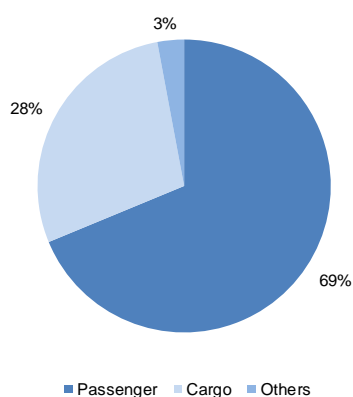


Company Profile – LAN Airlines SA Ltd.

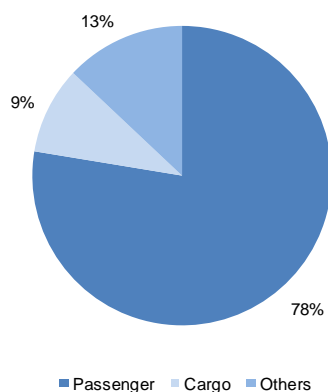
Public Market Overview (LAN):

Bloomberg Ticker	LAN CI
Current Price	USD 26.65
52 Week High/Low	USD 33.35 / USD 21.50
Shares Outstanding (million)	340.093
Market Capitalization (million)	USD 9,063
Net Debt / (Cash) (million)	USD 2,872
Enterprise Value	USD 11,935
Average Trading Volume ('000)	842.872
Average Trading Value (million)	USD 23

Revenue Distribution by Segment in 2010 (LAN):



Revenue Distribution by Segment in 2010 (TAM):



Business Description:

- LAN Airlines is one of the most important passenger airlines in Latin America, with presence in Chile, Peru, Ecuador, Colombia and Argentina
- The company is controlled by the Cueto family
- LAN operates through 3 business segments:
 - Passenger
 - Cargo
 - Others (Loyalty Programs)
- LAN is the main cargo operator in Latin America, with presence in Chile, Brazil, Mexico and Colombia
- In the Chilean domestic market, LAN has 76.8% market share in the passenger business and 94.3% in the cargo business
- LAN has a market share of 51.0% in the international passenger business in flights with origin or destiny in Chile
- As of December 2009, LAN recorded a significant market share in Peru, amounting to 77.0% in the domestic market and 33.0% in the international market
- In Ecuador, it reached 15.0% of the domestic and 29.0% of the international market share
- In Argentina, the company has a market share of 30.0% in domestic and 17.0% in the international business
- LAN Airlines and TAM Airlines of Brazil announced their intention to merge on August 13, 2010

TAM

- TAM S.A. is the holding company of the group having interests in TAM Linhas Aéreas, TAM Mercosur, TP Franchising, Multiplus and Pantanal
- TAM Linhas Aéreas holds an ownership interest in TAM Viagens, TAM Capital, TAM Capital 2, TAM Financial 1, TAM Financial 2 and TAM Milorthe leading airline in the domestic (this point is continuation of the previous point)
- TAM operates through 3 business segments:
 - Passenger
 - Others (Loyalty Programs)
 - Cargo
- TAM has the highest market share in Brazil, with a 43.3% market share as of December 2010 and a 41.2% in 2009 as measured in RPK

Company Profile – LAN Airlines SA Ltd.

Summary Financials (LAN):

Particulars (in USD mln)	2008	2009	2010	2011E	2012E
Financials					
Net Revenue	4,283	3,656	4,523	5,543	6,445
<i>y-o-y growth</i>		(14.7%)	23.7%	22.6%	16.3%
EBITDA	877	740	965	1,086	1,294
<i>y-o-y growth</i>		(15.7%)	30.4%	12.6%	19.2%
Net Income	336	231	420	436	485
<i>y-o-y growth</i>		(31.3%)	81.6%	4.0%	11.1%
Margins					
EBITDA	20.5%	20.2%	21.3%	19.6%	20.1%
Net Income	7.9%	6.3%	9.3%	7.9%	7.5%
Net Debt	2,416	2,019	2,228	2,757	4,385
Interest Expense, net	125	153	155	122	149
Ratios					
EV/Sales	2.79x	3.26x	2.64x	2.15x	1.85x
EV/EBITDA	13.6x	16.1x	12.4x	11.0x	9.2x
Net Debt/EBITDA	2.8x	2.7x	2.3x	2.5x	3.4x
EBITDA/Net Interest Expense	7.0x	4.8x	6.2x	8.9x	8.7x
P/E	26.9x	39.2x	21.6x	20.8x	18.7x

Commentary:

- In 2009, the company experienced a decline of 14.7% in revenues due to the global slowdown and decrease in demand in the Latin American region
- In 2010, the company's revenues grew significantly by 23.7% primarily owing to the cargo segment which grew by 43.0% over 2009
- In 2010, the company's EBITDA margins improved due higher efficiency in managing costs by implementing costs saving measures

Summary Financials (TAM):

Particulars (in BRL mln)	2008	2009	2010	2011E	2012E
Financials					
Net Revenue	10,513	9,766	11,379	12,448	14,243
<i>y-o-y growth</i>		(7.1%)	16.5%	9.4%	14.4%
EBITDA	1,020	812	1,677	1,232	1,744
<i>y-o-y growth</i>		(20.3%)	106.4%	(26.5%)	41.5%
Net Income	(1,582)	1,247	637	340	442
<i>y-o-y growth</i>		NM	(48.9%)	(46.7%)	30.3%
Margins					
EBITDA	9.7%	8.3%	14.7%	9.9%	12.2%
Net Income	(15.1%)	12.8%	5.6%	2.7%	3.1%
Net Debt	6,175	5,083	4,939	6,029	6,506
Interest Expense, net	3,006	1,041	1,672	1,051	494
Ratios					
EV/Sales	1.05x	1.13x	0.97x	0.88x	0.77x
EV/EBITDA	10.8x	13.6x	6.6x	8.9x	6.3x
Net Debt/EBITDA	6.1x	6.3x	2.9x	4.9x	3.7x
EBITDA/Net Interest Expense	0.3x	0.8x	1.0x	1.2x	3.5x
P/E	NM	4.2x	8.2x	15.3x	11.8x

Commentary:

- In 2009, the company's revenues declined due to the global slowdown and decrease in demand in the Latin American region
- In 2010, the company's revenues increased by 10.5% and the EBITDA margin increased to 14.7% signifying better efficiency in operations

Business Strategy:

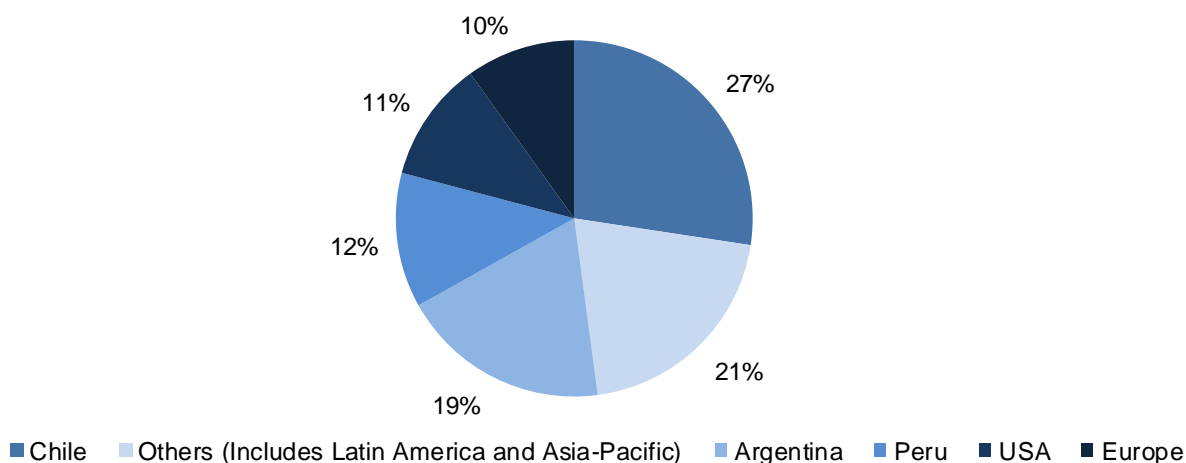
- **Expansion:** The Company plans to become Latin America's largest airlines by merging with TAM airlines. TAM has a strong focus on expanding its business passengers' base which contributes around 70.0% to the demand of domestic flights. LAN also plans to focus on greater utilization of cargo space to develop its cargo business line. The company recently acquired a Colombian airlines AIRES to enter the Colombian air industry
- **Operations:** Plans to increase cargo operations in order to increase revenues and reduce the break-even load factors (BELF's). Focused on turning around recently acquired AIRES by eliminating unprofitable routes, applying revenue management, and integrating domestic cargo operations. Through the merger, the company is likely to focus on increasing its productivity through new information technology tools, redesigning operational processes and redeployment of labor and outsourcing activities
- **Efficiency Initiative:** The Company has implement measures to increase efficiency like installing winglets in B767 aircrafts, and implementing their "LEAN Fuel" project

Company Profile – LAN Airlines SA Ltd.

History:

1929: Linea Aerea Nacional de Chile is founded by Comandante Arturi Merino Benitez
 1970: LAN commenced flights to Europe
 1985: LAN became a Joint Stock Company
 1989: Chilean government sold a 51.0% stake to local investors and Scandinavian Airlines System
 1997: LAN Airlines is listed on the New York Stock Exchange, the first Latin American Airline to do so
 1999: Began expansion plan with commencing operations in Peru
 2002: Entered into an alliance with Qantas and Lufthansa Cargo
 2003: Commenced operations in Ecuador
 2004: Launched new corporate image as LAN Airlines S.A.
 2005: Commenced operations in Argentina
 2009: Started cargo operations in Colombia and passenger operations in Ecuador
 2010: Signed association agreement with TAM; acquired Colombia's AIRES airline

Revenues by Geographical Distribution in 2010 (LAN):



Key Management:

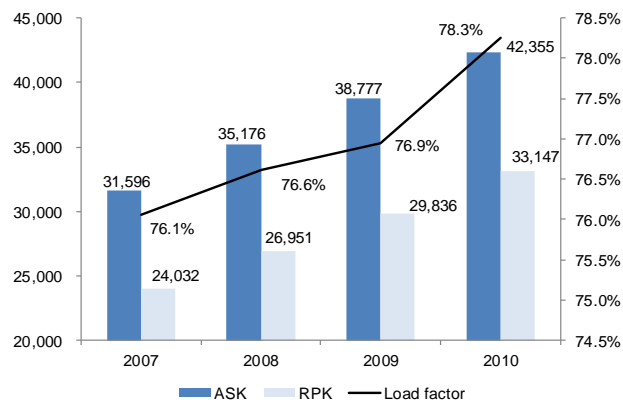
Name	Designation	Background
Jorge Awad Mehech	Chairman	-Served as Chairman for LAN Airlines since March 1994 -Was Senior Vice-President at Fast Air from 1979-1993 -Is currently also a member of the board of Banco de Chile
Enrique Cueto Plaza	CEO	-Served as CEO for LAN Airline since 1994 -Served as CEO of Fast Air from 1983-1993 -Active member of IATA
Ignacio Cueto Plaza	COO	-Served as COO for LAN Airlines since 2005 -Was President of the LAN Cargo Group from 1995-1998 -Served as General Manager of Fast Air from 1993-1995

Key Shareholders:

Shareholders	% Held
Costa Verde Aeronautica	34.0%
INV Costa Verde Y Co	31.8%
Bank of New York	8.4%
Axxion SA	8.0%
INV Andes SA	6.6%
Bank of New York Mellon Corp	5.4%
Others	5.9%
Total	100.0%

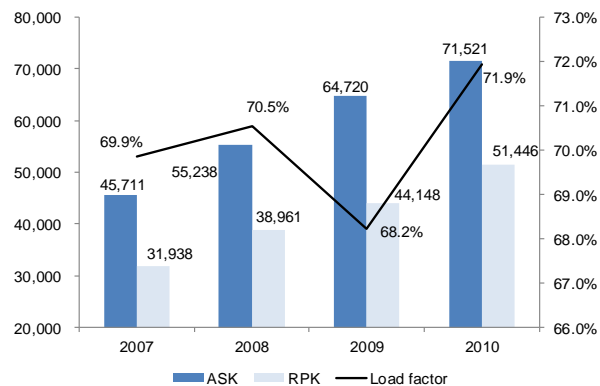
Company Profile – LAN Airlines SA Ltd.

ASK, RPK and Load Factor (Passengers) - LAN:



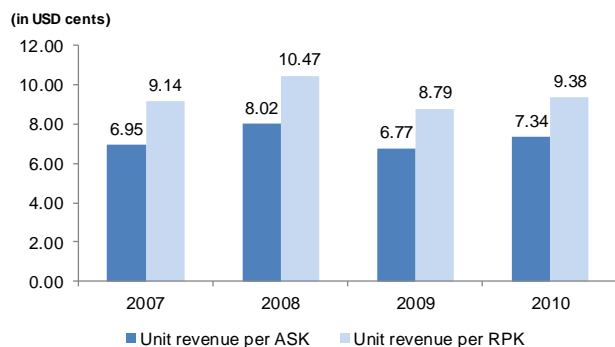
ASK: Available Seat Kilometers
 RPK: Revenue Passenger Kilometers
 (units in millions)

ASK, RPK and Load Factor (Passengers) - TAM:

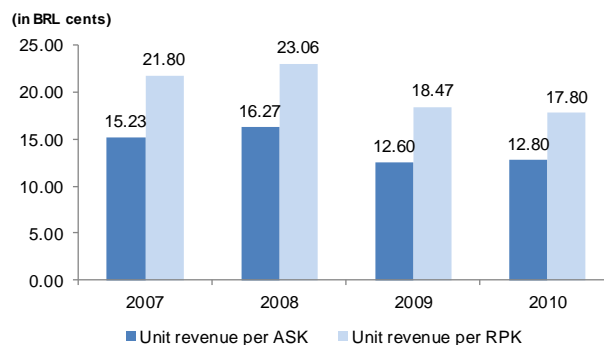


ASK: Available Seat Kilometers
 RPK: Revenue Passenger Kilometers
 (in million units)

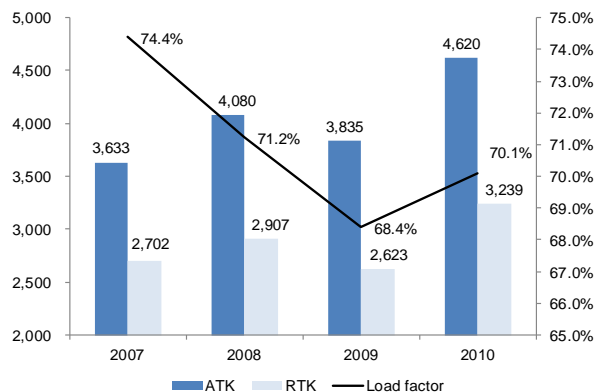
Yearly Unit Revenue per ASK and RPK – LAN:



Yearly Unit Revenue per ASK and RPK - TAM:

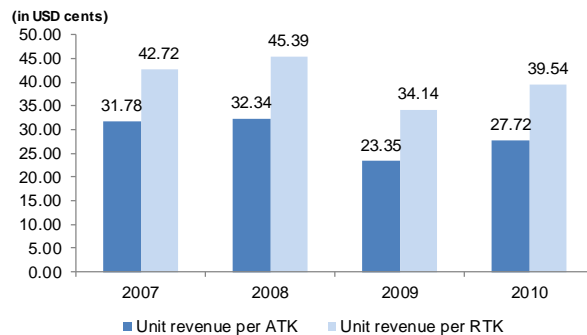


ATK, RTK and Load Factor (Cargo) - LAN:



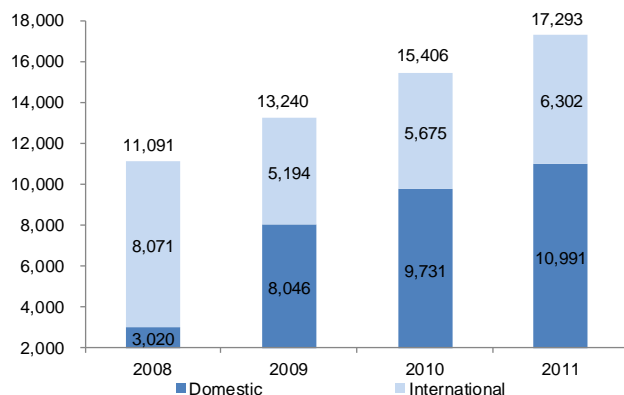
ATK: Available Ton Kilometers
 RTK: Revenue Ton Kilometers
 (units in millions)

Yearly Unit Revenue per ATK and RTK - LAN:

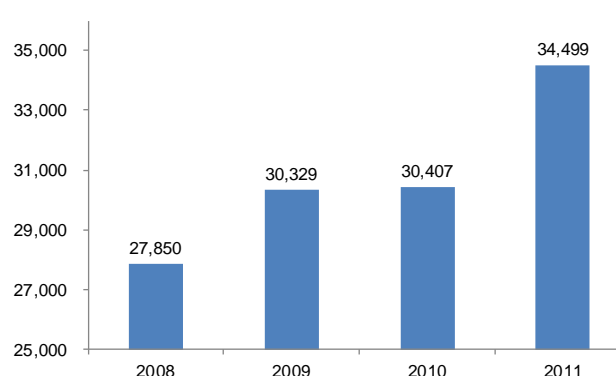


Company Profile – LAN Airlines SA Ltd.

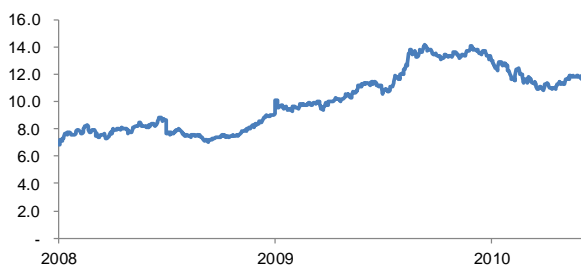
Number of Passengers ('000s) – LAN :



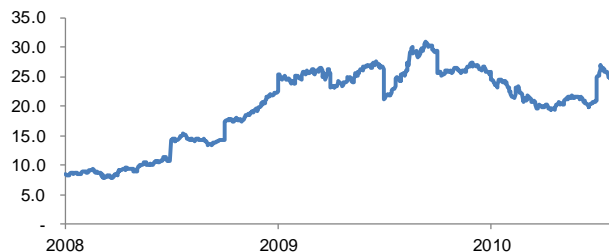
Number of Passengers ('000s) – TAM:



Historical EV/EBITDA – LAN:



Historical P/E – LAN:



Investment Rationale:

- **Market leader:** LAN has the highest market share in Chile having 76.8% market share in the passengers business and 94.3% in the cargo business
- **High operating efficiency:** LAN's integrated passenger-cargo approach allows it to achieve high load factors and higher aircraft utilization rates. Its modern fleet and new sustainability measures has improved its fuel efficiency
- **High growth potential:** The Latin American region is expected to grow at a higher rate as compared to other regions in terms of consumption and demand
- **Merger benefits:** The merger is expected to make the airlines the biggest in Latin America by providing more capacity, frequencies and destinations. The companies are expecting to scale up their international operations post the merger
- **Multiplus:** TAM's loyalty program is operated by Multiplus which contributes significant revenues to the group and is expected to benefit the group in the long-term
- **Market position:** TAM is the biggest airline in Brazil and has the highest market share of 43.3%. Brazil being an emerging market is expected to grow at a higher rate providing more opportunities for the airlines

Key Risks to Investment:

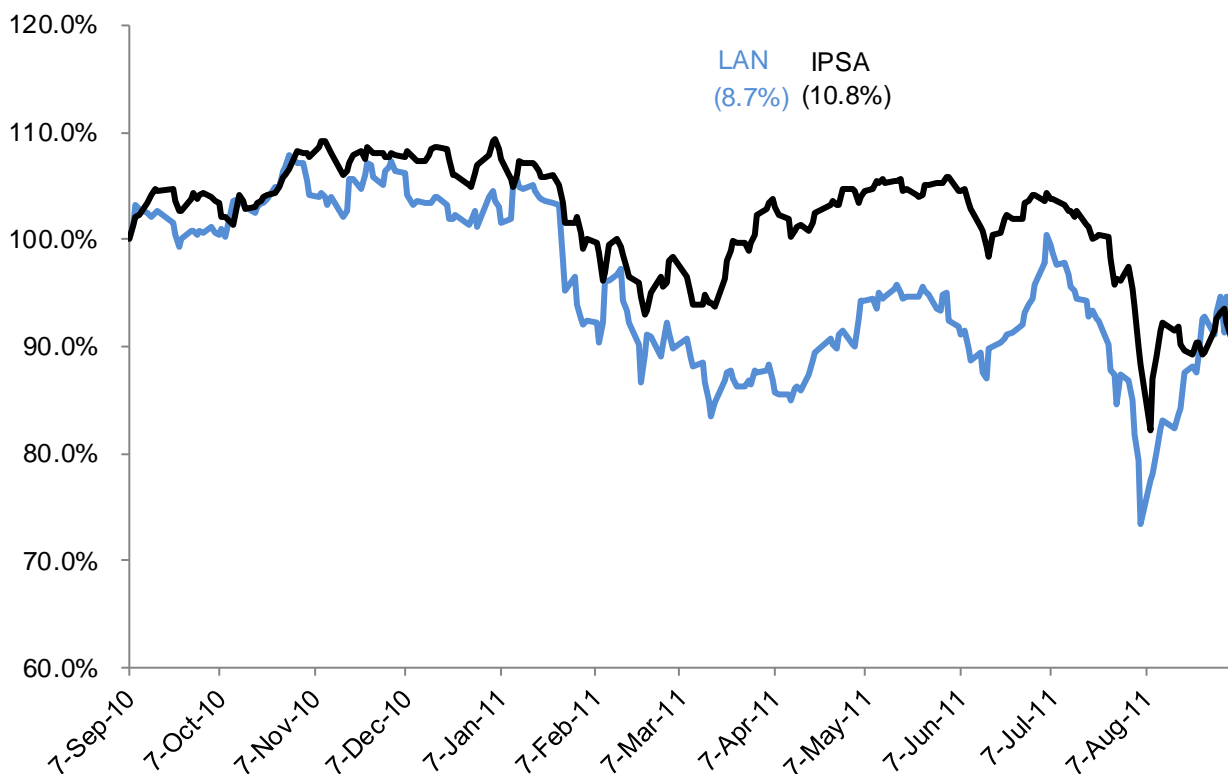
- **Rising fuel prices:** The constant volatility in oil prices lead to cost pressures for the airline and are ultimately passed to the passenger. Managing costs plays a key role in pricing of airfares for different airlines
- **Increasing competition:** The Latin American region is witnessing increasing competition due to entry of LCC's (Low Cost Carriers).
- **Economic conditions:** Potential slowdown in economy can affect demand for passenger and cargo traffic in the region
- **Under-performance:** Lower than expected synergies from the merger and operational performance pose as a

Company Profile – LAN Airlines SA Ltd.

major threat

- **Execution:** It is possible that the integration process could result in the disruption of, or the loss of momentum in each company's ongoing business which could adversely affect each company's ability to maintain good relationships with its customers, suppliers, employees and other constituencies

Stock Price Performance:

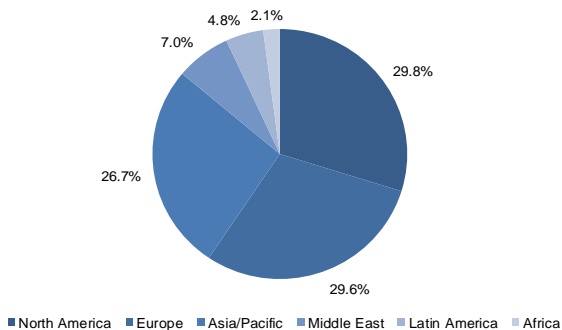


Industry Overview:

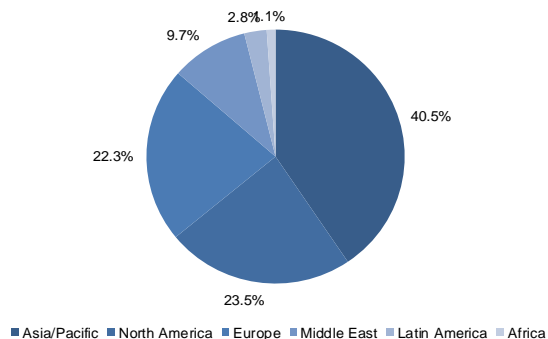
- The airline industry accounts for nearly 8.0% of the global economy and depends on global economic expansion for its revenue growth
- In 2009, international traffic declined by 3.5% overall (+1.6% in 2008) and capacity declined by 3.0%. The load factor lost 0.3 of a point to 75.6%
- The capacity in the passenger segment is expected to grow by 7.0% but the load factors and aircraft utilization is expected to fall further
- The airlines in the last decade reduced costs by 9.0% by increasing fuel efficiency by 24.0% and improving employee productivity by 67.0%
- The EBIT margins for the industry saw a steep decline during the years 2008 (-1.6%) to 2009 (-0.7%), however, the industry recovered in 2010, and is expected to remain profitable in 2011 with the exception of the African region
- In 2010, the global commercial airlines industry recorded a net profit of USD 18.0 billion against a loss of USD 9.9 billion in 2009
- The Traffic (TPK) growth in the Latin American region was 0.0% in 2009 and increased sharply by 14.5% in 2010. The TPK growth forecast for 2011 year ending is 6.0%

Company Profile – LAN Airlines SA Ltd.

Regional Market Share (RPK):

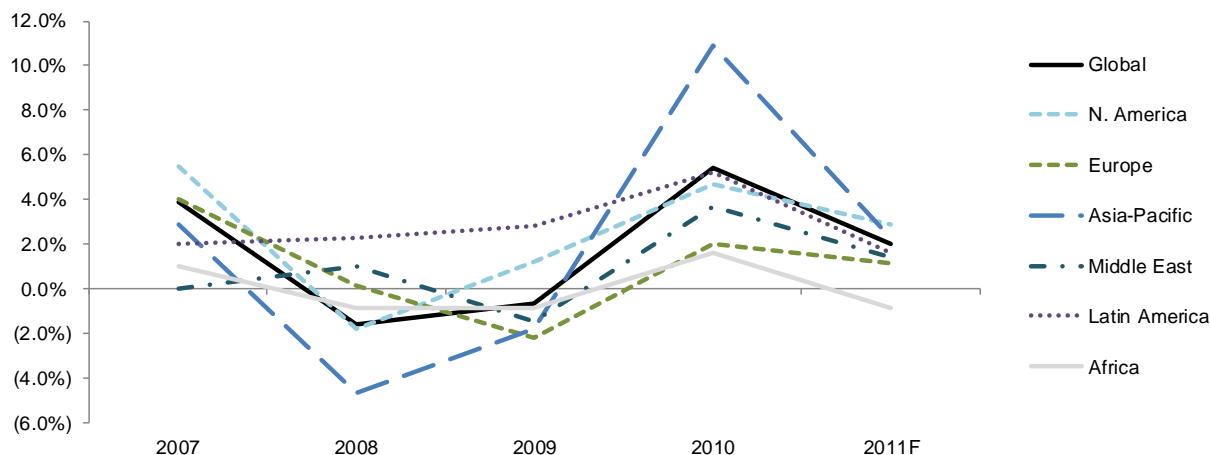


Regional Market Share (FTK):

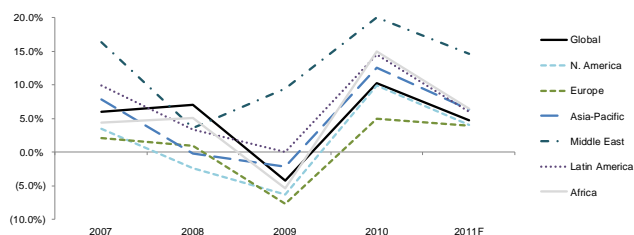


FTK : Freight Ton Kilometers

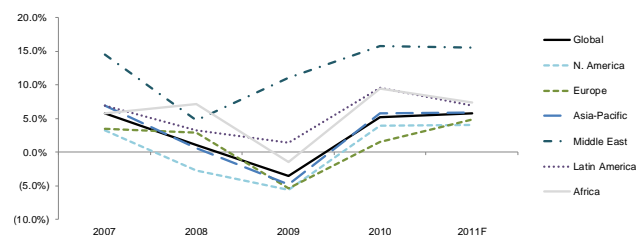
Global Region-wise EBIT margins:



Global TKP (Traffic) Change:



Global ATK (Capacity) Change:



Demand Drivers:

- Tourism Growth:** The main revenue generating segment for airlines is the passenger segment. An increase in global travel and tourism would drive the growth of the aviation industry as well, directly benefitting the company
- Open Skies policy:** Many governments are embracing the Open Skies policy which liberalizes the regulations regarding aviation industry which creates a free market for entrants. This will lead to a high demand for aircrafts and airliners entering such markets
- Emerging Economies:** As the global economy recovers, international trade and business volumes increase creating a direct demand for aviation services specially in the emerging markets such as Brazil

Company Profile – LAN Airlines SA Ltd.

Sources:

- 1) Bloomberg
- 2) TresVista Analysis
- 3) Annual Report
- 4) Company Website
- 5) Research Reports (Deutsche Bank report dated July 27, 2011 and August 11, 2011, Corp Research report dated February 21, 2011, Credit Suisse report dated August 9, 2011, HDFC report dated August 03, 2011)