

Financial Policy

Financial Policy

The objectives of LAN's financial policy are as follows:

- Maintain cash balances that are adequate for operating levels.
- Maintain medium-term and long-term debt at levels that are in reasonable proportion to growth in operations and will preserve the Company's investment grade credit rating
- Carry no short-term debt except for certain well-defined operations.
- Make appropriate investments that maximize future cash flows and facilitate efficient operations.
- Invest cash surpluses in financial instruments in accordance with policies established by the Board of Directors
- Respond effectively to external conditions beyond the Company's control in order to maintain stable cash flows and protect LAN from market risks such as fluctuations in exchange rates, fuel prices and interest rates.
- Maintain sufficient lines of credit with domestic and foreign banks.
- Maintain an appropriate risk rating through ongoing control of the distribution of risk among countries and businesses.

Liquidity

In 2008, LAN continued its policy of maintaining a significant degree of liquidity to guard against possible external shocks. Thus, at year-end the Company held US\$410 million in cash balances and highly liquid securities. In addition, the Company held US\$177 million in derivatives collateral that will be recovered in the next 6 months. While remaining committed to this policy LAN has nevertheless sought alternatives for making the best use of these resources, and last year continued to internally finance the great majority of pre-delivery payments on future aircraft acquisitions from Boeing and Airbus. In order to maintain its solid liquidity position LAN obtained committed credit lines totaling US\$62 million as of December 2008.

Investment and Financing

LAN's investments are overwhelmingly concentrated in its fleet acquisition programs, which are generally financed through a combination of long term financial debt and the Company's own resources.

Boeing 767 Program

The financing of the 767-300s involves twelve operating leases (eleven passenger planes and one freighter) plus 23 aircraft purchased from Boeing (15 passenger planes and eight freighters). These acquisitions were financed through bank loans guaranteed for 85% of the amount by the Ex-Im Bank. With this backing LAN was able to secure very low interest rates, in some cases below the three-month Libor rate. The remaining 15% was financed by commercial loans and LAN's own funds. The periods of the financing structures vary from 12 to 15 years.

As of December 2008, the Company had seven outstanding purchase orders for B767-300s, three of which will be delivered in 2009 and 2010, and 4 in 2012. Purchase orders have also been placed for 2 B777 freighters that will be delivered in 2011 and 2012.

Airbus A320 Family and Airbus A340 Programs

Between 2000 and the end of 2008, LAN received a total of five A340s, 19 A320s, 17 A319s and 15 A318s. Of these, four A340s, eight A320s and five A319s were financed through operating leases with options to purchase after ten years while three A320s and one A340 were financed under pure lease agreements. The remaining aircraft (eight A320s, 12 A319s and 15 A318s), have been financed with bank loans including a guarantee for 85% of the purchase price from European export credit agencies. The other 15% was financed by the Company's own funds and bank loans with repayment structures ranging from 12 to 18 years.

As of December 31, 2007 the Company had outstanding purchase orders on 18 aircraft from the A320 family (nine A320s and nine A319s) for delivery between 2009 and 2011.

Hedging of Financial Risk

The main sources of financial risk for airlines are exchange rates, interest rates and the price of fuel.

As regards exchanges rates, the nature and growth of LAN's operations together with the strengthening of the Chilean peso has resulted in reduced exposure to this and other regional currencies (Argentinian peso, Peruvian sol, Brazilian real). Approximately

83% of Company revenue and 63% of costs are denominated in U.S. dollars. Concerning interest rate fluctuations, LAN has used swaps and calls to reduce floating rate risk. Thus, as of December 2008, 96% of its current exposure was covered and interest rates had already been set for financing the Boeing aircraft to be delivered between 2009 and 2011 as well as one Boeing 777-200 scheduled for reception in 2012.

Finally, to reduce exposure to fuel price fluctuations LAN employs various mechanisms including cost pass-through to passenger and cargo customers and financial instruments such as swaps, calls and zero-cost collars. In 2008 the Company hedged approximately 27% of its fuel needs for 2009. The Company minimizes counterparty credit risk in derivative instruments by entering into transactions with high-quality counterparties.