

## Brazilian Exchange Rates

TAM maintains its accounting records and prepares its financial statements in Brazilian reais. The following tables set forth, for the periods indicated, the high, low, average and period-end observed exchange rate for the purchase of U.S. dollars, expressed in Brazilian reais per U.S. dollar. The rates have not been restated in constant currency units. On April 15, 2013 the observed exchange rate was Br\$1.979 = US\$1.00.

Year Ended December 31,	Daily Observed Exchange Rate			
	High	Low	Average <sup>(1)</sup>	Period-End
	BRS per US\$			
2008	2.500	1.559	1.837	2.337
2009	2.422	1.702	1.998	1.741
2010	1.881	1.655	1.759	1.666
2011	1.902	1.535	1.675	1.876
2012	2.112	1.702	1.955	2.043
September	2.039	2.013	2.028	2.031
October	2.038	2.022	2.029	2.031
November	2.107	2.031	2.067	2.107
December	2.112	2.043	2.077	2.044
2013				
January	2.047	1.988	2.031	1.988
February	1.989	1.957	1.973	1.975
March	2.019	1.953	1.983	2.014
April <sup>(2)</sup>	2.024	1.974	1.997	1.979

Source: Central Bank of Brazil

(1) For each year, the average of the month-end exchange rates for the relevant year. For each month, the average daily exchange rate for the relevant month.

(2) Through April 15, 2013.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. 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 ("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 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 Relating to the Combination of LAN and TAM**

*LATAM Airlines Group may be unable to fully realize the anticipated benefits of the combination of LAN and TAM*

In June 2012, LAN and TAM completed a business combination, which was effected through a series of transactions and corporate restructurings. The combination brought together two large and complex businesses that had previously operated as independent public companies. Significant management attention and resources will be required to integrate certain aspects of the business practices and operations of LAN and TAM. The success of the combination will depend, in part, on the ability of LATAM Airlines Group to realize anticipated revenue synergies, cost savings and growth opportunities by combining the businesses of LAN and TAM. LATAM Airlines Group hopes to generate synergies resulting from the consolidation of capabilities, rationalization of operations and headcount, greater efficiencies from increased scale and market integration, new product and service offerings and organic growth. There is a risk, however, that LATAM Airlines Group may not be able to combine the businesses of LAN and TAM in a manner that permits LATAM Airlines Group to realize these revenue synergies, cost savings and growth opportunities in the time, manner or amounts it expects, or at all. Potential difficulties LATAM Airlines Group may encounter as part of the integration process include, among other things:

- 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;
- potential loss of key employees as a result of implementing the combination;
- the need to coordinate the existing products and customer bases of LAN and TAM; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the mergers and the other combination transactions, including one-time cash costs to complete and implement the combination that may exceed the one-time cash costs that the companies anticipated.

In addition, LAN and TAM continue to operate under their existing separate airline certificates. 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 to achieve the anticipated benefits of the proposed combination, and could increase costs or reduce each company's earnings or otherwise adversely affect the businesses, financial condition, results of operations and/or prospects of the combined companies following the completion of the exchange offer and the mergers.

Actual revenue synergies, cost savings, growth opportunities and efficiency and operational benefits that result from the combination may be lower and may take a longer time to achieve than LATAM currently expects.

The integration of two large companies also presents significant management challenges. In order to achieve the anticipated benefits of the proposed combination, the operations of the two companies are being reorganized and

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their resources will need to be combined in a timely and flexible manner. There can be no assurance that LATAM will be able to implement these steps as anticipated or at all. If LATAM fails 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 revenue synergies, cost savings and growth opportunities fail to materialize, the combination may not produce the benefits LATAM anticipates. As of December 2012 the merged company has established numerous of initiatives in order to integrate both companies and generate the estimated synergies. During the first six months of joint operations LATAM Airlines Group recognized US\$72 million in merger synergies, before merger related expenses.

*LATAM has incurred and will continue to incur significant costs and expenses in connection with the combination and integration of the business operations of LAN and TAM*

LATAM has incurred and will continue to incur substantial expenses in connection with the proposed combination and the integration of LAN and TAM. LAN incurred approximately US\$15 million in non-recurring expenses in connection with the combination during 2011. In 2012, LATAM incurred US\$47.0 million of non-recurring expenses on an as reported basis, in connection with the business combination and integration of LAN and TAM, principally relating to legal and consulting fees, and travel expenses. This latter figure is in line with the company's estimate of US\$200 million in one-time costs related to the merger to be incurred over the first year after the business combination. Significant costs and expenses were incurred related to the exchange offer, the mergers and the other transactions to effect the combination. These costs and expenses included financial advisory, legal, accounting, consulting and other advisory fees and expenses, reorganization and restructuring costs, severance/employee benefit-related expenses, filing fees, printing expenses and other related charges. There are also a large number of processes, policies, procedures, operations, technologies and systems that must be integrated in connection with the combination. Any delay in the integration of the business operations of LAN and TAM or factors beyond LATAM's control could affect the total amount or the timing of the integration and implementation expenses.

If additional unanticipated significant costs are incurred in connection with the combination or integration of these businesses, such costs and expenses could, particularly in the near term, exceed the savings that LATAM expects to achieve from the elimination of duplicative expenses and the realization of economies of scale, other efficiencies and cost savings. Although LATAM expects to achieve savings and economies of scale sufficient to offset these integration and implementation costs over time, this net benefit may not be achieved in the near term or at all.

*LATAM does not control the voting shares or board of directors of TAM*

Following the combination of LAN and TAM:

- Holdco I owns 100% of the TAM common shares previously outstanding;
  - TEP Chile S.A., a Chilean company that is wholly owned by the TAM Controlling Shareholders ("TEP Chile"), owns approximately 80.58% of the outstanding Holdco I voting shares and LAN owns the remaining outstanding Holdco I voting shares, due to a Brazilian restriction that prohibits non-Brazilians from owning more than 20% of a Brazilian airline;
  - LATAM owns 100% of the outstanding Holdco I non-voting shares, which entitles it to essentially all of the economic rights in respect of the TAM common shares held by Holdco I; and
- LATAM owns 100% of the TAM preferred shares previously outstanding.

As a result of this ownership structure:

- TEP Chile, by virtue of its control of the voting shares of Holdco I and the boards of directors of each of Holdco I, TAM and each airline subsidiary of TAM, retain voting and board control of TAM and each airline subsidiary of TAM; and
- LATAM, by virtue of its ownership of all of the non-voting shares of Holdco I and TAM preferred shares, is entitled to all of the economic rights in TAM.

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LATAM and TEP Chile and other parties have entered into shareholders' agreements that establish agreements and restrictions relating to corporate governance in an attempt to balance LATAM's interests, as the owner of substantially all of the economic rights in TAM, and the TAM controlling shareholders, as the continuing controlling shareholders of TAM under Brazilian law. See "Item 7. Controlling Shareholders and Related Party Transactions—Shareholders' Agreements." These shareholders' agreements prohibit the taking of certain specified material corporate actions and decisions without prior supermajority approval of the shareholders (5/6 of the total of the shareholders) and/or the board of directors of Holdco I or TAM. However, no assurances can be given that LATAM and the TAM controlling shareholders will be able to reach an agreement with respect to such supermajority voting or board matters in the future and if they do not, the businesses, financial condition, results of operations and prospects of the combined companies could be adversely affected. In addition, pursuant to these shareholder agreements, neither Holdco I, TAM nor TAM's subsidiaries may take certain actions without the prior approval of a supermajority of the board of directors and/or the shareholders of Holdco I or TAM. As a result of these supermajority requirements, these actions will effectively require the prior approval of both LATAM and TEP Chile (which is wholly owned by the TAM controlling shareholders). Actions requiring supermajority approval by the board of directors of Holdco I or TAM include, among others, entering into acquisitions or business collaborations, amending or approving budgets, business plans, financial statements and accounting policies, incurring indebtedness, encumbering assets, entering into certain agreements, making certain investments, modifying rights or claims, entering into settlements, appointing executives, creating security interests, issuing, redeeming or repurchasing securities and voting on matters as a shareholder of subsidiaries of TAM. Actions requiring supermajority shareholder approval of Holdco I or TAM include, among others, certain changes to the by-laws of Holdco I, TAM or TAM's subsidiaries or any dissolution/liquidation, corporate reorganization, payment of dividends, issuance of securities, disposal or encumbrance of certain assets, creation of securities interest or entering into guarantees and agreements with related parties.

*Uncertainties associated with the combination of LAN and TAM may cause a loss of management personnel and other key employees that could adversely affect LATAM's operations.*

The success of the proposed combination is dependent, in part, on the experience and industry knowledge of their senior management and other key employees of LAN and TAM and their ability to execute their business plans. In order to be successful, LATAM must be able to retain the 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 LATAM following the combination, which may have an adverse effect on LATAM's ability to retain or attract senior management and other key employees. Competition for highly qualified personnel in the various localities and business segments in which LATAM operates is intense. No assurances can be given that LATAM will be able to retain or attract senior management and other key employees following the merger to the same extent that LAN and TAM had previously been able to do so.

*The financial results of LATAM are more exposed to foreign currency fluctuations following the combination with TAM.*

The financial results of LATAM are more exposed to currency exchange rate fluctuations as a result of the combination with TAM and the resulting increase in the proportion of its assets, liabilities and earnings that are denominated in currencies other than U.S. dollars.

LATAM prepares and presents its consolidated financial statements in U.S. dollars, which was the functional and presentation currency of LAN. The combination of LAN and TAM has significantly increases the proportion of LATAM's consolidated net assets, revenues and income in non-U.S. dollar currencies, primarily Chilean pesos and Brazilian reais. In particular, the majority of TAM's revenues are denominated in Brazilian reais, while a significant portion of its operating expenses are denominated in, or linked to, the U.S. dollar or other foreign currencies. The consolidated financial condition and results of operations of LATAM will therefore be more sensitive to movements in exchange rates between the U.S. dollar and other currencies. A depreciation of non-U.S. dollar currencies relative to the U.S. dollar could have an adverse impact on the financial condition, results of operations and prospects of LATAM.

*LATAM's future results will suffer if it cannot effectively manage its expanded operations following completion of the combination*

The size of LATAM's combined business following the combination of LAN and TAM is significantly larger and more complex than the previous businesses of LAN or TAM individually. LATAM's future success will depend, in part, on LATAM's ability to manage this expanded business, which will pose substantial challenges for management, including those related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurances that LATAM will be successful or that it will realize the expected operating efficiencies, cost savings, revenue synergies and other benefits anticipated from the combination.

*Following the combination, Fitch Ratings Inc. ("Fitch") lowered LATAM's credit rating. This downgrade, or further downgrades, could have a negative effect on LAN's business*

Prior to the combination, TAM had a lower credit rating and was more leveraged than LAN. Following the combination, Fitch Ratings Inc. downgraded LATAM Airlines Group S.A.'s long-term foreign currency issuer default rating from BBB to BB+, which is below investment grade. It is possible that LATAM's credit rating could be further downgraded by one or more credit rating agencies. The Fitch downgrade and any further downgrades could increase LATAM's financing costs and affect LATAM's ability to finance future fleet acquisitions and could adversely affect the financial condition, results of operations and prospects of the combined companies.

*It may take time to combine the frequent flyer programs of LAN and TAM*

LAN and TAM each previously ran their own frequent flyer programs. While LATAM intends to integrate these programs so that passengers can use frequent flyer miles earned with either LAN or TAM interchangeably, there is no guarantee that this integration will be completed in the near term or at all. Even if the integration occurs, the successful integration of these programs will involve some time and expense. Until LATAM effectively combines these programs, passengers may prefer frequent flyer programs offered by other airlines, which may adversely affect our business.

*LATAM will have to withdraw from an existing airline alliance to which LAN or TAM belongs no later than April 2014.*

LAN is currently a member of the oneworld® airline alliance while TAM is a member of the Star Alliance airline alliance. Although LAN and TAM continue to operate under their existing, separate operating certificates following the combination, due to conditions imposed by the Chilean and Brazilian antitrust regulators, LAN and TAM may not participate in more than one airline alliance after April 2014. LATAM announced in March 2013, that TAM will leave the Star Alliance and become a member of the oneworld® airline alliance during the second quarter of 2014, in order to fulfill a requirement imposed on LATAM by the Chilean and Brazilian antitrust authorities in connection with the combination with TAM. The withdrawal from the Star Alliance may impede LATAM from providing customers with exactly the same benefits previously provided by LAN and TAM, such as the same travel destinations, combined reservation system, itinerary flexibility, among others. As a result, passengers may prefer alliances offered by LATAM's competitors, and consequently decide to fly with them, which may adversely affect LATAM's business.

#### **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,

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which translated into a substantial weakening of passenger and cargo 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.

No assurance can be given that capacity reductions or other steps we may take in response to weakened demand will be adequate to offset any future reduction in our cargo and/or air travel demand. Sustained weakened demand may adversely impact our revenues, results of operations or financial condition.

*Our business is highly regulated and changes in the regulatory environment in which we operate 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 in the countries served by our airlines fail to maintain the required foreign and domestic governmental authorizations. In order to maintain the necessary authorizations issued by the 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®, Japan Airlines, Korean Airlines, Cathay Pacific, Alaska Airlines deteriorates, or any of these agreements are terminated, our business, financial condition and results of operations could be negatively affected. By requirement of the antitrust authorities in Chile, LATAM is required to withdraw from an existing airline alliance, to which LAN or TAM belongs by April 2014. To comply with this requirement on March 2013 LATAM Airlines announced that TAM will leave the Star Alliance to join oneworld® in the second quarter of 2014.

*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;

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- 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, Peru, Brazil, Argentina, Ecuador, Colombia 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 “Item 4. Information on the Company—Business Overview—Regulation.”

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. A change in the administration of current laws and regulations or the adoption of new laws and regulations in any of the countries in which we operate that restricts our route, airport or other access may 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, weather conditions and natural disasters, war or terrorist attacks.*

Demand for air transportation may be adversely impacted by exogenous events, such as adverse weather conditions and 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.

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. For example, in January 2010, extreme floods affected the city of Cuzco in Peru, causing important

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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 estimated the net impact of decreased passenger operations due to this weather event 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 and reduced passenger operations until March 28, 2010. We estimated the net impact of decreased passenger operations due to the earthquake to have been approximately US\$30 million. In 2011, the Company was also impacted by the presence of volcanic ash on certain routes in Chile and other destinations, which we estimate resulted in US\$18 million in losses, in addition to forgone revenue.

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 coupled with conflicts during 2011 in Egypt and Libya that affected global fuel supply.

*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 exports of fish, sea products and produce from Chile and Peru, and exports of 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.

*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 36.3% of our pro forma operating expenses in 2012. 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 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, 2013, we operated a fleet of 241 Airbus, 75 Boeing and 14 Dash 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 have invested in new Boeing 787 “Dreamliner” aircraft, the operation of which has been delayed as a result of actions taken by the Federal Aviation Administration (the “FAA”).*

In 2012, LATAM received the first three Boeing 787-8 Dreamliners, and became the first airline in the Americas (and one of the first in the world) to operate this modern and efficient aircraft. The incorporation of the Boeing 787-8 Dreamliners into our fleet is part of our strategic objective to incorporate new, modern and fuel efficient aircraft into our existing fleet.

During January 2013, two incidents occurred with Boeing 787 aircraft operated by Japan Airlines, involving a fire risk to the battery of the aircraft. By recommendation of the FAA, LATAM ceased operations of its three Dreamliner aircraft in January 2013. On April 19, 2013, the FAA approved a solution proposed by Boeing to address the battery problems, and subject to the implementation of this corrective solution and approval from safety regulators, LATAM and other airline groups will be able to resume operations with Dreamliner aircraft. As of the date of this annual report, LATAM has not yet established a date to resume the operations of the Boeing 787. Delays in the approval of the resumption of operations with the Dreamliner aircraft could occur, and new problems that adversely affect the operation of the Boeing 787 aircraft could be discovered. We cannot assure you when we will be able to resume operations with this aircraft.

*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, including by offering lower prices, more attractive services or increasing their route capacities in an effort to gain greater market share. 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, the Brazilian Government is considering raising the regulatory limitation on foreign capital investments in the Brazilian airline industry from 20% to 49% of voting capital, which could lower barriers to entry and increase competition in this market.

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.

*Chile may open its domestic aviation industry to foreign airlines without restrictions, which may change the competitive landscape of the domestic Chilean aviation sector and affect our business and results of operations*

Currently, Chilean laws and regulations permit foreign airlines to operate domestic flights in Chile. Nevertheless, the rules currently prevent foreign-based carriers from flying within Chile without setting up a Chilean subsidiary first. There are currently no foreign airlines participating in the Chilean domestic market. However, on January 18, 2012, both the Secretary of Transportation and the Secretary of Economics of Chile announced steps towards unilaterally opening the Chilean domestic skies in the near term. Chilean Domestic Unilateral Open Skies Rule may change the competitive landscape of the Domestic Chilean Aviation Sector, as it will be easier for foreign companies in the future to freely operate in the Chilean territory, which may subject us to further competition. Competition from international carriers in the Chilean market may affect the competitive dynamics of our industry by reducing our passenger traffic and cargo demands, forcing us to reduce our fare levels, which could have a material adverse effect on our revenues and level of operations.

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*A recent proposal by the Brazilian government would result in the reallocation of certain takeoff and landing slots at Brazilian airports; if this proposal is enacted in its current form, it would reduce our access to important airport infrastructure and adversely affect our results of operations.*

The Brazilian government has proposed, but has not yet implemented, regulations to reallocate existing takeoff and landing slots at major airports in Brazil from TAM and our competitor, GOL, to smaller airlines and new market entrants, in order to stimulate small airline access to airport infrastructure. These proposed regulations also focus on operational efficiency, and require airlines to meet specified punctuality and frequency benchmarks. We rely on access to takeoff and landing slots at the Guarulhos and Congonhas airports in Sao Paulo, as well as other major airports in Rio de Janeiro and throughout Brazil, to conduct our Brazilian passenger operations. The reallocation of any of our slots to other market participants could adversely affect our operations, particularly at the Congonhas airport where we currently utilize almost half of the existing slots to service our scheduled capacity.

*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 is 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. In the combination of LAN and TAM, the LATAM Airlines Group assumed debt and payment obligations, including under aircraft lease

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obligations, of TAM, and as a result we have significantly increased our leverage. 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.

*Variations in interest rates may have adverse effects on our interest payments business, financial condition, results of operations and prospects and the trading price of our ADRs and BDRs and preferred shares.*

We are exposed to the risk of interest rate variations, principally in relation to the U.S. dollar London Interbank Offer Rate ("LIBOR"), as well as the Long Term Interest Rate (Taxa de Juros de Longo Prazo, or TJLP), with respect to TAM's loans denominated in reais. Many of our operating and financial leases are denominated in U.S. dollars and bear interest at a floating rate. Following the combination of LAN and TAM, LATAM is more exposed to fluctuations of interest rates, as more than half of TAM's outstanding debt, principally, its financial leases, as well as its operating leases, bears interest at a floating rate. On a combined basis, approximately 62% of LATAM's outstanding debt as of December 31, 2012 bears interest at a floating rate, 62% of which is hedged to a fixed rate using derivative instruments.

Volatility in LIBOR or the TJLP could increase our periodic interest and lease payments and have an adverse effect on our total financing costs. We may be unable to adequately adjust our prices to offset any increased financing costs, which would have an adverse effect on our revenues and our results of operations.

In addition, concerns have been expressed that some of the member banks surveyed by the British Bankers' Association (the "BBA") in connection with the calculation of LIBOR rates may have been under-reporting the interbank lending rates applicable to them in order to avoid an appearance of capital insufficiency or adverse reputational or other consequences that may result from reporting higher interbank lending rates. Some member banks have admitted to under-reporting, and under-reporting may have resulted in LIBOR rates being artificially low. The BBA in June 2008 announced changes to the LIBOR rate-fixing process including tighter scrutiny of rates contributed by member banks into the rate-fixing mechanism and increasing the number of institutions surveyed to set LIBOR rates, and is continuing its consideration of ways to strengthen the oversight of the rate calculation process. Actions by the BBA, regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined. Uncertainty as to the nature of any potential changes in, or volatility in the calculation of, LIBOR may adversely affect our interest and lease payments for obligations which bear interest using LIBOR as a reference rate, including our fleet financing arrangements.

*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 occurred after the September 11, 2001 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.*

As of December 31, 2012 approximately 20% of LATAM's 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.

*Collective action 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.

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

Labor costs constitute a significant percentage of our total operating expenses (19.7% in 2012 on a pro forma basis) 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.

*The regulatory structure of Brazilian civil aviation is undergoing change and we have not yet been able to evaluate the results of this change on our business and results of operations.*

Scheduled air transportation services are considered public utilities in Brazil and are subject to extensive regulation by the Brazilian government. Over recent years, the Brazilian regulatory authorities have taken a more proactive role in monitoring the development of the Brazilian civil aviation market. For example, in an effort to prevent excess supply, the authorities have established rigorous criteria for air transport companies to follow when creating new routes or increasing flight frequencies. Various legislative initiatives have taken place, including the drafting of a bill to amend the Brazilian Aeronautics Code, Law No. 7,565 of December 19, 1986, the establishment of ANAC, the national aviation agency that replaced the Departamento de Aviação Civil, or “DAC,” as the principal regulatory body for Brazilian civil aviation, and the Civil Aviation Secretariat (Secretaria de Aviação Civil), or SAC, created on March 18, 2011 pursuant to Provisional Measure (Medida Provisória) No. 527, or Provisional Measure No. 527. See “Item 4. Information on the Company–Business Overview–Regulation–Brazil–Route Rights.”

Operation of air transportation services, as well as airport infrastructure, is an exclusive right of the Brazilian government, which may choose to provide these services directly or through third parties by means of concessions or permits. TAM’s concession to operate public air transportation was obtained on December 9, 1996 and renewed on December 9, 2011, and it is valid until December 9, 2021. We cannot assure you that we will be able to automatically renew TAM’s concession when it expires. See “Item 4. Information on the Company–Business Overview–Regulation–Brazil–Aeronautical Regulation.”

Additionally, our capacity to grow our Brazilian operations is dependent on receiving the necessary authorizations from ANAC and the Bureau of International Relations (Superintendência de Relações Internacionais, or “SRI”). We cannot assure you that we will obtain all necessary authorizations in the future and any failure to do so would require us to re-evaluate our strategies.

The Brazilian civil aviation structure may change significantly in the future and we may not be able to anticipate or evaluate how this change will affect our business and results of operations. We cannot assure you that these or other changes in Brazilian civil aviation regulations will not have an adverse effect on our business or results of operations. Any change that requires us to focus a significant level of resources on compliance with new aviation regulations, for example, would result in additional expenditure on compliance and consequently adversely affect our results of operations.

In addition, our ability to increase prices to offset an increase in our fixed expenses may be adversely affected in the event that the Brazilian civil aviation authorities impose price control restrictions on air transportation services. If we are unable to adequately increase prices to offset increases in fixed expenses, this would adversely affect our results of operations. Changes in the regulations issued by the Brazilian government or the occurrence of any of the above factors may increase our expenses, limit our capacity to expand our routes or adversely affect our business and results of operations.

*Our operations are subject to local, national and international environmental regulations; costs of compliance with applicable regulations, or the consequences of noncompliance, could adversely affect our results, our business or our 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.

The European Union (“EU”) has adopted a directive under which the existing emissions trading scheme (the “ETS”) in each EU member state is to be extended to airlines. This directive would require us to submit annual emission allowances in order to operate routes to and from EU member states. The ETS’s application to flights was

scheduled to begin in 2012, however, its implementation to international flights has been delayed by the EU and the EU is not expected to collect allowances from airlines in 2013 (it was enforced with respect to airlines that conducted intra-European flights during 2012). Although it is uncertain when and if the ETS will be implemented, it is increasingly likely that we will be required to participate in some form of an international aircraft emissions program in the future. Currently, we operate 6 routes to and from Europe, and service additional destinations through our code-share agreements. The cost of compliance with any international emissions program, including the ETS, is difficult to estimate; however, these costs could be significant and could require us to reduce our emissions, purchase allowances or otherwise pay for our emissions, which could have a significant impact on our operating costs or impact the frequency of our flights to and from EU member states.

**Risks Related to Chile, Brazil and Other Emerging Market Countries in which we Operate**

*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.*

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. 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. Approximately 97% of our indebtedness at December 31, 2012 is denominated in U.S. dollars, and 46% of our revenues and 58% of our operating expenses in 2012 were denominated in currencies other than the U.S. dollar, mainly the Chilean peso and the Brazilian real. 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 appreciation of 4.6% against the U.S. dollar in 2010, an average nominal appreciation of 5.3% against the U.S. dollar in 2011 and an average nominal depreciation of 0.7% against the U.S. dollar in 2012.

Following the combination of LAN and TAM, our exposure to the Brazilian real has increased, as a significant proportion of TAM's revenues are denominated in reais. The Brazilian real has also experienced volatility and depreciated frequently over the past decade, including depreciation of 25.5% against the U.S. dollar in 2008, appreciation of 25.5% and 4.3% against the U.S. dollar in 2009 and 2010, respectively, and a depreciation of 12.6% against the U.S. dollar in 2011. In 2012, the Brazilian real depreciated by 16.7%. The exchange rate of the Chilean peso, Brazilian real and other currencies against the U.S. dollar may fluctuate significantly in the future. Changes in Chilean, Brazilian 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 "Item 5. Operating and Financial Review and Prospects—LAN's Financial Results Discussion: Year ended December 31, 2011 compared to year ended December 31, 2010." As of December 31, 2012, the devaluation of the Venezuelan bolivar had a cash impact of US\$10.6 million on our results.

*The Brazilian government has exercised, and may continue to exercise, significant influence over the Brazilian economy, which may have an adverse impact on our business, financial condition and results of operations.*

The Brazilian economy has been characterized by the significant involvement of the Brazilian government, which often changes monetary, credit, fiscal and other policies to influence Brazil's economy. The Brazilian government's actions to control inflation and implement other policies have involved wage and price controls, depreciation of the real, controls over remittance of funds abroad, intervention by the Central Bank to affect base interest rates and other measures. We have no control over, and cannot predict what measures or policies the Brazilian government may take in the future. Following the combination of LAN and TAM, our operations in Brazil have increased significantly. As a result, our business, financial condition, results of operations and prospects, and the trading price of our common shares and ADSs, may be adversely affected by changes in Brazilian governmental policies relating to Brazilian economic growth, inflation, interest rates, exchange control policies, fiscal policy and changes in tax law, liquidity of domestic capital and lending markets, government control of oil production activities and oil refinement and other general economic factors.

*We cannot predict what future fiscal, monetary, social security or other policies will be adopted by current or future Brazilian governments, or whether these policies will adversely affect the Brazilian economy. In addition, possible political crises may affect the confidence of investors and the public in general, which may result in economic deceleration and affect the trading prices of securities issued by Brazilian companies. 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.*

We have two groups of major shareholders—the Cueto Group (the "LATAM Controlling Shareholders") and the Amaro Group (the "TAM Controlling Shareholders"). As of February 28, 2013, the LATAM Controlling Shareholders, in the aggregate, beneficially owned 25.68% of our voting common shares, and the TAM Controlling Shareholders, in the aggregate, beneficially owned 13.56% of our voting common shares. The LATAM Controlling Shareholders are in a position to elect three of the nine members of our board of directors and are in a position to direct our management. In addition, the LATAM Controlling Shareholders have entered into a shareholders agreement with the TAM Controlling Shareholders, pursuant to which these controlling shareholders have agreed to vote together to elect individuals that the TAM Controlling Shareholders nominate to our board of directors. See "Item 7. Controlling Shareholders and Related Party Transactions—Major Shareholders."

Under the terms of the deposit agreement governing the ADSs, if holders of ADSs do not provide JP Morgan Chase Bank, N.A., 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 discretionary right to vote those common shares. The person designated by the board of directors to exercise this discretionary voting right may have interests that are aligned with our controlling shareholders, which may differ from those of our other shareholders. Historically, our board of directors has designated its chairman to serve in this role, who currently is Mauricio Amaro.



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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. 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 Chilean 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 you 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 "Item 10. Additional Information-Foreign Investment and Exchange Controls in Chile."

*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, (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.