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	Daily Observed Exchange Rate Ch\$ per US\$	
	High	Low
<b>Month in 2004</b>		
December	621.27	593.10
<b>Month in 2005</b>		
January	586.18	557.40
February	585.40	563.22
March	573.55	591.69
April	572.75	588.95
May	570.83	583.59

Source: Central Bank of Chile

On June 14, 2005 the observed exchange rate was Ch\$591.88 = US\$1.00.

### **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, 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 ADS, 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 Operations and the Airline Industry**

*Our performance is heavily dependent on economic conditions in the countries in which we do business.*

Passenger and cargo demand is heavily cyclical and highly dependant on global and local economic growth, economic expectations and foreign exchange rate variations. In the past we have been impacted by weak economic growth in Chile, recession in Argentina and poor economic performance in certain emerging market countries in which we operate. 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;
- changes in the regulatory, legal or administrative practices; or
- other political or economic developments over which we have no control.

Similar future events occurring in one or more countries in which we operate could have a material effect on our results of operations.

*A future incident similar to the September 11, 2001 terrorist attacks in the United States or other countries could have a severe impact on the airline industry and adversely affect our revenues.*

The terrorist attacks in the United States on September 11, 2001 had a severe adverse impact on the airline industry, particularly on foreign air carriers operating international service to and from the United States. Airline traffic in the United States fell dramatically after the attacks. Throughout South America, passenger traffic also decreased substantially, although the decrease was less severe than that in the United States. Our passenger revenues are largely dependent on the number of passengers traveling on our flights. Following September 11, 2001, we experienced a significant decline in passenger traffic and, therefore, a significant decline in revenues. Any future terrorist attacks or the threat thereof, whether or not involving commercial aircraft, the general increase of hostilities

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relating to reprisals against terrorist organizations or otherwise, and any related economic impact or prolonged general reduction in travel demand could result in decreased passenger traffic and, as a result, cause a material adverse effect on our business, financial condition and results of operations.

The airline industry has 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. Premiums for insurance against aircraft damage and liability to third parties increased substantially and could escalate further. While governments in other countries have agreed to indemnify airlines for liabilities that they might incur from terrorist attacks, the Chilean government has given no indication of an intention to provide a similar indemnification for Chilean airlines. 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.

*Our business may be adversely affected by a downturn in the airline industry.*

Demand for air transportation may be adversely impacted by exogenous events, such as natural disasters, epidemics, 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.

*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 salmon 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.

*Our operations are subject to fluctuations in the supply and cost of jet fuel.*

Higher jet fuel prices or a shortage in the supply of fuel could cause a reduction in our scheduled service and could materially affect 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 21.6% of our operating expenses in 2004. 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. Our ability to lessen the impact of any increase in fuel costs by increasing fares or otherwise passing on a portion of such costs to our customers 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 fly more hours on average 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 are often affected by certain factors beyond our control, including weather conditions, which can affect our operations.*

Generally, 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 and, as a result, our revenues could suffer.

*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 unpredictable event. There can be no assurance that, as a result of an aircraft accident or 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 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.

*Our business may suffer if any of our strategic partners terminate our alliance or commercial relationship.*

We maintain a number of alliances and other commercial relationships with strategic partners that allow us to enhance our network and, in some cases, offer our customers services that we could not otherwise offer. If our relationship with any of our strategic partners and, in particular, with American Airlines, Iberia, Qantas or **oneworld**<sup>®</sup> deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be negatively affected.

*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. 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 cargo and domestic passenger businesses. Competition could reduce our passenger traffic, forcing us to reduce our fare levels, which could have a material adverse effect on our revenues and level of operations.

*Our plans for regional expansion within Latin America depend upon key regulatory and commercial issues.*

We plan to continue to increase the scale of our operations and revenues by expanding our presence outside of Chile, both directly and through our affiliates. Our ability to successfully implement this strategy will depend upon many factors, several of which are outside our control or subject to change. These factors include the permanence of a suitable political, economic and regulatory environment in the Latin American countries in which we operate or intend to operate and our ability to identify and maintain strategic local partners. Additionally, high levels of government regulation may limit the scope of our operations, our growth plans 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. These restrictions could materially affect our business, financial condition, result of operations and future expansion plans.

*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.*

The majority of our aircraft are subject to long-term operating leases. Our operating leases typically run from three to 12 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 terms similar to those we now have 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 fly and depend upon Airbus and Boeing aircraft, and our business is at risk if we do not receive timely deliveries of aircraft or if the public negatively perceives our aircraft.*

As of May 31, 2004, we operated a fleet of 23 Airbus and 40 Boeing aircraft. As our fleet grows, our risk in relying on these two manufacturers also grows. These risks include:

- the failure or inability of Airbus or Boeing to provide sufficient aircraft, parts or related support services on a timely basis;
- the interruption of fleet service as a result of unscheduled or unanticipated maintenance requirements for these aircraft;
- the issuance of FAA or other directives restricting or prohibiting the use of Airbus or Boeing aircraft or requiring time-consuming inspections and maintenance; or
- the adverse public perception of a manufacturer as a result of an accident or other negative publicity.

The occurrence of any one or more of these factors could restrict or end our ability to use the affected property to generate profits or could otherwise limit our 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.

*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 that in the future we will be able to fully finance our business operations and expansion efforts. 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 generate revenue.

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*Future changes in the status of Chilean and foreign governmental authorizations and licenses could adversely affect our business.*

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 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, 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 are subject to various international bilateral air transport agreements that provide for, among other things, the exchange of air traffic rights between the countries in which our companies are based and other countries to which we provide service. We must also obtain permission from the applicable foreign governments to provide service to foreign destinations. There can be no assurance that existing bilateral agreements between the countries in which our companies are based and 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 to 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.

We are also subject to antitrust regulation by the Chilean government because of our dominant position in the Chilean domestic passenger market. There are no legal barriers to entry in the Chilean airline industry, however, and we could face additional competition in the future on any or all of our domestic routes, including competition from foreign air carriers that establish a corporate presence in Chile.

*Our ability to service certain important destinations could be limited in the future.*

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. Some airports in the United States are subject to take-off and landing restrictions administered by the U.S. Federal Aviation Administration, which is also known as the FAA. 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.

*Problems with air traffic control systems or other technical failures could interrupt our operations and materially affect 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, and the commitment of our personnel. 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 and our reputation.

*Our financial success depends on the availability and performance of key personnel.*

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. 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.

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

A substantial number of our administrators, 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.

As an 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, would directly impact our earnings.*

Labor costs constitute a significant percentage of our total operating costs, and at times in our operating history we have experienced pressure to increase wages and benefits for our employees. As a result, 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.

*We may not be able to secure the resources necessary to sustain our growth.*

Rapid growth may strain our existing management resources and operational, financial and management information systems and controls. Expansion will also require us to hire additional skilled personnel, purchase more equipment and additional or larger facilities, upgrade our internal audit function and implement more detailed long-term budgeting procedures. If we are unable to hire skilled personnel or secure the required equipment and facilities in an efficient, cost-effective manner, we may not be able to achieve our growth plans and sustain or increase our profitability.

*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. 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 Chilean peso and other foreign currencies relative to the U.S. dollar may adversely affect our revenues and profitability.*

Changes in the exchange rate between the Chilean peso and the U.S. dollar 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. A significant part of our indebtedness is denominated in U.S. dollars, while approximately 22% of our revenues and 27% of our operating expenses are denominated in pesos and various other currencies in 2004. 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 significant volatility in recent years, including a nominal decrease of approximately 9.8% against the U.S. dollar in 2002, a nominal increase of approximately 15.9% against the U.S. dollar in 2003 and a nominal increase of approximately 6.6% against the U.S. dollar in 2004. 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.

*We are not required to disclose as much information to investors as a U.S. issuer is required to disclose.*

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 required of foreign issuers under the Exchange Act is more limited than the disclosure required of 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 May 31, 2005 our controlling shareholders, together, beneficially owned 54.6% of our voting common shares. These controlling shareholders are in a position to elect a majority of the members of our board of directors, direct our management and control substantially all matters that are to be decided by a vote of shareholders, including fundamental corporate transactions. In addition, under the terms of the deposit agreement governing the ADSs, if holders of ADSs do not provide The Bank of New York, in its capacity as depository for the ADSs, with timely instructions on the voting of the common shares underlying their ADRs, the depository will be deemed to have been instructed to give a person designated by the board of directors the right to vote those common shares.

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*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. Due to our relatively small public float, our common shares are less actively traded than securities of other companies with larger public floats in more developed countries and, consequently, an ADS holder may have a limited ability to sell ADSs or the common shares underlying ADSs (upon withdrawal from the ADR facility) in the amount and at the price and time that it may desire. 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 are generally subject 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 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.

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.

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

The Chilean Corporation Act and Regulation thereof, *Ley sobre Sociedades Anónimas No. 18,046* and the *Reglamento de Sociedades Anónimas*, collectively known as the Chilean Corporation Law, provide 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.



**ITEM 4. INFORMATION ON THE COMPANY****BUSINESS****Overview**

We are one of the leading passenger airlines in Latin America and the main cargo operator in the region. We provide domestic and international passenger services in Chile and Peru and international passenger services in Ecuador. In 2005, we initiated domestic passenger operations in Argentina. We carry out our cargo operations through the use of belly space on our passenger flights and dedicated cargo operations using freighter aircraft through our airlines in Chile, Brazil and Mexico.

As of May 31, 2005, we service 15 destinations in Chile, 11 destinations in Peru, seven destinations in Argentina, two destinations in Ecuador, 12 destinations in other Latin American countries and the Caribbean, three destinations in the United States, two destinations in Europe and four destinations in the South Pacific. In addition, as of May 31, 2005, through our various code-share agreements, we offer service to 51 additional international destinations. We provide cargo service to all our passenger destinations and to 25 additional destinations served only by freighter aircraft.

We also offer other services, such as ground handling, courier, logistics, and maintenance, through Lan Airlines and some of our subsidiaries.

Lan Airlines S.A. is a publicly-held stock corporation (*sociedad anónima abierta*) incorporated under the laws of Chile. Our principal executive offices are located at Presidente Riesco 5711, Comuna de Las Condes, Santiago, Chile and our general telephone number at this location is (56-2) 565-2525.

**History of the Company**

The Chilean government founded Lan Airlines (formerly Lan Chile S.A.) in 1929. Lan Airlines was a government-owned company from 1929 until its incorporation in 1983. Lan Airlines began international service to Buenos Aires, Argentina in 1946, to the United States in 1958 and to Europe in 1970. In 1989, the Chilean government sold 51% of Lan Airlines' capital stock to Chilean investors and to Scandinavian Airlines System. In 1994, our controlling shareholders together with other major shareholders acquired 98.7% of Lan Airlines' stock, including the remaining stock held by the Chilean government, in a series of transactions. As of May 31, 2005, the controlling shareholders held 54.6% of our capital stock. For more information about our controlling shareholders, see "Controlling Shareholders and Related Party Transactions" under Item 7.

Since this acquisition of our capital stock in 1994 and the appointment of our current management, we have grown our revenue base and maintained our profitability every year despite significant challenges. Additionally, we have created a comprehensive network across the region by forming, together with local partners, or acquiring, passenger affiliates in Peru, Ecuador, and Argentina and cargo affiliates in Brazil and Mexico. In early 2004, we changed our corporate image and started using the "LAN" brand in order to better reflect the common values and attributes present in all the companies forming our network. We have complemented our own network with a set of bilateral alliances with carriers such as American Airlines, Iberia and Qantas, and have been a member of the *oneworld*<sup>®</sup> alliance since 2000.

**Organizational Structure**

LAN is a company primarily involved in the transportation of passengers and cargo. Our operations are carried out principally by Lan Airlines and also by a number of different subsidiaries. As of May 31, 2005, in the passenger business we operated through four main airlines: Lan Airlines, Transporte Aéreo S.A. (which does business under the name Lan Express), LanPeru S.A. ("LanPeru"), and Aerolineas Líneas Aéreas Nacionales del Ecuador S.A. ("LanEcuador"). During the first half of 2005, we acquired a 49% stake in Aero 2000 S.A. (which does business under the name Lan Argentina), a small Argentine carrier. Lan Argentina launched domestic service to two destinations in Argentina during June 2005.