

# 5th Annual **LATIN AMERICA AIRFINANCE** Conference



**Andres del Valle, LAN Airlines**

## NAVIGATING CHALLENGING OPERATING CONDITIONS



*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, 2008.*

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# Contents

## **I. CURRENT ENVIRONMENT: WEATHERING THE STORM**

## **II. BUSINESS INITIATIVES**

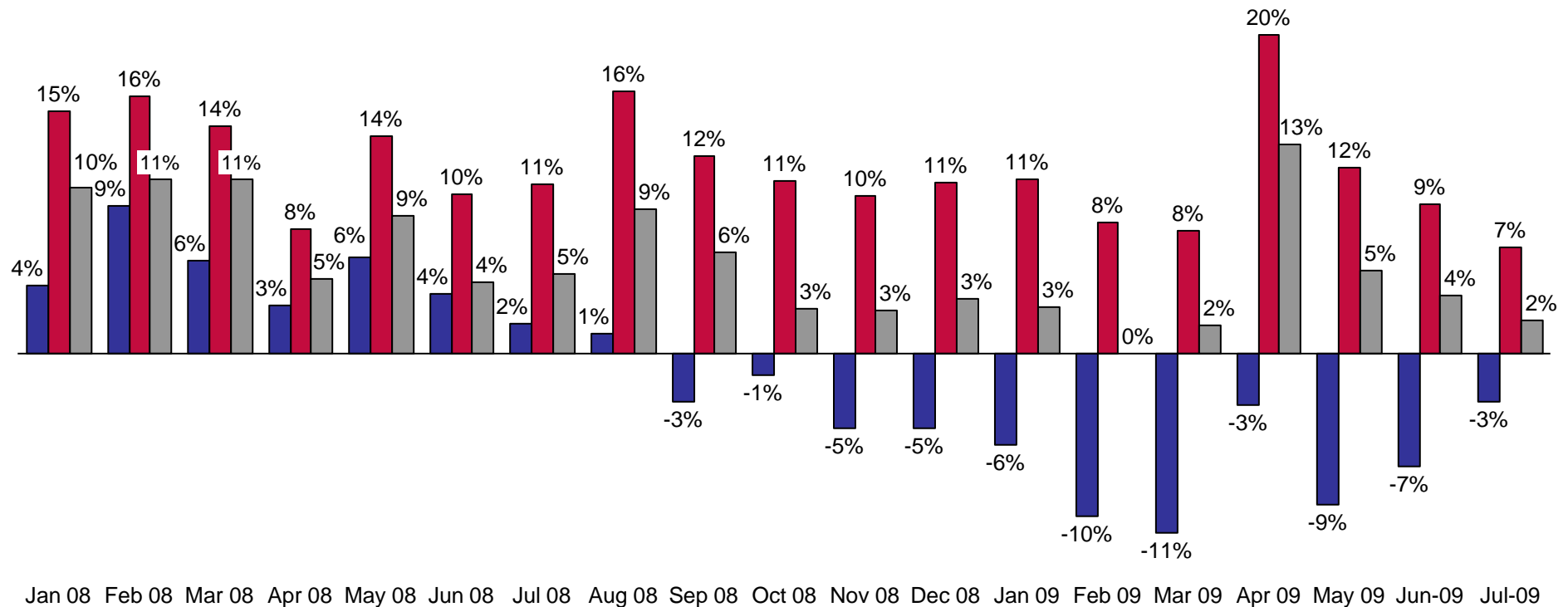
## **III. FLEET PLANNING: LOW COST & FLEXIBILITY**

# Passenger Traffic Statistics

*LAN showed 11% traffic growth in the first half 2009*

- Industry
- Lan Total
- Lan International

## Passenger Traffic Growth (%RPKs)



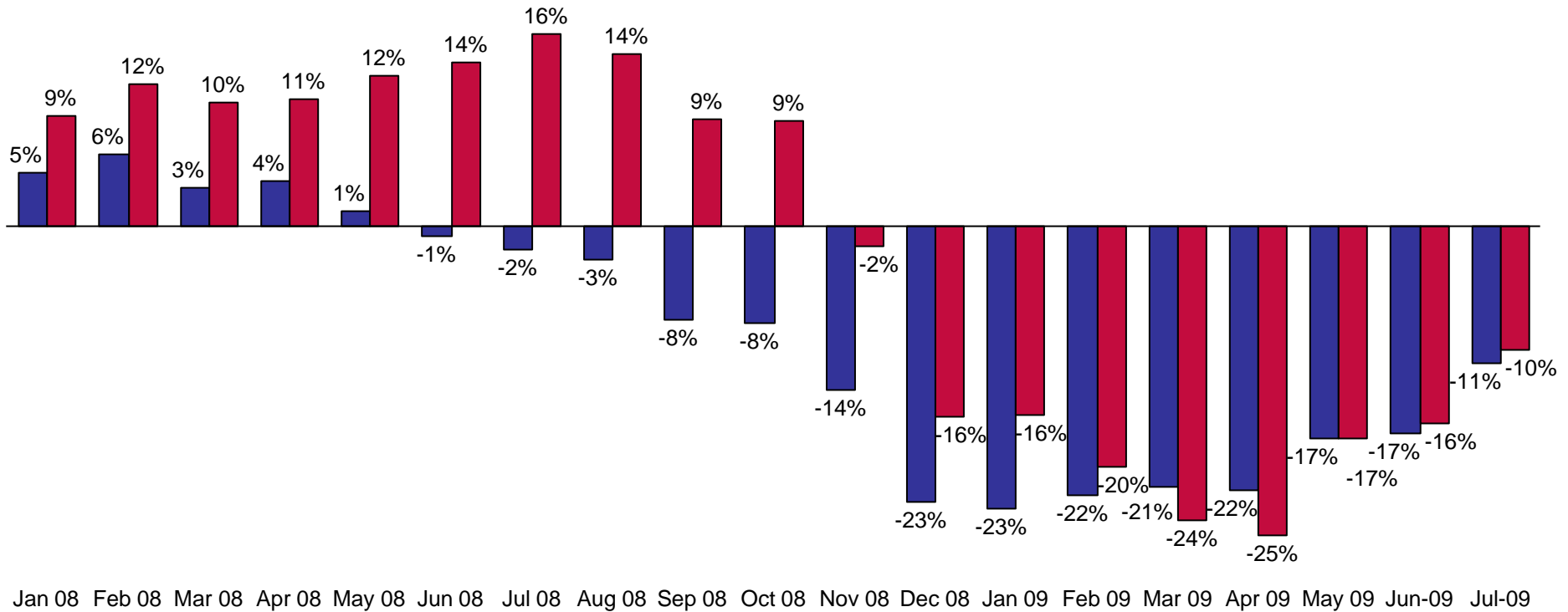
Note: Industry figures as published by IATA

# Cargo Traffic Statistics

*LAN Cargo traffic declines in line with the industry*

Industry  
Lan

## Cargo Traffic Growth (%RTKs)

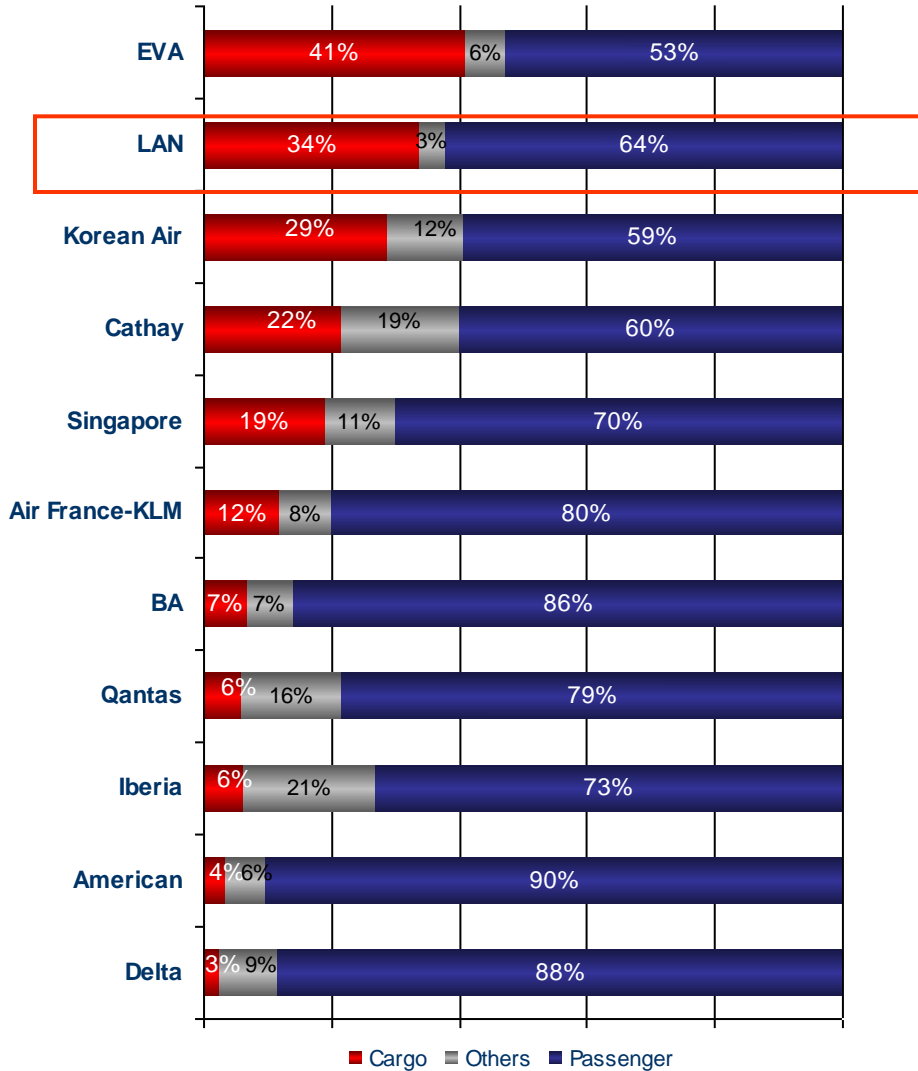


Note: Industry figures as published by IATA

# LAN Business Model:

Distinct blend enhances returns and reduces risk

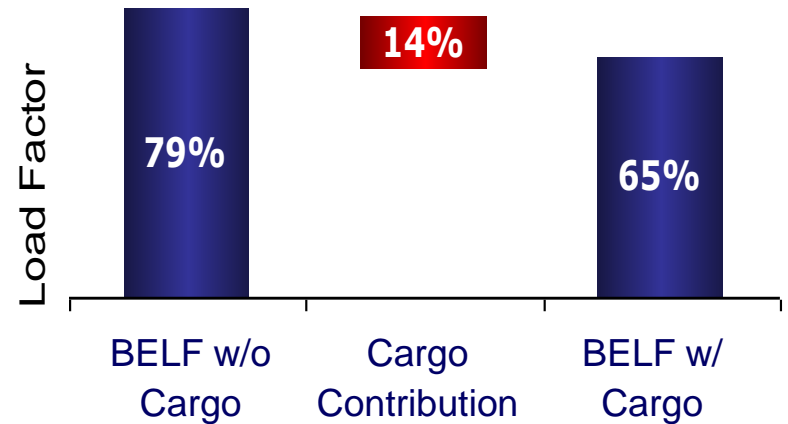
## Revenue Mix, Selected Companies



## Passenger and Cargo Combination

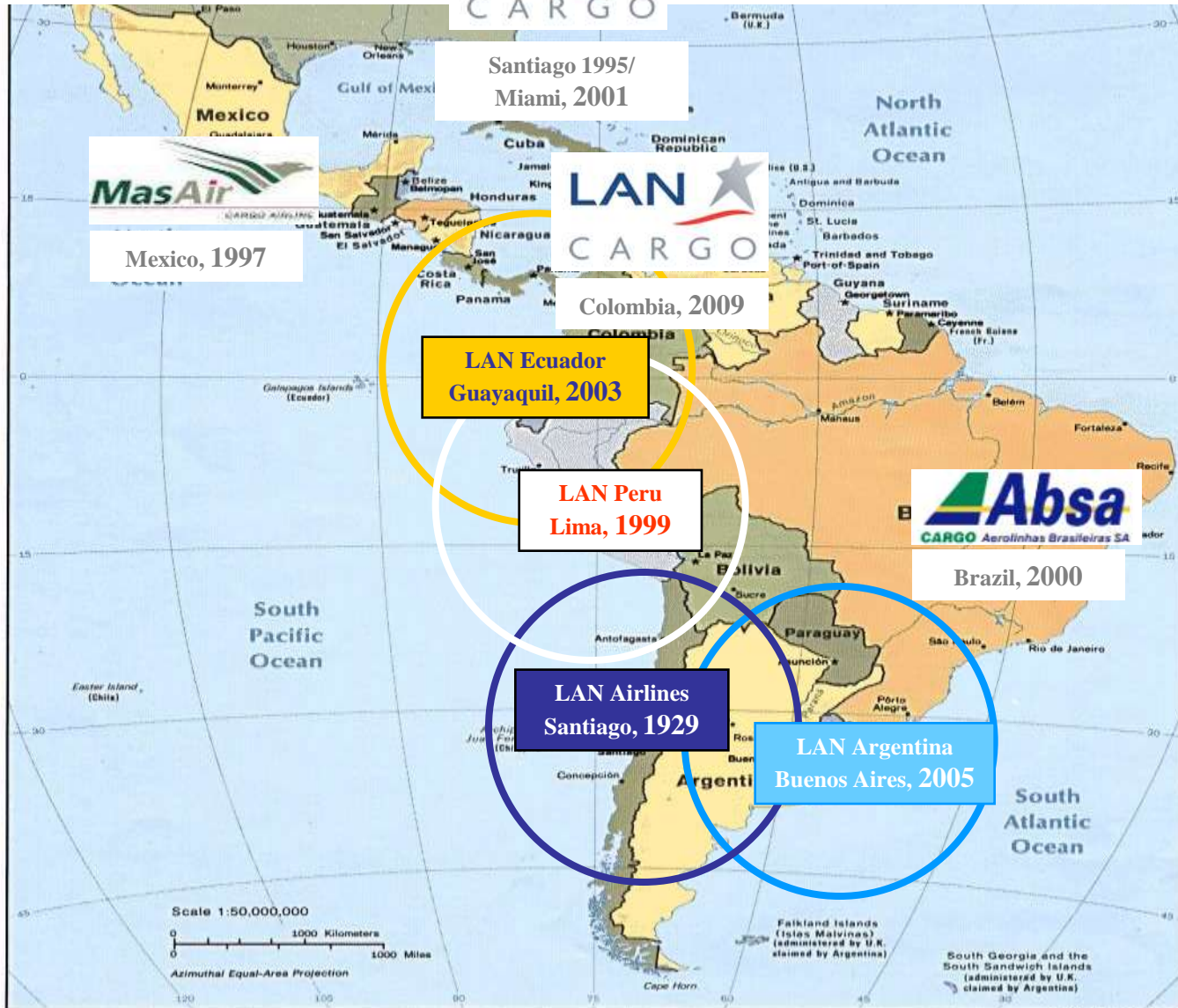
- Lower Break-Even Load Factors
- Increased diversification

BELF Differential for passenger + cargo routes (LTM Jun09)

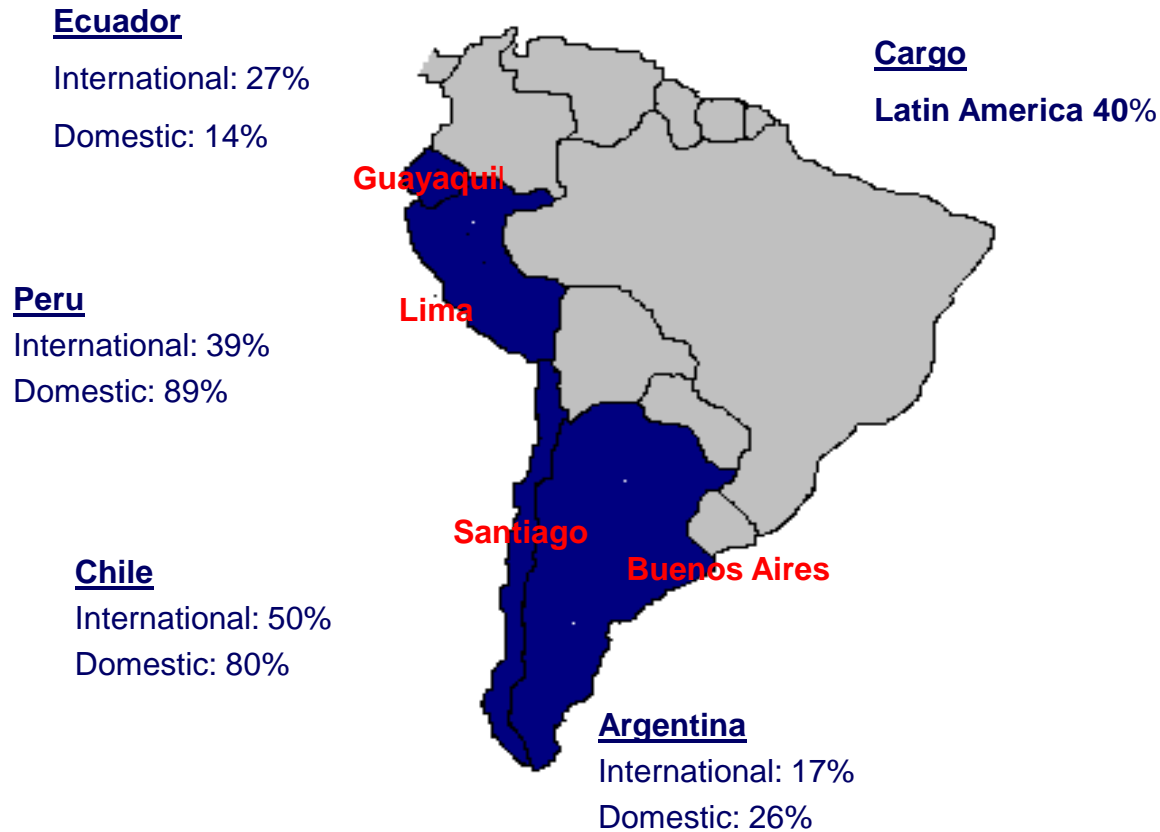


Note: BELF = Break-even load factor

# LAN's Regional Strategy



# Leading Presence in South American Markets

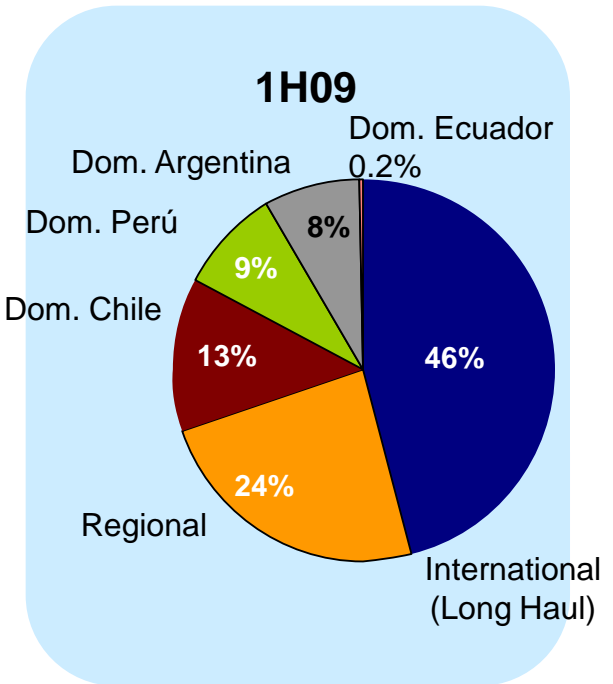
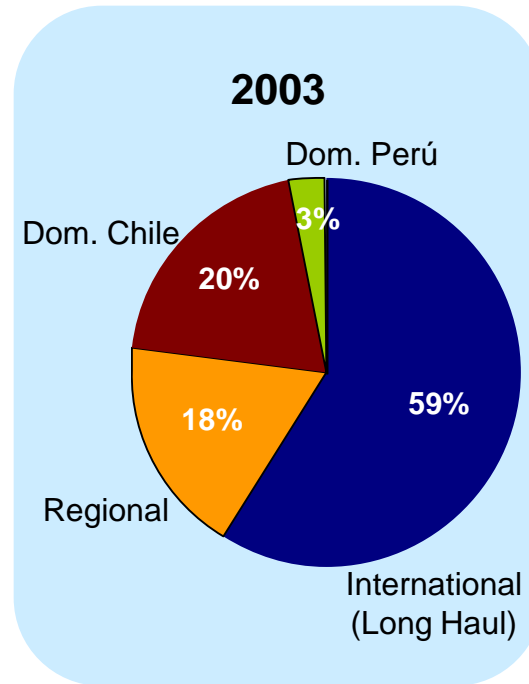
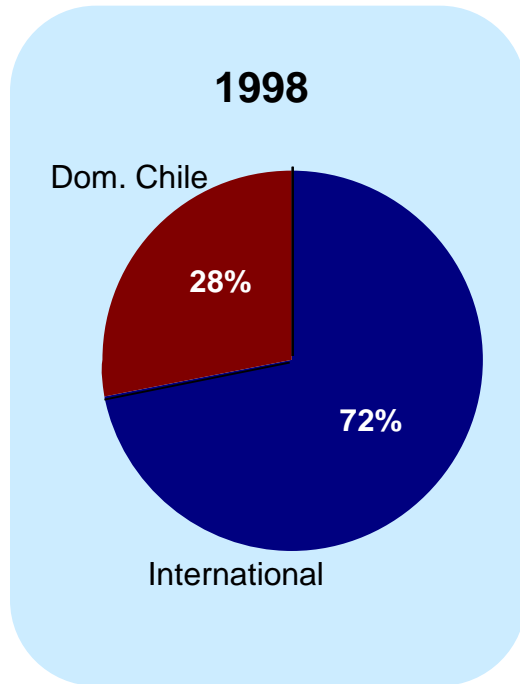


• Sources: DGAC Chile, DGAC Peru, Undersecretary of Transportation Argentina, DAC Ecuador, LAN Estimates.

• International market shares for December 2008; Domestic market shares for July 2009.

# LAN's Passenger Operations are Geographically Diversified

## Diversified Passenger Capacity (% ASKs)

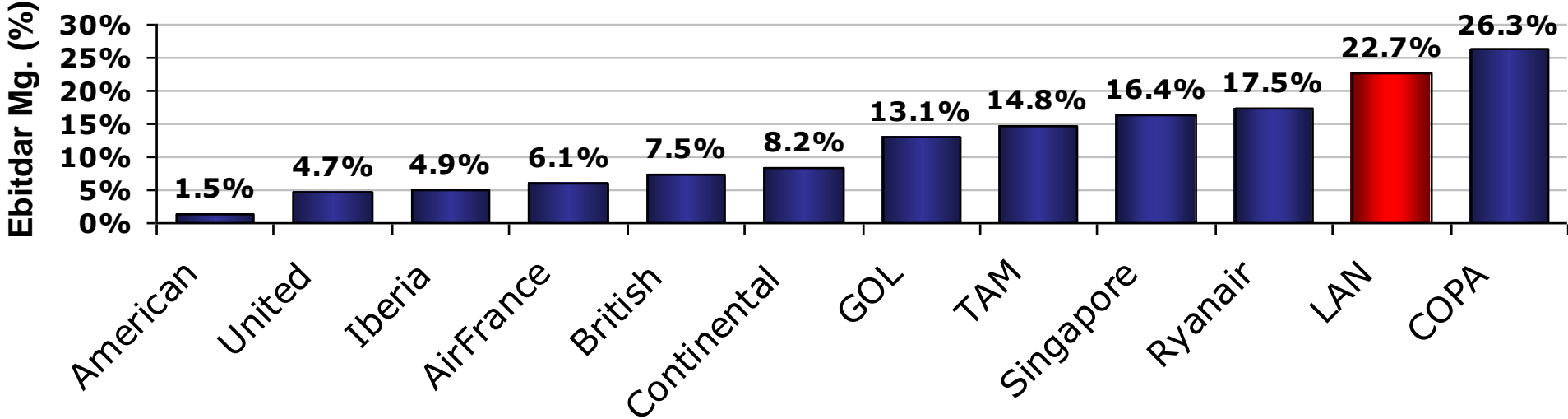


### Growth in ASK (1H09 vs. 1H08): +11%

International (Long Haul)	+2%
Regional	+8%
Chile domestic	+11%
Peru domestic	+33%
Argentina domestic	+89%

# LAN Operates with High Efficiency Levels

EBITDAR Margin Industry comparison



Source: LAN, COPA, Singapore, US & European Companies LTM June 09; TAM & GOL LTM March 09

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# Passenger Business Initiatives

## 1. Promotions



## 2. Network / Itineraries

- Growth in markets less impacted or poorly served (Europe-Peru, Lima-Cartagena and Peru)
- Shift capacity according to demand patterns (domestic vs. international; leisure vs. business)
- Change in schedules to access new markets
- Postponement of new routes.

## 3. Efficiency

- Redefine mix of sales channels

# Passenger Initiatives: Service

## New Long Haul Cabins

- New Premium Business cabin and modern on board entertainment system
- 100% of Boeing 767 and Airbus A340 fleet reconfigured by 2008 (total of 30 aircraft)
- Investment of US\$120 million
- International recognition



# Passenger Initiatives: Service

## Renovation of Short Haul Fleet

- Short haul fleet (A320 family) 100% renovated as of May 2008
- New leather seats, with greater recline as well as comfort
- New Premium Economy class for regional flights, launched in September 2008



# Cargo Business Initiatives

## 1. Fleet Utilization

- Decrease of wet lease capacity (from 18% of total freighter capacity in 2008 to 7% in 2009)
- Evaluating charter operation
- Domestic operation in Brazil
- Launch of new cargo subsidiary in Colombia

## 2. Operational Efficiencies

- Renegotiate contracts, handling efficiencies

## 3. Customer Relations

- Focus on customer service
- Redefine sales channel and call center process

# Cost Savings Initiatives

## 1. Operating Costs

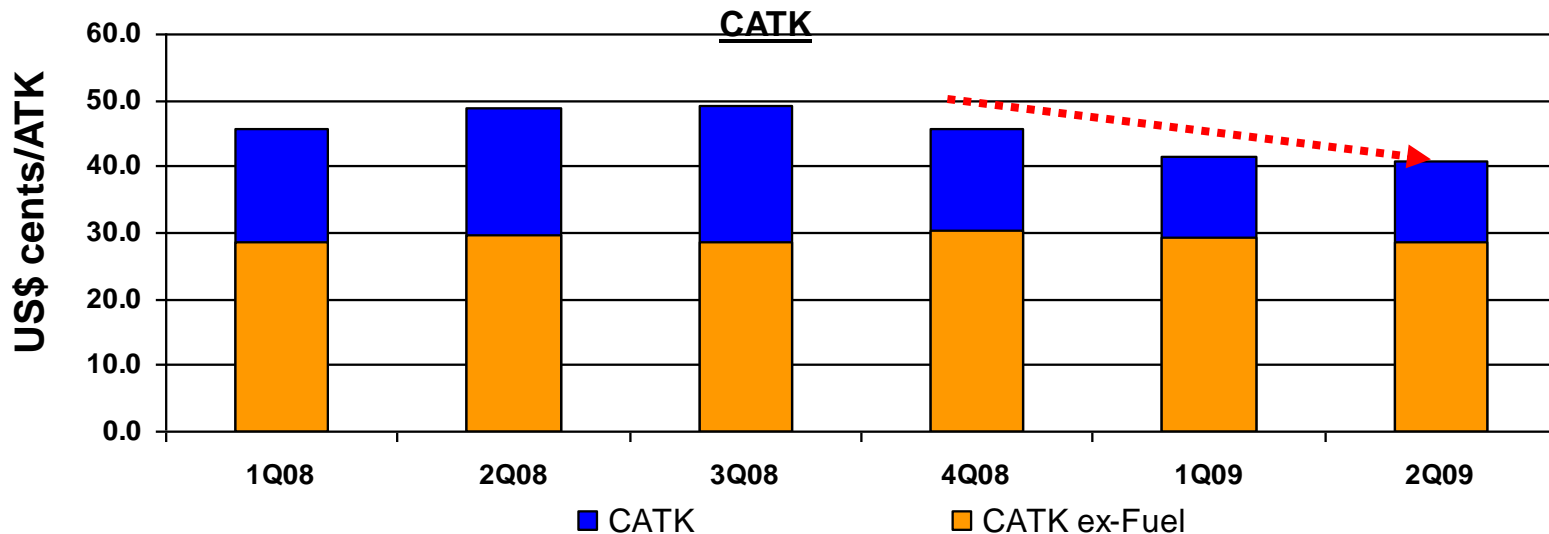
- Improvement of operating processes/ increase efficiencies
- Freezing of new recruitment
- Delay of non-core business projects

## 2. Renegotiations with suppliers

- Contracts renegotiations with third party suppliers

## 3. General Savings

- Reducing external services, business trips, employees transportations, etc
- Reducing marketing costs.



## Other Initiatives: Fleet Efficiency

### Winglets Project

- Winglets will be installed on all of LAN's B767 fleet (9 freighters and 28 passenger aircrafts)
- Project to be completed in August 2010
- Represents an investment of US\$ 70 million.
- On average, 5% more fuel efficiency on long haul flights, as well as 320 miles additional autonomy



# Regional Expansion: New Domestic Operation LAN Ecuador

## Lan Ecuador Destinations



## Highlights

- New operation started in April 2009 operating with 2 A318 aircraft.
- LAN will provide the best connectivity between domestic and international markets.
- Authorization granted to operate the following routes:
  - Guayaquil-Quito-Guayaquil
  - Guayaquil-Cuenca-Guayaquil
  - Quito-Cuenca-Quito
  - Quito/Guayaquil-Galapagos-Guayaquil/Quito

# Regional Expansion: New Cargo Subsidiary in Colombia

- New Colombian affiliate started operations in March 2009
- Colombia is the largest air cargo market in Latin America in terms of exports to USA (Estimated volume of 200 thousand tons annually)
- This new operation will increase connectivity between Colombia and the rest of the region, USA and Europe



# Regional Expansion: New Domestic Cargo Operation in Brazil



- During March 2009, ABSA began domestic operations in Brazil
- Sao Paulo – Manaus is the first domestic route operated by ABSA
- Domestic operations in Brazil will consolidate LAN Cargo's network in the region



# New B777 Freighter to Strengthen European Cargo Operation

→ Arrived during April and May 2009

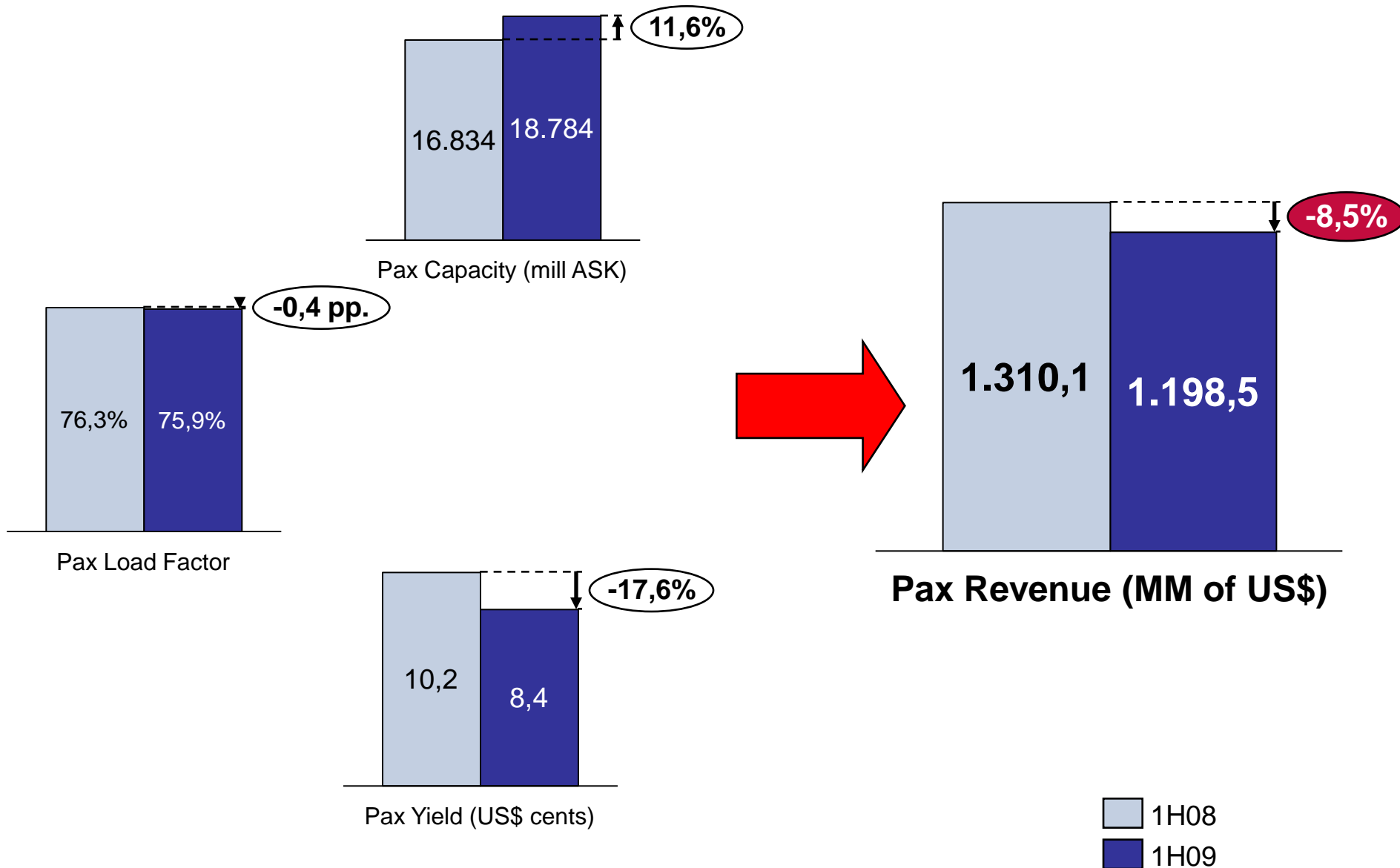
→ Most modern freighter in the region

→ Competitive advantage in CATK v/s competitors



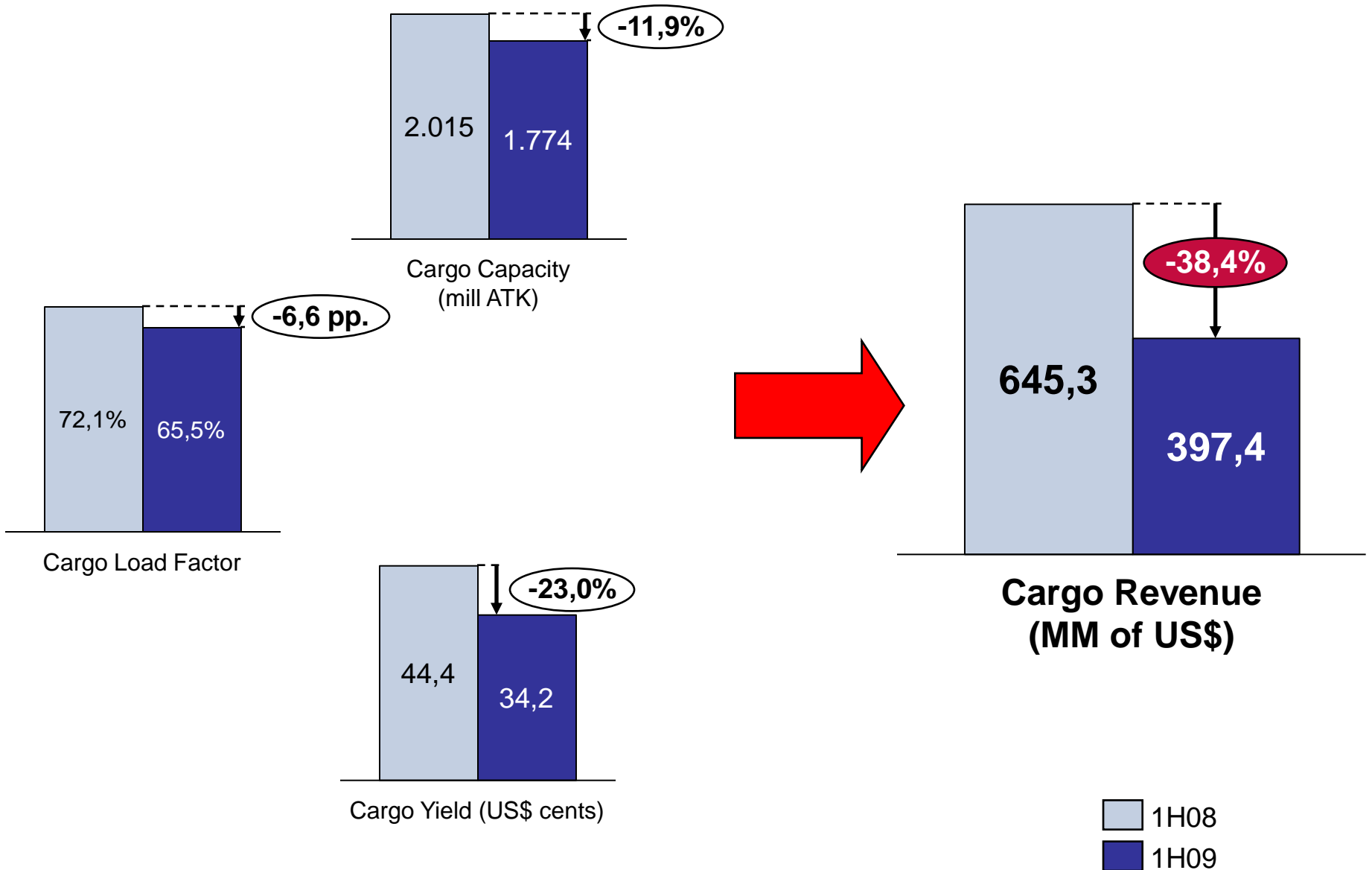
# Passenger Business Revenue Decreases 8.5%

Traffic growth of 11.0% offset by 17.6% decrease in yields.



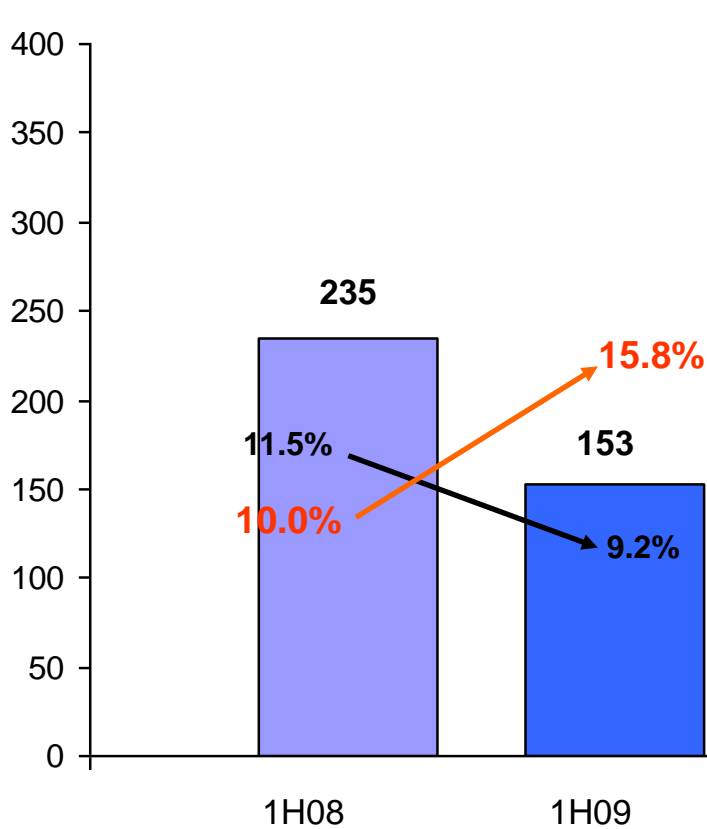
# Cargo Business Revenue Decreases 38.4%

Traffic decrease of 20.0% compounded with a 23.0% decrease in yields.

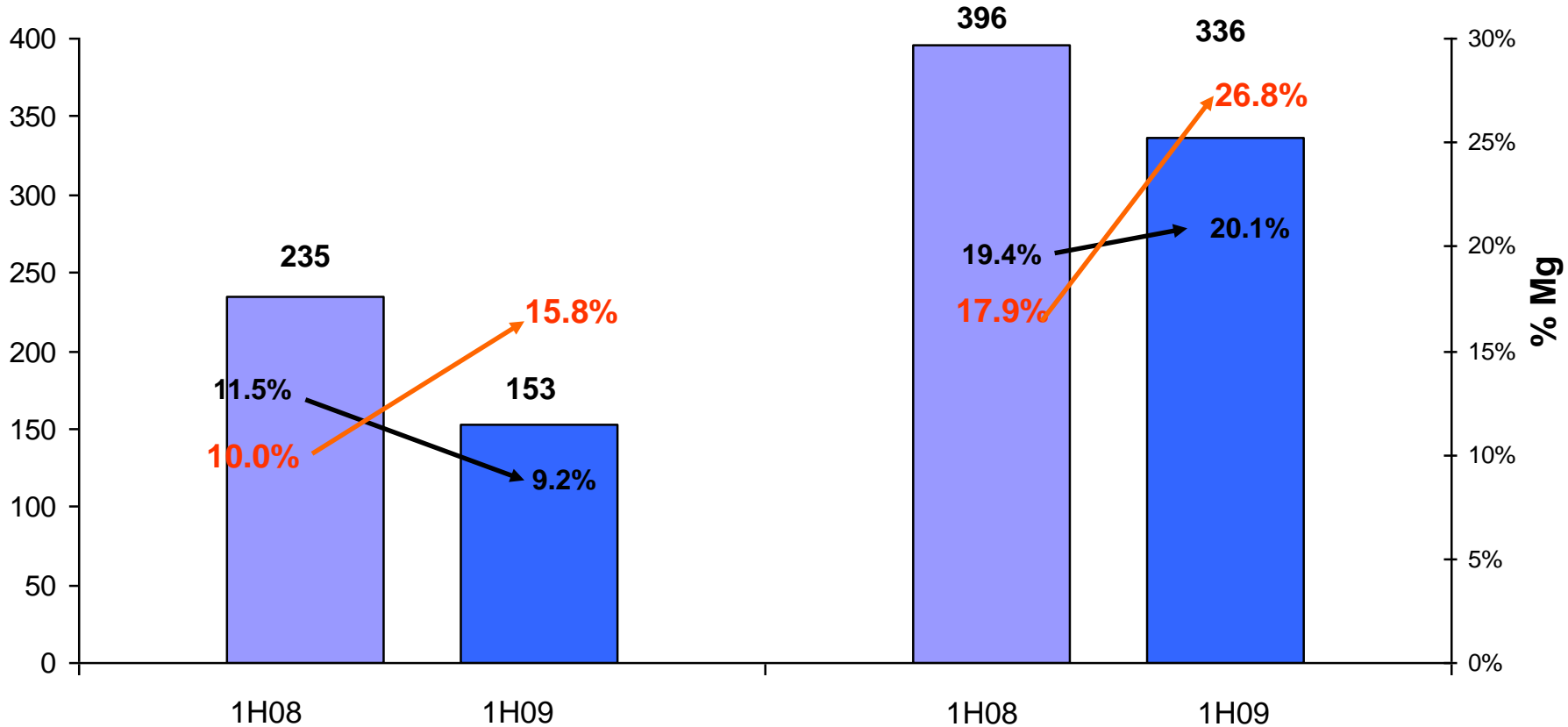


# 1H09 Highlights

## Operating Income & Operating Margin



## EBITDAR & EBITDAR Margin



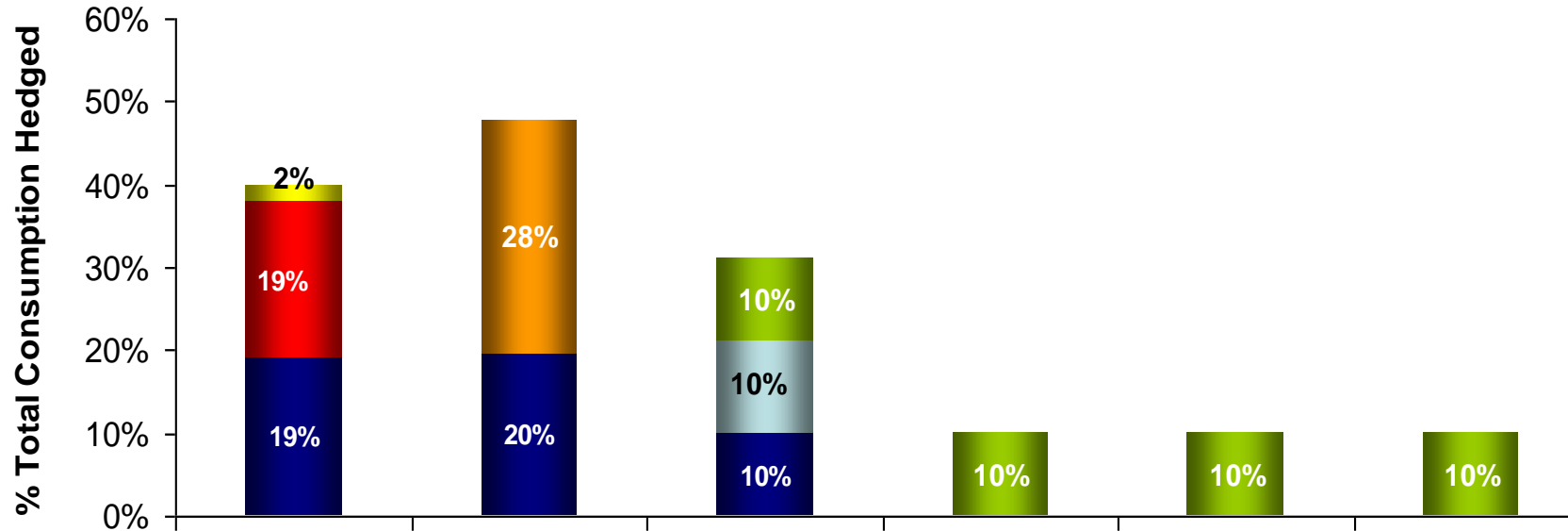
- **US\$ 110.6 million realized fuel hedging losses in 1H09**
- **US\$ 30.7 million realized fuel hedging gain in 1H08**

**Op./EBITDAR Margin**  
**Op./EBITDAR Margin ex Fuel Hedge**

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

# Fuel Hedging

## Fuel Hedging Program 2009-2010



	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
ZCC US\$ 140-93/Bbl	19%	20%	10%	-	-	-
Call Option US\$ 70/Bbl	19%	-	-	-	-	-
Collar US\$ 70-55/Bbl	-	28%	-	-	-	-
Collar US\$ 80-50/Bbl	-	-	10%	-	-	-
Swap US\$ 64/Bbl	2%	-	-	-	-	-
Swap US\$ 79/Bbl	-	-	10%	10%	10%	10%
<b>Total Hedge</b>	<b>40%</b>	<b>48%</b>	<b>30%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>

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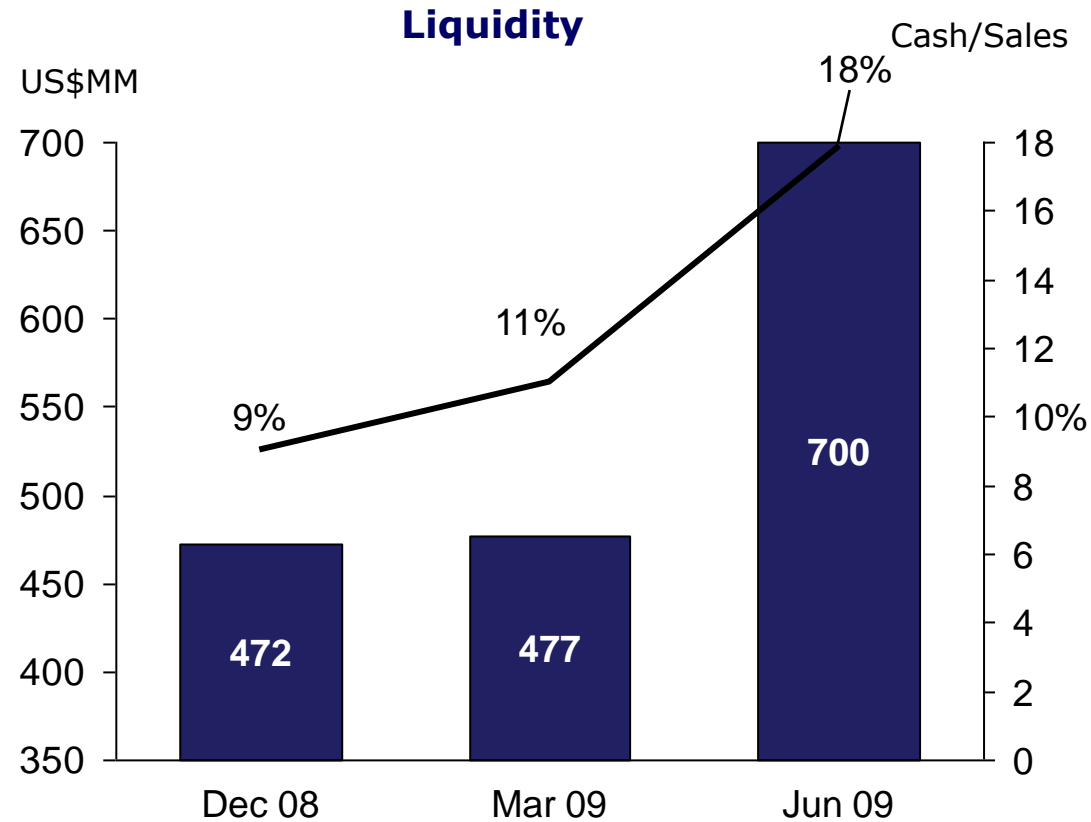
# Increasing Liquidity to 18% of Revenues

→ 2Q09 Cash Balance: US\$700 million, representing 18% of LTM revenues.

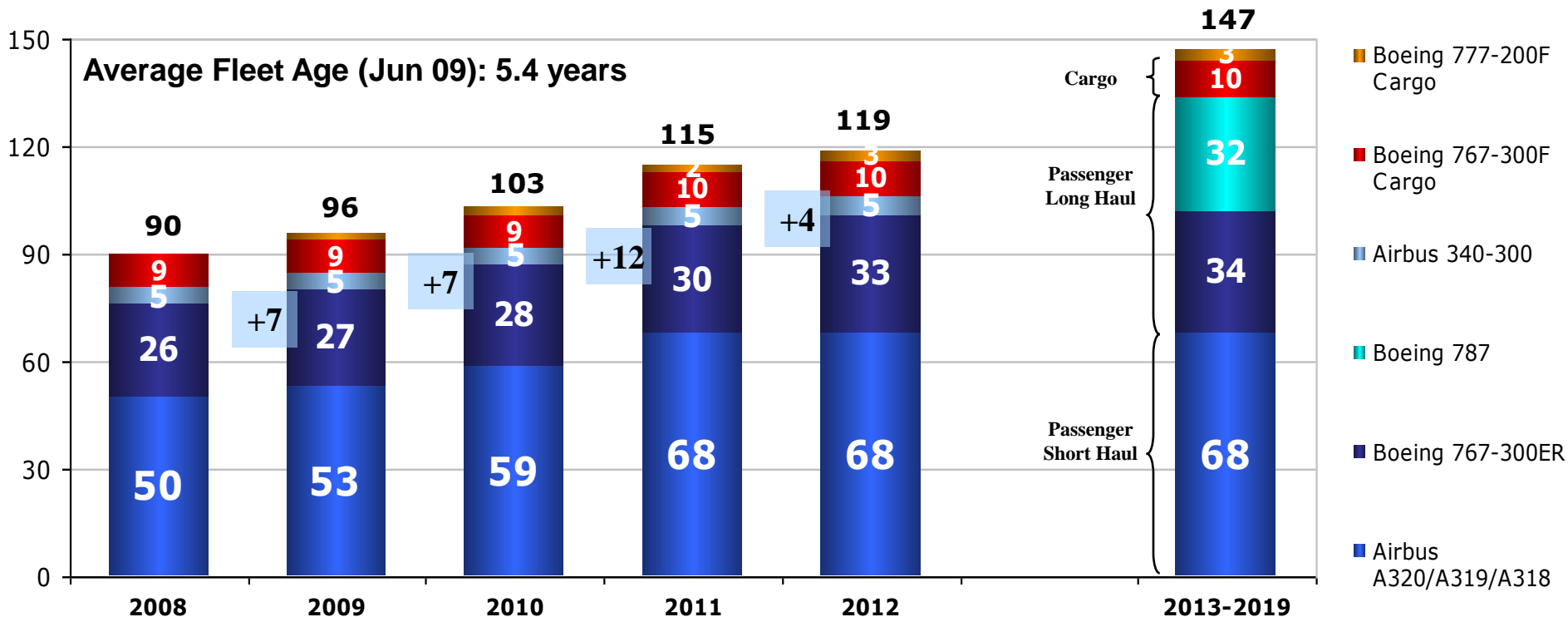
→ The Company raised US\$250 million in bilateral loans in the Chilean market during first half of 2009.

→ LAN is one of the few investment grade airlines in the world. Fitch has recently affirmed the company's rating at "BBB".

→ Capex 2009 already committed at attractive interest rates, with EX-IM guarantees.



# Fleet Plan



CAPEX	2009	2010	2011	2012	2013-19
Aircraft	351	408	705	433	3.380
Non Aircraft	165	124	109	84	

# Fleet Flexibility

Passenger Long Haul Fleet Flexibility (Includes B767 and A340)

	<b>Total Aircraft</b>	<b>Arrivals</b>	<b>Expirations (*)</b>	<b>Financial Leasing end</b>	<b>Flexibility per year (%)</b>	<b>Acumulated Flexibility (%)</b>
<b>2009</b>	<b>32</b>	<b>2</b>	<b>1</b>	<b>0</b>	<b>3%</b>	
<b>2010</b>	<b>33</b>	<b>1</b>	<b>3</b>	<b>4</b>	<b>21%</b>	<b>24%</b>
<b>2011</b>	<b>35</b>	<b>2</b>	<b>3</b>	<b>1</b>	<b>11%</b>	<b>34%</b>
<b>2012</b>	<b>38</b>	<b>3</b>	<b>3</b>	<b>1</b>	<b>11%</b>	<b>42%</b>

(\*) Expirations include JOL Options

➤ **6 B767 orders for 2011 and 2012 may be converted into freighters at LAN's option**

## In Conclusion:

# LAN has the flexibility to adjust to a challenging environment

### *Fleet*

Staggered lease expirations and unencumbered assets as of 2010



### *Operating Costs*

Initiatives to improve operating processes/ increase efficiencies



### *Network / Itineraries*

Ability to redeploy capacity according to demand patterns, based on geographical diversification in cargo and passenger ops



### *Financing*

LAN has a strong Balance Sheet and Investment Grade rating, keeping access to multiple financing options



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