

# LAN AIRLINES

## Corporate Update

May, 2011



*This presentation may include forward-looking comments regarding the Company's business outlook and anticipated financial and operating results. These expectations are highly dependent on the economy, the airline industry, commodity prices, international markets and external events. Therefore, they are subject to change and we undertake no obligation to publicly update or revise any forward looking statements to reflect events or circumstances that may arise after the date of this presentation. More information on the risk factors that could affect our results are contained on our Form 20-F for the year ended December 31, 2010.*

*Information, tables and logos contained in this presentation may not be used without consent from LAN*



# Contents

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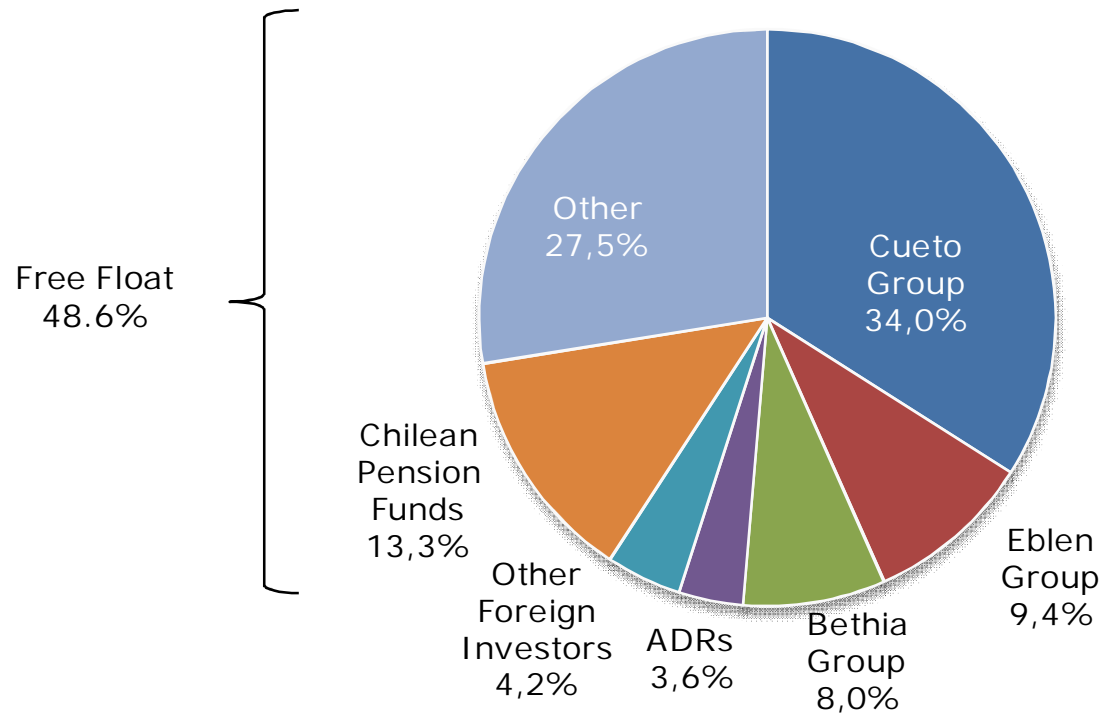
I. LAN'S BUSINESS MODEL

II. FINANCIAL RESULTS

III. AGREEMENT WITH TAM

# LAN's Ownership

**LAN's Ownership**  
(Apr 30, 2011)



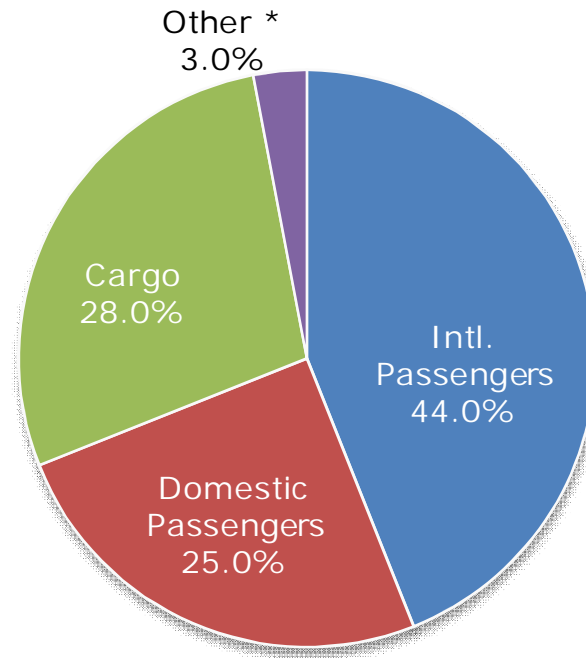
**LAN's market capitalization (May 11, 2011) → US\$ 9.7 billion**

Source: DCV and Bloomberg

# Diversified Business Model

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**Revenue Breakdown**  
(LTM 1Q 2011 % of operating revenues)



**Total operating revenues (LTM 1Q 2011) → US\$ 4,853 million**

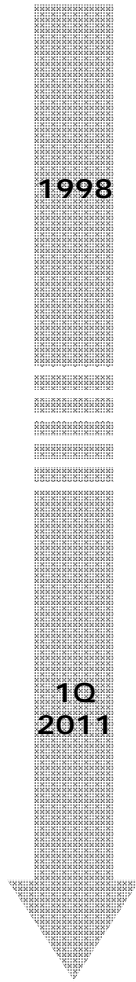
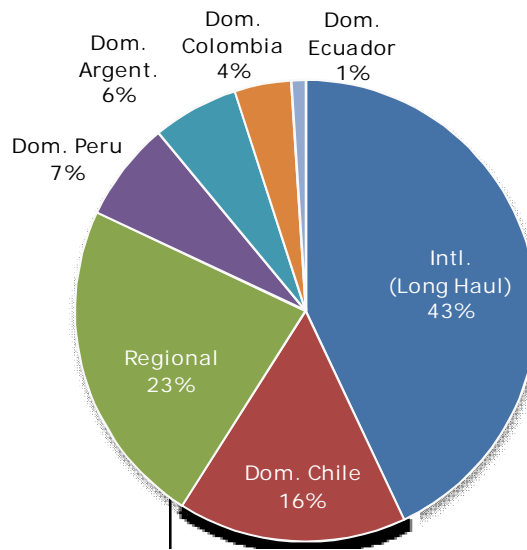
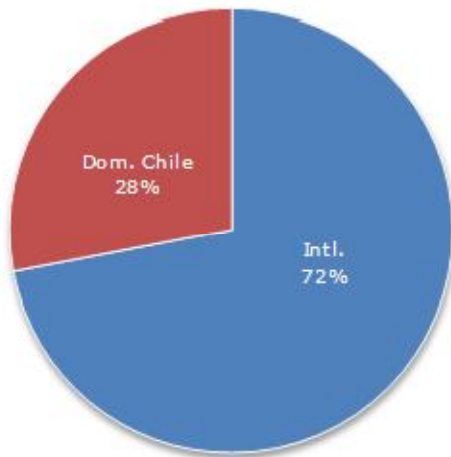
\* Other Revenues includes Aircraft Leases, Logistic and Courier, Ground Services, Storage & Customs Brokerage, Duty Free, etc

# Regional Strategy

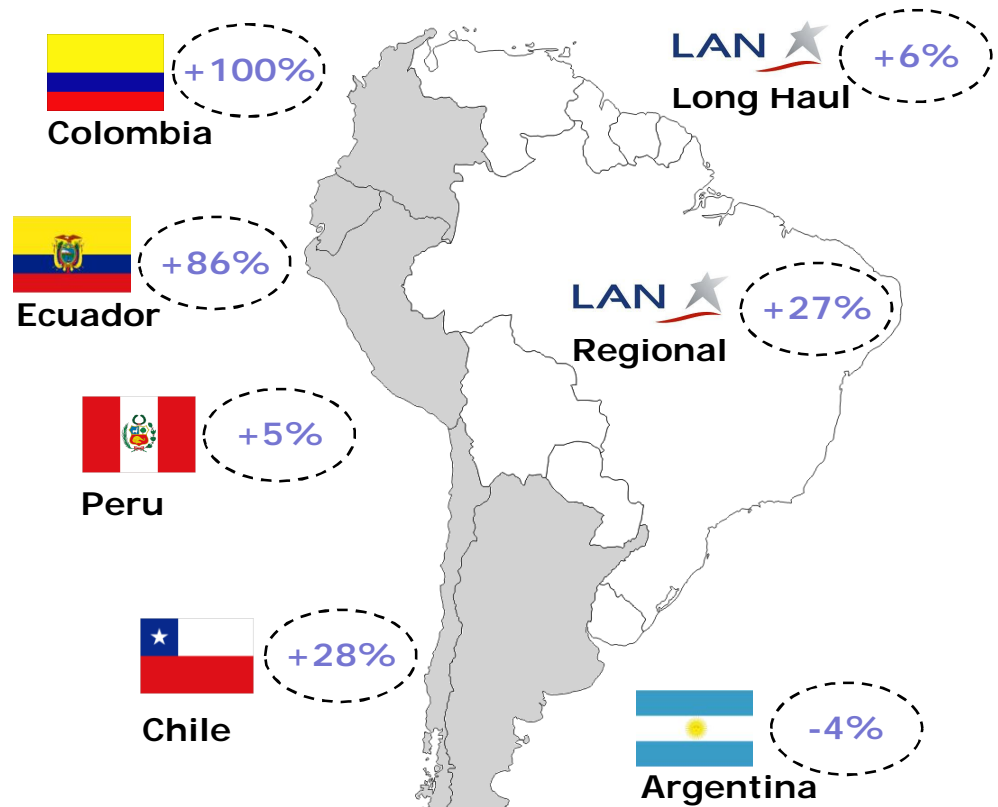


# Geographically Diversified Business

**LAN Passenger Capacity**  
(by ASK)



**Market Growth**  
(LAN ASK growth 1Q2011)



# Colombia: Second Largest Market in the Region



## Colombia represents an attractive opportunity to strengthen our position in Latin America

- Colombia is the second largest market in the region with 13 million domestic passengers and 6 million international passenger in 2010
- Acquisition of a strong player with relevant position
- Colombia has all the necessary conditions to apply our domestic, passenger and cargo models



# Colombia: Turnaround of Colombian Airline AIRES

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## → Acquisition of AIRES:

In November 2010, LAN acquired 98.9% of AIRES for US\$12 million (excluding debt)

## → AIRES Fleet:



**BOEING 737-700**

**Aircraft: 9**

**Seats: 148**



**DASH 8-Q400**

**Aircraft: 4**

**Seats: 78**



**DASH 8-200**

**Aircraft: 11**

**Seats: 37**

## Aspects of the turnaround process:

- Implement LAN standards (IOSA Certification)
- Improving flight offers and quality of service
- Eliminate unprofitable routes
- Apply revenue management
- Integration of domestic cargo operations
- Define the new organizational structure and infrastructure
- Converting AIRES into LAN Colombia

# Leading Presence in the Region

## LAN's Market Share (passenger markets\*)



**Colombia:**  
Intl: 9%  
Dom: 20%



**Ecuador**  
Intl: 23%  
Dom: 20%



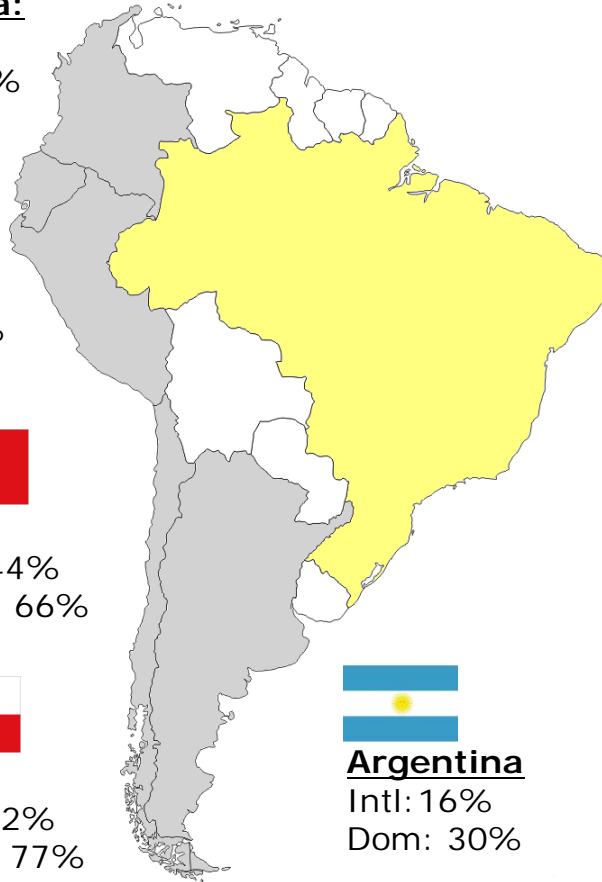
**Peru**  
Intl: 44%  
Dom: 66%



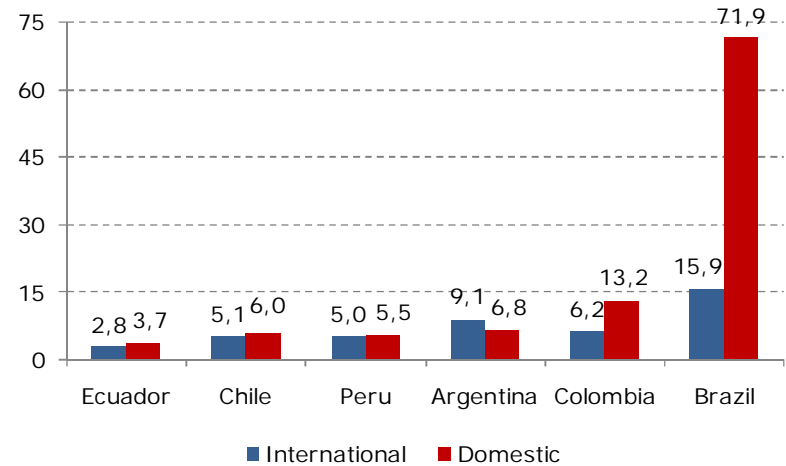
**Chile**  
Intl: 62%  
Dom: 77%



**Argentina**  
Intl: 16%  
Dom: 30%



## Market Sizes (mm pax transported in 2010\*\*)

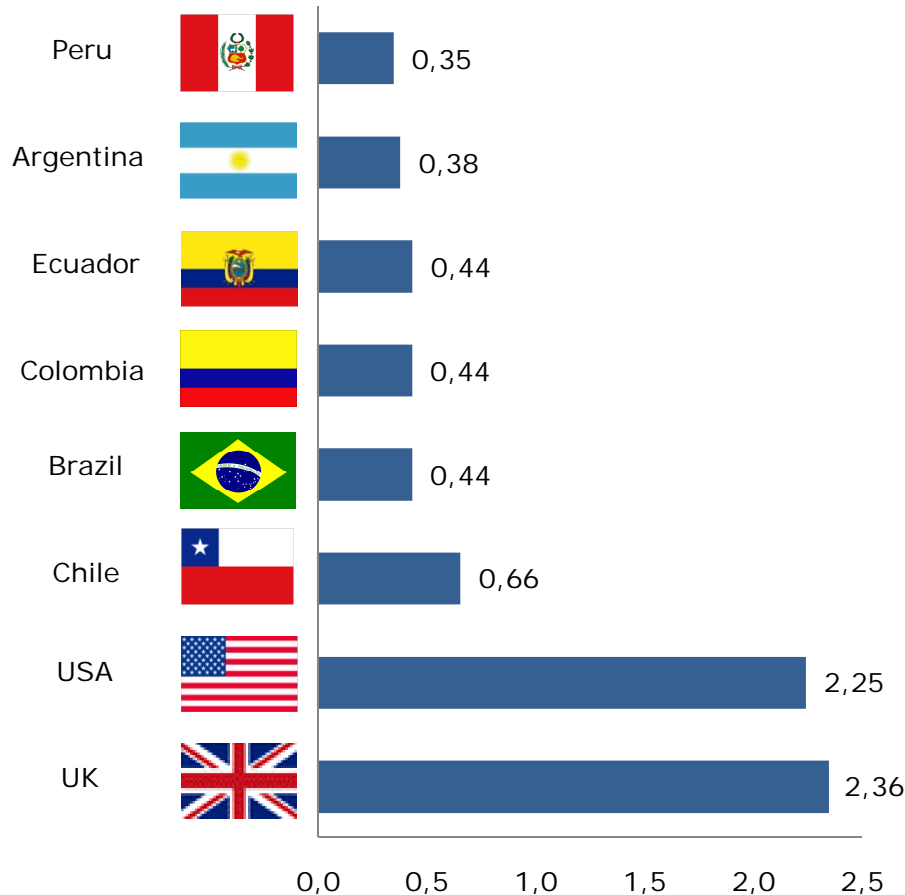


\* Sources: International market shares as of Dec 2010; domestic market shares as of Mar 2011

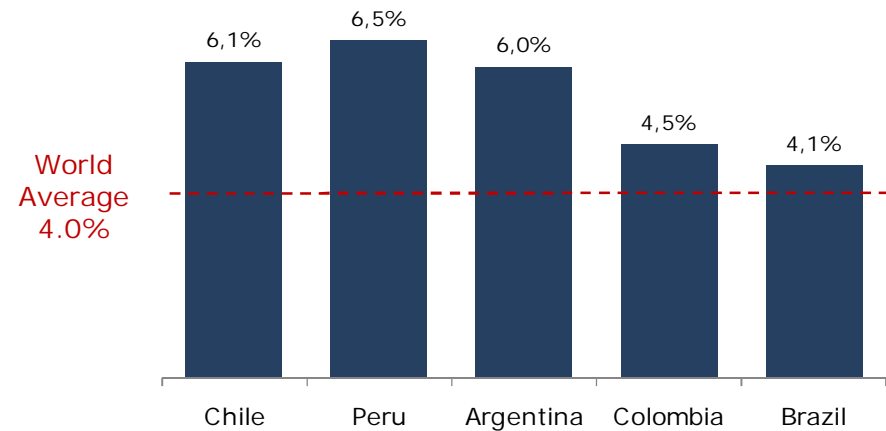
\*\* Sources: DGAC Chile, DGAC Peru, Undersecretary of Transportation Argentina, DGAC Ecuador, Aerocivil Colombia, ANAC Brazil, LAN estimates

# Region's High Growth Potential

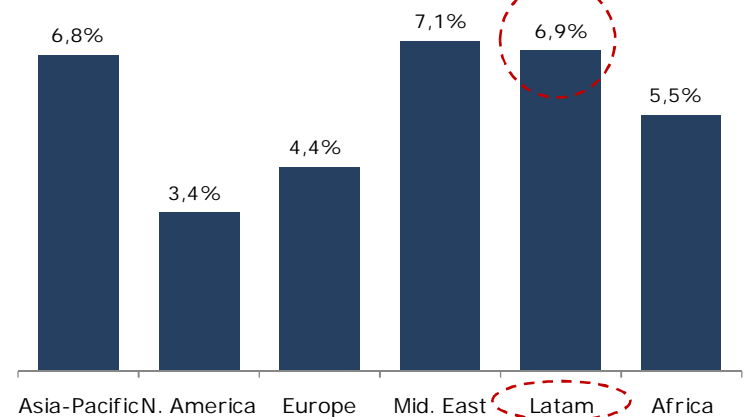
**Trips per Capita**  
(as of 2010)



**GDP Growth Projections**  
(2011E)



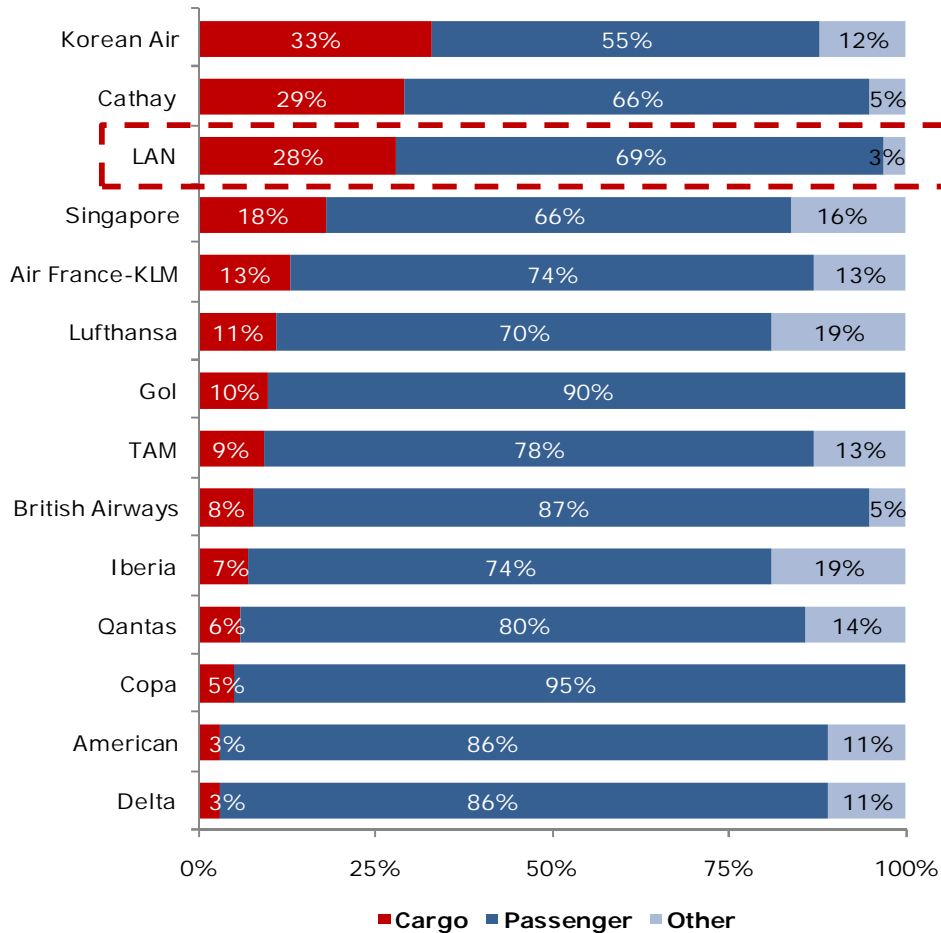
**Boeing Growth Projections**  
(Passenger RPK %CAGR up to 2029)



Source: Boeing, IMF, CIA, Bloomberg and LAN estimates

# Efficiencies of Passenger + Cargo Mix

**Revenue Mix**  
(selected companies FY 2010)



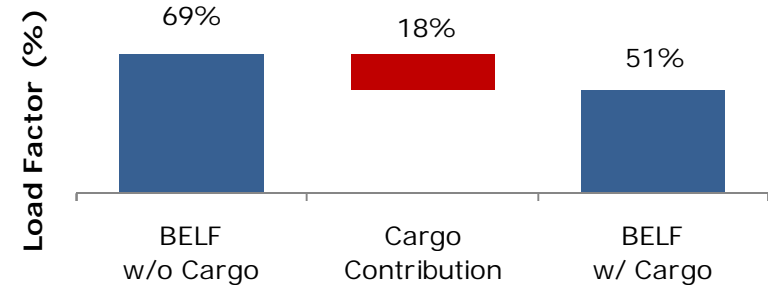
Passenger and cargo combination allows:

- Lower break even load factors (BELFs)
- Increased diversification



## BELF Differential

(long haul passenger + cargo routes  
Jul 2010, based on SCL – MIA route)



Source: Companies' information for FY 2010

# Cargo Business: Consolidation and Expansion

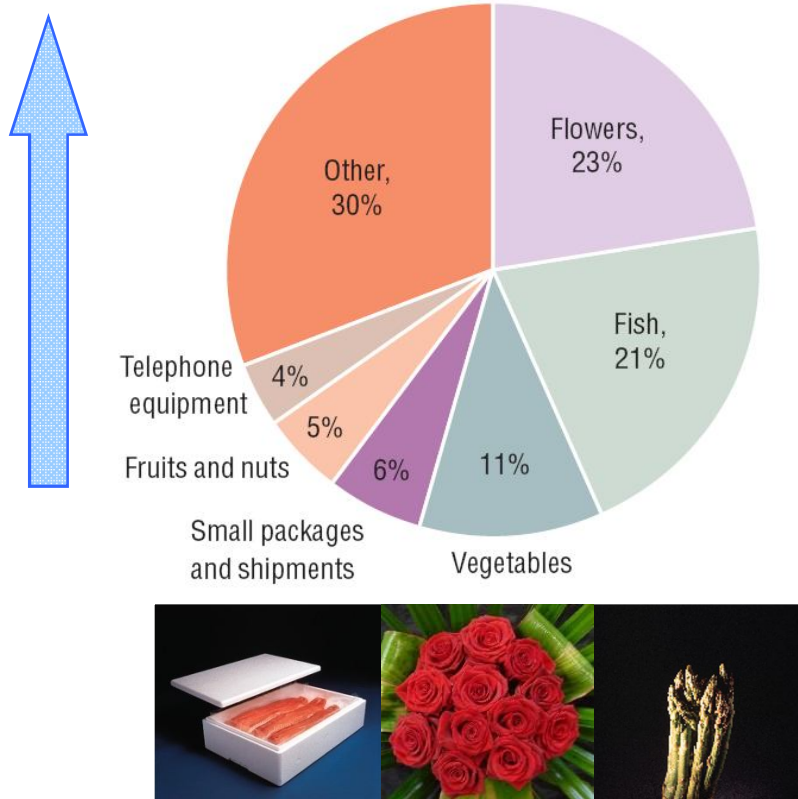


## Growth Drivers:

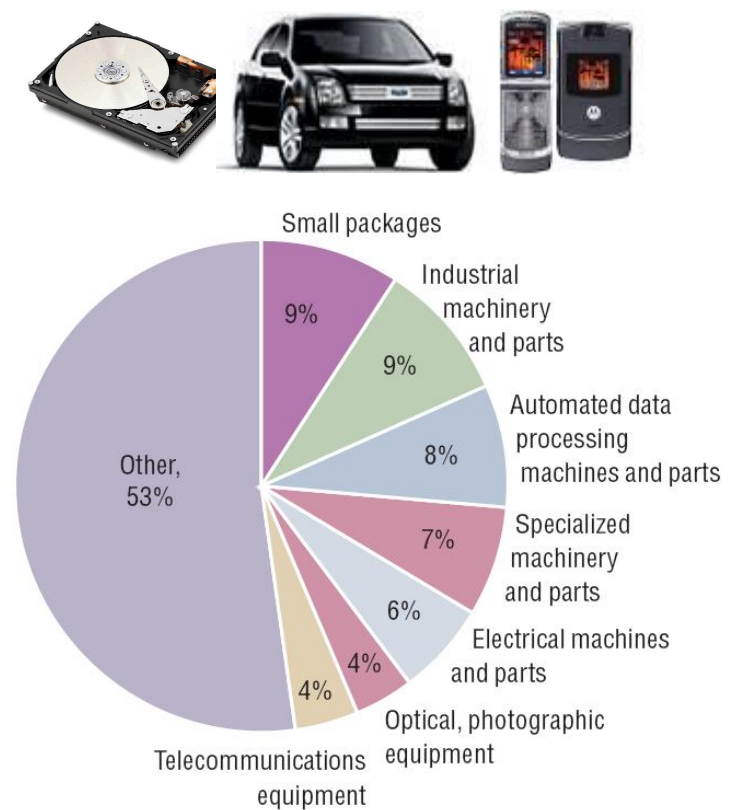
- Strong Brazilian import market driven by an appreciated local currency
- 3 additional Boeing 767F to add capacity to the growing northbound routes (recovery of the salmon industry)
- Strengthening of new domestic routes within Brazil
- Active capacity management and new revenue management tools have allowed more efficient growth

# Cargo Business: Latin America Cargo Market

## Northbound



## Southbound



- Fish, flowers and vegetables dominate northbound flows
- Consumer electronics, machinery, spare parts and automotive parts dominate southbound flows
- Operational efficiencies must be obtained by managing unbalanced flows and seasonal fluctuations

Source: Boeing World Air Cargo 2008 - 2009

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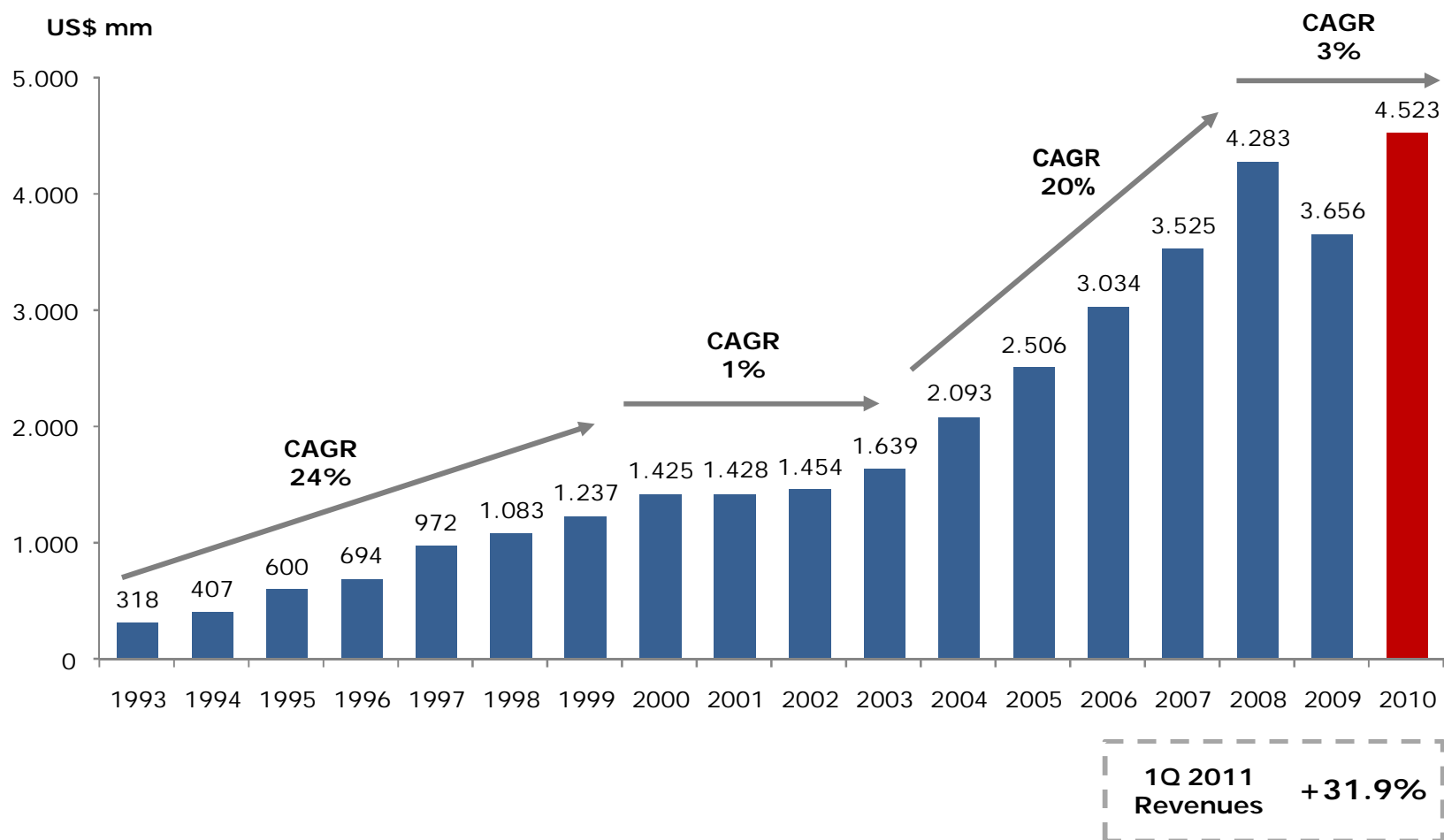
I. LAN'S BUSINESS MODEL

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# Revenue Growth

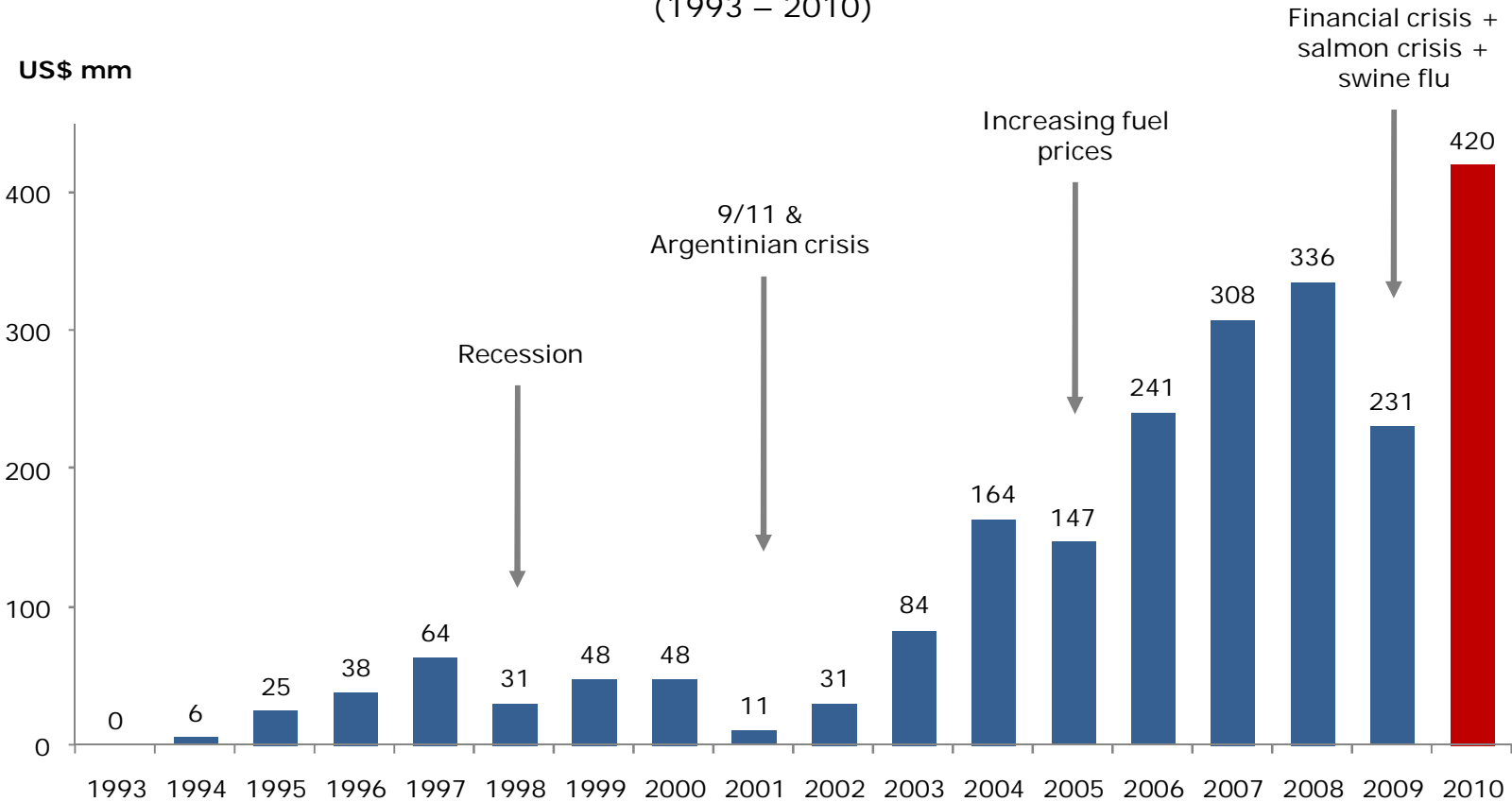
## LAN's Operating Revenues (1993 – 2010)



Note: 2008 – 2010 under IFRS; previous years under Chilean GAAP

# Consistent Profitability

**LAN's Net Income**  
(1993 – 2010)



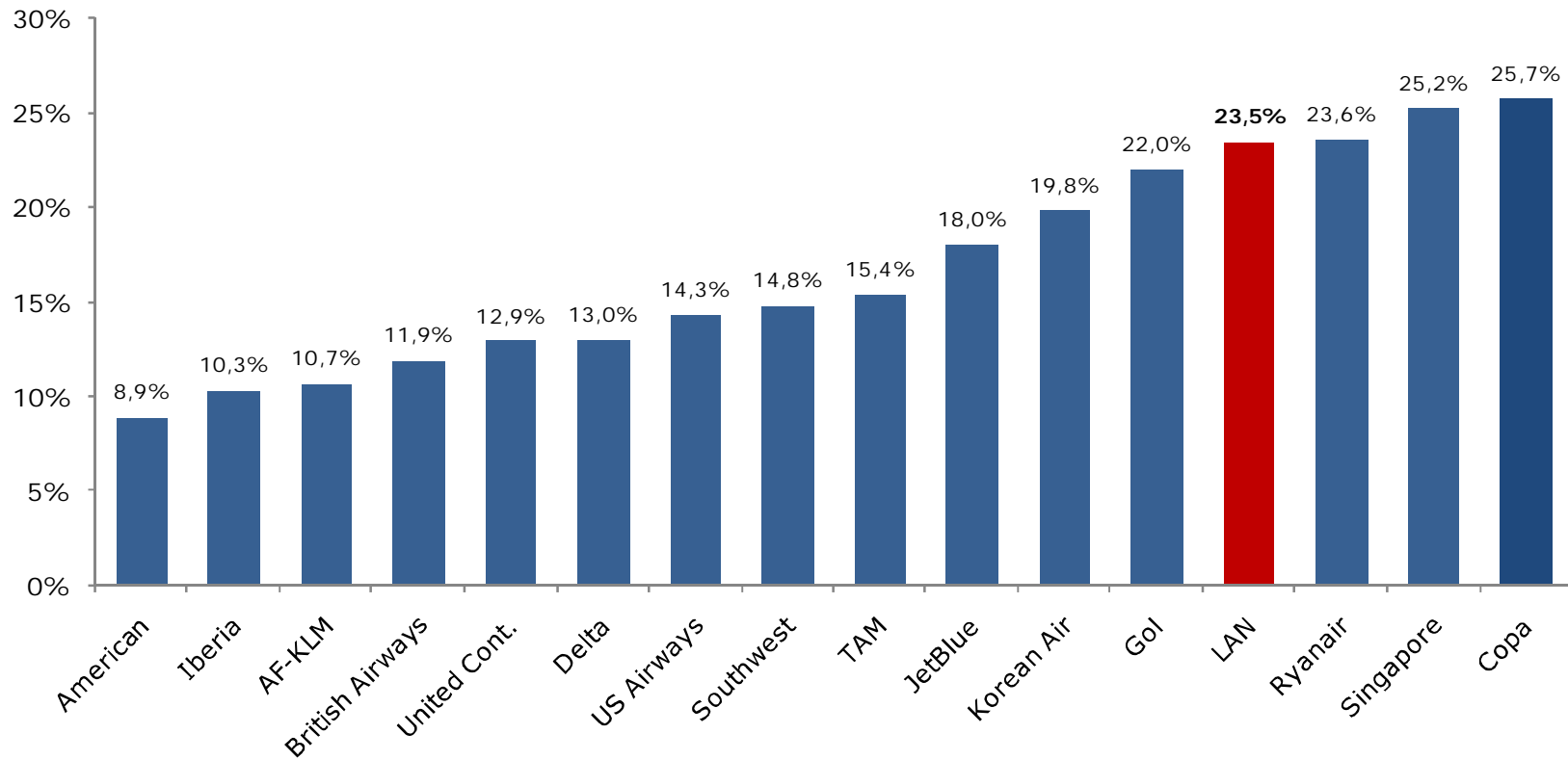
1Q 2011  
Net Income +10.1%

Note: 2008 – 2010 under IFRS; previous years under Chilean GAAP

# High Efficiency Levels

## EBITDAR Margin (FY 2010 industry comparison)

EBITDAR Mg %



Source: Companies' information for FY 2010

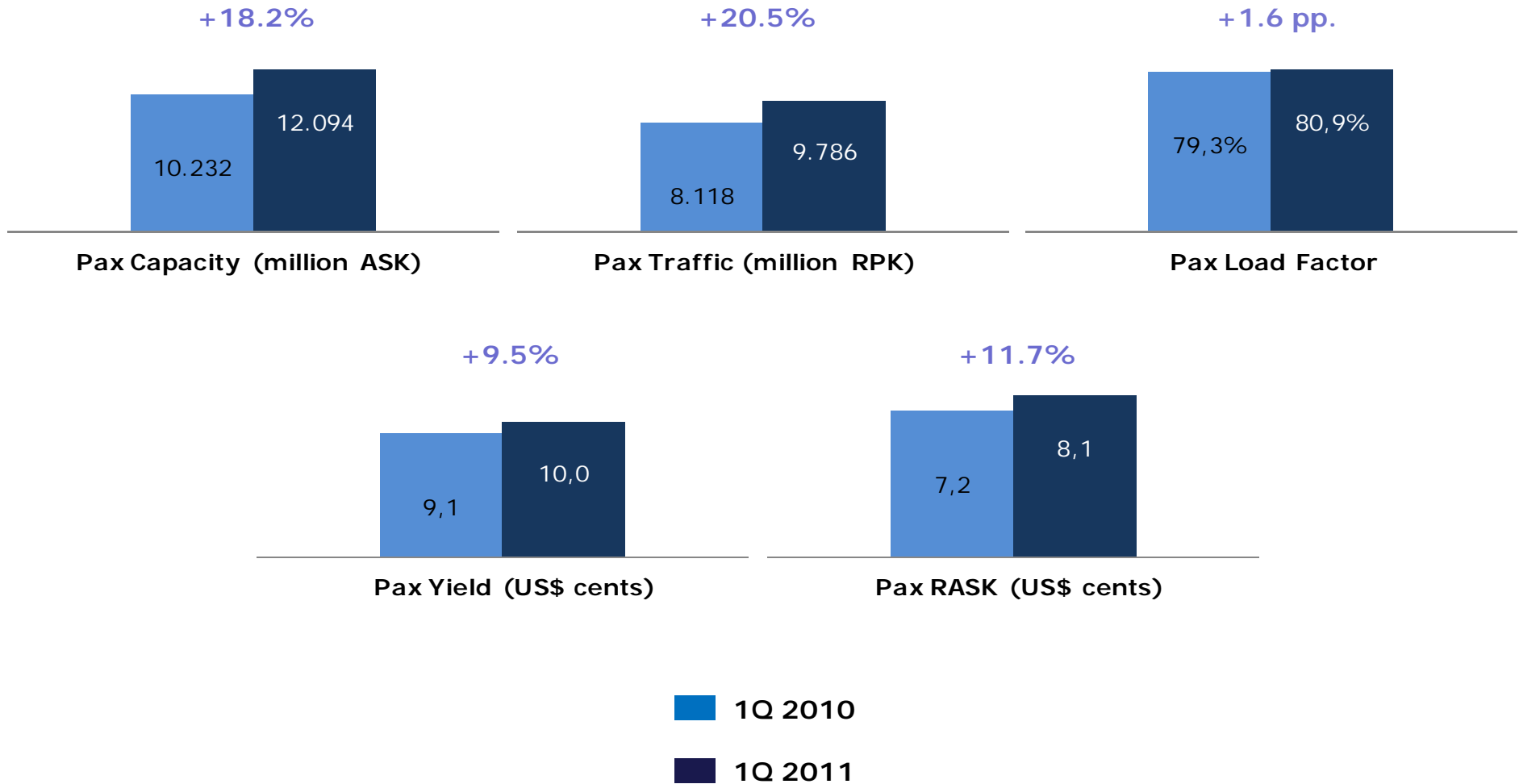
# Highlights 1Q 2011 Results

(US\$ million)	1Q 2010	1Q 2011	% Change (YoY)
<b>Total Revenues</b>	<b>1,035</b>	<b>1,365</b>	<b>31.9%</b>
Passenger Revenues	741	978	32.0%
Cargo Revenues	266	346	30.2%
<b>Total Operating Expenses</b>	<b>-892</b>	<b>-1,212</b>	<b>35.8%</b>
<b>Operating Income</b>	<b>143</b>	<b>153</b>	<b>7.3%</b>
Operating Margin	13.8%	11.2%	-2.6 pp
<b>Net Income</b>	<b>88</b>	<b>97</b>	<b>10.1%</b>
<b>EBITDAR *</b>	<b>249</b>	<b>293</b>	<b>17.6%</b>
EBITDAR Margin	24.1%	21.5%	-2.6 pp

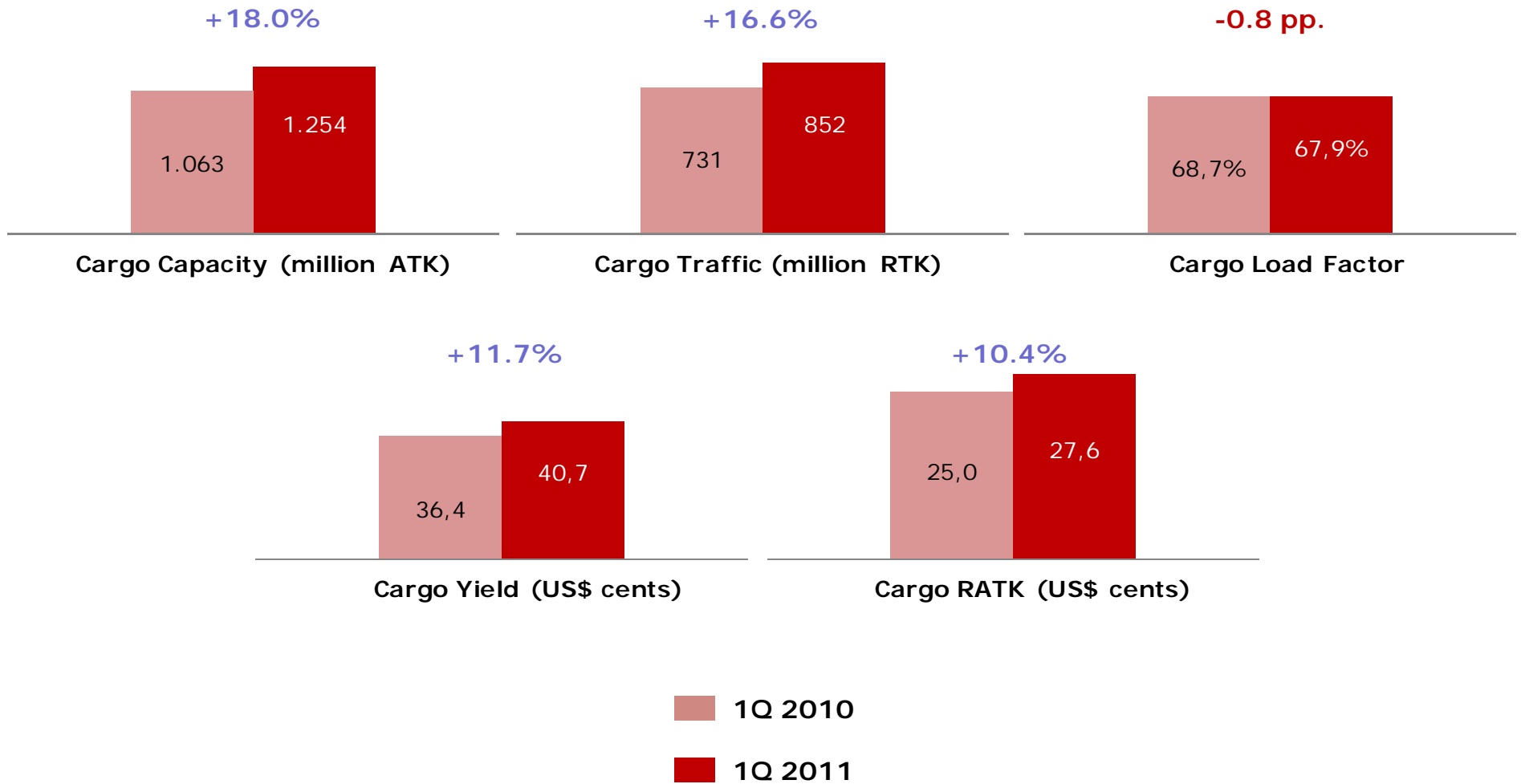
- 1Q 2011 results reflect strong growth in both passenger and cargo businesses
- EBITDAR margin decreased 2.6 point s for 1Q11, reaching 21.5%
- 1Q 2011 Results include a US\$11 million negative impact generated in Aires.

\* EBITDAR = Operating income + depreciation & amortization + aircraft rentals

# Passenger Business: Revenue Increases 32.0% in 1Q 2011

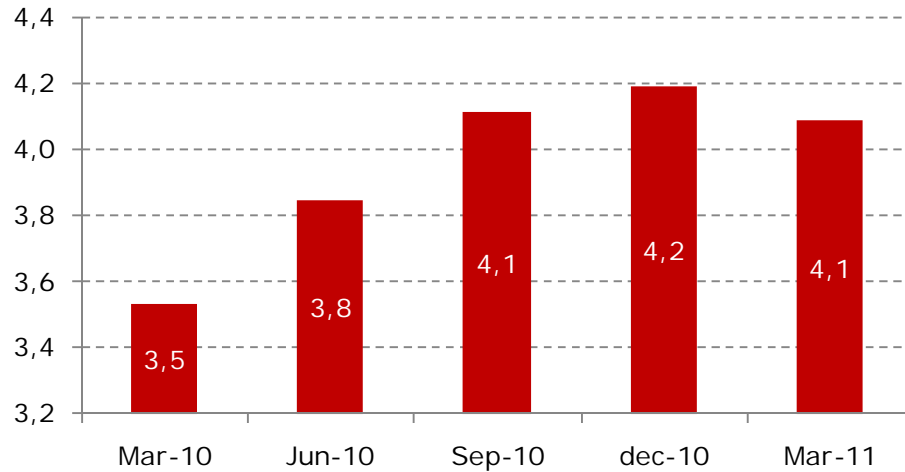


# Cargo Business: Revenue Increases 30.2% in 1Q 2011

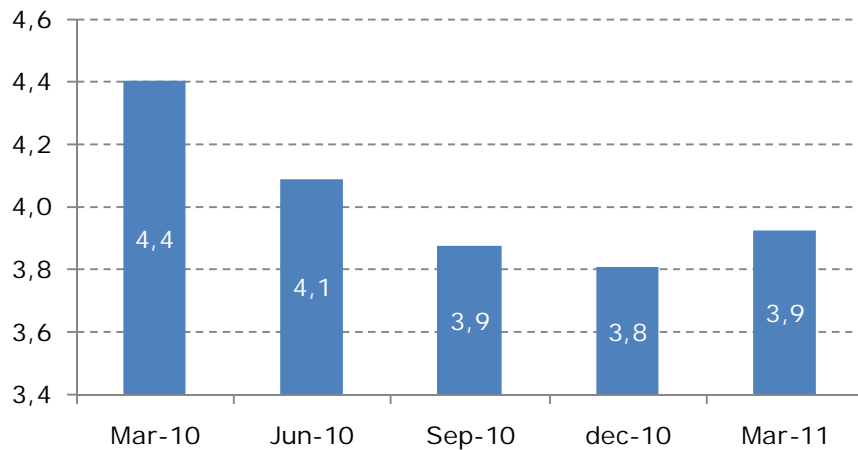


# Solid Financial Position

**EBITDAR / Interest Expense**



**Adj. Debt / EBITDAR**

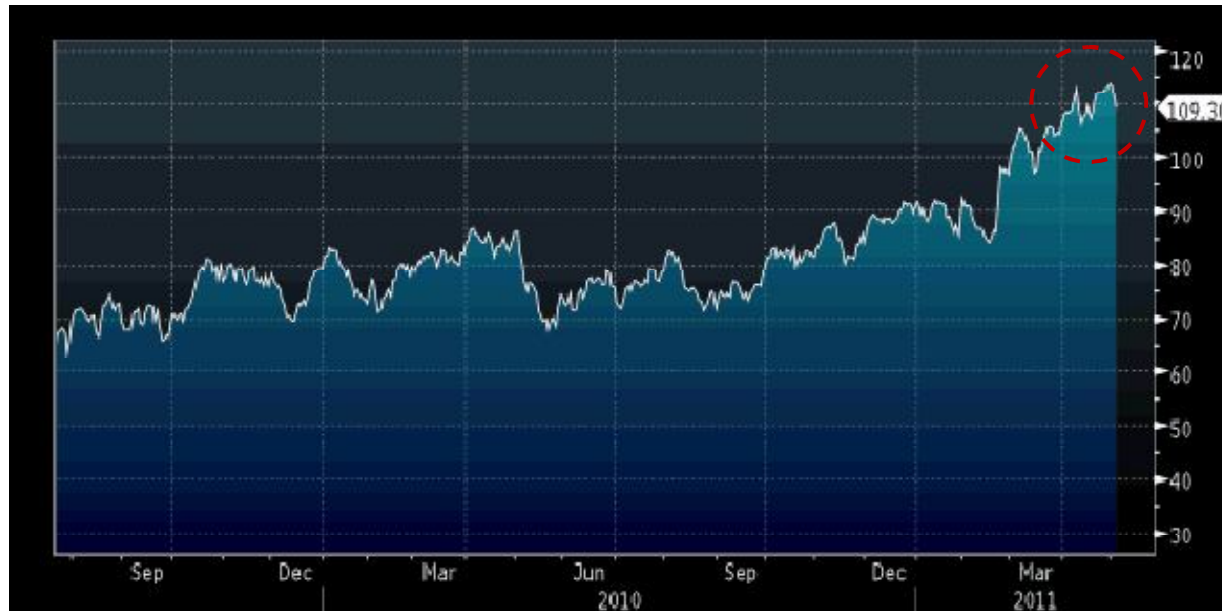


- March 2011 Cash Balance: US\$388 million, representing 8% of LTM revenues
- US\$ 160 million committed credit lines
- Long term debt related to fleet financing
- Low interest rates

**LAN remains one of the few investment grade airlines in the world**

# Current High Fuel Scenario

## WTI Prices (US\$)



**US\$ 108.9**  
(4 May 2011)

- Fuel Surcharges: LAN applies fuel surcharges in line with practices in the industry in passenger and cargo businesses
- Operations: LAN has adjusted the capacity on certain routes as part of tactical decisions
- Efficiency Initiatives: LAN is constantly developing efficiency initiatives, which now become more attractive
- Fuel Hedging: Active fuel hedging strategy

# Efficiency Initiatives



→ Installation of winglets in all the B767 fleet



→ Between 4% and 5% additional efficiency in fuel consumption



→ "LEAN Fuel" Project



→ Reduction of 2% of the fuel consumption per flight



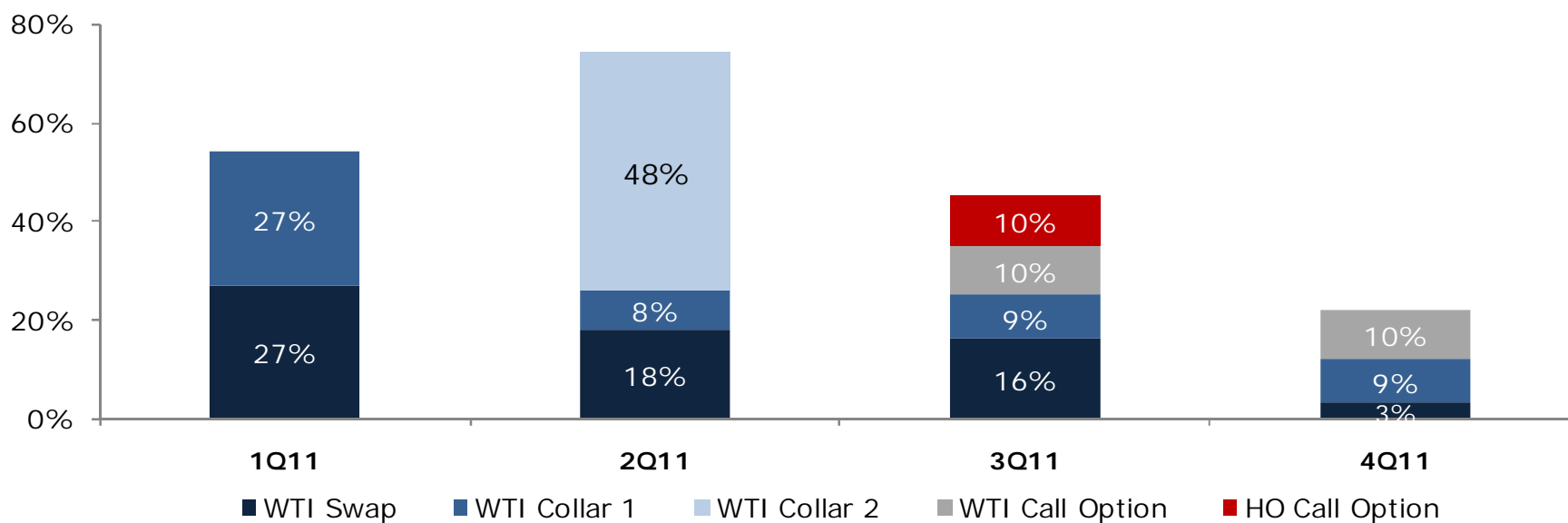
→ Reconfiguration of cabins in LAN Ecuador's B767s



→ Reduction of 7% of costs per ASK by increasing the amount of *Economy* seats

# Fuel Hedge

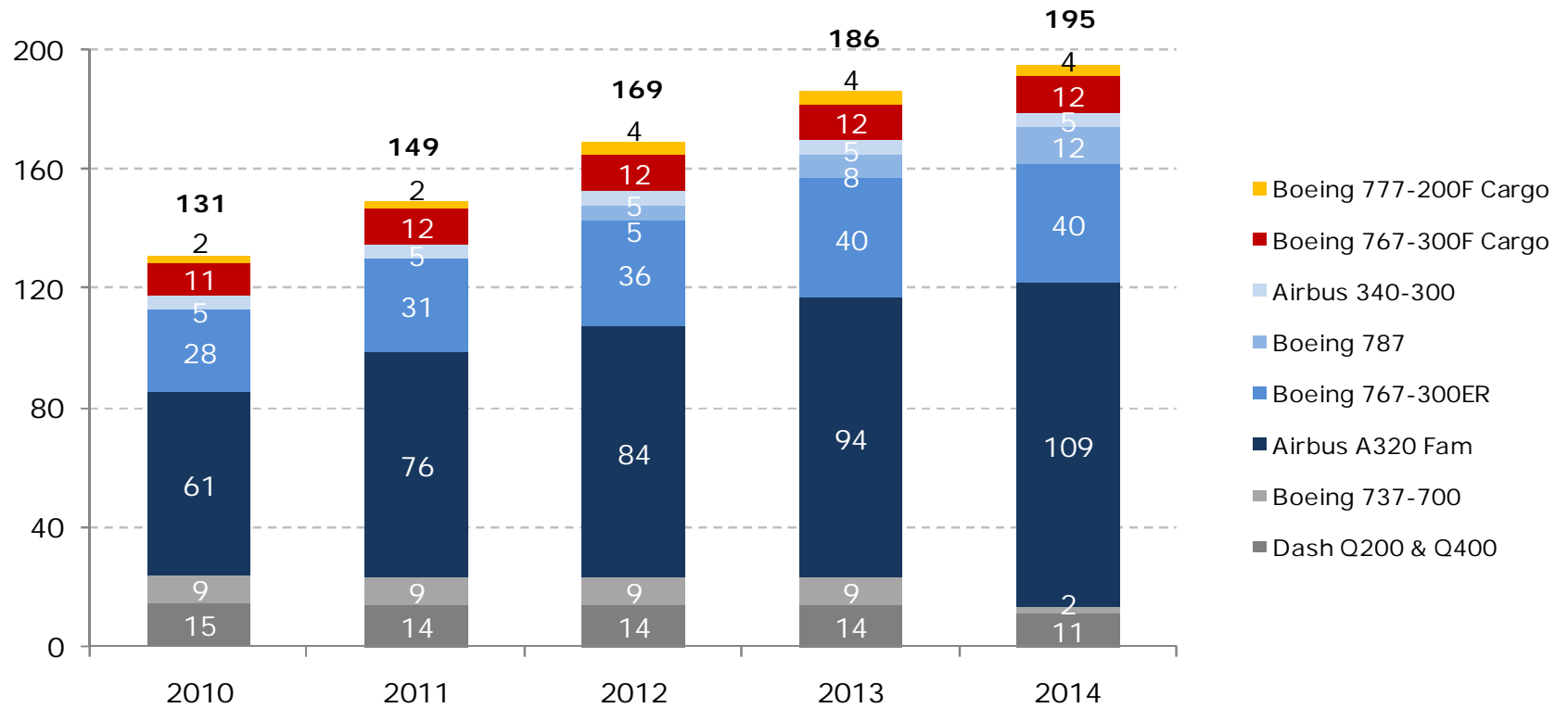
**Fuel Hedge**  
(% of consumption)



→ WTI Swap:	\$78.5	\$79.0	\$85.9	\$100.3
→ WTI Collar 1:	\$62 / \$85	\$60 / \$85	\$60 / \$90	\$60 / \$90
→ WTI Collar 2:	—	\$70 / \$105	—	—
→ WTI Call Option:	—	—	\$120	\$130
→ HO Call Option:	—	—	\$144.9	—

# LAN's Fleet Plan: Growth and Flexibility

**LAN's Fleet Plan**  
(2010 - 2014)



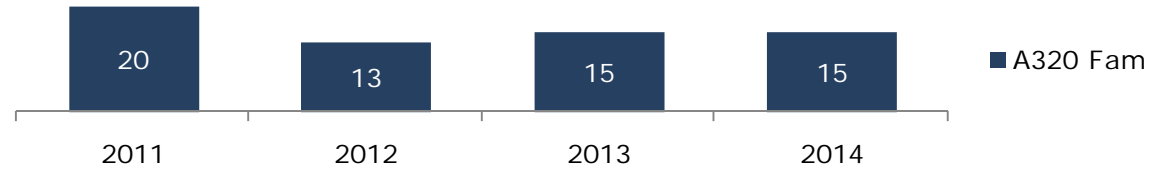
Total Fleet Capex (US\$ MM)	2010	2011	2012	2013	2014
	434	841	1,810	1,343	1,119

➔ **US\$ 5.5 Bn**

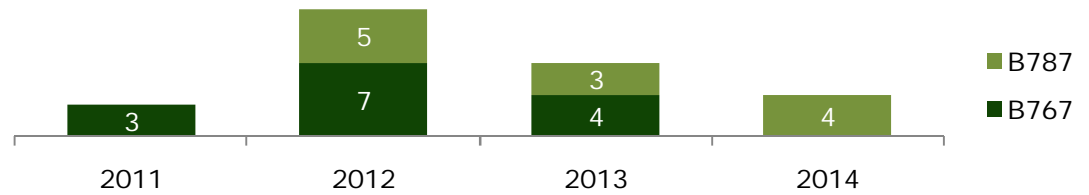
# LAN's Fleet Plan: Deliveries 2011 - 2014



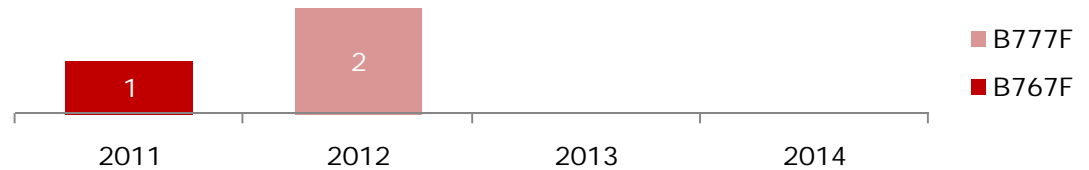
Short Haul



Long Haul

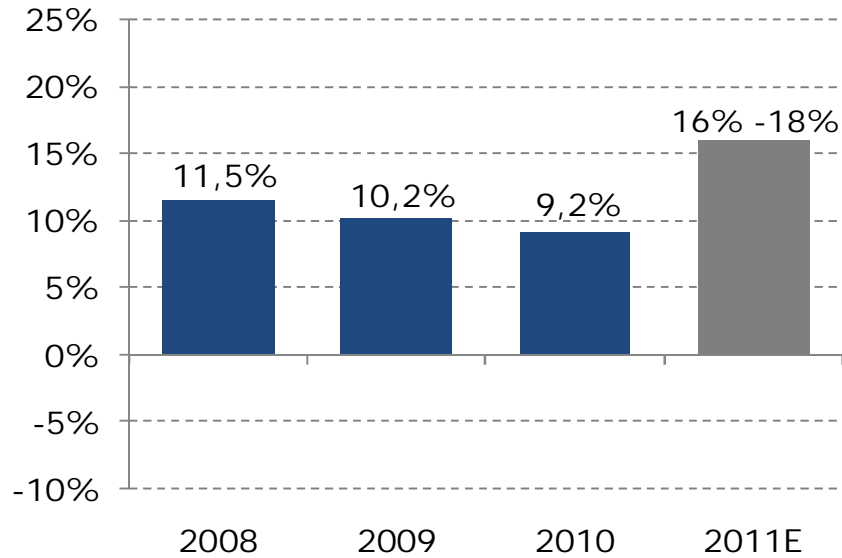


Cargo



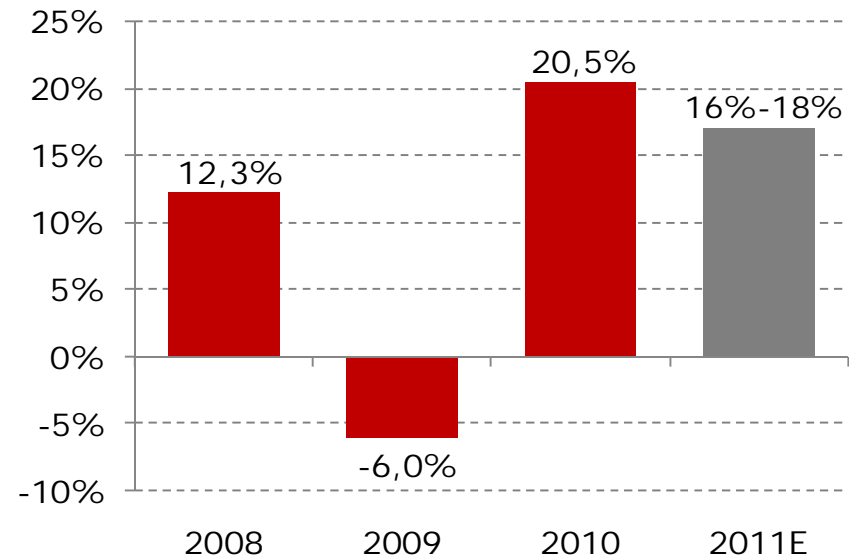
# 2011 Estimated Capacity Expansion

## Passenger ASK Growth



- Expansion in regional markets
- Strengthen Lima hub and increase connectivity within the region
- Continue growth in domestic markets

## Cargo ATK Growth



- 3 additional B767 freighters (2010-2011)
- Increased operations in Brazil and Europe
- Increased capacity in bellies of passenger aircraft

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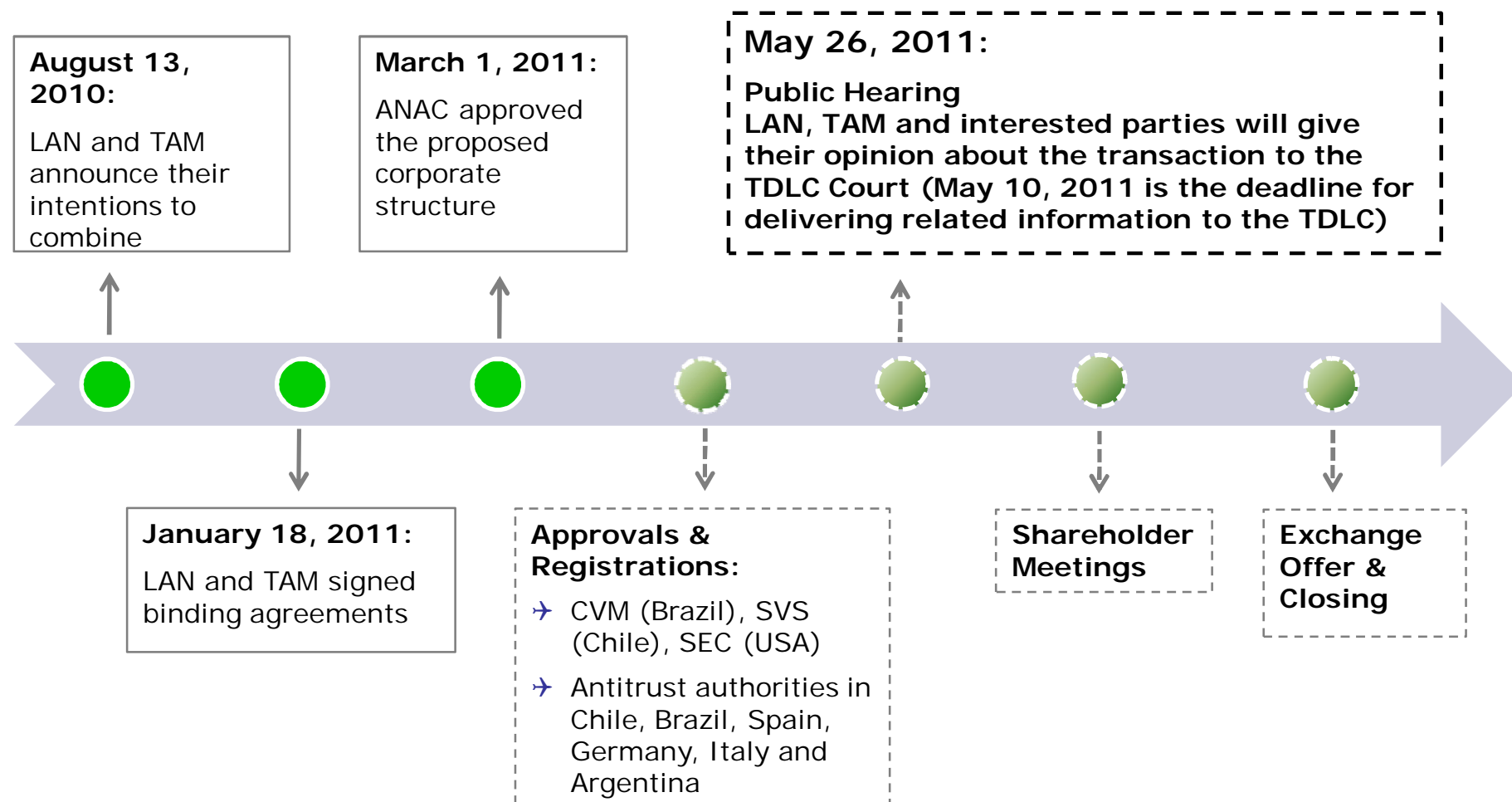
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# LATAM Airlines Group: Status and Next Steps



 \*Pending steps

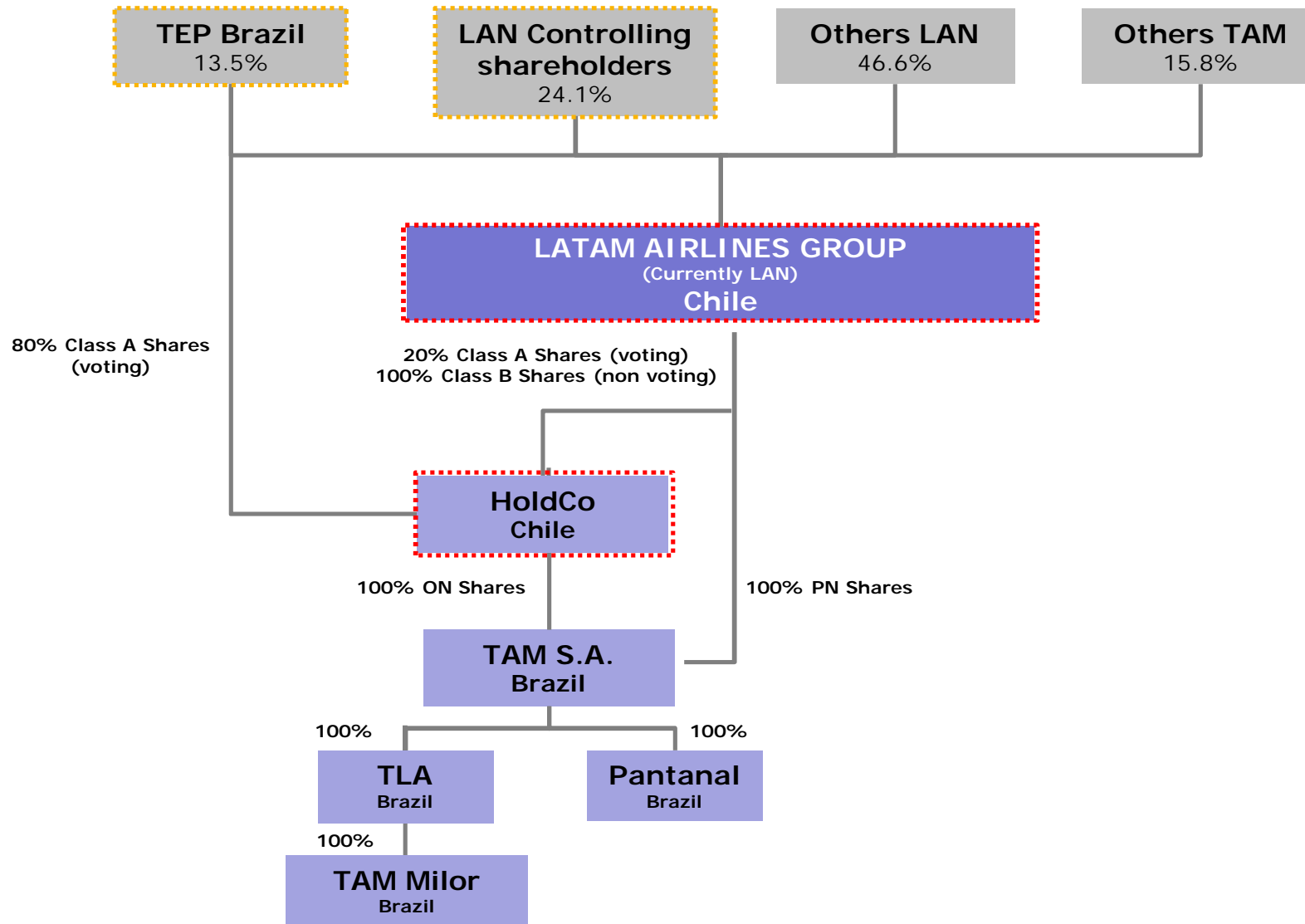
# LATAM Airlines Group: Benefits for our Clients

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- ✓ Our clients will have access to a network of over 120 destinations in 23 countries
- ✓ Opportunity to open new international destinations which couldn't be possible with each airline operating separately
- ✓ For cargo clients, the new airline group will provide more capacity, frequencies and destinations



# LATAM Airlines Group: Corporate Structure

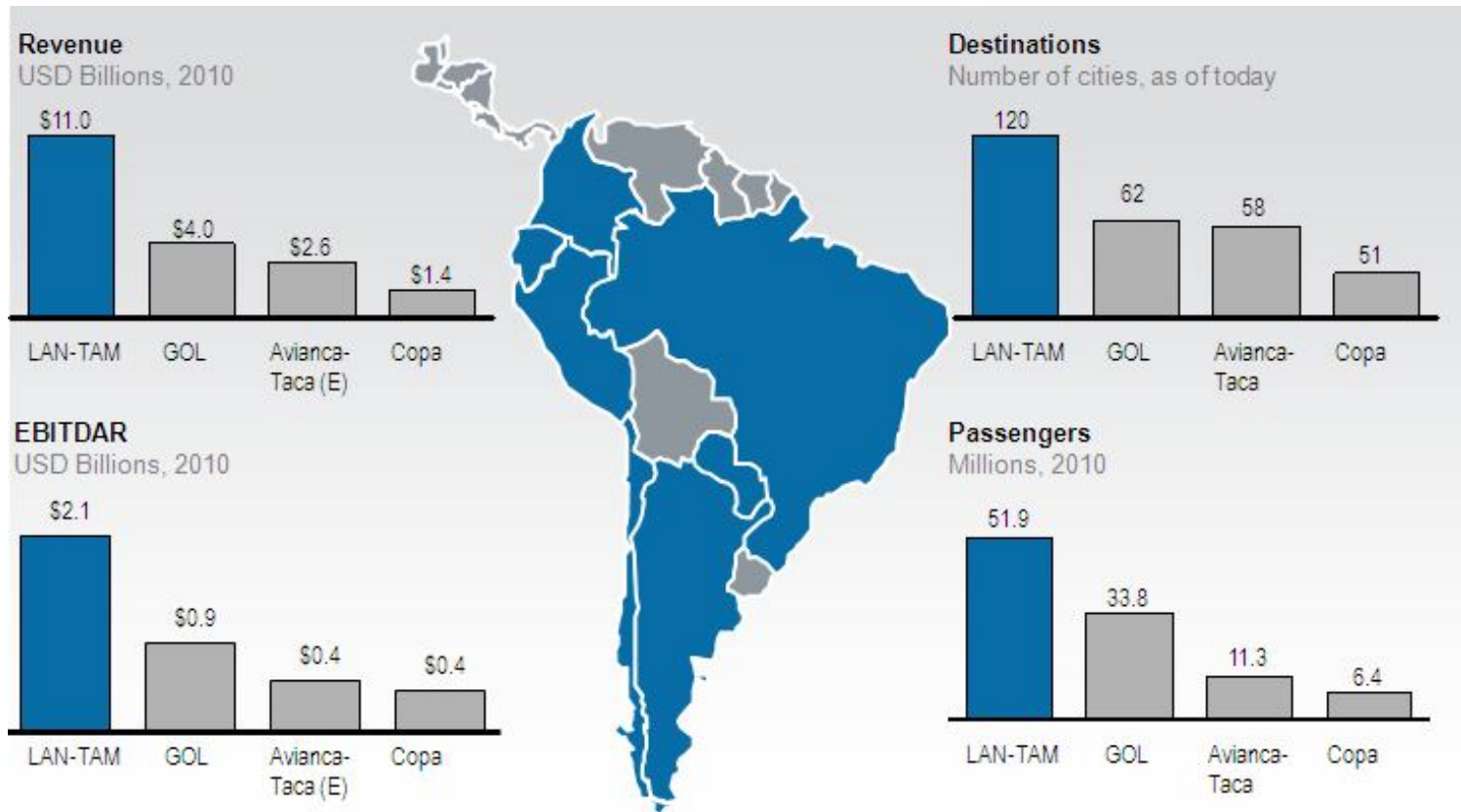


# LATAM Airlines Group: LAN and TAM Today

			
<b>Operational</b>	▪ <b>Passengers</b> (millions)	34.6	17.3
	▪ <b>Destinations</b>	63	70
	▪ <b>Countries served</b>	14	17
	▪ <b>Employees</b> (thousands)	28.2	19.0
	▪ <b>Aircraft</b>	151	131
	▪ <b>Aircraft orders</b>	90+	120+
	▪ <b>2010 ASKs</b> (billions)	71.5	42.4
	▪ <b>Tons</b> (thousands)	234	780
<b>Financial</b>	▪ <b>2010 Revenue</b> (USD billions)	6.5	4.5
	▪ <b>2010 EBITDAR margin</b>	15.4%	23.5%

Note: Most recent figures (as of Dec 2010)

# LATAM Airlines Group: Unparalleled Service in the Region



### Estimated Synergies of US\$400 Million

- ➔ Revenues: Passenger US\$170 MM ; Cargo US\$110 MM
- ➔ Costs: US\$120 MM

SOURCE: Company 20-F filings, Airline Business, + IR presentation, company websites and LAN estimates

# LATAM Airlines Group: Consolidation of Traffic = Growth



## Four primary growth areas for the network initially...

- |   |                           |   |
|---|---------------------------|---|
| 1 | Brazil to Europe/Africa   | Increased Southern cone feed to support new service to Europe |
| 2 | Lima to North/Central Am. | Increased Brazil feed supports new service to US and Mexico   |
| 3 | New hubs                  | Potential new hubs could connect to Europe and US             |
| 4 | Cargo                     | Combination of LAN's expertise and TAM's footprint            |

# LAN AIRLINES

## Corporate Update

