supervise, issue and direct personnel training courses; to carry out all kinds of studies, plans, projects and research jobs; hire the necessary professional and technical personnel.

Subscribed and paid capital: MUS\$ 5
2016 Shareholding: 49.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.00000%

Management:
Luis Ignacio Sierra Arriola

► **Americonsult de Guatemala S.A. (Subsidiary of Americonsul S.A de C.V)**

Identification: Stock company incorporated in Guatemala.

Object: Powers to represent, intermediate, negotiate and commercialize; develop all kinds of commercial and industrial activities; all type of commerce, in general. Broad business objective that permits all kinds of operations in the country.

Subscribed and paid capital: MUS\$ 76
2016 Shareholding: 99.00%
Year-to-year variation: 0.00%
% over the parent company's assets: 0.00068%

Chairman of the board:
Luis Ignacio Sierra Arriola

Board members:
Carlos Fernando Pellecer Valenzuela

Management:
Carlos Fernando Pellecer Valenzuela

► **Americonsult de Costa Rica S.A. (Subsidiary of Americonsul S.A de C.V)**

Legal incorporation: Stock company incorporated in Costa Rica.

Object: General commerce in industry, agriculture and livestock.

Subscribed and paid capital: MUS\$ 20
2016 Shareholding: 99.00%
Year-to-year variation: 0.00%
% over the parent company's assets: 0.00615%

Management:
Luis Ignacio Sierra Arriola
Treasurer: Alejandro Fernández Espinoza
Luis Miguel Renguel López
Tomás Nassar Pérez
Marjorie Hernández Valverde.

LAN PERÚ S.A

Legal incorporation: Stock Company incorporated in Peru el February 14, 1997.

Object: To provide air passenger transportation services, cargo and mail, at the national and international level, pursuant to the civil aeronautics legislation.

Subscribed and paid capital: MUS\$ 4,341
Year's income: MUS\$ (2,164)
2016 Shareholding: 70.00%
Year-to-year variation: 0.00%
% over the parent company's assets: 0.06%

Chairman of the board:
Emilio Rodríguez Larraín Salinas

Board members:
César Emilio Rodríguez Larraín Salinas
Ignacio Cueto Plaza (LATAM Executive)
Enrique Cueto Plaza (LATAM Executive)
Jorge Harten Costa
Alejandro García Vargas
Emilio Rodríguez Larraín Miró Quesada
Armando Valdivieso Montes (LATAM Executive)

General manager:
Félix Antelo

INVERSIONES LAN S.A Y FILIALES

Legal incorporation: Incorporated as a closely-held stock company by virtue of public deed dated January 23, 1990, executed at the Notary Public's Office of Humberto Quezada M., registered in the Santiago Register of Commerce on fs. (sheet) 3,462 N° 1,833 of the year 1990 and published in the Official Gazette of February 2, 1990.

Object: To invest in all kinds of assets, either movable (personal) or immovable (real estate), tangible or intangible. Additionally, the company shall be entitled to form other type of companies, of any nature; acquire rights in already incorporated companies, manage them amend them or liquidate them.

Subscribed and paid capital: MUS\$ 458
Year's income: MUS\$ 2,607
2016 Shareholding: 100.00%
Year-to-year variation: 0.0%
% over the parent company's assets: 0.02%

Board members:

Enrique Cueto Plaza (LATAM Executive)
 Ignacio Cueto Plaza (LATAM Executive)
 Ramiro Alfonsín Balza (LATAM Executive)
 Roberto Alvo Milosawlewitsch (LATAM Executive)
 Enrique Elsaca Hirmas (LATAM Executive)

General manager:

Juan Pablo Arias (LATAM Executive)

Subsidiary companies of Inversiones Lan S.A. and shareholding

► **Andes Airport Services S.A.**

Identification: Stock company incorporated in Chile.

Object: Comprehensive business consulting and services to third parties such as cargo, ground handling, staffing and any other as might be required. To that effect, the company will perform its functions via personnel especially-hired by the company or via third parties. In general, the company will be entitled to develop any activity directly or indirectly related to its specific business consulting and services objective.

Subscribed and paid capital: MUS\$ 2
2016 Shareholding: 98.00%
Year-to-year variation: 0.00%
% over parent company's assets: 0.01747%

Board members:

Enrique Cueto Plaza (LATAM Executive)
 Ignacio Cueto Plaza (LATAM Executive)
 Ramiro Alfonsín Balza (LATAM Executive)
 Roberto Alvo Milosawlewitsch (LATAM Executive)
 Enrique Elsaca Hirmas (LATAM Executive)

INMOBILIARIA AERONAUTICA S.A

Legal incorporation: Incorporated as a closely-held stock company by virtue of public deed dated August 1, 1995, executed at the Notary Public's Office of Gonzalo Cuadra Fabres and registered in the Santiago Register of Commerce on fs. (sheet) 2, .690 under N° 17,549 of the year 1995 and published in the Official Gazette of September 14, 1995.

Object: To acquire and sell real estate properties and any rights over them; develop, plan, sell and build real estate properties and real estate development projects; lease, manage and any other form of operating with real estate properties, either on its own behalf or on behalf of third parties.

Subscribed and paid capital: MUS\$ 1,147
Year's income: MUS\$ 3,443
2016 Shareholding: 100.00%
Year-to-year variation: 0.0%
% over the parent company's assets: 0.15%

Board members:

Enrique Cueto Plaza (LATAM Executive)
 Ramiro Alfonsín Balza (LATAM Executive)
 Armando Valdivieso Montes (LATAM Executive)

LATAM TRAVEL CHILE S.A Y FILIAL

Legal incorporation: Incorporated as a closely-held stock company by virtue of public deed dated June 22, 1987, executed at the Santiago Notary Public's Office of Raúl Undurraga Laso, registered in the Santiago Register of Commerce on fs. (sheet) 13,139 N°8,495 of the year 1987 and published in the Official Gazette of July 2, 1987. The company has undergone several reforms, the last of which is stated for the record in public deed dated August 24, 1999 executed at the Notary Public's Office of Eduardo Pinto Peralta and registered in the Santiago Register of Commerce on fs. (sheet) 21.042 N°16.759 of the year 1999 and published in the Official Gazette of September 8, 1999.

Object: The operation, management and representation of national or international companies engaged in hotel, shipping, airline, hotel and tourism activities; operating on behalf of itself or on behalf of third parties, car leasing, imports, exports, production, marketing and distribution all by itself or with third parties, in national and international markets, of all kinds of merchandise, either raw materials, material ingredients (input) or finished products.

Subscribed and paid capital: MUS\$ 235
Year's income: MUS\$ 2,650
2016 Shareholding: 100.00%
Year-to-year variation: 0.0%
% over the parent company's assets: 0.01%

Board members:

Andrés del Valle Eitel (LATAM Executive)
 Armando Valdivieso Montes (LATAM Executive)

General manager:

Sandra Espinoza Gerard

Subsidiary company of Latam Travel Chile S.A. and shareholding
► Latam Travel Chile II S.A.

Identification: Stock Company incorporated in Chile.

Object: The operation, management and representation of companies or businesses, national or foreign, engaged in shipping, airlines, hotel and tourism activities; the intermediation of touristic services such as: (a) seat and ticket reservations in all kinds of means of transportation; (b) the reservation, acquisition and sale of accommodation and tourist services, tickets or passes to all kinds of events, museums, monuments and protected areas of the country; (c) the organization, promotion and sale of so-called tourist packages, understanding as such the set of tourist services (maintenance, transportation, accommodation, customized or projected at the request of clients, at a pre-established price, for operation within the national territory; (d) air, land, sea and fluvial tourism transportation within the national territory; (e) leasing and chartering aircraft, ships, trains and other means of transportation in order to provide tourist services; (f) any other service directly or indirectly related to the delivery of the services previously described.

Subscribed and paid capital: MUS\$ 235

2016 Shareholding: 99.99%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.01428%

Board members:

Armando Valdivieso Montes (Managers LATAM)

Andrés del Valle Eitel (Managers LATAM)

General manager:

Sandra Espinoza Gerard

LAN PAX GROUP S.A.

Legal incorporation: It was incorporated as a closely-held stock company by virtue of public deed dated September 27, 2001, executed before the Notary Public's Office of Mr. Patricio Zaldivar Mackenna, registered in the Register of Commerce on fs. (sheet) 25,636 N° 20,794 of October 4, 2001 and published in the Official Gazette of October 6, 2001.

Object: To invest in all kinds of assets, whether movable (personal) or immovable (real estate), tangible or intangible. Within the scope of its line of business, it shall be entitled to create all kinds of companies, of any nature whatsoever; acquire rights (stakes) in already-incorporated companies, manage them, amend them or liquidate them. In general, it may acquire or sell any types of assets and develop them, either on its own behalf or on behalf of third parties, as well as perform all kinds of acts and execute all kinds of contracts conducive to its purposes. To develop and operate any other activity derived from the company's business objective and/or linked, connected, coadjuvating or complementary to the same.

Subscribed and paid capital: MUS\$ 424

Year's income: MUS\$ (35,917)

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.00%

Board members:

Ignacio Cueto Plaza (LATAM Executive)

Andrés del Valle (LATAM Executive)

Enrique Elsaca Hirmas (LATAM Executive)

General manager:

Andrés del Valle Eitel (LATAM Executive)

Subsidiary companies of Lan Pax Group S.A. and shareholding
► Inversora Cordillera S.A. and subsidiaries

Identification: Stock company incorporated in Argentina

Object: To invest on its own account or on account of third parties or associated to third parties, in other companies for shares, whichever their object, incorporated or to be incorporated, inside or outside of the national territory of the Republic of Argentina, via the acquisition, legal incorporation or sale of shareholdings (participations, stakes), shares, quotas, bonds, options, negotiable obligations, convertible or not, other securities or other forms of investments permitted pursuant to the regulations currently in effect at that moment, whether that be with the purpose of keeping them in portfolio or to sell them totally or partially, as the case might be. To that effect, the company shall be entitled to perform all such operations not prohibited by law toward complying with its Object and it shall be legally empowered to acquire rights, undertake obligations and exercise acts not prohibited by the laws of by its own bylaws.

Subscribed and paid capital: MUS\$ 136,703

2016 Shareholding: 95.78%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.07281%

Board members:

Manuel María Benites

Jorge Luis Perez Alati

Ignacio Cueto Plaza

Management:

Manuel María Benites

Jorge Luis Perez Alati

Rosario Altgelt

María Marta Forcada

Facundo Rocha Gonzalo Perez Corral

Nicolás Obejero

Norberto Díaz

► **Lantours S.A.**

Identification: Stock company incorporated in Argentina

Object: To carry out on its own behalf or on behalf of third parties and/or in association with third parties, in the country and/or abroad, the following activities and operations:

A) **COMMERCIAL SERVICES:** To carry out, intervene, develop or design all kinds of operations and activities that involve the sale of air, land, river or sea tickets for passengers, both nationally as well as internationally, or any other services related to the tourist industry in general. The above-mentioned services may be performed on account of and on behalf of third parties by mandate, commission, or via the employment of such systems or methods considered convenient to that effect, whether such methods are manual, mechanic, electronic, telephonic, or the internet or of any other kind or technology deemed suitable to that effect. The company may carry out concurrent or connected activities toward the described object, such as buying and selling, importing, exporting, re-exporting, licensing and representing all types of goods, services, know-how and technology, linked directly or indirectly to the above-described object; market through any means or concept the technology that it might create or whose license or patent it might acquire or manage; develop, distribute, promote and market all kinds of contents for any kind of communications media

B) **TOURISTIC SERVICES:** By means of carrying out all kinds of activities linked to the tourist and hotel industries, as responsible operator or third-party services operator or as travel agent. Via the preparation of exchange programs, tourism, excursions and tours; the intermediation or reservation and location of services on any means of transportation in the country or abroad and the sale of tickets; intermediation in the hiring of hotel services in the country or abroad; reservations of hotels, motels, tourist apartments and other tourist facilities; organizing travels and tourism either for individuals or collective groups, excursions or similar in the country or abroad; the reception and assistance of tourists during their trips and their permanence in the country, and providing tour guide services and baggage dispatch services to the same; the representa-

tion of other travel and tourist agencies, companies, enterprises or tourist institutions both national as well as international in order to provide in their name any of such services.

C) **REPRESENTATION SERVICES:** Via the acceptance, performance and granting of representations, concessions, commissions, agencies and mandates (powers of attorney) in general.

D) **CONSULTING SERVICES:** To perform consulting services, advisory and management, in all matters related to the organization, installation, attention, development, support and promotion of companies related to the aeronautic activity, without excluding the latter activity, in the fields of industrial, commercial, technical, and advertising management, all of which shall be provided, when the nature of the subject matter so requires it, by competent and certified professionals according to the corresponding regulations, and the delivery of organizational and management systems of care, maintenance, vigilance and suitable and especially-prepared personnel as might be required to perform such tasks.

E) **FINANCIAL SERVICES:** Via the participation in other created or to-be-created companies, either by means of acquiring shares in incorporated companies or by means of the legal incorporation of companies, by means of granting and obtaining credits, loans, money advances with or without real or personal guarantee; granting warranties or sureties in favor of third parties, gratuitously or at onerous title; placing funds in foreign currency, gold or currency or in bank deposits of any type. To that effect, the company is fully entitled to legally exercise all such acts that are not expressly forbidden by the laws or by its own bylaws, whereas it is also authorized to undertake borrowing operations in a public or private manner via the issuance of debentures or negotiable obligations and via the performance of all kinds of financial operations, with the exception of those comprised under Law 21,526 or any other that might require public tender.

Subscribed and paid capital: MUS\$ 891

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.000000%

Board members:

Nicolas Obejero

Diego Alejandro Martínez

Management:

Rosario Altgelt

María Marta Forcada

Facundo Rocha

Gonzalo Perez Corral

Nicolás Obejero

Norberto Díaz

► **Atlantic Aviation Investments LLC**

Identification: Limited Liability Company incorporated in the United States of America.

Object: Any licit business that the company is entitled to pursue.

Subscribed and paid capital: MUS\$ 1

2016 Shareholding: 99.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.05965%

Board members:

Andrés del Valle Eitel

Management:

Andrés del Valle (Managers LATAM)

► **Akemi Holdings S.A.**

Identification: Stock company incorporated in Panamá.

Object: The business purposes toward which the company is organized are to establish, process and carry out the business affairs of an investor company anywhere in the world, buying, selling and negotiating all kinds of consumer articles, equity capital shares, bonds and securities of all kinds, buy, sell, lease or otherwise acquire or dispose of movable (personal) or immovable (real estate) properties, invest in industrial or commercial business either as the main shareholder, receiving and giving money on loan, with or without guarantee, covenant (agree), comply and perform all kinds of contracts, become the guarantor or guarantee compliance and observance of any and all contracts, engage in any licit business not forbidden to a stock company (corporation), and execute any of the preceding acts as principals, agents or in any other representative capacity whatsoever.

Subscribed and paid capital: MUS\$0

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.000000%

Board members:

Edith O. de Bocanegra
Barbara de Rodriguez
Luis Alberto Rodriguez

Management:

Luis Alberto Rodriguez
Barbara de Rodríguez

► **Saipan Holdings S.A.**

Identification: Stock company incorporated in Panama.

Object: The business purposes toward which the company is organized are to establish, process and carry out the business affairs of an investor company anywhere in the world, buying, selling and negotiating all kinds of consumer articles, equity capital shares, bonds and securities of all kinds, buy, sell, lease or otherwise acquire or dispose of movable (personal) or immovable (real estate) properties, invest in industrial or commercial business either as the main shareholder, receiving and giving money on loan, with or without guarantee, covenant (agree), comply and perform all kinds of contracts, become the guarantor or guarantee compliance and observance of any and all contracts, engage in any licit business not forbidden to a stock company (corporation), and execute any of the preceding acts as principals, agents or in any other representative capacity whatsoever.

Subscribed and paid capital: MUS\$0

2016 Shareholding: 100.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.000000%

Board members:

Edith O. de Bocanegra
Barbara de Rodriguez
Luis Alberto Rodriguez

Management:

Luis Alberto Rodriguez
Barbara de Rodríguez

► **Aerolane, Líneas Aéreas Nacionales del Ecuador S.A.**

Identification: Stock company incorporated in Ecuador.

Object: Air transport of passengers, cargo and cargo in a combined manner.

Subscribed and paid capital: MUS\$ 1,000

2016 Shareholding: 55.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.04462%

Board members:

Antonio Stagg
Manuel Van Oordt
Mariana Villagómez

General manager:

Maximiliano Naranjo

Management:

Maximiliano Naranjo
Javier Macías

► **Rampas Andes Airport Services S.A. and subsidiaries**

Identification: Stock company incorporated in Ecuador.

Object: Air transport of passengers, cargo and cargo in a combined manner.

Subscribed and paid capital: MUS\$ 6,001

2016 Shareholding: 99.875%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.04168%

Management:

Ricardo Cadena

► **Hodco Ecuador S.A**

Identification: Stock company incorporated in Chile.

Object: To make all kinds of investments with profitable objectives in tangible or intangible, movable (personal) or immovable (real estate) properties, whether in Chile or abroad.

Subscribed and paid capital: MUS\$ 450

2016 Shareholding: 99.999%

Year-to-year variation: 0.0%

% over the parent company's assets: 0.00000%

Board members:

Antonio Stagg

Manuel Van Oordt

Mariana Villagómez

General manager:

Cristián Toro Cañas (LATAM Executive)

► **Aerovías de Integración Regional, Aires SA.**

Identification: Stock company incorporated in Colombia.

Object: The business purpose of the company shall be the development (operation) of commercial air transport services, national or international, in any of its types or modalities and, consequently, the subscription and execution of all kinds of contracts for the transport of passengers, things and baggage, mail and cargo in general, pursuant to the operating permits to that effect issued by the Special Administrative Unit (*Unidad Administrativa Especial*) of Civil Aeronautics or by the entity to take its stead in the future, fully adhering to the provisions of the Code of Commerce, Colombia's Aeronautic Regulations and to any other regulation governing the pertinent subject matter. Equally, to provide maintenance and adaptation services of equipment related to the operation of air transport services, inside or outside of the country. In developing this objective, the company shall be authorized to invest in third companies, national or foreign, with an equal, similar or complementary

object to that of the company. Toward compliance with such business object, the company shall be entitled, among other things, to the following: (a) To perform reviews, inspections, maintenance and/or repair works of its own or of third-party aircraft, as well as to their spare parts and accessories, via the company's Aeronautic Repair Workshop (*Talleres de Reparaciones Aeronáuticas*), carrying out to that effect such personnel training as deemed necessary to that end; (b) To organize, incorporate an invest in commercial transportation companies in Colombia or abroad, in order to develop (operate) either industrially or commercially the economic activity that constitutes its business object; consequently, the company shall be entitled to acquire under any concept such aircraft, spare parts, pieces and accessories of all genres as deemed necessary for public air transportation operations and to sell them, and also to assemble and operate aircraft repair and maintenance workshops; (c) To execute lease, freight, code sharing, location or any other type of contract regarding aircraft so as to carry out its business object; (d) To develop (operate) regular passenger, cargo, mail and securities transport airlines, as well as the vehicle to enable coordinating the development of such business objective; (e) To integrate with equal, similar or complementary companies in order to develop (operate) their activity; (f) To accept national or foreign representations of services of the same or complementary lines of business; (g) To acquire movable (personal) or immovable (real estate) properties toward developing its business objectives, erect these installations or constructions such as warehouses, depots, offices, etc. sell them or encumber them; (h) To carry out imports and exports, along with any foreign trade operations as might be required; (i) To take money at interest and issue personal, real and bank guarantees either for itself or for third parties; (j) To execute all kinds of securities operations, as well as buying/selling obligations (liabilities) acquired by third parties when having a beneficial economic or equity benefit for the company, and to undertake borrowing operations via the issuance of bonds or debt notes representative of such obligations; (k) To contract third-party business management and operation services for those businesses that it may organize aimed at achieving its business objectives; (l) To execute company contracts and acquire shares or stakes in those already incorporated, whether

national or foreign; to make contributions to either one of them; (m) To merge with other companies and associate with equal entities toward procuring the development of air transport or for other trade union purposes; (n) To promote, technically assist, finance or manage companies or entities related to the company's business object; (ñ) To subscribe or execute all genre of civil or commercial contracts, industrial or financial that might be necessary or merely convenient toward the attainment of its purposes; (o) To subscribe businesses and comply with activities that procures clientele, and obtains from competent authorities such authorizations and licenses as might be necessary in order to delivery its services; (p) The development and operation of other activities derived from the company's business object and/or linked, connected, coadjuvating or complementary to the same, including the delivery of tourist services in any form permitted by the law, such as travel agencies; (q) To endeavor in any business or licit activity, whether commercial or not, provided it is related to its business objective or that it would enable a more rational development (operation) of the public services that it provides; and (r) To make investments of any kind whatsoever and to employ the funds and reserves to be so established pursuant to the law and the company's current bylaws (statutes).

Subscribed and paid capital: MUS\$ 3,388

2016 Shareholding: 99.017%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.22924%

Board members:

Jorge Nicolas Cortazar Cardoso

Jaime Antonio Gongora Esguerra

Fernando García Poitevin. Interim

Jorgue Enrique Cortazar Garcia

Alberto Davila Suarez

Pablo Canales

Management:

Jorge Nicolas Cortazar

Erika Zarante Bahamon

Jaime Antonio Gongora Esguer

► **Lan Argentina S.A (Subsidiary of Inversora Cordillera S.A)**

Identification: Stock company incorporated in Argentina.

Object: To make all kinds of investments with profitable objectives in tangible or intangible, movable (personal) or immovable (real estate) properties, whether in Chile or abroad.

Subscribed and paid capital: MUS\$ 129,589

2016 Shareholding: 99.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.08579%

Board members:

Manuel Maria Benites

Jorge Luis Perez Alati

Ignacio Cueto Plaza (LATAM Executive)

Management:

Manuel María Benites

Jorge Luis Perez Alati

Rosario Altgelt

María Marta Forcada

Facundo Rocha

Gonzalo Perez Corral

Nicolás Obejero

Norberto Díaz

TECHNICAL TRAINING LATAM S.A.

Legal incorporation: Incorporated as Stock Company (corporation) by virtue of public deed dated November 23, 1997 in Santiago, Chile and registered in the Santiago Register of Commerce on sheet 878 number 675 of the year 1998.

Object: Its business objective is to deliver technical training and other services related to the above.

Subscribed and paid capital: MUS\$ 753

Year's income: MUS\$ 73

Shareholding: 100.00%

Year-to-year variation: 0.00%

% over the parent company's assets: 0.01%

Board members:

Enrique Elsaca (LATAM Executive)

Sebastián Acuto (LATAM Executive)

Ramiro Alfonsín Balza (LATAM Executive)

General manager:

Alejandra Jara Hernández

Parent Company's Financial Statements
TAM S.A.

| | As of Dec. 31 2016 MUS\$ | As of Dec. 31 2015 MUS\$ |
|--|---|---|
| Statement of Classified and Consolidated Financial Position | | |
| ASSETS | | |
| Total current assets other than assets or groups of assets for disposal Classified as maintained for sale or to be distributed to property owners | 1,761,049 | 1,335,337 |
| Non-current assets or asset groups for disposal Classified as maintained for sale or to be distributed to property owners | 33,140 | 277 |
| Total current assets | 1,794,189 | 1,335,614 |
| Total non-current assets | 3,493,097 | 3,360,939 |
| TOTAL ASSETS | 5,287,286 | 4,696,553 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities | 2,837,619 | 1,963,400 |
| Total non-current liabilities | 1,872,688 | 2,235,823 |
| Total liabilities | 4,710,307 | 4,199,223 |
| EQUITY CAPITAL | | |
| Equity capital attributable to the controller's property owners | 495,563 | 423,190 |
| Non-controlled shareholdings | 81,416 | 74,140 |
| Total equity capital | 576,979 | 497,330 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 5,287,286 | 4,696,553 |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|------------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Income Statement, by function | | |
| Income from ordinary activities | 4,145,951 | 4,597,612 |
| Gross profit | 519,223 | 599,784 |
| Profit (loss) before taxes | 220,677 | (272,206) |
| Profit tax expenses | (176,752) | 126,008 |
| YEAR'S PROFIT (LOSS) | 43,925 | (146,198) |
| Year's profit (loss) attributable to: | | |
| The controller's property owners | 2,107 | (183,912) |
| Non-controlled shareholdings | 41,818 | 37,714 |
| Year's profit (loss) | 43,925 | (146,198) |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|------------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Integral Income Statement | | |
| YEAR'S PROFIT (LOSS) | 43,925 | (146,198) |
| Other integral income | 69,724 | (347,490) |
| Total integral income | 113,649 | (493,688) |
| Integral income attributable to: | | |
| The controller's property owners | 88,049 | (528,218) |
| Non-controlled shareholdings | 25,600 | 34,530 |
| TOTAL INTEGRAL INCOME | 113,649 | (493,688) |

| Statement of changes in equity capital | Equity Capital attributable to prop, owners of the controller MUS\$ | Non-controlling shareholdings MUS\$ | Equity Capital total MUS\$ |
|---|---|---|----------------------------------|
| Equity Capital January 1, 2015 | 912,639 | 95,530 | 1,008,169 |
| Total integral income | (528,218) | 34,530 | (493,688) |
| Dividends | - | (34,623) | (34,623) |
| Other equity capital increases (decreases) | 38,769 | (21,297) | 17,472 |
| Year-end balances current year, as of Dec. 31 2015 | 423,190 | 74,140 | 497,330 |
| Equity Capital January 1, 2016 | 423,290 | 74,140 | 497,330 |
| Total integral income | 88,049 | 25,600 | 113,649 |
| Dividends | - | (40,823) | (40,823) |
| Other equity capital increases (decreases) | (15,676) | 22,499 | 6,823 |
| Ending balances current year, as of Dec. 31, 2016 | 495,563 | 81,416 | 576,979 |

| Consolidated Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|---|--------------------------------------|----------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Net cash flows from (used in) operating activities | (35,085) | 713,435 |
| Net cash flows from (used in) investment activities | 78,425 | (244,750) |
| Net cash flows from (used in) financing activities | (109,240) | (335,088) |
| Net cash and cash equivalent increase (decrease) before foreign exchange rate change effects | (65,900) | 133,597 |
| Effects of foreign exchange rate variations | | |
| on cash and cash equivalent | 43,097 | (49,381) |
| Year-end cash and cash equivalent | 197,218 | 220,021 |

LAN CARGO S.A.

(Closely held stock company)

| Consolidated Classified Financial Statement | As of December 31 | |
|---|-------------------|----------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| ASSETS | | |
| Total current assets other than assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 106,963 | 164,412 |
| Total non-current assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 22,686 | 85 |
| Total current assets | 129,649 | 164,497 |
| Total non-current assets | 563,577 | 546,687 |
| TOTAL ASSETS | 693,226 | 711,184 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current assets other than assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 204,519 | 185,162 |
| Total non-current assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 22,236 | - |
| Total current liabilities | 226,755 | 185,162 |
| Total non-current liabilities | 101,734 | 152,958 |
| Total liabilities | 328,489 | 338,120 |
| EQUITY CAPITAL | | |
| Equity capital attributable to the controller's property owners | 362,478 | 370,791 |
| Non-controlled shareholdings | 2,259 | 2,273 |
| Total equity capital | 364,737 | 373,064 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 693,226 | 711,184 |

| Consolidated Income Statement, by function | For the years ended as of Dec. 31 | |
|---|--|-----------------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Income from ordinary activities | 689,153 | 788,019 |
| Gross profit | (31,274) | (90,201) |
| Profit (loss) before taxes | (6,696) | (88,244) |
| Profit tax expenses | 1,463 | 26,912 |
| YEAR'S PROFIT (LOSS) | 8,159 | (61,332) |
| Year's profit (loss) attributable to: | | |
| The controller's property owners | (8,145) | (62,701) |
| Non-controlled shareholdings | (14) | 1,369 |
| Year's profit (loss) | (8,159) | (61,332) |

| Consolidated Integral Income Statement | For the years ended as of Dec. 31 | |
|---|--|-----------------------|
| | 2016 MUS\$ | 2016 MUS\$ |
| YEAR'S PROFIT (LOSS) | (8,159) | (61,332) |
| Other integral income | (459) | (2,935) |
| Total integral income | (8,618) | (64,267) |
| Integral income attributable to: | | |
| The controller's property owners | (8,604) | (65,636) |
| Non-controlled shareholdings | 14 | 1,369 |
| TOTAL INTEGRAL INCOME | (8,618) | (64,267) |

| Statement of Changes in Equity Capital | Equity Capital attributable to prop, owners of the controller MUS\$ | Non-controlling shareholdings MUS\$ | Equity Capital total MUS\$ |
|---|---|---|----------------------------------|
| Equity Capital January 1, 2015 | 455,240 | 903 | 456,143 |
| Total integral income | (65,636) | 1,369 | (64,267) |
| Other equity capital increases (decreases) | (18,813) | 1 | (18,812) |
| Year-end balances current year, as of Dec. 31 2015 | 370,791 | 2,273 | 373,064 |
| Equity Capital January 1, 2016 | 370,791 | 2,273 | 373,064 |
| Total integral income | (8,604) | (14) | (8,618) |
| Other equity capital increases (decreases) | 291 | - | 291 |
| Ending balances current year, as of Dec. 31, 2016 | 362,478 | 2,259 | 364,737 |

| Consolidated Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|---|--------------------------------------|----------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Net cash flows from (used in) operating activities | 92,772 | 99,073 |
| Net cash flows from (used in) investment activities | (34,003) | (50,264) |
| Net cash flows from (used in) financing activities | (51,813) | (51,021) |
| Net cash and cash equivalent increase (decrease) before foreign exchange rate change effects | 6,956 | (2,212) |
| Effects of foreign exchange rate variations on cash and cash equivalent | 76 | (4) |
| Year-end cash and cash equivalent | 24,678 | 17,646 |

LAN PERU S.A.

(Closely held stock company)

| General Balance Sheet | As of December 31 | |
|---|--------------------------------------|----------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| ASSETS | | |
| Total current assets | 283,691 | 232,547 |
| Total non-current assets | 22,420 | 23,144 |
| TOTAL ASSETS | 306,111 | 255,691 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities | 293,602 | 239,521 |
| Total non-current liabilities | 1,310 | 1,417 |
| Total liabilities | 294,912 | 240,938 |
| EQUITY CAPITAL | | |
| Equity capital attributable to the controller's property owners | 11,199 | 14,753 |
| Non-controlled shareholdings | - | - |
| Total equity capital | 11,199 | 14,753 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 306,111 | 255,691 |
| <hr/> | | |
| Consolidated Income Statement, by function | For the years ended as of Dec. 31 | |
| | 2016 MUS\$ | 2015 MUS\$ |
| Income from ordinary activities | 967,787 | 1,078,992 |
| Gross profit | 148,635 | 180,829 |
| Profit (loss) before taxes | 1,289 | 7,237 |
| Profit tax expenses | (3,453) | (2,169) |
| YEAR'S PROFIT (LOSS) | (2,164) | 5,068 |

| Statement of Changes in Equity Capital | Issued capital MUS\$ | Legal reserve MUS\$ | Accumul. profit MUS\$ | Total eq. capital MUS\$ |
|--|----------------------------|---------------------------|-----------------------------|-------------------------------|
| Equity Capital January 1, 2015 | 4,341 | 868 | 5,866 | 11,075 |
| Total integral income | - | - | 5,068 | 5,068 |
| Dividends | - | - | (1,390) | (1,390) |
| Final balances previous year, as of Dec. 31, 2015 | 4,341 | 868 | 9,544 | 14,753 |
| Equity Capital January 1, 2016 | 4,341 | 868 | 9,544 | 14,753 |
| Total integral income | - | - | (2,164) | (2,164) |
| Dividends | - | - | (1,390) | (1,390) |
| Final balances previous year, as of Dec. 31, 2016 | 4,341 | 868 | 5,990 | 11,199 |

| Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|--|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Net cash flows from (used in) operating activities | (57,429) | (7,044) |
| Net cash flows from (used in) investment activities | (943) | (1,164) |
| Net cash flows from (used in) financing activities | 5,887 | 9,099 |
| Net increase (decrease) in cash and cash equivalent | (52,485) | 891 |
| Year-end cash and cash equivalent | 65,892 | 118,377 |

INVERSIONES LAN S.A.

(Closely held stock company)

| Consolidated Classified Statement of Financial Position | As of December 31 | |
|---|--------------------------|---------------|
| | 2016 | 2015 |
| | MUS\$ | MUS\$ |
| ASSETS | | |
| Total current assets other than assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 7,616 | 6,292 |
| Total non-current assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | - | 572 |
| Total current assets | 7,616 | 6,864 |
| Total non-current assets | 3,355 | 9,648 |
| TOTAL ASSETS | 10,971 | 16,512 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities | 5,278 | 13,380 |
| Total non-current liabilities | 1,174 | 1,296 |
| Total liabilities | 6,452 | 14,676 |
| EQUITY CAPITAL | | |
| Equity capital attributable to the controller's property owners | 4,519 | 1,836 |
| Total equity capital | 4,519 | 1,836 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 10,971 | 16,512 |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Income Statement, by function | | |
| Income from ordinary activities | 34,059 | 32,366 |
| Gross profit | 7,406 | 5,371 |
| Profit (loss) before taxes | 3,526 | 3,200 |
| Profit tax expenses | (925) | (402) |
| YEAR'S PROFIT (LOSS) | 2,601 | 2,798 |
| Year's profit (loss) attributable to: | | |
| The controller's property owners | 2,601 | 2,798 |
| Year's profit (loss) | 2,601 | 2,798 |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Integral Income Statement | | |
| YEAR'S PROFIT (LOSS) | 2,601 | 2,798 |
| Other integral income | 218 | (177) |
| Total integral income | 2,819 | 2,621 |
| Integral income attributable to: | | |
| The controller's property owners | 2,819 | 2,621 |
| TOTAL INTEGRAL INCOME | 2,819 | 2,621 |

| Statement of Changes in Equity Capital | Issued capital MUS\$ | Legal capital MUS\$ | Accumul. reserve MUS\$ | Total eq. capital MUS\$ |
|---|----------------------------|---------------------------|------------------------------|-------------------------------|
| Equity Capital January 1, 2015 | 458 | 594 | 237 | 1,289 |
| Total integral income | - | (177) | 2,798 | 2,621 |
| Other equity capital increases (decreases) | - | - | (2,074) | (2,074) |
| Year-end balances current year, as of Dec. 31 2015 | 458 | 417 | 961 | 1,836 |
| Equity Capital January 1, 2016 | 458 | 417 | 961 | 1,836 |
| Total integral income | - | 218 | 2,601 | 2,819 |
| Other equity capital increases (decreases) | (18) | - | (1,188) | (136) |
| Ending balances current year, as of Dec. 31, 2016 | 440 | 635 | 3,444 | 4,519 |

| Consolidated Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|--|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Net cash flows from (used in) operating activities | (21) | 608 |
| Net cash flows from (used in) investment activities | 1,469 | (41) |
| Net cash flows from (used in) financing activities | (1,663) | 444 |
| Net increase (decrease) in cash and cash equivalent | (215) | 1,011 |
| Effects of foreign exchange rate variations on cash and cash equivalent | 24 | 64 |
| Year-end cash and cash equivalent | 1,410 | 1,601 |

INMOBILIARIA AERONAUTICA S.A.

(Closely held stock company)

| Statement of Classified Financial Position | As of December 31 | |
|---|--|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| ASSETS | | |
| Total current assets | 835 | 1,978 |
| Total non-current assets | 35,921 | 37,324 |
| TOTAL ASSETS | 36,756 | 39,302 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities | 1,119 | 5,003 |
| Total non-current liabilities | 7,724 | 9,829 |
| Total liabilities | 8,843 | 14,832 |
| EQUITY CAPITAL | | |
| Total equity capital | 27,913 | 24,470 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 36,756 | 39,302 |
| | For the years ended as of Dec. 31 | |
| | 2016 | 2015 |
| Income Statement, by function | MUS\$ | MUS\$ |
| Income from ordinary activities | 4,007 | 3,961 |
| Gross profit | 1,877 | 2,071 |
| Profit (loss) before taxes | 1,453 | 1,146 |
| Profit tax expenses | 1,990 | 258 |
| YEAR'S PROFIT (LOSS) | 3,443 | 1,404 |
| | For the years ended as of Dec. 31 | |
| | 2016 | 2015 |
| Statement of Integral Income | MUS\$ | MUS\$ |
| YEAR'S PROFIT (LOSS) | 3,443 | 1,404 |
| Total integral income | 3,443 | 1,404 |

| Statement of Changes in Equity Capital | Issued capital MUS\$ | Accumul. profit MUS\$ | Total eq. capital MUS\$ |
|---|----------------------------|-----------------------------|-------------------------------|
| Equity Capital January 1, 2015 | 1,147 | 21,919 | 23,066 |
| Total integral income | - | 1,404 | 1,404 |
| Year-end balances current year, as of Dec. 31 2015 | 1,147 | 23,323 | 24,470 |
| Equity Capital January 1, 2016 | 1,147 | 23,323 | 24,470 |
| Total integral income | - | 3,443 | 3,443 |
| Ending balances current year, as of Dec. 31, 2016 | 1,147 | 26,766 | 27,913 |

| Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|---|--------------------------------------|---------------|
| | 2016 MUS\$ | 2016 MUS\$ |
| Net cash flows from (used in) operating activities | (201) | 3,596 |
| Net cash flows from (used in) investment activities | - | (41) |
| Net cash flows from (used in) financing activities | - | (2,586) |
| Net cash and cash equivalent increase (decrease) before foreign exchange rate change effects | (201) | 969 |
| Effects of variation of foreign exchange rate on cash and cash equivalent | - | (20) |
| Year-end cash and cash equivalent | 748 | 949 |

LATAM TRAVEL CHILE S.A. Y FILIAL

(Closely held stock company)

| Statement of Classified Financial Position | As of December 31 | |
|---|-------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| ASSETS | | |
| Total current assets | 5,347 | 5,655 |
| Total non-current assets | 111 | 114 |
| TOTAL ASSETS | 5,458 | 5,769 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities | 2,724 | 5,538 |
| Total non-current liabilities | 3 | 6 |
| Total liabilities | 2,727 | 5,544 |
| EQUITY CAPITAL | | |
| Total equity capital | 2,731 | 225 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 5,458 | 5,769 |

| Income Statement, by function | For the years ended as of Dec. 31 | |
|---------------------------------|--------------------------------------|---------------|
| | 2016 MUS\$ | 2016 MUS\$ |
| Income from ordinary activities | 11,675 | 12,399 |
| Gross profit | 7,294 | 7,714 |
| Profit (loss) before taxes | 3,500 | 3,323 |
| Profit tax expenses | (850) | (1,004) |
| YEAR'S PROFIT (LOSS) | 2,650 | 2,319 |

| Statement of changes in equity capital | Issued capital MUS\$ | Accumul. profit MUS\$ | Total eq. capital MUS\$ |
|---|----------------------------|-----------------------------|-------------------------------|
| Equity Capital January 1, 2015 | 225 | 715 | 940 |
| Total integral income | - | 2,319 | 2,319 |
| Dividends | - | (3,034) | (3,034) |
| Year-end balances current year, as of Dec. 31 2015 | 225 | - | 225 |
| Equity Capital January 1, 2016 | 225 | - | 225 |
| Total integral income | 10 | 2,650 | 2,650 |
| Dividends | - | (144) | (144) |
| Ending balances current year, as of Dec. 31, 2016 | 225 | 2,506 | 2,731 |

| Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|--|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Net cash flows from (used in) operating activities | (2,483) | 3,207 |
| Net cash flows from (used in) investment activities | (30) | 3,200 |
| Net cash flows from (used in) financing activities | - | (3,200) |
| Net increase (decrease) in cash and cash equivalent | (2,513) | 3,207 |
| Year-end cash and cash equivalent | 1,066 | 3,579 |

LAN PAX GROUP S.A.

(Closely held stock company)

| Consolidated Classified Statement of Financial Position | As of December 31 | |
|---|--------------------------|------------------|
| | 2016 | 2015 |
| | MUS\$ | MUS\$ |
| ASSETS | | |
| Total current assets other than assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 252,060 | 301,887 |
| Total non-current assets or groups of assets for disposal classified as maintained for sale or to be distributed to property owners | 8,988 | 417 |
| Total current assets | 261,048 | 302,304 |
| Total non-current assets | 214,715 | 217,359 |
| TOTAL ASSETS | 475,763 | 519,663 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities other than liabilities included in asset groups for disposal classified as maintained for sale | 344,970 | 352,056 |
| Liabilities included in asset groups for disposal classified as maintained for sale | 2,556 | - |
| Total current liabilities | 347,526 | 352,056 |
| Total non-current liabilities | 698,235 | 697,176 |
| Total liabilities | 1,045,761 | 1,049,232 |
| EQUITY CAPITAL | | |
| Equity capital attributable to the controller's property owners | (570,638) | (528,769) |
| Non-controlled shareholdings | 640 | (800) |
| Total equity capital | (569,998) | (529,569) |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 475,763 | 519,663 |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|-----------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Income Statement, by function | | |
| Income from ordinary activities | 877,106 | 988,081 |
| Gross profit | 132,300 | 168,193 |
| Profit (loss) before taxes | (41,945) | (45,960) |
| Profit tax expenses | 6,028 | 10,779 |
| YEAR'S PROFIT (LOSS) | (35,917) | (35,181) |
| Year's profit (loss) attributable to: | | |
| The controller's property owners | (36,223) | (35,187) |
| Non-controlled shareholdings | 306 | 6 |
| Year's profit (loss) | (35,917) | (35,181) |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|------------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Integral Income Statement | | |
| YEAR'S PROFIT (LOSS) | (35,917) | (35,181) |
| Other integral income | (7,118) | (71,840) |
| Total integral income | (43,035) | (107,021) |
| Integral income attributable to: | | |
| The controller's property owners | (41,575) | (104,941) |
| Non-controlled shareholdings | (1,460) | (2,080) |
| TOTAL INTEGRAL INCOME | (43,035) | (107,021) |

| Statement of changes in equity capital | Equity Capital attributable to prop, owners of the controller MUS\$ | Non-controlling shareholdings MUS\$ | Total eq. capital MUS\$ |
|---|---|---|-------------------------------|
| Equity Capital January 1, 2015 | (426,016) | 879 | (425,137) |
| Total integral income | (104,941) | (2,080) | (107,021) |
| Other equity capital increases (decreases) | 2,188 | 401 | 2,589 |
| Year-end balances current year, as of Dec. 31 2015 | (528,769) | (800) | (529,569) |
| Equity Capital January 1, 2016 | (528,769) | (800) | (529,569) |
| Total integral income | (41,575) | (1,460) | (43,035) |
| Other equity capital increases (decreases) | (294) | 2,900 | 2,606 |
| Ending balances current year, as of Dec. 31, 2016 | (570,638) | 640 | (569,998) |

| Consolidated Cash Flow Statement - Direct Method | For the years ended as of Dec. 31 | |
|---|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Net cash flows from (used in) operating activities | (60,254) | 26,664 |
| Net cash flows from (used in) investment activities | 52,991 | (108,757) |
| Net cash flows from (used in) financing activities | (10,978) | 81,527 |
| Net cash and cash equivalent increase (decrease) before foreign exchange rate change effects | (18,241) | (566) |
| Effect of the variation of foreign exchange rates on cash and cash equivalent | (181) | 3,774 |
| Year-end cash and cash equivalent | 71,314 | 89,736 |

TECHNICAL TRAINING LATAM S.A.
(Limited Partnership)

| Consolidated Classified Financial Statement | As of December 31 | |
|---|--------------------------|-----------------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| ASSETS | | |
| Total current assets | 1,597 | 1,347 |
| Total non-current assets | 148 | 180 |
| TOTAL ASSETS | 1,745 | 1,527 |
| EQUITY CAPITAL AND LIABILITIES | | |
| LIABILITIES | | |
| Total current liabilities | 284 | 266 |
| Total non-current liabilities | - | - |
| Total liabilities | 284 | 266 |
| EQUITY CAPITAL | | |
| Equity capital attributable to the controller's property owners | 1,461 | 1,261 |
| Total equity capital | 1,461 | 1,261 |
| TOTAL EQUITY CAPITAL AND LIABILITIES | 1,745 | 1,527 |

| Consolidated Income Statement, by function | For the years ended as of Dec. 31 | |
|---|--|-----------------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Income from ordinary activities | 1,784 | 1,626 |
| Gross profit | 100 | 1,866 |
| Profit (loss) before taxes | 103 | (22) |
| Profit tax expenses | (30) | 50 |
| YEAR'S PROFIT (LOSS) | 73 | (72) |
| Year's profit (loss) attributable to: | | |
| The controller's property owners | 73 | (72) |
| Non-controlled shareholdings | - | - |
| Year's profit (loss) | 73 | (72) |

| Statement of changes in equity capital | Total eq. capital MUS\$ |
|---|--|
| Equity Capital Equity Capital January 1, 2015 | 1,397 |
| Total integral income | (72) |
| Other equity capital increases (decreases) | (64) |
| Year-end balances current year, as of Dec. 31 2015 | 1,261 |
| Equity Capital January 1, 2016 | 1,261 |
| Total integral income | 73 |
| Other equity capital increases (decreases) | 127 |
| Ending balances current year, as of Dec. 31, 2016 | 1,461 |

| | For the years ended as of Dec. 31 | |
|---|--------------------------------------|---------------|
| | 2016 MUS\$ | 2015 MUS\$ |
| Consolidated Cash Flow Statement - Direct Method | | |
| Net cash flows from (used in) operating activities | 778 | 89 |
| Net cash flows from (used in) investment activities | (14) | - |
| Net cash flows from (used in) financing activities | - | - |
| Net increase (decrease) in cash and cash equivalent | 764 | 89 |
| Effect of the variation of foreign exchange rates on cash and cash equivalent | (2) | 6 |
| Beginning-of-year cash and cash equivalent | 479 | 384 |
| Year-end cash and cash equivalent | 1,241 | 479 |

Analysis of the Financial Statements

Comparative analysis and explanation of the main trends:

1. Consolidated statement of financial position

As of December 31, 2016, the company's total assets amounted to MUS\$ 19,198,194; which, compared to those as of December 31, 2015 represents an increase of MUS\$ 1,096,776, equivalent to 6.1%.

The company's current assets increased by MUS\$ 803,874 (28.5%), compared to the closing of the year 2015. The main increases appear in the following items: commercial debtors and other sundry accounts receivable of MUS\$ 310,915 (39.0%); cash and cash equivalent of MUS\$ 195,830 (26.0%); other current financial assets of MUS\$ 61,480 (9.4%); current stock inventories of MUS\$ 16,455 (7.3%); and non-current assets or group of assets for disposal classified as maintained for sale or maintained to be distributed to property owners of MUS\$ 335,235. The above referred items were offset by a drop in other current non-financial assets of MUS\$ 117,774 (35.7%).

The company's liquidity index shows an increase, from 0.50 times at the closing of the year 2015, to 0.58 times as of December 2016. Current assets and liabilities increased by 28.5% and 10.3%, respectively. One may also observe an increase in the acid test index, going from 0.13 times as of the closing of 2015, to 0.15 times by the closing of the present year.

The company's non-current assets increased by MUS\$ 292,902 (1.9%) with respect to the closing of the year 2015. The main increases are in the following items: goodwill of MUS\$ 429,807 (18.8%), intangible assets other than goodwill of MUS\$ 288,888 (21.9%) whose increases were mostly attributable to the monetary conversion of Brazilian reals to US dollars; other financial assets of MUS\$ 12,667 (14.2%); assets on account of deferred taxes of MUS\$ 7,985 (2.1%). All of the foregoing was offset by a re-

duction in the following items: property, plant and equipment of MUS\$ 440,508 (4.0%) originated by the sale of two Airbus A330 aircraft and the reclassification of two Airbus A319 aircraft, two Airbus A320, six Airbus A330 and two Boeing F-777 to the non-current assets item or group of assets for disposal classified as maintained for sale, depreciation expense corresponding as of December 31, 2016 of MUS\$ 744,552 among other movements of the period, the negative effect is offset by the acquisition of a Boeing 787 aircraft, one Airbus A320 aircraft, four Airbus A321 aircraft, and four Airbus A350 aircraft, the adjustment of the conversion of the companies whose functional currency is other than the US dollar of MUS\$ 172,987 which corresponds mostly to TAM S.A. and Subsidiaries, and the payment of down payments (prepayments) for the acquisition of aircraft; and, finally, the drop in the item accounts payable of MUS\$ 2,461 (23.0%).

As of December 31, 2016, the company's total liabilities amounted to MUS\$ 15,012,890; which, when compared to the value as of December 31, 2015, shows a reduction of MUS\$ 150,980 equivalent to 1.0%.

The company's current liabilities increased by MUS\$ 581,219 (10.3%), with respect to the closing of the year 2015. The main increases appear in the following items: other non-financial liabilities of MUS\$ 272,212 (10.9%); other financial liabilities of MUS\$ 195,293 (11.9%); which is mostly explained by the financing in TAM Linhas Aéreas of US\$ 200 million and the reclassification of MUS\$ 300,000 in obligations with the public of TAM Capital Inc. to the short term, since its expiration is on April 25, 2017. All of the foregoing is affected by the net variation between the reduction of the passive positions of the hedging derivatives, the reduction of other guaranteed obligations and financial leasing; and commercial accounts payable and other accounts payable of MUS\$ 109,111 (7.4%); which was slightly affected by the drop in: liabilities on account of current taxes of MUS\$ 5,092.

The indebtedness indicator of the company's current liabilities shows a drop of 23.1%, going from 1.97 times as of the closing of the year 2015, to 1.52 times as of the closing of 2016. The incidence of current liabilities over total debt increased by 4.18 percentage points going from 37.20% as of the closing of the year 2015 to 41.38% as of the closing of the current year.

The company's non-current liabilities dropped by MUS\$ 732,199 (7.7%), as compared to the balance as of December 31, 2015. The main reductions appear in the following items: other financial liabilities of MUS\$ 735,433 (9.8%), which is explained by the net effect of the reclassification of MUS\$ 300,000 of obligations with the public of TAM Capital Inc. to the short term, the financing of the down payment for the purchase of the Airbus and Boeing aircraft; other non-financial liabilities of MUS\$ 58,349 (21.4%); and accounts payable of MUS\$ 57,659 (13.8%); the foregoing items were offset by increases in: deferred taxes of MUS\$ 104,194 (12.8%), and provisions on account of employee benefits of MUS\$ 17,051 (26.1%).

The indicator of the company's non-current liability indebtedness shows a reduction of 35.6%, going from 3.33 times as of December 31, 2015 to 2.15 times as of the closing of 2016. The incidence of non-current liabilities over total debt dropped by 4.2 percentage points going from 62.80% as of the closing of the year 2015 to 58.55% as of December 2016.

As of December 31, 2016, approximately 63% of the debt had rate-fixing instruments; according to the foregoing and considering the debt such instruments, the average rate was 3.7%.

The equity capital attributable to the controller's property owners increased by MUS\$ 1,240,125 going from MUS\$ 2,856,535 as of December 31, 2015 to MUS\$ 4,096,660 as of December 31, 2016. The main increases appear in: issued equity capital of MUS\$ 603,859 (23.7%) corresponding to the capital increase approved at the Extraordinary Shareholders' Meeting of August 18, 2016, having subscribed and paid as of December 31, 2016 a total of 60,849,592 shares, collecting MUS\$ 608,496; additionally, share-issuing costs total-

ing MUS\$ 4,793 were capitalized. Other reserves of MUS\$ 580,870, mostly originating from the positive effect of foreign exchange rate variations of conversion reserves amounting to MUS\$ 489,486, mostly explained by the conversion adjustment originated by the acknowledged goodwill of the combination of businesses with TAM and Subsidiaries, the reserves correspond to cash flow hedges totaling MUS\$ 92,016. The variation of the accumulated result was positive, because of the profit generated as of December 31, 2016 attributable to the controller's property owners of MUS\$ 69,220; consequently, temporary dividends amounted to MUS\$ 20,766.

2. Consolidated financial statement

As of December 31, 2016 the controller recorded a profit of MUS\$ 69,220, which represents an income increase of MUS\$ 288,494 compared to the loss of MUS\$ 219,274 of the previous year. The net margin increased from -2.2% to 0.7% during 2016.

The operating income as of December 31, 2016 amounted to MUS\$ 567,903; which, when compared to the year 2015 shows an increase of MUS\$ 53,984, equivalent to 10.5%, while the operating margin reached 6.0%, showing an increase of 0.9 percentage points.

The operating income as of December 31, 2016 diminished by 5.9% with respect to that of the year 2015, reaching MUS\$ 9,527,088. The foregoing was due to a 6.3% drop in passenger income and a 16.5% drop in cargo income, partially offset by a 39.7% increase in the other income item. The impact of the depreciation of the Brazilian real represented a lower ordinary income of about US\$ 121 million.

Passenger income totaled MUS\$ 7,877,715; which, when compared to the MUS\$ 8,410,614 of the year 2015, represented a drop of 6.3%. This variation is mostly attributable to a 6.9% drop in the RASK as a result of an 8.1% drop in yields, which were impacted by an increasingly competitive environment in domestic markets, combined with the yet sluggish macroeconomic environment in South America and by the depreciation

of local currencies (especially the Brazilian real, the Chilean peso and the Argentinean peso). All of the foregoing was partially offset by a 0.6% increase in ASK-measured capacity. Additionally, the occupation factor reached 84.2%, which represents an increase of 1.1 percentage points with respect to the previous year.

As of December 31, 2016, cargo income totaled MUS\$ 1,110,625, which represents a reduction of 16.5% with respect to the year 2015. This drop corresponds to an 8.5% drop in yields and 8.7% drop in RTK-measured traffic. Such drop in yields reflects the yet depressed cargo environment worldwide, the weakening of Brazil's domestic and international market, the sluggishness of imports from North America and Europe, and the negative impact of the depreciation of the Brazilian real in the income from Brazil's domestic market. Additionally, the ATK-measured capacity dropped by 5.3%.

On the other hand, the Other Income item shows an increase of MUS\$ 152,967 mostly attributable to income from land services associated to the 2016 Rio Olympic Games, the profit obtained from the sale of aircraft and greater income received on account of aircraft and land services.

As of December 31, 2016, operating costs amounted to MUS\$ 8,959,185; which, when compared to those of the previous year, represent lower costs of MUS\$ 652,722, equivalent to a 6.8% drop, while the ASK-equivalent unit cost dropped by 7.0%. Additionally, the impact of the depreciation of the Brazilian real in this item represents lower costs of approximately US\$ 101 million.

The variations by item are explained as follows:

- a) Compensation and benefits dropped by MUS\$ 121,672 mostly due to the depreciation of the Brazilian real, the Argentinean peso and the Chilean peso by 4.8%, 60.7% y 4.2% respectively. Additionally, the average payroll during the period dropped by 9.3%, in line with Brazil's reduced supply and the cost control initiatives promoted by the company.

- b) Fuel dropped by 22.4%, the equivalent of MUS\$ 594,424 of lower costs. Such drop is mostly attributable to a 16.6% drop on non-hedged prices and of 2.9% in consumption measured in gallons. During 2016, the company acknowledged a loss of MUS\$ 48,094 on account of fuel hedging, as compared to a loss of MUS\$ 239,430 during the previous year; and a loss of MUS\$ 40,772 on account of currency hedging.
- c) Commissions show a drop of MUS\$ 33,478, which is mostly owed to a drop in income from the sale of airline tickets and lower cargo operations.
- d) Depreciation and amortization increased by MUS\$ 25,922. This variation is mostly explained by the incorporation to the fleet of 13 aircraft of the Airbus A320 family, 6 Airbus A350 and, 5 Boeing 787. The foregoing was partly offset by the depreciation of the Brazilian real, and by the exit of 9 Airbus of the A320 family, 10 Airbus A330 and 1 Boeing 767.
- e) Other leases and landing charges diminished by MUS\$ 32,419, mostly due to lower aircraft leasing costs, as a result of slowed-down operations and the depreciation of local currencies.
- f) Passenger services dropped by MUS\$ 8,818; which represents a 3.0% variation that is mostly explained by a lower average cost of on-board services, partially offset by increased passenger compensations.
- g) Aircraft leases increased by MUS\$ 43,845, mostly because of the incorporation of 8 Airbus of the Airbus A320 family, 4 Boeing 787 and 2 Airbus A350. The foregoing was partially offset by the return of 7 Airbus aircraft of the A320 family, 2 Airbus A330 and 1 Boeing 767
- h) Maintenance shows lower costs totaling MUS\$ 71,082, equivalent to a 16.3% variation, mostly due to the depreciation of the Brazilian real, lower costs associated to the return of aircraft and the efficiency gained by the fleet renewal.

- i) Other operating costs show an increase of MUS\$ 139,404 mostly attributable to land service costs associated to the 2016 Rio Olympic Games, greater costs associated to the fair-value valuation of the stock inventory, as part of a sales plan promoted by inventory reduction initiatives. The foregoing was partially offset by the depreciation of the Brazilian real and the drop in associated marketing and advertising costs.

Financial income totaled MUS\$ 74,949; which, when compared to the MUS\$ 75,080 of the same period of 2015, represent a lower income of MUS\$ 131.

Financial costs increased by 0.7%, totaling MUS\$ 416,336 as of December 31, 2016, mostly due to greater fleet financing costs and other charges associated to credit card sales.

Other income/costs recorded a positive result of MUS\$ 47,358, mainly explained by income mostly acknowledged by TAM as a result of the appreciation of the Brazilian real during the year 2016.

The main items of the Consolidated Statement of Financial Position of TAM S.A. and Subsidiaries, which generated a profit of MUS\$ 199,589 because of foreign exchange rate differences as of the fourth quarter of 2016, were the following: Other financial liabilities, a profit of MUS\$ 175,614 originated from US-dollars-denominated loans and financial leasing operations toward the acquisition of the fleet and other items of net assets and liabilities, a profit of MUS\$ 103,960 reduced by foreign exchange differences in accounts receivable to related companies, and a loss of MUS\$ 79,985.

Income of Multiplus S.A.

The net income of Multiplus as of December 31, 2016 amounted to a profit of MUS\$ 152,873; which, when compared to the MUS\$ 138,591 of the year 2015, represents an increase of 10.3%.

Income dropped by 6.4%, which is mostly explained by the effect of the depreciation of the Brazilian real by 4.8% and by a drop of 9.1% from the redemption of outdated points with respect to the previous year. Additionally, there was a 10.2% drop of income on account of the redemption of outdated points from the previous year.

Operating costs dropped by 11.7%, mostly because of the depreciation of the Brazilian real, added to a 10.0% drop in the redemption of airline ticket points.

Financial income/costs represented a profit of MUS\$ 58,379, which corresponds to a positive variation of 275.3%, mostly attributable to the depreciation of the Brazilian real, partially offset by the placement of a part of the company's cash on US-dollar linked currency hedges.

3. Analysis and explanation of the Consolidated Net Cash Flow originated by the company's operating, investment and financing activities.

The operating cash flow shows a negative variation of MUS\$ 723,349, with respect to the same period of the previous year that is mostly attributable to a reduction in the following items: Collections on account of the sale of goods and the delivery of services totaling MUS\$ 1,453,808; taxes to reimbursed profits of MUS\$ 1,593; interest payments received of MUS\$ 32,132 and other cash inflows (outflows) totaling MUS\$ 24,642 because of increased cash inflows resulting from the movement of fuel byproducts contracted by the company, the establishment of guarantees for byproduct margins and payments to offset active and passive positions as of the dates of expiration of these contracts, net of disbursements made for establishing guarantees on account of judicial deposits and administrative proceedings carried out mostly in TAM S.A. and Subsidiaries; the foregoing was offset by positive variations in the following items: Supplier payments for the supply of goods and services totaling MUS\$ 273,461; net effect in Other collections and payments for operating activities totaling MUS\$ 170,460 and Payments to and on behalf of employees totaling MUS\$ 344,905.

The investment cash flow shows a positive variation of MUS\$ 1,296,038 with respect to the same period of the previous year; which is explained by increases in the following items: net effect on Other collections and payments on account of the sale of capital equity or debt instruments of other entities totaling MUS\$ 447,653, which acknowledge the movement of the investments materialized by TAM S.A. and Subsidiaries in private investment funds, real estate property acquisitions, plant and equipment of MUS\$ 875,379, mostly because of a lower movement of down payments (prepayments) toward the acquisition of aircraft and other fixed-asset incorporations. During the year 2016, the company acquired 1 Boeing 787 aircraft, 1 Airbus A320 aircraft, 4 Airbus A321 aircraft, and 4 Airbus A350 aircraft, as compared to the same period of the previous year, in which the company had acquired 8 Airbus A321, 3 Boeing 787 aircraft and 1 Airbus A350 aircraft; and proceeds from the sale of real estate properties, plant and equipment totaling MUS\$ 18,967. The previously-described positive variation was offset by a reduction in the following items: Other cash inflows (outflows) totaling MUS\$ 9,733 and the acquisition of intangible assets amounting to MUS\$ 36,138.

The financing cash flow shows a negative variation of MUS\$ 267,919, with respect to the same period of the previous year; which is mostly explained by an increase in the following items: Loan payments totaling MUS\$ 857,337, related to the payment of the financing of 10 Airbus A321 aircraft, 5 Airbus A350 aircraft, 2 Boeing 787 aircraft, 1 Airbus A320 aircraft, among other commercial loan payments; paid out interest totaling MUS\$ 14,640; paid out dividends totaling MUS\$ 6,191 and other cash inflows (outflows) totaling MUS\$ 129,406, because of lower PDP financing obtained from the Parent Company and disbursements made by TAM S.A. on account of the establishment of loan guarantees of MUS\$ 74,186. The foregoing is offset by increased proceeds from the issue of shares totaling MUS\$ 608,496 on account of the capital increase approved at the Extraordinary Shareholders' Meeting held on August 18, 2016; proceeds from short and long-term loans totaling MUS\$ 103,125 and lower liability payments on account of financial leasing operations totaling MUS\$ 28,034.

The above-depicted loan flows were affected by the following:

a. During the month of March 2016, the company re-scheduled a Revolving Credit Facility (line of credit) guaranteed by airplanes, engines, spare parts and supplies for a total available amount of US\$ 275 million. In May of 2016, the referred credit facility was expanded by US\$ 50 million.

This facility includes minimum liquidity restrictions measured at the level of the Consolidated Company and measured at the individual level for the companies: LATAM Airlines Group S.A. and TAM Linhas Aéreas S.A.

During the month of December of the year 2016, the company prepaid the full amount withdrawn of US\$ 315 million, maintaining a committed total of the RCF facility (line) of US\$ 325 million. The facility will be available for future withdrawals until its date of expiration on March 2019. The assets (airplanes, engines and spare parts) given as collateral will be maintained as a security pledge.

As compared to the same period of 2015, the Parent Company issued and placed a non-guaranteed long-term bond of MUS\$ 500,0000, to expire in the year 2020, whose cash inflows were used to pay off the inter-company debt with Tam Capital 2 Inc. in the amount of MUS\$ 300.000.

b. In September 2016, TAM Linhas Aéreas S.A. obtained financing of US\$ 200 million, with the guarantee of approximately 18% of the shares of Multiplus S.A.; a percentage subject to adjustment depending on the market value of the shares pledged in guarantee.

c. Finally, additionally, in September 2016 the company obtained financing of down payments (prepayments) toward the acquisition of aircraft for an initial withdrawal of US\$ 225 million (US\$ 260 million is the line's maximum authorized amount) for a period of 2 years and 3

months. This includes a total of 23 Airbus aircraft projected to be delivered toward the end of 2018.

The company's net cash flow as of December 31, 2016 shows a positive variation of MUS\$ 195,829, with respect to the previous year.

4. Analysis of the financial risks

The company's global risk management program's objective is to minimize the adverse effects of the financial risks that affect the company.

(a) Market risks

Given the nature of its operations, the company is exposed to market factors such as: (i) fuel price risks; (ii) rate of interest risks; and (iii) local foreign exchange rate risks.

(i) Fuel price risks

In order to execute its operations, the company purchases Grade 54 USGC Jet Fuel, which is subject to the fluctuation of international fuel prices.

In order to hedge against fuel risks, the company operates with derivative securities (swaps and options) whose underlying objectives may be other than Jet Fuel. Thus, it is possible to hedge against the West Texas Intermediate ("WTI") oil, the Brent crude oil ("BRENT") and distilled Heating Oil ("HO"), all of which have a high price correlation with Jet Fuel and are more liquid.

As of December 31, 2016, the company acknowledged losses of MUS\$ 48,034 on account of fuel hedges net of premiums. Part of the differences produced by the lower or greater market value of these contracts is acknowledged as hedge component reserves in the company's net equity. As of December 31, 2016, the market value of the contracts currently in effect amounted to MUS\$ 8,085 (positive).

(ii) Foreign exchange risks

The functional currency for the presentation of the parent company's financial statements is the US dollar; reason why transaction and conversion exchange rate risks arise mostly from operating activities inherent to the line of business, the strategy and accounting practices of the company that are stated in a monetary units other than the functional currency.

Likewise, TAM S.A. and the LATAM Subsidiaries are also exposed to foreign exchange risks, whose impact affects the company's consolidated income.

LATAM's greater exposure to foreign exchange risks arises from the concentration of business in Brazil, which are mostly denominated in Brazilian reals (BRL); risks that are actively managed by the company.

Additionally, the company manages exposure to operating income in UK Pound Sterling (GBP).

The company mitigates its foreign exchange exposure by contracting derivative securities or through natural hedges or the execution of internal operations.

As of December 31, 2016, the market value of FX positions amounted to MUS\$ 1,645 (negative).

The company has executed Cross Currency Swaps (CCS) with the purpose of dollarizing the cash flow of obligations contracted in Chilean UF (*Unidades de Fomento* – inflation index units), which accrue interest at a fixed rate. With this financial instrument the company manages to pay a variable interest rate that accrues interest at LIBOR plus a fixed spread. Likewise, the company through TAM S.A. has executed hedging contracts for its variable rate US-dollar-denominated debt with the objective of transforming it into fixed-rate Brazilian reals.

As of December 31, 2016, the market value of the company's CCS positions amounted to MUS\$ 12,338 (negative).

(iii) Rate of interest risks

The company is exposed to the fluctuations of the rates of interest of the markets, thereby affecting the future cash flows of the financial assets and liabilities currently in effect and of those in the future.

The company is mostly exposed to the London Inter Bank Offer Rate ("LIBOR") and other less relevant rates of interest, such as Brazilian inter-bank deposit certificates ("CDI") and Brazil's long-term interest rate ("TJLP").

In order to diminish the risk of an eventual interest rate hike, the company executed interest-rate swap contracts. With respect to such contracts, the company pays, receives or merely receives –as the case might be– the difference between the agreed fixed rate of interest and the floating rate of interest calculated over each contract's outstanding capital. On account of these contracts, the company acknowledged during the period a loss of MUS\$ 22,533. Losses or gains on account of interest rate swaps are acknowledged as a component of the financial expenses based of the amortization of the loan being hedged.

As of December 31, 2016, the market value of the interest rate swaps currently in effect amounted to MUS\$ 17,183 (negative).

As of December 31, 2016, approximately 63% of the debt is at a fixed rate or at a rate fixed against one of the above-mentioned instruments (securities). The average interest rate of the company's debt is 3.7%.

(a) Concentration of credit risks

A high percentage of the Company's accounts receivable come from airline ticket sales, cargo services to persons and various commercial companies that are economically and geographically dispersed; albeit generally short-term. In line with the foregoing the company is not exposed to a significant risk of credit concentration.

5. Economic environment

In order to analyze the economic environment in which the company operates, following is a brief summary of the situation and evolution of the principal economies that affect both the domestic as well as the regional and world environment.

The year 2016 showed a weak economic growth around the world despite the upturn as of the second half of the year. The economies that improved the most during the second half of the year were the advanced economies. On the other hand some emerging market economies experienced an economic slowdown. It is estimated that during 2016 the global economy expanded by an average of 3.1%, slightly less than the 3.2% recorded in 2015.

The growth of the European economy was about what was expected in some countries like the United Kingdom and Spain, with a demand that turned out to be better than expected after the vote that decided the exit (Brexit) of United Kingdom of the European Union. During 2016, it is estimated that the Eurozone economies grew by 1.7% on the average (as compared to 2.0% in 2015).

In United States the prospects for economic growth were revised downward after a weak first-half performance. However, starting in the second half, GDP growth exceeded market expectations, evidencing that the economy continues to make progress, albeit at a slower rate. From 2017 onwards, however, it is expected that the fiscal stimulus policies announced by the new government will boost the country's economic growth. An economic growth of 1.6% is now being projected for the year 2016 (as compared to 2.6% in 2015).

In Latin America, growth prospects remain depressed and recovery from the second half of 2016 was weaker than expected in the large economies of the region, such as Brazil and Argentina, although there is greater uncertainty about Mexico. On the other hand, we continue to see a continuous weakening of Venezuela's economy, with a projected economic contraction of 0.7% (as compared to a growth of 0.1% in 2015).

Specifically in Brazil, some indicators, like consumer and business confidence, suggest that the economic recession may be coming to an end. However, the recovery during the second half of the year was lower than expected. Consequently, that country's prospects for next year remain uncertain. Some of the country's main challenges are the implementation of reforms that will improve the country's structural problems as well as the recovery of the political credibility. For the year 2016, the projection is for a 3.5% economic contraction (as opposed to - 3.8% in 2015).

In Chile, economic growth has remained stable although at lower levels than in the last few years, mainly because of the lower dynamism of their counterparts in the region and the lower price of copper, among other factors. An economic recovery is expected during the coming years, as a result of projected stronger external demand for products and of more stable copper prices. The foregoing, however, might be offset by a low recovery of seen domestic demand and consumer confidence. A growth of 1.7% is projected for the year 2016 (as compared to 2.3% in 2015).

In this economic environment, the flexibility of the business model implemented by the company is crucial to better confront such projected economic fluctuations.

a) The following are the main financial indices of the Consolidated Financial Statement:

| | 31-12-2016 | 31-12-2015 |
|---|------------|------------|
| LIQUIDITY INDICES | | |
| Current liquidity (times) (Current assets in operation/Current liabilities) | 0,58 | 0,50 |
| Acid test (times) (Funds available/ Current liability) | 0,15 | 0,13 |
| INDEBTEDNESS INDICES | | |
| Debt ratio (times) (Current liabilities + Non-current Liabilities/Net equity) | 3,66 | 5,31 |
| Current debt / Total debt (%) | 41,38 | 37,20 |
| Non-current debt / Total debt (%) | 58,55 | 62,80 |
| Hedging of financial expenses (R.A.I.I. / Financial expenses) | 1,80 | -0,06 |
| ACTIVITY INDICES | | |
| Total assets | 19.198.194 | 18.101.418 |
| Investments | 3.401.103 | 1.533.637 |
| Disposal of property (enajenación) | 3.046.658 | 587.153 |

Profitability indices

The profitability indices were calculated over the equity capital and income attributable to the Majority Shareholders.

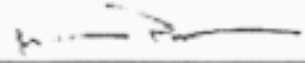
| | 31-12-2016 | 31-12-2015 |
|---|------------|------------|
| Return on equity (Net income / Average net income) | 0.02 | -0.08 |
| Return on assets (Net income / average assets) | 0.00 | -0.01 |
| Yield of operating assets (Net income / Average (**))operating assets | 0.00 | -0.01 |
| <i>(**) Total assets minus deferred taxes, personnel current accounts, permanent and temporary investments, and goodwill.</i> | | |
| Income per share (Net income / N° of subscribed and paid shares) | 0.11 | -0.40 |
| Dividend returns (Paid dividends / Market price) | 0.00 | 0.00 |

b) The following are the main financial indices of the Consolidated Financial Statement:

| | For the 12 months ended on December 31 | |
|--|--|-------------------|
| | 2016 | 2015 |
| INCOME | | |
| Passengers | 7,877,715 | 8,410,614 |
| Cargo | 1,110,625 | 1,329,431 |
| Others | 538,748 | 385,781 |
| TOTAL OPERATING INCOME | 9,527,088 | 10,125,826 |
| COSTS | | |
| Compensation (Remuneraciones) | -1,951,133 | -2,072,805 |
| Fuel | -2,056,643 | -2,651,067 |
| Commissions | -269,296 | -302,774 |
| Depreciation and amortization | -960,328 | -934,406 |
| Other leases and Landing charges | -1,077,407 | -1,109,826 |
| Services to passengers | -286,621 | -295,439 |
| Aircraft leases | -568,979 | -525,134 |
| Maintenance | -366,153 | -437,235 |
| Other operating costs | -1,422,625 | -1,283,221 |
| TOTAL OPERATING COSTS | -8,959,185 | -9,611,907 |
| OPERATING INCOME | 567,903 | 513,919 |
| <i>Operating margin</i> | 6.0% | 5.1% |
| Financial income | 74,949 | 75,080 |
| Financial expenses | -416,336 | -413,357 |
| Financial income / Costs | 47,358 | -532,757 |
| PROFIT BEFORE TAXES AND MINORITY INTEREST | 273,874 | -357,115 |
| Taxes | -163,204 | 178,383 |
| PROFIT BEFORE MINORITY INTEREST | 110,670 | -178,732 |
| Attributable to: | | |
| Parent company investors | 69,220 | -219,274 |
| Minority interest | 41,450 | 40,542 |
| NET PROFIT | 69,220 | -219,274 |
| <i>Net margin</i> | 0.7% | -2.2% |
| Effective rate of interest | -59.6% | -50.0% |
| Total shares | 606,497,693 | 545,547,819 |
| Net profit per share (US\$) | 0.11415 | -0.40193 |

Sworn Statement

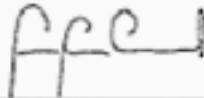
As Directors and Chief Financial Officer of LATAM Airlines Group, we declare under our responsibility on the veracity of the information contain in the Annual Report 2016.



Mauricio Rolim Amaro
Presidente



Ramón Eblen Kadis
Vicepresidente



Juan José Cueto Plaza
Director



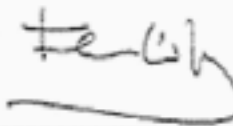
Carlos Heller Solari
Director



Georges de Bourguignon Arndt
Director



Juan Gerardo Jofré Miranda
Director



Francisco Luzón López
Director



Henri Phillippe Reichstul
Director



Giles Edward Agutter
Director



Ramiro Alfonso Balza
Vicepresidente Senior Finanzas

Annual Report 2016

