Risk Factors

We wish to caution readers that the following important factors, and those important factors described in other reports submitted to, or filed with, the Securities and Exchange Commission, or the "SEC," among other factors, could affect our actual results and could cause our actual results to differ materially from those expressed in any forward-looking statements made by us or on our behalf. In particular, as we are a non-U.S. company, there are risks associated with investing in our American Depositary Shares, or ADSs, that are not typical for investments in the shares of U.S. companies. Prior to making an investment decision, you should carefully consider all of the information contained in this document, including the following risk factors.

Risks Related to our Proposed Combination with TAM

The completion of the proposed combination is subject to many conditions precedent and if these are not satisfied or waived the proposed combination will not be completed.

The commencement of the exchange offer is subject to certain conditions set forth in the transaction agreements as described under "Transaction Agreements—Conditions to Commencement of the Exchange Offer," under Item 4, including receipt of all required regulatory approvals (including the required approvals from the *Comissão de Valores Mobiliários*, or "CVM", the *Superintendencia de Valores y Seguros* (the *Chilean Securities and Insurance Supervisor*, or "SVS"), and the SEC), approval of the proposed combination by the shareholders of LAN and the condition that the holders of not more than 2.5% of our outstanding common shares exercise their appraisal rights under Chilean law. The completion of the exchange offer is also subject to certain conditions set forth in the transaction agreements as described under "Transaction Agreements—Conditions to Completion of the Exchange Offer," under Item 4, including the conditions that the exchange offer be accepted by (i) the holders of at least 66 2/3 % of the outstanding shares of TAM not owned by TAM's controlling shareholders and their affiliates (which is the minimum threshold required to permit the delisting of TAM stock from the BM&FBovespa (which we refer to as "Bovespa") after completion of the proposed combination), and (ii) the holders of a sufficient number of TAM shares so that the sum of (A) the total number of TAM shares that have accepted the exchange offer and (B) the number of TAM shares owned by TAM's controlling shareholders is more than 95% of the outstanding TAM shares (which is the minimum threshold required to permit a statutory squeeze-out under Brazilian law of all TAM shares that do not accept the exchange offer after completion of the proposed combination). Certain of these conditions may not be waived without written agreement of both LAN and TAM's controlling shareholders, and neither LAN nor TAM's controlling shareholders has any obligation to waive any conditions not satisfied on or prior to the expiration of the exchange offer. Therefore, even if we are willing to waive an unsatisfied condition, we may be unable to complete the exchange offer if TAM's controlling shareholders refuse to waive the condition. In addition, the obligation of TAM's controlling shareholders under the transaction agreements to contribute their TAM shares into the proposed combination prior to the completion of the exchange offer is subject to certain conditions relating to the operations and business of LAN and certain events outside of our control. If any of these conditions is not satisfied or waived, the proposed combination will not be completed.

The proposed combination cannot be completed unless we receive consents and clearances from regulatory authorities and such authorities could impose conditions that could adversely affect LAN and/or the combined companies

Before the proposed combination of LAN and TAM may be completed, applicable waiting periods must expire or terminate under antitrust and competition laws and various approvals or consents must be obtained from regulatory entities, including the *Tribunal de Defensa de la Libre Competencia*, or the "TDLC." See the section entitled "Information on the Company—Business–Proposed Combination with TAM," under Item 4, for a discussion of the status of the review of the proposed combination by the TDLC. In deciding whether to grant antitrust or regulatory clearances, the relevant governmental entities will consider, among other things, the effect the proposed combination will have on competition and operations within their relevant jurisdictions. The terms and conditions of the approvals that are granted may impose requirements, limitations or costs or place restrictions on the conduct of the combined companies' businesses. The transaction agreements expressly provide that neither we nor TAM is required to sell, hold separate or otherwise encumber any of our respective assets or to take the other actions specified therein in order to obtain such approvals and thus either company may refuse to complete the proposed combination on the basis of those regulatory conditions. There can be no assurance that regulators will not impose conditions, terms, obligations or restrictions or that such conditions, terms, obligations or restrictions will not have the effect of delaying completion of the proposed combination or imposing additional material costs on, or materially limiting the revenues of, the combined companies following the proposed combination. In addition, it is a condition to our and TAM's obligation to complete the proposed combination that no governmental authority shall have issued any law or order making the proposed combination illegal or materially limiting or impairing the ownership or operation of any material part of the combined companies.

Any delay in completing the proposed combination may reduce or eliminate the benefits we expect to be achieved as a result of the proposed combination

In addition to the required regulatory clearances, the proposed combination is subject to a number of other conditions beyond our control that may prevent, delay or otherwise materially adversely affect its completion. We cannot predict whether or when these other conditions will be satisfied. Furthermore, the requirements for obtaining the required clearances and approvals could delay the completion of the proposed combination for a significant period of time or prevent it from occurring. Any delay in completing the proposed combination could cause the combined companies not to realize some or all of the synergies that we expect to achieve if the proposed combination is successfully completed within its expected time frame.

Failure to complete the proposed combination could negatively impact our stock price and future business and financial results

If the proposed combination is not completed, our ongoing businesses may be adversely affected, and we would be subject to several risks, including the following:

- being required to pay a termination fee to TAM of $200 million and reimburse up to $25 million of TAM's expenses under certain circumstances provided in the transaction agreements;
- having to pay certain costs relating to the proposed combination, such as legal, accounting, financial advisor and printing fees; and
- having had our management focus on the proposed combination instead of pursuing other opportunities that could have been beneficial to us.

If the proposed combination is not completed, we cannot assure our stockholders that these risks will not materialize and will not materially adversely affect our business, financial results and stock price.

The fairness opinion obtained by our board of directors from our financial advisor will not reflect changes in circumstances between signing the transaction agreements and the completion of the proposed combination

While our board of directors received a fairness opinion from J.P. Morgan, our financial advisor, before we entered into the transaction agreements, we have not obtained an updated fairness opinion as of the date of this Form 20-F. Changes in our operations and prospects of those of TAM, general market and economic conditions and other factors which may be beyond our control and on which the fairness opinion was based may alter the value of LAN or TAM and/or the prices of our common shares or the shares of TAM by the time the proposed combination is completed. The fairness opinion speaks only as of the date of the opinion and not as of the time the proposed combination will be completed or as of any other date. Because we do not anticipate asking our financial advisor to update its fairness opinion, the January 18, 2011 fairness opinion does not address the fairness of the exchange ratios, from a financial point of view, to our shareholders at the time the proposed combination will be completed.

The transaction agreements contain provisions that could discourage a potential competing acquirer of LAN

The transaction agreements require our board of directors to recommend that its shareholders approve the proposed combination and does not permit our board of directors to withdraw or adversely modify those recommendations. The transaction agreements also contains “no shop” provisions that prohibit us from soliciting, initiating or encouraging any competing third party proposals, including acquisitions of our equity securities or material assets, and there are no exceptions to these provisions. In addition, if the transaction agreements are terminated under certain circumstances, we may be required to pay to TAM a termination fee of $200 million and to reimburse TAM for up to $25 million of expenses incurred by TAM in connection with the transaction agreements and the proposed combination. See “Key Information—Transaction Agreements” and “Key Information—The Transaction Agreements—Termination,” under Item 4. These provisions could discourage a potential third-party acquiror that might have an interest in acquiring all or a significant portion of LAN from considering or proposing that acquisition, even if it were prepared to pay consideration with a value per share higher than the benefits LAN shareholders may receive from the proposed combination, or might result in a potential third-party acquiror proposing to pay a lower price to the LAN shareholders than it might otherwise have proposed to pay because of the added expense of the $225 million termination fee and expense reimbursement that may become payable in certain circumstances.

Uncertainties associated with the proposed combination may cause a loss of management personnel and other key employees that could adversely affect LAN, TAM and/or the combined companies

The success of the operations of LAN, TAM and the combined companies is dependent, among other things, on the experience and industry knowledge of their senior management and other key employees and their ability to execute their business plans. In order to be successful, LAN, TAM and the combined companies must be able to retain their senior management and other key employees and their ability to attract highly qualified personnel in the future. Current and prospective employees of LAN and TAM may experience uncertainty about their roles within the combined companies following completion of the proposed combination, which may have an adverse effect on the ability of LAN, TAM and/or the combined companies to retain or attract senior management and other key employees. Competition for highly qualified personnel in the various localities and business segments in which LAN and TAM operate is intense. No assurances can be given that LAN, TAM or, after completion of the proposed combination, the combined companies will be able to retain or attract senior management and other key employees to the same extent that LAN and TAM have previously been able to do so.

Resales of the common shares we issue in the mergers may cause the market price of such shares to fall.

As of April 27, 2011, 339,310,509 common shares (including those represented by the ADSs) were issued and outstanding (34.01% of which are beneficially owned by LAN’s controlling shareholders) and 1,689,491 common shares were subject to issuance upon exercise of outstanding options and other rights to purchase such shares. In the mergers, we expect to issue a significant amount of common shares (including those represented by the ADSs) to the holders of TAM shares in exchange for their TAM shares or TAM ADSs, although the actual number of common shares issued will depend on the extent to which holders of TAM shares or TAM ADSs elect to participate in the exchange offer. If the holders of all of the outstanding TAM shares (other than TAM’s controlling shareholders) tender their shares into the exchange offer and, except for the shares of LAN contemplated to be issued pursuant to the transaction agreements, there are no new issuances of shares of LAN or TAM (including those common shares subject to issuance upon exercise of outstanding options and other rights to purchase those shares that have not been exercised), then after completion of the mergers the issued and outstanding shares of LAN will be distributed approximately as follows: 13.67% of the common shares issued and outstanding at that time will be held by TAM’s controlling shareholders, 15.65% of the common shares issued and outstanding at that time will be held by TAM shareholders (other than TAM’s controlling shareholders), 24.07% of the common shares issued and outstanding at that time will be held by LAN’s controlling shareholders and 46.60% LAN’s shareholders (other than LAN’s controlling shareholders). If there are substantial sales of the newly issued common shares shortly after the mergers, this could adversely affect the market for, and the market price of, our common shares and the ADSs.

We have and will continue to incur significant costs and expenses in connection with the proposed combination and integration of the business operations of LAN and TAM.

We have incurred and expect to continue to incur substantial expenses in connection with the proposed combination and the integration of LAN and TAM. Non-recurring expenses expected to be incurred in connection with the proposed combination are anticipated to be approximately $ 25 million in 2011. These costs and expenses include financial advisory, legal and accounting fees and expenses, reorganization and restructuring costs, severance/employee benefit-related expenses, filing fees, printing expenses and other related charges. Some of these costs are payable regardless of whether the proposed combination is completed. There are also are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated in connection with the proposed combination. While both we and TAM have assumed that a certain level of expenses would be incurred in connection with these transactions, there are many factors beyond our control that could affect the total amount or the timing of the integration expenses. Moreover, there could also be significant costs in compensating dissenting shareholders of LAN who exercise their appraisal rights under Chilean law.

There may also be additional unanticipated significant costs in connection with the transactions discussed below under “Key Information—The Transaction Agreements—Overview,” under Item 4, that we may not recoup. These costs and expenses could, particularly in the near term, exceed the savings that we expect the combined companies to achieve from the elimination of duplicative expenses and the realization of economies of scale, other efficiencies and cost savings. Although we expect that these savings will offset these transaction- and combination-related costs over time, this net benefit may not be achieved in the near term or at all.

We may be unable to fully realize the anticipated benefits of the proposed combination.

After completion of the proposed combination, we will change our name to “LATAM Airlines Group S.A.” (“LATAM”). The proposed combination involves bringing together two large and complex businesses that currently operate as independent public companies. We will be required to devote significant management attention and resources to integrating certain aspects of the business practices and operations of LAN and TAM. The success of the proposed combination will depend, in part, on our ability to realize anticipated revenue synergies, cost savings and growth opportunities by combining the businesses of LAN and TAM. We hope to generate synergies resulting from the consolidation of capabilities, rationalization of operations and headcount, greater efficiencies from increased scale and market integration, experience of product and service offerings and organic growth. There is a risk, however, that we may not be able to combine the businesses of LAN and TAM in a manner that permits us to realize these revenue synergies, cost savings and growth opportunities in the time, manner or amounts we currently expect, or at all. Potential difficulties we may encounter as part of the integration process include, among other things:

- the inability to successfully combine the businesses of LAN and TAM in a manner that permits us to achieve the full revenue and cost synergies anticipated to result from the proposed combination;
- complexities associated with managing the combined companies;
- the need to implement, integrate and harmonize various business-specific operating procedures and systems, as well as the financial, accounting, information and other systems of LAN and TAM;
- operational overlap among products and customer bases of LAN and TAM;
- potential loss of key employees as a result of implementing the proposed combination; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the exchange offer, the mergers and the other combination transactions, including one-time cash costs to integrate the two airlines that may exceed the one-time cash costs that we currently anticipate.

In addition, we and TAM have operated and, until the completion of the proposed combination, will continue to operate independently. It is possible that the integration process could result in:

- diversion of management’s attention from their normal areas of responsibility to address integration issues; and
- the disruption of, or the loss of momentum in, each company’s ongoing businesses or inconsistencies in its standards, controls, procedures and policies,

each of which could adversely affect each company’s ability to maintain good relationships with its customers, suppliers, employees and other constituencies or achieve the anticipated benefits of the proposed combination or could increase costs or reduce each company’s earnings or otherwise adversely affect the businesses, financial condition, results of operations and/or prospects of LATAM following the completion of the exchange offer and mergers. If they are achieved, actual revenue synergies, cost savings and efficiency and operational benefits may be lower and may take a longer time to achieve than we currently expect.

The integration of two large companies also presents significant management challenges. In order to achieve the anticipated benefits of the proposed combination of LAN and TAM, the operations of the two companies will need to be reorganized and their resources will need to be combined in a timely and flexible manner. There can be no assurance that we will be able to implement these steps as anticipated or at all. If we fail to achieve the planned restructuring effectively within the time frame that is currently contemplated or to the extent that is currently planned, or if for any other reason the expected synergies fail to materialize, the proposed combination may not produce the benefits we currently anticipate.

We will not control the voting shares or board of directors of TAM.

Under the terms of the transaction agreements, the controlling shareholders of TAM will retain ownership of at least 80% of the voting shares of TAM and will have the right to appoint 66 2/3% of the members of the board of directors of TAM and its subsidiaries. We will own the remaining voting shares of TAM and will have the right to appoint the remaining members of the board of directors of TAM and its subsidiaries. We will also own all of the non-voting shares of TAM, which will entitle us to substantially all of the economic rights in TAM. While we, the controlling shareholders of TAM and other parties have entered into shareholders agreements that establish agreements and restrictions relating to corporate governance in an attempt to balance our interests, as the owner of substantially all of the economic rights in TAM, with the interests of the controlling shareholders of TAM, as the continuing controlling shareholders of TAM, by, among other things, requiring the vote of the holders of at least 95% of the outstanding shares of TAM and/or supermajority approval of the board of directors of TAM prior to taking certain specified material corporate actions and decisions in respect of TAM and its subsidiaries, no assurances can be given that we and the controlling shareholders of TAM will be able to reach agreement with respect to such matters in the future and if we and they do not, our businesses, financial condition, results of operations and prospects could be adversely affected. For further discussion of these arrangements, see “Transaction Agreements—Conditions to Commencement of the Exchange Offer,” under Item 4.

Our financial results will be more exposed to currency exchange rate fluctuations as a result of the proposed combination and the resulting increase in the proportion of assets, liabilities and earnings that are denominated in currencies other than Chilean pesos.

LATAM will prepare and present its consolidated financial statements in U.S. dollars. The proposed combination will significantly increase the proportion of our consolidated net assets, revenues and income in currencies other than U.S. dollars, primarily Chilean pesos and Brazilian reais. Our consolidated financial condition and results of operations will therefore be more sensitive to movements in foreign exchange rates. A depreciation of non-US dollar currencies relative to the US dollar could have an adverse impact on our financial condition and results of operations.

Our future results will suffer if we cannot effectively manage our expanded operations following completion of the proposed combination.

Following the completion of the proposed combination, the size of the business of the combined companies will be significantly larger and more complex than the current business of LAN or TAM. Our future success will depend, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that we will be successful or that we will realize the expected operating efficiencies, cost savings, revenue enhancements and other benefits we currently anticipate from the proposed combination.

The proposed combination could cause a downgrade of our credit ratings, which could have a negative effect on our business.

TAM currently has a lower credit rating than us and is more leveraged than us. As a result of the proposed combination with TAM, our credit rating could be downgraded by one or more credit rating agencies, which could adversely affect the results and financial condition of the combined companies. If our credit rating is downgraded, it could affect our ability to finance future fleet acquisitions and/or increase our financing costs.

Risks Related to our Operations and the Airline Industry

Our performance is heavily dependent on economic conditions in the countries in which we do business and negative economic conditions in those countries could have an adverse impact on our business.

Passenger and cargo demand is heavily cyclical and highly dependent on global and local economic growth, economic expectations and foreign exchange rate variations, among other things. In the past, our business has been negatively affected by global economic recessionary conditions, weak economic growth in Chile, recession in Argentina and poor economic performance in certain emerging market countries in which we operate. The occurrence of similar events in the future could adversely affect our business. In fact, starting as of late 2008, and during 2009, many of the countries we serve, including Chile, experienced economic slowdowns or recessions, which translated into a substantial weakening of demand. We plan to continue to expand our operations based in Latin America and our performance will, therefore, continue to depend heavily on economic conditions in the region. Any of the following factors could adversely affect our business, financial condition and results of operations in the countries in which we operate:

- changes in economic or other governmental policies;
- weak economic performance, including, but not limited to, low economic growth, low consumption and/or investment rates, and increased inflation rates; or
- other political or economic developments over which we have no control.

Driven by the severe downturn in the global economy, including in the economies of many of the countries we serve, we began to experience weakening demand in cargo late in 2008, and this weak demand continued into 2009. However, we began to experience a recovery in cargo traffic in late 2009, which continued improving during 2010. If the regional economic environment continues its positive performance, demand in cargo may continue to grow during the current year. No assurance can be given that capacity reductions or other steps we may take will be adequate to offset any future reduction in our cargo and/or air travel demand.

The success of our business depends upon key regulatory issues and these issues may adversely affect our business and results of operations.

Our business is highly regulated and depends substantially upon the regulatory environment in the countries in which we operate or intend to operate. For example, price controls on fares may limit our ability to effectively apply customer segmentation profit maximization techniques (“passenger revenue management”) (management techniques utilizing passenger demand forecasting and fare mix optimization techniques to maximize profit for an airline) and adjust prices to reflect cost pressures. High levels of government regulation may limit the scope of our operations and our growth plans, especially in the event of deterioration of the relations between the countries in which we operate or the public perception of foreign companies in local markets. Accordingly, regulatory issues could adversely affect our business and results of operations.

Our business, financial condition and results of operations could be adversely affected if we or certain aviation authorities (among them, those from Argentina, Brazil, Chile, Ecuador, Mexico, Peru, Colombia and the United States) fail to maintain the required foreign and domestic governmental authorizations. In order to maintain the necessary authorizations issued by the Chilean *Junta Aeronáutica Civil*, which we refer to as the “JAC,” and technical operative authorizations issued by the Chilean *Dirección General de Aeronáutica Civil*, which we refer to as the “DGAC,” and other corresponding local authorities of the countries in which we operate, we must continue to comply with applicable statutes, rules and regulations pertaining to the airline industry, including any rules and regulations that may be adopted in the future.

We depend on strategic alliances or commercial relationships in many of the countries in which we operate and our business may suffer if any of our strategic alliances or commercial relationships terminates.

In many of the jurisdictions in which we operate, we have found it in our interest, to maintain a number of alliances and other commercial relationships. These alliances or commercial relationships allow us to enhance our network and, in some cases, to offer our customers services that we could not otherwise offer. If any of our strategic alliances or commercial relationships and, in particular, with American Airlines, Iberia, Qantas or *oneworld*® deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be negatively affected.

Our business and results of operation may suffer if we fail to obtain and maintain routes, suitable airport access, slots and other operating permits.

Our business depends upon our access to key routes and airports. Our operations could be constrained by any delay or inability to gain access to key routes or airports, including:

- limitations on our ability to process more passengers;
- the imposition of flight capacity restrictions;
- the inability to secure or maintain route rights in local markets or under bilateral agreements; or
- the inability to maintain our existing slots and obtain additional slots.

We operate numerous international routes, subject to bilateral agreements and also internal flights within Chile, Argentina, Peru and other countries, subject to local route and airport access approvals. Bilateral aviation agreements as well as local aviation approvals frequently involve political and other considerations outside of our control. See “Information on the Company— Business of the Company—Regulation—Route Rights” under Item 4.

There can be no assurance that existing bilateral agreements between the countries in which our companies are based and permits from foreign governments will continue. A modification, suspension or revocation of one or more bilateral agreements could have a material adverse effect on our business, financial condition and results of operations. The suspension of our permission to operate in certain airports or destinations or the imposition of other sanctions could also have a material adverse effect. We cannot assure that a change in a foreign government’s administration of current laws and regulations or that the adoption of new laws and regulations will not have a material adverse effect on our business, financial condition and results of operations.

If we are unable to obtain favorable take-off and landing authorizations at certain high-density airports, our business, financial condition and results of operations could be adversely affected. There can be no assurance that we will be able to obtain all requested authorizations and slots in the future because, among other factors, government policies regulating the distribution of the authorizations and slots are subject to change.

A failure to successfully implement our growth strategy would harm our business and the market value of the ADSs and our common shares.

Our growth strategy involves increasing the frequency of flights to the markets we currently serve and expanding our service to new markets. In order to carry out this strategy, we must be able to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter or in which we are seeking to expand our operations will provide passenger and cargo traffic that is sufficient to make our operations in those new markets profitable.

The expansion of our business will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or secure the required equipment and facilities efficiently and cost-effectively may adversely affect our ability to execute our growth strategy. Expansion of our markets and flight frequencies may also strain our existing management resources and operational, financial and management information systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas.

Our business may be adversely affected by a downturn in the airline industry caused by exogenous events that affect travel behavior or increase costs, such as outbreak of disease, natural disasters, war or terrorist attacks.

Demand for air transportation may be adversely impacted by exogenous events, such as natural disasters, epidemics, terrorist attacks, war or political and social instability. Situations such as these in one or more of the markets in which we operate could have a material impact on our business, financial condition and results of operations. Furthermore, these types of situations could have a prolonged effect on air transportation demand and on certain cost items.

During January 2010, bad weather affected the city of Cuzco in Peru causing important human and material damage and severely affecting this tourist destination. This affected our operations, which led us to decrease our capacity in order to improve load factors. We estimate the net impact of decreased passenger operations to have been approximately US$15.0 million.

In addition, on February 27, 2010, an earthquake struck Chile causing major damages mainly in the southern regions of the country. This earthquake damaged the terminal building at the Santiago International Airport causing the suspension of LAN’s passenger services to and from Chile until March 1, 2010. Lan Cargo’s operations suffered no impact since Lan Cargo has flexibility to redesign itineraries if and when needed. As of March 28, 2010, operations were restored to normal levels and the airport started to operate normally. As of December 31, 2010, we estimate the net impact of decreased passenger operations due to the earthquake to have been approximately US$30 million.

Terrorist attacks may also have a severe adverse impact on the airline industry. For example, the terrorist attacks in the United States on September 11, 2001 substantially affected the airline industry, particularly foreign air carriers operating international service to and from the United States. Throughout South America, passenger traffic also decreased substantially, although the decrease was less severe than that in the United States. The airline industry experienced increased costs following the September 11, 2001 terrorist attacks. Airlines have been required to adopt additional security measures and may be required to comply with more rigorous security guidelines in the future.

In addition, fuel prices and supplies, which constitute a significant cost for us, may increase as a result of any future terrorist attacks, a general increase in hostilities or a reduction in output of fuel, voluntary or otherwise, by oil-producing countries. Such increases may result in both higher airline ticket prices and decreased demand for air travel generally, which could have an adverse effect on our revenues and results of operations. Presently, there is a trend towards increases in jet fuel prices because of the increased demand caused by the 2010 recovery in the global economy coupled with conflicts during February 2011 in Egypt and Libya that affect global fuel supply. It is impossible for us to predict if we will be able to fully protect ourselves against the volatility of fuel costs.

A significant portion of our cargo revenues comes from relatively few product types and may be impacted by events affecting their production or trade.

Our cargo demand, especially from Latin American exporters, is concentrated in a small number of product categories, such as fish and sea products and produce exports from Chile and Peru, and fresh flowers from Ecuador and Colombia. Events that negatively affect the production or trade of these goods may adversely affect the volume of goods that we transport and may have a significant impact on our results of operations. Some of our cargo products are sensitive to foreign exchange rates and, therefore, traffic volumes could be impacted by the appreciation or depreciation of local currencies.

In mid 2007, there was an outbreak of infectious salmon anemia virus (“ISA Virus”) in Chile, which was temporarily contained during 2008 but has continued to affect exports since then. The outbreak of ISA Virus has caused, and may continue to cause, a significant decline in salmon exports and has had, and may continue to have, an adverse impact on our cargo operations.

Our operations are subject to fluctuations in the supply and cost of jet fuel, which could negatively impact our business.

Higher jet fuel prices or a shortage in the supply of fuel could cause a reduction in our scheduled service and could have a materially negative effect on our business, financial condition and results of operations. Jet fuel costs have historically accounted for a significant amount of our operating expenses, and accounted for approximately 30% of our operating expenses in 2010. Both the cost and availability of fuel are subject to many economic and political factors and events that we can neither control nor predict. We have entered into fuel hedging arrangements, but there can be no assurance that such arrangements will be adequate to protect us from a significant increase in fuel prices in the near future or in the long term. Also, while these hedging arrangements are designed to limit the effect of an increase in fuel prices, some of our hedging methods may also limit our ability to take advantage of any decrease in fuel prices. Although we have implemented measures to pass a portion of incremental fuel costs to our customers, our ability to lessen the impact of any increase using these types of mechanisms may also be limited.

We rely on maintaining a high daily aircraft utilization rate to increase our revenues, which makes us especially vulnerable to delays.

One of the key elements of our business strategy is to maintain a high daily aircraft utilization rate, which measures the number of flight hours we use our aircraft per day. High daily aircraft utilization allows us to maximize the amount of revenue we generate from our aircraft and is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to increase the average hours flown per day. Our rate of aircraft utilization could be adversely affected by a number of different factors that are beyond our control, including air traffic and airport congestion, adverse weather conditions and delays by third-party service providers relating to matters such as fueling and ground handling.

Furthermore, high aircraft utilization rates increase the risk that, if an aircraft falls behind schedule, it could remain behind schedule for up to two days. Such delays could result in a disruption in our operating performance, leading to customer dissatisfaction due to any resulting delays or missed connections.

We fly and depend upon Airbus and Boeing aircraft, and our business is at risk if we do not receive timely deliveries of aircraft, if aircraft from these companies becomes unavailable or if the public negatively perceives our aircraft.

As our fleet has grown, our reliance on Airbus and Boeing has also grown. As of February 28, 2011, we operated a fleet of 74 Airbus and 51 Boeing aircraft. These risks include:

- our failure or inability to obtain Airbus or Boeing aircraft, parts or related support services on a timely basis because of high demand or other factors;
- the interruption of fleet service as a result of unscheduled or unanticipated maintenance requirements for these aircraft;
- the issuance by Chilean or other aviation authorities of other directives restricting or prohibiting the use of Airbus or Boeing aircraft, or requiring time-consuming inspections and maintenance;
- the adverse public perception of a manufacturer as a result of an accident or other negative publicity; or
- delays between the time we realize the need for new aircraft and the time it takes us to arrange for Airbus and Boeing or from a third-party provider to deliver this aircraft.

The occurrence of any one or more of these factors could restrict our ability to use aircraft to generate profits, respond to increased demands, or could otherwise limit our operations and adversely affect our business.

We are often affected by certain factors beyond our control, including weather conditions, which can affect our operations.

Revenues for airlines depend on the number of passengers carried, the fare paid by each passenger and service factors, such as the timeliness of flight departures and arrivals. During periods of fog, ice, low temperatures, storms or other adverse weather conditions, some or all of our flights may be cancelled or significantly delayed, reducing our revenues.

Losses and liabilities in the event of an accident involving one or more of our aircraft could materially affect our business.

We are exposed to potential catastrophic losses in the event of an aircraft accident, terrorist incident or any other similar event. There can be no assurance that, as a result of an aircraft accident or significant incident:

- we will not need to increase our insurance coverage;
- our insurance premiums will not increase significantly;
- our insurance coverage will fully cover all of our liability; or
- we will not be forced to bear substantial losses.

Substantial claims resulting from an accident or significant incident in excess of our related insurance coverage could have a material adverse effect on our business, financial condition and results of operations. Moreover, any aircraft accident, even if fully insured, could cause the negative public perception that our aircraft are less safe or reliable than those operated by other airlines, which could have a material adverse effect on our business, financial condition and results of operations.

Insurance premiums may also increase due to an accident or incident affecting one of our airline affiliates or alliance partners or affecting other airlines.

High levels of competition in the airline industry may adversely affect our level of operations.

Our business, financial condition and results of operations could be adversely affected by high levels of competition within the industry, particularly the entrance of new competitors into the markets in which we operate. Airlines compete primarily over fare levels, frequency and dependability of service, brand recognition, passenger amenities (such as frequent flyer programs) and the availability and convenience of other passenger or cargo services. New and existing airlines could enter our markets and compete with us on any of these bases. Several of our competitors are larger than us and have greater brand recognition and greater resources than we do. Competing carriers include investor-owned, government-subsidized and national flag carriers of foreign countries as well as low-cost carriers offering discounted fares. The U.S.-Chile and other open skies agreements may subject us to further competition from international carriers. In addition to traditional competition among airline companies, we face competition from companies that provide ground transportation, especially in our domestic cargo and passenger businesses, as well as sea transportation for our cargo business. Competition could reduce our passenger traffic and cargo demand, forcing us to reduce our fare levels, which could have a material adverse effect on our revenues and level of operations.

Some of our competitors may receive external support which could negatively impact our competitive position.

Some of our competitors may receive support from external sources, such as their national governments, which may be unavailable to us. Support may include, among others, subsidies, financial aid or tax waivers. This support could place us at a competitive disadvantage and adversely affect our operations and financial performance.

If we are unable to incorporate leased aircraft into our fleet at acceptable rates and terms in the future, our business could be adversely affected.

A large portion of our aircraft are subject to long-term operating leases. Our operating leases typically run from three to twelve years from the date of delivery. We may face more competition for, or a limited supply of, leased aircraft, making it difficult for us to negotiate on competitive terms upon expiration of our current operating leases or to lease additional capacity required for our targeted level of operations. If we are forced to pay higher lease rates in the future to maintain our capacity and the number of aircraft in our fleet, our profitability could be adversely affected.

We are incorporating various new technologies and equipment and their phase-in may have a negative impact on our service and operating standards.

In recent years we have decided to incorporate a number of new aircraft, equipment and systems. The decision to incorporate these new elements has been based on their potential to enhance customer satisfaction, increase efficiency and/or streamline processes. However, the phase-in of these elements may temporarily result in lower service and operating standards, which could affect how our customers perceive us and have a negative impact on our results of operations.

Our business may be adversely affected if we are unable to meet our significant future financing requirements.

We require significant amounts of financing to meet our aircraft capital requirements and may require additional financing to fund our other business needs. We cannot guarantee that we will have access to or be able to arrange for financing in the future on favorable terms. If we are unable to obtain financing for a significant portion of our capital requirements, our ability to acquire new aircraft or to expand operations could be impaired and our business negatively affected.

Our business may be adversely affected by our high degree of debt and aircraft lease obligations compared to our equity capital.

We have a high degree of debt and payment obligations under our aircraft operating leases compared to equity capital. In order to finance our debt, we depend in part on our cash flow from operations. We cannot assure you that in the future we will be able to meet our payment obligations. In addition, the majority of our property and equipment is subject to liens securing our indebtedness. In the event that we fail to make payments on the secured indebtedness, creditors' enforcement of liens could limit or end our ability to use the affected property and equipment to fulfill our operational needs and thus generate revenue.

Increases in insurance costs and/or significant reductions in coverage could harm our financial condition and results of operations.

Major events affecting the aviation insurance industry (such as terrorist attacks, hijackings or airline crashes) may result in significant increases of the airlines' insurance premium or in significant decreases of insurance coverage, as it happened after the 9/11 terrorist attacks. Increases in insurance costs and/or significant reductions in coverage could harm our financial condition and results of operations.

Problems with air traffic control systems or other technical failures could interrupt our operations and have a material adverse effect on our business.

Our operations, including our ability to deliver customer service, are dependent on the effective operation of our equipment, including our aircraft, maintenance systems and reservation systems. Our operations are also dependent on the effective operation of domestic and international air traffic control systems and the air traffic control infrastructure in the markets in which we operate. Equipment failures, personnel shortages, air traffic control problems and other factors that could interrupt operations could adversely affect our operations and financial results as well as our reputation.

Our financial success depends on the availability and performance of key personnel, who are not subject to non-competition restrictions.

Our success depends to a significant extent on the ability of our senior management team and key personnel to operate and manage our business effectively. Our employment agreements with key personnel do not contain any non-competition provisions applicable upon termination. Competition for highly qualified personnel is intense. If we lose any executive officer, senior manager or other key employee and are not able to obtain an adequate replacement, or if we are unable to attract and retain new qualified personnel, our business, financial condition and results of operations could be materially adversely affected.

Our business may experience adverse consequences if we are unable to reach satisfactory collective bargaining agreements with our unionized employees.

Approximately 39% of our employees, including administrative personnel, cabin crews, flight attendants, pilots and maintenance technicians are members of unions and have contracts and collective bargaining agreements which expire on a regular basis. Our business, financial condition and results of operations could be materially adversely affected by a failure to reach agreement with any labor union representing such employees or by an agreement with a labor union that contains terms that are not in line with our expectations or that prevent us from competing effectively with other airlines.

Pressure by employees could cause operating disruptions and negatively impact our business.

Certain employee groups such as pilots, flight attendants, mechanics and our airport personnel have highly specialized skills. As a consequence, actions by these groups, such as strikes, walk-outs or stoppages, could severely disrupt our operations and negatively impact our operating and financial performance, as well as how our customers perceive us.

For example, during the third quarter of 2001, members of one of our pilot unions implemented a series of actions that disrupted our services prior to the negotiation of their collective bargaining agreement, which had a negative impact on our operations and our profitability.

Increases in our labor costs, which constitute a substantial portion of our total operating costs, could directly impact our earnings.

Labor costs constitute a significant percentage of our total operating costs (20.4% in 2010), and at times in our operating history we have experienced pressure to increase wages and benefits for our employees. A significant increase in our labor costs above the assumed costs could result in a material reduction in our earnings.

We may experience difficulty finding, training and retaining employees.

Our business is labor intensive. We employ a large number of pilots, flight attendants, maintenance technicians and other operating and administrative personnel. The airline industry has, from time to time, experienced a shortage of qualified personnel, specifically pilots and maintenance technicians. In addition, as is common with most of our competitors, we may, from time to time, face considerable turnover of our employees. Should the turnover of employees, particularly pilots and maintenance technicians, sharply increase, our training costs will be significantly higher. We cannot assure you that we will be able to recruit, train and retain the qualified employees that we need to continue our current operations or replace departing employees. A failure to hire and retain qualified employees at a reasonable cost could materially adversely affect our business, financial condition and results of operations.

Failure to comply with applicable environmental regulations could adversely affect our business and reputation.

Our operations are covered by environmental regulations at local, national and international levels. These regulations cover, among other things, emissions to the atmosphere, disposal of solid waste and aqueous effluents, aircraft noise and other activities incident to our business. Future operations and financial results may vary as a result of such regulations. Compliance with these regulations and new or existing regulations that may be applicable to us in the future could increase our cost base and adversely affect our operations and financial results. In addition, failure to comply with these regulations could adversely affect us in a variety of ways, including adverse effects on our reputation.

Risks Related to Chile and Other Emerging Market Countries

Developments in Latin American countries and other emerging market countries may adversely affect the Chilean economy, negatively impact our business and results of operations and cause the market price of our common shares and ADSs to decrease.

We conduct a significant portion of our operations in emerging market countries, particularly in Latin America. As a result, economic and political developments in these countries, including future economic crises and political instability, could impact the Chilean economy or the market value of our securities and have a material adverse effect on our business, financial condition and results of operations. Beginning late 2008, and continuing during 2009, many of the countries we serve, including Chile, experienced economic slowdowns or recessions, which resulted in a substantial weakening of demand. Although economic conditions in other emerging market countries may differ significantly from economic conditions in Chile, we cannot assure that events in other countries, particularly other emerging market countries, will not adversely affect the market value of, or market for, our common shares or ADSs.

Fluctuations in the value of the Chilean peso and other currencies in the countries in which we operate may adversely affect our revenues and profitability.

Changes in the exchange rate between the Chilean peso and the U.S. dollar or other currencies in the countries in which we operate could adversely affect our business, financial condition and results of operations. We operate in numerous countries and face the risk of variation in foreign currency exchange rates against the U.S. dollar or between the currencies of these various countries. Approximately 99% of our indebtedness at December 31, 2010 is denominated in U.S. dollars, 15% of our revenues and 40% of our operating expenses in 2010 were denominated in currencies other than the U.S. dollar, mainly the Chilean peso. If the value of the peso, or of other currencies in which revenues are denominated, declines against the U.S. dollar, we will need more pesos or other local currency to repay the same amount of U.S. dollars. The Chilean peso has experienced volatility in recent years, including an average nominal depreciation of 1.3% against the U.S. dollar in 2008, an average nominal depreciation of 4.7% against the U.S. dollar in 2009 and an average nominal appreciation of 4.6% against the U.S. dollar in 2010. The exchange rate of the Chilean peso and other currencies against the U.S. dollar may fluctuate significantly in the future. Changes in Chilean and other governmental economic policies affecting foreign exchange rates could also adversely affect our business, financial condition, results of operations and the return to our shareholders on their common shares or ADSs.

Exchange controls in Venezuela delay our ability to repatriate cash generated from operations in Venezuela. They also increase our exposure to exchange rate losses due to potential devaluations of the Venezuelan bolivar *vis à vis* the U.S. dollar during the period of time between the time we are paid in Venezuelan bolivares and the time we are able to repatriate such revenues in U.S. dollars. See “Operating and Financial Review and Prospects—Year ended December 31, 2010 compared to year ended December 31, 2009—Cost of Sales” and “—Year ended December 31, 2009 compared to year ended December 31, 2008—Cost of Sales,” under Item 5.

We are not required to disclose as much information to investors as a U.S. issuer is required to disclose and, as a result, you may receive less information about us than you would receive from a comparable U.S. company.

The corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. company and, as a result, you may receive less information about us than you would receive from a comparable U.S. company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The disclosure requirements applicable to foreign issuers under the Exchange Act are more limited than the disclosure requirements applicable to U.S. issuers. Publicly available information about issuers of securities listed on Chilean stock exchanges also provides less detail in certain respects than the information regularly published by listed companies in the United States or in certain other countries. Furthermore, there is a lower level of regulation of the Chilean securities markets and of the activities of investors in such markets as compared with the level of regulation of the securities markets in the United States and in certain other developed countries.

Risks Related to our Common Shares and ADSs

Our controlling shareholders may have interests that differ from those of our other shareholders.

As of April 29, 2011 our controlling shareholders, beneficially owned 34.01% of our voting common shares. Controlling shareholders are in a position to elect four of the nine members of our board of directors and are in a position to direct our management. In addition, under the terms of the deposit agreement governing the ADSs, if holders of ADSs do not provide The Bank of New York Mellon, in its capacity as depositary for the ADSs, with timely instructions on the voting of the common shares underlying their ADRs, the depositary will be deemed to have been instructed to give a person designated by the board of directors the right to vote those common shares.

Trading of our ADSs and common shares in the securities markets is limited and could experience further illiquidity and price volatility.

Chilean securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. In addition, Chilean securities markets may be materially affected by developments in other emerging markets, particularly other countries in Latin America. Accordingly, although you are entitled to withdraw the common shares underlying the ADSs from the depositary at any time, your ability to sell the common shares underlying ADSs in the amount and at the price and time that you wish to do so may be substantially limited. This limited trading market may also increase the price volatility of the ADSs or the common shares underlying the ADSs.

Holders of ADSs may be adversely affected by currency devaluations and foreign exchange fluctuations.

If the peso exchange rate falls relative to the U.S. dollar, the value of the ADSs and any distributions made thereon from the depositary could be adversely affected. Cash distributions made in respect of the ADSs are received by the depositary (represented by the custodian bank in Chile) in pesos, converted by the custodian bank into U.S. dollars at the then prevailing exchange rate and distributed by the depositary to the holders of the ADRs evidencing those ADSs. In addition, the depositary will incur foreign currency conversion costs (to be borne by the holders of the ADRs) in connection with the foreign currency conversion and subsequent distribution of dividends or other payments with respect to the ADSs.

Future changes in Chilean foreign investment controls and withholding taxes could negatively affect non-Chilean residents that invest in our shares.

Equity investments in Chile by non-Chilean residents have been subject in the past to various exchange control regulations that govern investment repatriation and earnings thereon. Although not currently in effect, regulations of the Central Bank of Chile have in the past required, and could again require, foreign investors acquiring securities in the secondary market in Chile to maintain a cash reserve or to pay a fee upon conversion of foreign currency to purchase such securities. Further, future changes in withholding taxes could negatively affect non-Chilean residents that invest in our shares.

When we established our ADS facility as part of our initial public offering in 1997, there were foreign exchange controls in Chile. At that time, in order to allow the depositary and investors to be able to enter into foreign exchange transactions to repatriate from Chile amounts they received in connection with the deposited shares of common stock (including dividends and proceeds from the sale in Chile of the underlying shares of common stock and any rights with respect thereto), we entered into a foreign investment contract (the “Foreign Investment Contract”) with the Central Bank and the depositary. The Foreign Investment Contract guaranteed ADS investors and the depositary access to the Formal Exchange Market to convert amounts from Chilean pesos into U.S. dollars and to repatriate such amounts.

In 2001, a new Compendium of Foreign Exchange Regulations (the “New Compendium”) removed exchange controls and many other barriers to investment. However, even though there are no longer foreign exchange controls in Chile, all foreign investment contracts (including the Foreign Investment Contract), continue to remain in full force.

We cannot assure that additional Chilean restrictions applicable to the holders of ADRs, the disposition of the common shares underlying ADSs or the repatriation of the proceeds from an acquisition, a disposition or a dividend payment, will not be imposed or required in the future, nor could we make an assessment as to the duration or impact, were any such restrictions to be imposed or required. For further information, see “Additional Information— Foreign Investment and Exchange Controls in Chile,” under Item 10.

Our ADS holders may not be able to exercise preemptive rights in certain circumstances.

The Chilean Corporation Law, provides that preemptive rights shall be granted to all shareholders whenever a company issues new shares for cash, giving such holders the right to purchase a sufficient number of shares to maintain their existing ownership percentage. We will not be able to offer shares to holders of ADSs and shareholders located in the United States pursuant to the preemptive rights granted to shareholders in connection with any future issuance of shares unless a registration statement under the U.S. Securities Act of 1933, as amended, or the Securities Act, is effective with respect to such rights and shares, or an exemption from the registration requirements of the Securities Act is available. At the time of any rights offering, we will evaluate the potential costs and liabilities associated with any such registration statement in light of any indirect benefit to us of enabling U.S. holders of ADRs evidencing ADSs and shareholders located in the United States to exercise preemptive rights, as well as any other factors that may be considered appropriate at that time, and we will then make a decision as to whether we will file a registration statement. We cannot assure that we will decide to file a registration statement or that such rights will be available to ADS holders and shareholders located in the United States.