Consolidated Financial Statements

Contents

Ch$	Chilean Pesos
US$	United States dollars
ThUS$	Thousands of United States dollars
UF	The UF is a Chilean inflation-indexed, peso-denominated monetary unit which is set daily in advance based on the previous month's inflation rate

Management's Report on Internal Control over Financial Reporting

The management of LAN Airlines S.A. ("LAN Airlines" or the "Company"), including the Chief Executive Officer and the Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended.

The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. The Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of internal control to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

LAN Airlines' management, including the Chief Executive Officer and the Chief Financial Officer, has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 based on the criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and, based on such criteria, LAN Airlines' management has concluded that, as of December 31, 2006, the Company's internal control over financial reporting is effective.

Management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2006 has been audited by PricewaterhouseCoopers Consultores, Auditores y Companía Limitada, an independent registered public accounting firm, as stated in their report which appears herein.

By Enrique Cueto Plaza
Chief Executive Officer

Alejandro de la Fuente Goic
Chief Financial Officer

March 14, 2007

PRICEWATERHOUSECOOPERS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of LAN Airlines S.A.

We have completed an integrated audit of LAN Airlines S.A.´s 2006 consolidated financial statements and of its internal control over financial reporting as of December 31, 2006 and audits of its 2005 and 2004 consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated financial statements

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income and of cash flows present fairly, in all material respects, the financial position of LAN Airlines S.A. and its subsidiaries (the "Company") at December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006 in conformity with accounting principles generally accepted in Chile. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Accounting principles generally accepted in Chile vary in certain significant respects from accounting principles generally accepted in the United States of America ("U.S. GAAP"). Information relating to the nature and effect of such differences is presented in Note 27 to the consolidated financial statements.

As discussed in Note 3, the Company changed its method of accounting for heavy aircraft and engine maintenance costs associated with its owned aircraft in 2006.

Internal control over financial reporting

Also, in our opinion, management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2006 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control - Integrated Framework issued by the COSO. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PricewaterhouseCoopers
Santiago, Chile
March 14, 2007.

Consolidated Balance Sheets

ASSETS	At December 31, 2006	2005
	(In thousands of US$)	
CURRENT ASSETS		
Cash	9,565	11,733
Time deposits	148,977	34,519
Marketable securities (Note 4)	60,069	112,983
Trade accounts receivable and other, net (Note 5)	356,512	310,068
Notes and accounts receivable from related companies (Note 15)	4,765	899
Inventories (Note 6)	46,827	37,283
Prepaid and recoverable taxes	34,048	24,307
Prepaid expenses (Note 7)	26,786	24,278
Deferred income tax assets (Note 14)	6,435	7,670
Other current assets (Note 8)	12,324	13,321
Total current assets	**706,308**	**577,061**
PROPERTY AND EQUIPMENT (net) (Note 9)	**1,876,027**	**1,252,270**
OTHER ASSETS		
Investments in related companies (Note 10)	1,845	1,649
Goodwill (Note 10)	43,469	44,751
Notes and accounts receivable from related companies (Note 15)	51	10,252
Long-term accounts receivable (Note 5)	28,915	9,756
Advances for purchases of aircraft and other deposits (Note 11)	237,853	223,288
Other (Note 12)	34,321	24,592
Total other assets	**346,454**	**314,288**
Total assets	**2,928,789**	**2,143,619**

The accompanying Notes 1 to 27 form an integral part of these consolidated financial statements.

Consolidated Balance Sheets

LIABILITIES AND SHAREHOLDERS' EQUITY	At December 31, 2006	2005
	(In thousands of US$)	
CURRENT LIABILITIES		
Short-term loans from financial institutions	8,996	11,666
Current portion of long-term loans from financial institutions (Note 16)	89,883	53,104
Current portion of long-term leasing obligations (Note 18)	43,070	33,870
Securitization obligation (Note 17)	11,970	11,817
Dividends payable	67,789	35,000
Accounts payable	260,947	235,988
Notes and accounts payable to related companies (Note 15)	301	327
Air traffic liability and other unearned income	265,307	175,580
Other current liabilities (Note 13)	128,020	124,899
Total current liabilities	**876,283**	**682,251**
LONG-TERM LIABILITIES		
Loans from financial institutions (Note 16)	1,031,082	521,974
Securitization obligation (Note 17)	19,578	31,549
Other creditors	22,004	27,755
Provisions (Note 13)	45,892	117,277
Obligations under capital leases (Note 18)	176,433	161,151
Deferred income tax liabilities (Note 14)	126,886	95,576
Total long-term liabilities	**1,421,875**	**955,282**
MINORITY INTEREST	**4,311**	**3,373**
COMMITMENTS AND CONTINGENCIES (Note 23)		
SHAREHOLDERS' EQUITY (Note 19)		
Common stock (318,909,090 shares)	134,303	134,303
Reserves	2,620	2,620
Retained earnings	489,397	365,790
Total shareholders' equity	**626,320**	**502,713**
Total liabilities and shareholders' equity	**2,928,789**	**2,143,619**

The accompanying Notes 1 to 27 form an integral part of these consolidated financial statements.

Consolidated Statements of Income

	For the years ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
REVENUES			
Passenger	1,813,373	1,460,584	1,169,049
Cargo	1,072,730	910,453	799,656
Other (Note 20)	147,857	135,316	124,240
Total operating revenues (Note 25)	**3,033,960**	**2,506,353**	**2,092,945**
EXPENSES			
Wages and benefits (Note 21)	(442,967)	(371,596)	(292,823)
Aircraft fuel	(763,951)	(642,696)	(414,539)
Commissions to agents	(403,899)	(345,387)	(291,693)
Depreciation and amortization	(122,802)	(80,456)	(77,443)
Passenger services	(56,077)	(53,176)	(44,992)
Aircraft rentals	(157,681)	(148,202)	(132,425)
Aircraft maintenance	(117,206)	(132,198)	(120,818)
Other rentals and landing fees	(336,821)	(301,544)	(287,842)
Other operating expenses	(329,934)	(289,462)	(258,270)
Total operating expenses	**(2,731,338)**	**(2,364,717)**	**(1,920,845)**
Operating income	**302,622**	**141,636**	**172,100**
OTHER INCOME AND EXPENSES			
Interest income	7,897	12,426	10,830
Interest expense	(60,739)	(39,191)	(36,459)
Other income - net (Note 22)	37,113	58,234	45,162
Total other income (expense)	**(15,729)**	**31,469**	**19,533**
Income before minority interest	286,893	173,105	191,633
Minority interest	1,244	1,754	212
Income before income taxes	288,137	174,859	191,845
Income taxes (Note 14)	(46,837)	(28,258)	(28,293)
NET INCOME	**241,300**	**146,601**	**163,552**

The accompanying Notes 1 to 27 form an integral part of these consolidated financial statements.

Consolidated Statements Of Cash Flows

	For the years ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
CASH FLOWS FROM OPERATING ACTIVITIES			
Collection of trade accounts receivable	2,951,595	2,213,947	1,989,671
Interest income	6,358	11,679	9,596
Other income received	24,936	65,139	54,171
Payments to suppliers and personnel	(2,371,090)	(1,938,117)	(1,638,208)
Interest paid	(60,107)	(36,630)	(37,117)
Income tax paid	(14,581)	(1,782)	(194)
Other expenses paid	(11,592)	(1,724)	(1,806)
Value-added tax and similar payments	(35,265)	(35,575)	(29,360)
Net cash provided by operating activities	**490,254**	**276,937**	**346,753**
CASH FLOWS FROM FINANCING ACTIVITIES			
Loans obtained	821,324	268,501	2,817
Dividend payments	(84,910)	(43,536)	(81,577)
Loans repaid	(223,415)	(35,481)	(43,725)
Other	(9,282)	(11,596)	(12,283)
Net cash provided by (used in) financing activities	**503,717**	**177,888**	**(134,768)**
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of property and equipment	(920,429)	(592,410)	(126,911)
Proceeds from sales of property and equipmen	7,620	1,694	2,098
Sale of financial instruments and other investments	28,057	77,981	51,725
Other investments	(2,238)	(5,624)	(939)
Investments in financial instruments	-	(38,978)	(76,800)
Other	(18,756)	(3,085)	(2,042)
Net cash used in investing activities	(905,746)	(560,422)	(152,869)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**88,225**	**(105,597)**	**59,116**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**111,271**	**216,868**	**157,752**
CASH AND CASH EQUIVALENTS AT END OF YEAR	**199,496**	**111,271**	**216,868**

The accompanying Notes 1 to 27 form an integral part of these consolidated financial statements.

Reconciliation of Net Income to Net Cash

PROVIDED BY OPERATING ACTIVITIES

	For the years ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
NET INCOME FOR THE YEAR	**241,300**	**146,601**	**163,552**
ADJUSTMENTS TO RECONCILE NET INCOME TO NET			
CASH PROVIDED BY OPERATING ACTIVITIES			
Depreciation	120,810	73,969	68,132
Gain on sales of investments	29	-	422
Gain on sales and retirements of property and equipment	(1,133)	(1,511)	(1,289)
Proportional share of results of equity method investments	(598)	(583)	249
Amortization of goodwill	3,318	3,216	3,134
Minority interest	(1,244)	(1,754)	(212)
Write-offs and provisions	20,902	10,827	13,671
Foreign exchange gains	(5,675)	(6,270)	(2,437)
Other	(56,445)	106	(257)
CHANGES IN ASSETS AND LIABILITIES			
(Increase) decrease in accounts receivable - trade	(47,099)	(26,083)	103,262
(Increase) decrease in inventories	(9,175)	(9,526)	(8,967)
(Increase) decrease in other assets	36,640	(29,649)	(603)
(Decrease) increase in accounts payable	160,734	99,843	(11,083)
(Decrease) increase in other liabilities	27,890	17,751	19,179
Net cash provided by operating activities	**490,254**	**276,937**	**346,753**

The accompanying Notes 1 to 27 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

AT DECEMBER 31, 2006

Note 1 - The Company

LAN Airlines S.A., formerly LAN Chile S.A., ("LAN" or the "Company") is the largest domestic and international passenger/cargo air carrier in Chile and one of the largest airlines in Latin America, together with its code-share arrangements and affiliated airlines. Through its own operations and code-share arrangements, the LAN Alliance serves 15 destinations in Chile, 11 destinations in Peru, 9 destinations in Argentina, 2 in Ecuador, 30 destinations in other Latin American countries, 25 in North America, 13 destinations in Europe and 4 in the South Pacific. LAN has alliances with American Airlines, Alaska Airlines, AeroMexico, British Airways, Iberia, Korean Air, Lufthansa Cargo, Mexicana, Qantas and TAM and is an official member of the oneworldTM global alliance.

The Company is a Chilean corporation ("Sociedad Anónima Abierta") whose common stock is listed on the Santiago Stock Exchange, the Chilean Electronic Stock Exchange, and the Valparaiso Stock Exchange and whose American Depositary Receipts are traded on the New York Stock Exchange. Accordingly, the Company is subject to the regulations of both the Chilean Superintendency of Securities and Insurance (the "Superintendency") and the U.S. Securities and Exchange Commission.

Note 2 - Summary Of Accounting Policies

a) Presentation

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles in Chile, which include the accounting standards of the Superintendency. The preparation of financial statements in accordance with generally accepted accounting principles in Chile ("Chilean GAAP") requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

The Company has issued its statutory consolidated financial statements in Spanish and in conformity with accounting principles generally accepted in Chile, which include certain notes and additional information required by the Superintendency for statutory purposes. Management believes that these additional notes and information are not essential for the complete understanding of the consolidated financial statements and, accordingly, these notes and additional information have been excluded from the accompanying financial statements.

b) Consolidation

The consolidated financial statements for the years 2006, 2005 and 2004 include the following subsidiaries:

	December 31		
	2006	2005	2004
Percentage of direct and indirect ownership:			
LAN Perú S.A.	70.00	70.00	70.00
Inversiones LAN S.A. and subsidiaries	99.71	99.71	99.71
LAN Cargo S.A. (formerly LAN Chile Cargo S.A.) and subsidiaries	99.90	99.89	99.87
Inmobiliaria Aeronáutica S.A.	100.00	100.00	100.00
Comercial Masterhouse S.A.	100.00	100.00	100.00
Sistemas de Distribución Amadeus Chile S.A.	100.00	100.00	100.00
LAN Courier S.A. and subsidiary	100.00	100.00	100.00
LAN Card S.A.	100.00	100.00	100.00
LAN Pax Group S.A. and subsidiaries	100.00	100.00	100.00
LAN Cargo Group S.A.	-	100.00	100.00
Línea Aérea Nacional Chile S.A.	100.00	100.00	100.00
LAN Chile Investments Limited and subsidiaries	100.00	100.00	100.00

The effects of significant transactions between the subsidiaries and subsidiaries with the holding company have been eliminated in the consolidation and the participation of minority shareholders is shown in these financial statements as minority interest in the Consolidated Balance Sheets and Consolidated Statements of Income.

c) Use of estimates

The preparation of the consolidated financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the reported amounts of revenues and expenses and the disclosure of contingent liabilities. Management makes its best estimate of the ultimate outcome for these items based on historical trends and other information available when the financial statements are prepared. Changes in estimates are recognized in accordance with the accounting rules for the estimate, which is typically in the period when new information becomes available to management. Areas where the nature of the estimate makes it reasonably possible that actual results could materially differ from amounts estimated include: impairment assessments on long-lived assets (including goodwill), inventory obsolescence, engine overhaul provisions, tax liabilities and the associated deferred tax effects, contingent liabilities and other liabilities.

d) Price-level restatements

The financial statements of certain subsidiaries have been restated through the application of monetary correction rules in accordance with Chilean GAAP to show the effects of changes in the purchasing power of the Chilean peso, using indicators published by the National Institute of Statistics.

e) Foreign currency transactions

LAN Chile and certain subsidiaries are authorized to maintain their accounting records and prepare their financial statements in US dollars. Because the US dollar is the functional and reporting currency, assets and liabilities denominated in other currencies are remeasured to US dollars at the exchange rates prevailing on December 31 of each year except for inventory, property and equipment, other assets and air traffic liability, which are remeasured at historical exchange rates. Revenues and expenses are generally translated at the exchange rates on the dates of the transactions.

Foreign currency transaction gains and losses are included in the Consolidated Statements of Income in Other income (expense) - net. The Company recorded a net foreign currency gain of ThUS$ 5,536, ThUS$ 6,004 and ThUS$ 2,353 for the years ended 2006, 2005 and 2004, respectively.

f) Time deposits

Time deposits are stated at cost plus accrued interest at year-end.

g) Marketable securities

Marketable securities include investments in bonds and mutual funds. Bonds are stated at the lower of cost plus accrued interest or market value plus accrued interest and mutual funds are stated at market value based on year-end quoted values.

h) Allowance for bad debts

The Company maintains an allowance for bad debts based on an analysis of the aging of the outstanding balances as well as other relevant information. Other relevant information includes detailed analysis of our customers' payment history, an analysis of the current economic and commercial environment and all relevant available public information regarding our clients and the current business environment. Our policy for determining past due accounts focuses on the aging of the receivable balance and the different forms of payment used by the debtor. Receivable balances are written off against the allowance for bad debts once they are deemed uncollectible and all collection efforts and available legal measures have been exhausted.

i) Inventories

Inventories represent spare parts and materials that are expected to be consumed and used either by the Company or through third-party maintenance services within one year. Inventories are stated at the lower of cost (determined by the average cost method) or market.

j) Other current assets

Other current assets include primarily the fair value of hedged forecasted jet fuel derivative contracts in unrealized loss positions and restricted funds associated with aircraft leases.

k) Property and equipment

Property and equipment are stated at cost and are depreciated by the straight-line method to their estimated residual values based on the estimated useful lives of the assets. Aircraft and engines are depreciated based on estimated useful life ranging from 10 to 20 years and utilizing a salvage value based on a residual value percentage of the cost of the asset.

The residual values and basis of depreciation used for the principal asset classifications are:

Asset classification	Residual Value (%)	Basis of depreciation
Boeing 767-300 F aircraft	36	Useful life (15 years)
Boeing 767-300 ER aircraft	36	Useful life (15 years)
Boeing 737-200 ADV aircraft	15	Useful life (until December 31, 2008)
Boeing 767-200 ER aircraft	36	Useful life (15 years)
Airbus A-320	20	Useful life (20 years)
Airbus A-319	20	Useful life (20 years)
Engines 767	36	Useful life (15 years)
Engines 737	15	Useful life (until December 31, 2008)
Engines Airbus A-320	20	Useful life (20 years)
Engines Airbus A-340	36	Useful life (15 years)
Rotating parts	20	Useful life (15 years)
Buildings	-	Useful life (10-50 years)
Communications and computer equipment	-	Useful life (5-10 years)
Furniture and office equipment	-	Useful life (3-10 years)

Property and equipment include the revaluation increment arising from the technical appraisals of certain assets carried out in prior years in accordance with instructions issued by the Superintendency.

Inventories of materials and spare parts, net of provisions for obsolescence, included under other fixed assets within Property and equipment, are stated at their average cost.

The Company has entered into capital lease agreements related to five aircraft and certain buildings and equipment which have bargain purchase options at the end of each contract. These assets are not the legal property of the Company, because it cannot dispose of them until the purchase option is exercised. The assets are recorded at their fair value on the date of the lease agreement, which is determined by discounting the amounts payable in installments and the purchase option at the interest rate implicit, or explicit, in the contract.

The corresponding leasing obligations are presented under long-term liabilities and under the current portion of long-term leasing obligations.

Disbursements for the development of internal use software are charged to the results of operations as incurred. External direct costs of materials and services rendered in developing an enterprise resource planning system (an SAP R/3 system) and interest costs incurred during development are capitalized. Payroll related costs were not significant and have been expensed. Training costs and data conversion costs are expensed as incurred.

Impairment losses on long-lived assets used in operations are recorded when events and circumstances indicate that the assets may be impaired and the undiscounted future cash flows estimated to be generated by these assets are less than the assets' net book value. If an impairment occurs, the loss is measured by comparing the fair value of the asset to its carrying amount. Fair values are determined based on quoted market values, discounted cash flows or internal and external appraisals, as applicable.

Under Chilean GAAP, spare parts which are not anticipated to be consumed within the next 12 months are included in property, plant and equipment. Spare parts are not depreciated, irrespective of whether they are included in fixed assets or inventory and they are expensed upon their usage in maintenance. All spare parts are recorded at the lower of cost or market value.

Spare parts included in the Consolidated Balance Sheet are classified as follows:

	At December 31,		
	2006	2005	2004
	(In thousands of US$)		
Inventories	39,734	34,789	32,070
Property and equipment	18,466	18,330	11,595
Total	**58,200**	**53,119**	**43,665**

l) Investments in related companies

Investments in related companies are included in Other assets using the equity method when they represent between 20% and 50% of the voting stock of the investee, or when a Company has a significant influence in the operations of the investment. Accordingly, the Company's proportional share in the net income (or loss) of each investee is recognized on an accrual basis, after eliminating any unrealized profits or losses from transactions with the investees in Other income (expense) - net in the Consolidated Statements of Income.

m) Goodwill

Under Chilean GAAP, effective January 1, 2004, Technical Bulletin N° 72 ("TB 72") requires the determination of goodwill and negative goodwill based on the fair value of the acquired company. Prior to January 1, 2004, goodwill included the excess of the purchase price of companies acquired over their net book value; negative goodwill was established when the net book value exceeded the purchase price of companies acquired. Goodwill and negative goodwill also arise from the purchase of investments accounted for by the equity method.

Goodwill and negative goodwill are amortized over 20 years considering the expected period of return of the investment. The Company evaluates the recoverability of goodwill on a periodic basis.

n) Sale leaseback

Gains on sale leaseback transactions are deferred and recognized over the terms of the lease agreements.

o) Air traffic liability and revenue recognition policy

Passenger ticket sales are recorded as a current liability when sold as air traffic liability in the Consolidated Balance Sheets. Air traffic liability at December 31, 2006 and 2005 amounted to ThUS$ 263,620 and ThUS$ 174,587, respectively.

Passenger and cargo revenues are recognized when the transportation service is provided, which, in the case of passenger revenues reduces the air traffic liability. Commissions payable related to such unearned earnings are shown net of the air traffic liability. Other revenues include aircraft leases, courier, logistic and ground services, duty free sales, and storage and customs brokering. These other revenues are recognized when services are provided.

p) Aircraft and engine maintenance costs

Until December 31, 2005, all maintenance provisions were recorded based on technical reviews considering the aircrafts and engines use expressed in cycles and total flight hours of an aircraft. Unscheduled maintenance of aircrafts and engines were charged to income as incurred.

Effective January 1, 2006, for owned aircraft, costs incurred for heavy aircraft and engine maintenance are capitalized and amortized to the next overhaul. For leased aircraft, provisions continue to be accrued in advance based on lease terms and technical reviews considering the aircrafts and engines use expressed in cycles and total flight hours of an aircraft.

q) Lease Aircraft Return Costs

The majority of leased aircraft return costs are maintenance and overhaul costs. The airframe and engine overhaul expenses associated with leased aircraft are accrued as part of our overhaul provision included in Other liabilities and reflected in provisions in the Consolidated Balance Sheet. Such provisions are based on the flight hours incurred by the leased aircraft and also take into consideration the lease terms and the date of incorporation of the aircraft into our fleet. The actual direct costs of physically returning the planes and related administration costs are expensed when incurred.

r) Deferred income tax

Effective January 1, 2000, the effects of deferred income taxes arising from temporary differences between the basis of assets and liabilities for tax and financial statement purposes are recorded in accordance with Technical Bulletin No. 60 of the Chilean Institute of Accountants and based on the enacted income tax rate which will be in effect when the temporary differences reverse. The effects of deferred income taxes at January 1, 2000 which were not previously recorded are recognized in income beginning in 2000 as the temporary differences reverse.

In order to mitigate the effects of recording deferred income taxes that under the prior income tax accounting standard were not expected to be realized, Technical Bulletin No. 60 provided for a period of transition. Under this transition period, the full effect of using the liability method is not recorded in income at the same time the deferred taxes are recorded in the balance sheet. Under this transitional provision, a contra asset or liability account ("complementary accounts") have been recorded offsetting the effects of the deferred tax assets and liabilities not recorded prior to January 1, 2000. Such complementary accounts are amortized to income over the estimated average reversal periods corresponding to underlying temporary differences to which the deferred tax asset or liability relates.

Deferred income tax assets are reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized.

s) LAN Pass awards and LAN Corporate

The estimated incremental cost of providing free travel awards under the LAN Pass and LAN Corporate programs are accrued based on the accumulated kilometers for each passenger at the end of each year and by the conditions established by the program and are included in Other current liabilities in the Consolidated Balance Sheets.

t) Employee vacations

The cost of employee vacations is recognized as an expense on an accrual basis as the vacations are earned by employees and are included in Other current liabilities in the Consolidated Balance Sheets.

u) Derivative instruments

The Company enters into hedging contracts including interest rate swap agreements, interest rate cap agreements, forward exchange contracts, jet fuel swap agreements, and jet fuel options. The contracts are accounted for in accordance with Technical Bulletin No. 57, "Accounting for Derivative Contracts" ("TB 57") of the Chilean Institute of Accountants. Under TB 57 all derivative instruments are recognized on the balance sheet at their fair value. Derivative instruments are accounted for as follows:

Hedge forecasted transaction:

The derivative instrument is stated at its fair value on the balance sheet and any change in the fair value is recognized on the balance sheet as an unrealized gain or loss in other assets, other liabilities, current or long term, as applicable. When the contract is settled, the unrealized gain or loss on the instrument is recognized in earnings in Other income (expense) - net in the Consolidated Statements of Income.

Firm commitments hedging contracts:

The hedged item and derivative instrument are measured at fair value on the balance sheet. Unrealized gains and losses are recorded in earnings in Other income (expense) - net in the Consolidated Statements of Income if the net effect is a loss and deferred and recognized when the contract is settled if it is a gain. The unrecognized gains associated with the derivative instrument are included in other liabilities, current or long term, as applicable.

v) Cash and cash equivalents

The Company considers all short-term, highly-liquid investment securities with original maturities of three months or less to be cash equivalents for purposes of the Consolidated Statement of Cash Flows:

	At December 31,		
	2006	2005	2004
	(In thousands of US$)		
Cash	9,565	11,733	11,620
Time deposits	148,663	34,519	179,715
Marketable securities (see Note 4)	39,654	65,019	25,533
Other current assets	1,614	-	-
Total	**199,496**	**111,271**	**216,868**

Under Chilean GAAP, certain assets (specifically, bonds as of December 31, 2006 and 2005) are classified as marketable securities in the Consolidated Balance Sheet, but are not considered cash and cash equivalents for purposes of the statement of cash flows.

w) Capitalized interest

Interest paid on borrowings used to acquire new aircraft is capitalized as an additional cost of the related assets until the aircraft is received. Interest is capitalized based on the Company's weighted-average interest rate on long-term debt, or if applicable, the interest rate related to specific borrowings. Interest capitalization ends when the property or equipment is ready for service or its intended use. The Company capitalized ThUS$ 2,193 and ThUS$ 1,575 of interest during 2006 and 2005, respectively. No interest was capitalized for the year ended December 31, 2004.

x) Advertising costs

The Company expenses advertising costs as Other operating expenses in the period incurred. Advertising expense totaled ThUS$ 23,459, ThUS$ 19,490, and ThUS$ 15,607 during 2006, 2005 and 2004, respectively.

y) Reclassifications

Certain 2004 and 2005 amounts in the accompanying financial statements have been reclassified to conform to the 2006 presentation. The reclassifications had no material effect on the previously reported presentation of net income or shareholders' equity.

Note 3 - Accounting Changes

As indicated in Note 2 p), effective January 1, 2006, the Company changed its method of accounting for heavy aircraft and engine maintenance costs associated with its owned aircraft. Previously, the Company accrued a liability for these costs in its consolidated balance sheet under the caption "Provisions", for both short and long – term. Such provision was established based on the total cycles and flight hours flown by an aircraft since its incorporation into the Company's fleet, or since its last repair. Under the new method, the costs incurred in heavy owned aircraft and engine maintenance are capitalized and amortized to the next overhaul.

The cumulative effect of this accounting change at January 1, 2006, increased non–operating income by US$ 40.3 million, as it is described in Note 22. For the accounting year 2006, this change resulted in a ThUS$ 3,121 reduction to Operating expenses in the Consolidated Statement of Income.

Note 4 - Marketable Securities

Marketable securities include the following:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Bonds	20,415	47,964
Defined-term mutual funds	39,654	65,019
Total	**60,069**	**112,983**

Bonds recorded at December 31, 2006 are summarized as follows:

				At December 31, 2006	
	Date of Purchase	Maturity	Interest rate %	Carrying amount	Market value
				(In thousands of US$)	
Chilean bonds	09/10/2004	11/28/2007	7.45	3,745	3,746
Foreign bonds	12/13/2004	09/30/2007	7.07	16,670	16,873
Total				**20,415**	**20,619**

Note 5 - Accounts Receivable

Accounts receivable are summarized as follows:

Short-term

	At December 31,	
	2006	2005
	(In thousands of US$)	
Accounts receivable - passenger services	97,350	61,741
Accounts receivable - cargo services	117,165	103,225
Other accounts receivable	141,997	145,102
Total	**356,512**	**310,068**

Accounts receivable are shown net of an allowance for bad debts of ThUS$ 28,364 at December 31, 2006 and ThUS$ 25,800 at December 31, 2005.

Long-term

Long-term accounts receivable at December 31, 2006 and 2005 amounted to ThUS$ 28,915 and ThUS$ 9,756, respectively.

During 2006, the Company provided a total of approximately US$ 17.1 million in financing to the Brazilian company VRG LINHAS AEREAS S.A. ("New Varig"). These loans may be converted into shares of New Varig.

Note 6 - Inventories

Inventories are summarized as follows:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Spare parts and materials used for maintenance (1)	39,734	34,789
Aircrafts for sale (2)	3,862	-
Duty-free inventories	3,231	2,494
Total	**46,827**	**37,283**

(1) Spare parts and materials for sale are shown net of provision for market value adjustment of ThUS$ 2,121 at December 31, 2006 and ThUS$ 2,058 at December 31, 2005.
(2) Corresponding to 5 Boeing 737 Aircrafts shown net of a provision for retirement of ThUS$ 1,600 at December 31, 2006.

Note 7 - Prepaid Expenses

Prepaid expenses include the following:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Prepaid insurance on aircraft	15,030	14,502
Prepaid rentals on aircraft and costs of receiving leased aircraft	8,720	7,471
Prepaid advertising services	1,040	204
Other	1,996	2,101
Total	**26,786**	**24,278**

Costs of receiving aircraft include all costs incurred by the Company and its subsidiaries in order for them to be operational. Such costs are deferred and amortized to operating expenses over the term of the specified contract. Costs of returning leased aircraft, excluding maintenance and overhaul, are expensed as incurred.

Note 8 - Other Current Assets

Other current assets consist of the following:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Restricted funds associated with aircraft leases and purchases and other deposits	357	699
Fair value of derivative contracts	7,778	9,575
Other	4,189	3,047
Total	**12,324**	**13,321**

Note 9 - Property And Equipment And Fleet Composition

a) Property and equipment

Property and equipment are summarized as follows:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Flight equipment:		
Boeing 767 aircraft under capital lease	461,845	369,103
Boeing 737 - 200ADV aircraft	27,498	48,368
Boeing 767 - 200ER aircraft	70,574	70,574
Boeing 767 - 300ER aircraft	334,248	-
Boeing 767 - 300F freighter aircraft	459,659	459,034
Airbus A-319 aircraft	342,142	67,448
Airbus A-320 aircraft	145,939	142,469
Engines and rotating parts	277,278	226,385
Spare parts	18,466	18,330
Other	42,662	38,656
Land and buildings:		
Land	10,739	10,739
Buildings	62,175	61,953
Other installations	38,175	25,436
Construction in progress	2,270	9,454
Other fixed assets:		
Communication and computer equipment	101,799	90,678
Furniture and office equipment	15,910	14,935
Equipment under capital leases	-	31
Other	**54,105**	**42,387**
Property and equipment (gross)	**2,465,484**	**1,695,980**
Less: Accumulated depreciation	**(589,457)**	**(443,710)**
Property and equipment (net)	**1,876,027**	**1,252,270**

On September 30, 2004, the Company sold its 100% interests in Condor Leasing LLC and Eagle Leasing LLC, who were the owners of 5 Boeing 767 aircraft (3 and 2, respectively). The capital lease agreement under which LAN Airlines S.A. leased these aircraft has remained unchanged. As a result of this, these aircraft retain their balance sheet classification under flight equipment; however, they are now under the caption flight equipment under capital lease. Long-term debt (with its related current portion) associated with these aircraft is included in Obligations under capital leases.

On June 30, 2006, the Company sold its ownership on Seagull Leasing LLC, who owns a Boeing 767-300F aircraft and is leasing the aircraft to LAN Cargo S.A. The existing financial leasing contract between Seagull and LAN Cargo S.A regarding this aircraft remained unchanged. As a result of the sale transaction, this aircraft has been reclassified from owned Property and equipment to Property and equipment under capital lease.

Included in Property and equipment at December 31, 2006 and 2005, are ThUS$ 461,845 and ThUS$ 369,103 of equipment under capital leases with accumulated depreciation aggregating ThUS$ 163,098 and ThUS$ 108,118, respectively.

Depreciation expense for the years ended December 31, 2006, 2005 and 2004, amounted to ThUS$ 120,810, ThUS$ 73,969 and ThUS$ 68,132, respectively.

The balance of spare parts is presented net of a provision for obsolescence amounting to ThUS$ 16,975 at December 31, 2006 and ThUS$ 12,853 at December 31, 2005.

As of December 31, 2006, Property and equipment is shown net of a provision for retirement of ThUS$ 6,500 for the Boeing 737 Aircrafts.

In 2002, the Company entered into a sale-leaseback transaction. Under the arrangement, engines were sold for ThUS$ 13,100 and leased backed over a 7-year operating lease agreement. The gain on the sale of ThUS$ 6,883 is being amortized over the term of the operating lease agreement.

b) Fleet composition

At December 31, 2006, the fleet of the Company consists of 81 aircrafts, of which 37 aircrafts are owned by, or under capital lease to, the Company and 44 aircrafts are leased under operating leases.

Aircraft owned:

Aircraft	Model	Use	2006	2005
Boeing 737	200ADV	Passenger	6	10
Boeing 737	200ADV	Freight	1	1
Boeing 767	300ER	Passenger	7	3
Boeing 767	300F	Freight	8	7
Boeing 767 (*)	200ER	Passenger	1	1
Airbus A-319	100	Passenger	10	2
Airbus A-320	200	Passenger	4	4
Total owned			**37**	**28**

(*) Subleased to Aerovías de México S.A. under a 9-year contract beginning June 16, 1996. The sublease expired in the year 2005 and was extended until 2007.

Leased aircraft under operating leases:

Aircraft	Model	Use	2006	2005
Boeing 767	300ER	Passenger	13	13
Boeing 767	300F	Freight	1	1
Boeing 737	200ADV	Passenger	10	11
Airbus A 319	100	Passenger	5	5
Airbus A 320	200	Passenger	11	11
Airbus A 340	300	Passenger	4	4
Total leased			**44**	**45**
Total owned and leased			**81**	**73**

Note 10 - Investments in Related Companies and Goodwill

a) Investments in related companies

Investments in related companies accounted for by the equity method are summarized as follows:

	Percentage of ownership			Book value of investment		Proportional Share of income (loss)		
Company	2006	2005	2004	2006	2005	2006	2005	2004
	%	%	%			(In thousands of US$)		
Concesionaria Chucumata S.A.	16,7	16,7	16,7	250	117	135	160	83
CAE Entrenamiento de Vuelo Chile								
Ltda. (ExFTCC) (2)	-	-	-	-	-	-	-	(35)
Lufthansa LAN Chile								
Technical Training S.A.	50	50	50	609	571	196	152	53
Austral Sociedad Concesionaria S.A.	20	20	20	886	879	173	173	90
Florida West International								
Airways Inc. (1)	25	25	25	-	-	76	79	(49)
Skypost. Inc. (3)	-	-	-	-	-	-	-	(136)
Choice Air Courier del Perú S.A.	50	50	50	100	82	18	19	(2)
Vimalcor S.A. (3)	-	-	-	-	-	-	-	101
Skyworld International Couriers S.A. (3)	-	-	-	-	-	-	-	(226)
Skybox de Colombia Ltda. (3)	-	-	-	-	-	-	-	(128)
Total				**1,845**	**1,649**	**598**	**583**	**(249)**

(1) The Company has recorded a provision for investments in related companies with negative equity at year-end totaling ThUS$ 50 at December 31, 2006 and ThUS$ 128 at December 31, 2005 which is included in other current liabilities (See Note 13).
(2)During 2004, this entity was sold.
(3) During 2004, these entities were sold and the operations were dissolved.

b) Goodwill and negative goodwill

The changes in Goodwill and negative goodwill during the years 2006 and 2005 were as follows:

Company	Balance January 1, 2006	Additions and deductions	Amortization	Balance December 31, 2006
		(In thousands of US$)		
Goodwill on purchase of:				
LAN Cargo S.A. (Ex LAN Chile Cargo S.A.)	20,814	-	(1,810)	19,004
Prime Airport Service Inc.	440	-	(35)	405
Mas Investment Limited	2,725	-	(181)	2,544
Air Cargo Limited	640	-	(43)	597
Promotora Aérea Latinoamericana S.A.	1,379	-	(84)	1,295
Inversiones Aéreas S.A. (purchase of interest in LAN Perú S.A.)	4,590	-	(294)	4,296
Aerolinheas Brasileiras S.A.	2,300	-	(143)	2,157
Skyworld International Couriers, Inc.	4,078	-	(254)	3,824
LAN Box, Inc.	1,902	-	(106)	1,796
SkyBox Services Corp.	693	-	(54)	639
H.G.A. Rampas y Servicios A. de Guayaquil S.A.	36	-	(2)	35
H.G.A. Rampas del Ecuador S.A.	36	-	(2)	34
Inversora Cordillera S.A.	4,633	1,873	(280)	6,226
LAN Argentina S.A. (Ex – Aero 2000 S.A.)	660	63	(35)	688
Total Goodwill	44,926	1,936	(3,323)	43,540
Negative goodwill on purchase of:				
Choice Air Courier del Perú S.A	(73)	-	2	(71)
Americonsult de Guatemala S.A.	(102)	99	3	-
Total Negative Goodwill	(175)	99	5	(71)
Total	**44,751**	**2,035**	**(3,318)**	**43,469**

Company	Balance January 1, 2005	Additions and deductions	Amortization	Balance December 31, 2005
	(In thousands of US$)			
Goodwill on purchase of:				
LAN Cargo S.A. (Ex LAN Chile Cargo S.A.)	22,624	-	(1,810)	20,814
Prime Airport Service Inc.	475	-	(35)	440
Mas Investment Limited	2,905	-	(180)	2,725
Air Cargo Limited	683	-	(43)	640
Promotora Aérea Latinoamericana S.A.	1,463	-	(84)	1,379
Inversiones Aéreas S.A. (purchase of				
interest in LAN Perú S.A.)	4,884	-	(294)	4,590
Aerolinheas Brasileiras S.A.	2,444	-	(144)	2,300
Skyworld International Couriers, Inc.	4,332	-	(254)	4,078
LAN Box, Inc.	2,008	-	(106)	1,902
Skyworld Internacional Courier S.A.	11	-	(11)	-
SkyBox Services Corp.	748	-	(55)	693
H.G.A. Rampas y Servicios A. de				
Guayaquil S.A.	38	-	(2)	36
H.G.A. Rampas del Ecuador S.A.	38	-	(2)	36
Inversora Cordillera S.A.	-	4,815	(182)	4,633
LAN Argentina S.A. (Ex Aero 2000 S.A.)	-	684	(24)	660
Total Goodwill	42,653	5,499	(3,226)	44,926
Negative goodwill on purchase of:				
Choice Air Courier del Perú S.A.	(75)	-	2	(73)
Americonsult de Guatemala S.A.	(108)	-	6	(102)
Total Negative Goodwill	**(183)**	**-**	**8**	**(175)**
Total	**42,470**	**5,499**	**(3,218)**	**44,751**

c) Acquisitions and other information

LanLogistics, Corp.

During April 2004, the Company's indirect subsidiary LanLogistics Corp. acquired an additional 16% interest in its subsidiary LAN Box Inc. increasing its ownership to 96% This acquisition was paid for through a service credit amounting to ThUS$ 541 and the transfer of 25% of its indirect interest in Skypost Inc. This transaction generated goodwill amounting to ThUS$ 809

Mas Investment Limited (Bahamas)

On February 10, 2006, Aerotransportes Mas de Carga S.A. sold 99% ownership of Sociedad Americonsult de Guatemala S.A.. As a result of this, the negative goodwill originated in the purchase of that investment was reversed to Income.

LAN Cargo Overseas Limited

On April 3, 2002, LAN Cargo Overseas Limited purchased 550,000 shares of Vimalcor S.A., which is incorporated in the Oriental Republic of Uruguay for ThUS$ 400 representing a 50% ownership interest. During December 2004, the entire interest in Vimalcor S.A. was sold, generating a loss of ThUS$ 307.

CAE Entrenamiento de Vuelo Chile Ltda. (formerly Fligth Training Center Chile S.A.)

During April 2004, LAN Airlines S.A., together with its subsidiary LAN Pax Group S.A., sold their interest's in CAE Entrenamiento de Vuelo Chile S.A. for ThUS$ 1,877. This transaction generated a loss of ThUS$ 27.

LAN Pax Group S.A.

On April 13, 2005, LAN Pax Group S.A. acquired 49% ownership and obtained control of Inversora Cordillera S.A. On April 14, 2005, the newly acquired and consolidated subsidiary Inversora Cordillera S.A. acquired 95% ownership of Aero 2000 S.A. (currently LAN Argentina S.A.). In a separate transaction LAN Pax Group S.A. acquired an additional 2.45% of Aero 2000 S.A.. These transactions were accounted for as purchases resulting in ThUS$ 5,499 in goodwill allocated ThUS$ 4,815 to Inversora Cordillera S.A. and ThUS$ 684 to Aero 2000 S.A.

On November 16, 2005, in a separate transaction, LAN Pax Group S.A. and Inversora Cordillera S.A., both consolidated subsidiaries of the Company, formed the entity Siventas S.A. with LAN Pax Group S.A. having 95% ownership and Inversora Cordillera S.A. having 5% ownership. As of December 31, 2006 the capital for this entity had not been entirely contributed. Both companies are required to make capital contributions prior to 2008.

On December 23, 2005, LAN Pax group S.A. took part in the share increase offering of its consolidated subsidiary Inversora Cordillera S.A. It invested ThUS$ 281 maintaining its current ownership percentage of 49%. No goodwill was recorded.

On August 17, 2006, LAN Pax Group S.A., acquired 1.55% of LAN Argentina S.A. (ex - Aero 2000 S.A.) for ThUS$ 70 equivalent to 29.140 shares, increasing its ownership from 2.45% to 4%. Additionally, LAN Pax Group S.A. made a capital contribution increase of ThUS$ 94. This transaction generated goodwill amounting to ThUS$ 63.

On August 17, 2006, LAN Pax Group S.A. acquired 31% of Inversora Cordillera S.A. for ThUS$ 1,872 equivalent to 4,116,818 shares, increasing its ownership interest from 49% to 80%. In addition it made a contribution for capital increase for ThUS$ 7,488. As a result of this transaction, LAN Pax Group S.A. recorded goodwill amounting to ThUS$ 1,873.

On September 29, 2006, Atlantic Aviation Investments LLC was incorporated, where LAN Pax Group S.A. has 99% ownership (990 shares), equivalent to US$ 990.

On October 10, 2006, Perdiz Leasing Limited was incorporated, where LAN Pax Group S.A. has an ownership of 99% (99 shares), equivalent to US$ 99.

On December 22, 2006, LAN Pax Group S.A. and Inversora Cordillera S.A., both consolidated subsidiaries of the Company, took part in the share increase offering of LAN Argentina S.A. for ThUS$ 296 and ThUS$ 7,026, maintaining their current ownership percentage of 4% and 95%, respectively.

LAN Courier S.A.

On December 15, 2006, LAN Airlines S.A. sold its 99.99% ownership in LAN Courier S.A. to LAN Cargo S.A. and Inversiones LAN S.A. (99.98% and 0.01%, respectively), for ThUS$ 5,638, equivalent to 8,837,860 shares. On a consolidated basis no goodwill or negative goodwill was recognized for this transaction.

LAN Cargo S.A.

On November 4, 2005, LAN Airlines S.A. acquired 15,000 shares from its affiliated LAN Cargo S.A. increasing its ownership interest from 99.86462% to 99.88875%.

Note 11 - Advances for Purchases of Aircraft and other Deposits

Advances for purchases of aircraft and other deposits are summarized as follows:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Advances for purchases of Boeing 767 and lease of Airbus aircraft	224,520	211,204
Deposits on aircraft leases	10,020	9,037
Other deposits	3,313	3,047
Total	**237,853**	**223,288**

Note 12 - Other Assets

Other assets are summarized as follows:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Unrealized losses on derivative contracts (1)	26,828	16,066
Deposits related to aircraft to be purchased or leased and others	7,493	8,526
Total	**34,321**	**24,592**

(1) The corresponding fair value derivative contract liability is recorded in Other current liabilities and in Other creditors long term.

Note 13 - Other Liabilities And Provisions

Other liabilities and provisions are summarized as follows:

a) Other current liabilities

	At December 31,	
	2006	2005
	(In thousands of US$)	
Engine overhaul provision	44,433	58,737
Withholdings on employee salaries	7,870	8,022
Employee vacations	13,401	12,105
LAN Pass awards and LAN Corporate liability (frequent flyer mileage)	9,770	7,096
Accumulated losses in Florida West International Airways, Inc. (See Note 10)	50	128
Income taxes payable	1,530	481
Boarding fees	34,749	24,866
Others	16,217	13,464
Total	**128,020**	**124,899**

b) Provisions (long-term)

	At December 31,	
	2006	2005
	(In thousands of US$)	
Engine overhaul provision	36,395	101,826
Employee vacations	6,722	6,979
Others	2,775	8,472
Total	**45,892**	**117,277**

Note 14 - Income Tax

a) Charges arising from income tax amount to ThUS$ 14,123, ThUS$ 1,261 and ThUS$ 970 in 2006, 2005 and 2004 respectively, and have been determined based on current local tax legislation.

b) Deferred income taxes

At December 31, 2006, the accumulated balances from deferred taxes originating from temporary differences were as follow:

	Deferred tax Assets		Deferred tax Liabilities	
	Short-term	Long-term	Short-term	Long-term
	(In thousands of US$)			
Allowance for doubtful accounts	4,429	65	-	-
Provision for obsolescence of spare parts	2,960	-	-	-
Provision for vacations	2,099	1,203	-	-
Tax loss carry forwards	2	32,966	-	-
Property and equipment	-	449	-	-
Others	3,818	11,154	-	-
Gross deferred tax assets	**13,308**	**45,837**	**-**	**-**
Prepaid expenses	-	-	5,043	1,320
Unearned income	-	-	-	16,198
Property and equipment	-	-	-	126,893
Others	**-**	**-**	**182**	**23,303**
Gross deferred tax liabilities	-	-	5,225	167,714
Less: Complementary accounts	-	-	-	(8,645)
Deferred tax assets valuation allowance	(1,648)	(13,654)	-	-
Total	**11,660**	**32,183**	**5,225**	**159,069**

At December 31, 2005, the accumulated balances from deferred taxes originating from temporary differences were as follows:

	Deferred tax Assets		Deferred tax Liabilities	
	Short-term	Long-term	Short-term	Long-term
	(In thousands of US$)			
Allowance for doubtful accounts	4,073	-	-	-
Provision for obsolescence of spare parts	4,593	-	-	-
Provision for vacations	1,636	1,096	-	-
Tax loss carry forwards	8	33,274	-	-
Others	4,513	844	-	-
Gross deferred tax assets	**14,823**	**35,214**	**-**	**-**
Prepaid expenses	-	-	4,555	1,545
Unearned income	-	-	-	16,295
Property and equipment	-	-	-	97,194
Others	-	-	-	15,856
Gross deferred tax liabilities	**-**	**-**	**4,555**	**130,890**
Less: Complementary accounts	-	(393)	-	(8,883)
Deferred tax assets valuation allowance	(2,598)	(8,390)	-	-
Total	**12,225**	**26,431**	**4,555**	**122,007**

c) Effect on results

	For the years ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Current income tax expense	(14,123)	(1,261)	(970)
Deferred income tax expense	(32,545)	(26,688)	(27,323)
Other tax expense	(169)	(309)	-
Total	**(46,837)**	**(28,258)**	**(28,293)**

Note 15 - Balances and Transactions with Related Companies

a) Accounts receivable and payable with related parties are summarized as follows:

Current assets

Notes and accounts receivable from related companies:

		At December 31,	
		2006	2005
Company	Relationship	(In thousands of US$)	
San Alberto S.A. and subsidiaries	Common ownership	29	29
Florida West International Airways Inc.	Equity method investee	4,495	237
Choice Air Courier del Perú S.A.	Equity method investee	78	38
Concesionaria Chucumata S.A.	Equity method investee	-	185
Austral Sociedad Concesionaria S.A.	Equity method investee	-	287
Other	Common ownership	163	123
Total		**4,765**	**899**

Current liabilities

Notes and accounts payable to related companies:

		At December 31,	
		2006	2005
Company	Relationship	(In thousands of US$)	
Lufthansa LAN Technical Training S.A.	Equity method investee	211	305
Concesionaria Chucumata S.A.	Equity method investee	4	-
Austral Sociedad Concesionaria S.A.	Equity method investee	58	-
Sociedad Concesionaria Aerosur S.A.	Equity method investee	11	-
Other	Common ownership	17	22
Total		**301**	**327**

Long-term assets

Notes and accounts receivable from related companies:

		At December 31,	
		2006	2005
Company	Relationship	(In thousands of US$)	
Choice Air Courier del Perú S.A.	Equity method investee	51	178
Florida West International Airway Inc.	Equity method investee	-	10,074
Total		**51**	**10,252**

b) The main transactions with related entities are summarized as follows:

			Amount		
Company	Relationship	Description of transaction	2006	2005	2004
			(In thousands of US$)		
Florida West International Airways Inc.	Equity method investee LAN owns 25%	Aircraft rents received	40,695	39,540	35,767
		Line aircraft maintenance received	1,885	2,402	187
		Aircraft rents provided	31,401	21,898	20,498
		Others transactions provided	10,757	11,712	6,765
		Jet fuel payments	9,282	10,100	3,817
		Interline collection	7,292	2,568	2,808
		Other payments	3,826	690	3,579
Lufthansa LAN Technical Training S.A.	Equity method investee LAN owns 50%	Training received	708	905	372
		Prepaid training hours	477	360	375
		Other payments	19	19	19
Inmobiliaria Parque San Luis Dos S.A.	Common ownership	Real estate transaction	-	-	15

The Company's objective is to transact business with its related companies or individuals at prices and at terms equivalent to those used in transacting business with unrelated parties.

Note 16 - Loans From Financial Institutions (Long-term)

Long-term loans from financial institutions are summarized as follows:

	Payable during the years	Interest rate at December 31, 2006 %	At December 31, 2006	2005
			(In thousands of US$)	
Loan in US dollars	2001 - 2012 (quarterly)	-	-	60,184
Loan in US dollars	2001 - 2013 (quarterly)	5.5645	126,362	137,641
Loan in US dollars	2002 - 2014 (quartely)	LIBOR+0.9707	116,976	122,729
Loan in US dollars	2002 - 2007 (quarterly)	LIBOR+1.4	7,706	8,248
Loan in US dollars	2005 - 2012 (quarterly)	LIBOR+1.25	22,971	26,180
Loan in US dollars	2005 - 2017 (quarterly)	LIBOR+0.9632	62,441	66,403
Loan in US dollars	2005 - 2017 (quarterly)	4.6760	143,765	153,693
Loan in US dollars	2006 - 2008 (quarterly)	LIBOR+0.4	60,530	-
Loan in US dollars	2006 - 2013 (quarterly)	4.9578	76,086	-
Loan in US dollars	2006 - 2018 (quarterly)	4.9823	504,128	-
Total			**1,120,965**	**575,078**
Less - current portion			**89,883**	**53,104**
Long - term portion			**1,031,082**	**521,974**

All of our loans from financial institutions are collateralized and thus they are secured by the same asset that is subject of the financing. These include nine Boeing aircraft, fourteen Airbus aircraft, spare engines and our corporate building. There are no additional collateral arrangements in connection with these financings.

Information with respect to restrictive covenants is detailed under the heading "Covenants" in Note 23 to the financial statements.

Scheduled payments of long-term loans from financial institutions at December 31, 2006 are as follows:

Payments during the years ended December 31,	(In thousands of US$)
2008	153,152
2009	88,619
2010	92,879
2011	97,327
2012 - 2016	439,716
2017 - 2018	159,389
Total	**1,031,082**

Note 17 - Securitization Obligation

Effective March 30, 1999, the Company signed a contract with Pelican Finance Ltd. for the securitization of future credit card receivables aggregating ThUS$ 60,000 originating from certain ticket agents in the United States. At December 31, 1999, the Company had received the entire proceeds of ThUS$ 60,000 which were reported as a securitization obligation on the balance sheet. The terms of this contract are for the years between 2001 and 2006 with an annual financial cost of 6.82%.

As of March 31, 2006, the commitments regarding the abovementioned contracts with Pelican Finance Ltd. are totally terminated.

On August 22, 2002, the Company signed a new securitization contract with Pelican Finance Ltd. The contract securitizes future credit card receivables aggregating ThUS$ 40,000. The terms of this contract are for the years between 2006 and 2009 with an annual financial cost of 6.96% At December 31, 2002, the Company had received the entire proceeds of ThUS$ 40,000 which were reported as a securitization obligation on the balance sheet.

The principal is payable as follows:

Payments during the years ended December 31,	(In thousands of US$)
2008	12,826
2009	6,752
Subtotal	19,578
Current portion - 2007	11,970
Total	**31,548**

Note 18 - Leasing Obligations

As indicated in Note 9, at December 31, 2005, the Company financed forty-four jet aircraft pursuant to operating leases and six jet aircraft pursuant to a capital lease. The Company also leases maintenance facilities, other airport facilities, computer equipment and vehicles pursuant to capital leases.

The future minimum lease payments required under capital leases, together with the present value of such minimum lease payments and future minimum lease payments required under operating leases that have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2006, were as follows:

Payable during the year ending December 31,	Operating leases (aircraft)	Capital leases
	(In thousands of US$)	
2007	147,635	51,971
2008	131,910	53,335
2009	105,883	54,392
2010	91,301	44,357
2011	90,849	20,275
2012 - 2016	168,107	21,002
2017 - 2021	-	8,422
Total minimum lease payments	**735,685**	**253,754**

Less: Amount representing interest	(34,251)
Present value of minimum lease payments	219,503
Less: Current portion of obligation	(43,070)
Long-term portion of leasing obligations	176,433

Aircraft operational lease expenses recorded in the Consolidated Statement of Income amounted to ThUS$ 157,681, ThUS$ 148,202 and ThUS$ 132,425 for the years ended December 31, 2006, 2005 and 2004, respectively.

Note 19 - Shareholders' Equity

a) Changes in Shareholders' equity

The changes in shareholders' equity during 2004, 2005 and 2006 were as follows:

				Retained earnings			
	Number of shares	Common stock	Reserves	Accumulated earnings	Interim dividends	Net income for the year	Total
	(In thousands of US$ except Number of shares)						
Balances at December 31, 2003	318,909,090	134,303	2,620	167,085	(34,999)	83,555	352,564
Transfer of net income from prior year	-	-	-	83,555	-	(83,555)	-
Final dividends paid	-	-	-	(41,775)	34,999	-	(6,776)
Interim dividends	-	-	-	-	(74,783)	-	(74,783)
Net income for the year 2004	**-**	**-**	**-**	**-**	**-**	**163,552**	**163,552**
Balances at December 31, 2004	**318,909,090**	**134,303**	**2,620**	**208,865**	**(74,783)**	**163,552**	**434,557**
Transfer of net income from prior year	-	-	-	163,552	-	(163,552)	-
Final dividends paid	-	-	-	(81,777)	74,783	-	(6,994)
Interim dividends	-	-	-	-	(71,451)	-	(71,451)
Net income for the year 2005	**-**	**-**	**-**	**-**	**-**	**146,601**	**146,601**
Balances at December 31, 2005	**318,909,090**	**134,303**	**2,620**	**290,640**	**(71,451)**	**146,601**	**502,713**
Transfer of net income from prior year	-	-	-	146,601	-	(146,601)	-
Final dividends paid	-	-	-	(73,294)	71,451	-	(1,843)
Interim dividends	-	-	-	-	(115,850)	-	(115,850)
Net income for the year 2006	**-**	**-**	**-**	**-**	**-**	**241,300**	**241,300**
Balances at December 31, 2006	**318,909,090**	**134,303**	**2,620**	**363,947**	**(115,850)**	**241,300**	**626,320**

b) Capital

The authorized and paid-in capital of the Company is ThUS$ 134,303 at both December 31, 2005 and 2006 and corresponds to 318,909,090 shares without par value.

c) Other reserves

Reserves at December 31 of each year were as follows:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Reserve for adjustment of the value of fixed assets	2,556	2,556
Reserve for adjustment of the value of leased fixed assets	64	64
Total	**2,620**	**2,620**

These reserves are not distributable and may only be used for capitalization of the Company.

d) Dividends

At the Annual General Meeting held on April 30, 2004, the shareholders agreed to distribute a final dividend amounting to US$ 0.130995 per share meaning that, after deducting the interim dividends distributed during August and October amounting to US$ 0.03632 and US$ 0.073425 per share respectively, a balance of US$ 0.02125 per share for a total of ThUS$ 6,776 was to be paid during May 2004.

On August 4, 2004, during an Extraordinary Board of Directors meeting, an interim dividend of US$ 0.12475 per share for a total of ThUS$ 39,785 was agreed upon.

On November 30, 2004, the Board of Directors agreed to pay, an interim dividend of US$ 0.10974 per share for a total of ThUS$ 34,998.

At the Annual General Meeting held on April 29, 2005, the shareholders agreed to distribute a final dividend amounting to US$ 0.25642373 per share after deducting the interim dividends distributed during August and December amounting to US$ 0.12475 and US$ 0.10974 per share, respectively. A remaining balance of US$ 0.02192745 per share was paid during May 2005.

At a meeting of the Board of Directors held on August 2, 2005, the directors agreed to distribute an interim dividend of US$ 0.11430 per share with respect to net income for 2005.

At a meeting of the Board of Directors held on January 31, 2006, the directors agreed to distribute an interim dividend of US$ 0.10975 per share with respect to net income for 2005. These dividends will be paid during March, 2006 and they are classified in Dividends Payable at December 31, 2005.

At the Annual General Meeting held on April 28, 2006, the shareholders agreed to distribute a final dividend amounting to US$ 0.22983 per share after deducting the interim dividends distributed during August 2005 and January 2006 amounting to US$ 0.11430 per share and US$ 0.10975 per share, respectively. A remaining balance of US$ 0.00578 per share was paid during May 2006.

At a meeting of the Board of Directors held on July 24, 2006, the directors agreed to distribute an interim dividend of US$ 0.15071 per share with respect to net income for 2006.

At a meeting of the Board of Directors held on December 26, 2006, the directors agreed to distribute an interim dividend of US$ 0.21256 per share with respect to net income for 2006. These dividends are classified in Dividends Payable at December 31, 2006.

e) Major shareholders

The major shareholders of the Company at December 31, 2006, were as follows:

	Percentage of Ownership %
Inversiones Costa Verde Ltda. y Compañía en Comandita por Acciones	27.01
Axxion S.A.	20.64
The Bank of New York. (on behalf of ADR holders)	13.65
Total	**61.30**

In July 2004, Inversiones Costa Verde Ltda. y Compañía en Comandita por Acciones, Axxion S.A. and Inversiones Santa Cecilia S.A. (shareholder with 7.34% ownership) entered into a management and control agreement. At December 31, 2006 this agreement is still in effect.

Note 20 – Other Operating Revenues

The Other revenues were comprised of the following:

	For the year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Aircraft leases	30,991	23,806	40,123
Logistics and couriers	44,381	39,932	19,906
Ground services	19,968	18,842	13,468
Duty free	16,701	15,602	12,288
Storage and customs brokerage	10,925	10,689	8,947
Others	24,891	26,445	29,508
Total	**147,857**	**135,316**	**124,240**

Note 21 - Operating Expenses

Wages and benefits are summarized as follows:

	At December 31,		
	2006	2005	2004
	(In thousands of US$)		
Flight personnel	134,542	110,298	85,739
Maintenance personnel	51,242	41,549	29,635
Ground personnel	69,905	73,800	63,029
Administrative and corporate employees	187,278	145,949	114,420
Total	**442,967**	**371,596**	**292,823**

Other operating expenses include general and administrative expenses such as rents, insurance and other expenses of ThUS$ 139,942 in 2006, ThUS$ 121,618 in 2005 and ThUS$ 97,036 in 2004.

Other operating expenses also include advertising, promotional, and marketing expenses of ThUS$ 23,459 in 2006, ThUS$ 19,490. in 2005 and ThUS$ 15,607 in 2004.

Note 22 - Other Income (Expense) - Net

Other income (expense) - net for each year are summarized as follows:

	For the year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Non-operating income:			
Effect of accounting change mentioned in Note 3	40,344	-	-
Swap fuel contracts	12,903	51,480	46,529
Foreign currency transactions (net)	5,536	6,004	2,353
Earnings on investments (equity method)	598	583	327
Other	3,988	5,296	2,443
Total	**63,369**	**63,363**	**51,652**
Non-operating expenses:			
Amortization of goodwill	(3,318)	(3,218)	(3,134)
Losses on investments (equity method)	-	-	(576)
Non-recurring indemnities paid to employees (1)	(11,747)	-	-
Provision for retirement of Boeing 737 Aircrafts (2)	(8,100)	-	-
Other	(3,091)	(1,911)	(2,780)
Total	**(26,256)**	**(5,129)**	**(6,490)**
Other income (expense) - net	**37,113**	**58,234**	**45,162**

(1) During 2006, the Company made the decision to restructure its operations and processes reducing its workforce. This restructuring resulted in non-operating expenses of ThUS$ 11,747 due to the payment of indemnities to terminated employees. The Company does not anticipate any further costs associated with this restructuring.
(2) With regard to these Boeing 737 aircraft, it was determined that it is more likely than not that such aircraft will be disposed of prior to the end of their useful life. Accordingly, a provision was established. See also Notes 6 and 9. The Company performed an impairment test on these aircraft as events and circumstances indicated that the assets may be impaired and undiscounted cashflows estimated to be generated were less than the book values.

Note 23 - Commitments and Contingencies

At December 31, 2006 and 2005, the Company had granted the following mortgages, liens and guarantees:
Direct Guarantees (In thousands of US$):

Type of Guarantee	Assets Pledged as Collateral		Amount outstanding at Balance sheet date	
	Type	Book Value	2006	2005
Mortgage, and pledge guarantee	Aircraft and motors	1,164,614	1,052,729	566,830
Mortgage	Building	9,038	7,706	8,248
Pledge	Spare parts	331	-	-

Indirect Guarantees:

The Company guaranteed a ThUS$ 3,500 letter of credit dated April 26, 2001, granted in favor of Celestial Aviation Trading 16 Limited due to an Aircraft Lease Agreement ("Lease") between LAN Cargo S.A. and Celestial Aviation Trading 16 Limited. The Company guarantee is valid until the letter of credit expiration date (April 25, 2007) and was required by Celestial Aviation Trading 16 Limited, the owner of the aircraft. As a result, the Company would be liable for repayment of such letter of credit, should LAN Cargo S.A. not fulfill its obligation under the lease. No liability is carried on the balance sheet for the Company's obligation under the guarantee.

Commitments

On March 20, 1998, the Company entered into a purchase agreement for twenty Airbus A320 aircraft (with the option to purchase an additional twenty aircraft). The estimated cost of these twenty aircraft is ThUS$ 840,000. This agreement was subsequently amended to require the delivery of A319 aircraft instead of A320 aircraft.

In August 1999, the Company entered into a purchase agreement for seven Airbus A340 aircraft (with an option to purchase an additional fourteen aircraft in the future). As of December 31, 2006, four of these aircraft have been received, one was canceled (see next paragraph). The estimated maximum cost for the two remaining aircraft is ThUS$ 230,000.

During November 2003, the Company agreed with Airbus Industries and a bank syndicate led by Credit Lyonnais to cancel the delivery of one Airbus A340 aircraft which was scheduled for 2005. At the same time, it exercised call options for three Airbus A319 aircraft. Additionally, all future deliveries of Airbus A320's were changed for Airbus A319's.

On November 11, 2004, the Company entered into a purchase agreement with The Boeing Company to acquire four additional aircraft of the 767-300 family with delivery during 2006. This purchase agreement provides for flexibility to choose between passenger or freighter aircraft. These aircraft were received during 2006.

On April 28, 2005, the Company entered into a purchase agreement for three Boeing 767-300 aircraft for a total of ThUS$ 450,000. This purchase agreement provides for flexibility to choose between passenger or freighter aircraft. One of this aircraft was received during 2006, the two remaining aircrafts are scheduled for delivery during 2007 and the estimated maximum cost is ThUS$ 300,000.

On July 20, 2005, the Company entered into a purchase agreement for an additional 3 Boeing 767-300 ER aircraft for a total of ThUS$ 450,000. One of these aircraft is for passengers and the Company has the flexibility to choose between passenger or freighter for the remaining two aircraft. The delivery is scheduled for 2007 and 2008.

On October 4, 2005, the Company agreed with Airbus Industries to a new modification with respect to the agreement signed on March 20, 1998. This amendment is related to the purchase of thirty two new Airbus family aircraft (with an option to purchase an additional fifteen aircraft in the future). Such aircraft are expected to be delivered during 2007 and 2008. The approximated cost for this purchase is ThUS$ 960,000.

On March 31, 2006, the Company entered into a purchase agreement for three Boeing 767-300 aircraft for a total of ThUS$ 450,000. These aircraft are scheduled for delivery during 2007 and 2008.

On December 14, 2006, the Company entered into a purchase agreement for three Boeing 767-300 aircraft for a total of ThUS$ 450,000. These aircraft are scheduled for delivery during 2009.

Contingencies

At December 31, 2006, the Company was a defendant in one labor dispute filed by the Pilots' Union and the Cabin Crew Union, requesting the payment of bonuses for the years ended December 31, 1998, 1999, 2000, 2001 and 2002. The Company has made no provision for these amounts because management believes that the outcome of the suits will be favorable to the Company and any losses incurred will not be material.

At December 31, 2006, the Company was a defendant in a number of commercial lawsuits of the type normally associated with the Company's business and involving claims for damages for insignificant amounts. The Company has made no provision for these amounts because management believes that most of the resulting judgments will be favorable and any losses incurred will not result in any material liability to the Company.

Covenants

As a result of the various contracts entered into by the Company to finance the Boeing 767 aircraft that are financed by the Export - Import Bank of the United States, the Company is required to comply with certain restrictions regarding shareholder composition and disposal of assets.

The loan agreement with BBVA - Banco Bhif has placed restrictions on the Company's ability to dispose of certain of its fixed assets.

As a result of the various contracts entered into by the Company to finance the Airbus A320 aircraft that are guaranteed by various European export credit agencies, the Company is required to comply with certain restrictions regarding shareholder composition and disposal of assets.

As a result of the securitization contract with Pelican Finance Ltd. in August 2002, there are certain restrictions on the use of the future cash flows which have been securitized.

As of December 31, 2006, the Company was in compliance with all covenants.

Other

At December 31, 2006, the Company had approved credit lines in the amount of ThUS$ 268,950. These credit lines are used mainly to cover (a) stand-by credit letters issued in favor of aircraft lessors and airports in the United States of America and other countries and (b) bank credit letters issued in favor of the local air administration or the Chilean Government.

Note 24 - Foreign Currencies

Foreign currency assets and liabilities at December 31 of each year are summarized as follows:

	At December 31,	
	2006	2005
	(In thousands of US$)	
Assets denominated in :		
Chilean pesos	131,908	79,881
Other currencies	110,428	66,359
Total	**242,336**	**146,240**
Liabilities denominated in:		
Chilean pesos	63,302	61,092
Other currencies	101,831	37,469
Total	**165,133**	**98,561**

Note 25 - Segment Reporting

The Company reports segment information in accordance with Statement of Financial Accounting Standard No. 131, "Disclosures About Segments of an Enterprise and Related Information" ("SFAS 131"). SFAS 131 establishes standards for reporting information about operating segments in annual financial statements as well as related disclosures about products and services, geographic areas and major customers. Operating segments are defined as components of an enterprise about which separate financial statement information is available that is evaluated regularly by the chief operating decision maker in making decisions about allocating resources and assessing performance. The Company considers that it has one reportable segment. The Company's operating revenues by geographic region are summarized below:

	Year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Domestic (Chile)	414,587	428,644	332,890
North America	1,336,548	1,194,996	1,099,936
South America (excluding Chile)	867,620	619,860	458,594
Europe	266,660	158,544	146,143
Pacific	148,545	104,309	55,382
Total	**3,033,960**	**2,506,353**	**2,092,945**

The Company attributes operating revenues to the geographical area in which the relevant overseas point of the flight lies. The Company's tangible assets consist primarily of flight equipment which is mobile across geographic markets and, therefore, has not been allocated.

Note 26 – Subsequent Events

a) At an Extraordnary Shareholder's Meeting held on January 26, 2007, the Shareholders agreed the following:

- Increase capital by issuing 7,500,000 shares, at a price and in accordance with other conditions to be determined;

- Designate a portion of the abovementioned capital increase to compensation plans, in accordance with article 24 of Law 18,046;

- Amend the bylaws of the Company to reflect the resolutions adopted during the above Shareholder´s Meeting;

- Authorize the Board of Directors of the Company to request the registration of the shares representing the capital increase with the Registry of the Superintendent of Securities and Insurance; to proceed with the settlement of the shares; and to agree on the terms pertaining to the compensation plans mentioned above.

b) At an Extraordnary meeting of the Board od Directors held on March 7, 2007, the Board of LAN Airlines S.A. agreed to summon an Extraordinary Shareholders Meeting to take place on April 5, 2007 immediately following the Ordinary Shareholders Meeting of the Company, which takes place at 11:00 a.m., to discuss the following subjects:

- To annul the increase in capital by 7,500,000 (seven million five hundred thousand) payable shares, agreed upon by the Extraordinary Meeting of Shareholders that took place on January 26, 2007.

- To increase the capital stock of LAN Airlines S.A. via the issuance of 22,090,910 (twenty-two million ninety thousand nine hundred ten) payable shares, at the price and additional conditions that the Shareholders Meeting agrees upon. Let it be known that the Board of Directors of the Company intends to place part of this increase in capital in foreign stock markets, by way of the mechanism of American Depository Receipts, also known as ADRs.

- To assign one part of the stated increase in capital to the compensatory plan described in the terms of article 24 of the law 18,046.

- To modify the bylaws in order to adjust them to the framework adopted by the Meeting.

- To empower the Board of Directors of the Company to request the registration of the shares representative of the increase in capital, in the Registry of Securities of the Superintendence of Securities and Insurance; to proceed with the placement; and to agree to the terms of the compensatory plan previously mentioned.

c) The Company has no other knowledge of any other subsequent events that would have a significant effect on the balances or interpretation of these financials statements.

Note 27 - Differences Between Chilean and United States Generally Accepted Accounting Principles

Accounting principles generally accepted in Chile ("Chilean GAAP") vary in certain important respects from accounting principles generally accepted in the United States ("US GAAP"). Such differences involve certain methods for measuring the amounts shown in the financial statements, as well as additional disclosures required by US GAAP.

1. Differences in measurement methods

The principal methods applied in the preparation of the accompanying financial statements, which have resulted in amounts which differ from those that would have otherwise been determined under US GAAP, are as follows:

a) Deferred income tax

As discussed in Note 14, effective January 1, 2000, the Company began applying Technical Bulletin No. 60 of the Chilean Institute of Accountants concerning deferred income taxes. Technical Bulletin No. 60 requires the recognition of deferred income taxes for all temporary differences arising after January 1, 2000, whether recurring or not, using an asset and liability approach. For US GAAP purposes, the Company has always applied Statement of Financial Accounting Standard ("SFAS") No. 109, "Accounting for Income Taxes", whereby income taxes are also recognized using substantially the same asset and liability approach. Deferred income tax assets and liabilities established for temporary differences between the financial reporting basis and tax basis of the Company's assets and liabilities are based on enacted rates at the dates that the temporary differences are expected to reverse. The effect of changes in tax rates is included in income for the period that includes the enactment date.

After the year ended December 31, 1999, Chilean GAAP and US GAAP differ due to the recognition for US GAAP purposes of the reversal of deferred income taxes included in the US GAAP reconciliations in years prior to 2000.

Prior to the implementation of Technical Bulletin No. 60, no deferred income taxes were recorded under Chilean GAAP if the related timing differences were expected to be offset in the year that they were projected to reverse by new timing differences of a similar nature.

Furthermore, deferred income tax assets under both Chilean and US GAAP should be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The valuation allowance should be sufficient to reduce the deferred income tax asset to an amount that is more likely than not to be realized.

The effect of providing for deferred income taxes for the differences between the amounts shown for assets and liabilities in the balance sheet and the tax basis of those assets and liabilities is included in paragraph 1 n) below and certain disclosures required under FAS 109 are set forth under paragraph 2 c) below.

b) Goodwill

Until December 31, 2003, under Chilean GAAP, the excess of cost over the net book value of a purchased company was recorded as goodwill (the book value purchase method), which was then amortized to income over a maximum period of twenty years. Amortization of goodwill may be accelerated if the acquired company generates sufficient income to absorb the additional amortization in any given year. The excess of net book value over the cost of an investment was considered to be negative goodwill under Chilean GAAP and is also amortized to income over a maximum period of twenty years. The amortization of negative goodwill may be accelerated if the acquired company sustains losses.

Under US GAAP, goodwill and other intangibles are accounted for under SFAS No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires the purchase method of accounting be used for all business combinations initiated after June 30, 2001 and prohibits the use of the pooling-of-interests method of accounting after this date. With respect to the purchase method of accounting, the cost of an investment is assigned to the tangible and identified intangible assets acquired and liabilities assumed on the basis of their fair values at the date of acquisition. Any excess of cost over the fair value of net assets acquired is recorded as goodwill. If an excess of acquired net assets over cost arises, the excess is allocated to reduce proportionally the values assigned to noncurrent assets (except long-term investments in marketable securities) in determining their fair values. If the allocation reduces the noncurrent assets to zero value, the remainder of the excess over cost (negative goodwill) is written off immediately as an extraordinary gain. SFAS No. 141 establishes specific criteria for the recognition of intangible assets separately from goodwill and requires unallocated negative goodwill to be written off immediately as an extraordinary gain (instead of being deferred and amortized).

SFAS No. 142, "Goodwill and Other Intangible Assets" establishes the following:

• The accounting for a recognized intangible asset is based on its useful life to the reporting entity. An intangible asset with a finite useful life is amortized over the life of the asset, but goodwill and other intangible assets with indefinite useful lives are not amortized.
• The remaining useful lives of intangible assets being amortized are evaluated each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of an intangible asset's remaining useful life is changed, the remaining carrying value of the intangible asset is amortized prospectively over the revised remaining useful life.
• Goodwill and other intangible assets with indefinite useful lives that are not subject to amortization are tested for impairment at least annually.
• All goodwill must be assigned to a reporting unit, which is defined as an operating segment or one level below an operating segment.

SFAS No. 142 became effective for years beginning after December 15, 2001. Accordingly, goodwill amortization was ceased for US GAAP purposes beginning in 2002.

As discussed in Note 10, the Company has made a number of acquisitions. Acquisitions made prior to December 31, 2003, were recorded pursuant to the book value purchase method for Chilean GAAP purposes. For these acquisitions there were no significant differences in the allocation of the purchase price or the determination of goodwill between the book value purchase method in accordance with Chilean GAAP and the purchase accounting method required pursuant to SFAS No. 141 in accordance with US GAAP. For acquisitions after December 31, 2003 the fair value purchase method is used for both Chilean GAAP and US GAAP. However, under Chilean GAAP certain differences may occur in the identification of intangible assets and goodwill. The companies acquired since January 1, 2004 are not material to the consolidated financial position of the Company and therefore adjustments to the purchase price allocation and pro forma financial statements showing the effect on operations as if the acquisitions had been completed at the beginning of the period are not presented.

For US GAAP purposes, the reversal of amortization of goodwill from the purchases made by the Company and the purchase accounting adjustments of conforming business acquisitions prior to June 30, 2001 to US GAAP are shown in paragraph 1 m) below. As a result of the annual impairment tests performed by the Company, no adjustment to the book value of goodwill was deemed necessary.

Under Chilean GAAP, the cost of an equity method investment is separated into an investment component (based on the purchase of the proportionate share of equity according to book values) and a goodwill component (based on the difference between the amount paid and the proportional book value of the investment). Under US GAAP, these components are combined in one balance sheet caption as an investment, and goodwill is determined in a manner similar to a consolidated subsidiary based on proportionate ownership. No disclosure has been presented for the effect of the reclassification between goodwill as determined under Chilean GAAP for equity method investments and goodwill determined under US GAAP as the effect of this reclassification is not significant.

The effects of reclassifying negative goodwill for the acquisitions prior to December 31, 2003 as determined under Chilean GAAP to proportionately reduce the values assigned to the non-current assets acquired in accordance with US GAAP are not significant.

c) Revaluation of property and equipment

As mentioned in Note 2 k), certain property and equipment are valued in the financial statements at amounts determined in accordance with a technical appraisal. The revaluation of property and equipment is an accounting principle that is not generally accepted in the United

States. Assets that were subjected to appraisals have been fully depreciated or are no longer owned by the Company. Accordingly, there is no impact on US GAAP results and no adjustments recorded.

d) Minimum dividend

As required by the Chilean Companies Act. unless otherwise decided by the unanimous vote of the issued and subscribed shares, an open stock corporation must distribute a cash dividend in an amount equal to at least 30% of the company's net income for each year adjusted for the deficit under developing period as determined in accordance with Chilean GAAP. Under Chilean GAAP, even though the minimum dividend is a legal requirement, the dividend is not recorded until it is declared by the Company. For 2006 and 2005, the full amount of the required dividend was declared as interim dividends and recorded by the Company, therefore, no adjustment is necessary.

e) Equity method of accounting and Consolidation

As mentioned in Note 2 l), for Chilean GAAP purposes, beginning in 2005, investments in related companies are accounted for pursuant to the equity method when the company's investment represents between 20% and 50% of the voting stock of the investee. Prior to 2005, when investments in related companies represented between 10% and 50% of voting rights the equity method was used. For US GAAP purposes prior to February 1, 2003, investments in related companies required the use of the equity method of accounting for investments which give the investor the ability to exercise significant influence over operating and financial policies of the investee. For those companies which were determined to be controlled through the Company's investment (generally, ownership of over 50% of the outstanding voting shares), US GAAP required consolidation. Subsequent to February 1, 2003, US GAAP requires the determination of whether an entity should be consolidated in accordance with FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), focused on identifying entities for which a controlling financial interest is achieved through means other that voting rights. Under this interpretation, a variable interest entity must be consolidated if certain consolidation requirements are met. An enterprise should consolidate an entity if that enterprise has a variable interest in the entity that will absorb a majority of the entity´s expected losses, receive a majority of the entity's expected residual returns, or both. FIN 46, as revised by FIN 46R, was effective on February 1, 2003 for new transactions and effective for reporting periods after March 15, 2005 for transactions entered into prior to February 1, 2003.

Relative to the Company's investments in related companies, there are no differences in the application of the equity method or consolidation between Chilean GAAP and US GAAP.

f) Monetary correction of subsidiaries

As indicated in Note 2 d), the Chilean peso financial statements of certain of the Company's Chilean subsidiaries are restated through the application of price-level restatements in accordance with Chilean GAAP to show the effects of changes in the purchasing power of the Chilean peso, using indicators published by the National Institute of Statistics. The financial statements of such Chilean subsidiaries are then remeasured to US dollars at the exchange rates prevailing on December 31 of each year.

The inclusion of price-level restatements when the US dollar is the reporting currency is not permitted under US GAAP. However, in the case of the Company, the effects of including price-level restatement at the subsidiary level are not significant and accordingly the effects of reversing the price-level restatement are not included in the reconciliation of net income and net equity accounts to US GAAP in paragraph 1 n) below.

g) Investment securities

Under Chilean GAAP, investments in bonds held by the Company are carried at the lower of cost plus accrued interest or market value. Under Chilean GAAP, mutual funds are stated at market value based on year-end quoted values and unrealized gains and losses are recorded in the current year Consolidated Statement of Income. Under SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities", investment securities, which include debt and certain equity securities, are accounted for as follows:

- Debt securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and are reported at amortized cost.

- Debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses included in earnings.

- Debt and equity securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported in a separate component of shareholders' equity.

The Company's investments in bonds are classified as available for sale securities for the purposes of SFAS No. 115. The effect of the difference between Chilean GAAP and US GAAP in accounting for the Company's investment in bonds is included in the reconciliation of reported Net income to Comprehensive income in accordance with US GAAP in paragraph 1 n) below. There is no difference between Chilean GAAP and US GAAP for the Company's investments in mutual funds as they are classified as trading securities for the purpose of SFAS No. 115.

h) Presentation in Statement of cash flows

Under Chilean GAAP, payments of leasing obligations subsequent to the date of purchase are treated in the Consolidated Statement of Cash Flows as additions of property and equipment and classified as cash outflows from investing activities. Under US GAAP, incurring directly-related debt to the seller of property and equipment is a financing transaction and subsequent payments of principal on that debt are thus considered to be cash outflows from financing activities.

As a result of these differences, the Consolidated Statement of Cash Flows under Chilean GAAP would have to be adjusted as follows to present the statement in accordance with US GAAP:

	Increase (decrease) in cash flow		
	2006	2005	2004
	(In thousands of US$)		
Net cash provided by (used in) financing activities under Chilean GAAP	503,717	177,888	(134,768)
Loans repaid	(33,559)	(38,180)	(11,504)
Net cash provided by (used in) financing activities under US GAAP	470,158	139,708	(146,272)
Net cash provided by (used in) investing activities under Chilean GAAP	905,746	(560,422)	(152,869)
Acquisitions of property and equipment	33,559	38,180	11,504
Net cash provided by (used in) investing activities under US GAAP	939,305	(522,242)	(141,365)

Net cash and cash equivalents at the end of year under US GAAP is as follows:

	At December 31,		
	2006	2005	2004
	(In thousands of US$)		
Cash	9,565	11,733	11,620
Time deposits	148,663	34,519	179,715
Defined-term mutual funds (included in Marketable Securities)	39,654	65,019	25,533
Other current assets	1,614	-	-
Total	**199,496**	**111,271**	**216,868**

There are no significant non-cash investing or financing transactions in the three years ended December 31, 2006. The Company made cash payments for interest of ThUS$ 60,107, ThUS$ 39,740 and ThUS$ 38,689 for the years ended 2006, 2005 and 2004, respectively. The Company made tax payments of ThUS$ 49,846, ThUS$ 37,357 and ThUS$ 29,554 for the years ended 2006, 2005 and 2004, respectively.

i) Classification of income and expenses

Under Chilean GAAP, the following income and expenses arising during the years 2006, 2005 and 2004 are classified as Other income (expense) - net whereas under US GAAP they would be recorded within continuing operations:

	Year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Non-operating income (1):			
Swap fuel contracts	12,903	51,480	46,529
Total	**12,903**	**51,480**	**46,529**
Non-operating expenses:			
Provision for retirement of Boeing 737 Aircraft (2)	8,100	-	-
Non-recurring indemnities paid to employees (2)	11,747	-	-
Total	**19,847**	**-**	**-**

(1) The Company recorded a ThUS$ 40.3 cumulative effect for a change in accounting principles as Non-operating income in 2006 for Chilean GAAP. This is adjusted for and included in the US GAAP reconciliation in Note 2 (n).
(2) See Note 22

j) Internal use software

As mentioned in Note 2 k), under Chilean GAAP all disbursements for the development of internal use software are charged to the results of operations as incurred. Under US GAAP, certain costs related to internal use software are capitalized while others are charged to the results of operations. External direct costs of materials and services consumed in developing or obtaining internal use computer software, payroll and payroll-related costs for employees who are directly associated with and who devote time to the internal use computer software project and interest costs incurred while developing internal use computer software are capitalized. Maintenance, training, data conversion and reengineering costs are charged to the results of operations as incurred. However, in the case of the Company, the costs relating to internal use software are not significant and accordingly, these costs are not included in the reconciliation to US GAAP of net income and net equity accounts in paragraph 1 n) below.

k) Recognition of tax loss carryforwards

At December 31, 2000, LAN Perú had tax loss carryforwards of ThUS$ 7,590 resulting in a deferred tax asset of ThUS$ 2,326. A valuation allowance of ThUS$ 2,326 was provided to offset the entire deferred tax asset because at that time it appeared unlikely that these tax losses would be utilized in future years. LAN Perú was an equity method investee at December 31, 2000 and during 2001 the Company acquired an additional 21% ownership interest and LAN Perú became a consolidated subsidiary. No deferred tax asset was recognized under Chilean GAAP on the date of purchase. During 2001, LAN Perú had taxable income and utilized ThUS$ 1,673 of the deferred tax asset, leaving a balance of ThUS$ 653 which expired without being utilized. In accordance with US GAAP, when tax loss carryforwards that were not recognized at the acquisition date are recognized in a subsequent period, they first reduce to zero any positive goodwill related to the acquisition; then they reduce to zero all other noncurrent intangible assets; and finally, they reduce income tax expense. For Chilean GAAP purposes, the tax loss was used to reduce income tax expense without first reducing existing goodwill, As a result, the US GAAP reconciliation in paragraph 1 n) below includes an adjustment to decrease goodwill on the purchase of LAN Perú in 2001 by ThUS$ 488 and increase the current income provision by the same amount. The adjustment is based on the acquired ownership interest of 21% applied to the deferred tax asset of ThUS$ 2,326 recognized in 2001.

l) Derivative financial instruments

The Company uses interest rate swap and cap agreements to reduce its exposure from variable interest bearing liabilities and commitments. It also enters into commodity (jet fuel and West Texas intermediate) swap and call contracts to fix the price for a given quantity of the aforementioned commodity, and "costless collars" which are a combination of call and put options so as to ensure a price range for jet fuel. In order to reduce the impact of foreign exchange rate fluctuations, the Company enters into foreign exchange hedge contracts.

Under Chilean GAAP, derivatives are accounted for in accordance with Technical Bulletin 57, "Accounting for Derivative Contracts" (TB 57). Under TB 57, all derivative financial instruments should be recognized on the balance sheet at their fair value. In addition, TB 57 requires that derivative financial instruments be classified as non-hedging (investment) instruments and hedging instruments, the latter further divided into those covering recognized assets or liabilities or an unrecognized firm commitment and those covering forecasted transactions.

Contracts to cover recognized assets or liabilities or an unrecognized firm commitment act as hedging instruments against the risk of a change in the fair value of a hedged item. The differences resulting from the changes in the fair value of both the hedged item and the derivative instrument should be accounted for as follows:

a) If the net effect is a loss, it should be recognized in earnings in the period of change.
b) If the net effect is a gain, it should be recognized when the contract is closed and accordingly deferred on the balance sheet.
c) If the net effect is a gain and net losses were recorded on the transaction in prior years, a gain should be recognized in earnings in the current period up to the amount of net losses recorded previously.
d) If the effect is a net loss and net gains were recorded (as a deferred revenue) on the transaction in prior years, the gain should be utilized to offset the net loss before recording the remaining loss in the results of operations for the year.

Contracts to cover forecasted transactions are those that have the objective of protecting cash flow risks of a transaction expected to occur in the future (a cash flow hedge). The hedging instrument should be recorded at its fair value and the changes in fair value should be stated on the balance sheet as unrealized gains or losses. When the contract is closed, the unrealized gains or losses on the derivative instrument should be recognized in earnings without affecting the cost or sales price of the asset acquired or sold in the transaction. However, probable losses arising from purchase commitments should not be deferred.

Non-hedging (investment) instruments should also be presented at their fair value, with changes in fair value reflected in the earnings of the period in which the change in fair value occurs.

For US GAAP reconciliation purposes only, the Company has adopted SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and SFAS 138 on the same matter (collectively referred to herein as "SFAS 133"). SFAS 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the Consolidated Balance Sheet and measure those instruments at fair value. If certain conditions are met, a derivative may be specifically designated as (a) a hedge of the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment, (b) a hedge of the exposure to variable cash flows of a forecasted transaction or to the variability of the cash flows that are to be received or paid in connection with a recognized asset or liability or (c) a hedge of the foreign currency exposure of a net investment in a foreign operation, an unrecognized firm commitment, an available-for-sale security, a foreign-currency-denominated forecasted transaction or a recognized asset or liability.

As indicated below in paragraph 2 f), the accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

The effect of the differences in accounting for derivative financial instruments under Chilean and US GAAP is included in paragraph 1 n) below. Additional information concerning derivative financial instruments that is required to be disclosed under SFAS 133 is set forth below in paragraph 2 f).

m) Change in accounting policy for maintenance costs

As mentioned in Note 2 p), the Company changed its method of accounting for heavy aircraft and engine maintenance costs associated with its owned aircraft. This change in accounting principle for Chilean GAAP was preferable, and in line with industry practice. The effect of this change was recorded prospectively under Chilean GAAP and resulted in an approximate US$ 40.3 million increase in Non-operating income for 2006.

For Chilean GAAP, the Company effectively changed the accounting for heavy aircraft and engine maintenance costs on owned aircraft from the accrual method to the deferral method. In the recently issued FASB Staff Position No. AUG AIR-1 ("FSP AIR-1"), the FASB also eliminates the use of the accrual method for US GAAP effective January 1, 2007. This FSP AIR-1 allows for early adoption. The Company also changed its accounting principle for heavy aircraft and engine maintenance costs on owned aircraft to the deferral method. The Company will adopt the FSP AIR-1 for leased aircraft in 2007, and is still evaluating the impact of this adoption to the US GAAP results of operation and financial position.

For US GAAP, the Company has retrospectively applied the use of the deferral method to prior periods´ financial statements. The cumulative effect of the accounting change on periods prior to the fiscal year ended December 31, 2004 are reflected in the carrying amounts of assets and liabilities as of the beginning as of January 1, 2004. An offsetting adjustment has been made to the opening balance of retained earnings as of January 1, 2004. The effects of this change in accounting policy are shown below and under paragraph 1 n). The effect of this change on the 2006 US GAAP results was a decrease in net income of approximately US$ 40.3 million. The cumulative effect on the 2004 beginning Shareholders´equity balance was an increase of US$ 38.7 million.

The following financial data show the effect of the retrospective application of this change in accounting principle under US GAAP:

	2004	
	(as adjusted)	(as reported)
	(In thousands of US$)	
Balance sheet:		
Property and equipment (net)	958,667	978,974
Provisions	(100,679)	(159,615)
Income statement:		
Depreciation and amortization	(76,840)	(77,443)
Aircraft maintenance	(116,621)	(120,818)
Total operating expenses	(1,874,314)	(1,874,316)
Operating income	218,631	218,629
Income tax	(34,895)	(34,079)
Net Income	**164,689**	**160,703**

	2005	
	(as adjusted)	(as reported)
	(In thousands of US$)	
Balance sheet:		
Property and equipment (net)	1,232,829	1,252,270
Provisions	(102,118)	(160,563)
Income statement:		
Depreciation and amortization	(72,111)	(80,456)
Aircraft maintenance	(96,682)	(132,198)
Total operating expenses	(2,355,481)	(2,313,237)
Operating income	150,872	193,116
Income tax	(25,610)	(25,335)
Net Income	**156,312**	**154,970**

n) Effects of conforming to US GAAP

The adjustments to reported net income required to conform with US GAAP are as follows:

	For the year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Net income in accordance with Chilean GAAP financial statements	241,300	146,601	163,552
Deferred income tax provision (par. 1 a)	8,311	2,648	(6,602)
Purchase accounting adjustments of property and equipment on LAN Cargo S.A (Ex LAN Chile Cargo S.A.) acquisition (par. 1 b)	(64)	(64)	(64)
Fair value of derivative not considered to be a hedge (par. 1 l and par. 2 f)	120	-	414
Ineffectiveness of cash flow hedges of forecasted jet fuel purchases (par. 1 l and par. 2 f)	(2,080)	2,233	(606)
Ineffectiveness of cash flow hedges of interest rate cap contracts (par. 1 l and par. 2 f)	(890)	-	-
Ineffectiveness of cash flow hedges of forecasted securitization (net of amortization) (par. 1 l and par. 2 f)	59	59	59
Reversal of goodwill and its amortization (par. 1 b)	3,318	3,218	3,134
Effect of change in accounting policy (par. 1 m)	(40,344)	1,617	4,802
Net income in accordance with US GAAP	209,730	156,312	164,689

	For the year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Comprehensive income (loss):			
Fair value of cash flow hedges:			
Interest rate contracts (par. 1 l and par. 2 f)	(11,259)	9,441	4,179
Jet fuel swaps (par. 1 l and par. 2 f)	(12,454)	(6,344)	446
Treasury rate lock (par. 1 l and par. 2 f)	471	471	471
Unrealized gain on investment (par. 2 b)	(8,205)	(2,233)	10,565
Other comprehensive income (loss) before taxes	(31,447)	1,335	15,661
Income tax (expense) benefit related to items of other			
comprehensive income (par. 1 a)	5,346	(227)	(2,663)
Comprehensive income in accordance with US GAAP	183,629	157,420	177,687

The adjustments required to conform Total Shareholders' equity to US GAAP are as follows:

	For the year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Total Shareholders' Equity in accordance with Chilean GAAP financial statements	626,320	502,713	434,557
Deferred income tax provision (par. 1 a)	(14,496)	(22,807)	(25,455)
Purchase accounting adjustments of property and equipment arising from LAN Cargo S.A. (Ex LAN Chile Cargo S.A.) acquisition (par. 1 b)	428	492	556
Reversal of utilization of tax loss carryovers in Perú (par. 1 k)	(488)	(488)	(488)
Fair value of derivative not considered to be a hedge (par. 1 l and par. 2 f)	120	-	-
Ineffectiveness of cash flow hedges of forecasted jet fuel purchases (par. 1 l and par. 2 f)	(890)	2,080	(153)
Ineffectiveness of cash flow hedge of forecasted securitization (net of amortization) (par. 1 l and par. 2 f)	(147)	(206)	(265)
Difference in purchase accounting adjustments (par. 1 b)	(20,814)	(20,814)	(20,814)
Amortization of goodwill basis differences pre-SFAS 141 (par. 1 b)	8,201	8,201	8,201
Reversal of amortization of goodwill under chilean gaap subsequent to implementation of SFAS 141 (par. 1 b)	16,085	12,767	9,549
Effect of change in accounting principle (par. 1 m)	-	40,344	38,727
Shareholders' Equity in accordance with US GAAP	**614,319**	**522,282**	**444,415**

	For the year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Beginning accumulated other comprehensive loss	4,471	3,363	(9,635)
Other comprehensive income (loss), net of income tax	(26,101)	1,108	12,998
Accumulated other comprehensive income (loss) in accordance with US GAAP	(21,630)	4,471	3,363
Total shareholder's equity in accordance with US GAAP including accumulated other comprehensive income (loss)	**592,689**	**526,753**	**447,778**

The changes in Total Shareholders' equity determined under US GAAP are summarized as follows:

	In thousands of US$
Balance at December 31, 2003	**351,650**
Distribution of final 2003 dividend	(6,776)
Distribution of interim 2004 dividend	(74,783)
Other comprehensive income:	
Gain from fair value of cash flow hedges	5,096
Unrealized gain on investment	10,565
Income tax expense related to items of other comprehensive income	(2,663)
Net income for the year	164,689
Balance at December 31, 2004	**447,778**
Balance at December 31, 2004	**447,778**
Distribution of final 2004 dividend	(6,994)
Distribution of interim 2005 dividend	(71,451)
Other comprehensive income:	
Gain from fair value of cash flow hedges	3,568
Unrealized gain on investment	(2,233)
Income tax expense related to items of other comprehensive loss	(227)
Net income for the year	156,312
Balance at December 31, 2005	**526,753**
Balance at December 31, 2005	**526,753**
Distribution of final 2005 dividend	(1,843)
Distribution of interim 2006 dividend	(115,850)
Other comprehensive income:	
Gain from fair value of cash flow hedges	(23,242)
Unrealized gain on investment	(8,205)
Income tax expense related to items of other comprehensive loss	5,346
Net income for the year	**209,730**
Balance at December 31, 2006	**592,689**

2. Additional US GAAP disclosure requirements

The information set forth below is required under US GAAP but not under Chilean GAAP.

a) Earnings per share

The following disclosure of earnings per share information is not generally required for presentation in financial statements under Chilean GAAP but is required under US GAAP:

	Year ended December 31,		
	2006	2005	2004
			(In US$)
Earnings per share under Chilean GAAP	0.76	0.46	0.51
Basic and diluted earnings per share under US GAAP	0.66	0.49	0.52
Weighted-average number of shares of common stock outstanding for basic and diluted earnings per share (in thousands)	**318,909**	**318,909**	**318,909**

The earnings per share data shown above is determined by dividing net income for both Chilean GAAP and US GAAP purposes by the weighted-average number of shares of common stock outstanding during each year.

b) Investment securities

Shown below are the cost, gross unrealized gain and losses and approximate fair value of marketable securities under US GAAP (see paragraph 1g):

	Cost		Gross Unrealized gains		Gross Unrealized losses		Fair Value	
	2006	2005	2006	2005	2006	2005	2006	2005
	(In thousands of US$)							
Bonds	20,415	47,964	204	8,409	-	-	20,619	56,373
Total securities available for sale	**20,415**	**47,964**	**204**	**8,409**	**-**	**-**	**20,619**	**56,373**

c) Income tax

The provision for income taxes charged to the results of operations under US GAAP was as follows:

	Year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Current income tax expense	(14,123)	(1,261)	(970)
Deferred income tax expense	(24,403)	(24,349)	(33,925)
Total provision under US GAAP	**(38,526)**	**(25,610)**	**(34,895)**

Deferred tax assets (liabilities) are summarized as follows:

	Year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Unearned income	(16,198)	(16,295)	(11,480)
Prepaid expenses	(6,363)	(6,100)	(7,405)
Property and equipment	(156,405)	(120,509)	(113,055)
Others	-	(7,774)	(7,272)
Gross deferred tax liabilities	(178,966)	(150,678)	(139,212)
Allowance for doubtful accounts	4,494	4,073	3,735
Tax loss carryforwards	32,968	33,282	46,752
Provision for vacations	3,302	2,732	2,517
Provisions for obsolescence of spare parts	2,960	4,593	3,814
Other	20,178	5,357	5,835
Gross deferred tax assets	63,902	50,037	62,653
Deferred tax assets valuation allowance	(15,302)	(10,988)	(10,803)
Net deferred tax liabilities	(130,366)	(111,629)	(87,362)

The provision for income taxes differs from the amount of income tax determined by applying the applicable Chilean statutory income tax rates of 17% to pretax accounting income on a US GAAP basis as a result of the following differences:

	Year ended December 31,		
	2006	2005	2004
	(In thousands of US$)		
Provision for income taxes at statutory Chilean tax rate	(42,204)	(30,573)	(33,929)
Increase (decrease) in rates resulting from:			
Non-taxable income	5,618	5,967	2,400
Non-deductible items	(1,371)	(334)	(271)
Change in valuation allowance	(4,314)	(185)	(3,305)
International income tax differences	3,022	(313)	548
Increase in Chilean tax rates (effect on deferred income tax)	-	-	-
Other	723	(172)	(338)
Provision for income taxes at effective tax rates	(38,526)	(25,610)	(34,895)

In accordance with Chilean law, the Company and each of its subsidiaries compute and pay taxes on a separate return basis and not on a consolidated basis.

The Company and certain of the Chilean subsidiaries (principally LAN Cargo S.A.) have tax loss carryforwards aggregating ThUS$ 79,589 at December 31, 2006 which have no expiration date. These tax losses have resulted in a deferred tax asset at that date of ThUS$ 13,530.

Inversora Cordillera S.A. and its subsidiary have tax loss carryforwards aggregating ThUS$ 32,678 at December 31, 2006 which have an expiration date of five years beginning in the first year that a loss is incurred. The related deferred tax asset was ThUS$ 11,437 at December 31, 2006 and a 55% valuation allowance has been provided.

LanLogistics, Corp. and its subsidiaries have tax loss carryforwards aggregating ThUS$ 10,662 at December 31, 2006 which have expiration dates of twenty years after the year of the loss. The related deferred tax asset is ThUS$ 3,625 and a 100% valuation allowance has been provided because at the present time it appears unlikely that these tax losses will be utilized in future years.

LAN Chile Investment Limited and its subsidiaries have tax loss carryforwards aggregating ThUS$ 6,607 at December 31, 2006 which have expiration dates between three and five years after the year of the loss. The related deferred tax asset is ThUS$ 1,651 and a 100 % valuation allowance has been provided because at the present time it appears unlikely that these tax losses will be utilized in future years

Aerolinheas Brasileiras has tax loss carryforwards aggregating ThUS$ 4,789 at December 31, 2006 which have no expiration date. However, a 100% valuation allowance has been provided against the related deferred tax asset of ThUS$ 1,628 because at the present time it appears unlikely that these tax losses will be utilized in future years.

South Florida Air Cargo Inc. has tax loss carryforwards of ThUS$ 3,227 at December 31, 2006 which have expiration dates of twenty years after the year of the loss. The related deferred tax asset was ThUS$ 1,097 at December 31, 2006.

d) Fair value of financial instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instruments at December 31, 2006, 2005 and 2004 for which it is practicable to estimate that value.

Cash, Time deposits and Marketable securities:

Cash, time deposits and marketable securities are stated at their carrying amount, which is equivalent to fair value.

Other assets:

The fair value of long-term accounts receivable included within Other assets was estimated using the interest rate the Company would pay for similar credit.

Short and long-term debt:

The fair value of short and long-term debt was based on rates currently available to the Company for debt with similar terms and remaining maturities.

Financial instruments:

The fair value of swap fuel contracts (used in hedging of fuel prices) is the estimated amount that the Company would receive or pay to terminate the agreements at the balance sheet date taking into account current fuel prices and the current creditworthiness of the counterparties.

The fair value of the interest rate agreements is based on estimated mid-market valuations. Such mid-market values attempt to approximate the economic value at the balance sheet date of a position using prices and rates at the average of the estimated bid and offer for the respective underlying assets or reference rates and/or mathematical models, as deemed appropriate by the Company. In the absence of sufficient or meaningful market information, such valuations or components thereof may be theoretical in whole or in part.

The estimated fair values of the Company's financial instruments on a US GAAP basis are as follows:

	At December 31, 2006		At December 31, 2005	
	US GAAP Carrying amount	Fair Value	US GAAP Carrying amount	Fair Value
	(In thousands of US$)			
Cash	9,565	9,565	11,733	11,733
Time deposits	148,977	148,977	34,519	34,519
Marketable securities	60,273	60,273	121,392	121,392
Current portion of long-term loans	89,883	125,946	53,104	68,351
Current portion of other long-term obligations	55,040	49,607	45,687	52,209
Bank loans (long-term)	1,031,082	928,302	521,974	479,416
Other liabilities (long-term)	196,011	170,417	192,700	164,075
Financial instruments:				
Interest rate Derivatives	(21,731)	(21,731)	(10,472)	(10,472)
Swap fuel contracts	(4,244)	(4,244)	11,180	11,180

e) Concentration of credit risk

The Company's accounts receivable are generated primarily from airline ticket and cargo service sales to individuals and various commercial enterprises that are economically and geographically dispersed, and the accounts receivable are generally short-term in duration. Accordingly, the Company does not believe that it is subject to any significant concentration of credit risk.

f) Financial instruments

Accounting for Derivatives and Hedging Activities

All derivatives are recognized on the balance sheet at their fair value. On the date that the Company enters into a derivative contract, it designates the derivative as (1) a hedge of (a) the fair value of a recognized asset or liability or (b) an unrecognized firm commitment (a "fair value" hedge); (2) a hedge of (a) a forecasted transaction or (b) the variability of cash flows that are to be received or paid in connection with a recognized asset or liability (a "cash flow" hedge); (3) a foreign currency fair value or cash flow hedge (a "foreign currency" hedge); (4) a hedge of a net investment in a foreign operation; or (5) an instrument that is held for trading or non-hedging purposes (a "trading" or "non-hedging" instrument). Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a fair value hedge, along with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk (including changes that reflect losses or gains on firm commitments), are recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable rate asset or liability are recorded in earnings).

Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current period earnings. Changes in the fair value of a derivative that is highly effective as, and that is designated and qualifies as, a foreign currency hedge is recorded in either current period earnings or other comprehensive income, depending on whether the hedging relationship satisfies the criteria for a fair value or cash flow hedge. If, however, a derivative is used as a hedge of a net investment in a foreign operation, the changes in the derivative's fair value, to the extent that the derivative is effective as a hedge, are recorded in the cumulative translation adjustment account within other comprehensive income. Changes in the fair value of derivative trading and non-hedging instruments are reported in current period earnings.

Upon purchasing a financial instrument, the Company must determine whether a derivative instrument is "embedded" therein and if so, it must assess the economic characteristics of the embedded derivative to determine if they are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate, non-embedded instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract and (2) a separate, stand-alone instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and designated as either (1) a fair value, cash flow, or foreign currency hedge or (2) a trading or non-hedging derivative instrument. However, if the entire contract were to be measured at fair value, with changes in fair value reported in current earnings, or if the Company could not reliably identify and measure the embedded derivative for purposes of separating that derivative from its host contract, the entire contract would be carried on the balance sheet at fair value and not be designated as a hedging instrument.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value, cash flow, or foreign currency hedges to (1) specific assets and liabilities on the balance sheet or (2) specific firm commitments or forecasted transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives may be expected to remain highly effective in future periods.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; (4) a hedged firm commitment no longer meets the definition of a firm commitment; or (5) management determines that designating the derivative as a hedging instrument is no longer appropriate.

Derivative instruments and hedging activities

The Company's activities expose it to a variety of market risks, including risks related to the effects of changes in foreign-currency exchange rates, interest rates, and commodity prices. These financial exposures are monitored and managed by the Company as an integral part of its overall risk management program. The Company's risk management program focuses on the unpredictability of financial markets and seeks to reduce the potentially adverse effects that the volatility of these markets may have on its operating results.

Financial instruments: fuel price risk management

Jet fuel price fluctuations are largely dependent on supply and demand for crude oil in the world, OPEC decisions, refinery capacities, stock levels of crude and global political factors. In order to minimize the risk of jet fuel price fluctuations, the Company enters into swap and option contracts in the jet fuel market or the West Texas intermediate (WTI) market. The decision to enter into hedge contracts in the jet fuel or WTI market depends on the relative price of each commodity at the supposed trade date.

The Company enters into swap, call and put option contracts in order to fix or limit (depending on the case) the market price at a certain level for a given quantity of the above mentioned commodities. Pursuant to such contracts, the Company pays or receives, depending on the case, the difference between the agreed fixed price and the floating market price calculated on the notional amounts of such contracts. These contracts are classified as cash flow hedges for US GAAP purposes and as forecasted transactions for Chilean GAAP purposes.

As of December 31, 2006, the Company had no ineffectiveness with regard to its cash flow hedges of forecasted purchases of jet fuel outstanding as of year end. At December 31, 2005 the Company had ineffective hedges amounting to ThUS$ 2,080 which were recorded directly in earnings. This ineffectiveness was based on the correlation of the projected market price of the underlying asset against the projected price of future fuel purchases and was recorded in earnings for US GAAP purposes in 2005.

The notional fuel hedged, the realized results on such contracts and the fair value for the years ending December 31, 2006, 2005 and 2004 are as follows:

	2006	2005	2004
Hedged Gallons (million gallons)	149	176	118
Gain on fuel hedge contracts (ThUS$)	12,903	51,480	46,529
Fair value of fuel hedge contacts (ThUS$)	(4,244)	11,180	15,291

For Chilean GAAP purposes, gains and losses on the hedging contracts referred to above are recognized as a component of Other income (expense)-net when the underlying fuel being hedged is consumed. For US GAAP purposes, such gains and losses would be classified as Operating expenses under the caption Aircraft fuel when the fuel being hedged is consumed.

Financial instruments: Interest rate risk management

The Company is exposed to the fluctuactions of the LIBOR interest rates, due to the financing of certain aircraft. In order to reduce this exposure, the company decided to hedge a high percentage of its debt through the use of interest rate swaps and interest rate options.

In May 1999, the Company entered into an interest rate swap contract with a financial institution for a notional amount of ThUS$50,000 to convert from floating rate (Libor based) to fixed rate for a period of five years. Pursuant to the contract, the Company paid or received, depending on the case, the difference between the agreed fixed rate and the floating rate calculated on the notional amount of the contract. This contract expired in 2004. The loss on the contract during 2003 was ThUS$ 1,531 and the fair value at December 31, 2003, was estimated at a loss of ThUS$ 414. This swap was not considered to qualify for a hedge relationship and accordingly was not designated as a hedge. Therefore, the fair value of the swap at December 31, 2003, of ThUS$ (414) was charged to the results of operations for US GAAP purposes instead of as a charge to Other comprehensive income (loss) (see paragraph 1 n).

In May 2001 the Company also entered into six receive-floating, pay-fixed interest rate swap contracts in order to hedge the variable interest payments on existing debt of ThUS$ 330,608. Pursuant to these contracts, the Company pays or receives, depending on the case, the difference between the agreed fixed rate and the floating rate calculated on the notional amount of each contract. There is no associated cost to these contracts. The critical terms of these swap contracts, namely notional amounts and dates, have been negotiated to match the terms of the designated variable-rate debt; therefore, there is no ineffectiveness. In October 2005, the Company entered into two interest rate swap contracts in order to hedge the Libor exposure of the financing of two A319-100 aircraft delivered in 2005. During the first quarter of 2006 the Company also entered into ten receive-floating, pay-fixed interest rate swap contracts in order to hedge the variable interest payments on existing debt of approximately ThUS$ 46,697. Additionally, in May 2006 the Company entered into 24 interest rate swap contracts in order to hedge the Libor exposure of the financing of 20 A318-100 and 4 A320-200 aircraft to be delivered in 2007 and 2008. In June 2006, the Company entered into 8 interest rate swap contracts in order to hedge the Libor exposure of the financing of 8 B767-300 ER aircraft to be delivered in 2007 and 2008

The fair value and the losses of these swap contracts for the years ending December 31, 2006, 2005 and 2004, are as follows:

	2006	2005	2004
Losses on interest rate swap contracts (ThUS$)	(1,138)	(5,783)	(10,969)
Fair value of interest rate swap contracts (ThUS$)	(18,538)	(4,719)	(13,608)

During July 2003, the company entered into four interest rate cap contracts for a total notional amount of ThUS$ 127,753. These caps are intended to limit the Company’s exposure arising from variable-rate debt. Under Chilean and US GAAP, these contracts qualify as cash flow hedges with no ineffectiveness associated to them due to the fact that all critical terms of the debt and the caps match perfectly. The fair value of these contracts has been estimated at ThUS$ 1,484.

During the same month, the Company entered into an additional two interest rate cap contracts. These caps are intended to limit the exposure of LIBOR-linked operational lease payments on aircraft received during 2004. The fair value of these contracts at year end amounted to ThUS$ 890.

During April 2004, the Company entered into an additional two interest rate cap contracts. These caps are intended to limit the exposure of LIBOR-linked operational lease payments on aircraft received during 2005. The fair value of these contracts at year end amounted to ThUS$ 278.

During 2005, the Company entered into three additional interest rate Cap contracts. These contracts are intended to limit the exposure of LIBOR-linked financing on aircraft delivered in 2005 and one delivered in 2006. The fair value of these contracts at year end amounted ThUS$ 324.

Under FAS 133, these derivatives qualify as cash flow hedges even though some ineffectiveness exists as the notional amount over which some caps are calculated is different from the one used to determine the interest and lease payments on the aircraft. The amount of ineffectiveness was ThUS$ 890 and is recorded in earnings for US GAAP purposes. Under Chilean GAAP, the caps are accounted for as cash flow hedges and no ineffectiveness was determined.

At December 31, 2006, the Company received payment from some of the eleven aforementioned caps. The premium on the caps is being amortized throughout the term of each contract for Chilean and US GAAP purposes.

In April 2002, the Company entered into a Treasury rate lock for a notional amount of ThUS$ 45,000 in order to “lock in” a desired interest rate and hedge the variability in the cash proceeds attributable to changes in the benchmark interest rate to be received from the forecasted securitization of future credit card receivables originating from certain ticket agents in the United States, as described in Note 17 to these financial statements. The contract was classified as a cash flow hedge of a forecasted transaction for US GAAP purposes and as a hedge of an forecasted transaction for Chilean GAAP purposes.

The forecasted transaction referred to above occurred on August 22, 2002. At that time the Company recognized a deferred loss of ThUS$ 3,622 under Chilean GAAP for the settlement of the Treasury rate lock contract. During 2002 and for US GAAP purposes, the Company recognized a net loss of ThUS$ 402 which represented the total ineffectiveness of the cash flow hedge of the forecasted securitization and debited Other comprehensive income for the remaining ThUS$ 3,219, which is being amortized over the life of the securitization contract (82 months). During 2006, the Company recognized an amortization charge for this concept amounting to ThUS$ 471 under US GAAP, (ThUS$ 471 during 2005 and ThUS$ 471 during 2004). The deferred loss on the hedging contract referred to above is included in the balance sheet under the captions Prepaid expenses and Other assets (current and non-current portions, respectively) and the corresponding amortization is included in Interest expense both for Chilean and US GAAP purposes. The effect of recording the ineffectiveness of cash flow hedge (net of amortization) in accordance with US GAAP is included in paragraph l n) above

As a result of those hedging activities, the Company has 95.8% of its interest rate exposure hedged.

Financial instruments: foreign currency exchange rates

The company conducts business in local currencies in several countries and accordingly faces the risk of variation in foreign currency exchange rates. A depreciation of the Chilean peso, the Brazilian real, Argentine peso, Mexican nuevo peso, Peruvian nuevo sol or the European euro against the U.S. dollar could have a material adverse effect on the Company because it has revenues and receivables denominated in those currencies. As a part of its risk management policy, the Company regularly monitors its exposure to variations in the exchange rates of these different currencies. In order to reduce the impact of the foreign exchange rate fluctuations, the Company enters from time to time into foreign exchange hedging contracts. Under these forward contracts, for any rate above or below the fixed rate, the Company receives or pays the difference between the spot rate and the fixed rate for the given amount at the settlement date.

As of December 31, 2006 and 2005, the Company has no outstanding exchange forward contracts for hedging purposes.

In order to have a better yield on its investments in 2006, the Company entered into bank deposits in Chilean Peso together with a US dollar-Chilean pesos foreign exchange swap in order to receive US dollars at maturity. The mark to market value of these foreign exchange swaps amounted to a gain of US$ 0.5 million and is recorded in earnings under both Chilean and US GAAP.

Other information on derivative instruments

By using derivative financial instruments to hedge exposures to changes in exchange rates, interest rates, and jet fuel prices, the Company exposes itself to credit risk and market risk.

Credit risk is the risk that the counterparty might fail to fulfill its performance obligations under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty owes the Company, which creates repayment risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, does not assume repayment risk. The Company minimizes its credit (or repayment) risk in derivative instruments by (1) entering into transactions with high-quality counterparties (2) limiting the amount of its exposure to each counterparty, and (3) monitoring the financial condition of its counterparties. The Company also maintains a policy of requiring that derivative contracts be governed by an ISDA Master Agreement. Market risk is the risk that the value of a financial instrument might be adversely affected by a change in interest rates, currency exchange rates, or jet fuel prices. The Company manages the market risk associated with interest rate, jet fuel price, and foreign-exchange contracts by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

g) Comprehensive income (loss)

Comprehensive income (loss) is the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources. The fair value of cash flow hedges were considered to be Other comprehensive income during 2006, 2005 and 2004 and the unrealized gain on available for sale securities has been included in 2006.

h) Recent Accounting Pronouncements

In July 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 requires that the Company recognize in the financial statements the impact of a tax position if that position will more likely than not be sustained on audit, based on the technical merits of the position. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosures, and transition provisions. Any transition adjustment recognized on the date of adoption will be recorded as an adjustment to retained earnings as of the beginning of the adoption period. FIN 48 is effective for fiscal years beginning after December 15, 2006. Based on current evaluation, the Company does not expect the adoption of this interpretation to have a material impact on its financial position or results of operations.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; rather, it applies to other accounting pronouncements that require or permit fair value measurements. The provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, with any transition adjustment recognized as a cumulative-effect adjustment to the opening balance of retained earnings. The provisions of SFAS No. 157 are effective for the fiscal years beginning after November 15, 2007; therefore, the Company anticipates adopting this standard as of January 1, 2008. It has not determined the effect, if any, the adoption of this statement will have on its financial condition or results of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides guidance on how prior year misstatements should be taken into consideration when quantifying misstatements in current year financial statements for purposes of determining whether the current year's financial statements are materially misstated. SAB 108 permits registrants to record the cumulative effect of initial adoption by recording the necessary "correcting" adjustments to the carrying values of assets and liabilities as of the beginning of that year with the offsetting adjustment recorded to the opening balance of retained earnings only if material under the dual method. SAB 108 is effective for fiscal years ending on or after November 15, 2006. The adoption of SAB 108 had no impact on the Company´s financial condition or results of operations.