

LATAM AIRLINES GROUP S.A. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2014

(FREE TRANSLATION)

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CLP - CHILEAN PESO
ARS - ARGENTINE PESO
US\$ - UNITED STATES DOLLAR
THUS\$ - THOUSANDS OF UNITED STATES DOLLARS
COP - COLOMBIAN PESO
BRL/R\$ - BRAZILIAN REAL
THR\$ - THOUSANDS OF BRAZILIAN REAL
VEF - STRONG BOLIVAR



REPORT OF INDEPENDENT AUDITORS
(Free translation from the original in Spanish)

Santiago, March 17, 2015

To the Board of Directors and Shareholders
Latam Airlines Group S.A.

We have audited the accompanying consolidated financial statements of Latam Airlines Group S.A. and its subsidiaries which comprise the consolidated statements of financial position as at December 31, 2014 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the instructions and standards related to the preparation and presentation of financial information established by the Chilean Superintendency of Securities and Insurance as described in Note 2 of the consolidated financial statements. This responsibility includes the design, implementation and maintenance of a relevant internal control for the preparation and fair presentation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's responsibilities

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Chilean generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Consequently, we do not express such an opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Santiago, March 17, 2015
Latam Airlines Group S.A.
2

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Latam Airlines Group S.A. and its subsidiaries as at December 31, 2014, and the results of operations and cash flows for the year then ended in accordance with the instructions and standards related to the preparation and presentation of financial information established by the Chilean Superintendency of Securities and Insurance as described in Note 2.

Basis of accounting

As described in Note 2 of the consolidated financial statements, under its authority the Chilean Superintendency of Securities and Insurance, issued on October 17, 2014 the Official Circular N° 856, instructing the registered entities, to record against equity the differences generated in deferred tax assets and liabilities arising as a direct effect of the increase in the first category tax rate introduced by Law 20.780. This fact has caused a change in the framework of preparation and presentation of the financial information applied until this date, which corresponded to International Financial Reporting Standards. At December 31, 2014 and for the year then ended, the effect of changing the accounting framework is described in Note 17. Our opinion is not modified regarding this matter.

Other matters

Previously, we have performed and audit in accordance with the Chilean generally accepted auditing standards, of the consolidated financial statements as of December 31, 2013 of Latam Airlines Group S.A. and its subsidiaries, included herein, and in our report dated March 17, 2014 we issued an unmodified opinion on those consolidated financial statements.

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Jonathan Yeomans Gibbons
RUT: 13.473.972-K

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LATAM AIRLINES GROUP S.A AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS

| | Note | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
|---|--------|---|---|
| Current assets | | | |
| Cash and cash equivalents | 6 - 7 | 989,396 | 1,984,903 |
| Other financial assets | 7 - 11 | 650,401 | 709,944 |
| Other non-financial assets | 12 | 247,871 | 335,617 |
| Trade and other accounts receivable | 7 - 8 | 1,378,837 | 1,633,094 |
| Accounts receivable from related entities | 7 - 9 | 308 | 628 |
| Inventories | 10 | 266,039 | 231,028 |
| Tax assets | 17 | 100,708 | 81,890 |
| | | <hr/> | <hr/> |
| Total current assets other than non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners | | 3,633,560 | 4,977,104 |
| | | <hr/> | <hr/> |
| Non-current assets (or disposal groups) classified as held for sale or as held for distribution to owners | | 1,064 | 2,445 |
| | | <hr/> | <hr/> |
| Total current assets | | 3,634,624 | 4,979,549 |
| | | <hr/> | <hr/> |
| Non-current assets | | | |
| Other financial assets | 7 - 11 | 84,986 | 65,289 |
| Other non-financial assets | 12 | 342,813 | 272,276 |
| Accounts receivable | 7 - 8 | 30,465 | 100,775 |
| Equity accounted investments | | - | 6,596 |
| Intangible assets other than goodwill | 14 | 1,880,079 | 2,093,308 |
| Goodwill | 15 | 3,313,401 | 3,727,605 |
| Property, plant and equipment | 16 | 10,773,076 | 10,982,786 |
| Tax assets | 17 | 17,663 | - |
| Deferred tax assets | 17 | 407,323 | 402,962 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 16,849,806 | 17,651,597 |
| | | <hr/> | <hr/> |
| Total assets | | 20,484,430 | 22,631,146 |
| | | <hr/> <hr/> | <hr/> <hr/> |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LIABILITIES AND EQUITY

| LIABILITIES | Note | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
|--------------------------------------|--------|---|---|
| Current liabilities | | | |
| Other financial liabilities | 7 - 18 | 1,624,615 | 2,039,787 |
| Trade and other accounts payables | 7 - 19 | 1,489,396 | 1,557,736 |
| Accounts payable to related entities | 7 - 9 | 35 | 505 |
| Other provisions | 20 | 12,411 | 27,856 |
| Tax liabilities | 17 | 17,889 | 11,583 |
| Other non-financial liabilities | 21 | 2,685,386 | 2,871,640 |
| Total current liabilities | | 5,829,732 | 6,509,107 |
| Non-current liabilities | | | |
| Other financial liabilities | 7 - 18 | 7,389,012 | 7,859,985 |
| Accounts payable | 7 - 23 | 577,454 | 922,887 |
| Other provisions | 20 | 703,140 | 1,122,247 |
| Deferred tax liabilities | 17 | 1,051,894 | 767,228 |
| Employee benefits | 22 | 74,102 | 45,666 |
| Other non-financial liabilities | 21 | 355,401 | 77,567 |
| Total non-current liabilities | | 10,151,003 | 10,795,580 |
| Total liabilities | | 15,980,735 | 17,304,687 |
| EQUITY | | | |
| Share capital | 24 | 2,545,705 | 2,389,384 |
| Retained earnings | 24 | 536,190 | 795,303 |
| Treasury Shares | 24 | (178) | (178) |
| Other reserves | 24 | 1,320,179 | 2,054,312 |
| Parent's ownership interest | | 4,401,896 | 5,238,821 |
| Non-controlling interest | 13 | 101,799 | 87,638 |
| Total equity | | 4,503,695 | 5,326,459 |
| Total liabilities and equity | | 20,484,430 | 22,631,146 |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME BY FUNCTION

| | | For the period ended December 31, | |
|---|-------------|--------------------------------------|---------------------|
| | <u>Note</u> | <u>2014</u> | <u>2013</u> |
| | | ThUS\$ | ThUS\$ |
| Revenue | 25 | 12,093,501 | 12,924,537 |
| Cost of sales | | <u>(9,624,501)</u> | <u>(10,054,164)</u> |
| Gross margin | | <u>2,469,000</u> | <u>2,870,373</u> |
| Other income | 27 | 377,645 | 341,565 |
| Distribution costs | | (957,072) | (1,025,896) |
| Administrative expenses | | (980,660) | (1,136,115) |
| Other expenses | | (401,021) | (408,703) |
| Other gains/(losses) | | <u>33,524</u> | <u>(55,410)</u> |
| Gains (losses) from operating activities | | <u>541,416</u> | <u>585,814</u> |
| Financial income | | 90,500 | 72,828 |
| Financial costs | 26 | (430,034) | (462,524) |
| Share of profit of investments accounted for using the equity method | | (6,455) | 1,954 |
| Foreign exchange gains/(losses) | 28 | (130,201) | (482,174) |
| Result of indexation units | | <u>7</u> | <u>214</u> |
| Income (loss) before taxes | | 65,233 | (283,888) |
| Income (loss) tax expense / benefit | 17 | <u>(142,194)</u> | <u>20,069</u> |
| NET INCOME (LOSS) FOR THE PERIOD | | <u>(76,961)</u> | <u>(263,819)</u> |
| Income (loss) attributable to owners of the parent | | (109,790) | (281,114) |
| Income (loss) attributable to non-controlling interest | 13 | <u>32,829</u> | <u>17,295</u> |
| Net income (loss) for the year | | <u>(76,961)</u> | <u>(263,819)</u> |
| EARNINGS PER SHARE | | | |
| Basic earnings (losses) per share (US\$) | 29 | (0.20125) | (0.57613) |
| Diluted earnings (losses) per share (US\$) | 29 | (0.20125) | (0.57613) |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | | For the periods ended December 31, | |
|--|-------------|---------------------------------------|-------------------------|
| | <u>Note</u> | <u>2014</u> ThUS\$ | <u>2013</u> ThUS\$ |
| NET INCOME (LOSS) | | (76,961) | (263,819) |
| Components of other comprehensive income that will be reclassified to income before taxes | | | |
| Currency translation differences | | | |
| Gains (losses) on currency translation, before tax | 28 | <u>(650,439)</u> | <u>(629,858)</u> |
| Other comprehensive income, before taxes, currency translation differences | | <u>(650,439)</u> | <u>(629,858)</u> |
| Cash flow hedges | | | |
| Gains (losses) on cash flow hedges before taxes | 18 | <u>(163,993)</u> | <u>128,166</u> |
| Other comprehensive income (losses), before taxes, cash flow hedges | | <u>(163,993)</u> | <u>128,166</u> |
| Other components of other comprehensive income (loss), before taxes | | <u>(814,432)</u> | <u>(501,692)</u> |
| Income tax relating to other comprehensive income that will be reclassified to income | | - | - |
| Income tax related to cash flow hedges in other comprehensive income | | <u>47,979</u> | <u>(19,345)</u> |
| Income taxes related to components of other comprehensive income that will be reclassified to income | | <u>47,979</u> | <u>(19,345)</u> |
| Other comprehensive income (loss) | | <u>(766,453)</u> | <u>(521,037)</u> |
| Total comprehensive income (loss) | | <u><u>(843,414)</u></u> | <u><u>(784,856)</u></u> |
| Comprehensive income (loss) attributable to owners of the parent | | (830,502) | (768,457) |
| Comprehensive income (loss) attributable to non-controlling interests | | <u>(12,912)</u> | <u>(16,399)</u> |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | <u><u>(843,414)</u></u> | <u><u>(784,856)</u></u> |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | | | | | |
|--|--------------------------------------|--------------------|------------------------------------|---------------------------------|-------------------------------------|----------------------------|---------------------------|----------------------|-----------------------------------|---------------------------------|-----------------|-----------|
| | Change in other reserves | | | | | | | Retained earnings | Parent's ownership interest | Non- controlling interest | Total equity | |
| | Share capital | Treasury shares | Currency translation reserve | Cash flow hedging reserve | Shares based payments reserve | Other sundry reserve | Total other reserve | | | | | |
| ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | | | | |
| Equity as of January 1, 2014 | 2,389,384 | (178) | (589,991) | (34,508) | 21,011 | 2,657,800 | 2,054,312 | 795,303 | 5,238,821 | 87,638 | 5,326,459 | |
| Total increase (decrease) in equity | | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | | |
| Gain (losses) | 24 | - | - | - | - | - | - | (109,790) | (109,790) | 32,829 | (76,961) | |
| Other comprehensive income | | - | (603,880) | (116,832) | - | - | (720,712) | - | (720,712) | (45,741) | (766,453) | |
| Total comprehensive income | | - | (603,880) | (116,832) | - | - | (720,712) | (109,790) | (830,502) | (12,912) | (843,414) | |
| Transactions with shareholders | | | | | | | | | | | | |
| Equity issuance | 24-33 | 156,321 | - | - | - | - | - | - | 156,321 | - | 156,321 | |
| Increase (decrease) through transfers and other changes, equity | 24-33 | - | - | - | - | 8,631 | (22,052) | (13,421) | (149,323) | 27,073 | (135,671) | |
| Total transactions with shareholders | | 156,321 | - | - | - | 8,631 | (22,052) | (13,421) | (149,323) | 27,073 | 20,650 | |
| Closing balance as of | | | | | | | | | | | | |
| December 31, 2014 | | 2,545,705 | (178) | (1,193,871) | (151,340) | 29,642 | 2,635,748 | 1,320,179 | 536,190 | 4,401,896 | 101,799 | 4,503,695 |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Attributable to owners of the parent | | | | | | | | | | |
|--------------------------------------|--------------------------------------|--------------------------|----------------|----------------|----------------|----------------|----------------|-----------------|-----------------|-----------------|---------------|
| | | Change in other reserves | | | | | | Retained | Parent's | Non- | Total |
| | | Share | Treasury | Currency | Cash flow | Shares based | Other | | | | |
| <u>Note</u> | <u>capital</u> | <u>shares</u> | <u>reserve</u> | <u>reserve</u> | <u>reserve</u> | <u>reserve</u> | <u>reserve</u> | <u>earnings</u> | <u>interest</u> | <u>interest</u> | <u>equity</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Equity as of January 1, 2013 | 1,501,018 | (203) | 3,574 | (140,730) | 5,574 | 2,666,682 | 2,535,100 | 1,076,136 | 5,112,051 | 108,634 | 5,220,685 |
| Total increase (decrease) in equity | | | | | | | | | | | |
| Comprehensive income | | | | | | | | | | | |
| Gain (losses) | 24 | - | - | - | - | - | - | (281,114) | (281,114) | 17,295 | (263,819) |
| Other comprehensive income | | - | (593,565) | 106,222 | - | - | (487,343) | - | (487,343) | (33,694) | (521,037) |
| Total comprehensive income | | - | (593,565) | 106,222 | - | - | (487,343) | (281,114) | (768,457) | (16,399) | (784,856) |
| Transactions with shareholders | | | | | | | | | | | |
| Equity issuance | 24-33 | 888,570 | - | - | - | - | - | - | 888,570 | - | 888,570 |
| Dividends | 24 | (25) | 25 | - | - | - | - | - | - | - | - |
| Increase (decrease) through | | | | | | | | | | | |
| transfers and other changes, equity | 24-33 | (179) | - | - | - | 15,437 | (8,882) | 6,555 | 281 | 6,657 | (4,597) |
| Total transactions with shareholders | | 888,366 | 25 | - | - | 15,437 | (8,882) | 6,555 | 281 | 895,227 | (4,597) |
| Closing balance as of | | | | | | | | | | | |
| December 31, 2013 | | 2,389,384 | (178) | (589,991) | (34,508) | 21,011 | 2,657,800 | 2,054,312 | 795,303 | 5,238,821 | 87,638 |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS DIRECT – METHOD

| | | For the periods ended December 31, | |
|---|-------------|---------------------------------------|-------------------------|
| | <u>Note</u> | <u>2014</u> | <u>2013</u> |
| | | ThUS\$ | ThUS\$ |
| Cash flows from operating activities | | | |
| Cash collection from operating activities | | | |
| Proceeds from sales of goods and services | | 13,367,838 | 13,406,275 |
| Other cash receipts from operating activities | | 96,931 | 4,638 |
| Payments for operating activities | | | |
| Payments to suppliers for goods and services | | (8,823,007) | (9,570,723) |
| Payments to and on behalf of employees | | (2,433,652) | (2,405,315) |
| Other payments for operating activities | | (528,214) | (31,215) |
| Interest received | | 11,589 | 11,310 |
| Income taxes refunded (paid) | | (108,389) | (83,033) |
| Other cash inflows (outflows) | 6 | <u>(251,657)</u> | <u>76,761</u> |
| Net cash flows from operating activities | | <u>1,331,439</u> | <u>1,408,698</u> |
| Cash flows used in investing activities | | | |
| Cash flows used to obtain control of subsidiaries or other businesses | | 518 | (5,517) |
| Cash flows used in the purchase of non- controlling interest | | - | (497) |
| Other cash receipts from sales of equity or debt instruments of other entities | | 524,370 | 270,485 |
| Other payments to acquire equity or debt instruments of other entities | | (474,656) | (440,801) |
| Amounts raised from sale of property, plant and equipment | | 564,266 | 225,196 |
| Purchases of property, plant and equipment | | (1,440,445) | (1,381,786) |
| Purchases of intangible assets | | (55,759) | (43,484) |
| Payment from other long-term assets | | - | 22,144 |
| Other cash inflows (outflows) | 6 | <u>(17,399)</u> | <u>75,448</u> |
| Net cash flow from (used in) investing activities | | <u>(899,105)</u> | <u>(1,278,812)</u> |
| Cash flows from (used in) financing activities | | | |
| Amounts raised from issuance of shares | | 156,321 | 888,949 |
| Payments to acquire or redeem the shares of the entity | | 4,661 | - |
| Amounts raised from long-term loans | | 1,042,820 | 2,043,518 |
| Amounts raised from short-term loans | | 603,151 | 1,101,159 |
| Loans repayments | | (2,315,120) | (1,952,013) |
| Payments of finance lease liabilities | | (394,131) | (423,105) |
| Dividends paid | | (35,362) | (29,694) |
| Interest paid | | (368,789) | (361,006) |
| Other cash inflows (outflows) | 6 | <u>(13,777)</u> | <u>(62,013)</u> |
| Net cash flows from (used in) financing activities | | <u>(1,320,226)</u> | <u>1,205,795</u> |
| Net increase (decrease) in cash and cash equivalents before effect of exchanges rate change | | (887,892) | 1,335,681 |
| Effects of variation in the exchange rate on cash and cash equivalents | | <u>(107,615)</u> | <u>(1,041)</u> |
| Net increase (decrease) in cash and cash equivalents | | (995,507) | 1,334,640 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | 6 | <u>1,984,903</u> | <u>650,263</u> |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 6 | <u><u>989,396</u></u> | <u><u>1,984,903</u></u> |

The accompanying Notes 1 to 35 form an integral part of these consolidated financial statements.

LATAM AIRLINES GROUP S.A AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2014

NOTE 1 - GENERAL INFORMATION

LATAM Airlines Group S.A. (the “Company”) is a public company registered with the Chilean Superintendency of Securities and Insurance (SVS), under No.306, whose shares are quoted in Chile on the Stock Brokers - Stock Exchange (Valparaíso), the Chilean Electronic Stock Exchange and the Santiago Stock Exchange; it is also quoted in the United States of America on the New York Stock Exchange (“NYSE”) in New York in the form of American Depositary Receipts (“ADRs”) and in Brazil BM & FBOVESPA S.A. – Stock Exchange, Mercadorias e Futuros, in the form of Brazilian Depositary Receipts (“BDRs”).

Its principal business is passenger and cargo air transportation, both in the domestic markets of Chile, Peru, Argentina, Colombia, Ecuador and Brazil and in a developed series of regional and international routes in America, Europe and Oceania. These businesses are performed directly or through its subsidiaries in different countries. In addition, the Company has subsidiaries operating in the freight business in Mexico, Brazil and Colombia.

The Company is located in Santiago, Chile, at Avenida Américo Vespucio Sur No. 901, commune of Renca.

Corporate Governance practices of the Company are set in accordance with Securities Market Law the Corporations Law and its regulations, and the regulations of the SVS and the laws and regulations of the United States of America and the U.S. Securities and Exchange Commission (“SEC”) of that country, with respect to the issuance of ADRs, and the Federal Republic of Brazil and the Comissão de Valores Mobiliarios (“CVM”) of that country, as it pertains to the issuance of BDRs.

The Board of the Company is composed of nine members who are elected every two years by the ordinary shareholders' meeting. The Board meets in regular monthly sessions and in extraordinary sessions as the corporate needs demand. Of the nine board members, three form part of its Directors' Committee which fulfills both the role foreseen in the Corporations Law and the functions of the Audit Committee required by the Sarbanes Oxley Law of the United States of America and the respective regulations of the SEC.

The majority shareholder of the Company is the Cueto Group, which through Costa Verde Aeronáutica S.A., Costa Verde Aeronáutica SpA, Inversiones Nueva Costa Verde Aeronáutica Limitada, Inversiones Priesca Dos y Cía. Ltda., Inversiones Caravia Dos y Cía. Ltda., Inversiones El Fano Dos y Cía. Ltda., Inversiones La Espasa Dos S.A., Inversiones Puerto Claro Dos Limitada, Inversiones La Espasa Dos y Cía. Ltda., Inversiones Puerto Claro Dos y Cía. Limitada and Inversiones Mineras del Cantábrico S.A. owns 25.49% of the shares issued by the Company, and therefore is the controlling shareholder of the Company in accordance with the provisions of the letter b) of Article 97 and Article 99 of the Securities Market Law, given that there is a decisive influence on its administration.

As of December 31, 2014, the Company had a total of 1,622 registered shareholders. At that date approximately 7.69 % of the Company's share capital was in the form of ADRs and approximately 0.53% in the form of BDRs.

For the period ended December 31, 2014, the Company had an average of 53,300 employees, ending this period with a total of 53,072 employees, spread over 10,077 Administrative employees, 6,986 in Maintenance, 17,517 in Operations, 9,237 in Cabin Crew, 4,009 in Controls Crew, and 5,246 in Sales.

The main subsidiaries included in these consolidated financial statements are as follows:

a) As of December 31, 2014

| Tax No. | Company | Country of origin | Functional Currency | Participation rate | | | Statement of financial position | | | Net Income |
|--------------|--|-------------------|---------------------|---------------------------|-----------------------------|--------------------------|---------------------------------|-------------|-----------|-------------|
| | | | | Direct ownership interest | Indirect ownership interest | Total ownership interest | Assets | Liabilities | Equity | Gain (loss) |
| | | | | % | % | % | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| 96.518.860-6 | Lantours Division Servicios Terrestres S.A. and Subsidiaries | Chile | US\$ | 99.9900 | 0.0100 | 100.0000 | 3,229 | 2,289 | 940 | 2,074 |
| 96.763.900-1 | Inmobiliaria Aeronáutica S.A. | Chile | US\$ | 99.0100 | 0.9900 | 100.0000 | 39,920 | 16,854 | 23,066 | 1,906 |
| 96.969.680-0 | Lan Pax Group S.A. and Subsidiaries (1) | Chile | US\$ | 99.8361 | 0.1639 | 100.0000 | 640,020 | 1,065,157 | (426,016) | (114,511) |
| Foreign | Lan Perú S.A. | Peru | US\$ | 49.0000 | 21.0000 | 70.0000 | 239,470 | 228,395 | 11,075 | 1,058 |
| Foreign | Lan Chile Investments Limited and Subsidiaries (1) | Cayman Islands | US\$ | 99.9900 | 0.0100 | 100.0000 | 2,015 | - | 2,015 | 2,844 |
| 93.383.000-4 | Lan Cargo S.A. | Chile | US\$ | 99.8939 | 0.0041 | 99.8980 | 575,979 | 234,772 | 341,207 | (9,966) |
| Foreign | Connecta Corporation | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | 27,431 | 28,853 | (1,422) | 740 |
| Foreign | Prime Airport Services Inc. and Subsidiary (1) | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | 18,120 | 22,897 | (4,777) | 107 |
| 96.951.280-7 | Transporte Aéreo S.A. | Chile | US\$ | 0.0000 | 100.0000 | 100.0000 | 367,570 | 147,278 | 220,292 | (8,983) |
| 96.634.020-7 | Ediciones Ladeco América S.A. | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | - | 484 | (484) | - |
| Foreign | Aircraft International Leasing Limited | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | - | - | - | 2,805 |
| 96.631.520-2 | Fast Air Almacenes de Carga S.A. | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | 9,601 | 3,912 | 5,689 | 923 |
| 96.631.410-9 | Ladeco Cargo S.A. | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | 346 | 13 | 333 | 6 |
| Foreign | Laser Cargo S.R.L. | Argentina | ARS | 0.0000 | 100.0000 | 100.0000 | 41 | 138 | (97) | 12 |
| Foreign | Lan Cargo Overseas Limited and Subsidiaries (1) | Bahamas | US\$ | 0.0000 | 100.0000 | 100.0000 | 60,634 | 46,686 | 12,218 | (84,603) |
| 96.969.690-8 | Lan Cargo Inversiones S.A. and Subsidiary (1) | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | 45,589 | 59,768 | (12,711) | (4,276) |
| 96.575.810-0 | Inversiones Lan S.A. and Subsidiaries (1) | Chile | CLP | 99.7100 | 0.0000 | 99.7100 | 16,035 | 14,746 | 1,272 | (4,546) |
| Foreign | TAM S.A. and Subsidiaries (1) (2) | Brazil | BRL | 63.0901 | 36.9099 | 100.0000 | 6,817,698 | 5,809,529 | 912,634 | 171,655 |

(1) The Equity reported corresponds to Equity attributable to owners of the parent, does not include Non-controlling interest.

(2) The indirect participation percentage over TAM S.A. and Subsidiaries comes from Holdco I S.A., entity for which LATAM Airlines Group S.A. holds a 99.9983% participation on the economic rights. Additionally LATAM Airlines Group S.A. owns 226 voting shares of Holdco I S.A., equivalent to 19.42% of total voting shares of that company. During 2014 LATAM Airlines Group S.A. made a capital increase in TAM S.A. for the total amount of ThUS\$ 250,000.

b) As of December 31, 2013

| Tax No. | Company | Country of origin | Functional Currency | Participation rate | | | Statement of financial position | | | Net Income | |
|--------------|--|-------------------|---------------------|--------------------|--------------------|-----------------|---------------------------------|-------------|-----------|------------|--|
| | | | | Direct ownership | Indirect ownership | Total ownership | Assets | Liabilities | Equity | Gain | |
| | | | | interest | interest | interest | ThUS\$ | ThUS\$ | ThUS\$ | (loss) | |
| | | | | % | % | % | | | | | |
| 96.518.860-6 | Lantours Division Servicios Terrestres S.A. and Subsidiaries | Chile | US\$ | 99.9900 | 0.0100 | 100.0000 | 2,722 | 2,210 | 512 | 787 | |
| 96.763.900-1 | Inmobiliaria Aeronáutica S.A. | Chile | US\$ | 99.0100 | 0.9900 | 100.0000 | 38,553 | 12,124 | 26,429 | 1,231 | |
| 96.969.680-0 | Lan Pax Group S.A. and Subsidiaries (1) | Chile | US\$ | 99.8361 | 0.1639 | 100.0000 | 641,589 | 901,851 | (246,521) | (104,966) | |
| Foreign | Lan Perú S.A. | Peru | US\$ | 49.0000 | 21.0000 | 70.0000 | 263,516 | 252,109 | 11,407 | 3,755 | |
| Foreign | Lan Chile Investments Limited and Subsidiaries (1) | Cayman Islands | US\$ | 99.9900 | 0.0100 | 100.0000 | 4,419 | 5,248 | (829) | (1) | |
| 93.383.000-4 | Lan Cargo S.A. | Chile | US\$ | 99.8939 | 0.0041 | 99.8980 | 772,640 | 413,527 | 359,113 | 3,685 | |
| Foreign | Connecta Corporation | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | 9 | 2,171 | (2,162) | (356) | |
| Foreign | Prime Airport Services Inc. and Subsidiary (1) | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | 13,528 | 18,412 | (4,884) | 78 | |
| 96.951.280-7 | Transporte Aéreo S.A. | Chile | US\$ | 0.0000 | 100.0000 | 100.0000 | 359,693 | 120,399 | 239,294 | (4,129) | |
| 96.634.020-7 | Ediciones Ladeco América S.A. | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | - | 560 | (560) | - | |
| Foreign | Aircraft International Leasing Limited | U.S.A. | US\$ | 0.0000 | 100.0000 | 100.0000 | - | 2,805 | (2,805) | (5) | |
| 96.631.520-2 | Fast Air Almacenes de Carga S.A. | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | 10,675 | 3,684 | 6,991 | 1,802 | |
| 96.631.410-9 | Ladeco Cargo S.A. | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | 381 | 13 | 368 | (2) | |
| Foreign | Laser Cargo S.R.L. | Argentina | ARS | 0.0000 | 100.0000 | 100.0000 | 52 | 201 | (149) | (34) | |
| Foreign | Lan Cargo Overseas Limited and Subsidiaries (1) | Bahamas | US\$ | 0.0000 | 100.0000 | 100.0000 | 354,250 | 256,109 | 96,817 | 111,043 | |
| 96.969.690-8 | Lan Cargo Inversiones S.A. and Subsidiary (1) | Chile | CLP | 0.0000 | 100.0000 | 100.0000 | 39,419 | 48,630 | (9,937) | (1,246) | |
| 96.575.810-0 | Inversiones Lan S.A. and Subsidiaries (1) | Chile | CLP | 99.7100 | 0.0000 | 99.7100 | 15,362 | 8,933 | 6,421 | 517 | |
| Foreign | TAM S.A. and Subsidiaries (1) (2) | Brazil | BRL | 63.0901 | 36.9099 | 100.0000 | 8,695,458 | 7,983,671 | 617,035 | (458,475) | |

- (1) The Equity reported corresponds to Equity attributable to owners of the parent, does not include Non-controlling interest.
- (2) The indirect participation percentage over TAM S.A. and Subsidiaries comes from Holdco I S.A., entity for which LATAM Airlines Group S.A. holds a 99.9983% participation on the economic rights. Additionally LATAM Airlines Group S.A. owns 226 voting shares of Holdco I S.A., equivalent to 19.42% of total voting shares of that company.
During 2013 LATAM Airlines Group S.A. made a capital increase in TAM S.A. for the total amount of ThUS\$ 1,650,000.

Additionally, has proceeded to consolidate special purpose entities, denominated: JOL, destined to the aircraft financing and Chercán Leasing Limited, destined to the aircraft advance financing and Guanay Finance Limited, destined to the issuance of securitized bond, as the Company has major risks and benefits associated to them according to standards issued by the International Financial Reporting Standards: Consolidated Financial Statement (IFRS 10) and private investment funds in which the parent company and subsidiaries are contributors.

All the entities controlled have been included in the consolidation.

Changes in the scope of consolidation between January 1, 2013 and December 31, 2014, are detailed below:

(1) Incorporation or acquisition of companies

- On October 11, 2013, TAM S.A., under each contracts of sale of shares with Lan Cargo Overseas Limited (indirect subsidiary of LATAM Airlines Group S.A.) , TADEF, Participação e Consultoria Empresarial Ltda. y Jochman Participações Ltda. acquired the 100% of the shares of Aerolinhas Brasileiras S.A. (ABSA). The effect of this transaction on LATAM Airlines Group S.A. corresponds to the purchase of shares on ABSA that possessed the companies TADEF, Participação e Consultoria Empresarial Ltda. and Jochman Participações Ltda., which represented the non-controlling interest on the acquired company.
- Lan Pax Group S.A. is the direct owner of 55% of Aerolane Líneas Aéreas Nacionales del Ecuador S.A., during 2014 obtains the 100% of the economic rights, through its participation in the company Holdco Ecuador S.A., who is owner of 45% remaining of Aerolane Líneas Aéreas Nacionales del Ecuador S.A. By this Lan Pax Group S.A. is owner of 20% of shares with voting rights and is owned of 100% with the economic rights.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following describes the principal accounting policies adopted in the preparation of these consolidated financial statements.

2.1. Basis of Preparation

The consolidated financial statements of LATAM Airlines Group S.A. are for the period ended December 31, 2014, and have been prepared in accordance with Standards and Instructions by Chilean Superintendency of Securities and Insurance (“SVS”), which, except as provided by its Office Circular No. 856, as detailed in the following paragraph are in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (“IASB”) incorporated therein and with the interpretations issued by the International Financial Reporting Standards Interpretations Committee (IFRIC).

On September 26, 2014 the law No. 20,780 was promulgated, and on September 29, 2014 was published in the Official Journal of the Republic of Chile, which introduces modifications to the tax system in Chile concerning income tax, among other matters. In relation to the Law,

on October 17, 2014 the SVS issued Office Circular No. 856, in which it decided that the restatement of assets and liabilities by deferred income taxes that occur as a direct effect of the First- Category Tax rate increase introduced by Law No. 20,780 (Tax reform) will be held in equity and not as indicates the IAS 12. In notes 2.17 and 17 the criteria and impacts related to the registration of the effects of the reform and the implementation of the Circular cited are detailed.

The consolidated financial statements have been prepared under the historic-cost criterion, although modified by the valuation at fair value of certain financial instruments.

The preparation of the consolidated financial statements in accordance with described above requires the use of certain critical accounting estimates. It also requires management to use its judgment in applying the Company's accounting policies. Note 4 shows the areas that imply a greater degree of judgment or complexity or the areas where the assumptions and estimates are significant to the consolidated financial statements.

In order to facilitate comparison, there have been some minor reclassifications to the consolidated financial statements corresponding to the previous year.

(a) Accounting pronouncements with implementation effective from January 1, 2014:

| | Date of issue | Mandatory Application: Annual periods beginning on or after |
|---|---------------|---|
| (i) Standards and amendments | | |
| Amendment to IAS 32: Financial instruments: Presentation | December 2011 | 01/01/2014 |
| Amendments to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of interests in other entities and IAS 27: Separate financial statements. | October 2012 | 01/01/2014 |
| Amendment to IAS 36: Impairment of assets | May 2013 | 01/01/2014 The Company adopted in advance this amendment at December 31, 2013. |
| Amendment to IAS 39: Financial instruments: Recognition and measurement | June 2013 | 01/01/2014 |
| Amendment to IAS 19: Employee Benefits | November 2013 | 07/01/2014 |
| (ii) Interpretations | | |
| IFRIC 21: Levies | May 2013 | 01/01/2014 |

| (i) Standards and amendments | Date of issue | Mandatory Application: Annual periods beginning on or after |
|--|---------------|--|
| (ii) Improvements | | |
| Improvements to the International Financial Reporting Standards (2012): IFRS 2: Share-based Payment; IFRS 3: Business Combinations Therefore, IFRS 9, IAS 37, and IAS 39 are also modified; IFRS 8: Operating Segments, IFRS 13: Fair Value Measurement, IFRS 9 and IAS 39 were consequently changed; IAS 16: Property, Plant and Equipment, and IAS 38: Intangible Assets; and IAS 24: Related Party Disclosures. | December 2013 | 07/01/2014 |
| Improvements to the International Financial Reporting Standards (2013): IFRS 1: First-time Adoption of International Financial Reporting Standards; IFRS 3: Business Combinations; IFRS 13: Fair Value Measurement; and IAS 40: Investment Property. | December 2013 | 07/01/2014 |

The application of standards, amendments, interpretations and improvements had no material impact on the consolidated financial statements of the Company.

(b) Accounting pronouncements effective implementation starting on January 1, 2015 and following:

| (i) Standards and amendments | Date of issue | Mandatory Application: Annual periods beginning on or after |
|--|---------------|--|
| IFRS 9: Financial instruments. | December 2009 | 01/01/2018 |
| IFRS 15: Revenue from contracts with customers. | June 2014 | 01/01/2017 |
| Amendment to IFRS 9: Financial instruments. | November 2013 | 01/01/2018 |
| Amendment to IFRS 11: Joint arrangements. | May 2014 | 01/01/2016 |
| Amendment to IAS 16: Property, plant and equipment, and IAS 38: Intangible assets. | May 2014 | 01/01/2016 |
| Amendment to IAS 27: Separate financial statements. | August 2014 | 01/01/2016 |

| (ii) Standards and amendments | Date of issue | Mandatory Application: Annual periods beginning on or after |
|---|----------------|---|
| Amendment to IFRS 10: Consolidated financial statements and IAS 28 Investments in associates and joint ventures. | September 2014 | 01/01/2016 |
| Amendment IAS 1: Presentation of Financial Statements | December 2014 | 01/01/2016 |
| Amendment to IFRS 10: Consolidated financial statements, IFRS 12: Disclosure of Interests in other entities and IAS 28: Investments in associates and joint ventures. | December 2014 | 01/01/2016 |
| (iii) Improvements | | |
| Improvements to International Financial Reporting Standards (2012-2014 cycle): IFRS 5 Non-current assets held for sale and discontinued operations; IFRS 7 Financial instruments: Disclosures; IAS 19 Employee benefits and IAS 34 Interim financial reporting. | September 2014 | 01/01/2016 |

The Company's management believes that the early adoption of the standards, amendments and interpretations described above but not yet effective would not have had a significant impact on the Company's consolidated financial statements in the year of their first application. The Company only has early adopted the amendment to IAS 36.

2.2. Basis of Consolidation

(a) Subsidiaries

Subsidiaries are all the entities (including special-purpose entities) over which the Company has the power to control the financial and operating policies, which are generally accompanied by a holding of more than half of the voting rights. In evaluating whether the Company controls another entity, the existence and effect of potential voting rights that are currently exercisable or convertible at the date of the consolidated financial statements are considered. The subsidiaries are consolidated from the date on which control is passed to the Company and they are excluded from the consolidation on the date they cease to be so controlled. The results and flows are incorporated from the date of acquisition.

Inter-company transactions, balances and unrealized gains on transactions between the Company's entities are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment loss of the asset transferred. When necessary in order to ensure uniformity with the policies adopted by the Company, the accounting policies of the subsidiaries are modified.

To account for and identify the financial information to be revealed when carrying out a business combination, such as the acquisition of an entity by the Company, shall apply the acquisition method provided for in IFRS 3: Business combination.

(b) Transactions with non-controlling interests

The Company applies the policy of considering transactions with non-controlling interests, when not related to loss of control, as equity transactions without an effect on income.

(c) Sales of subsidiaries

When a subsidiary is sold and a percentage of participation is not retained, the Company derecognizes assets and liabilities of the subsidiary, the non-controlling and other components of equity related to the subsidiary. Any gain or loss resulting from the loss of control is recognized in the consolidated income statement in Other gains (losses).

If LATAM Airlines Group S.A. and Subsidiaries retain an ownership of participation in the sold subsidiary, and does not represent control, this is recognized at fair value on the date that control is lost, the amounts previously recognized in Other comprehensive income are accounted as if the Company had disposed directly from the assets and related liabilities, which can cause these amounts are reclassified to profit or loss. The percentage retained valued at fair value are subsequently accounted using the equity method.

(d) Investees or associates

Investees or associates are all entities over which LATAM Airlines Group S.A. and Subsidiaries have significant influence but have no control. This usually arises from holding between 20% and 50% of the voting rights. Investments in associates are booked using the equity method and are initially recognized at their cost.

2.3. Foreign currency transactions

(a) Presentation and functional currencies

The items included in the financial statements of each of the entities of LATAM Airlines Group S.A. and Subsidiaries are valued using the currency of the main economic environment in which the entity operates (the functional currency). The functional currency of LATAM Airlines Group S.A. is the United States dollar which is also the presentation currency of the consolidated financial statements of LATAM Airlines Group S.A. and Subsidiaries.

(b) Transactions and balances

Foreign currency transactions are translated to the functional currency using the exchange rates on the transaction dates. Foreign currency gains and losses resulting from the liquidation of these transactions and from the translation at the closing exchange rates of the monetary assets and liabilities denominated in foreign currency are shown in the consolidated statement of income by function except when deferred in Other comprehensive income as qualifying cash flow hedges.

(c) Group entities

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency other than the presentation currency are translated to the presentation currency as follows:

- (i) Assets and liabilities of each consolidated statement of financial position presented are translated at the closing exchange rate on the consolidated statement of financial position date;
- (ii) The revenues and expenses of each income statement account are translated at the exchange rates prevailing on the transaction dates, and
- (iii) All the resultant exchange differences by conversion are shown as a separate component in Other comprehensive income.

The exchange rates used correspond to those fixed in the country where the subsidiary is located, whose functional currency is different to the U.S. dollar.

In the consolidation, exchange differences arising from the translation of a net investment in foreign entities (or local with a functional currency different to that of the parent), and of loans and other foreign currency instruments designated as hedges for these investments, are recorded within net equity. When the investment is sold, these exchange differences are shown in the consolidated statement of income as part of the loss or gain on the sale.

Adjustments to the Goodwill and fair value arising from the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and are translated at the closing exchange rate or period informed.

2.4. Property, plant and equipment

The land of LATAM Airlines Group S.A. and Subsidiaries is recognized at cost less any accumulated impairment loss. The rest of the Property, plant and equipment are registered, initially and subsequently, at historic cost less the corresponding depreciation and any impairment loss.

The amounts of advance payments to aircraft manufacturers are capitalized by the Company under Construction in progress until receipt of the aircraft.

Subsequent costs (replacement of components, improvements, extensions, etc.) are included in the value of the initial asset or shown as a separate asset only when it is probable that the future economic benefits associated with the elements of Property, plant and equipment are going to flow to the Company and the cost of the element can be determined reliably. The value of the component replaced is written off in the books at the time of replacement. The rest of the repairs and maintenance are charged to the results of the year in which they are incurred.

Depreciation of Property, plant and equipment is calculated using the straight-line method over their estimated technical useful lives; except in the case of certain technical components which are depreciated on the basis of cycles and hours flown.

The residual value and useful life of assets are reviewed, and adjusted if necessary, once per year.

When the carrying amount of an asset is higher than its estimated recoverable amount, its value is reduced immediately to its recoverable amount (Note 2.8).

Losses and gains on the sale of Property, plant and equipment are calculated by comparing the compensation with the book value and are included in the consolidated statement of income.

2.5. Intangible assets other than goodwill

(a) Brands, Airport slots and Loyalty program

Brands, Airport slots and Coalition and loyalty program are intangible assets of indefinite useful life and are subject to impairment tests annually as an integral part of each CGU, in accordance with the premises that are applicable, included as follows:

Airport slots – Air transport CGU

Loyalty program – Coalition and loyalty program Multiplus CGU

Brand – Air transport CGU

(See Note 15)

The airport slots correspond to an administrative authorization to carry out operations of arrival and departure of aircraft at a specific airport, within a specified period.

The Loyalty program corresponds to the system of accumulation and redemption of points that has developed Multiplus S.A., subsidiary of TAM S.A.

The Brands, airport Slots and Loyalty program were recognized in fair values determined in accordance with IFRS 3, as a consequence of the business combination with TAM and Subsidiaries.

(b) Computer software

Licenses for computer software acquired are capitalized on the basis of the costs incurred in acquiring them and preparing them for using the specific software. These costs are amortized over their estimated useful lives, for which the Company has been defined useful lives between 3 and 7 years.

Expenses related to the development or maintenance of computer software which do not qualify for capitalization, are shown as an expense when incurred. The personnel costs and others costs directly related to the production of unique and identifiable computer software controlled by the Company, are shown as intangible Assets others than Goodwill when they have met all the criteria for capitalization.

2.6. Goodwill

Goodwill represents the excess of acquisition cost over the fair value of the Company's participation in the net identifiable assets of the subsidiary or associate on the acquisition date. Goodwill related to acquisition of subsidiaries is not amortized but tested for impairment annually. Gains and losses on the sale of an entity include the book amount of the goodwill related to the entity sold.

2.7. Borrowing costs

Interest costs incurred for the construction of any qualified asset are capitalized over the time necessary for completing and preparing the asset for its intended use. Other interest costs are recognized in the consolidated income statement when they are accrued.

2.8. Losses for impairment of non-financial assets

Intangible assets that have an indefinite useful life, and developing IT projects, are not subject to amortization and are subject to annual testing for impairment. Assets subject to amortization are subjected to impairment tests whenever any event or change in circumstances indicates that the book value of the assets may not be recoverable. An impairment loss is recorded when the book value is greater than the recoverable amount. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use. In evaluating the impairment, the assets are grouped at the lowest level for which cash flows are separately identifiable (CGUs). Non-financial assets other than goodwill that have suffered an impairment loss are reviewed if there are indicators of reverse losses at each reporting date.

2.9. Financial assets

The Company classifies its financial instruments in the following categories: financial assets at fair value through profit and loss and loans and receivables. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at the time of initial recognition, which occurs on the date of transaction.

(a) Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss are financial instruments held for trading and those which have been designated at fair value through profit or loss in their initial classification. A financial asset is classified in this category if acquired mainly for the purpose of being sold in the near future or when these assets are managed and measured using fair value. Derivatives are also classified as held for trading unless they are designated as hedges. The financial assets in this category and have been designated initial recognition through profit or loss, are classified as Cash and cash equivalents and Other current financial assets and those designated as instruments held for trading are classified as Other current and non-current financial assets.

(b) Loans and receivables

Loans and receivables are non-derivative financial instruments with fixed or determinable payments not traded on an active market. These items are classified in current assets except for those with maturity over 12 months from the date of the consolidated statement of financial position, which are classified as non-current assets. Loans and receivables are included in trade and other accounts receivable in the consolidated statement of financial position (Note 2.12).

The regular purchases and sales of financial assets are recognized on the trade date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or losses are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when

the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest rate method.

At the date of each consolidated statement of financial position, the Company assesses if there is objective evidence that a financial asset or group of financial assets may have suffered an impairment loss.

2.10. Derivative financial instruments and hedging activities

Derivatives are booked initially at fair value on the date the derivative contracts are signed and later they continue to be valued at their fair value. The method for booking the resultant loss or gain depends on whether the derivative has been designated as a hedging instrument and if so, the nature of the item hedged. The Company designates certain derivatives as:

- (a) Hedge of the fair value of recognized assets (fair value hedge);
- (b) Hedge of an identified risk associated with a recognized liability or an expected highly- Probable transaction (cash-flow hedge), or
- (c) Derivatives that do not qualify for hedge accounting.

The Company documents, at the inception of each transaction, the relationship between the hedging instrument and the hedged item, as well as its objectives for managing risk and the strategy for carrying out various hedging transactions. The Company also documents its assessment, both at the beginning and on an ongoing basis, as to whether the derivatives used in the hedging transactions are highly effective in offsetting the changes in the fair value or cash flows of the items being hedged.

The total fair value of the hedging derivatives is booked as Other non-current financial asset or liability if the remaining maturity of the item hedged is over 12 months, and as an other current financial asset or liability if the remaining term of the item hedged is less than 12 months. Derivatives not booked as hedges are classified as Other financial assets or liabilities.

(a) Fair value hedges

Changes in the fair value of designated derivatives that qualify as fair value hedges are shown in the consolidated statement of income, together with any change in the fair value of the asset or liability hedged that is attributable to the risk being hedged.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is shown in the statement of other comprehensive income. The loss or gain relating to the ineffective portion is recognized immediately in the consolidated statement of income under Other gains (losses). Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss.

In case of variable interest-rate hedges, the amounts recognized in the statement of Other comprehensive income are reclassified to results within financial costs at the same time the associated debts accrue interest.

For fuel price hedges, the amounts shown in the statement of Other comprehensive income are reclassified to results under the line item Cost of sales to the extent that the fuel subject to the hedge is used.

For foreign currency hedges, the amounts recognized in the statement of Other comprehensive income are reclassified to income as deferred revenue resulting from the use of points, are recognized as Income.

When hedging instruments mature or are sold or when they do not meet the requirements to be accounted for as hedges, any gain or loss accumulated in the statement of Other comprehensive income until that moment remains in the statement of other comprehensive income and is reclassified to the consolidated statement of income when the hedged transaction is finally recognized. When it is expected that the hedged transaction is no longer going to occur, the gain or loss accumulated in the statement of other comprehensive income is taken immediately to the consolidated statement of income as “Other gains (losses)”.

(c) Derivatives not booked as a hedge

The changes in fair value of any derivative instrument that is not booked as a hedge are shown immediately in the consolidated statement of income in “Other gains (losses)”.

2.11. Inventories

Inventories, detailed in Note 10, are shown at the lower of cost and their net realizable value. The cost is determined on the basis of the weighted average cost method (WAC). The net realizable value is the estimated selling price in the normal course of business, less estimated costs necessary to make the sale.

2.12. Trade and other accounts receivable

Trade accounts receivable are shown initially at their fair value and later at their amortized cost in accordance with the effective interest rate method, less the allowance for impairment losses. An allowance for impairment loss of trade accounts receivable is made when there is objective evidence that the Company will not be able to recover all the amounts due according to the original terms of the accounts receivable.

The existence of significant financial difficulties on the part of the debtor, the probability that the debtor is entering bankruptcy or financial reorganization and the default or delay in making payments are considered indicators that the receivable has been impaired. The amount of the provision is the difference between the book value of the assets and the present value of the estimated future cash flows, discounted at the original effective interest rate. The book value of the asset is reduced by the amount of the allowance and the loss is shown in the consolidated statement of income in Cost of sales. When an account receivable is written off, it is charged to the allowance account for accounts receivable.

2.13. Cash and cash equivalents

Cash and cash equivalents include cash and bank balances, time deposits in financial institutions, and other short-term and highly liquid investments.

2.14. Capital

The common shares are classified as net equity.

Incremental costs directly attributable to the issuance of new shares or options are shown in net equity as a deduction from the proceeds received from the placement of shares.

2.15. Trade and other accounts payables

Trade payables and other accounts payable are initially recognized at fair value and subsequently at amortized cost and are valued according to the method of the effective interest rate.

2.16. Interest-bearing loans

Financial liabilities are shown initially at their fair value, net of the costs incurred in the transaction. Later, these financial liabilities are valued at their amortized cost; any difference between the proceeds obtained (net of the necessary arrangement costs) and the repayment value, is shown in the consolidated statement of income during the term of the debt, according to the effective interest rate method.

Financial liabilities are classified in current and non-current liabilities according to the contractual payment dates of the nominal principal.

2.17. Current and deferred taxes

The expense by current tax is comprised of income and deferred taxes.

The charge for current tax is calculated based on tax laws in force on the date of statement of financial position, in the countries in which the subsidiaries and associates operate and generate taxable income.

Deferred taxes are calculated using the liability method, on the temporary differences arising between the tax bases of assets and liabilities and their book values. However, if the temporary differences arise from the initial recognition of a liability or an asset in a transaction different from a business combination that at the time of the transaction does not affect the accounting result or the tax gain or loss, they are not booked. The deferred tax is determined using the tax rates (and laws) that have been enacted or substantially enacted at the consolidated financial statements close, and are expected to apply when the related deferred tax asset is realized or the deferred tax liability discharged.

Deferred tax assets are recognized when it is probable that there will be sufficient future tax earnings with which to compensate the temporary differences.

According to the instructions of Chilean Superintendency of Securities and Insurance in his Office Circular No. 856 of October 17, 2014, the effects on assets and liabilities by deferred tax as a result of the rate increase of the First Category Tax approved by Law No. 20,780 (tax reform) about deferred income tax, according to IAS 12 should be imputed to income (loss) of period, have been classified as Retained earnings, under Retained earnings. The subsequent amendments shall be recognized in income (loss) of period according to IAS 12.

Except as mentioned in the previous subparagraph, the tax (current and deferred) is recognized in income by function, unless it relates to an item recognized in Other comprehensive income, directly in equity or from business combination. In that case the tax is also recognized in Other comprehensive income, directly in income by function or goodwill, respectively.

2.18. Employee benefits

(a) Personnel vacations

The Company recognizes the expense for personnel vacations on an accrual basis.

(b) Share-based compensation

The compensation plans implemented by the granting of options for the subscription and payment of shares are shown in the consolidated financial statements in accordance with IFRS 2: Share based payments, showing the effect of the fair value of the options granted as a charge to remuneration on a straight-line basis between the date of granting such options and the date on which these become vested.

(c) Post-employment and other long-term benefits

Provisions are made for these obligations by applying the method of the actuarial value of the accrued cost, and taking into account estimates of future permanence, mortality rates and future wage increases determined on the basis of actuarial calculations. The discount rates are determined by reference to market interest-rate curves. Actuarial gains or losses are shown in other comprehensive income.

(d) Incentives

The Company has an annual incentives plan for its personnel for compliance with objectives and individual contribution to the results. The incentives eventually granted consist of a given number or portion of monthly remuneration and the provision is made on the basis of the amount estimated for distribution.

2.19. Provisions

Provisions are recognized when:

(i) The Company has a present legal or implicit obligation as a result of past events;

- (ii) It is probable that payment is going to be necessary to settle an obligation; and
- (iii) The amount has been reliably estimated.

2.20. Revenue recognition

Revenues include the fair value of the proceeds received or to be received on sales of goods and rendering services in the ordinary course of the Company's business. Revenues are shown net of refunds, rebates and discounts.

- (a) Rendering of services
 - (i) Passenger and cargo transport

The Company shows revenue from the transportation of passengers and cargo once the service has been provided.

Consistent with the foregoing, the Company presents the deferred revenues, generated by anticipated sale of flight tickets and freight services, in heading Other financial liabilities in the Statement of Financial Position.

- (ii) Frequent flyer program

The Company currently has a frequent flyer programs, whose objective is customer loyalty through the delivery of kilometers or points fly whenever the programs holders make certain flights, use the services of entities registered with the program or make purchases with an associated credit card. The kilometers or points earned can be exchanged for flight tickets or other services of associated entities.

The consolidated financial statements include liabilities for this concept (deferred income), according to the estimate of the valuation established for the kilometers or points accumulated pending use at that date, in accordance with IFRIC 13: Customer loyalty programs.

- (iii) Other revenues

The Company records revenues for other services when these have been provided.

- (b) Interest income

Interest income is booked using the effective interest rate method.

- (c) Dividend income

Dividend income is booked when the right to receive the payment is established.

2.21. Leases

(a) When the Company is the lessee – financial lease

The Company leases certain Property, plant and equipment in which it has substantially all the risk and benefits deriving from the ownership; they are therefore classified as financial leases. Financial leases are initially recorded at the lower of the fair value of the asset leased and the present value of the minimum lease payments.

Every lease payment is separated between the liability component and the financial expenses so as to obtain a constant interest rate over the outstanding amount of the debt. The corresponding leasing obligations, net of financial charges, are included in Other financial liabilities. The element of interest in the financial cost is charged to the consolidated statement of income over the lease period so that it produces a constant periodic rate of interest on the remaining balance of the liability for each year. The asset acquired under a financial lease is depreciated over its useful life and is included in Property, plant and equipment.

(b) When the Company is the lessee – operating lease

Leases, in which the lessor retains an important part of the risks and benefits deriving from ownership, are classified as operating leases. Payments with respect to operating leases (net of any incentive received from the lessor) are charged in the consolidated statement of income on a straight-line basis over the term of the lease.

2.22. Non-current assets or disposal groups classified as held for sale

Non-current assets (or disposal groups) classified as assets held for sale are shown at the lesser of their book value and the fair value less costs to sell.

2.23. Maintenance

The costs incurred for scheduled heavy maintenance of the aircraft's fuselage and engines are capitalized and depreciated until the next maintenance. The depreciation rate is determined on technical grounds, according to the use of the aircraft expressed in terms of cycles and flight hours.

In case of own aircraft or under financial leases, these maintenance cost are capitalized as Property, plant and equipment, while in the case of aircraft under operating leases, a liability is accrued based on the use of the main components is recognized, since exists a contractual obligation with the lessor to return the aircraft on agreed terms of maintenance levels. These are recognized as Cost of sales.

Additionally, some leases establish the obligation of the lessee to make deposits to the lessor as a guarantee of compliance with the maintenance and return conditions. These deposits, often called maintenance reserves, accumulate until a major maintenance is performed, once made, is request the recovery to the lessor. At the end of the contract period, the balance between paid reservations and conditions agreed with levels of maintain in delivering, be offset the parties if applicable.

The unscheduled maintenance of aircraft and engines, as well as minor maintenance, are charged to results as incurred.

2.24. Environmental costs

Disbursements related to environmental protection are charged to results when incurred.

NOTE 3 - FINANCIAL RISK MANAGEMENT

3.1. Financial risk factors

The Company's activities are exposed to different financial risks: (a) market risk, (b) credit risk, and (c) liquidity risk. The Company's global risk management program is focused on uncertainty in the financial markets and tries to minimize the potential adverse effects on the net margin. The Company uses derivative instruments to hedge part of these risks.

(a) Market risk

Due to the nature of its operations, the Company is exposed to market risks such as:

(i) fuel-price risk, (ii) interest-rate risk, and (iii) local exchange-rate risk. In order to fully or partially hedge all of these risks, the Company operates with derivative instruments to fix or limit the possible impact that could generate the above mentioned risks.

(i) Fuel-price risk:

Fluctuations in fuel prices largely depend on the global supply and demand for oil, decisions taken by Organization of Petroleum Exporting Countries ("OPEC"), global refining capacity, stock levels maintained, and weather and geopolitical factors.

The Company purchases an aircraft fuel called Jet Fuel grade 54. There is a benchmark price in the international market for this underlying asset, which is US Gulf Coast Jet 54. However, the futures market for this asset has a low liquidity index and as a result the Company hedges its exposure using West Texas Intermediate ("WTI") crude, Brent ("BRENT") crude and distillate Heating Oil ("HO"), which have a high correlation with Jet Fuel and are highly liquid assets and therefore have advantages in comparison to the use of the U.S. Gulf Coast Jet 54 index.

During the period ended December 31, 2014, the Company recognized losses of US\$ 108.7 million on fuel derivative. During the period 2013, the Company recognized gains of US\$ 19.0 million for the same reason.

At December 31, 2014, the market value of its fuel positions amounted to US\$ 157.2 million (negative). At December 31, 2013, this market value was US\$ 15.9 million (positive).

The following tables show the level of hedge for different periods:

| Positions as of December 31, 2014 (*) | Maturities | | | | |
|---|------------|------|------|------|-------|
| | Q115 | Q215 | Q315 | Q415 | Total |
| Percentage of the hedge of expected consumption value | 30% | 15% | 30% | 20% | 24% |

(*) The volume shown in the table considers all the hedging instruments (swaps and options).

| Positions as of December 31, 2013 (*) | Maturities | | |
|---|------------|------|-------|
| | Q114 | Q214 | Total |
| Percentage of the hedge of expected consumption value | 56% | 26% | 41% |

(*) The volume shown in the table considers all the hedging instruments (swaps and options).

Sensitivity analysis

A drop in fuel price positively affects the Company through a reduction in costs. However, this drop also negatively affects contracted positions as these are acquired to protect the Company against the risk of a rise in price. The policy therefore is to maintain a hedge-free percentage in order to be competitive in the event of a drop in price.

Due to the fact that current positions do not represent changes in cash flows, but a variation in the exposure to the market value, the current hedge positions have no impact on income (they are booked as cash flow hedge contracts, so a variation in the fuel price has an impact on the Company's net equity through the consolidated statement of comprehensive income).

The following table shows the sensitivity analysis of the financial instruments according to reasonable changes in the fuel price and their effect on equity. The term of the projection was defined until the end of the last current fuel hedge contract, being the last business day of the third quarter of 2015.

The calculations were made considering a parallel movement of US\$ 5 per barrel in the curve of the BRENT and JET crude futures benchmark price at the end of December, 2014 and the end of December, 2013.

| Benchmark price (US\$ per barrel) | Positions as of December 31, 2014 effect on equity (millions of US\$) | Positions as of December 31, 2013 effect on equity (millions of US\$) |
|--------------------------------------|---|---|
| +5 | +24.90 | +24.57 |
| -5 | -25.06 | -19.13 |

The Company seeks to reduce the risk of fuel price rises to ensure it is not left at a disadvantage compared to its competitors in the event of a sharp price fall. The Company therefore uses hedge instruments like swaps, call options and collars to partially hedge the fuel volumes by consume.

Given the fuel hedge structure during the year of 2014, which considers a hedge-free portion, a vertical fall by 5 dollars in the BRENT and JET benchmark price (the monthly daily average), would have meant an impact of approximately US\$ 90.2 million in the cost of total fuel consumption for the same period. For the period of 2014, a vertical rise by 5 dollars in the BRENT and JET benchmark price (the monthly daily average) would have meant an impact of approximately US\$ 88.07 million of increased fuel costs.

(ii) Cash flow interest-rate risk:

The fluctuation in interest rates depends heavily on the state of the global economy. An improvement in long-term economic prospects moves long-term rates upward while a drop causes a decline through market effects. However, if we consider government intervention in periods of economic recession, it is usual to reduce interest rates to stimulate aggregate demand by making credit more accessible and increasing production (in the same way interest rates are raised in periods of economic expansion).

The present uncertainty about how the market and governments will react, and thus how interest rates will change, creates a risk related to the Company's debt at floating interest rates and its investments.

Cash flow interest rate risk equates to the risk of future cash flows of the financial instruments due to the fluctuation in interest rates on the market. The Company's exposure to risks of changes in market interest rates is mainly related to long-term obligations with variable interest rates.

In order to reduce the risk of an eventual rise in interest rates, the Company has signed interest-rate swap and call option contracts. Currently a 69% (70% at December 31, 2013) of the debt is fixed to fluctuations in interest rate. Therefore the Company is exposed in one portion to the variations of London Inter-Bank Offer Rate ("LIBOR") of 30 days, 90 days, 180 days and 360 days. Other interest rates of less relevance are Brazilian Interbank Deposit Certificate ("ILC"), and the Interest Rate Term of Brazil ("TJLP").

The following table shows the sensitivity of changes in financial obligations that are not hedged against interest-rate variations. These changes are considered reasonably possible based on current market conditions.

| Increase (decrease) futures curve in libor 3 months | Positions as of December 31, 2014 effect on profit or loss before tax (millions of US\$) | Positions as of December 31, 2013 effect on profit or loss before tax (millions of US\$) |
|---|--|--|
| +100 basis points | -27.53 | -29.70 |
| -100 basis points | +27.53 | +29.70 |

Changes in market conditions produce a change in the valuation of current financial instruments hedging interest rates, causing an effect on the Company's equity (because they are booked as cash-flow hedges). These changes are considered reasonably possible based on current market

conditions. The calculations were made increasing (decreasing) vertically 100 basis points of the three-month Libor futures curve.

| Increase (decrease) futures curve in libor 3 months | Positions as of December 31, 2014 effect on equity (millions of US\$) | Positions as of December 31, 2013 effect on equity (millions of US\$) |
|---|---|---|
| +100 basis points | +15.33 | +23.35 |
| -100 basis points | -15.95 | -24.46 |

There are limitations in the method used for the sensitivity analysis and relate to those provided by the market because the levels indicated by the futures curves are not necessarily met and will change in each period.

In accordance with the requirements of IAS 39, during the periods presented, the Company has not recorded amounts for ineffectiveness in the consolidated income statement.

(iii) Foreign exchange rate risk:

The functional currency used by the Company is the US dollar in terms of setting prices for its services, the composition of its statement of financial position and effects on its operating income.

The main risk arises when items listed on the balance sheet are exposed to exchange rate variations, due to their being listed in a currency other than the functional currency.

In the case of the subsidiary TAM S.A, which operates with the Brazilian Real as its functional currency, a large proportion of the company's liabilities are expressed in United States Dollars. Therefore, this subsidiary's profit and loss varies when its financial assets and liabilities, and its accounts receivable listed in dollars are converted to Brazilian Reals. This impact on profit and loss is consolidated in the Company.

In order to reduce the volatility on the financial statements of the Company caused by rises and falls in the R\$/US\$ exchange rate, the Company has conducted transactions for to reduce the net US\$ liabilities held by TAM S.A.

The following table shows the variation of financial performance to appreciate or depreciate 10% exchange rate R\$/US\$:

| Appreciation (depreciation) of R\$/US\$ | Effect at December 31, 2014 Millions of US\$ |
|--|---|
| -10% | +69.8 |
| +10% | -69.8 |

The Company sells most of its services in US dollars, prices equivalent to the US dollar and Brazilian real. A large part of its expenses are denominated in US dollars or equivalents to the US dollar, particularly fuel costs, aeronautic charges, aircraft leases, insurance and aircraft components and accessories. Remuneration expenses are denominated in local currencies.

The Company maintains its cargo and passenger international business tariffs in US dollars. There is a mix in the domestic markets as sales in Peru are in local currency but the prices are indexed to the US dollar. In domestic markets of Brazil, Chile, Argentina and Colombia the tariffs are in local currency without any kind of indexation. In the case of the domestic business in Ecuador, both tariffs and sales are in US dollar. The Company is therefore exposed to fluctuations in the different currencies, among which are: Brazilian real, Chilean peso, Argentine peso, Paraguayan guaraní, Mexican peso, Euro, Pound sterling, Peruvian sol, Colombian peso, Australian dollar and New Zealand dollar. Of these currencies, the largest exposure is presented by Brazilian real and Chilean peso.

On the other hand, one of the sources of financing of the Company is the receipt of future flows relating to dividends and distributions of capital that the subsidiaries project distribute. These futures flows vary depending on the evolution of currency in compared to the US\$. Most exposure to future flows is presented in subsidiary TAM S.A. and the volatility in the exchange rate R\$/US\$. In the case of the subsidiary TAM S.A. the incomes are expressed a large proportion in R\$ and a large proportion of their costs are expressed in US\$.

For cover the inversion in the subsidiaries and reduce the volatility in the cash flow , the Company may acquire derivatives contracts to hedge variations in other currencies against the Company's functional currency, hedging exchange rate risk through currency forward.

With the object of reduce the exposition to the futures monthly operating flows of all 2014, caused by eventual depreciation of the BRL and assure an economic margins, LATAM done the hedge by derivatives FX Forward.

During the year ended at December 31, 2014 the Company recognized losses of US\$ 3.8 million on hedging FX. During the period of 2013 the Company had no current positions for this item, so no compensation is recognized.

At December 31, 2014, the market value of its FX positions amounted to US\$0.1 million (negative). At end of December 2013 the market value was of US\$ 32.1 million (positive).

At end of December 2014, the Company has contracted derivatives of FX for US\$ 100 million (US\$ 500 million at December 31, 2013)

Sensitivity exchange rate LATAM

A depreciation of exchange rate R\$/ US\$ affects negatively the Company for a rise of its costs in US\$, however, it also affects positively the value of contracted derivate positions.

Because the changes in the value of current positions not represented changes in cash flows, but a variation in the exposure of market value, the current hedge positions have not impact on result (are registered as cash flow hedges according to IAS 39, therefore, a variation in the exposure has an impact on the Company's net equity).

The following table presents the sensitivity of derivative FX Forward instruments agrees with reasonable changes to exchange rate and its effect on equity. The projection term was defined until the end of the last current contract hedge, being the last business day of the first month of 2015:

| Appreciation (depreciation) of R\$/US\$ | Effect at December 31, 2014 Millions of US\$ |
|--|---|
| -10% | -9.98 |
| +10% | +9.98 |

Effects of exchange rate derivatives in the Financial Statements

The profit or losses caused by changes in the fair value of hedging instruments are segregated between intrinsic value and temporary value. The intrinsic value is the actual percentage of cash flow covered, initially shown in equity and later transferred to income, while the hedge transaction is recorded in income. The temporary value corresponds to the ineffective portion of cash flow hedge which is recognized in the financial results of the Company (Note 18).

Due to the functional currency of TAM S.A. and Subsidiaries is the Brazilian real, the Company presents the effects of the exchange rate fluctuations in Other comprehensive income by converting the Statement of financial position and Income statement of TAM S.A. and Subsidiaries from their functional currency to the U.S. dollar, which is the presentation currency of the consolidated financial statement of LATAM Airlines Group S.A. and Subsidiaries. The Goodwill generated in the Business combination is recognized as an asset of TAM S.A. and Subsidiaries in Brazilian real whose conversion to U.S. dollar also produces effects in Other comprehensive income.

The following table shows the change in Other comprehensive income recognized in Total equity in the case of appreciate or depreciate 10% the exchange rate R\$/US\$:

| Appreciation (depreciation) of R\$/US\$ | Effect at December 31, 2014 Millions of US\$ | Effect at December 31, 2013 Millions of US\$ |
|--|---|---|
| -10% | +461.15 | +466.45 |
| +10% | -377.31 | -381.63 |

(b) Credit risk

Credit risk occurs when the counterparty to a financial agreement or instrument fails to discharge an obligation due or financial instrument, leading to a loss in market value of a financial instrument (only financial assets, not liabilities).

The Company is exposed to credit risk due to its operative and financial activities, including deposits with banks and financial institutions, investments in other kinds of instruments, exchange-rate transactions and the contracting of derivative instruments or options.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities in Brazil with travel agents).

As a way to mitigate credit risk related to financial activities, the Company requires that the counterparty to the financial activities remain at least investment grade by major Risk Assessment Agencies. Additionally the company has established maximum limits for investments which are monitored regularly.

(i) Financial activities

Cash surpluses that remain after the financing of assets necessary for the operation are invested according to credit limits approved by the Company's Board, mainly in time deposits with different financial institutions, private investment funds, short-term mutual funds, and easily-liquidated corporate and sovereign bonds with short remaining maturities. These investments are booked as Cash and cash equivalents and Other current financial assets.

In order to reduce counterparty risk and to ensure that the risk assumed is known and managed by the Company, investments are diversified among different banking institutions (both local and international). The Company evaluates the credit standing of each counterparty and the levels of investment, based on (i) their credit rating, (ii) the equity size of the counterparty, and (iii) investment limits according to the Company's level of liquidity. According to these three parameters, the Company chooses the most restrictive parameter of the previous three and based on this, establishes limits for operations with each counterparty.

The Company has no guarantees to mitigate this exposure.

(ii) Operational activities

The Company has four large sales "clusters": travel agencies, cargo agents, airlines and credit-card administrators. The first three are governed by International Air Transport Association, international ("IATA") organization comprising most of the airlines that represent over 90% of scheduled commercial traffic and one of its main objectives is to regulate the financial transactions between airlines and travel agents and cargo. When an agency or airline does not pay their debt, they are excluded from operating with IATA's member airlines. In the case of credit-card administrators, they are fully guaranteed by 100% by the issuing institutions.

The exposure consists of the term granted, which fluctuates between 1 and 45 days.

One of the tools the Company uses for reducing credit risk is to participate in global entities related to the industry, such as IATA, Business Sales Processing ("BSP"), Cargo Account Settlement Systems ("CASS"), IATA Clearing House ("ICH") and banks (credit cards). These institutions fulfill the role of collectors and distributors between airlines and travel and cargo agencies. In the case of the Clearing House, it acts as an offsetting entity between airlines for the services provided between them. A reduction in term and implementation of guarantees has been achieved through these entities. Currently the sales invoicing of TAM Linhas Aéreas S.A. related with travel agents and cargo agents for domestic transportation in Brazil is done directly by TAM Linhas Aéreas S.A.

Credit quality of financial assets

The external credit evaluation system used by the Company is provided by IATA. Internal systems are also used for particular evaluations or specific markets based on trade reports available on the local market. The internal classification system is complementary to the external one, i.e. for agencies or airlines not members of IATA, the internal demands are greater.

To reduce the credit risk associated with operational activities, the Company has established credit limits to abridge the exposure of their debtors which are monitored permanently (mainly in case of operational activities of TAM Linhas Aéreas S.A. with travel agents). The bad-debt rate in the principal countries where the Company has a presence is insignificant.

(c) Liquidity risk

Liquidity risk represents the risk that the Company has no funds to meet its obligations.

Because of the cyclical nature of the business, the operation, and its investment and financing needs related to the acquisition of new aircraft and renewal of its fleet, plus the financing needs related to market-risk hedges, the Company requires liquid funds to meet its payment obligations.

The Company therefore manages its cash and cash equivalents and its financial assets, matching the term of investments with those of its obligations. The Company's policy is that the average term of its investments may not exceed the average term of its obligations. This cash and cash equivalents position is invested in highly-liquid short-term instruments through first-class financial entities.

The Company has future obligations related to financial leases, operating leases, maturities of other bank borrowings, derivative contracts and aircraft purchase contracts.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2014
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective | Nominal |
|------------------------------|------------------------|------------------|----------|---------|---------------------|--------------------|---------------------|------------|-----------|---------------|---------------|-----------|---------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | rate | rate |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Loans to exporters | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | 100,102 | - | - | - | - | 100,102 | 100,000 | At expiration | 0.40 | 0.40 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 45,044 | - | - | - | - | 45,044 | 45,000 | At expiration | 0.34 | 0.34 |
| 97.006.000-6 | ESTADO | Chile | US\$ | 55,076 | - | - | - | - | 55,076 | 55,000 | At expiration | 0.52 | 0.52 |
| 97.030.000-7 | BCI | Chile | US\$ | 100,157 | - | - | - | - | 100,157 | 100,000 | At expiration | 0.47 | 0.47 |
| 76.645.030-K | ITAU | Chile | US\$ | 15,025 | - | - | - | - | 15,025 | 15,000 | At expiration | 0.65 | 0.65 |
| 97.951.000-4 | HSBC | Chile | US\$ | 12,010 | - | - | - | - | 12,010 | 12,000 | At expiration | 0.50 | 0.50 |
| Bank loans | | | | | | | | | | | | | |
| 97.023.000-9 | CORPBANCA | Chile | UF | 16,575 | 48,581 | 121,945 | 17,621 | - | 204,722 | 188,268 | Quarterly | 4.85 | 4.85 |
| 0-E | CITIBANK | Argentina | ARS | 1,298 | 18,700 | - | - | - | 19,998 | 17,542 | Monthly | 31.00 | 31.00 |
| 0-E | BBVA | Argentina | ARS | 1,713 | 23,403 | - | - | - | 25,116 | 21,050 | Monthly | 33.00 | 33.00 |
| 97.036.000-K | SANTANDER | U.S.A. | US\$ | 1,610 | 3,476 | 283,438 | - | - | 288,524 | 282,967 | Quarterly | 2.33 | 2.33 |
| Guaranteed obligations | | | | | | | | | | | | | |
| 0-E | CREDIT AGRICOLE | France | US\$ | 18,670 | 55,089 | 109,536 | 64,101 | 36,625 | 284,021 | 273,599 | Quarterly | 1.68 | 1.43 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 9,634 | 29,259 | 80,097 | 83,020 | 190,070 | 392,080 | 351,217 | Quarterly | 2.13 | 2.04 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 35,533 | 106,692 | 285,218 | 286,264 | 698,052 | 1,411,759 | 1,302,968 | Quarterly | 2.26 | 1.57 |
| 0-E | CITIBANK | U.S.A. | US\$ | 19,149 | 57,915 | 156,757 | 160,323 | 347,710 | 741,854 | 684,114 | Quarterly | 2.24 | 1.49 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,482 | 16,572 | 44,925 | 46,047 | 73,544 | 186,570 | 180,341 | Quarterly | 1.32 | 0.78 |
| 0-E | BTMU | U.S.A. | US\$ | 2,931 | 8,863 | 24,091 | 24,778 | 52,541 | 113,204 | 107,645 | Quarterly | 1.64 | 1.04 |
| 0-E | APPLE BANK | U.S.A. | US\$ | 1,437 | 4,358 | 11,849 | 12,206 | 26,318 | 56,168 | 53,390 | Quarterly | 1.63 | 1.03 |
| 0-E | US BANK | U.S.A. | US\$ | 18,713 | 56,052 | 148,622 | 147,357 | 376,792 | 747,536 | 648,158 | Quarterly | 3.99 | 2.81 |
| 0-E | DEUTSCHE BANK | U.S.A. | US\$ | 5,834 | 17,621 | 47,600 | 30,300 | 78,509 | 179,864 | 155,279 | Quarterly | 3.25 | 3.25 |
| 0-E | NATIXIS | France | US\$ | 11,783 | 35,803 | 99,012 | 98,632 | 259,912 | 505,142 | 454,230 | Quarterly | 1.86 | 1.81 |
| 0-E | HSBC | U.S.A. | US\$ | 1,564 | 4,725 | 12,738 | 12,956 | 31,701 | 63,684 | 59,005 | Quarterly | 2.29 | 1.48 |
| 0-E | PK AirFinance US, Inc. | U.S.A. | US\$ | 2,074 | 6,378 | 18,091 | 19,836 | 28,763 | 75,142 | 69,721 | Monthly | 1.86 | 1.86 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 696 | 2,124 | 6,048 | 4,587 | 3,771 | 17,226 | 16,088 | Quarterly | 2.10 | 2.10 |
| Other guaranteed obligations | | | | | | | | | | | | | |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 8,199 | 24,623 | 32,904 | - | - | 65,726 | 64,246 | Quarterly | 2.00 | 2.00 |
| 0-E | CREDIT AGRICOLE | U.S.A. | US\$ | 7,864 | 23,394 | 62,540 | - | - | 93,798 | 91,337 | Quarterly | 1.73 | 1.73 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 9,137 | 27,520 | 58,821 | 34,067 | 12,134 | 141,679 | 126,528 | Quarterly | 4.84 | 4.33 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 1,643 | 5,036 | 14,152 | - | - | 20,831 | 20,413 | Quarterly | 1.20 | 1.20 |
| 0-E | CITIBANK | U.S.A. | US\$ | 6,083 | 18,250 | 48,667 | 48,667 | 14,262 | 135,929 | 115,449 | Quarterly | 6.40 | 5.67 |
| 0-E | PEFCO | U.S.A. | US\$ | 17,555 | 52,678 | 138,380 | 67,095 | 3,899 | 279,607 | 252,205 | Quarterly | 5.35 | 4.76 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 11,240 | 33,917 | 91,743 | 60,834 | 10,974 | 208,708 | 191,672 | Quarterly | 4.14 | 3.68 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 5,604 | 16,784 | 44,705 | 44,615 | 46,394 | 158,102 | 139,325 | Quarterly | 3.98 | 3.53 |
| 0-E | DVB BANK S E | U.S.A. | US\$ | 4,701 | 14,145 | 33,201 | - | - | 52,047 | 50,569 | Quarterly | 1.89 | 1.89 |
| 0-E | US BANK | U.S.A. | US\$ | 326 | 6,247 | 5,455 | - | - | 12,028 | 11,981 | Monthly | - | - |
| 0-E | BANC OF AMERICA | U.S.A. | US\$ | 720 | 2,118 | 2,912 | - | - | 5,750 | 5,462 | Monthly | 1.41 | 1.41 |
| Other loans | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | - | 4,994 | 180,583 | - | - | 185,577 | 179,507 | At expiration | 1.74 | 1.74 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | 6,825 | 20,175 | 209,730 | 209,778 | 104,852 | 551,360 | 450,000 | Quarterly | 6.00 | 6.00 |
| Hedging derivatives | | | | | | | | | | | | | |
| - | OTHERS | - | US\$ | 11,702 | 30,761 | 48,667 | 7,311 | 245 | 98,686 | 93,513 | - | - | - |
| Non - hedging derivatives | | | | | | | | | | | | | |
| - | OTHERS | - | US\$ | 1,002 | 628 | - | - | - | 1,630 | 730 | - | - | - |
| Total | | | | 574,711 | 776,881 | 2,422,427 | 1,480,395 | 2,397,068 | 7,651,482 | 6,985,519 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2014
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate | Nominal rate |
|----------------------------|--|------------------|----------|---------|---------------------|--------------------|---------------------|------------|-----------|---------------|----------------------|----------------|--------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| Bank loans | | | | | | | | | | | | | |
| 0-E | NEDERLANDSCHE CREDITVERZEKERING MAATSCHAPPIJ | Holland | US\$ | 184 | 493 | 1,315 | 1,315 | 1,369 | 4,676 | 3,796 | Monthly | 6.01 | 6.01 |
| Obligation with the public | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A. | US\$ | 14,639 | 82,006 | 481,920 | 148,037 | 880,604 | 1,607,206 | 1,100,000 | At Expiration | 7.99 | 7.19 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT IX LLC | U.S.A. | US\$ | 2,808 | 7,701 | 20,531 | 20,522 | 8,548 | 60,110 | 51,120 | Monthly | 1.25 | 1.25 |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 3,623 | 10,709 | 28,593 | 15,908 | 7,736 | 66,569 | 63,021 | Monthly | 1.42 | 1.42 |
| 0-E | CREDIT AGRICOLE-CIB | U.S.A. | US\$ | 2,897 | 32,805 | - | - | - | 35,702 | 35,170 | Quarterly | 1.10 | 1.10 |
| 0-E | CREDIT AGRICOLE -CIB | France | US\$ | 1,653 | 4,683 | 4,514 | - | - | 10,850 | 10,500 | Quarterly/Semiannual | 3.25 | 3.25 |
| 0-E | DVB BANK SE | Germany | US\$ | 3,247 | 9,470 | - | - | - | 12,717 | 12,500 | Quarterly | 2.50 | 2.50 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 206 | 554 | 767 | - | - | 1,527 | 1,492 | Monthly | 1.68 | 1.68 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 2,512 | 11,229 | 24,278 | - | - | 38,019 | 36,848 | Monthly | 1.25 | 1.25 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 3,596 | 11,209 | 19,167 | 14,028 | 5,365 | 53,365 | 50,687 | Monthly/Quarterly | 1.72 | 1.72 |
| 0-E | NATIXIS | France | US\$ | 5,121 | 9,778 | 27,874 | 28,520 | 87,769 | 159,062 | 139,693 | Quarterly/Semiannual | 3.87 | 3.87 |
| 0-E | PK AIRFINANCE US, INC. | U.S.A. | US\$ | 1,392 | 4,103 | 20,694 | - | - | 26,189 | 25,293 | Monthly | 1.75 | 1.75 |
| 0-E | WACAPOU LEASING S.A. | Luxemburg | US\$ | 573 | 1,528 | 3,559 | 2,852 | 13,226 | 21,738 | 19,982 | Quarterly | 2.00 | 2.00 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 9,777 | 27,207 | 75,066 | 78,964 | 170,509 | 361,523 | 344,106 | Quarterly | 3.06 | 3.58 |
| 0-E | BANCO DE LAGE LANDEN BRASIL S.A | Brazil | BRL | 8 | - | - | - | - | 8 | - | Monthly | 11.70 | 11.70 |
| 0-E | BANCO IBM S.A | Brazil | BRL | 356 | 1,118 | 3,405 | 40 | - | 4,919 | 3,817 | Monthly | 10.58 | 10.58 |
| 0-E | HP FINANCIAL SERVICE | Brazil | BRL | 276 | 829 | 1,381 | - | - | 2,486 | 2,229 | Monthly | 9.90 | 9.90 |
| 0-E | SOCIETE AIR FRANCE | France | EUR | 547 | - | - | - | - | 547 | 114 | Monthly | 6.82 | 6.82 |
| 0-E | SOCIÉTÉ GÉNÉRALE | France | BRL | 155 | 446 | 1,351 | 206 | - | 2,158 | 1,643 | Monthly | 11.60 | 11.60 |
| Other loans | | | | | | | | | | | | | |
| 0-E | COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO | Brazil | BRL | 30,281 | 15,576 | - | - | - | 45,857 | 45,857 | Monthly | 4.23 | 4.23 |
| Total | | | | 83,851 | 231,444 | 714,415 | 310,392 | 1,175,126 | 2,515,228 | 1,947,868 | | | |

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2014
 Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal | Amortization | Effective | Nominal |
|--|---------------------------------|------------------|-------------------|-----------|---------------------|--------------------|---------------------|------------|------------|------------|--------------|-----------|---------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | value | | rate | rate |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Trade and other accounts payables | | | | | | | | | | | | | |
| - | OTHERS | OTHERS | US\$ | 529,043 | 26,483 | - | - | - | 555,526 | 555,526 | - | - | - |
| | | | USD | 1,107 | 10,449 | - | - | - | 11,556 | 11,431 | Quarterly | 2.11 | 2.11 |
| | | | CLP | 23,878 | 241 | - | - | - | 24,119 | 24,119 | - | - | - |
| | | | BRL | 380,766 | 13 | - | - | - | 380,779 | 380,779 | - | - | - |
| | | | Others currencies | 224,040 | 228 | - | - | - | 224,268 | 224,268 | - | - | - |
| Accounts payable to related parties currents | | | | | | | | | | | | | |
| 65.216.000-1 | COMUNIDAD MUJER | Chile | CLP | 2 | - | - | - | - | 2 | 2 | - | - | - |
| 78.591.370-1 | BETHIA S.A. AND SUBSIDIARIES | Chile | CLP | 6 | - | - | - | - | 6 | 6 | - | - | - |
| 0-E | INVERSORA AERONÁUTICA ARGENTINA | Argentina | US\$ | 27 | - | - | - | - | 27 | 27 | - | - | - |
| | Total | | | 1,158,869 | 37,414 | - | - | - | 1,196,283 | 1,196,158 | | | |
| | Total consolidated | | | 1,817,431 | 1,045,739 | 3,136,842 | 1,790,787 | 3,572,194 | 11,362,993 | 10,129,545 | | | |

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2013
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate % | Nominal rate % |
|------------------------------|-----------------|------------------|----------|---------|---------------------|--------------------|---------------------|------------|-----------|---------------|---------------|------------------|----------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| Loans to exporters | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | - | 30,100 | - | - | - | 30,100 | 30,000 | At expiration | 1.00 | 1.00 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 231,533 | - | - | - | - | 231,533 | 230,000 | At expiration | 1.63 | 1.63 |
| 97.030.000-7 | ESTADO | Chile | US\$ | - | 40,188 | - | - | - | 40,188 | 40,000 | At expiration | 1.06 | 1.06 |
| 76.100.458-1 | BLADEX | Chile | US\$ | 100,934 | - | - | - | - | 100,934 | 100,000 | At expiration | 1.87 | 1.87 |
| Bank loans | | | | | | | | | | | | | |
| 97.036.000-K | SANTANDER | Chile | US\$ | 877 | 789 | 115,051 | - | - | 116,717 | 115,051 | At expiration | 3.19 | 3.19 |
| 97.023.000-9 | CORPBANCA | Chile | UF | 19,001 | 55,465 | 139,603 | 84,505 | - | 298,574 | 268,460 | Quarterly | 4.85 | 4.85 |
| 0-E | CITIBANK | Argentina | ARS | 785 | 15,861 | - | - | - | 16,646 | 15,335 | Monthly | 20.75 | 20.75 |
| 0-E | BBVA | Argentina | ARS | 1,668 | 30,029 | - | - | - | 31,697 | 27,603 | Monthly | 23.78 | 23.78 |
| Guaranteed obligations | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 4,031 | 12,065 | 32,213 | 32,203 | 28,234 | 108,746 | 91,543 | Quarterly | 5.69 | 5.01 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 11,862 | 35,886 | 83,920 | 10,139 | - | 141,807 | 140,312 | Quarterly | 1.99 | 1.99 |
| 0-E | PEFCO | U.S.A. | US\$ | 2,280 | 6,839 | - | - | - | 9,119 | 8,964 | Quarterly | 3.06 | 2.73 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 11,325 | 34,296 | 93,368 | 96,444 | 237,865 | 473,298 | 418,254 | Quarterly | 2.45 | 2.31 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 55,235 | 165,469 | 439,680 | 437,387 | 1,205,577 | 2,303,348 | 2,099,776 | Quarterly | 2.47 | 1.76 |
| 0-E | CITIBANK | U.S.A. | US\$ | 11,540 | 34,748 | 93,687 | 95,226 | 168,917 | 404,118 | 372,191 | Quarterly | 2.64 | 2.04 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,420 | 16,374 | 44,359 | 45,459 | 96,694 | 208,306 | 200,599 | Quarterly | 1.32 | 0.78 |
| 0-E | BTMU | U.S.A. | US\$ | 2,891 | 8,741 | 23,742 | 24,417 | 65,005 | 124,796 | 118,070 | Quarterly | 1.64 | 1.04 |
| 0-E | APPLE BANK | U.S.A. | US\$ | 1,418 | 4,292 | 11,671 | 12,017 | 32,461 | 61,859 | 58,502 | Quarterly | 1.63 | 1.04 |
| 0-E | US BANK | U.S.A. | US\$ | 18,699 | 56,022 | 148,643 | 147,528 | 449,705 | 820,597 | 703,992 | Quarterly | 2.81 | 2.81 |
| 0-E | DEUTSCHE BANK | U.S.A. | US\$ | 5,760 | 17,500 | 47,175 | 39,021 | 93,773 | 203,229 | 173,036 | Quarterly | 3.27 | 3.27 |
| Other guaranteed obligations | | | | | | | | | | | | | |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 8,178 | 24,564 | 65,726 | - | - | 98,468 | 95,292 | Quarterly | 1.99 | 1.99 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 5,028 | 15,205 | 39,703 | 9,324 | - | 69,260 | 65,076 | Quarterly | 3.23 | 3.03 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 5,086 | 14,599 | 31,434 | 24,647 | 17,415 | 93,181 | 89,514 | Quarterly | 1.21 | 1.21 |
| 0-E | CITIBANK | U.S.A. | US\$ | 2,009 | 6,028 | 16,075 | 16,075 | 8,038 | 48,225 | 40,564 | Quarterly | 6.38 | 5.65 |
| 0-E | PEFCO | U.S.A. | US\$ | 17,566 | 52,678 | 140,462 | 115,934 | 23,211 | 349,851 | 308,774 | Quarterly | 5.35 | 4.23 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 7,984 | 24,056 | 64,890 | 59,475 | 7,139 | 163,544 | 147,334 | Quarterly | 4.65 | 4.15 |
| 0-E | BANC OF AMERICA | U.S.A. | US\$ | 703 | 2,099 | 5,628 | - | - | 8,430 | 7,899 | Monthly | 1.43 | 1.43 |
| Other loans | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | - | 2,804 | 172,128 | - | - | 174,932 | 170,838 | At expiration | 1.75 | 1.75 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | 9,750 | 20,100 | 131,865 | 209,810 | 209,684 | 581,209 | 450,000 | Quarterly | 6.00 | 6.00 |
| Hedging derivatives | | | | | | | | | | | | | |
| - | OTHERS | - | US\$ | 11,005 | 30,495 | 59,829 | 16,561 | 614 | 118,504 | 112,819 | - | - | - |
| Non - hedging derivatives | | | | | | | | | | | | | |
| - | OTHERS | - | US\$ | 1,120 | 3,203 | 1,618 | - | - | 5,941 | 5,562 | - | - | - |
| Total | | | | 553,688 | 760,495 | 2,002,470 | 1,476,172 | 2,644,332 | 7,437,157 | 6,705,360 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2013
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal value | Amortization | Effective rate % | Nominal rate % |
|----------------------------|---|------------------|----------|---------|---------------------|--------------------|---------------------|------------|-----------|---------------|----------------------|------------------|----------------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | | | | |
| Bank loans | | | | | | | | | | | | | |
| 0-E | CITIBANK | Brazil | US\$ | 2,410 | 44,071 | - | - | - | 46,481 | 43,885 | At Expiration | 3.76 | 3.20 |
| 0-E | BANCO DO BRASIL S.A. | Brazil | US\$ | 9,803 | 135,450 | - | - | - | 145,253 | 137,849 | At Expiration | 5.20 | 4.66 |
| 0-E | BANCO ITAU BBA | Brazil | US\$ | 29,142 | 50,737 | - | - | - | 79,879 | 73,830 | At Expiration | 6.31 | 4.73 |
| 0-E | BANCO SAFRA | Brazil | US\$ | 43,211 | 22,986 | - | - | - | 66,197 | 62,357 | At Expiration | 3.73 | 2.94 |
| 0-E | BANCO SAFRA | Brazil | BRL | 200 | 447 | 52 | - | - | 699 | 684 | Monthly | 7.42 | 7.42 |
| 0-E | BANCO BRADESCO | Brazil | US\$ | 79,995 | 50,686 | - | - | - | 130,681 | 122,341 | At Expiration | 3.87 | 3.29 |
| 0-E | BANCO BRADESCO | Brazil | BRL | - | 44,986 | - | - | - | 44,986 | 42,688 | At Expiration | 10.63 | 10.15 |
| 0-E | NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ | Holland | US\$ | 186 | 495 | 1,320 | 1,320 | 2,035 | 5,356 | 4,215 | Monthly | 6.01 | 6.01 |
| Obligation with the public | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A. | US\$ | 34,010 | 80,251 | 190,343 | 457,367 | 953,212 | 1,715,183 | 1,100,000 | At Expiration | 8.60 | 8.41 |
| Financial leases | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT IX LLC | U.S.A. | US\$ | 2,850 | 7,728 | 20,609 | 20,609 | 18,892 | 70,688 | 58,321 | Monthly | 1.25 | 1.25 |
| 0-E | AIR CANADA | U.S.A. | US\$ | 1,325 | 1,645 | - | - | - | 2,970 | 2,970 | Monthly | - | - |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 3,546 | 10,405 | 28,944 | 21,867 | 15,758 | 80,520 | 75,352 | Monthly | 1.42 | 1.42 |
| 0-E | AWAS | U.S.A. | US\$ | 5,651 | 4,432 | - | - | - | 10,083 | 5,651 | Monthly | - | - |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 722 | 2,008 | 5,705 | 6,283 | 8,648 | 23,366 | 22,082 | Quarterly | 1.00 | 1.00 |
| 0-E | BNP PARIBAS | France | US\$ | 872 | 2,397 | 6,387 | 6,394 | 10,385 | 26,435 | 22,359 | Quarterly | 0.86 | 0.75 |
| 0-E | CITIBANK | England | US\$ | 7,059 | 20,021 | 48,442 | 50,209 | 109,870 | 235,601 | 222,590 | Quarterly | 1.03 | 0.90 |
| 0-E | CREDIT AGRICOLE-CIB | U.S.A. | US\$ | 4,971 | 14,177 | 57,595 | 12,297 | 14,308 | 103,348 | 97,945 | Quarterly | 1.40 | 1.40 |
| 0-E | CREDIT AGRICOLE -CIB | France | US\$ | 8,834 | 26,771 | 61,037 | 51,629 | 53,270 | 201,541 | 195,396 | Semiannual/Quarterly | 0.75 | 0.65 |
| 0-E | DVB BANK SE | Germany | US\$ | 3,386 | 9,812 | 12,717 | - | - | 25,915 | 25,000 | Quarterly | 2.50 | 2.50 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 214 | 621 | 1,243 | 284 | - | 2,362 | 2,279 | Monthly | 1.75 | 1.75 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 3,709 | 48,803 | - | - | - | 52,512 | 51,978 | Monthly | 1.25 | 1.25 |
| 0-E | HSBC | France | US\$ | 1,611 | 4,480 | 12,148 | 12,461 | 37,705 | 68,405 | 64,296 | Quarterly | 1.45 | 1.25 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 4,463 | 13,067 | 30,880 | 21,672 | 18,232 | 88,314 | 82,718 | Monthly/Quarterly | 1.74 | 1.74 |
| 0-E | NATIXIS | France | US\$ | 9,619 | 20,117 | 58,917 | 62,444 | 124,621 | 275,718 | 246,128 | Semiannual/Quarterly | 2.81 | 2.78 |
| 0-E | PK AIRFINANCE US, INC. | U.S.A. | US\$ | 3,491 | 10,137 | 43,583 | 19,001 | 38,965 | 115,177 | 106,403 | Monthly | 1.71 | 1.71 |
| 0-E | WACAPOU LEASING S.A. | Luxemburg | US\$ | 632 | 1,679 | 3,943 | 3,209 | 14,585 | 24,048 | 21,737 | Quarterly | 2.00 | 2.00 |
| 0-E | WELLS FARGO BANK NORTHWEST N.A. | U.S.A. | US\$ | 1,781 | 1,427 | - | - | - | 3,208 | 3,194 | Monthly | 1.25 | 1.25 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 14,113 | 39,557 | 96,309 | 102,366 | 105,460 | 357,805 | 334,095 | Quarterly | 3.86 | 3.78 |
| 0-E | THE TORONTO-DOMINION BANK | U.S.A. | US\$ | 580 | 1,673 | 4,534 | 4,645 | 6,619 | 18,051 | 17,394 | Quarterly | 0.57 | 0.57 |
| 0-E | BANCO DE LAGE LANDEN BRASIL S.A | Brazil | BRL | 224 | 676 | - | - | - | 900 | 963 | Monthly | 10.38 | 10.38 |
| 0-E | BANCO IBM S.A | Brazil | BRL | 184 | 205 | 630 | 306 | - | 1,325 | 1,050 | Monthly | 10.58 | 10.58 |
| 0-E | HP FINANCIAL SERVICE | Brazil | BRL | 376 | 960 | 2,507 | 313 | - | 4,156 | 3,559 | Monthly | 9.90 | 9.90 |
| 0-E | SOCIETE AIR FRANCE | France | EUR | 847 | 1,258 | - | - | - | 2,105 | 1,379 | Monthly | 6.82 | 6.82 |
| Other loans | | | | | | | | | | | | | |
| 0-E | COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO | Brazil | BRL | 27,244 | 537 | - | - | - | 27,781 | 27,781 | Monthly | 2.38 | 2.38 |
| - | OTHERS | Brazil | US\$ | 496 | 1,156 | - | - | - | 1,652 | 1,652 | - | - | - |
| Total | | | | 307,757 | 675,858 | 687,845 | 854,676 | 1,532,565 | 4,058,701 | 3,282,121 | | | |

Class of liability for the analysis of liquidity risk ordered by date of maturity as of December 31, 2013
Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2 Chile.

| Tax No. | Creditor | Creditor country | Currency | Up to | More than | More than | More than | More than | Total | Nominal | Amortization | Effective | Nominal |
|--|---------------------------------------|------------------|-------------------|-----------|---------------------|--------------------|---------------------|------------|------------|------------|--------------|-----------|---------|
| | | | | 90 days | 90 days to one year | one to three years | three to five years | five years | | value | | rate | rate |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | % | % |
| Trade and other accounts payables | | | | | | | | | | | | | |
| - | OTHERS | OTHERS | US\$ | 814,354 | 7,245 | - | - | - | 821,599 | 821,599 | - | - | - |
| | | | US\$ | 1,104 | 3,318 | - | - | - | 4,422 | 4,141 | Quarterly | 2.01 | 2.01 |
| | | | CLP | 16,364 | 6 | - | - | - | 16,370 | 16,370 | - | - | - |
| | | | BRL | 193,189 | 8 | - | - | - | 193,197 | 193,197 | - | - | - |
| | | | BRL | 5,220 | 14,878 | - | - | - | 20,098 | 14,569 | Monthly | 8.99 | 8.99 |
| | | | Others currencies | 213,904 | 615 | - | - | - | 214,519 | 214,519 | - | - | - |
| Accounts payable, non-current | | | | | | | | | | | | | |
| - | OTHERS | OTHERS | US\$ | - | - | 11,557 | - | - | 11,557 | 11,400 | Quarterly | 2.01 | 2.01 |
| | | | BRL | - | - | 42,743 | 54,907 | 199,200 | 296,850 | 124,481 | Monthly | 8.99 | 8.99 |
| Accounts payable to related parties currents | | | | | | | | | | | | | |
| 96.847.880-K | LUFTHANSA LAN TECHNICAL TRAINING S.A. | Chile | US\$ | 187 | - | - | - | - | 187 | 187 | - | - | - |
| 78.591.370-1 | BETHIA S.A. AND SUBSIDIARIES | Chile | CLP | 14 | - | - | - | - | 14 | 14 | - | - | - |
| 0-E | INVERSORA AERONÁUTICA ARGENTINA | Argentina | US\$ | 304 | - | - | - | - | 304 | 304 | - | - | - |
| Total | | | | 1,244,640 | 26,070 | 54,300 | 54,907 | 199,200 | 1,579,117 | 1,400,781 | | | |
| Total consolidated | | | | 2,106,085 | 1,462,423 | 2,744,615 | 2,385,755 | 4,376,097 | 13,074,975 | 11,388,262 | | | |

The Company has fuel, interest rate and exchange rate hedging strategies involving derivatives contracts with different financial institutions. The Company has margin facilities with each financial institution in order to regulate the mutual exposure produced by changes in the market valuation of the derivatives.

At the end of 2013, the Company provided US\$ 94.3 million in derivative margin guarantees, for cash and stand-by letters of credit. At December 31, 2014, the Company had provided US\$ 91.8 million in guarantees for Cash and cash equivalent and stand-by letters of credit. The fall was due at i) maturity of hedge contracts, ii) acquire of new fuel purchase contracts, and iii) changes in fuel prices, exchange rate R\$/US\$ and interest rates.

3.2. Capital risk management

The Company's objectives, with respect to the management of capital, are (i) to safeguard it in order to continue as an on-going business, (ii) to seek a return for its shareholders, and (iii) to maintain an optimum capital structure and reduce its costs.

In order to maintain or adjust the capital structure, the Company may adjust the amount of the dividends payable to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Company monitors the adjusted leverage rate, in line with industry practice. This rate is calculated as net adjusted debt divided by the sum of adjusted equity and net adjusted debt. Net adjusted debt is total financial debt plus 8 times the operating lease payments of the last 12 months, less total cash (measured as the sum of cash and cash equivalents plus marketable securities). Adjusted capital is the amount of net equity without the impact of the market value of derivatives.

The Company's strategy, which has not changed since 2007, has consisted of maintaining an adjusted leverage rate of between 70% and 80% and an international credit rating of higher than BBB- (the minimum required for being considered investment grade). As a result of consolidation with TAM S.A. and Subsidiaries, the rating agency Fitch has issued on May 2, 2014 a new long-term rating for the Company of BB with negative perspective (which is not an investment grade rating). Additionally, on June 10, 2013, S&P issued a long term rating of BB, with a positive outlook.

Adjusted leverage ratios:

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|--|--|--|
| Total financial loans | 8,817,215 | 9,830,866 |
| Last twelve months Operating lease payment x 8 | 4,171,072 | 3,528,616 |
| Less: | | |
| Cash and marketable securities | (1,533,770) | (2,561,574) |
| Total net adjusted debt | <u>11,454,517</u> | <u>10,797,908</u> |
| Net Equity | 4,401,896 | 5,238,821 |
| Cash flow hedging reserve | 151,340 | 34,508 |
| Adjusted equity | <u>4,553,236</u> | <u>5,273,329</u> |
| Total adjusted debt and equity | <u>16,007,753</u> | <u>16,071,237</u> |
| Adjusted leverage | 71.6% | 67.2% |

See information related to financial covenants in Note 31 (a).

3.3. Estimates of fair value.

At December 31, 2014, the Company maintained financial instruments that should be recorded at fair value. These are grouped into two categories:

1. Hedge Instruments:

This category includes the following instruments:

- Interest rate derivative contracts,
- Fuel derivative contracts,
- Currency derivative contracts

2. Financial Investments:

This category includes the following instruments:

- Investments in short-term Mutual Funds (cash equivalent),
- Bank certificate of deposit – CBD,
- Private investment funds

The Company has classified the fair value measurement using a hierarchy that reflects the level of information used in the assessment. This hierarchy consists of 3 levels (I) fair value based on quoted prices in active markets for identical assets or liabilities, (II) fair value calculated through valuation methods based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) and (III) fair value based on inputs for the asset or liability that are not based on observable market data.

The fair value of financial instruments traded in active markets, such as investments acquired for trading, is based on quoted market prices at the close of the period using the current price of the buyer. The fair value of financial assets not traded in active markets (derivative contracts) is determined using valuation techniques that maximize use of available market information. Valuation techniques generally used by the Company are quoted market prices of similar instruments and / or estimating the present value of future cash flows using forward price curves of the market at period end.

The following table shows the classification of financial instruments at fair value, depending on the level of information used in the assessment:

| | As of December 31, 2014 | | | | As of December 31, 2013 | | | |
|--|--|-------------------|--------------------|---------------------|--|-------------------|--------------------|---------------------|
| | Fair value measurements using values considered as | | | | Fair value measurements using values considered as | | | |
| | Fair value ThUS\$ | Level I ThUS\$ | Level II ThUS\$ | Level III ThUS\$ | Fair value ThUS\$ | Level I ThUS\$ | Level II ThUS\$ | Level III ThUS\$ |
| Assets | | | | | | | | |
| Cash and cash equivalents | 200,753 | 200,753 | - | - | 579,349 | 579,349 | - | - |
| Short-term mutual funds | 200,753 | 200,753 | - | - | 579,349 | 579,349 | - | - |
| Other financial assets, current | 546,535 | 526,081 | 20,454 | - | 625,086 | 546,116 | 78,970 | - |
| Fair value of interest rate derivatives | 1 | - | 1 | - | 6 | - | 6 | - |
| Fair value of fuel derivatives | 1,783 | - | 1,783 | - | 15,868 | - | 15,868 | - |
| Fair value of foreign currency derivatives | - | - | - | - | 32,058 | - | 32,058 | - |
| Interest accrued since the last payment date of Cross Currency Swap | 377 | - | 377 | - | 483 | - | 483 | - |
| Private investment funds | 480,777 | 480,777 | - | - | 544,182 | 544,182 | - | - |
| Certificate of deposit CDB | 18,293 | - | 18,293 | - | 2,374 | - | 2,374 | - |
| Domestic and foreign bonds | 41,111 | 41,111 | - | - | 351 | 351 | - | - |
| Time deposit | - | - | - | - | 28,181 | - | 28,181 | - |
| Other investments | 4,193 | 4,193 | - | - | 1,583 | 1,583 | - | - |
| Liabilities | | | | | | | | |
| Other financial liabilities, current | 227,233 | - | 227,233 | - | 70,506 | - | 70,506 | - |
| Fair value of interest rate derivatives | 26,395 | - | 26,395 | - | 32,070 | - | 32,070 | - |
| Fair value of fuel derivatives | 157,233 | - | 157,233 | - | - | - | - | - |
| Fair value of foreign currency derivatives | 37,242 | - | 37,242 | - | 28,621 | - | 28,621 | - |
| Interest accrued since the last payment date of Currency Swap | 5,173 | - | 5,173 | - | 5,775 | - | 5,775 | - |
| Interest rate derivatives not recognized as a hedge | 1,190 | - | 1,190 | - | 4,040 | - | 4,040 | - |
| Other financial liabilities, non current | 28,327 | - | 28,327 | - | 56,397 | - | 56,397 | - |
| Fair value of interest rate derivatives | 28,327 | - | 28,327 | - | 54,906 | - | 54,906 | - |
| Interest rate derivatives not recognized as a hedge | - | - | - | - | 1,491 | - | 1,491 | - |

Additionally, at December 31, 2014, the Company has financial instruments which are not recorded at fair value. In order to meet the disclosure requirements of fair values, the Company has valued these instruments as shown in the table below:

| | As of December 31, 2014 | | As of December 31, 2013 | |
|---|-------------------------|------------|-------------------------|------------|
| | Book value | Fair value | Book value | Fair value |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | 788,643 | 788,643 | 1,405,554 | 1,405,554 |
| Cash on hand | 11,568 | 11,568 | 6,017 | 6,017 |
| Bank balance | 239,514 | 239,514 | 229,935 | 229,935 |
| Overnight | 154,666 | 154,666 | 508,781 | 508,781 |
| Time deposits | 382,895 | 382,895 | 660,821 | 660,821 |
| Other financial assets, current | 103,866 | 103,866 | 84,858 | 84,858 |
| Other financial assets | 103,866 | 103,866 | 84,858 | 84,858 |
| Trade and other accounts receivable current | 1,378,837 | 1,378,837 | 1,633,094 | 1,633,094 |
| Accounts receivable from related entities | 308 | 308 | 628 | 628 |
| Other financial assets, non current | 84,986 | 84,986 | 65,289 | 65,289 |
| Accounts receivable | 30,465 | 30,465 | 100,775 | 100,775 |
| Other financial liabilities, current | 1,397,382 | 1,446,100 | 1,969,281 | 2,128,096 |
| Trade and other accounts payables | 1,489,396 | 1,489,396 | 1,557,736 | 1,557,736 |
| Accounts payable to related entities | 35 | 35 | 505 | 505 |
| Other financial liabilities, non current | 7,360,685 | 8,319,022 | 7,803,588 | 7,910,446 |
| Accounts payable, non-current | 577,454 | 577,454 | 922,887 | 922,887 |

The book values of accounts receivable and payable are assumed to approximate their fair values, due to their short-term nature. In the case of cash on hand, bank balances, overnight, time deposits and accounts payable, non-current, fair value approximates their carrying values.

The fair value of Other financial liabilities is estimated by discounting the future contractual cash flows at the current market interest rate for similar financial instruments. In the case of Other financial assets, the valuation was performed according to market prices at period end.

NOTE 4 - ACCOUNTING ESTIMATES AND JUDGMENTS

The Company has used estimates to value and book some of the assets, liabilities, revenues, expenses and commitments; these relate principally to:

- (a) The evaluation of possible impairment losses for certain assets.
- (b) The useful lives and residual values of fixed and intangible assets.

- (c) The criteria employed in the valuation of certain assets.
- (d) Air tickets sold that are not actually used.
- (e) The calculation of deferred income at the end of the period, corresponding to the valuation of kilometers or points credited to holders of the loyalty programs which have not yet been used.
- (f) The need for provisions and where required, the determination of their values.
- (g) The recoverability of deferred tax assets.

These estimates are made on the basis of the best information available on the matters analyzed.

In any case, it is possible that events will require modification of the estimates in the future, in which case the effects would be accounted for prospectively.

The management has applied judgment in determining that LATAM Airlines Group S.A. has control over TAM S.A. and Subsidiaries for accounting purposes and therefore has consolidated their financial statements. This judgment is made on the basis that LATAM issued their ordinary shares in exchange for all of the outstanding common and preferred shares of TAM, except those shareholders of TAM who did not accept exchange and which were subject of the squeeze-out entitling LATAM to substantially all of the economic benefits that will be generated by the LATAM Group and also, consequently, exposing it to substantially all the risks incidental to the operations of TAM. This exchange aligns the economic interests of LATAM and all of its shareholders, including the TAM controlling shareholders, ensuring that the shareholders and directors of TAM will have no incentive to exercise their rights in a manner that is beneficial to TAM but detrimental to LATAM. Further, all significant actions required for the operation of the airlines require the affirmative vote of both LATAM and the TAM controlling shareholders.

Since the integration of LAN and TAM operations, most critical airline activities in Brazil have been managed under the TAM CEO and global activities have been managed by the LATAM CEO, who is in charge of the overall operation of the LATAM Group and who reports to the LATAM board. Further, the LATAM CEO evaluates performance of the LATAM Group executives and, together with the LATAM board, determines compensation. Although there are restrictions on voting interests that currently may be held by foreign investors under Brazilian law, LATAM believes that the economic substance of these arrangements satisfies the requirements established by the applicable accounting standards and that consolidation by LATAM of TAM's operations is appropriate.

NOTE 5 - SEGMENTAL INFORMATION

The Company has determined that it has two operating segments: the air transportation business and the coalition and loyalty program Multiplus.

The Air transport segment corresponds to the route network for air transport and it is based on the way that the business is run and managed, according to the centralized nature of its operations, the ability to open and close routes and reallocate resources (aircraft, crew, staff, etc..) within the network, which is a functional relationship between all of them, making them inseparable. This segment definition is the most common level used by the global airline industry.

The segment of loyalty coalition called Multiplus, unlike LanPass and TAM Fidelidade, is a frequent flyer programs which operate as a unilateral system of loyalty that offers a flexible coalition system, interrelated among its members, with 13.8 million of members, along with being a government entity with a separately business and not directly related to air transport.

(a) For the periods ended

| | Air transportation | | Coalition and loyalty program Multiplus | | Eliminations | | Consolidated | |
|---|--------------------|-------------|---|-------------|-----------------|-------------|-----------------|-------------|
| | At December 31, | | At December 31, | | At December 31, | | At December 31, | |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Income from ordinary activities from external customers (*) | 11,587,224 | 12,328,634 | 506,277 | 595,903 | - | - | 12,093,501 | 12,924,537 |
| LAN passenger | 4,464,761 | 4,731,296 | - | - | - | - | 4,464,761 | 4,731,296 |
| TAM passenger | 5,409,084 | 5,734,359 | 506,277 | 595,903 | - | - | 5,915,361 | 6,330,262 |
| Freight | 1,713,379 | 1,862,979 | - | - | - | - | 1,713,379 | 1,862,979 |
| Income from ordinary activities from transactions with other operating segments | 506,277 | 595,903 | 106,030 | 94,457 | (612,307) | (690,360) | - | - |
| Other operating income | 217,390 | 272,640 | 160,255 | 68,925 | - | - | 377,645 | 341,565 |
| Interest income | 32,390 | 49,737 | 58,110 | 34,280 | - | (11,189) | 90,500 | 72,828 |
| Interest expense | (430,030) | (472,171) | (4) | (1,542) | - | 11,189 | (430,034) | (462,524) |
| Total net interest expense | (397,640) | (422,434) | 58,106 | 32,738 | - | - | (339,534) | (389,696) |

(*) The Company does not have any interest revenue that should be recognized as income from ordinary activities by interest.

| For the periods ended | Air transportation | | Coalition and loyalty program Multiplus | | Eliminations | | Consolidated | |
|--|--------------------|-------------|---|-------------|-----------------|-------------|-----------------|-------------|
| | At December 31, | | At December 31, | | At December 31, | | At December 31, | |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation and amortization | (983,847) | (1,037,734) | (7,417) | (3,999) | - | - | (991,264) | (1,041,733) |
| Material non-cash items other than depreciation and amortization | (168,573) | (523,666) | (2,350) | 59 | - | - | (170,923) | (523,607) |
| Disposal of fixed assets and inventory losses | (28,756) | (33,987) | (814) | (123) | - | - | (29,570) | (34,110) |
| Doubtful accounts | (9,637) | (7,754) | (1,522) | 217 | - | - | (11,159) | (7,537) |
| Exchange differences | (130,187) | (482,139) | (14) | (35) | - | - | (130,201) | (482,174) |
| Result of indexation units | 7 | 214 | - | - | - | - | 7 | 214 |
| Income (loss) attributable to owners of the parents | (254,151) | (389,040) | 144,361 | 107,926 | - | - | (109,790) | (281,114) |
| Participation of the entity in the income of associates | (2,175) | 1,954 | (4,280) | - | - | - | (6,455) | 1,954 |
| Expenses for income tax | (68,293) | 72,155 | (73,901) | (52,086) | - | - | (142,194) | 20,069 |
| Segment profit / (loss) | (182,077) | (344,337) | 105,116 | 80,518 | - | - | (76,961) | (263,819) |
| Assets of segment | 18,759,848 | 21,520,500 | 1,773,584 | 1,118,686 | (49,002) | (8,040) | 20,484,430 | 22,631,146 |
| Investments in associates | - | 3,572 | - | 3,024 | - | - | - | 6,596 |
| Amount of non-current asset additions | 1,522,298 | 1,746,913 | - | - | - | - | 1,522,298 | 1,746,913 |
| Property, plant and equipment | 1,444,402 | 1,685,011 | - | - | - | - | 1,444,402 | 1,685,011 |
| Intangibles other than goodwill | 77,896 | 61,902 | - | - | - | - | 77,896 | 61,902 |
| Segment liabilities | 15,293,668 | 16,604,451 | 723,438 | 775,975 | (36,371) | (75,739) | 15,980,735 | 17,304,687 |
| Purchase of non-monetary assets of segment | 1,496,204 | 1,425,270 | - | - | - | - | 1,496,204 | 1,425,270 |

The Company's revenues by geographic area are as follows:

| | For the periods ended | |
|--|-----------------------|-------------------|
| | At December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Peru | 660,057 | 646,217 |
| Argentina | 813,472 | 950,595 |
| U.S.A. | 1,224,264 | 1,290,493 |
| Europe | 935,893 | 937,539 |
| Colombia | 391,678 | 387,999 |
| Brazil | 5,361,594 | 5,572,884 |
| Ecuador | 248,585 | 273,712 |
| Chile | 1,589,202 | 1,698,476 |
| Asia Pacific and rest of Latin America | 868,756 | 1,166,622 |
| Income from ordinary activities | <u>12,093,501</u> | <u>12,924,537</u> |
| Other operating income | <u>377,645</u> | <u>341,565</u> |

The Company allocates revenues by geographic area based on the point of sale of the passenger ticket or cargo. Assets are composed primarily of aircraft and aeronautical equipment, which are used throughout the different countries, so it is not possible to assign a geographic area.

The Company has no customers that individually represent more than 10% of sales.

NOTE 6 - CASH AND CASH EQUIVALENTS

| | As of | As of |
|---------------------------------|----------------|------------------|
| | December 31, | December 31, |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Cash on hand | 11,568 | 6,017 |
| Bank balances | 239,514 | 229,935 |
| Overnight | 154,666 | 508,781 |
| Total Cash | <u>405,748</u> | <u>744,733</u> |
| Cash equivalents | | |
| Time deposits | 382,895 | 660,821 |
| Mutual funds | 200,753 | 579,349 |
| Total cash equivalents | <u>583,648</u> | <u>1,240,170</u> |
| Total cash and cash equivalents | <u>989,396</u> | <u>1,984,903</u> |

Cash and cash equivalents are denominated in the following currencies:

| Currency | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
|---------------------|---|---|
| Argentine peso | 44,697 | 59,018 |
| Brazilian real | 45,591 | 253,392 |
| Chilean peso (*) | 30,758 | 229,918 |
| Colombian peso | 17,188 | 28,132 |
| Euro | 9,639 | 16,571 |
| US Dollar | 745,214 | 1,200,828 |
| Strong bolivar (**) | 63,236 | 162,809 |
| Other currencies | 33,073 | 34,235 |
| Total | 989,396 | 1,984,903 |

(*) The Company no maintain currency derivative contracts (forward) at December 31, 2014 (ThUS\$ 174,020 as of December 31, 2013), for conversion into dollars of investments in pesos.

(**) In Venezuela, effective 2003, the authorities decreed that all remittances abroad should be approved by the Currency Management Commission (CADIVI). Despite having free availability of bolivars in Venezuela, the Company has certain restrictions for freely remitting these funds outside Venezuela.

During 2014, in accordance with the acceptance of the Company about the proposal Bolivarian Republic of Venezuela regarding the repatriation of foreign exchange through the so-called “request of acquisition of foreign exchange”, the Company has modified the exchange rate used in determining equivalence of United States Dollar in cash and cash equivalents held in Strong Bolivar, from 6.3 VEF/US\$ to 12.0 VEF/US\$, which represented a loss by foreign exchange, amounting to the sum of ThUS\$ 61,021.

The Company has done significant non-cash transactions mainly with financial leases, which are detailed in Note 16 letter (d), additional information in numeral (iv) Financial leases.

Other inflows (outflows) of cash:

| | For the periods ended | |
|--|-----------------------|-----------------|
| | December 31, | |
| | 2014 | 2013 |
| | ThUS\$ | ThUS\$ |
| Currency hedge | (1,153) | - |
| Fuel hedge | (45,365) | 11,413 |
| Hedging margin guarantees | (64,334) | 88,925 |
| Guarantees | (86,006) | (5,001) |
| Fuel derivatives premiums | (7,075) | (4,041) |
| Bank commissions, taxes paid and other | (47,724) | (14,535) |
| Total Other inflows (outflows) Operation flow | <u>(251,657)</u> | <u>76,761</u> |
| Certificate of bank deposits | <u>(17,399)</u> | <u>75,448</u> |
| Total Other inflows (outflows) Investment flow | <u>(17,399)</u> | <u>75,448</u> |
| Aircraft Financing advances | 8,669 | 24,650 |
| Credit card loan manager | 23,864 | (8,965) |
| Settlement of derivative contracts | (42,962) | (61,897) |
| Breakage | - | (16,280) |
| Other | <u>(3,348)</u> | <u>479</u> |
| Total Other inflows (outflows) Financing flow | <u>(13,777)</u> | <u>(62,013)</u> |

NOTE 7 - FINANCIAL INSTRUMENTS

7.1. Financial instruments by category

As of December 31, 2014

| <u>Assets</u> | <u>Loans and receivables</u> | <u>Hedge derivatives</u> | <u>Held for trading</u> | <u>Initial designation as fair value through profit and loss</u> | <u>Total</u> |
|---|--------------------------------------|--|---------------------------------|--|--------------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | 788,643 | - | - | 200,753 | 989,396 |
| Other financial assets, current (*) | 103,866 | 2,161 | 41,111 | 503,263 | 650,401 |
| Trade and others | | | | | |
| accounts receivable, current | 1,378,837 | - | - | - | 1,378,837 |
| Accounts receivable from related entities, current | 308 | - | - | - | 308 |
| Other financial assets, non current (*) | 84,495 | - | 491 | - | 84,986 |
| Accounts receivable, non current | 30,465 | - | - | - | 30,465 |
| Total | <u>2,386,614</u> | <u>2,161</u> | <u>41,602</u> | <u>704,016</u> | <u>3,134,393</u> |
| | | | | | |
| <u>Liabilities</u> | | <u>Other financial liabilities</u> | <u>Hedge derivatives</u> | <u>Held for trading</u> | <u>Total</u> |
| | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other liabilities, current | | 1,397,382 | 226,043 | 1,190 | 1,624,615 |
| Trade and others | | | | | |
| accounts payable, current | | 1,489,396 | - | - | 1,489,396 |
| Accounts payable to related entities, current | | 35 | - | - | 35 |
| Other financial liabilities, non-current | | 7,360,685 | 28,327 | - | 7,389,012 |
| Accounts payable, non-current | | 577,454 | - | - | 577,454 |
| Total | | <u>10,824,952</u> | <u>254,370</u> | <u>1,190</u> | <u>11,080,512</u> |

(*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

At December 31, 2013

| <u>Assets</u> | Loans and receivables | Hedge derivatives | Held for trading | Initial designation | <u>Total</u> |
|---|-----------------------------|----------------------|------------------------|---|-------------------|
| | | | | as fair value through profit and loss | |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Cash and cash equivalents | 1,405,554 | - | - | 579,349 | 1,984,903 |
| Other financial assets, current (*) | 83,136 | 48,415 | 2,073 | 576,320 | 709,944 |
| Trade and others | | | | | |
| accounts receivable, current | 1,633,094 | - | - | - | 1,633,094 |
| Accounts receivable from related entities, current | 628 | - | - | - | 628 |
| Other financial assets, non current (*) | 64,783 | - | 506 | - | 65,289 |
| Accounts receivable, non current | 100,775 | - | - | - | 100,775 |
| Total | 3,287,970 | 48,415 | 2,579 | 1,155,669 | 4,494,633 |
| <u>Liabilities</u> | | Other | Hedge | Held | |
| | | financial | Hedge | for | |
| | | liabilities | derivatives | trading | <u>Total</u> |
| | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other liabilities, current | | 1,969,281 | 66,466 | 4,040 | 2,039,787 |
| Trade and others | | | | | |
| accounts payable, current | | 1,557,736 | - | - | 1,557,736 |
| Accounts payable to related entities, current | | 505 | - | - | 505 |
| Other financial liabilities, non-current | | 7,803,588 | 54,906 | 1,491 | 7,859,985 |
| Accounts payable, non-current | | 922,887 | - | - | 922,887 |
| Total | | 12,253,997 | 121,372 | 5,531 | 12,380,900 |

(*) The value presented as initial designation as fair value through profit and loss, corresponds mainly to private investment funds; and loans and receivables corresponds to guarantees given.

7.2. Financial instruments by currency

| a) Assets | As of | As of |
|--|---------------------------------------|---------------------------------------|
| | December 31, <u>2014</u> ThUS\$ | December 31, <u>2013</u> ThUS\$ |
| Cash and cash equivalents | 989,396 | 1,984,903 |
| Argentine peso | 44,697 | 59,018 |
| Brazilian real | 45,591 | 253,392 |
| Chilean peso | 30,758 | 229,918 |
| Colombian peso | 17,188 | 28,132 |
| Euro | 9,639 | 16,571 |
| US Dollar | 745,214 | 1,200,828 |
| Strong bolivar | 63,236 | 162,809 |
| Other currencies | 33,073 | 34,235 |
| Other financial assets (current and non-current) | 735,387 | 775,233 |
| Argentine peso | 45,169 | 1,007 |
| Brazilian real | 500,875 | 577,973 |
| Chilean peso | 26,881 | 27,555 |
| Colombian peso | 406 | 2,550 |
| Euro | 4,244 | 5,494 |
| US Dollar | 156,687 | 159,563 |
| Strong bolivar | 43 | 14 |
| Other currencies | 1,082 | 1,077 |
| Trade and other accounts receivable, current | 1,378,837 | 1,633,094 |
| Argentine peso | 100,798 | 27,343 |
| Brazilian real | 528,404 | 802,789 |
| Chilean peso | 131,191 | 82,880 |
| Colombian peso | 9,021 | 9,762 |
| Euro | 38,764 | 21,479 |
| US Dollar | 369,774 | 520,991 |
| Strong bolivar | 4,895 | 2,353 |
| Other currencies (*) | 195,990 | 165,497 |
| Accounts receivable, non-current | 30,465 | 100,775 |
| Brazilian real | 761 | 1,194 |
| Chilean peso | 5,814 | 8,624 |
| US Dollar | 23,734 | 90,755 |
| Other currencies (*) | 156 | 202 |
| Accounts receivable from related entities, current | 308 | 628 |
| Brazilian real | 9 | 162 |
| Chilean peso | 299 | 466 |
| Total assets | 3,134,393 | 4,494,633 |
| Argentine peso | 190,664 | 87,368 |
| Brazilian real | 1,075,640 | 1,635,510 |
| Chilean peso | 194,943 | 349,443 |
| Colombian peso | 26,615 | 40,444 |
| Euro | 52,647 | 43,544 |
| US Dollar | 1,295,409 | 1,972,137 |
| Strong bolivar | 68,174 | 165,176 |
| Other currencies | 230,301 | 201,011 |

(*) See the composition of the others currencies in Note 8 Trade, other accounts receivable and non-current accounts receivable.

b) Liabilities

Liabilities information is detailed in the table within Note 3 Financial risk management.

NOTE 8 - TRADE AND OTHER ACCOUNTS RECEIVABLE CURRENT,
AND NON-CURRENT ACCOUNTS RECEIVABLE

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|---|--|--|
| Trade accounts receivable | 1,269,435 | 1,552,489 |
| Other accounts receivable | 210,909 | 251,982 |
| Total trade and other accounts receivable | <u>1,480,344</u> | <u>1,804,471</u> |
| Less: Allowance for impairment loss | (71,042) | (70,602) |
| Total net trade and accounts receivable | <u>1,409,302</u> | <u>1,733,869</u> |
| Less: non-current portion – accounts receivable | (30,465) | (100,775) |
| Trade and other accounts receivable, current | <u><u>1,378,837</u></u> | <u><u>1,633,094</u></u> |

The fair value of trade and other accounts receivable does not differ significantly from the book value.

The maturity of these accounts at the end of each period is as follows:

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|---|--|--|
| Day | 1,088,364 | 1,378,226 |
| Matured accounts receivable, but not impaired | | |
| Expired from 1 to 90 days | 83,599 | 72,417 |
| Expired from 91 to 180 days | 11,521 | 11,547 |
| More than 180 days overdue (*) | 14,909 | 19,697 |
| Total matured accounts receivable, but not impaired | <u>110,029</u> | <u>103,661</u> |
| Matured accounts receivable and impaired | | |
| Judicial, pre-judicial collection and protested documents | 53,956 | 19,630 |
| Debtor under pre-judicial collection process and portfolio sensitization | <u>17,086</u> | <u>50,972</u> |
| Total matured accounts receivable and impaired | <u>71,042</u> | <u>70,602</u> |
| Total | <u><u>1,269,435</u></u> | <u><u>1,552,489</u></u> |

(*) Value of this segment corresponds primarily to accounts receivable that were evaluated in their ability to recover, therefore not requiring a provision.

Currency balances that make up the Trade and other accounts receivable and non-current accounts receivable:

| <u>Currency</u> | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|----------------------|--|--|
| Argentine Peso | 100,798 | 27,343 |
| Brazilian Real | 529,165 | 803,983 |
| Chilean Peso | 137,005 | 91,504 |
| Colombian peso | 9,021 | 9,762 |
| Euro | 38,764 | 21,479 |
| US Dollar | 393,508 | 611,746 |
| Strong bolivar | 4,895 | 2,353 |
| Other currency (*) | 196,146 | 165,699 |
| Total | <u>1,409,302</u> | <u>1,733,869</u> |
| (*) Other currencies | | |
| Australian Dollar | 15,243 | 26,198 |
| Chinese Yuan | 35,626 | 22,887 |
| Danish Krone | 8,814 | 6,899 |
| Pound Sterling | 33,624 | 15,256 |
| Indian Rupee | 1,887 | 5,343 |
| Japanese Yen | 4,635 | 10,332 |
| Norwegian Kroner | 16,516 | 14,970 |
| Swiss Franc | 5,701 | 6,645 |
| Korean Won | 25,203 | 16,929 |
| New Taiwanese Dollar | 10,323 | 9,670 |
| Other currencies | 38,574 | 30,570 |
| Total | <u>196,146</u> | <u>165,699</u> |

The Company records allowances when there is evidence of impairment of trade receivables. The criteria used to determine that there is objective evidence of impairment losses are the maturity of the portfolio, specific acts of damage (default) and specific market signals.

| <u>Maturity</u> | <u>Impairment</u> |
|---|-------------------|
| Judicial and pre-judicial collection assets | 100% |
| Over 1 year | 100% |
| Between 6 and 12 months | 50% |

Movement in the allowance for impairment loss of Trade and other accounts receivables:

| Periods | Opening balance ThUS\$ | Write-offs ThUS\$ | (Increase) Decrease ThUS\$ | Addition for business combination ThUS\$ | Differences by subsidiaries ThUS\$ | Closing balance ThUS\$ |
|-------------------------------------|------------------------------|----------------------|----------------------------------|---|---|------------------------------|
| From January 1 to December 31, 2013 | (75,503) | 9,928 | (5,027) | - | - | (70,602) |
| From January 1 to December 31, 2014 | (70,602) | 6,864 | (7,304) | - | - | (71,042) |

Once pre-judicial and judicial collection efforts are exhausted, the assets are written off against the allowance. The Company only uses the allowance method rather than direct write-off, to ensure control.

Historic and current re-negotiations are not relevant and the policy is to analyze case by case in order to classify them according to the existence of risk, determining whether it is appropriate to re-classify accounts to pre-judicial recovery. If such re-classification is justified, an allowance is made for the account, whether overdue or falling due.

The maximum credit-risk exposure at the date of presentation of the information is the fair value of each one of the categories of accounts receivable indicated above.

| | As of December 31, 2014 | | | As of December 31, 2013 | | |
|------------------------------|---|-------------------------------|---|---|-------------------------------|---|
| | Gross exposure according to balance | Gross impaired exposure | Exposure net of risk concentrations | Gross exposure according to balance | Gross Impaired exposure | Exposure net of risk concentrations |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Trade accounts receivable | 1,269,435 | (71,042) | 1,198,393 | 1,552,489 | (70,602) | 1,481,887 |
| Other accounts receivable | 210,909 | - | 210,909 | 251,982 | - | 251,982 |

There are no relevant guarantees covering credit risk and these are valued when they are settled; no materially significant direct guarantees exist. Existing guarantees, if appropriate, are made through IATA.

NOTE 9 - ACCOUNTS RECEIVABLE FROM/PAYABLE TO RELATED ENTITIES

(a) Accounts Receivable

| <u>Tax No.</u> | <u>Related party</u> | <u>Relationship</u> | <u>Country of origin</u> | <u>Currency</u> | As of December 31, 2014 | As of December 31, 2013 |
|----------------|---|------------------------|------------------------------|-----------------|-------------------------------|-------------------------------|
| | | | | | ThUS\$ | ThUS\$ |
| 78.591.370-1 | Bethia S.A. and Subsidiaries | Others related parties | Chile | CLP | 284 | 441 |
| 79.773.440-1 | Transportes San Felipe S.A. | Others related parties | Chile | CLP | - | 1 |
| 87.752.000-5 | Granja Marina Tornagaleones S.A. | Others related parties | Chile | CLP | 15 | 24 |
| Foreign | Made In Everywhere Repr. Com. Distr. Ltda. | Others related parties | Brazil | BRL | - | 2 |
| Foreign | TAM Aviação Executiva e Taxi Aéreo S.A. | Others related parties | Brazil | BRL | - | 14 |
| Foreign | Prisma Fidelidade S.A. | Joint Venture | Brazil | BRL | 9 | 146 |
| | Total current assets | | | | <u>308</u> | <u>628</u> |

(b) Accounts payable

| <u>Tax No.</u> | <u>Related party</u> | <u>Relationship</u> | <u>Country of origin</u> | <u>Currency</u> | As of December 31, 2014 | As of December 31, 2013 |
|----------------|---------------------------------------|-----------------------|----------------------------------|-----------------|-------------------------------|-------------------------------|
| | | | | | ThUS\$ | ThUS\$ |
| 96.847.880-K | Lufthansa Lan Technical Training S.A. | Associate | Chile | US\$ | - | 187 |
| 65.216.000-K | Comunidad Mujer | Other related parties | Chile | CLP | 2 | - |
| 78.591.370-1 | Bethia S.A. and Subsidiaries | Other related parties | Chile | CLP | 6 | 14 |
| Foreign | Inversora Aeronáutica Argentina | Other related parties | Argentina | US\$ | <u>27</u> | <u>304</u> |
| | Total current liabilities | | | | <u>35</u> | <u>505</u> |

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties. The transaction times are between 30 and 45 days, and the nature of settlement of the transactions is monetary.

NOTE 10 -INVENTORIES

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|----------------------------|--|--|
| Technical stock | 229,313 | 190,202 |
| Non-technical stock | <u>36,726</u> | <u>40,826</u> |
| Total production suppliers | <u><u>266,039</u></u> | <u><u>231,028</u></u> |

The items included in this heading are spare parts and materials that will be used mainly in consumption in in-flight and maintenance services provided to the Company and third parties, which are valued at average cost, net of provision for obsolescence that as of December 31, 2014 amounts to ThUS\$ 2,982 (ThUS\$ 1,757 as of December 31, 2013). The resulting amounts do not exceed the respective net realizable values.

As of December 31, 2014, the Company recorded ThUS\$ 189,864 (ThUS\$ 160,068 as of December 31, 2013) within the income statement, mainly due to in-flight consumption and maintenance, which forms part of Cost of sales.

During 2014 no reversals of write-downs resulting from an increase in net realizable value.

NOTE 11 - OTHER FINANCIAL ASSETS

The composition of Other financial assets is as follows:

| | Current Assets | | Non-current assets | | Total Assets | |
|--|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| (a) Other financial assets | | | | | | |
| Private investment funds | 480,777 | 544,182 | - | - | 480,777 | 544,182 |
| Deposits in guarantee (aircraft) | 8,458 | 51,879 | 70,155 | 49,893 | 78,613 | 101,772 |
| Certificate of deposit (CBD) | 18,293 | 2,374 | - | - | 18,293 | 2,374 |
| Time deposits | - | 28,181 | - | - | - | 28,181 |
| Guarantees for margins of derivatives | 92,556 | 28,157 | - | - | 92,556 | 28,157 |
| Deposits in guarantee (loan) | - | - | 11,116 | 11,753 | 11,116 | 11,753 |
| Other investments | 4,193 | 1,583 | 491 | 506 | 4,684 | 2,089 |
| Domestic and foreign bonds | 41,111 | 351 | - | - | 41,111 | 351 |
| Other guarantees given | 2,852 | 4,822 | 3,224 | 3,137 | 6,076 | 7,959 |
| Subtotal of other financial assets | 648,240 | 661,529 | 84,986 | 65,289 | 733,226 | 726,818 |
| (b) Hedging assets | | | | | | |
| Interest accrued since the last payment date of Cross currency swap | 377 | 483 | - | - | 377 | 483 |
| Fair value of interest rate derivatives | 1 | 6 | - | - | 1 | 6 |
| Fair value of foreign currency derivatives (1) | - | 32,058 | - | - | - | 32,058 |
| Fair value of fuel price derivatives | 1,783 | 15,868 | - | - | 1,783 | 15,868 |
| Subtotal of hedging assets | 2,161 | 48,415 | - | - | 2,161 | 48,415 |
| Total Other Financial Assets | 650,401 | 709,944 | 84,986 | 65,289 | 735,387 | 775,233 |

(1) The foreign currency derivatives exchange is collars and cross currency swap.

The types of derivative hedging contracts maintained by the Company at the end of each period are presented in Note 18.

NOTE 12 - OTHER NON-FINANCIAL ASSETS

The composition of Other non-financial assets is as follows:

| | Current assets | | Non-current assets | | Total Assets | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| (a) Advance payments | | | | | | |
| Aircraft leases | 26,039 | 28,555 | 26,201 | 17,332 | 52,240 | 45,887 |
| Aircraft insurance and other | 12,160 | 13,180 | - | - | 12,160 | 13,180 |
| Others | 17,970 | 14,657 | 36,450 | 38,557 | 54,420 | 53,214 |
| Subtotal advance payments | <u>56,169</u> | <u>56,392</u> | <u>62,651</u> | <u>55,889</u> | <u>118,820</u> | <u>112,281</u> |
| (b) Other assets | | | | | | |
| Aircraft maintenance reserve (*) | 31,108 | 152,797 | 123,588 | 79,012 | 154,696 | 231,809 |
| Sales tax | 155,795 | 120,215 | 64,652 | 65,936 | 220,447 | 186,151 |
| Other taxes | 3,513 | 5,556 | - | - | 3,513 | 5,556 |
| Contributions to Société Internationale de Télécommunications Aéronautiques ("SITA") | 599 | 657 | 453 | 515 | 1,052 | 1,172 |
| Judicial deposits | - | - | 90,450 | 70,380 | 90,450 | 70,380 |
| Others | 687 | - | 1,019 | 544 | 1,706 | 544 |
| Subtotal other assets | <u>191,702</u> | <u>279,225</u> | <u>280,162</u> | <u>216,387</u> | <u>471,864</u> | <u>495,612</u> |
| Total Other Non - Financial Assets | <u>247,871</u> | <u>335,617</u> | <u>342,813</u> | <u>272,276</u> | <u>590,684</u> | <u>607,893</u> |

(*) Aircraft maintenance reserves reflect prepayment deposits made by the group to lessors of certain aircraft under operating lease agreements in order to ensure that funds are available to support the scheduled heavy maintenance of the aircraft.

These amounts are calculated based on performance measures, such as flight hours or cycles, are payable periodically (usually monthly) and are contractually required to be repaid to the lessee upon the completion of the required maintenance of the leased aircraft. At the end of the lease term, any unused maintenance reserves are either returned to the Company in cash or used to offset amounts that we may owe the lessor as a maintenance adjustment.

In some cases (5 lease agreements), if the maintenance cost incurred by LATAM is less than the corresponding maintenance reserves, the lessor is entitled to retain those excess amounts at the time the heavy maintenance is performed. The Company periodically reviews its maintenance reserves for each of its leased aircraft to ensure that they will be recovered, and recognizes an expense if any such amounts are less than probable of being returned. Since the acquisition of TAM in June 2012, the cost of aircraft maintenance has been higher than the related maintenance reserves for all aircraft.

As of December 31, 2014, LATAM had ThUS\$ 154,696 in maintenance reserves (ThUS\$ 231,809 at December 31, 2013), corresponding to 12 aircraft out of a total fleet of 327 (21 aircraft out of a total fleet of 339 at December 31, 2013). All of the Company's aircraft leases containing provisions for maintenance reserves will expire fully by 2017.

Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (Note 2.23).

NOTE 13 - INVESTMENTS IN SUBSIDIARIES

(a) Investments in subsidiaries

The Company has investments in companies recognized as investments in subsidiaries. All the companies defined as subsidiaries have been consolidated within the financial statements of LATAM Airlines Group S.A. and Subsidiaries. The consolidation also includes special-purpose entities and private investment funds.

Detail of significant subsidiaries and summarized financial information:

| <u>Name of significant subsidiary</u> | <u>Country of incorporation</u> | <u>Functional currency</u> | <u>Ownership</u> | |
|--|---|--------------------------------|--|--|
| | | | <u>As of December 31, 2014 %</u> | <u>As of December 31, 2013 %</u> |
| Lan Perú S.A. | Peru | US\$ | 69.97858 | 69.97858 |
| Lan Cargo S.A. | Chile | US\$ | 99.89803 | 99.89803 |
| Lan Argentina S.A. | Argentina | ARS | 94.99055 | 94.99055 |
| Transporte Aéreo S.A. | Chile | US\$ | 99.89804 | 99.89804 |
| Aerolane Líneas Aéreas Nacionales del Ecuador S.A. | Ecuador | US\$ | 100.00000 | 71.94990 |
| Aerovías de Integración Regional, AIRE S.A. | Colombia | COP | 99.01646 | 99.01646 |
| TAM S.A. | Brazil | BRL | 99.99938 | 99.99938 |

The consolidated subsidiaries do not have significant restrictions for transferring funds to controller.

Summary financial information of significant subsidiaries

| <u>Name of significant subsidiary</u> | Statement of financial position as of December 31, 2014 | | | | | | Results for the period ended December 31, 2014 | |
|--|---|----------------|--------------------|-------------------|---------------------|-------------------------|--|------------|
| | Total Assets | Current Assets | Non-current Assets | Total Liabilities | Current Liabilities | Non-current Liabilities | Revenue | Net Income |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 239,470 | 214,245 | 25,225 | 228,395 | 226,784 | 1,611 | 1,134,289 | 1,058 |
| Lan Cargo S.A. | 575,979 | 250,174 | 325,805 | 234,772 | 119,111 | 115,661 | 267,578 | (9,966) |
| Lan Argentina S.A. | 233,142 | 206,503 | 26,639 | 201,168 | 198,593 | 2,575 | 439,929 | (17,864) |
| Transporte Aéreo S.A. | 367,570 | 80,090 | 287,480 | 147,278 | 59,805 | 87,473 | 364,580 | (8,983) |
| Aerolane Líneas Aéreas Nacionales del Ecuador S.A. | 126,472 | 78,306 | 48,166 | 116,040 | 111,718 | 4,322 | 256,925 | (20,193) |
| Aerovías de Integración Regional, AIRES S.A. | 131,324 | 38,751 | 92,573 | 61,736 | 49,577 | 12,159 | 392,433 | (81,033) |
| TAM S.A. (*) | 6,817,698 | 1,921,316 | 4,896,382 | 5,809,529 | 2,279,110 | 3,530,419 | 6,628,432 | 171,655 |

| <u>Name of significant subsidiary</u> | Statement of financial position as of December 31, 2013 | | | | | | Results for the period ended December 31, 2013 | |
|--|---|----------------|--------------------|-------------------|---------------------|-------------------------|--|------------|
| | Total Assets | Current Assets | Non-current Assets | Total Liabilities | Current Liabilities | Non-current Liabilities | Revenue | Net Income |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 263,516 | 237,577 | 25,939 | 252,109 | 250,699 | 1,410 | 1,173,391 | 3,755 |
| Lan Cargo S.A. | 772,640 | 360,733 | 411,907 | 413,527 | 233,363 | 180,164 | 304,060 | 3,685 |
| Lan Argentina S.A. | 214,426 | 192,590 | 21,836 | 205,672 | 203,567 | 2,105 | 500,128 | (13,311) |
| Transporte Aéreo S.A. | 359,693 | 69,459 | 290,234 | 120,399 | 37,049 | 83,350 | 400,518 | (4,129) |
| Aerolane Líneas Aéreas Nacionales del Ecuador S.A. | 94,160 | 58,867 | 35,293 | 93,535 | 89,802 | 3,733 | 299,138 | (40,295) |
| Aerovías de Integración Regional, AIRES S.A. | 188,518 | 69,591 | 118,927 | 36,009 | 24,936 | 11,073 | 335,854 | (63,359) |
| TAM S.A. (*) | 8,695,458 | 2,372,047 | 6,323,411 | 7,983,671 | 3,249,581 | 4,734,090 | 6,791,104 | (458,475) |

(*) Corresponds to consolidated information of TAM S.A. and Subsidiaries.

(b) Non-controlling interest

| Equity | Tax No. | Country of origin | As of | As of | As of | As of |
|---|--------------|-------------------|----------------------|----------------------|----------------------|----------------------|
| | | | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| | | | % | % | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 0-E | Peru | 30.00000 | 30.00000 | 3,323 | 3,423 |
| Lan Cargo S.A. and Subsidiaries | 93.383.000-4 | Chile | 0.10605 | 0.10605 | 925 | 591 |
| Inversiones Lan S.A. and Subsidiaries | 96.575.810-0 | Chile | 0.29000 | 0.29000 | 5 | 19 |
| Promotora Aérea Latinoamericana S.A. and Subsidiaries | 0-E | Mexico | 51.00000 | 51.00000 | 1,730 | 1,315 |
| Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. | 0-E | Ecuador | 0.00000 | 28.05000 | - | (14,688) |
| Inversora Cordillera S.A. and Subsidiaries | 0-E | Argentina | 4.22000 | 4.22000 | 195 | 966 |
| Lan Argentina S.A. | 0-E | Argentina | 1.00000 | 1.00000 | 217 | 221 |
| Americonsult de Guatemala S.A. | 0-E | Guatemala | 1.00000 | 1.00000 | 5 | 1 |
| Americonsult Costa Rica S.A. | 0-E | Costa Rica | 1.00000 | 1.00000 | 6 | 8 |
| Línea Aérea Carguera de Colombiana S.A. | 0-E | Colombia | 10.00000 | 10.00000 | (826) | 660 |
| Aerolíneas Regionales de Integración Aires S.A. | 0-E | Colombia | 0.98307 | 0.98307 | 684 | 370 |
| Transportes Aereos del Mercosur S.A. | 0-E | Paraguay | 5.02000 | 5.02000 | 825 | 1,695 |
| Multiplus S.A. | 0-E | Brazil | 27.26000 | 27.15000 | 94,710 | 93,057 |
| Total | | | | | <u>101,799</u> | <u>87,638</u> |

| Incomes | Tax No. | Country of origin | As of | As of | For the period ended | |
|---|--------------|-------------------|----------------------|----------------------|----------------------|----------------------|
| | | | December 31, 2014 | December 31, 2013 | December 31, 2014 | December 31, 2013 |
| | | | % | % | ThUS\$ | ThUS\$ |
| Lan Perú S.A. | 0-E | Peru | 30.00000 | 30.00000 | 317 | 1,127 |
| Lan Cargo S.A. and Subsidiaries | 93.383.000-4 | Chile | 0.10605 | 0.10605 | (109) | 111 |
| Inversiones Lan S.A. and Subsidiaries | 96.575.810-0 | Chile | 0.29000 | 0.29000 | (14) | 1 |
| Promotora Aerea Latinoamericana S.A. and Subsidiaries | 0-E | Mexico | 51.00000 | 51.00000 | 396 | (511) |
| Aerolinhas Brasileiras S.A. and Subsidiaries | 0-E | Brasil | 0.00000 | 26.70000 | - | (1,520) |
| Aerolane, Líneas Aéreas Nacionales del Ecuador S.A. | 0-E | Ecuador | 0.00000 | 28.05000 | (5,671) | (11,303) |
| Inversora Cordillera S.A. and Subsidiaries | 0-E | Argentina | 4.22000 | 4.22000 | 269 | 188 |
| Lan Argentina S.A. | 0-E | Argentina | 1.00000 | 1.00000 | 58 | 47 |
| Americonsult de Guatemala S.A. | 0-E | Guatemala | 1.00000 | 1.00000 | 4 | 1 |
| Americonsult Costa Rica S.A. | 0-E | Costa Rica | 1.00000 | 1.00000 | 6 | - |
| Línea Aérea Carguera de Colombiana S.A. | 0-E | Colombia | 10.00000 | 10.00000 | (495) | (145) |
| Aerolíneas Regionales de Integración Aires S.A. | 0-E | Colombia | 0.98307 | 1.02665 | (797) | (645) |
| Transportes Aereos del Mercosur S.A. | 0-E | Paraguay | 5.02000 | 5.02000 | (389) | 671 |
| Multiplus S.A. | 0-E | Brazil | 27.26000 | 27.13000 | 39,254 | 29,273 |
| Total | | | | | <u>32,829</u> | <u>17,295</u> |

NOTE 14 - INTANGIBLE ASSETS OTHER THAN GOODWILL

The details of intangible assets are as follows:

| | Classes of intangible assets (net) | | Classes of intangible assets (gross) | |
|---------------------|---|---|---|---|
| | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
| Computer software | 126,797 | 143,124 | 309,846 | 278,721 |
| Developing software | 74,050 | 46,075 | 74,050 | 46,075 |
| Airport slots | 1,201,028 | 1,361,807 | 1,201,028 | 1,361,807 |
| Loyalty program | 400,317 | 453,907 | 400,317 | 453,907 |
| Trademarks | 77,887 | 88,314 | 77,887 | 88,314 |
| Other assets | - | 81 | 808 | 808 |
| Total | <u>1,880,079</u> | <u>2,093,308</u> | <u>2,063,936</u> | <u>2,229,632</u> |

Movement in Intangible assets other than goodwill:

| | Computer software Net | Developing software | Airport slots (*) | Trademarks and loyalty program (*) | Other assets Net | Total |
|--|-----------------------------|------------------------|----------------------|--|------------------------|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2013 | 144,244 | 54,635 | 1,561,130 | 621,584 | 806 | 2,382,399 |
| Additions | 14,703 | 47,199 | - | - | - | 61,902 |
| Withdrawals | (467) | (1,975) | - | - | - | (2,442) |
| Transfer software | 46,444 | (48,890) | - | - | (492) | (2,938) |
| Foreing exchange | (5,542) | (4,894) | (199,323) | (79,363) | (72) | (289,194) |
| Amortization | (56,258) | - | - | - | (161) | (56,419) |
| Closing balance as of December 31, 2013 | <u>143,124</u> | <u>46,075</u> | <u>1,361,807</u> | <u>542,221</u> | <u>81</u> | <u>2,093,308</u> |
| Opening balance as of January 1, 2014 | 143,124 | 46,075 | 1,361,807 | 542,221 | 81 | 2,093,308 |
| Additions | 16,902 | 60,994 | - | - | - | 77,896 |
| Withdrawals | (1,365) | (3,576) | - | - | - | (4,941) |
| Transfer software | 22,351 | (24,539) | - | - | - | (2,188) |
| Foreing exchange | (6,763) | (4,904) | (160,779) | (64,017) | - | (236,463) |
| Amortization | (47,452) | - | - | - | (81) | (47,533) |
| Closing balance as of December 31, 2014 | <u>126,797</u> | <u>74,050</u> | <u>1,201,028</u> | <u>478,204</u> | <u>-</u> | <u>1,880,079</u> |

The amortization of the period is shown in the consolidated statement of income in administrative expenses. The accumulated amortization of computer programs as of December 31, 2014 amounts to ThUS\$ 183,049 (ThUS\$ 135,597 as of December 31, 2013). The accumulated amortization of other identifiable intangible assets as of December 31, 2014 amounts to ThUS\$ 808 (ThUS\$ 727 as of December 31, 2013).

(*) See Note 2.5

NOTE 15 – GOODWILL

The Goodwill amount at December 31, 2014 is ThUS\$ 3,313,401 (ThUS\$ 3,727,605 at December 31, 2013).

The Company has two cash- generating units (CGUs), confirming the existence of two cash-generating units: “Air transportation” and, “Coalition and loyalty program Multiplus”; consistent with this, at December 31, 2014 was performed impairment tests based on value in use and no impairment was identified. These tests are done at least once per year.

At December 31, 2014, the recoverable amounts of cash generating units have been determined from estimated cash flows by the Administration. The main assumptions used are disclosed as follows:

| | | Air transportation CGU | Coalition and loyalty program Multiplus CGU (2) |
|---|-------------|---------------------------|--|
| Annual growth rate (Terminal) | % | 1.5 and 2.5 | 4.7 and 5.7 |
| Exchange rate (1) | R\$/US\$ | 2.7 and 3.62 | 2.7 and 3.62 |
| Discount rate based on the weighted average cost of capital (WACC) | % | 9.8 and 10.8 | - |
| Discount rate based on cost of equity (CoE) | % | - | 18.0 and 24.0 |
| Fuel Price from futures price curves commodities markets | US\$/barril | 90 | - |

(1) In line with the expectations of the Central Bank of Brazil

(2) The flows, as in the growth rate and discount, are denominated in real.

Given the expectation of growth and the long investment cycles characteristic of the industry, are used projections of ten years.

The result of the impairment test, which includes a sensitivity analysis of the main variables, showed that the estimated recoverable amount is higher than carrying value of the book value of net assets allocated to the cash generating unit, and therefore impairment was not detected.

The sensitivity analysis included individual impact of variations in the key assumptions with impact on the determination of the recoverable amounts, namely:

| | Increase Maximum WACC | Increase Maximum CoE | Decrease Minimum terminal growth rate |
|---|-----------------------------|----------------------------|--|
| Air transportation CGU | % | % | % |
| | 10.8 | - | 1.5 |
| Coalition and loyalty program Multiplus CGU | - | 24.0 | 4.7 |

In none of the previous cases was presented impairment in the cash- generating unit.

Movement of Goodwill, separated by CGU:

| | Air Transport | Coalition and loyalty program Multiplus | Total |
|--|------------------|--|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2013 | 3,361,906 | 851,254 | 4,213,160 |
| Increase (decrease) due to exchange rate differences | (421,729) | (108,686) | (530,415) |
| Others | 44,860 | - | 44,860 |
| Closing balance as of December 31, 2013 | <u>2,985,037</u> | <u>742,568</u> | <u>3,727,605</u> |
| Opening balance as of January 1, 2014 | 2,985,037 | 742,568 | 3,727,605 |
| Increase (decrease) due to exchange rate differences | (360,371) | (87,670) | (448,041) |
| Others | 33,837 | - | 33,837 |
| Closing balance as of December 31, 2014 | <u>2,658,503</u> | <u>654,898</u> | <u>3,313,401</u> |

NOTE 16 - PROPERTY, PLANT AND EQUIPMENT

The composition by category of Property, plant and equipment is as follows:

| | Gross Book Value | | Acumulated depreciation | | Net Book Value | |
|--------------------------------------|---|---|---|---|---|---|
| | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
| Construction in progress | 937,279 | 858,650 | - | - | 937,279 | 858,650 |
| Land | 57,988 | 59,352 | - | - | 57,988 | 59,352 |
| Buildings | 249,361 | 247,263 | (82,355) | (75,478) | 167,006 | 171,785 |
| Plant and equipment | 8,660,352 | 8,461,456 | (1,770,560) | (1,708,668) | 6,889,792 | 6,752,788 |
| Own aircraft | 7,531,526 | 7,409,394 | (1,407,704) | (1,347,671) | 6,123,822 | 6,061,723 |
| Other | 1,128,826 | 1,052,062 | (362,856) | (360,997) | 765,970 | 691,065 |
| Machinery | 65,832 | 73,561 | (42,099) | (41,509) | 23,733 | 32,052 |
| Information technology equipment | 188,208 | 182,108 | (137,199) | (135,889) | 51,009 | 46,219 |
| Fixed installations and accessories | 97,090 | 97,212 | (53,307) | (46,620) | 43,783 | 50,592 |
| Motor vehicles | 95,981 | 75,150 | (53,452) | (51,128) | 42,529 | 24,022 |
| Leasehold improvements | 144,230 | 88,641 | (87,707) | (71,872) | 56,523 | 16,769 |
| Other property, plants and equipment | 4,522,589 | 4,791,236 | (2,019,155) | (1,820,679) | 2,503,434 | 2,970,557 |
| Financial leasing aircraft | 4,365,247 | 4,618,127 | (1,985,458) | (1,777,980) | 2,379,789 | 2,840,147 |
| Other | 157,342 | 173,109 | (33,697) | (42,699) | 123,645 | 130,410 |
| Total | 15,018,910 | 14,934,629 | (4,245,834) | (3,951,843) | 10,773,076 | 10,982,786 |

(a) The movement in the different categories of Property, plant and equipment from January 1, 2013 to December 31, 2014 is shown below:

| | Construction in progress | Land | Buildings net | Plant and equipment net | Information technology equipment net | Fixed installations & accessories net | Motor vehicles net | Leasehold improvements net | Other property, plant and equipment net | Property, Plant and equipment net |
|---|-----------------------------|---------|------------------|-------------------------------|---|--|--------------------------|----------------------------------|---|--|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2013 | 1,153,003 | 65,307 | 175,070 | 6,360,115 | 40,463 | 42,343 | 4,722 | 21,728 | 3,944,325 | 11,807,076 |
| Additions | 17,731 | - | 11,798 | 1,555,667 | 22,146 | 7,663 | 303 | - | 69,703 | 1,685,011 |
| Disposals | - | - | - | (141,328) | (31) | - | (161) | - | (644,637) | (786,157) |
| Retirements | (615) | - | (430) | (65,151) | (270) | (15) | (10) | (219) | (19,716) | (86,426) |
| Depreciation expenses | - | - | (11,768) | (446,503) | (14,131) | (8,893) | (312) | (12,281) | (336,586) | (830,474) |
| Foreing exchange | (53,452) | (5,955) | (12,414) | (71,013) | (3,375) | (1,527) | (286) | (1) | (320,738) | (468,761) |
| Other increases (decreases) | (258,017) | - | 9,529 | (384,669) | 1,417 | 11,021 | (2,512) | 7,542 | 278,206 | (337,483) |
| Changes, total | (294,353) | (5,955) | (3,285) | 447,003 | 5,756 | 8,249 | (2,978) | (4,959) | (973,768) | (824,290) |
| Closing balance as of December 31, 2013 | 858,650 | 59,352 | 171,785 | 6,807,118 | 46,219 | 50,592 | 1,744 | 16,769 | 2,970,557 | 10,982,786 |
| Opening balance as of January 1, 2014 | 858,650 | 59,352 | 171,785 | 6,807,118 | 46,219 | 50,592 | 1,744 | 16,769 | 2,970,557 | 10,982,786 |
| Additions | 29,980 | 3,440 | 16,636 | 1,214,282 | 22,239 | 2,190 | 1,586 | - | 154,049 | 1,444,402 |
| Disposals | - | - | - | (660,129) (*) | (57) | - | (4) | - | (328) | (660,518) |
| Retirements | (705) | - | (403) | (39,463) | (205) | (230) | (53) | (50) | (34,282) | (75,391) |
| Depreciation expenses | - | - | (13,980) | (431,967) | (16,889) | (8,899) | (1,041) | (19,127) | (286,033) | (777,936) |
| Foreing exchange | 733 | (4,804) | (12,341) | (59,957) | (3,595) | (1,509) | 330 | - | (110,727) | (191,870) |
| Other increases (decreases) | 48,621 | - | 5,309 | 124,205 | 3,297 | 1,639 | (597) | 58,931 | (189,802) | 51,603 |
| Changes, total | 78,629 | (1,364) | (4,779) | 146,971 | 4,790 | (6,809) | 221 | 39,754 | (467,123) | (209,710) |
| Closing balance as of December 31, 2014 | 937,279 | 57,988 | 167,006 | 6,954,089 | 51,009 | 43,783 | 1,965 | 56,523 | 2,503,434 | 10,773,076 |

(*) During the first half of 2014 four Boeing 777-300ER aircraft were sold and subsequently leased.

(b) Composition of the fleet:

| Aircraft | Model | Aircraft included in the Company's Property, plant and equipment | | Operating leases | | Total fleet | |
|--------------|-----------|--|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | | As of December 31, 2014 | As of December 31, 2013 | As of December 31, 2014 | As of December 31, 2013 | As of December 31, 2014 | As of December 31, 2013 |
| | | | | | | | |
| Boeing 767 | 300 | - | 3 | - | - | - | 3 |
| Boeing 767 | 300ER | 34 | 34 | 4 | 6 | 38 | 40 |
| Boeing 767 | 300F | 8 (1) | 8 | 3 | 4 | 11 (1) | 12 |
| Boeing 777 | 300ER | 4 | 8 | 6 | 2 | 10 | 10 |
| Boeing 777 | Freighter | 2 | 2 | 2 | 2 | 4 | 4 |
| Boeing 787 | 800 | 6 | 3 | 4 | 2 | 10 | 5 |
| Airbus A319 | 100 | 40 | 39 | 12 | 15 | 52 | 54 |
| Airbus A320 | 200 | 95 | 95 | 63 | 65 | 158 | 160 |
| Airbus A321 | 200 | 18 | 9 | 3 | 1 | 21 | 10 |
| Airbus A330 | 200 | 8 | 8 | 5 | 12 | 13 | 20 |
| Airbus A340 | 300 | 3 | - | - | 4 | 3 | 4 |
| Airbus A340 | 500 | - | 2 | - | - | - | 2 |
| Boeing 737 | 700 | - | - | - | 5 | - | 5 |
| Bombardier | Dhc8-200 | 2 | - | 5 | 7 | 7 | 7 |
| Bombardier | Dhc8-400 | - | - | - | 3 | - | 3 |
| Total | | 220 | 211 | 107 | 128 | 327 | 339 |

(1) Two aircraft leased to FEDEX

(c) Method used for the depreciation of Property, plant and equipment:

| | Method | Useful life | |
|-------------------------------------|--|-------------|---------|
| | | minimum | maximum |
| Buildings | Straight line without residual value | 20 | 50 |
| Plant and equipment | Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*) | 5 | 20 |
| Information technology equipment | Straight line without residual value | 5 | 10 |
| Fixed installations and accessories | Straight line without residual value | 10 | 10 |
| Motor vehicle | Straight line without residual value | 10 | 10 |
| Leasehold improvements | Straight line without residual value | 5 | 5 |
| Other property, plant and equipment | Straight line with residual value of 20% in the short-haul fleet and 36% in the long-haul fleet. (*) | 3 | 20 |

(*) Except for certain technical components, which are depreciated on the basis of cycles and flight hours.

The aircraft with remarketing clause (**) under modality of financial leasing, which are depreciated according to the duration of their contracts, between 12 and 18 years. Its residual values are estimated according to market value at the end of such contracts.

(**) Aircraft with remarketing clause are those that are required to sell at the end of the contract. The depreciation charged to income in the period, which is included in the consolidated statement of income, amounts to ThUS\$ 777,936 (ThUS\$ 830,474 at December 31, 2013). Depreciation charges for the year are recognized in Cost of sales and administrative expenses in the consolidated statement of income.

(d) Additional information regarding Property, plant and equipment:

(i) Property, plant and equipment pledged as guarantee:

In the period ended December 31, 2014, were added direct guarantees by nine Airbus A321-200 aircraft and three Boeing 787-800 aircraft. Additionally, as a result of fleet transfer plan from TAM Linhas Aéreas S.A. to LATAM Airlines Group S.A., the Company added direct guarantees associated with three Airbus A319-100 aircraft, twenty one Airbus A320-200 aircraft and seven Airbus A321-200 aircraft.

Moreover, the Company sold its interest in the permanent establishments Flamenco Leasing LLC, Cisne Leasing LLC, Becacina Leasing LLC, Tricahue Leasing LLC and Loica Leasing Limited. Products of the above direct guarantees associated with seven Boeing 767-300, two Airbus A319-100 and two Airbus A320-200 aircraft were removed.

Additionally, as a result of sale, direct guarantees associated with four Boeing 777-300 aircraft were removed.

Description of Property, plant and equipment pledged as guarantee:

| Creditor of guarantee | Assets committed | Fleet | As of December 31, 2014 | | As of December 31, 2013 | |
|-----------------------------|----------------------|---|-------------------------------|------------------------------|-------------------------------|------------------------------|
| | | | Existing Debt | Book Value | Existing Debt | Book Value |
| | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Wilmington Trust Company | Aircraft and engines | Boeing 767 Boeing 777 / 787 | 1,001,311 452,622 | 1,277,357 518,788 | 1,437,810 777,796 | 1,827,349 880,470 |
| Banco Santander S.A. | Aircraft and engines | Airbus A319 Airbus A320 Airbus A321 | 66,318 585,008 39,739 | 100,485 788,706 45,161 | 74,042 643,945 43,071 | 105,353 829,185 49,208 |
| BNP Paribas | Aircraft and engines | Airbus A319 Airbus A320 | 174,714 162,304 | 238,103 207,881 | 209,993 199,114 | 281,846 257,857 |
| Credit Agricole | Aircraft and engines | Airbus A319 Airbus A320 Airbus A321 | 55,797 157,514 60,288 | 121,038 219,460 63,939 | 32,251 96,774 - | 99,241 153,531 - |
| JP Morgan | Aircraft and engines | Boeing 777 | 237,463 | 278,169 | 259,272 | 292,486 |
| Wells Fargo | Aircraft and engines | Airbus A320 | 305,949 | 360,064 | 331,854 | 384,273 |
| Bank of Utah | Aircraft and engines | Airbus A320 | 259,260 | 327,094 | 277,622 | 347,765 |
| DVB Bank SE | Aircraft and engines | Boeing 767 | - | - | 95,292 | 151,824 |
| Natixis | Aircraft and engines | Airbus A320 Airbus A321 | 48,814 405,416 | 55,946 488,198 | - - | - - |
| Citibank N. A. | Aircraft and engines | Airbus A320 Airbus A321 | 142,591 55,836 | 146,535 59,452 | - - | - - |
| HSBC | Aircraft and engines | Airbus A320 | 59,005 | 59,342 | - | - |
| KfW IPEX-Bank | Aircraft and engines | Airbus A320 | 16,088 | 17,516 | - | - |
| PK AirFinance US, Inc. | Aircraft and engines | Airbus A320 | 69,721 | 70,102 | - | - |
| Total direct guarantee | | | <u>4,355,758</u> | <u>5,443,336</u> | <u>4,478,836</u> | <u>5,660,388</u> |

The amounts of existing debt are presented at nominal value. Book value corresponds to the carrying value of the goods provided as guarantees.

Additionally, there are indirect guarantees related to assets recorded in Property, plant and equipment whose total debt at December 31, 2014 amounted to ThUS\$ 1,626,257 (ThUS\$ 2,167,470 at December 31, 2013). The book value of assets with indirect guarantees as of December 31, 2014 amounts to ThUS\$ 2,335,135 (ThUS\$ 2,767,593 as of December 31, 2013).

(ii) Commitments and others

Fully depreciated assets and commitments for future purchases are as follows:

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|---|--|--|
| Gross book value of fully depreciated property, plant and equipment still in use | 138,960 | 160,116 |
| Commitments for the acquisition of aircraft (*) | 21,500,000 | 23,900,000 |

(*) According to the manufacturer's price list.

Purchase commitment of aircraft

| Manufacturer | Year of delivery | | | | | | | Total |
|--------------------|------------------|-----------|-----------|-----------|-----------|-----------|----------|------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | |
| Airbus S.A.S. | 16 | 23 | 26 | 31 | 11 | 12 | 5 | 124 |
| A320-NEO | - | 2 | 18 | 16 | 8 | 8 | - | 52 |
| A321 | 15 | 15 | - | - | - | - | - | 30 |
| A321-NEO | - | - | - | 6 | - | 4 | 5 | 15 |
| A350 | 1 | 6 | 8 | 9 | 3 | - | - | 27 |
| The Boeing Company | 3 | 5 | 6 | 4 | - | - | - | 18 |
| B777 | - | - | 2 | - | - | - | - | 2 |
| B787-8 | - | - | 4 | 4 | - | - | - | 8 |
| B787-9 | 3 | 5 | - | - | - | - | - | 8 |
| Total | <u>19</u> | <u>28</u> | <u>32</u> | <u>35</u> | <u>11</u> | <u>12</u> | <u>5</u> | <u>142</u> |

In July 2014 the cancellation of 4 Airbus A320 was signed and changing 12 Airbus A320 aircraft for 12 Airbus A320 NEO aircraft. In December 2014 a contract was signed changing 4 Airbus A320 aircraft for 4 Airbus A320 NEO aircraft and changing 4 Airbus A321 aircraft for 4 Airbus A321 NEO aircraft.

At December 31, 2014, as a result of the different aircraft purchase agreements signed with Airbus S.A.S., remain to receive 97 aircraft Airbus A320 family, with deliveries between 2015 and 2021, and 27 Airbus aircraft A350 family with delivery dates starting from 2015.

The approximate amount is ThUS\$ 17,600,000, according to the manufacturer's price list. Additionally, the Company has valid purchase options for 5 Airbus A350 aircraft.

As of December 31, 2014, and as a result of different aircraft purchase contracts signed with The Boeing Company, remain to receive a total of sixteen 787 Dreamliner aircraft, with delivery dates between 2015 and 2018, and two 777 with delivery expected for 2017.

The approximate amount, according to the manufacturer's price list, is ThUS\$ 3,900,000. Additionally, the Company has valid purchase options for 2 Boeing 777 aircraft.

(iii) Capitalized interest costs with respect to Property, plant and equipment.

| | | For the periods ended | |
|-----------------------------------|--------|-----------------------|-------------|
| | | December 31, | |
| | | <u>2014</u> | <u>2013</u> |
| Average rate of capitalization of | | | |
| capitalized interest costs | % | 2.84 | 3.63 |
| Costs of capitalized interest | ThUS\$ | 18,426 | 25,625 |

(iv) Financial leases

The detail of the main financial leases is as follows:

| <u>Lessor</u> | <u>Aircraft</u> | <u>Model</u> | As of | As of |
|--------------------------------------|-----------------|--------------|--------------|--------------|
| | | | December 31, | December 31, |
| | | | <u>2014</u> | <u>2013</u> |
| Agonandra Statutory Trust | Airbus A319 | 100 | 4 | 4 |
| Agonandra Statutory Trust | Airbus A320 | 200 | 2 | 2 |
| Air Canada | Airbus A340 | 500 | - | 2 |
| AWMS I (AWAS) | Boeing 767 | 300 | - | 3 |
| Becacina Leasing LLC | Boeing 767 | 300ER | 1 | - |
| Caiquen Leasing LLC | Boeing 767 | 300F | 1 | 1 |
| Cernicalo Leasing LLC | Boeing 767 | 300F | 2 | 2 |
| Chirihue Leasing Trust | Boeing 767 | 300F | 2 | 2 |
| Cisne Leasing LLC | Boeing 767 | 300ER | 2 | - |
| Codorniz Leasing Limited | Airbus A319 | 100 | 2 | 2 |
| Conure Leasing Limited | Airbus A320 | 200 | 2 | 2 |
| Flamenco Leasing LLC | Boeing 767 | 300ER | 1 | - |
| FLYAFI 1 S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| FLYAFI 2 S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| FLYAFI 3 S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| Forderum Holding B.V. (GECAS) | Airbus A320 | 200 | 2 | 2 |
| Garza Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| General Electric Capital Corporation | Airbus A330 | 200 | 3 | 3 |
| Intraelo BETA Corpotation (KFW) | Airbus A320 | 200 | 1 | 1 |
| Juliana Leasing Limited | Airbus A320 | 200 | 2 | 2 |
| Linnet Leasing Limited | Airbus A320 | 200 | 4 | 4 |
| Loica Leasing Limited | Airbus A319 | 100 | 2 | - |
| Loica Leasing Limited | Airbus A320 | 200 | 2 | - |
| Mirlo Leasing LLC | Boeing 767 | 300ER | 1 | 1 |

| <u>Lessor</u> | <u>Aircraft</u> | <u>Model</u> | As of December 31, <u>2014</u> | As of December 31, <u>2013</u> |
|---|-----------------|--------------|--------------------------------------|--------------------------------------|
| NBB Rio de Janeiro Lease CO and Brasilia Lease LLC (BBAM) | Airbus A320 | 200 | 1 | 1 |
| NBB São Paulo Lease CO. Limited (BBAM) | Airbus A321 | 200 | 1 | 1 |
| Osprey Leasing Limited | Airbus A319 | 100 | 8 | 8 |
| Petrel Leasing LLC | Boeing 767 | 300ER | 1 | 1 |
| Pochard Leasing LLC | Boeing 767 | 300ER | 2 | 2 |
| Quetro Leasing LLC | Boeing 767 | 300ER | 3 | 3 |
| SG Infrastructure Italia S.R.L. | Boeing 777 | 300ER | 1 | 1 |
| SL Alcyone LTD (Showa) | Airbus A320 | 200 | 1 | 1 |
| TMF Interlease Aviation B.V. | Airbus A320 | 200 | 1 | 12 |
| TMF Interlease Aviation B.V. | Airbus A330 | 200 | 1 | 1 |
| TMF Interlease Aviation II B.V. | Airbus A319 | 100 | 5 | 5 |
| TMF Interlease Aviation II B.V. | Airbus A320 | 200 | 2 | 2 |
| TMF Interlease Aviation III B.V. | Airbus A319 | 100 | - | 3 |
| TMF Interlease Aviation III B.V. | Airbus A320 | 200 | - | 12 |
| TMF Interlease Aviation III B.V. | Airbus A321 | 200 | - | 7 |
| Tricahue Leasing LLC | Boeing 767 | 300ER | 3 | - |
| Wacapou Leasing S.A | Airbus A320 | 200 | 1 | 1 |
| Wells Fargo Bank North National Association (ILFC) | Airbus A330 | 200 | - | 1 |
| Total | | | <u>71</u> | <u>99</u> |

Financial leasing contracts where the Company acts as the lessee of aircrafts establish duration between 12 and 18 year terms and semi-annual, quarterly and monthly payments of obligations.

Additionally, the lessee will have the obligation to contract and maintain active the insurance coverage for the aircraft, perform maintenance on the aircraft and update the airworthiness certificates at their own cost.

Fixed assets acquired under financial leases are classified as Other property, plant and equipment. As of December 31, 2014 the Company had seventy one aircraft (ninety nine aircraft as of December 31, 2013).

During the period ended December 2014, due to the sale of its participation in the permanent establishments Flamenco Leasing LLC, Cisne Leasing LLC, Becacina Leasing LLC, Tricahue Leasing LLC and Loica Leasing Limited, the Company increased its number of aircraft on lease by seven Boeing 767-300, two Airbus A319-100 and two Airbus A320-200 aircraft. Therefore, these aircraft were reclassified from the Plant and equipment category to the category Other property plant and equipment.

During the third quarter of 2014 the option was exercised to purchase one A330-200 and during the fourth quarter of 2014 the option were exercised to purchase two A320-200 aircraft. Therefore, this aircraft was reclassified from the Other property plant and equipment category to the category Plant and equipment.

For other hand, as a result of fleet transfer plan from TAM Linhas Aéreas S.A. to LATAM Airlines Group S.A., the Company decreases its number of aircraft on lease by three Airbus A319-100 aircraft, twenty one Airbus A320-200 and seven Airbus A321-200 aircraft as a

result of modifications in its financial contracts. Therefore, these aircraft were reclassified from the Other property plant and equipment category to the category Plant and equipment.

Additionally, as a result of the leasing contracts had ended; the Company decreases its number of aircraft on lease by three Boeing 767-300 aircraft and two Airbus A340-500 aircraft. These aircraft were on operative leasing agreement, but according to the stated policy were classified as financial leasing.

The book value of assets under financial leases as of December 31, 2014 amounts to ThUS\$ 2,379,789 (ThUS\$ 2,840,147 as of December 31, 2013).

The minimum payments under financial leases are as follows:

| | As of December 31, 2014 | | | As of December 31, 2013 | | |
|----------------------------|-------------------------|-----------|-----------|-------------------------|-----------|-----------|
| | Gross | | Present | Gross | | Present |
| | Value | Interest | Value | Value | Interest | Value |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| No later than one year | 403,840 | (48,197) | 355,643 | 462,157 | (53,925) | 408,232 |
| Between one and five years | 1,121,190 | (97,909) | 1,023,281 | 1,406,384 | (118,702) | 1,287,682 |
| Over five years | 261,877 | (6,409) | 255,468 | 633,120 | (19,562) | 613,558 |
| Total | 1,786,907 | (152,515) | 1,634,392 | 2,501,661 | (192,189) | 2,309,472 |

NOTE 17 - CURRENT AND DEFERRED TAXES

In the period ended December 31, 2014, the income tax provision was calculated at the rate of 21% for the business year 2014, in accordance with the recently enacted Law No. 20,780 published in the Official Journal of the Republic of Chile on September 29, 2014.

Among the main changes is the progressive increase of the First Category Tax which will reach 27% in 2018 if the "Partially Integrated Taxation System"(*) is chosen. Alternatively, if the Company chooses the "Attributed Income Taxation System"(*) the top rate would reach 25% in 2017.

As LATAM Airlines Group S.A. is a public company, by default it must choose the "Partially Integrated Taxation System", unless a future Extraordinary Meeting of Shareholders of the Company agrees, by a minimum of 2/3 of the votes, to choose the "Attributed Income Taxation System". This decision must be taken at the latest in the last quarter of 2016.

The effects of the updating of deferred tax assets and liabilities according to rates changes introduced by Law No. 20,780 depending on their period back have been recorded in equity in accordance with the instructions of Chilean Superintendency of Securities and Insurance in his Office Circular No. 856 of October 17, 2014. The total effect in equity was ThUS \$ 150,210, which is explained by an increase in deferred tax assets of ThUS\$ 87 and an increase in deferred tax liabilities of ThUS\$ 145,253 and an increase in equity by deferred tax of ThUS\$ 5,044. The net effect on the assets and liabilities by deferred tax is an increase on liabilities for ThUS\$ 145,166.

Deferred tax assets and liabilities are offset if there is a legal right to offset assets and liabilities for income taxes relating to the same entity and tax authority.

(*) The Partially Integrated Taxation System is one of the tax regimes approved through the Tax Reform previously mentioned, which is based on the taxation by the perception of profits and the Attributed Income Taxation System is based on the taxation by the accrual of profits.

(a) Current taxes

(a.1) The composition of the current tax assets is the following:

| | Current assets | | Non-current assets | | Total assets | |
|---|---|---|---|---|---|---|
| | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
| Provisional monthly payments (advances) | 68,752 | 61,570 | - | - | 68,752 | 61,570 |
| Other recoverable credits | 31,956 | 20,320 | 17,663 | - | 49,619 | 20,320 |
| Total current tax assets | 100,708 | 81,890 | 17,663 | - | 118,371 | 81,890 |

(a.2) The composition of the current tax liabilities are as follows:

| | Current liabilities | | Non-current liabilities | | Total liabilities | |
|--------------------------------------|---|---|---|---|---|---|
| | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
| Income tax provision | 16,712 | 9,919 | - | - | 16,712 | 9,919 |
| Additional tax provision | 1,177 | 1,664 | - | - | 1,177 | 1,664 |
| Total current tax liabilities | 17,889 | 11,583 | - | - | 17,889 | 11,583 |

(b) Deferred taxes

The balances of deferred tax are the following:

| Concept | Assets | | Liabilities | |
|---|---|---|---|---|
| | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ | As of December 31, 2014 ThUS\$ | As of December 31, 2013 ThUS\$ |
| Depreciation | (23,675) | (17,152) | 847,965 | 557,845 |
| Leased assets | (102,457) | (147,074) | 83,318 | 46,688 |
| Amortization | (31,750) | (10,778) | 128,350 | 113,579 |
| Provisions | 416,153 | 317,883 | 65,076 | (207,358) |
| Revaluation of financial instruments | 270 | 562 | (12,536) | (15,508) |
| Tax losses | 151,569 | 267,189 | (571,180) | (284,339) |
| Revaluation property, plant and equipment | - | - | (5,999) | (18,544) |
| Intangibles | - | - | 523,275 | 593,325 |
| Others | (2,787) | (7,668) | (6,375) | (18,460) |
| Total | 407,323 | 402,962 | 1,051,894 | 767,228 |

The balance of deferred tax assets and liabilities are composed principally of temporary differences to reverse in the long term.

Movements of Deferred tax assets and liabilities:

(a) From January 1 to December 31, 2013

| | Opening balance | Recognized in consolidated | Recognized in comprehensive | Exchange rate | Others | Ending balance |
|---|----------------------|-------------------------------|--------------------------------|------------------|--------------|-------------------|
| | Assets/(liabilities) | income | income | variation | | Asset (liability) |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation | (454,845) | (124,584) | - | 4,432 | - | (574,997) |
| Leased assets | (268,619) | 70,807 | - | 4,050 | - | (193,762) |
| Amortization | (76,763) | (49,985) | - | 2,391 | - | (124,357) |
| Provisions | 555,423 | 35,636 | - | (65,818) | - | 525,241 |
| Revaluation of financial instruments | 36,919 | 146 | (19,345) | (1,650) | - | 16,070 |
| Tax losses | 420,578 | 148,266 | - | (17,316) | - | 551,528 |
| Revaluation property, plant and equipment | 22,892 | 3,290 | - | (7,638) | - | 18,544 |
| Intangibles | (680,167) | - | - | 86,842 | - | (593,325) |
| Others | 28,310 | 9,543 | - | (28,070) | 1,009 | 10,792 |
| Total | <u>(416,272)</u> | <u>93,119</u> | <u>(19,345)</u> | <u>(22,777)</u> | <u>1,009</u> | <u>(364,266)</u> |

(b) From January 1 to December 31, 2014

| | Opening balance | Recognized in consolidated | Recognized in comprehensive | Exchange rate | Effect from change in | Others | Ending balance |
|---|----------------------|-------------------------------|--------------------------------|------------------|--------------------------|------------------|-------------------|
| | Assets/(liabilities) | income | income | variation | tax rate | | Asset (liability) |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Depreciation | (574,997) | (74,623) | - | 3,575 | (225,595) | - | (871,640) |
| Leased assets | (193,762) | 47,749 | - | 3,267 | (43,029) | - | (185,775) |
| Amortization | (124,357) | (21,621) | - | 1,928 | (16,050) | - | (160,100) |
| Provisions | 525,241 | (99,262) | - | (53,090) | (21,812) | - | 351,077 |
| Revaluation of financial instruments | 16,070 | (53,675) | 47,979 | (1,331) | 3,763 | - | 12,806 |
| Tax losses (*) | 551,528 | 147,798 | - | (13,968) | 163,596 | (126,205) | 722,749 |
| Revaluation property, plant and equipment | 18,544 | (6,384) | - | (6,161) | - | - | 5,999 |
| Intangibles | (593,325) | - | - | 70,050 | - | - | (523,275) |
| Others | 10,792 | 13,455 | - | (26,200) | (6,039) | 11,580 | 3,588 |
| Total | <u>(364,266)</u> | <u>(46,563)</u> | <u>47,979</u> | <u>(21,930)</u> | <u>(145,166)</u> | <u>(114,625)</u> | <u>(644,571)</u> |

(*) In relation to the Tax Recovery Program (REFIS), established in Law No. 11,941/09, the Provisional Measure No. 651/2014 approved by the Brazilian National Congress and signed into Law No. 13,043/14, in its Section VIII, Article 33, establishes that taxpayers that have tax debts can anticipate paying their tax debt by using tax credits related to tax loss carryforwards up to an amount of 70% of the total debt if they pay the other 30% in cash. The Company adhered to the program and paid its debt through this mechanism.

Therefore, the company TAM Linhas Aéreas S.A. decreased its liability associated with the REFIS program using its deferred tax assets related to its tax loss of ThUS \$ 126,205 at December 31, 2014, generating no effect on the outcome of tax.

| | | |
|--|--|--|
| Deferred tax assets not recognized: | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
| Tax losses | 2,781 | 6,538 |
| Total Deferred tax assets not recognized | <u>2,781</u> | <u>6,538</u> |

Deferred tax assets on tax loss carry-forwards, are recognized to the extent that it is likely to provide relevant tax benefit through future taxable profits. The Company has not recognized deferred tax assets of ThUS\$ 2,781 (ThUS\$ 6,538 at December 31, 2013) compared to a loss of ThUS\$ 11,620 (ThUS\$ 28,855 at December 31, 2013) to offset against future years tax benefits.

Deferred tax expense and current income taxes:

| | | |
|---|---------------------------------------|-----------------|
| | For the periods ended December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Current tax expense | | |
| Current tax expense | 97,782 | 73,611 |
| Adjustment to previous period's current tax | (2,151) | (561) |
| Total current tax expense, net | <u>95,631</u> | <u>73,050</u> |
| Deferred tax expense | | |
| Deferred expense for taxes related to the creation and reversal of temporary differences | 46,466 | (92,863) |
| Reduction (increase) in value of deferred tax assets during the evaluation of its usefulness | 97 | (256) |
| Total deferred tax expense, net | <u>46,563</u> | <u>(93,119)</u> |
| Income tax expense | <u>142,194</u> | <u>(20,069)</u> |

Composition of income tax expense (income):

| | For the periods ended | |
|------------------------------------|-----------------------|-----------------|
| | December 31, | |
| | 2014 | 2013 |
| | ThUS\$ | ThUS\$ |
| Current tax expense, net, foreign | 92,272 | 61,118 |
| Current tax expense, net, Chile | 3,359 | 11,932 |
| Total current tax expense, net | <u>95,631</u> | <u>73,050</u> |
| Deferred tax expense, net, foreign | 168,049 | (112,047) |
| Deferred tax expense, net, Chile | (121,486) | 18,928 |
| Deferred tax expense, net, total | <u>46,563</u> | <u>(93,119)</u> |
| Income tax expense | <u>142,194</u> | <u>(20,069)</u> |

Profit before tax by the legal tax rate in Chile (21%)

| | For the periods ended | | | |
|---|-----------------------|-----------------|------------------|----------------|
| | December 31, | | December 31, | |
| | 2014 | 2013 | 2014 | 2013 |
| | ThUS\$ | ThUS\$ | % | % |
| Tax expense using the legal rate | <u>6,805 (*)</u> | <u>(61,035)</u> | <u>21.00 (*)</u> | <u>20.00</u> |
| Tax effect of rates in other jurisdictions | 112,563 | (34,287) | 347.37 | 11.24 |
| Tax effect of non-taxable operating revenues | (60,960) | (24,004) | (188.12) | 7.87 |
| Tax effect of disallowable expenses | 88,643 | 98,211 | 273.55 | (32.18) |
| Other increases (decreases) in legal tax charge | <u>(4,857)</u> | <u>1,046</u> | <u>(14.99)</u> | <u>(0.34)</u> |
| Total adjustments to tax expense using the legal rate | <u>135,389</u> | <u>40,966</u> | <u>417.81</u> | <u>(13.41)</u> |
| Tax expense using the effective rate | <u>142,194</u> | <u>(20,069)</u> | <u>438.81</u> | <u>6.59</u> |

(*) On September 29, 2014, Law No. 20,780 "Amendment to the system of income taxation and introduces various adjustments in the tax system." was published in the Official Journal of the Republic of Chile. Within major tax reforms that law contains is modified gradually from 2014 to 2018 the First- Category Tax rate to be declared and paid starting in tax year 2015.

Thus, at December 31, 2014, the Company filed tax expense reconciliation and legal tax rate considering the rate increase. According to the instructions of Chilean Superintendency of Securities and Insurance in his Office Circular No. 856 of October 17, 2014, the Company recognized a loss on their retained earnings ThUS\$ 150,210 as a result of the rate increase.

Deferred taxes related to items charged to net equity:

| | For the period ended | |
|---|----------------------|-----------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Aggregate deferred taxation of components of other comprehensive income | 40,227 | (19,345) |
| Tax effect by change legal tax rate in other comprehensive income (*) | 7,752 | - |
| Aggregate deferred taxation related to items charged to net equity | (3,389) | (3,440) |
| Tax effect by change legal tax rate in net equity (*) | (2,708) | - |
| Total deferred taxes related to items charged to net equity | <u>41,882</u> | <u>(22,785)</u> |

(*) Correspond to the tax by tax rate increases Law No. 20,780, tax reform, published in the Official Journal of the Republic of Chile on September 29, 2014.

NOTE 18 - OTHER FINANCIAL LIABILITIES

The composition of Other financial liabilities is as follows:

| | As of | As of |
|---|------------------|------------------|
| | December 31, | December 31, |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Current | | |
| (a) Interest bearing loans | 1,397,382 | 1,969,281 |
| (b) Derivatives not recognized as a hedge | 1,190 | 4,040 |
| (c) Hedge derivatives | <u>226,043</u> | <u>66,466</u> |
| Total current | <u>1,624,615</u> | <u>2,039,787</u> |
| Non-current | | |
| (a) Interest bearing loans | 7,360,685 | 7,803,588 |
| (b) Derivatives not recognized as a hedge | - | 1,491 |
| (c) Hedge derivatives | <u>28,327</u> | <u>54,906</u> |
| Total non-current | <u>7,389,012</u> | <u>7,859,985</u> |

(a) Interest bearing loans

Obligations with credit institutions and debt instruments:

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---|--|--|
| Current | | |
| Loans to exporters | 327,278 | 401,263 |
| Bank loans | 98,711 | 602,618 |
| Guaranteed obligations | 472,864 | 455,512 |
| Other guaranteed obligations | <u>61,872</u> | <u>31,109</u> |
| Subtotal bank loans | 960,725 | 1,490,502 |
| Obligation with the public | 21,206 | 21,761 |
| Financial leases | 364,514 | 423,537 |
| Other loans | <u>50,937</u> | <u>33,481</u> |
| Total current | <u>1,397,382</u> | <u>1,969,281</u> |
| Non-current | | |
| Bank loans | 415,667 | 322,207 |
| Guaranteed obligations | 3,765,518 | 3,776,910 |
| Other guaranteed obligations | <u>93,992</u> | <u>64,247</u> |
| Subtotal bank loans | 4,275,177 | 4,163,364 |
| Obligation with the public | 1,111,481 | 1,116,671 |
| Financial leases | 1,344,520 | 1,902,715 |
| Other loans | <u>629,507</u> | <u>620,838</u> |
| Total non-current | <u>7,360,685</u> | <u>7,803,588</u> |
| Total obligations with financial institutions | <u><u>8,758,067</u></u> | <u><u>9,772,869</u></u> |

All interest-bearing liabilities are recorded using the effective interest rate method. Under IFRS, the effective interest rate for loans with a fixed interest rate does not vary throughout the loan, while in the case of loans with variable interest rates, the effective rate changes on each date of reprising of the loan.

Currency balances that make the interest bearing loans:

| <u>Currency</u> | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---------------------|--|--|
| Argentine peso | 39,053 | 43,335 |
| Brazilian real | 53,410 | 76,674 |
| Chilean peso (U.F.) | 187,614 | 267,554 |
| Euro | 547 | 2,029 |
| US Dollar | <u>8,477,443</u> | <u>9,383,277</u> |
| Total | <u><u>8,758,067</u></u> | <u><u>9,772,869</u></u> |

Interest-bearing loans due in installments to December 31, 2014
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective rate % | Nominal rate % |
|-----------------------------------|---|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|----------------------|------------------|----------------|
| | | | | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 0-E | NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ | Holland | US\$ | 108 | 335 | 971 | 1,094 | 1,288 | 3,796 | 127 | 336 | 971 | 1,094 | 1,288 | 3,816 | Monthly | 6.01 | 6.01 |
| Obligation with the public | | | | | | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A. | US\$ | - | - | 300,000 | - | 800,000 | 1,100,000 | 12,178 | 9,028 | 304,377 | 4,583 | 802,521 | 1,132,687 | At Expiration | 7.99 | 7.19 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | AFS INVESTMENT IX LLC | U.S.A. | US\$ | 1,864 | 5,752 | 16,580 | 18,555 | 8,369 | 51,120 | 2,104 | 5,752 | 16,580 | 18,555 | 8,369 | 51,360 | Monthly | 1.25 | 1.25 |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 3,189 | 9,836 | 27,070 | 15,262 | 7,664 | 63,021 | 3,303 | 9,836 | 27,070 | 15,262 | 7,664 | 63,135 | Monthly | 1.42 | 1.42 |
| 0-E | CREDIT AGRICOLE-CIB | U.S.A. | US\$ | 2,704 | 32,466 | - | - | - | 35,170 | 2,752 | 32,466 | - | - | - | 35,218 | Quarterly | 1.10 | 1.10 |
| 0-E | CREDIT AGRICOLE -CIB | France | US\$ | 1,500 | 4,500 | 4,500 | - | - | 10,500 | 1,566 | 4,500 | 4,500 | - | - | 10,566 | Quarterly/Semiannual | 3.25 | 3.25 |
| 0-E | DVB BANK SE | Germany | US\$ | 3,125 | 9,375 | - | - | - | 12,500 | 3,160 | 9,375 | - | - | - | 12,535 | Quarterly | 2.50 | 2.50 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 197 | 540 | 755 | - | - | 1,492 | 199 | 540 | 755 | - | - | 1,494 | Monthly | 1.68 | 1.68 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 2,296 | 10,791 | 23,761 | - | - | 36,848 | 2,346 | 10,791 | 23,761 | - | - | 36,898 | Monthly | 1.25 | 1.25 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 3,246 | 10,541 | 18,037 | 13,535 | 5,328 | 50,687 | 3,339 | 10,541 | 18,037 | 13,535 | 5,328 | 50,780 | Monthly/Quarterly | 1.72 | 1.72 |
| 0-E | NATIXIS | France | US\$ | 2,887 | 6,705 | 20,987 | 23,723 | 85,391 | 139,693 | 4,044 | 6,705 | 20,987 | 23,723 | 85,391 | 140,850 | Quarterly/Semiannual | 3.87 | 3.87 |
| 0-E | PK AIRFINANCE US, INC. | U.S.A. | US\$ | 1,208 | 3,725 | 20,360 | - | - | 25,293 | 1,256 | 3,725 | 20,360 | - | - | 25,341 | Monthly | 1.75 | 1.75 |
| 0-E | WACAPOU LEASING S.A. | Luxemburg | US\$ | 416 | 1,198 | 2,847 | 2,406 | 13,115 | 19,982 | 456 | 1,198 | 2,847 | 2,406 | 13,115 | 20,022 | Quarterly | 2.00 | 2.00 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 7,761 | 23,859 | 67,973 | 74,783 | 169,730 | 344,106 | 8,574 | 23,859 | 67,973 | 74,783 | 169,730 | 344,919 | Quarterly | 3.06 | 3.58 |
| 0-E | BANCO DE LAGE LANDEN BRASIL S.A | Brazil | BRL | - | - | - | - | - | - | 8 | - | - | - | - | 8 | Monthly | 11.70 | 11.70 |
| 0-E | BANCO IBM S.A | Brazil | BRL | 319 | 957 | 2,514 | 27 | - | 3,817 | 91 | 957 | 2,604 | 27 | - | 3,679 | Monthly | 10.58 | 10.58 |
| 0-E | HP FINANCIAL SERVICE | Brazil | BRL | 225 | 707 | 1,297 | - | - | 2,229 | 143 | 707 | 1,379 | - | - | 2,229 | Monthly | 9.90 | 9.90 |
| 0-E | SOCIETE AIR FRANCE | France | EUR | 114 | - | - | - | - | 114 | 547 | - | - | - | - | 547 | Monthly | 6.82 | 6.82 |
| 0-E | SOCIETE GENERALE | France | BRL | 126 | 377 | 1,005 | 135 | - | 1,643 | 82 | 377 | 1,044 | 135 | - | 1,638 | Monthly | 11.60 | 11.60 |
| Other loans | | | | | | | | | | | | | | | | | | |
| 0-E | COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO | Brazil | BRL | 30,281 | 15,576 | - | - | - | 45,857 | 30,281 | 15,576 | - | - | - | 45,857 | Monthly | 4.23 | 4.23 |
| Total | | | | 61,566 | 137,240 | 508,657 | 149,520 | 1,090,885 | 1,947,868 | 76,556 | 146,269 | 513,245 | 154,103 | 1,093,406 | 1,983,579 | | | |
| Total consolidated | | | | 579,474 | 768,022 | 2,648,500 | 1,483,758 | 3,366,750 | 8,846,504 | 620,330 | 777,052 | 2,575,299 | 1,453,411 | 3,331,975 | 8,758,067 | | | |

Interest-bearing loans due in installments to December 31, 2013

Debtor: LATAM Airlines Group S.A. and Subsidiaries, Tax No. 89.862.200-2, Chile.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective rate % | Nominal rate % |
|------------------------------|------------------------|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|---------------|------------------|----------------|
| | | | | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | |
| Loans to exporters | | | | | | | | | | | | | | | | | | |
| 97.032.000-8 | BBVA | Chile | US\$ | - | 30,000 | - | - | - | 30,000 | - | 30,022 | - | - | - | 30,022 | At expiration | 1.00 | 1.00 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 230,000 | - | - | - | - | 230,000 | 230,819 | - | - | - | - | 230,819 | At expiration | 1.63 | 1.63 |
| 97.030.000-7 | ESTADO | Chile | US\$ | - | 40,000 | - | - | - | 40,000 | - | 40,023 | - | - | - | 40,023 | At expiration | 1.06 | 1.06 |
| 76.100.458-1 | BLADEX | Chile | US\$ | 100,000 | - | - | - | - | 100,000 | 100,399 | - | - | - | - | 100,399 | At expiration | 1.87 | 1.87 |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 97.036.000-K | SANTANDER | Chile | US\$ | - | - | 115,051 | - | - | 115,051 | 153 | - | 115,051 | - | - | 115,204 | At expiration | 3.19 | 3.19 |
| 97.023.000-9 | CORPBANCA | Chile | UF | 15,590 | 46,772 | 124,724 | 81,374 | - | 268,460 | 17,475 | 46,771 | 122,780 | 80,528 | - | 267,554 | Quarterly | 4.85 | 4.85 |
| 0-E | CITIBANK | Argentina | ARS | - | 15,335 | - | - | - | 15,335 | 35 | 15,335 | - | - | - | 15,370 | Monthly | 20.75 | 20.75 |
| 0-E | BBVA | Argentina | ARS | - | 27,603 | - | - | - | 27,603 | 362 | 27,603 | - | - | - | 27,965 | Monthly | 23.78 | 23.78 |
| Guaranteed obligations | | | | | | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 2,865 | 8,808 | 25,172 | 27,867 | 26,831 | 91,543 | 3,635 | 8,807 | 24,144 | 27,437 | 26,682 | 90,705 | Quarterly | 5.69 | 5.01 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 12,920 | 34,713 | 82,646 | 10,033 | - | 140,312 | 13,209 | 34,713 | 82,646 | 10,033 | - | 140,601 | Quarterly | 1.99 | 1.99 |
| 0-E | PEFCO | U.S.A. | US\$ | 2,219 | 6,745 | - | - | - | 8,964 | 2,239 | 6,746 | (19) | - | - | 8,966 | Quarterly | 3.06 | 2.73 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 8,875 | 27,256 | 76,985 | 83,871 | 221,267 | 418,254 | 10,356 | 27,256 | 75,420 | 83,243 | 221,031 | 417,306 | Quarterly | 2.45 | 2.31 |
| 0-E | WELLS FARGO | U.S.A. | US\$ | 46,007 | 139,012 | 378,314 | 389,759 | 1,146,684 | 2,099,776 | 52,722 | 139,012 | 330,363 | 365,871 | 1,115,366 | 2,003,334 | Quarterly | 2.47 | 1.76 |
| 0-E | CITIBANK | U.S.A. | US\$ | 9,607 | 29,315 | 81,681 | 87,189 | 164,399 | 372,191 | 10,850 | 29,315 | 76,583 | 84,847 | 162,473 | 364,068 | Quarterly | 2.64 | 2.04 |
| 97.036.000-K | SANTANDER | Chile | US\$ | 5,021 | 15,237 | 41,767 | 43,552 | 95,022 | 200,599 | 5,347 | 15,238 | 38,966 | 42,256 | 93,880 | 195,687 | Quarterly | 1.32 | 0.78 |
| 0-E | BTMU | U.S.A. | US\$ | 2,579 | 7,846 | 21,655 | 22,801 | 63,189 | 118,070 | 2,784 | 7,846 | 19,797 | 21,891 | 62,166 | 114,484 | Quarterly | 1.64 | 1.04 |
| 0-E | APPLE BANK | U.S.A. | US\$ | 1,264 | 3,848 | 10,636 | 11,210 | 31,544 | 58,502 | 1,431 | 3,848 | 9,716 | 10,758 | 31,027 | 56,780 | Quarterly | 1.63 | 1.04 |
| 0-E | US BANK | U.S.A. | US\$ | 13,840 | 41,995 | 115,549 | 120,924 | 411,684 | 703,992 | 17,106 | 41,995 | 93,083 | 109,417 | 395,163 | 656,764 | Quarterly | 2.81 | 2.81 |
| 0-E | DEUTSCHE BANK | U.S.A. | US\$ | 4,348 | 13,408 | 38,018 | 32,448 | 84,814 | 173,036 | 5,053 | 13,408 | 38,017 | 32,449 | 84,814 | 173,741 | Quarterly | 3.27 | 3.27 |
| - | SWAP Aircraft arrivals | - | US\$ | 681 | 1,915 | 4,104 | 2,521 | 765 | 9,986 | 681 | 1,915 | 4,104 | 2,521 | 765 | 9,986 | Quarterly | - | - |
| Other guaranteed obligations | | | | | | | | | | | | | | | | | | |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 7,703 | 23,342 | 64,247 | - | - | 95,292 | 7,766 | 23,343 | 64,247 | - | - | 95,356 | Quarterly | 1.99 | 1.99 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | ING | U.S.A. | US\$ | 4,523 | 13,896 | 37,656 | 9,001 | - | 65,076 | 4,964 | 13,896 | 37,395 | 8,971 | - | 65,226 | Quarterly | 3.23 | 3.03 |
| 0-E | CREDIT AGRICOLE | France | US\$ | 4,808 | 13,833 | 63,715 | 7,158 | - | 89,514 | 4,952 | 13,834 | 63,715 | 7,157 | - | 89,658 | Quarterly | 1.21 | 1.21 |
| 0-E | CITIBANK | U.S.A. | US\$ | 1,430 | 4,414 | 12,707 | 14,254 | 7,759 | 40,564 | 1,651 | 4,413 | 12,254 | 14,089 | 7,731 | 40,138 | Quarterly | 6.38 | 5.65 |
| 0-E | PEFCO | U.S.A. | US\$ | 13,867 | 42,702 | 121,395 | 108,403 | 22,407 | 308,774 | 15,884 | 42,702 | 118,027 | 107,595 | 22,324 | 306,532 | Quarterly | 5.35 | 4.23 |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 6,443 | 19,839 | 56,989 | 56,934 | 7,129 | 147,334 | 6,908 | 19,839 | 55,403 | 56,567 | 7,109 | 145,826 | Quarterly | 4.65 | 4.15 |
| 0-E | BANC OF AMERICA | U.S.A. | US\$ | 616 | 1,891 | 5,392 | - | - | 7,899 | 647 | 1,891 | 5,392 | - | - | 7,930 | Monthly | 1.43 | 1.43 |
| Other loans | | | | | | | | | | | | | | | | | | |
| 0-E | BOEING | U.S.A. | US\$ | - | - | 170,838 | - | - | 170,838 | - | 1,650 | 170,838 | - | - | 172,488 | At expiration | 1.75 | 1.75 |
| 0-E | CITIBANK (*) | U.S.A. | US\$ | - | - | 79,611 | 174,178 | 196,211 | 450,000 | 4,050 | - | 79,611 | 174,178 | 196,211 | 454,050 | Quarterly | 6.00 | 6.00 |
| | Total | | | 495,206 | 609,725 | 1,728,852 | 1,283,477 | 2,479,705 | 6,596,965 | 521,478 | 611,421 | 1,637,533 | 1,239,808 | 2,426,742 | 6,436,982 | | | |

(*) Securitized bond with the future flows from the sales with credit card in United States and Canada.

Interest-bearing loans due in installments to December 31, 2013
Debtor: TAM S.A. and Subsidiaries, Tax No. 02.012.862/0001-60, Brazil.

| Tax No. | Creditor | Creditor country | Currency | Nominal values | | | | | | Accounting values | | | | | | Amortization | Effective rate % | Nominal rate % |
|-----------------------------------|---|------------------|----------|----------------|-------------------------------|------------------------------|-------------------------------|----------------------|---------------------|-------------------|-------------------------------|------------------------------|-------------------------------|----------------------|------------------------|----------------------|------------------|----------------|
| | | | | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total nominal value | Up to 90 days | More than 90 days to one year | More than one to three years | More than three to five years | More than five years | Total accounting value | | | |
| | | | | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | | | |
| Bank loans | | | | | | | | | | | | | | | | | | |
| 0-E | CITIBANK | Brazil | US\$ | 2,207 | 41,678 | - | - | - | 43,885 | 2,306 | 42,413 | - | - | - | 44,719 | At Expiration | 3.76 | 3.20 |
| 0-E | BANCO DO Brazil S.A. | Brazil | US\$ | 9,050 | 128,799 | - | - | - | 137,849 | 9,410 | 130,742 | - | - | - | 140,152 | At Expiration | 5.20 | 4.66 |
| 0-E | BANCO ITAU BBA | Brazil | US\$ | 26,611 | 47,219 | - | - | - | 73,830 | 27,804 | 48,424 | - | - | - | 76,228 | At Expiration | 6.31 | 4.73 |
| 0-E | BANCO SAFRA | Brazil | US\$ | 40,626 | 21,731 | - | - | - | 62,357 | 41,768 | 22,213 | - | - | - | 63,981 | At Expiration | 3.73 | 2.94 |
| 0-E | BANCO SAFRA | Brazil | BRL | 193 | 443 | 48 | - | - | 684 | 187 | 431 | 51 | - | - | 669 | Monthly | 7.42 | 7.42 |
| 0-E | BANCO BRADESCO | Brazil | US\$ | 74,700 | 47,641 | - | - | - | 122,341 | 77,218 | 48,828 | - | - | - | 126,046 | At Expiration | 3.87 | 3.29 |
| 0-E | BANCO BRADESCO | Brazil | BRL | - | 42,688 | - | - | - | 42,688 | - | 42,701 | - | - | - | 42,701 | At Expiration | 10.63 | 10.15 |
| 0-E | NEDERLANDSCHE CREDIETVERZEKERING MAATSCHAPPIJ | Holland | US\$ | 102 | 316 | 915 | 1,031 | 1,851 | 4,215 | 123 | 316 | 915 | 1,031 | 1,851 | 4,236 | Monthly | 6.01 | 6.01 |
| Obligation with the public | | | | | | | | | | | | | | | | | | |
| 0-E | THE BANK OF NEW YORK | U.S.A. | US\$ | - | - | - | 300,000 | 800,000 | 1,100,000 | 19,760 | 2,001 | 5,343 | 305,554 | 805,774 | 1,138,432 | At Expiration | 8.60 | 8.41 |
| Financial leases | | | | | | | | | | | | | | | | | | |
| 0-E | AES INVESTMENT IX LLC | U.S.A. | US\$ | 1,762 | 5,438 | 15,673 | 17,540 | 17,908 | 58,321 | 2,036 | 5,437 | 15,673 | 17,541 | 17,908 | 58,595 | Monthly | 1.25 | 1.25 |
| 0-E | AIR CANADA | U.S.A. | US\$ | 1,325 | 1,645 | - | - | - | 2,970 | 1,325 | 1,645 | - | - | - | 2,970 | Monthly | - | - |
| 0-E | AIRBUS FINANCIAL | U.S.A. | US\$ | 3,020 | 9,311 | 26,792 | 20,813 | 15,416 | 75,352 | 3,156 | 9,311 | 26,792 | 20,812 | 15,417 | 75,488 | Monthly | 1.42 | 1.42 |
| 0-E | AWAS | U.S.A. | US\$ | 2,992 | 2,659 | - | - | - | 5,651 | 3,656 | 2,659 | - | - | - | 6,315 | Monthly | - | - |
| 0-E | BNP PARIBAS | U.S.A. | US\$ | 580 | 1,810 | 5,262 | 5,982 | 8,448 | 22,082 | 651 | 1,810 | 5,262 | 5,982 | 8,448 | 22,153 | Quarterly | 1.00 | 1.00 |
| 0-E | BNP PARIBAS | France | US\$ | 578 | 1,758 | 4,959 | 5,371 | 9,693 | 22,359 | 652 | 1,758 | 4,959 | 5,371 | 9,693 | 22,433 | Quarterly | 0.86 | 0.75 |
| 0-E | CITIBANK | England | US\$ | 5,983 | 18,179 | 44,318 | 47,123 | 106,987 | 222,590 | 6,401 | 18,179 | 44,318 | 47,123 | 106,987 | 223,008 | Quarterly | 1.03 | 0.90 |
| 0-E | CREDIT AGRICOLE-CIB | U.S.A. | US\$ | 4,258 | 12,917 | 55,573 | 11,431 | 13,766 | 97,945 | 4,516 | 12,917 | 55,573 | 11,431 | 13,766 | 98,203 | Quarterly | 1.40 | 1.40 |
| 0-E | CREDIT AGRICOLE -CIB | France | US\$ | 7,911 | 25,433 | 58,866 | 50,469 | 52,717 | 195,396 | 8,334 | 25,433 | 58,866 | 50,469 | 52,717 | 195,819 | Quarterly/Semiannual | 0.75 | 0.65 |
| 0-E | DVB BANK SE | Germany | US\$ | 3,125 | 9,375 | 12,500 | - | - | 25,000 | 3,195 | 9,375 | 12,500 | - | - | 25,070 | Quarterly | 2.50 | 2.50 |
| 0-E | DVB BANK SE | U.S.A. | US\$ | 197 | 590 | 1,210 | 282 | - | 2,279 | 201 | 590 | 1,210 | 282 | - | 2,283 | Monthly | 1.75 | 1.75 |
| 0-E | GENERAL ELECTRIC CAPITAL CORPORATION | U.S.A. | US\$ | 3,430 | 48,548 | - | - | - | 51,978 | 3,501 | 48,548 | - | - | - | 52,049 | Monthly | 1.25 | 1.25 |
| 0-E | HSBC | France | US\$ | 1,307 | 3,983 | 10,976 | 11,533 | 36,497 | 64,296 | 1,436 | 3,983 | 10,976 | 11,533 | 36,497 | 64,425 | Quarterly | 1.45 | 1.25 |
| 0-E | KFW IPEX-BANK | Germany | US\$ | 3,877 | 11,869 | 28,660 | 20,499 | 17,813 | 82,718 | 4,027 | 11,869 | 28,660 | 20,500 | 17,813 | 82,869 | Monthly/Quarterly | 1.74 | 1.74 |
| 0-E | NATIXIS | France | US\$ | 6,009 | 16,490 | 49,293 | 55,352 | 118,984 | 246,128 | 7,586 | 16,490 | 49,293 | 55,352 | 118,984 | 247,705 | Quarterly/Semiannual | 2.81 | 2.78 |
| 0-E | PK AIRFINANCE US, INC. | U.S.A. | US\$ | 2,780 | 8,610 | 40,227 | 17,171 | 37,615 | 106,403 | 2,964 | 8,611 | 40,227 | 17,171 | 37,615 | 106,588 | Monthly | 1.71 | 1.71 |
| 0-E | WACAPOU LEASING S.A. | Luxemburg | US\$ | 453 | 1,303 | 3,097 | 2,617 | 14,267 | 21,737 | 498 | 1,303 | 3,097 | 2,617 | 14,267 | 21,782 | Quarterly | 2.00 | 2.00 |
| 0-E | WELLS FARGO BANK NORTHWEST N.A. | U.S.A. | US\$ | 1,769 | 1,425 | - | - | - | 3,194 | 1,773 | 1,425 | - | - | - | 3,198 | Monthly | 1.25 | 1.25 |
| 0-E | SOCIÉTÉ GÉNÉRALE MILAN BRANCH | Italy | US\$ | 11,772 | 35,604 | 87,655 | 96,473 | 102,591 | 334,095 | 12,694 | 35,604 | 87,655 | 96,473 | 102,591 | 335,017 | Quarterly | 3.86 | 3.78 |
| 0-E | THE TORONTO-DOMINION BANK | U.S.A. | US\$ | 515 | 1,566 | 4,297 | 4,485 | 6,531 | 17,394 | 541 | 1,566 | 4,297 | 4,485 | 6,531 | 17,420 | Quarterly | 0.57 | 0.57 |
| 0-E | BANCO DE LAGE LANDEN BRASIL S.A | Brazil | BRL | 239 | 724 | - | - | - | 963 | 222 | 674 | - | - | - | 896 | Monthly | 10.38 | 10.38 |
| 0-E | BANCO IBM S.A | Brazil | BRL | 134 | 192 | 511 | 213 | - | 1,050 | 153 | 192 | 511 | 213 | - | 1,069 | Monthly | 10.58 | 10.58 |
| 0-E | HP FINANCIAL SERVICE | Brazil | BRL | 287 | 746 | 2,218 | 308 | - | 3,559 | 285 | 745 | 2,220 | 308 | - | 3,558 | Monthly | 9.90 | 9.90 |
| 0-E | SOCIETE AIR FRANCE | France | EUR | 69 | 1,310 | - | - | - | 1,379 | 824 | 1,205 | - | - | - | 2,029 | Monthly | 6.82 | 6.82 |
| Other loans | | | | | | | | | | | | | | | | | | |
| 0-E | COMPANHIA BRASILEIRA DE MEIOS DE PAGAMENTO | Brazil | BRL | 27,244 | 537 | - | - | - | 27,781 | 27,244 | 537 | - | - | - | 27,781 | Monthly | 2.38 | 2.38 |
| Total | | | | 245,105 | 552,537 | 453,050 | 668,693 | 1,361,084 | 3,280,469 | 276,447 | 559,935 | 458,398 | 674,248 | 1,366,859 | 3,335,887 | | | |
| Total consolidated | | | | 740,311 | 1,162,262 | 2,181,902 | 1,952,170 | 3,840,789 | 9,877,434 | 797,925 | 1,171,356 | 2,095,931 | 1,914,056 | 3,793,601 | 9,772,869 | | | |

(b) Derivatives not recognized as a hedge

| | Current liabilities | | Non-current liabilities | | Total derivative not recognized as a hedge | |
|---|---------------------|--------------|-------------------------|--------------|---|--------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | |
| Interest rate derivative not recognized as a hedge | 1,190 | 4,040 | - | 1,491 | 1,190 | 5,531 |
| Total derivatives not recognized as a hedge | <u>1,190</u> | <u>4,040</u> | <u>-</u> | <u>1,491</u> | <u>1,190</u> | <u>5,531</u> |

(c) Hedge derivatives

| | Current liabilities | | Non-current liabilities | | Total hedge derivatives | |
|--|---------------------|---------------|-------------------------|---------------|----------------------------|----------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | |
| Accrued interest from the last date of interest rate swap | 5,173 | 5,775 | - | - | 5,173 | 5,775 |
| Fair value of interest rate derivatives | 26,395 | 32,070 | 28,327 | 54,906 | 54,722 | 86,976 |
| Fair value of fuel derivatives | 157,233 | - | - | - | 157,233 | - |
| Fair value of foreign currency derivatives | 37,242 | 28,621 | - | - | 37,242 | 28,621 |
| Total hedge derivatives | <u>226,043</u> | <u>66,466</u> | <u>28,327</u> | <u>54,906</u> | <u>254,370</u> | <u>121,372</u> |

The foreign currency derivatives exchanges are FX forward and cross currency swap.

Hedging operation

The fair values of assets/ (liabilities), by type of derivative, of the contracts held as hedging instruments are presented below:

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|--------------------------------|--|--|
| Cross currency swaps (CCS) (1) | (38,802) | (26,028) |
| Interest rate options (2) | 1 | 6 |
| Interest rate swaps (3) | (58,758) | (92,088) |
| Fuel collars (4) | (32,772) | 1,878 |
| Fuel swap (5) | (122,678) | 13,990 |
| Currency forward R\$/US\$ (6) | - | 32,058 |
| Currency forward CLP/US\$ (7) | - | (1,121) |
| Currency collars (8) | - | (1,652) |

- (1) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate and the exchange rate dollar-UF of bank loans. These contracts are recorded as cash flow hedges and fair value.
- (2) Covers the significant variations in cash flows associated with market risk implicit in the changes in the 3-month LIBOR interest rate for long-term loans incurred in the acquisition of aircraft. These contracts are recorded as cash flow hedges.
- (3) Covers the significant variations in cash flows associated with market risk implicit in the increases in the 3 months LIBOR interest rates for long-term loans incurred in the acquisition of aircraft and bank loans. These contracts are recorded as cash flow hedges.
- (4) Covers significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases. These contracts are recorded as cash flow hedges.
- (5) Covers the significant variations in cash flows associated with market risk implicit in the changes in the price of future fuel purchases. These contracts are recorded as cash flow hedges.
- (6) Covers the foreign exchange risk exposure of operating cash flows caused mainly by fluctuations in the exchange rate R\$/US\$. These contracts are recorded as cash flow hedges.
- (7) Covers the investments denominated in Chilean pesos to Dollar- Chilean peso exchange rate, in order to secure investment in Dollars. These contracts are recorded as cash flow hedges.
- (8) Covers the foreign exchange risk exposure of Multiplus income caused by fluctuations in the exchange rate R\$/US\$.

During the periods presented, the Company only maintains cash flow hedges and fair value (in the case of CCS). In the case of fuel hedges, the cash flows subject to such hedges will impact results in the next 12 months from the consolidated statement of financial position date, meanwhile in the case of interest rate hedging, the hedges will impact results over the life of the related loans, which are valid for 12 years. The hedges on investments will impact results continuously throughout the life of the investment, while the cash flows occur at the maturity of the investment. In the case of currency hedges through a CCS, are generated two types of hedge accounting, a cash flow component by UF, and other fair value by US\$ floating rate component.

During the periods presented, there have not occurred hedging operations of future highly probable transaction that have not been realized.

Since none of the coverage resulted in the recognition of a non-financial asset, no portion of the result of the derivatives recognized in equity was transferred to the initial value of such assets.

The amounts recognized in comprehensive income during the period and transferred from net equity to income are as follows:

| | For the periods ended | |
|--|-----------------------|-------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Debit (credit) recognized in comprehensive income during the period | (163,993) | 128,166 |
| Debit (credit) transferred from net equity to income during the period | (151,520) | (18,688) |

NOTE 19 - TRADE AND OTHER ACCOUNTS PAYABLES

The composition of Trade and other accounts payables is as follows:

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---|--|--|
| Current | | |
| (a) Trade and other accounts payables | 1,196,123 | 1,264,395 |
| (b) Accrued liabilities at the reporting date | 293,273 | 293,341 |
| Total trade and other accounts payables | <u>1,489,396</u> | <u>1,557,736</u> |

(a) Trade and other accounts payable:

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|----------------------------|--|--|
| Trade creditors | 924,105 | 969,260 |
| Leasing obligation | 37,322 | 44,756 |
| Other accounts payable (*) | 234,696 | 250,379 |
| Total | <u>1,196,123</u> | <u>1,264,395</u> |

(*) Include agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in Note 20.

The details of Trade and other accounts payables are as follows:

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|---|--|--|
| Aircraft Fuel | 290,109 | 302,419 |
| Boarding Fee | 193,263 | 217,389 |
| Other personnel expenses | 114,245 | 117,418 |
| Airport charges and overflight | 102,111 | 98,560 |
| Professional services and advisory | 65,445 | 63,082 |
| Suppliers' technical purchases | 64,799 | 67,995 |
| Handling and ground handling | 55,503 | 48,797 |
| Marketing | 54,885 | 50,009 |
| Land services | 47,103 | 47,046 |
| Aircraft and engines leasing | 37,322 | 44,756 |
| Leases, maintenance and IT services | 34,029 | 46,163 |
| Services on board | 24,642 | 29,940 |
| Maintenance | 14,757 | 15,793 |
| Crew | 12,403 | 14,040 |
| Achievement of goals | 12,197 | 9,806 |
| Communications | 6,447 | 4,578 |
| Aviation insurance | 4,749 | 10,665 |
| Distribution sistem | 3,293 | 3,103 |
| Airlines | 908 | 5,054 |
| Tax recovery program (*) | - | 14,569 |
| U.S.A. Department of Justice (**) | - | 18,290 |
| Others | 57,913 | 34,923 |
| | <u>1,196,123</u> | <u>1,264,395</u> |
| Total trade and other accounts payables | | |

(*) Fiscal Recovery Program in Brazil (REFIS), established in Law No. 11.941/09 and Provisional Measure No. 449/2009. REFIS is intended to allow the settlement of tax debts through a special mechanism to pay and refinance (See Note 17(b)).

(**) Include agreement entitled "Plea Agreement" with the Department of Justice of the United States of America. See detail in Note 20.

(b) Liabilities accrued:

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|-----------------------------------|--|--|
| Accrued personnel expenses | 130,382 | 151,586 |
| Aircraft and engine maintenance | 121,946 | 3,741 |
| Accounts payable to personnel (*) | 16,407 | 110,147 |
| Others accrued liabilities | 24,538 | 27,867 |
| | <u>293,273</u> | <u>293,341</u> |
| Total accrued liabilities | | |

(*) Profits and bonds participation (Note 22 letter b)

NOTE 20 - OTHER PROVISIONS

The detail of Other provisions as of December 31, 2014 and December 31, 2013 is as follows:

| | Current liabilities | | Non-current liabilities | | Total Liabilities | |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | As of December 31, 2014 | As of December 31, 2013 | As of December 31, 2014 | As of December 31, 2013 | As of December 31, 2014 | As of December 31, 2013 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Provision for contingencies (1) | | | | | | |
| Tax contingencies | 320 | 7,092 | 607,371 | 968,211 | 607,691 | 975,303 |
| Civil contingencies | 11,870 | 13,430 | 47,355 | 50,022 | 59,225 | 63,452 |
| Labor contingencies | 221 | 7,334 | 23,064 | 64,895 | 23,285 | 72,229 |
| Other | - | - | 15,351 | 27,770 | 15,351 | 27,770 |
| Provision for European | | | | | | |
| Commision investigation (2) | - | - | 9,999 | 11,349 | 9,999 | 11,349 |
| Total other provisions (3) | <u>12,411</u> | <u>27,856</u> | <u>703,140</u> | <u>1,122,247</u> | <u>715,551</u> | <u>1,150,103</u> |

(1) Provisions for contingencies:

The tax contingencies correspond to litigation and tax criteria related to the tax treatment applicable to direct and indirect taxes, which are found in both administrative and judicial stage.

The civil contingencies correspond to different demands of civil order filed against the company.

The labor contingencies correspond to different demands of labor order filed against the company.

The Provisions are recognized in the consolidated income statement in administrative expenses or tax expenses, as appropriate.

- (2) Provision made for proceedings brought by the European Commission for possible breaches of free competition in the freight market.
- (3) Total other provision at December 31, 2014, and at December 31, 2013, include the fair value correspond to those contingencies from the business combination with TAM S.A and subsidiaries, with a probability of loss under 50%, which are not provided for the normal application of IFRS enforcement and that only must be recognized in the context of a business combination in accordance with IFRS 3.

Movement of provisions:

| | Legal claims | European Commission Investigation(*) | Total |
|---|------------------|--|------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2013 | 1,355,581 | 10,865 | 1,366,446 |
| Increase in provisions | 65,107 | - | 65,107 |
| Provision used | (57,192) | - | (57,192) |
| Difference by subsidiaries conversion | (170,452) | - | (170,452) |
| Reversal of provision | (53,459) | - | (53,459) |
| Exchange difference | (831) | 484 | (347) |
| Closing balance as of December 31, 2013 | <u>1,138,754</u> | <u>11,349</u> | <u>1,150,103</u> |
| Opening balance as of January 1, 2014 | 1,138,754 | 11,349 | 1,150,103 |
| Increase in provisions | 42,792 | - | 42,792 |
| Provision used | (27,597) | - | (27,597) |
| Difference by subsidiaries conversion | (132,092) | - | (132,092) |
| Reversal of provision | (315,288) | - | (315,288) |
| Exchange difference | (1,017) | (1,350) | (2,367) |
| Closing balance as of December 31, 2014 | <u>705,552</u> | <u>9,999</u> | <u>715,551</u> |

Accumulated balance includes the judicial deposit in guarantee, related to the “Fundo Aeroviário” (FA), in the amount of US\$ 90 million, was done in order to suspend the enforceability of the tax credit. The company is discussing over the Tribunal the constitutionality of the requirement made by FA in a legal suit. Initially it was covered by the effects of a provisional remedy, meaning that, the company was not obligated to collect the tax while there was not a judicial decision in this regard. However, the decision taken by a judge in the first instance was publicized in an unfavorable way, revoking the provisional remedy relief. As the legal suit is still in progress (TAM appealed from this first decision), the company needed to do the deposit judicial in guarantee to suspend the enforceability of such tax credit; deposit classified in this category deducting the existing provision. Finally, if the final decision is favorable to the company, the deposit already made is going to come back to TAM. On the other hand, if the tribunal confirms the first decision, such deposit will be converted in a definitive payment in favor of the Brazilian Government. The procedural stage at December 31, 2014 is disclosed in Note 30, at case No. 2001.51.01.012530-3.

(*) European Commission Provision:

- (a) This provision was established because of the investigation brought by the Directorate General for Competition of the European Commission against more than 25 cargo airlines, including Lan Cargo S.A., as part of a global investigation begun in 2006 regarding possible unfair competition on the air cargo market. This was a joint investigation by the European and U.S.A. authorities. The start of the investigation was disclosed through an Essential Matter report dated December 27, 2007. The U.S.A. portion of the global investigation concluded when Lan Cargo S.A. and its subsidiary, Aerolíneas Brasileiras S.A. (“ABSA”) signed a *Plea Agreement* with the U.S.A. Department of Justice, as disclosed in an Essential Matter report notice on January 21, 2009.
- (b) A Essential Matter report dated November 9, 2010, reported that the General Direction of Competition had issued its decision on this case (the "decision"), under which it imposed fines totaling € 799,445,000 (seven hundred and ninety nine million four hundred and forty-five thousand Euros) for infringement of European Union regulations on free competition against eleven (11) airlines, among which are LATAM Airlines Group S.A. and Lan Cargo S.A., Air Canada, Air France, KLM, British Airways, Cargolux, Cathay Pacific, Japan Airlines, Qantas Airways, S.A.S. and Singapore Airlines.
- (c) Jointly, LATAM Airlines Group S.A. and Lan Cargo S.A., have been fined in the amount of € 8,220,000 (eight million two hundred twenty thousand Euros) for said infractions, which was provisioned in the financial statements of LATAM Airlines Group S.A.. This is a minor fine in comparison to the original decision, as there was a significant reduction in fine because LATAM Airlines Group S.A. cooperated during the investigation.
- (d) On January 24, 2011, LATAM Airlines Group S.A. and Lan Cargo S.A. appealed the decision before the Court of Justice of the European Union. The procedural stage at December 31, 2014 is disclosed in Note 30, in (ii) lawsuits received by Latam Airlines Group S.A. and Subsidiaries in European Commission Court.

NOTE 21 - OTHER NON-FINANCIAL LIABILITIES

| | Current liabilities | | Non-current liabilities | | Total Liabilities | |
|---------------------------------------|---------------------|-----------|-------------------------|--------|-------------------|-----------|
| | As of | As of | As of | As of | As of | As of |
| | 2014 | 2013 | 2014 | 2013 | 2014 | 2013 |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Deferred revenues (*) | 2,565,391 | 2,739,125 | 355,353 | 77,513 | 2,920,744 | 2,816,638 |
| Sales tax | 38,160 | 52,576 | - | - | 38,160 | 52,576 |
| Retentions | 52,567 | 49,355 | - | - | 52,567 | 49,355 |
| Others taxes | 18,880 | 12,294 | - | - | 18,880 | 12,294 |
| Other sundry liabilities | 10,388 | 18,290 | 48 | 54 | 10,436 | 18,344 |
| Total other non-financial liabilities | 2,685,386 | 2,871,640 | 355,401 | 77,567 | 3,040,787 | 2,949,207 |

(*) Note 2.20.

The balance comprises, mainly, deferred income by services not yet rendered and programs such as: LANPASS, TAM Fidelidade y Multiplus:

LANPASS is the frequent flyer program created by LAN to reward the preference and loyalty its customers with many benefits and privileges, by the accumulation of kilometers that can be exchanged for free flying tickets or a wide range of products and services. Customers accumulate LANPASS kilometers every time they fly with LAN, TAM, in companies **oneworld®** members and other airlines associated with the program, as well as buy on the stores or use the services of a vast network of companies that have an agreement with the program around the world.

For its part, TAM, thinking on frequent flyer who travel constantly, created the program TAM Fidelidade, in order to improve the passenger attention and give recognition to those who choose the company. By using this program, customers accumulate points in a variety of programs loyalty in a single account and can redeem them at all TAM destinations and related airline companies, and even more, participate in the Red Multiplus Fidelidade.

Multiplus is a coalition of loyalty program, with the aim of operate accumulation activities and redemption of points. This program has an integrated network by associates including hotels, financial institutions, retail companies, supermarkets, vehicle rentals and magazines, among many other partners from different segments.

NOTE 22 - EMPLOYEE BENEFITS

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|---------------------------------------|--|--|
| Retirements payments | 36,523 | 9,639 |
| Resignation payments | 5,556 | 493 |
| Other obligations | 32,023 | 35,534 |
| Total liability for employee benefits | <u>74,102</u> | <u>45,666</u> |

(a) The movement in retirements and resignation payments and other obligations:

| | Opening balance <u>ThUS\$</u> | Increase (decrease) current service provision <u>ThUS\$</u> | Benefits paid <u>ThUS\$</u> | Change of model <u>ThUS\$</u> | Closing balance <u>ThUS\$</u> |
|-------------------------------------|-------------------------------------|--|-----------------------------------|-------------------------------------|-------------------------------------|
| From January 1 to December 31, 2013 | 38,095 | 9,866 | (2,295) | - | 45,666 |
| From January 1 to December 31, 2014 | 45,666 | 1,507 | (2,466) | 29,395 | 74,102 |

(b) The liability for short-term:

| | As of December 31, 2014 <u>ThUS\$</u> | As of December 31, 2013 <u>ThUS\$</u> |
|--------------------------------|--|--|
| Profit-sharing and bonuses (*) | <u>16,407</u> | <u>110,147</u> |

(*) Accounts payables to employees (Note 19 letter b)

The participation in profits and bonuses correspond to an annual incentives plan for achievement of objectives.

(c) Employment expenses are detailed below:

| | For the periods ended December 31, | |
|------------------------------|---------------------------------------|-----------------------|
| | 2014 <u>ThUS\$</u> | 2013 <u>ThUS\$</u> |
| Salaries and wages | 1,656,565 | 1,720,513 |
| Short-term employee benefits | 361,328 | 452,158 |
| Termination benefits | 84,179 | 67,508 |
| Other personnel expenses | 248,030 | 252,590 |
| Total | <u>2,350,102</u> | <u>2,492,769</u> |

NOTE 23 - ACCOUNTS PAYABLE, NON-CURRENT

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|-------------------------------------|--|--|
| Aircraft and engine maintenance | 506,312 | 663,837 |
| Tax recovery program (*) | - | 176,666 |
| Fleet financing (JOL) | 59,148 | 57,997 |
| Provision for vacations and bonuses | 9,595 | 9,879 |
| Other accounts payable | 1,945 | 2,654 |
| Other sundry liabilities | 454 | 11,854 |
| Total accounts payable, non-current | <u>577,454</u> | <u>922,887</u> |

(*) Fiscal Recovery Program in Brazil (REFIS), established in Law No. 11.941/09 and Provisional Measure No. 449/2009. REFIS is intended to allow the settlement of tax debts through a special mechanism to pay and refinance (See Note 17(b)).

NOTE 24 - EQUITY

(a) Capital

The Company's objective is to maintain an appropriate level of capitalization that enables it to ensure access to the financial markets for carrying out its medium and long-term objectives, optimizing the return for its shareholders and maintaining a solid financial position.

The Capital of the Company is managed and composed in the following form:

The capital of the Company at December 31, 2014 amounts to ThUS\$ 2,545,705 divided into 545,547,819 common stock of a same series (ThUS\$ 2,389,384, divided into 535,243,229 shares as of December 31, 2013), no par value. There are no special series of shares and no privileges. The form of its stock certificates and their issuance, exchange, disablement, loss, replacement and other similar circumstances, as well as the transfer of the shares, is governed by the provisions of Corporations Law and its regulations.

(b) Subscribed and paid shares

The following table shows the movement of the authorized and fully paid shares described above:

| | |
|--|--------------------|
| Movement of authorized shares | Nro. Of shares |
| Autorized shares as of January 1, 2013 | 488,355,791 |
| Increase capital approved at Extraordinary Shareholders meeting dated June 11, 2013 | 63,500,000 |
| Full right decrease of treasury stock | <u>(7,972)</u> |
| Autorized shares as of December 31, 2013 | <u>551,847,819</u> |
| Autorized shares as of January 1, 2014 | 551,847,819 |
| No movement of autorized shares at December 31, 2014 | - |
| Autorized shares as of December 31, 2014 | <u>551,847,819</u> |

Movement fully paid shares

| | N° of shares | Movement value of shares (1) ThUS\$ | Cost of issuance and placement of shares (2) ThUS\$ | Paid- in Capital ThUS\$ |
|--|------------------------|---|--|-------------------------------|
| Paid shares as of January 1, 2013 | 479,098,052 | 1,507,200 | (6,182) | 1,501,018 |
| Placement of the remaining preferential shares issued for merger Companies Sister Holdco S.A. y Holdco II S.A. | 4,457,739 | 104,351 | - | 104,351 |
| Preferential placement capital increase approved at Extraordinary Shareholders meeting dated June 11, 2013 | 51,695,410 | 784,219 | - | 784,219 |
| Full right decrease of treasury stock | (7,972) | (25) | - | (25) |
| Capitalization of reserves | - | - | (179) | (179) |
| Paid shares as of December 31, 2013 | <u>535,243,229</u> | <u>2,395,745</u> | <u>(6,361)</u> | <u>2,389,384</u> |
| Paid shares as of January 1, 2014 | 535,243,229 | 2,395,745 | (6,361) | 2,389,384 |
| Preferential placement capital increase approved at Extraordinary Shareholders meeting dated June 11, 2013 | 10,304,590 | 156,321 | - | 156,321 |
| Paid shares as of December 31, 2014 | <u>545,547,819 (3)</u> | <u>2,552,066</u> | <u>(6,361)</u> | <u>2,545,705</u> |

(1) Amounts reported represent only those arising from the payment of the shares subscribed.

(2) Decrease of capital by capitalization of reserves for cost of issuance and placement of shares established according to Extraordinary Shareholder's Meetings, where such decreases were authorized.

(3) At December 31, 2014, the difference between authorized shares and fully paid shares are 6,300,000 shares allocated to compensation plans for executives of LATAM Airlines Group S.A. and subsidiaries (see Note 33(a)).

(c) Treasury stock

At December 31, 2014, the Company held no treasury stock, the remaining of ThUS\$ (178) corresponds to the difference between the amount paid for the shares and their book value, at the time of the full right decrease of the shares.

At December 31, 2013, as per minutes of the Extraordinary Shareholder's Meeting held on June 11, 2013, the company relinquished all right to 7,972 stocks of its portfolio, this date the Company does not maintain treasury stock.

(d) Reserve of share- based payments

Movement of Reserves of share- based payments:

| Periods | Opening balance | Stock option plan | Deferred tax | Deferred tax by tax effect of change in legal rate (Tax reform) (*) | Closing balance |
|-------------------------------------|-----------------|-------------------|--------------|---|-----------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2013 | 5,574 | 18,877 | (3,440) | - | 21,011 |
| From January 1 to December 31, 2014 | 21,011 | 14,728 | (3,389) | (2,708) | 29,642 |

(*) On September 29, 2014, Law No. 20,780 "Amendment to the system of income taxation and introduces various adjustments in the tax system." was published in the Official Journal of the Republic of Chile. Within major tax reforms that law contains is modified gradually from 2014 to 2018 the First- Category Tax rate to be declared and paid starting in tax year 2015.

The effect on deferred tax calculated on the reserves of share- based payments by modifying the tax rate mentioned above, was a charge to equity of ThUS \$ 2,708.

These reserves are related to the "Share-based payments" explained in Note 33.

(e) Other sundry reserves

Movement of Other sundry reserves:

| Periodos | Opening balance | Transactions with non-controlling interest | Cost of issuance and placement of shares | Capitalization share issuance and placement cost | Higer value for TAM S.A. share exchange | Legal reserves | Closing balance |
|-------------------------------------|-----------------|--|--|--|---|----------------|-----------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2013 | 2,666,682 | (1,950) | (5,443) | (1) 179 | (2) - | (1,668) | 2,657,800 |
| From January 1 to December 31, 2014 | 2,657,800 | (21,526) | - | - | - | (526) | 2,635,748 |

(1) The costs incurred through the issuance and placement to ThUS\$ 5,264 and ThUS\$ 179 corresponds to the capital increase authorized at the Extraordinary Meeting of Shareholders held on June 11, 2013 and the remaining 7,436,816 shares, not used in this exchange

(business combination with TAM S.A. and subsidiaries), reallocated as agreed at the Extraordinary Shareholders' Meeting held on September 4, 2012, respectively.

- (2) The cost of ThUS\$ 179 was capitalized during June 2013, according with minute of the Extraordinary Meeting of Shareholders held on June 11, 2013.

Balance of Other sundry reserves comprises the following:

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---|--|--|
| Higher value for TAM S.A. share exchange (1) | 2,665,692 | 2,665,692 |
| Reserve for the adjustment to the value of fixed assets (2) | 2,620 | 2,620 |
| Transactions with non-controlling interest (3) | (25,891) | (5,355) |
| Cost of issuance and placement of shares | (5,264) | (5,264) |
| Others | <u>(1,409)</u> | <u>107</u> |
| Total | <u><u>2,635,748</u></u> | <u><u>2,657,800</u></u> |

- (1) Corresponds to the difference in the shares value of TAM S.A. acquired (under subscriptions) by Sister Holdco S.A. and Holdco II S.A. (under the Exchange Offer), as stipulated in the Declaration of Posting of Merger by Absorption and the fair value of these exchange shares of LATAM Airlines Group S.A. at June 22, 2012.
- (2) Corresponds to the technical revaluation of fixed assets authorized by the Superintendence of Securities and Insurance in 1979, in Circular No. 1,529. The revaluation was optional and could be taken only once, the reserve is not distributable and can only be capitalized.
- (3) The balance at December 31, 2014, correspond to the loss generated by the participation of Lan Pax Group S.A. in the acquisition of shares of Aerovías de Integración Regional Aires of ThUS\$ (3,480), the acquisition of TAM S.A. of the minority holding of Aerolinhas Brasileiras S.A. of ThUS\$ (885) and the acquisition of minority interest of Aerolane S.A. by Lan Pax group S.A. through Holdco Ecuador S.A. for US\$ (21,526).

(f) Reserves with effect in other comprehensive income.

Movement of Reserves with effect in other comprehensive income:

| | Currency translation reserve | Cash flow hedging reserve | Total |
|--|------------------------------------|---------------------------------|--------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ |
| Opening balance as of January 1, 2013 | 3,574 | (140,730) | (137,156) |
| Derivatives valuation gains (losses) | - | 124,227 | 124,227 |
| Deferred tax | - | (18,005) | (18,005) |
| Difference by subsidiaries conversion | (593,565) | - | (593,565) |
| Closing balance as of December 31, 2013 | <u>(589,991)</u> | <u>(34,508)</u> | <u>(624,499)</u> |
| Opening balance as of January 1, 2014 | (589,991) | (34,508) | (624,499) |
| Derivatives valuation gains (losses) | - | (165,231) | (165,231) |
| Deferred tax | - | 40,647 | 40,647 |
| Tax effect on deferred tax | | | |
| by change legal tax rate (Tax reform)(*) | - | 7,752 | 7,752 |
| Difference by subsidiaries conversion | (603,880) | - | (603,880) |
| Closing balance as of December 31, 2014 | <u>(1,193,871)</u> | <u>(151,340)</u> | <u>(1,345,211)</u> |

(*) On September 29, 2014, Law No. 20,780 "Amendment to the system of income taxation and introduces various adjustments in the tax system." was published in the Official Journal of the Republic of Chile. Within major tax reforms that law contains is modified gradually from 2014 to 2018 the First- Category Tax rate to be declared and paid starting in tax year 2015.

(f.1) Currency translation reserve

These originate from exchange differences arising from the translation of any investment in foreign entities (or Chilean investment with a functional currency different to that of the parent), and from loans and other instruments in foreign currency designated as hedges for such investments. When the investment (all or part) is sold or disposed and loss of control occurs, these reserves are shown in the consolidated statement of income as part of the loss or gain on the sale or disposal. If the sale does not involve loss of control, these reserves are transferred to non-controlling interests.

(f.2) Cash flow hedging reserve

These originate from the fair value valuation at the end of each period of the outstanding derivative contracts that have been defined as cash flow hedges. When these contracts expire, these reserves should be adjusted and the corresponding results recognized.

(g) Retained earnings

Movement of Retained earnings:

| <u>Periods</u> | <u>Opening balance</u> | <u>Result for the period</u> | <u>Other increase (decreases)</u> | <u>Deferred tax by tax effect of change in legal tax rate (Tax reform) (*)</u> | <u>Closing balance</u> |
|-------------------------------------|----------------------------|--------------------------------------|---|--|----------------------------|
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| From January 1 to December 31, 2013 | 1,076,136 | (281,114) | 281 | - | 795,303 |
| From January 1 to December 31, 2014 | 795,303 | (109,790) | 872 | (150,195) | 536,190 |

(*) According to the instructions of Chilean Superintendency of Securities and Insurance in his Office Circular No. 856 of October 17, 2014, the Company recognized a loss on their retained earnings ThUS\$ 150,210 as a result of the rate increase.

(h) Dividends per share

As of December 31, 2013

| <u>Description of dividend</u> | <u>Final dividend 2012</u> |
|---|--------------------------------|
| Date of dividend | 04-29-2013 |
| Amount of the dividend (ThUS\$) | 3,288 |
| Number of shares among which the dividend is distributed | 483,547,819 |
| Dividend per share (US\$) | 0.0068 |

The Company's dividend policy is that dividends distributed will be equal to the minimum required by law, i.e. 30% of the net income according to current regulations. This policy does not preclude the Company from distributing dividends in excess of this obligatory minimum, based on the events and circumstances that may occur during the course of the year.

At December 31, 2014, have not been provisioned minimum mandatory dividends.

NOTE 25 - REVENUE

The detail of revenues is as follows:

| | For the periods ended | |
|----------------|--------------------------|--------------------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Passengers LAN | 4,464,761 | 4,731,296 |
| Passengers TAM | 5,915,361 | 6,330,262 |
| Cargo | <u>1,713,379</u> | <u>1,862,979</u> |
| Total | <u><u>12,093,501</u></u> | <u><u>12,924,537</u></u> |

NOTE 26 - COSTS AND EXPENSES BY NATURE

(a) Costs and operating expenses

The main operating costs and administrative expenses are detailed below:

| | For the periods ended | |
|--------------------------------|-------------------------|-------------------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Aircraft fuel | 4,167,030 | 4,414,249 |
| Other rentals and landing fees | 1,327,238 | 1,373,061 |
| Aircraft rentals | 521,384 | 441,077 |
| Aircraft maintenance | 452,731 | 477,086 |
| Comissions | 365,508 | 408,671 |
| Passenger services | 300,325 | 331,405 |
| Other operating expenses | <u>1,487,672</u> | <u>1,644,827</u> |
| Total | <u><u>8,621,888</u></u> | <u><u>9,090,376</u></u> |

(b) Depreciation and amortization

Depreciation and amortization are detailed below:

| | For the periods ended | |
|------------------|-----------------------|------------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Depreciation (*) | 943,731 | 985,317 |
| Amortization | 47,533 | 56,416 |
| Total | <u>991,264</u> | <u>1,041,733</u> |

(*) Include the depreciation of Property, plant and equipment and the maintenance cost of aircraft held under operating leases. The amount of maintenance cost included within the depreciation line item at December 31, 2014 is ThUS\$ 373,183 (ThUS\$ 396,974 at December 31, 2013).

(c) Personnel expenses

The costs for personnel expenses are disclosed in Note 22 liability for employee benefits.

(d) Financial costs

The detail of financial costs is as follows:

| | For the periods ended | |
|-----------------------------|-----------------------|----------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Bank loan interest | 330,298 | 382,969 |
| Financial leases | 72,242 | 76,343 |
| Other financial instruments | 27,494 | 3,212 |
| Total | <u>430,034</u> | <u>462,524</u> |

Costs and expenses by nature presented in this note plus the Employee expenses disclosed in Note 22, are equivalent to the sum of cost of sales, distribution costs, administrative expenses, other expenses and financing costs presented in the consolidated statement of income by function.

(e) Restructuring Costs

As part of the ongoing process of review its fleet plan, the company decided to implement a broad restructuring plan in order to reduce the variety of aircraft currently in operation and gradually

withdrawing the less efficient. According with this plan, during the first quarter of 2014 were formalized contracts and commitments having as a result a negative impact on the results of such period of US\$ 112 million before tax that are associated with exit costs of seven A330, six A340, five B737, three Q400, five A319 and three B767-33A aircraft. These exit costs are associated with penalties related to early repayment and maintenance costs for returning.

NOTE 27 - OTHER INCOME, BY FUNCTION

Other income by function is as follows:

| | For the periods ended | |
|----------------------------|-----------------------|-----------------------|
| | December 31, | |
| | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ |
| Tours | 109,788 | 105,449 |
| Aircraft leasing | 31,104 | 36,614 |
| Customs and warehousing | 22,368 | 24,281 |
| Duty free | 18,076 | 14,748 |
| Maintenance | 15,421 | 12,392 |
| Other miscellaneous income | 180,888 | 148,081 |
| Total | <u><u>377,645</u></u> | <u><u>341,565</u></u> |

NOTE 28 - FOREIGN CURRENCY AND EXCHANGE RATE DIFFERENCES

The functional currency of LATAM Airlines Group S.A. is the US dollar, also it has subsidiaries whose functional currency is different to the US dollar, such as the Chilean peso, Argentine peso, Colombian peso and Brazilian real.

The functional currency is defined primarily as the currency of the primary economic environment in which an entity operates and in each entity and all other currencies are defined as foreign currency.

Considering the above, the balances by currency mentioned in this note correspond to the sum of foreign currency of each of the entities that make LATAM Airlines Group S.A. and Subsidiaries.

(a) Foreign currency

The foreign currency detail of balances of monetary items in current and non-current assets is as follows:

| <u>Current assets</u> | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---------------------------------|--|--|
| Cash and cash equivalents | 213,161 | 538,213 |
| Argentine peso | 22,121 | 41,092 |
| Brazilian real | 2,365 | 3,683 |
| Chilean peso | 30,453 | 229,913 |
| Colombian peso | 1,622 | 5,254 |
| Euro | 9,639 | 16,571 |
| U.S. dollar | 50,652 | 44,656 |
| Strong bolivar | 63,236 | 162,809 |
| Other currency | 33,073 | 34,235 |
| Other financial assets, current | 73,030 | 51,082 |
| Argentine peso | 40,939 | 885 |
| Chilean peso | 25,781 | 25,854 |
| Colombian peso | - | 2,039 |
| Euro | 1 | 6 |
| U.S. dollar | 6,008 | 22,035 |
| Strong bolivar | 43 | 14 |
| Other currency | 258 | 249 |

| <u>Current assets</u> | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|--|--|--|
| Other non - financial assets, current | 59,700 | 56,218 |
| Argentine peso | 7,326 | 5,310 |
| Brazilian real | 148 | 846 |
| Chilean peso | 18,073 | 16,846 |
| Colombian peso | 1,415 | 1,011 |
| Euro | 2,523 | 3,052 |
| U.S. dollar | 5,751 | 2,221 |
| Strong bolivar | 330 | 102 |
| Other currency | 24,134 | 26,830 |
| Trade and other accounts receivable, current | 543,257 | 417,775 |
| Argentine peso | 61,291 | 11,387 |
| Brazilian real | 33,267 | 19,986 |
| Chilean peso | 128,780 | 80,461 |
| Colombian peso | 4,394 | 2,240 |
| Euro | 38,764 | 21,479 |
| U.S. dollar | 75,876 | 114,372 |
| Strong bolivar | 4,895 | 2,353 |
| Other currency | 195,990 | 165,497 |
| Accounts receivable from related entities, current | 299 | 466 |
| Chilean peso | 299 | 466 |
| Tax current assets | 21,605 | 14,836 |
| Argentine peso | 2,300 | - |
| Brazilian real | 2 | - |
| Chilean peso | 5,773 | 3,398 |
| Colombian peso | 1,995 | 787 |
| Euro | 21 | 35 |
| U.S. dollar | 467 | 515 |
| Other currency | 11,047 | 10,101 |
| Total current assets | 911,052 | 1,078,590 |
| Argentine peso | 133,977 | 58,674 |
| Brazilian real | 35,782 | 24,515 |
| Chilean peso | 209,159 | 356,938 |
| Colombian peso | 9,426 | 11,331 |
| Euro | 50,948 | 41,143 |
| U.S. Dollar | 138,754 | 183,799 |
| Strong bolivar | 68,504 | 165,278 |
| Other currency | 264,502 | 236,912 |

| <u>Non-current assets</u> | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---|--|--|
| Other financial assets, non-current | 36,715 | 49,786 |
| Argentine peso | 57 | 24 |
| Brazilian real | 1,050 | 597 |
| Chilean peso | 1,100 | 1,701 |
| Colombian peso | 203 | 254 |
| Euro | 4,243 | 5,488 |
| U.S. dollar | 29,238 | 40,894 |
| Other currency | 824 | 828 |
| Other non - financial assets, non-current | 18,803 | 18,006 |
| Argentine peso | 45 | - |
| U.S. dollar | 1 | - |
| Other currency | 18,757 | 18,006 |
| Accounts receivable, non-current | 10,569 | 13,429 |
| Chilean peso | 5,413 | 8,227 |
| U.S. dollar | 5,000 | 5,000 |
| Other currency | 156 | 202 |
| Deferred tax assets | 2,613 | 4,460 |
| Colombian peso | 256 | - |
| U.S. dollar | 3 | 2,056 |
| Other currency | 2,354 | 2,404 |
| Total non-current assets | 68,700 | 85,681 |
| Argentine peso | 102 | 24 |
| Brazilian real | 1,050 | 597 |
| Chilean peso | 6,513 | 9,928 |
| Colombian peso | 459 | 254 |
| Euro | 4,243 | 5,488 |
| U.S. dollar | 34,242 | 47,950 |
| Other currency | 22,091 | 21,440 |

The foreign currency detail of balances of monetary items in current liabilities and non-current is as follows:

| <u>Current liabilities</u> | <u>Up to 90 days</u> | | <u>91 days to 1 year</u> | |
|---|----------------------|--------------|--------------------------|--------------|
| | As of | As of | As of | As of |
| | December 31, | December 31, | December 31, | December 31, |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other financial liabilities, current | 71,436 | 303,626 | 173,416 | 561,428 |
| Chilean peso | 15,542 | 53,619 | 42,725 | 46,772 |
| Euro | 547 | 824 | - | 1,205 |
| U.S. dollar | 55,347 | 249,183 | 130,691 | 513,451 |
| Trade and other accounts | | | | |
| payables, current | 421,188 | 679,769 | 20,875 | 20,676 |
| Argentine peso | 38,740 | 31,603 | - | - |
| Brazilian real | 14,330 | 9,671 | 13 | 8 |
| Chilean peso | 25,040 | 29,560 | 11,502 | 11,975 |
| Colombian peso | 13,652 | 14,445 | 187 | 422 |
| Euro | 35,937 | 19,373 | 8,266 | 3,316 |
| U.S. dollar | 175,298 | 433,377 | 827 | 4,902 |
| Strong bolivar | 5,261 | 4,024 | - | - |
| Other currency | 112,930 | 137,716 | 80 | 53 |
| Accounts payable to related entities, current | 35 | 318 | - | - |
| Chilean peso | 8 | 14 | - | - |
| U.S. dollar | 27 | 304 | - | - |
| Tax liabilities, current | 268 | 134 | - | - |
| Chilean peso | 268 | 4 | - | - |
| Other currency | - | 130 | - | - |

| <u>Current liabilities</u> | <u>Up to 90 days</u> | | <u>91 days to 1 year</u> | |
|----------------------------|----------------------|---------------------|--------------------------|---------------------|
| | <u>As of</u> | <u>As of</u> | <u>As of</u> | <u>As of</u> |
| | <u>December 31,</u> | <u>December 31,</u> | <u>December 31,</u> | <u>December 31,</u> |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| | <u>ThUS\$</u> | <u>ThUS\$</u> | <u>ThUS\$</u> | <u>ThUS\$</u> |
| Other non-financial | | | | |
| liabilities, current | 126,953 | 76,040 | 158 | 72 |
| Argentine peso | 5,698 | 10,710 | - | - |
| Brazilian real | 959 | 3,746 | 46 | 52 |
| Chilean peso | 18,798 | 37,227 | - | 19 |
| Colombian peso | 4,670 | 6,069 | - | - |
| Euro | 6,400 | 8,382 | - | - |
| U.S. dollar | 44,728 | 1,272 | 111 | - |
| Strong bolivar | 227 | 637 | - | - |
| Other currency | 45,473 | 7,997 | 1 | 1 |
| Total current liabilities | 619,880 | 1,059,887 | 194,449 | 582,176 |
| Argentine peso | 44,438 | 42,313 | - | - |
| Brazilian real | 15,289 | 13,417 | 59 | 60 |
| Chilean peso | 59,656 | 120,424 | 54,227 | 58,766 |
| Colombian peso | 18,322 | 20,514 | 187 | 422 |
| Euro | 42,884 | 28,579 | 8,266 | 4,521 |
| U.S. dollar | 275,400 | 684,136 | 131,629 | 518,353 |
| Strong bolivar | 5,488 | 4,661 | - | - |
| Other currency | 158,403 | 145,843 | 81 | 54 |

| <u>Non-current liabilities</u> | <u>More than 1 to 3 years</u> | | <u>More than 3 to 5 years</u> | | <u>More than 5 years</u> | |
|--|-------------------------------|--------------|-------------------------------|--------------|--------------------------|--------------|
| | As of | As of | As of | As of | As of | As of |
| | December 31, | December 31, | December 31, | December 31, | December 31, | December 31, |
| | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> | <u>2014</u> | <u>2013</u> |
| | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ | ThUS\$ |
| Other financial liabilities, non-current | 625,406 | 578,393 | 171,288 | 754,256 | 1,088,218 | 1,366,860 |
| Chilean peso | 112,161 | 122,780 | 17,186 | 80,528 | - | - |
| U.S. dollar | 513,245 | 455,613 | 154,102 | 673,728 | 1,088,218 | 1,366,860 |
| Accounts payable, non-current | 474,955 | 647,880 | 2,316 | 641 | - | 11 |
| Chilean peso | 4,938 | 7,187 | 2,316 | 641 | - | 11 |
| U.S. dollar | 468,184 | 639,204 | - | - | - | - |
| Other currency | 1,833 | 1,489 | - | - | - | - |
| Other provisions, non-current | 16,660 | 11,929 | - | - | - | - |
| Argentine peso | 454 | 410 | - | - | - | - |
| Brazilian real | 146 | 146 | - | - | - | - |
| Chilean peso | 36 | - | - | - | - | - |
| Euro | 9,999 | 11,349 | - | - | - | - |
| U.S. dollar | 6,025 | 24 | - | - | - | - |
| Provisions for | | | | | | |
| employees benefits, non-current | 822 | 636 | - | - | - | - |
| U.S. dollar | 822 | 636 | - | - | - | - |
| Total non-current liabilities | 1,117,843 | 1,238,838 | 173,604 | 754,897 | 1,088,218 | 1,366,871 |
| Argentine peso | 454 | 410 | - | - | - | - |
| Brazilian real | 146 | 146 | - | - | - | - |
| Chilean peso | 117,135 | 129,967 | 19,502 | 81,169 | - | 11 |
| Euro | 9,999 | 11,349 | - | - | - | - |
| U.S. dollar | 988,276 | 1,095,477 | 154,102 | 673,728 | 1,088,218 | 1,366,860 |
| Other currency | 1,833 | 1,489 | - | - | - | - |

| <u>General summary of foreign currency:</u> | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|---|--|--|
| Total assets | 979,752 | 1,164,271 |
| Argentine peso | 134,079 | 58,698 |
| Brazilian real | 36,832 | 25,112 |
| Chilean peso | 215,672 | 366,866 |
| Colombian peso | 9,885 | 11,585 |
| Euro | 55,191 | 46,631 |
| U.S. dollar | 172,996 | 231,749 |
| Strong bolivar | 68,504 | 165,278 |
| Other currency | 286,593 | 258,352 |
| Total liabilities | 3,193,994 | 5,002,669 |
| Argentine peso | 44,892 | 42,723 |
| Brazilian real | 15,494 | 13,623 |
| Chilean peso | 250,520 | 390,337 |
| Colombian peso | 18,509 | 20,936 |
| Euro | 61,149 | 44,449 |
| U.S. dollar | 2,637,625 | 4,338,554 |
| Strong bolivar | 5,488 | 4,661 |
| Other currency | 160,317 | 147,386 |
| Net position | | |
| Argentine peso | 89,187 | 15,975 |
| Brazilian real | 21,338 | 11,489 |
| Chilean peso | (34,848) | (23,471) |
| Colombian peso | (8,624) | (9,351) |
| Euro | (5,958) | 2,182 |
| U.S. dollar | (2,464,629) | (4,106,805) |
| Strong bolivar | 63,016 | 160,617 |
| Other currency | 126,276 | 110,966 |

(b) Exchange differences

Exchange differences recognized in the income statement, except for financial instruments measured at fair value through profit or loss, for the period ended December 31, 2014 and 2013, generated a debit of ThUS\$ 130,201 and ThUS\$ 482,174, respectively.

Exchange differences recognized in equity as reserves for currency translation differences for the period ended December 31, 2014 and 2013, represented a debit of ThUS\$ 650,439 and ThUS\$ 629,858, respectively.

The following shows the current exchange rates for the U.S. dollar, on the dates indicated:

| | As of December 31, <u>2014</u> | As of December 31, <u>2013</u> |
|--------------------|--------------------------------------|--------------------------------------|
| Argentine peso | 8.55 | 6.52 |
| Brazilian real | 2.66 | 2.36 |
| Chilean peso | 606.75 | 524.61 |
| Colombian peso | 2,839.50 | 1,925.52 |
| Euro | 0.82 | 0.72 |
| Strong bolivar | 12.00 | 6.30 |
| Australian dollar | 1.22 | 1.12 |
| Boliviano | 6.86 | 6.86 |
| Mexican peso | 14.74 | 13.07 |
| New Zealand dollar | 1.28 | 1.22 |
| Peruvian Sol | 2.99 | 2.80 |
| Uruguayan peso | 24.25 | 21.49 |

NOTE 29 - EARNINGS / (LOSS) PER SHARE

| | For the periods ended December 31, | |
|--|---------------------------------------|--------------------|
| | 2014 | 2013 |
| Basic earnings / (loss) per share | | |
| Earnings / (loss) attributable to owners of the parent (ThUS\$) | (109,790) | (281,114) |
| Weighted average number of shares, basic | 545,547,819 | 487,930,977 |
| Basic earnings / (loss) per share (US\$) | (0.20125) | (0.57613) |
| | | |
| | For the periods ended December 31, | |
| | 2014 | 2013 |
| Diluted earnings / (loss) per share | | |
| Earnings / (loss) attributable to owners of the parent (ThUS\$) | (109,790) | (281,114) |
| Weighted average number of shares, basic | 545,547,819 | 487,930,977 |
| Weighted average number of shares, diluted | <u>545,547,819</u> | <u>487,930,977</u> |
| Diluted earnings / (loss) per share (US\$) | <u>(0.20125)</u> | <u>(0.57613)</u> |

NOTE 30 – CONTINGENCIES

Lawsuits

(i) Lawsuits filed by LATAM Airlines Group S.A. and Subsidiaries

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed ThUS\$</u> |
|---|---|--------------------|--|---|---|
| Atlantic Aviation Investments LLC (AAI) | Supreme Court of the State of New York County of New York. | 07-6022920 | Atlantic Aviation Investments LLC. ("AAI"), an indirect subsidiary LATAM Airlines Group S.A., incorporated under the laws of the State of Delaware, sued in August 29 th , 2007 Varig Logistics S.A. ("Variglog") for non-payment of four documented loans in credit agreements governed by New York law. These contracts establish the acceleration of the loans in the event of sale of the original debtor, VRG Linhas Aéreas S.A. | In implementation stage in Switzerland, the conviction stated that Variglog should pay the principal, interest and costs in favor of AAI. It keeps the embargo of Variglog funds in Switzerland with AAI. Variglog is in the process of judicial recovery in Brazil and has asked Switzerland to recognize the judgment that declared the state of judicial recovery and subsequent bankruptcy. | 17,100 Plus interests and costs |
| Atlantic Aviation Investments LLC (AAI) | Supreme Court of the State of New York County of New York. | 602286-09 | Atlantic Aviation Investments LLC. ("AAI") sued on July 24 th , 2009 Matlin Patterson Global Advisers LLC, Matlin Patterson Global Opportunities Partners II LP, Matlin Patterson Global Opportunities Partners (Cayman) II LP and Logistics LLC Volo (a) as alter egos of Variglog for non-payment of the four loans mentioned in the previous note and (b) for breach of its obligation to guarantee and other obligations under the Memorandum of Understanding signed between the parties on September 29 th , 2006. | AAI filed a "summary judgment" (abbreviated trial) which the court ruled favorably. The defendants appealed this decision which was ultimately dismissed by the High Court. The cause was turned back to the lower court for determination of the amount actually payable by the applicants (damages) ongoing proceedings before the court. | 17,100 Plus interest costs and compensation for damage. |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|--------------------|--------------------------------|--------------------|--|--|------------------------------------|
| Lan Argentina S.A. | National Administrative Court. | 36337/13 | ORSNA Resolution No. 123 which directs Lan Argentina to vacate the hangar located in the Airport named Aeroparque Metropolitano Jorge Newberry, Argentina. | On June 19 th , 2014, the Second Division of the Federal Administrative Chamber confirmed the extension of the injunction granted by the Court of 1st Instance in March. On September 18 th , 2014 the Court of 1st Instance decided to extend the validity of the injunction until a sentence is reached in the main trial. On December 30 th , 2014 the Supreme Court of Justice of the Nation decided to reject the appeal of complaint presented by ORSNA against the granting of the injunction. | Undetermined |

(ii) Lawsuits received by LATAM Airlines Group S.A. and Subsidiaries

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|--|--|--------------------|---|--|------------------------------------|
| LATAM Airlines Group S.A. y Lan Cargo S.A. | European Commission. | - | Investigation of alleged infringements to free competition of cargo airlines, especially fuel surcharge. On December 26 th , 2007, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the instruction process against twenty five cargo airlines, including Lan Cargo S.A., for alleged breaches of competition in the air cargo market in Europe, especially the alleged fixed fuel surcharge and freight. On November 9 th , 2010, the General Directorate for Competition of the European Commission notified Lan Cargo S.A. and LATAM Airlines Group S.A. the imposition of a fine in the amount of ThUS\$ 9,999. This fine is being appealed by Lan Cargo S.A. and LATAM Airlines Group S.A. We cannot predict the outcome of this appeal process. | On April 14 th , 2008, the notification of the European Commission was replied. The appeal was filed on January 24, 2011. | 9,999 |
| Lan Cargo S.A. y LATAM Airlines Group S.A. | In the High Court of Justice Chancery División (England) Ovre Romerike District Court (Norway) and Directie Juridische Zaken Afdeling Ceveil Recht (Netherlands), Cologne Regional Court (Landgericht Köln Germany). | - | Lawsuits filed against European airlines by users of freight services in private lawsuits as a result of the investigation into alleged breaches of competition of cargo airlines, especially fuel surcharge. Lan Cargo S.A. and LATAM Airlines Group S.A., have been sued in court proceedings directly and/or in third party, based in England, Norway, the Netherlands and Germany. | Cases are in the uncovering evidence stage. | Undetermined |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|-----------------------------|--|---------------------------|---|--|------------------------------------|
| Aerolinhas Brasileiras S.A. | Administrative Council for Economic Defense, Brazil. | 08012.011027/2006-02 | Investigation of alleged infringements to competition of cargo airlines, especially fuel surcharge | On the conviction stated over the new administrative appeal, the Administrative Council for Economics Defense (CADE) agreed to reduce the amounts of the fines imposed to ABSA and its executives, as following: (i) ABSA: US\$ 12 million; (ii) Norberto Jochmann: ThUS\$ 246; (iii) Hernan Merino: ThUS\$ 123; (iv) Felipe Meyer: ThUS\$ 123. After internal analysis it was decided not to present new administrative appeals in order to try new reductions on the Court before a cancellation request that will be filed in the beginning of 2015, through the guarantee of the previously mentioned amounts. | 12,315 |
| Aerolinhas Brasileiras S.A | Federal Justice. | 0001872-58.2014.4.03.6105 | Is discussed the collection of court fines and taxes originally imposed and collected through administrative process 10831.005704/2006-43. We obtained adverse decision administratively and are judicially discussing now. | First instance - pending Federal Union statement regarding our request for invalidation of the tax debt. | 13,668 |
| LATAM Airlines Group S.A. | Tenth Civil Court of Santiago. | C-32989-2011 | Jara and Jara Limited company demanded LATAM Airlines Group S.A. based on the damage they have caused by fraud complaints filed against them in 2008, and were finally dismissed. They claim that the damage caused by LATAM Airlines Group S.A. affected their prestige and business continuity. | The trial is currently in first instance. LATAM Airlines Group S.A. has requested the abandonment of the procedure. The resolution of this incident is pending. | 11,935 |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|------------------------|------------------------------------|----------------------|--|---|------------------------------------|
| Tam Linhas Aéreas S.A. | Court of the Second Region. | 2001.51.01.012530-0 | Ordinary judicial action brought for the purpose of declaring the nonexistence of legal relationship obligating the company to raise the Air Fund. | Unfavorable court decision in first instance. Currently expecting the ruling of the appeal filed by the company. In order to suspend chargeability of Tax Credit a Guaranty Deposit to the Court was delivered by US\$ 90 million which is revealed in more detail in Note 20. | 111,011 |
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil | 16643.000087/2009-36 | Notice of Violation to the requirement to pay the Social Contribution on Liquid Profit (CSL). | Decisions of first and second administrative instance adverse to the interests of the company. Currently expecting the result on the new appeal filed by the company are expected. | 27,270 |
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil | 10880.725950/2011-05 | Compensation credits of the Social Integration Program (PIS) and Contribution for Social Security Financing (COFINS). | Court decision was unfavorable to the interests of the company, which was appealed. At present, pending the trial of the appeal, the Board of Tax Appeals (CARF). | 25,070 |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|------------------------|--|---------------------------|--|---|------------------------------------|
| Tam Linhas Aéreas S.A. | 6th Rod Treasury of San Pablo. | 0012938-14.2013.8.26.0053 | Lawsuit filed by the tax authority imputing to TAM the Service Tax on amounts paid to Infraero, according to a change in applicable law. | The application for interlocutory appeal with preliminary injunction was granted, suspending the accrual of tax credits derived from the file infringement n. 66233992, 66234000 and 66234026. On March 10, 2014, the Municipal Government of Sao Paulo presented opposed bill. Currently awaiting trial on the merits of the appeal mentioned. | 12,517 |
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil | 16643.000085/2009-47 | File demanding the recovery of income tax and social contribution on net profits (CSL) derived from royalties and costs of using the TAM brand. | First instance decision was unfavorable to the interests of the company. Currently expecting ruling on the appeal filed by the company on March 15, 2012. | 12,069 |
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil | 10831.012344/2005-55 | Auto infringement presented to demand the import tax (II), the Social Integration Program (PIS) Contribution for Social Security Financing (COFINS) arising from the loss of international unidentified cargo. | The trial is currently in the Board of Tax Appeals (CARF). | 9,709 |
| Tam Linhas Aéreas S.A. | Department of Finance of the State of Sao Paulo. | 3.123.785-0 | Infringement notice to demand payment of the tax on the circulation of goods and services (ICMS) regulating the import of aircraft. | Currently awaiting the decision on the appeal filed by the company. | 10,081 |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|--|--|-------------------------|--|---|------------------------------------|
| Tam Linhas Aéreas S.A. | 1st Civil Court of the District of Goiânia/GO. | 200702435095 (ordinary) | Lawsuit filed by a former TAM sales representative that requires compensation for moral and material damages resulting from the termination of his contract as sales representative. | Currently undergoing liquidation sentencing and pending term expert witness. | 8,909 |
| Aerovías de Integración Regional, AIRES S.A. | United States Court of Appeals for the Eleventh Circuit, Florida, U.S.A. | 2013-20319 CA 01 | <p>The July 30th , 2012 LAN COLOMBIA AIRLINES initiated a legal process in Colombia against Regional One INC and Volvo Aero Services LLC, to declare that these companies are civilly liable for moral and material damages caused to LAN COLOMBIA AIRLINES arising from breach of contractual obligations of the aircraft HK-4107.</p> <p>The June 20th , 2013 AIRES SA And / Or LAN AIRLINES COLOMBIA was notified of the lawsuit filed in U.S. for Regional One INC and Dash 224 LLC for damages caused by the aircraft HK-4107 arguing failure of LAN COLOMBIA AIRLINES customs duty to obtain import declaration when the aircraft in April 2010 entered Colombia for maintenance required by Regional One.</p> | The process in Colombia is pending resolution of preliminary objections filed by the defendant. The Federal Court ruled on March 26 th , 2014 and approved the request from LAN AIRLINES COLOMBIA to suspend the process in the U.S. as the demand in Colombia is underway. Additionally, the U.S. judge closed the case administratively. Regional One appealed this decision to the Federal Court, and in September 2014 the Court ordered the parties to reconcile, process that is currently underway. | 12,443 |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|-----------------------------|---|---------------------------|---|---|---|
| Tam Linhas Aéreas S.A. | Department of Finance of the State of Rio de Janeiro. | 03.431129-0 | The State of Rio de Janeiro requires VAT tax credit for the purchase of kerosene (jet fuel). According to a report, the auditor noted that none of the laws of Rio de Janeiro authorizes the appropriation of credit, so the credit was refused and demanded tribute. | Objection was filed on December 12 th , 2013. Currently, waiting for the trial of the first administrative instance. | 85,706 |
| Tam Linhas Aéreas S.A. | Internal Revenue Service of Brazil | 10880.722.355/2014-52 | On August 19 th , 2014 the Federal Tax Service issued a notice of violation stating that compensation credits Program (PIS) and the Contribution for the Financing of Social Security COFINS by TAM are not directly related to the activity of air transport. | An administrative objection was filed on September 17 th , 2014. Currently awaiting trial. | 169,038 |
| Tam Linhas Aéreas S.A. | Department of Finance of the State of Sao Paulo | 4037054-9 | On September 20 th , 2014 we were notified that the Department of Finance of the State of São Paulo filed an infringement lawsuit for non-payment of tax on the circulation of goods and services relating to telecommunications services ICMS. | An objection protocol was filed. Currently awaiting trial. | 9,750 |
| Tam Linhas Aéreas S.A. | Labor Court of Porto Alegre. | 0001611-93.2012.5.04.0013 | Civil Action of Ministry of Labor that requires the granting of black shoes, belts and socks for workers who wear uniforms. | Pending the formalization of agreement for the beginning of the concession of shoes to employees. The process will be completed in the coming months. | 9,991 Approximate value / estimated |
| TAM S.A. | Conselho Administrativo de Recursos Fiscais | 13855.720077/2014-02 | Notice of an alleged infringement presented by Secretaria da Receita Federal do Brasil requiring the payment of IRPJ and CSLL, taxes related to the income earned by TAM on March, 2011, in relation of the reduction of the statute capital of Multiplus S.A. | On January 12, 2014, it was filed an appeal against the object of the notice of infringement. Currently, the company is waiting for the court judgment regarding the appeal filed in the Conselho Administrativo de Recursos Fiscais. | 128,125 |
| Aerolinhas Brasileiras S.A. | Labor Court of Campinas. | 0010498-37.2014.5.15.0095 | Lawsuit filed by the National Union of aeronauts, requiring weekly rest payment (DSR) scheduled stopovers, displacement and moral damage. | Trial in initial stage. | 19,963 Approximate value / estimated |

| <u>Company</u> | <u>Court</u> | <u>Case Number</u> | <u>Origin</u> | <u>Stage of trial</u> | <u>Amounts Committed</u> ThUS\$ |
|--|--------------------------------|---------------------------|--|---|------------------------------------|
| Aerolinhas Brasileiras S.A. | Labor Court of Manaus. | 0002037-67.2013.5.11.0016 | Lawsuit filed by the Union of Manaus Aeroviaros requiring assignment of hazard to ground workers (AEROVIARIOS). | Process in the initial phase. The value is in the calculation stage by the external auditor. | Undetermined |
| Aerolinhas Brasileiras S.A. | Labor Court of Campinas | 0011014-52.2014.5.15.0129 | Lawsuit filed by the Union of Air Service Workers of Campinas requiring assignment of hazard for ABSA workers. | Process in the initial phase. The amounts committed are being calculated by external auditor. | Undetermined |
| LATAM Airlines Group S.A., Transporte Aéreo S.A., Lan Cargo S.A., Andes Airport Services S.A., Inversiones LAN S.A., Lantours División Servicios Terrestres S.A., Fast Air Almacenes de Carga S.A. | First Labor Court of Santiago. | S-99-2014 | Lawsuit filed by the Union of Workers of LAN Airlines S.A. Airport CAMB Pudahuel (Sindicato). Accusation of anti-union practice and declare of a unique employer for labor effects of the defendant. | Judgment on evidence scheduled for January 30th, 2015. In such hearing the trial was finished due to agreement on payment of ThUS\$ 10. | Undetermined |

- Governmental Investigations. The investigation by the authorities of Chile and the United States of America continues, related to payments carried out by LATAM Airlines Group S.A. (before called LAN Airlines S.A.) in 2006-2007, to a consultant that advised it in the resolution of labor matters in Argentina. The Company continues cooperating with the respective authorities in the aforementioned investigation. Presently the Company cannot predict the results in the matter; nor estimate or range the potential losses or risks that may eventually come resulting from the way in which this matter is finally resolved.
- In order to deal with any financial obligations arising from legal proceedings in effect at December 31, 2014, whether civil, tax, or labor, LATAM Airlines Group S.A. and Subsidiaries, has made provisions, which are included in Other non-current provisions that are disclosed in Note 20.
- The Company has not disclosed the individual probability of success for each contingency in order to not negatively affect its outcome.

NOTE 31 - COMMITMENTS

(a) Loan covenants

With respect to various loans signed by the Company for the financing of Boeing 767, 777 and 787 aircraft, which carry the guarantee of the United States Export-Import Bank, limits have been set on some of the Company's financial indicators on a consolidated basis. Moreover, and related to these same contracts, restrictions are also in place on the Company's management in terms of its ownership and disposal of assets.

Additionally, with respect to various loans signed by its subsidiary Lan Cargo S.A. for the financing of Boeing 767F and 777F aircraft, which carry the guarantee of the United States Export-Import Bank, restrictions have been established to the Company's management and its subsidiary Lan Cargo S.A. in terms of shareholder composition and disposal of assets.

In connection with the financing of spare engines for its Boeing 767, 767F, 777, 777F, which are guaranteed by the Export - Import Bank of the United States, restrictions have been placed on the ownership structure of their guarantors and their legal successor in case of merger.

The Company and its subsidiaries do not maintain financial credit contracts with banks in Chile that indicate some limits on financial indicators of the Company or its subsidiaries.

At December 31, 2014, the Company is in compliance with all indicators detailed above.

(b) Commitments under operating leases as lessee

Details of the main operating leases are as follows:

| Lessor | Aircraft | As of December 31, 2014 | As of December 31, 2013 |
|---|-------------|-------------------------------|-------------------------------|
| ACS Aircraft Finance Bermuda Ltd. - Aircastle | Boeing 737 | - | 1 |
| Airbus Financial Services | Airbus A340 | - | 3 |
| Aircraft 76B-26329 Inc. | Boeing 767 | 1 | 1 |
| Aircraft 76B-27613 Inc. | Boeing 767 | - | 1 |
| Aircraft 76B-27615 Inc. | Boeing 767 | 1 | 1 |
| Aircraft 76B-28206 Inc. | Boeing 767 | 1 | 1 |
| Aviacion Centaurus, A.I.E | Airbus A319 | 3 | 3 |
| Aviación Centaurus, A.I.E. | Airbus A321 | 1 | 1 |
| Aviación Real A.I.E. | Airbus A319 | 1 | 1 |
| Aviación Real A.I.E. | Airbus A320 | 1 | 1 |
| Aviación Tritón A.I.E. | Airbus A319 | 3 | 3 |
| Avolon Aerospace AOE 19 Limited | Airbus A320 | 1 | 1 |
| Avolon Aerospace AOE 20 Limited | Airbus A320 | 1 | 1 |
| Avolon Aerospace AOE 6 Limited | Airbus A320 | 1 | 1 |
| Avolon Aerospace AOE 62 Limited | Boeing 777 | 1 | 1 |
| Avolon Aerospace AOE 63 Limited | Boeing 787 | 1 | 1 |

| <u>Lessor</u> | <u>Aircraft</u> | As of December 31, <u>2014</u> | As of December 31, <u>2013</u> |
|---|---------------------|--------------------------------------|--------------------------------------|
| AWAS 4839 Trust | Airbus A320 | 1 | 1 |
| AWAS 5125 Trust | Airbus A320 | 1 | 1 |
| AWAS 5178 Limited | Airbus A320 | 1 | 1 |
| AWAS 5234 Trust | Airbus A320 | 1 | 1 |
| Baker & Spice Aviation Limited | Airbus A320 | 2 | 2 |
| BOC Aviation Pte. Ltd. | Airbus A320 | 1 | 1 |
| CIT Aerospace International | Boeing 767 | - | 1 |
| CIT Aerospace International | Airbus A319 | - | 1 |
| CIT Aerospace International | Airbus A320 | 2 | 4 |
| Continuity Air Finance IV B.V | Airbus A319 | - | 1 |
| Delaware Trust Company, National Association | Bombardier Dhc8-200 | 5 | 7 |
| Eden Irish Aircr Leasing MSN 1459 | Airbus A320 | 1 | 1 |
| GECAS Sverige Aircraft Leasing Worldwide AB | Airbus A320 | 6 | 10 |
| GECAS Sverige Aircraft Leasing Worldwide AB | Airbus A330 | - | 2 |
| GFL Aircraft Leasing Netherlands B.V. | Airbus A320 | 1 | 1 |
| International Lease Finance Corporation | Boeing 737 | - | 1 |
| International Lease Finance Corporation | Boeing 767 | 1 | 1 |
| International Lease Finance Corporation | Airbus A320 | - | 1 |
| KN Operating Limited (NAC) | Bombardier Dhc8-400 | - | 3 |
| Magix Airlease limited | Airbus A320 | 2 | - |
| MASL Sweden (1) AB | Airbus A320 | 1 | 1 |
| MASL Sweden (2) AB | Airbus A320 | 1 | 1 |
| MASL Sweden (7) AB | Airbus A320 | 1 | 1 |
| MASL Sweden (8) AB | Airbus A320 | 1 | 1 |
| MCAP Europe Limited - Mitsubishi | Boeing 737 | - | 1 |
| Orix Aviation Systems Limited | Airbus A320 | 2 | 3 |
| Pembroke B737-7006 Leasing Limited | Boeing 737 | - | 2 |
| RBS Aerospace Limited | Airbus A320 | 6 | 6 |
| SASOF II (J) Aviation Ireland Limited | Airbus A319 | 1 | - |
| SKY HIGH V LEASING COMPANY LIMITED | Airbus A320 | 1 | 1 |
| Sky High XXIV Leasing Company Limited | Airbus A320 | 5 | 3 |
| Sky High XXV Leasing Company Limited | Airbus A320 | 2 | 2 |
| SMBC Aviation Capital Limited | Airbus A320 | 2 | - |
| SMBC Aviation Capital Limited | Airbus A321 | 2 | - |
| Sunflower Aircraft Leasing Limited | Airbus A320 | 2 | 2 |
| TC-CIT Aviation Ireland Limited | Airbus A320 | 1 | - |
| Volito Aviation August 2007 AB | Airbus A320 | 2 | 2 |
| Volito Aviation November 2006 AB | Airbus A320 | 2 | 2 |
| Volito Brasilien AB | Airbus A319 | - | 1 |
| Volito November 2006 AB | Airbus A320 | 2 | 2 |
| Wells Fargo Bank North National Association | Airbus A319 | 3 | 4 |
| Wells Fargo Bank North National Association | Airbus A320 | 2 | 2 |
| Wells Fargo Bank Northwest National Association | Airbus A320 | 6 | 7 |
| Wells Fargo Bank Northwest National Association | Airbus A330 | 5 | 10 |
| Wells Fargo Bank Northwest National Association | Boeing 787 | 3 | 4 |
| Wells Fargo Bank Northwest National Association | Boeing 777 | 7 | 3 |
| Wells Fargo Bank Northwest National Association | Boeing 787 | 3 | 1 |
| Wilmington Trust Company | Airbus A319 | 1 | 1 |
| Yamasa Singapore Pte. Ltd. | Airbus A340 | - | 1 |
| Zipdell Limited | Airbus A320 | 1 | 1 |
| Total | | <u>107</u> | <u>128</u> |

The rentals are shown in results for the period for which they are incurred.

The minimum future lease payments not yet payable are the following:

| | As of December 31, <u>2014</u> ThUS\$ | As of December 31, <u>2013</u> ThUS\$ |
|----------------------------|--|--|
| No later than one year | 511,624 | 475,762 |
| Between one and five years | 1,202,440 | 1,101,741 |
| Over five years | 441,419 | 335,019 |
| Total | <u>2,155,483</u> | <u>1,912,522</u> |

The minimum lease payments charged to income are the following:

| | For the periods ended December 31, | |
|----------------------------------|---------------------------------------|-----------------------|
| | <u>2014</u> ThUS\$ | <u>2013</u> ThUS\$ |
| Minimum operating lease payments | 521,384 | 441,077 |
| Total | <u>521,384</u> | <u>441,077</u> |

In the first quarter of 2013, returned an Airbus A320-200, while during the second quarter of 2013 two Airbus A319-100, one Airbus A320-200 and one Bombardier Dhc8-200 were returned as their leasing contracts had ended. During June 2013 the contracts system applied to ten Airbus A330-200 aircraft were changed from financial leasing to operative leasing, with each aircraft being leased for a period of forty months. During the third quarter of 2013, two Airbus A320-200 aircraft were leased for a period of 8 years each, one Boeing 787-800 aircraft was leased for a period of 12 years and two Boeing 777-300ER aircraft were leased for a period of 5 years each. Moreover, one Airbus A320-200, two Boeing 767-300ER aircraft and one Bombardier Dhc8-400 aircraft were returned. Additionally, during July of 2013 two Bombardier Dhc8-200 aircraft were acquired on leasing. In the fourth quarter of 2013, three Airbus A320-200 aircraft were leased for a period of eight years each, one Boeing 787-800 aircraft was leased for a period of twelve years. Moreover, two Airbus A320-200, one Airbus A319-100, one Airbus A340-300 and one Boeing 737-700 aircraft were returned.

During the first quarter of 2014, two Airbus A320-200 aircraft were acquired and two Airbus A321-200 aircraft were leased for a period of 8 years each. Moreover, two Boeing 737-700 aircraft, one Boeing B767-300F aircraft, one Boeing 767-300F aircraft, one Airbus A340-300 aircraft and one Bombardier Dhc8-400 aircraft were returned. Additionally, as a result of its sale and subsequent lease, during March 2014 four Boeing 777-300ER aircraft were added as operative leasing, with each aircraft being leased for periods between four and six years each.

During the second quarter of 2014, were added one Airbus A320-200 aircraft and one Boeing 787-800 aircraft by leasing them for a period of 8 and 12 years, respectively. For other hand, one Bombardier Dhc8-400 aircraft, four Airbus A320-200 aircraft, seven Airbus A330-200 aircraft and three Boeing 737-700 aircraft were returned.

In the third quarter of 2014, were added one Airbus A320-200 aircraft and one Boeing 787-800 aircraft by leasing them for a period of 8 and 12 years, respectively. For other hand, one Bombardier Dhc8-400 aircraft, two Airbus A319-100 aircraft and one Boeing 767-300ER aircraft were returned.

In the fourth quarter of 2014, two Airbus A320-200 aircraft and one Boeing 767-300ER aircraft were returned. For other hand, three A340-300 aircraft and one A319-100 aircraft were bought. Additionally it was reported that the purchase option will be exercised by 2 Bombardier Dhc8-200 aircraft. Therefore, these aircraft were reclassified to the category Property, plant and equipment.

The operating lease agreements signed by the Company and its subsidiaries state that maintenance of the aircraft should be done according to the manufacturer's technical instructions and within the margins agreed in the leasing agreements, a cost that must be assumed by the lessee. The lessee should also contract insurance for each aircraft to cover associated risks and the amounts of these assets. Regarding rental payments, these are unrestricted and may not be netted against other accounts receivable or payable between the lessor and lessee.

At December 31, 2014 the Company has existing letters of credit related to operating leasing as follows:

| <u>Creditor Guarantee</u> | <u>Debtor</u> | <u>Type</u> | <u>Value ThUS\$</u> | <u>Release date</u> |
|---|---------------------------|------------------------|-------------------------|-------------------------|
| AFS Investments 48 LLC. | Lan Cargo S.A. | Two letter of credit | 3,500 | Apr 25, 2015 |
| GE Capital Aviation Services Limited | LATAM Airlines Group S.A. | Six letter of credit | 23,456 | Jun 30, 2015 |
| GE Capital Aviation Services Limited | Lan Cargo S.A. | Three letter of credit | 10,435 | Jun 30, 2015 |
| International Lease Finance Corp | LATAM Airlines Group S.A. | Four letter of credit | 1,700 | Oct 13, 2015 |
| ORIX Aviation System Limited | LATAM Airlines Group S.A. | One letter of credit | 3,255 | Jul 31, 2015 |
| TAF Mercury | LATAM Airlines Group S.A. | One letter of credit | 4,000 | Dec 4, 2015 |
| TAF Venus | LATAM Airlines Group S.A. | One letter of credit | 4,000 | Dec 4, 2015 |
| Wells Fargo Bank Northwest, National Association | Lan Cargo S.A. | Four letter of credit | 10,060 | Apr 25, 2015 |
| Baker & Spice Aviation Limited | Tam Linhas Aéreas S.A. | One letter of credit | 19,580 | Apr 13, 2015 |
| Cit Aerospace International | Tam Linhas Aéreas S.A. | Five letter of credit | 22,995 | Jan 5, 2015 |
| MACQUARIE | Tam Linhas Aéreas S.A. | Three letter of credit | 2,124 | May 4, 2015 |
| Royal Bank Of scotland Aerospace | Tam Linhas Aéreas S.A. | One letter of credit | 8,939 | Jul 13, 2015 |
| SMBC Aviation Capital Ltd. | Tam Linhas Aéreas S.A. | Two letter of credit | 18,532 | Feb 23, 2015 |
| Wells Fargo Bank Northwest, National Association | Tam Linhas Aéreas S.A. | Two letter of credit | 6,000 | Mar 28, 2015 |
| Wilmington | Tam Linhas Aéreas S.A. | One letter of credit | 5,738 | Jan 31, 2015 |
| | | | <u>144,314</u> | |

(c) Other commitments

At December 31, 2014 the Company has existing letters of credit, certificates of deposits and warranty insurance policies as follows:

| <u>Creditor Guarantee</u> | <u>Debtor</u> | <u>Type</u> | <u>Value ThUS\$</u> | <u>Release date</u> |
|--|--------------------------------------|----------------------------------|-------------------------|-------------------------|
| Aena Aeropuertos S.A. | LATAM Airlines Group S.A. | Four letter of credit | 2,373 | Nov 15, 2015 |
| American Alternative Insurance Corporation | LATAM Airlines Group S.A. | Four letter of credit | 3,140 | Apr 5, 2015 |
| BBVA | LATAM Airlines Group S.A. | One letter of credit | 24,315 | Aug 3, 2015 |
| Citibank N.A. | LATAM Airlines Group S.A. | One letter of credit | 6,825 | Dec 20, 2015 |
| Comisión Europea | LATAM Airlines Group S.A. | One letter of credit | 10,254 | Feb 11, 2015 |
| Deutsche Bank A.G. | LATAM Airlines Group S.A. | Three letter of credit | 40,000 | Mar 31, 2015 |
| Dirección General de Aeronáutica Civil | LATAM Airlines Group S.A. | Sixty seven letter of credit | 17,703 | Jan 31, 2015 |
| Dirección Nacional de Aduanas | LATAM Airlines Group S.A. | Three letter of credit | 1,210 | Jun 28, 2015 |
| Empresa Pública de Hidrocarburos del Ecuador EP Petroecuador | LATAM Airlines Group S.A. | One letter of credit | 5,500 | Jun 18, 2015 |
| Metropolitan Dade County | LATAM Airlines Group S.A. | Five letter of credit | 1,675 | May 31, 2015 |
| The Royal Bank of Scotland plc | LATAM Airlines Group S.A. | Two letter of credit | 28,000 | May 20, 2015 |
| Washington International Insurance | LATAM Airlines Group S.A. | Two letter of credit | 2,100 | Apr 5, 2015 |
| Wells Fargo Bank | LATAM Airlines Group S.A. | Four letter of credit | 5,160 | Mar 13, 2015 |
| Westpac Banking Corporation | LATAM Airlines Group S.A. | One letter of credit | 1,046 | Apr 4, 2015 |
| 6ª Vara de Execuções Fiscais Federal de Campo Grande/MS | Tam Linhas Aéreas S.A. (Pantanal) | Two insurance policies guarantee | 28,522 | Jan 4, 2016 |
| 8 Vara da Fazenda Pública da Comarca de São Paulo | Tam Linhas Aéreas S.A. (Pantanal) | One insurance policies guarantee | 13,834 | Apr 12, 2015 |
| Fundação de Proteção e Defesa do Consumidor Procon | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 1,651 | May 16, 2016 |
| Vara da Fazenda Pública da Comarca de São Paulo | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 2,943 | Mar 29, 2016 |
| Vara De Execuções Fiscais Estaduais de São Paulo | Tam Linhas Aéreas S.A. | One insurance policies guarantee | 13,839 | Apr 16, 2015 |
| | | | <u>210,090</u> | |

NOTE 32 - TRANSACTIONS WITH RELATED PARTIES

(a) Details of transactions with related parties as follows:

| Tax No. | Related party | Nature of relationship with related parties | Country of origin | Explanation of other information about related parties | Nature of related parties transactions | Currency | Transaction amount with related parties As of December 31, | |
|--------------|--|---|-------------------|--|--|----------|--|---------|
| | | | | | | | 2014 | 2013 |
| | | | | | | | ThUS\$ | ThUS\$ |
| 96.810.370-9 | Inversiones Costa Verde Ltda. y CPA. | Controlling shareholder | Chile | Investments | Revenue from services provided | CLP | 31 | 17 |
| 96.847.880-K | Lufthansa Lan Technical Training | Associate | Chile | Training center | Leases as lessor | CLP | 209 | 253 |
| | | | | | Services received | CLP | (785) | (1,186) |
| | | | | | Services received | US\$ | (743) | (1,146) |
| 78.591.370-1 | Bethia S.A and subsidiaries | Other related parties | Chile | Investments | Leases as lessor | CLP | (3) | (6) |
| | | | | | Revenue from services provided | CLP | 7 | 2,726 |
| | | | | | Services received | CLP | (1,156) | (883) |
| | | | | | Settlement of Property plant and equipment (1) | CLP | - | 14,217 |
| | | | | | Commitments made on behalf of the entity | CLP | - | (84) |
| 79.773.440-3 | Transportes San Felipe S.A | Other related parties | Chile | Transport | Revenue from services provided | CLP | 26 | 17 |
| | | | | | Services received | CLP | (70) | (142) |
| | | | | | Commitments made on behalf of the entity | CLP | - | (84) |
| 87.752.000-5 | Granja Marina Tornagaleones S.A. | Other related parties | Chile | Pisciculture | Revenue from services provided | CLP | 155 | 231 |
| 65.216.000-K | Comunidad Mujer | Other related parties | Chile | Promotion and training of women | Revenue from services provided | CLP | 9 | 10 |
| | | | | | Services received | CLP | (11) | (11) |
| Foreign | Inversora Aeronáutica Argentina | Other related parties | Argentina | Investments | Revenue from services provided | ARS | 12 | 9 |
| | | | | | Leases as lessor | US\$ | (334) | (358) |
| Foreign | Made In Everywhere | | | | | | | |
| Foreign | Repr. Com. Distr. Ltda. | Other related parties | Brazil | Transport | Services received | BRL | (2) | - |
| Foreign | TAM Aviação Executiva e Taxi Aéreo S/A | Other related parties | Brazil | Transport | Revenue from services provided | BRL | - | 485 |
| | | | | | Services received | BRL | (12) | - |
| | | | | | Commitments made on behalf of the entity | BRL | - | (17) |
| Foreign | Prismah Fidelidade S.A. | Joint Venture | Brazil | Marketing | Liabilities settlement on behalf of the entity for the related party | BRL | (119) | (499) |
| Foreign | Jochmann Participacoes Ltda. | Other related parties | Brazil | Transport | Services received | BRL | - | (27) |

On December 28, 2012, Inmobiliaria Aeronáutica S.A. as seller and Sotraser S.A. (Subsidiary of Bethia S.A.) as purchaser, entered into an agreement to purchase the land called "Lot No. 12 of parcellation project Lo Echevers". The value of the sale amounts to ThUS\$ 14,217. On December 31, 2013, this balance is paid.

The balances of Accounts receivable and accounts payable to related parties are disclosed in Note 9.

Transactions between related parties have been carried out on free-trade conditions between interested and duly-informed parties.

(b) Compensation of key management

The Company has defined for these purposes that key management personnel are the executives who define the Company's policies and major guidelines and who directly affect the results of the business, considering the levels of Vice-Presidents, Chief Executives and Directors.

| | For the periods ended | |
|-----------------------|-----------------------|---------------|
| | December 31, | |
| | 2014 | 2013 |
| | ThUS\$ | ThUS\$ |
| Remuneration | 19,507 | 15,148 |
| Management fees | 1,213 | 368 |
| Non-monetary benefits | 990 | 565 |
| Short-term benefits | - | 22,400 |
| Share-based payments | 16,086 | 17,709 |
| Total | <u>37,796</u> | <u>56,190</u> |

NOTE 33 - SHARE-BASED PAYMENTS

(a) Compensation plan for increase of capital in LATAM Airlines Group S.A.

Compensation plans implemented by providing options for the subscription and payment of shares that have been granted by LATAM Airlines Group S.A. to employees of the Company and its subsidiaries, are recognized in the financial statements in accordance with the provisions of IFRS 2 "Share-based Payment", showing the effect of the fair value of the options granted under compensation in linear between the date of grant of such options and the date on which these irrevocable.

(a.1) Compensation plan 2011

At a Special Shareholders Meeting held on December 21, 2011, the Company's shareholders approved, among other matters, an increase of capital of which 4,800,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, pursuant to Article 24 of the Companies Law. In this compensation plan no member of the controlling group would be benefited. The granting of options for the subscription and payment of shares has been formalized through conclusion of contracts of options to subscribe for shares, according to the proportions

shown in the following schedule of accrual and is related to the permanence condition of the executive as employee of the Company at these dates for the exercise of the options:

| <u>Percentage</u> | <u>Period</u> | | <u>Number of share options</u> |
|-------------------|--|--|--|
| 30% | From December 21, 2014 and until December 21, 2016. | | |
| 30% | From December 21, 2015 and until December 21, 2016. | | |
| 40% | From June 21, 2016 and until December 21, 2016. | | |
| | | | |
| | Share options in agreements of share- based payments, as of January 1, 2013 | | - |
| | Share options granted | | 4,497,000 |
| | Share options in agreements of share- based payments, as of December 31, 2013 | | 4,497,000 |
| | Share options in agreements of share- based payments, as of January 1, 2014 | | 4,497,000 |
| | Share options granted | | 160,000 |
| | Share options cancelled | | (455,000) |
| | Share options in agreements of share- based payments, as of December 31, 2014 | | 4,202,000 |

These options have been valued and recorded at fair value at the grant date, determined by the "Black-Scholes-Merton". The effect on income to September 2014 corresponds to ThUS\$ 15,895 (ThUS\$ 17,200 at December 31, 2013).

The input data of option pricing model used for share options granted are as follows:

| | <u>Weighted average share price</u> | <u>Exercise price</u> | <u>Expected volatility</u> | <u>Life of option</u> | <u>Dividends expected</u> | <u>Risk-free interest</u> |
|-------------------------|---|---------------------------|--------------------------------|---------------------------|-------------------------------|-------------------------------|
| As of December 31, 2013 | US\$ 23.55 | US\$ 24.97 | 61.52% | 3.6 years | 0% | 0.00550 |
| As of December 31, 2014 | US\$ 15.47 | US\$ 18.29 | 34.74% | 3.6 years | 0% | 0.00696 |

(a.2) Compensation plan 2013

At the Extraordinary Shareholders' Meeting held on June 11, 2013, the Company's shareholders approved motions including increasing corporate equity, of which 1,500,000 shares were allocated to compensation plans for employees of the Company and its subsidiaries, in conformity with the stipulations established in Article 24 of the Corporations Law. Regard to this compensation plan, not exist yet a defined date for implementation. The granting of options for the subscription and payment of shares has been formalized through conclusion of contracts of options to subscribe for shares, according to the proportions shown in the following schedule of accrual and is related to the permanence condition of the executive at these dates for the exercise of the options:

| <u>Percentage</u> | <u>Period</u> |
|-------------------|---|
| 100% | From November 15, 2017 and until June 11, 2018. |

(b) Subsidiaries compensation plans

TAM Linhas Aereas S.A. and Multiplus S.A., both subsidiaries of TAM S.A., have outstanding stock options at December 31, 2014, which amounted to 96,675 shares and 637,400 shares, respectively.

TAM Linhas Aéreas S.A.

| Description | 4th Grant | Total |
|---------------------------|------------|--------|
| Date | 05-28-2010 | |
| Outstanding option number | 96,675 | 96,675 |

Multiplus S.A.

| Description | 1st Grant | 3rd Grant | 4th Grant | 4th Extraordinary Grant | Total |
|---------------------------|------------|------------|------------|-------------------------|---------|
| Date | 10-04-2010 | 04-16-2012 | 10-04-2010 | 11-20-2013 | |
| Outstanding option number | 7,760 | 129,371 | 294,694 | 205,575 | 637,400 |

The Options of TAM Linhas Aéreas S.A., under the plan's terms, are divided into three equal parts and employees can run a third of its options after three, four and five years respectively, as long as they remain employees of the company. The agreed term of the options is seven years.

For Multiplus S.A., the plan's terms provide that the options granted to the usual prizes are divided into three equal parts and employees may exercise one-third of their two, three and four, options respectively, as long as they keep being employees of the company. The agreed term of the options is seven years after the grant of the option. The first extraordinary granting was divided into two equal parts, and only half of the options may be exercised after three years and half after four years. The second extraordinary granting was also divided into two equal parts, which may be exercised after one and two years respectively.

Both companies have an option that contains a "service condition" in which the exercise of options depends exclusively on the delivery services by employees during a predetermined period. Terminated employees will be required to meet certain preconditions in order to maintain their right to the options.

The acquisition of the share's rights, in both companies is as follows:

| Company | Number of shares Accrued options | Number of shares Non accrued options |
|------------------------|-------------------------------------|---|
| TAM Linhas Aéreas S.A. | - | 96,675 |
| Multiplus S.A. | - | 637,400 |

In accordance with IFRS 2 - Share-based payments, the fair value of the option must be recalculated and recorded as a liability of the Company once payment is made in cash (cash-settled). The fair value of these options was calculated using the Black-Scholes method, where the cases were updated with information LATAM Airlines Group S.A.. Not exist value recorded in liabilities at December 31, 2014 and in income ThUS\$ 191 (at December 31, 2013 the amount recognized in liabilities was ThUS\$ 1,493 and ThUS\$ 509 in incomes).

NOTE 34 - THE ENVIRONMENT

LATAM Airlines Group S.A. manages environmental issues at the corporate, centralized in Environmental Management. To monitor the company and minimize their impact on the environment is a commitment to the highest level, where continuous improvement and contribute to the solution of the problem of global climate change, generating added value to the company and the region, are the pillars of his administration.

One function of Environmental Management, in conjunction with the various areas of the Company, is to ensure environmental compliance, implementing a management system and environmental programs that meet the increasingly demanding requirements globally; well as continuous improvement programs in their internal processes that generate environmental and economic benefits and to join the currently completed.

The Environment Strategy LATAM Airlines Group S.A. is based on the following objectives:

- Minimize the impact of its operations by using a modern fleet, efficient operational management and continuous incorporation of new technologies.
- Promote the efficient use of resources and minimization of waste in all processes.
- Manage responsibly our carbon footprint by measuring, monitoring and reducing emissions.
- Promote the development and use of alternative energy more efficient and less environmental impact.

For 2014, we have established four priority areas of work to develop:

1. Advance in the implementation of an Environmental Management System;
2. Manage the Carbon Footprint by measuring, external verification and compensation of our emissions by ground operations;
3. Development of environmental projects based on renewable energy.
4. Establishment of corporate strategy to meet the global target of aviation to have a carbon neutral growth by 2020.

Thus, during the first half of the year, we have worked in the following initiatives:

- Advance in the implementation of an Environmental Management System for main operations, with an emphasis on Santiago, Miami (USA) y San Carlos (Brasil). In addition to continuing with the process of certification of IATA Environmental Assessment (IEnvA).
- Preparation of the environmental chapter for reporting sustainability of the Company, to measure progress on environmental issues.
- The preparation of the first report supporting environmental management of the Company.
- Measurement and external verification of the Corporate Carbon Footprint.

As achievement this year, LATAM Airlines Group was selected in the Dow Jones Sustainability index, in global category, emerging as a leader in the global aviation industry its strategy on Climate Change and its efficient operation (Eco-Efficiency).

At December 31, 2014 the Environment Management has spent US\$370,159 (US\$ 478,445 at December 31, 2013).

NOTE 35 – EVENTS SUBSEQUENT TO THE DATE OF THE FINANCIAL STATEMENTS

Subsequent to the closing date of the annual financial statements, at December 31, 2014, has occurred an important variation in the exchange rate R\$/US\$, from R\$ 2.66 per US\$ to R\$ 3.27 per US\$ at March 17, 2015, which represents a 23% depreciation of the Brazilian currency.

At the date of issuance of these financial statements, given the complexity of this matter, the administration has not yet concluded the analysis and determination of the financial effects of this situation.

LATAM Airlines Group S.A. and Subsidiaries' consolidated financial statements as at December 31, 2014, have been approved by the Board of Director's in an extraordinary meeting held on March 17, 2015.