

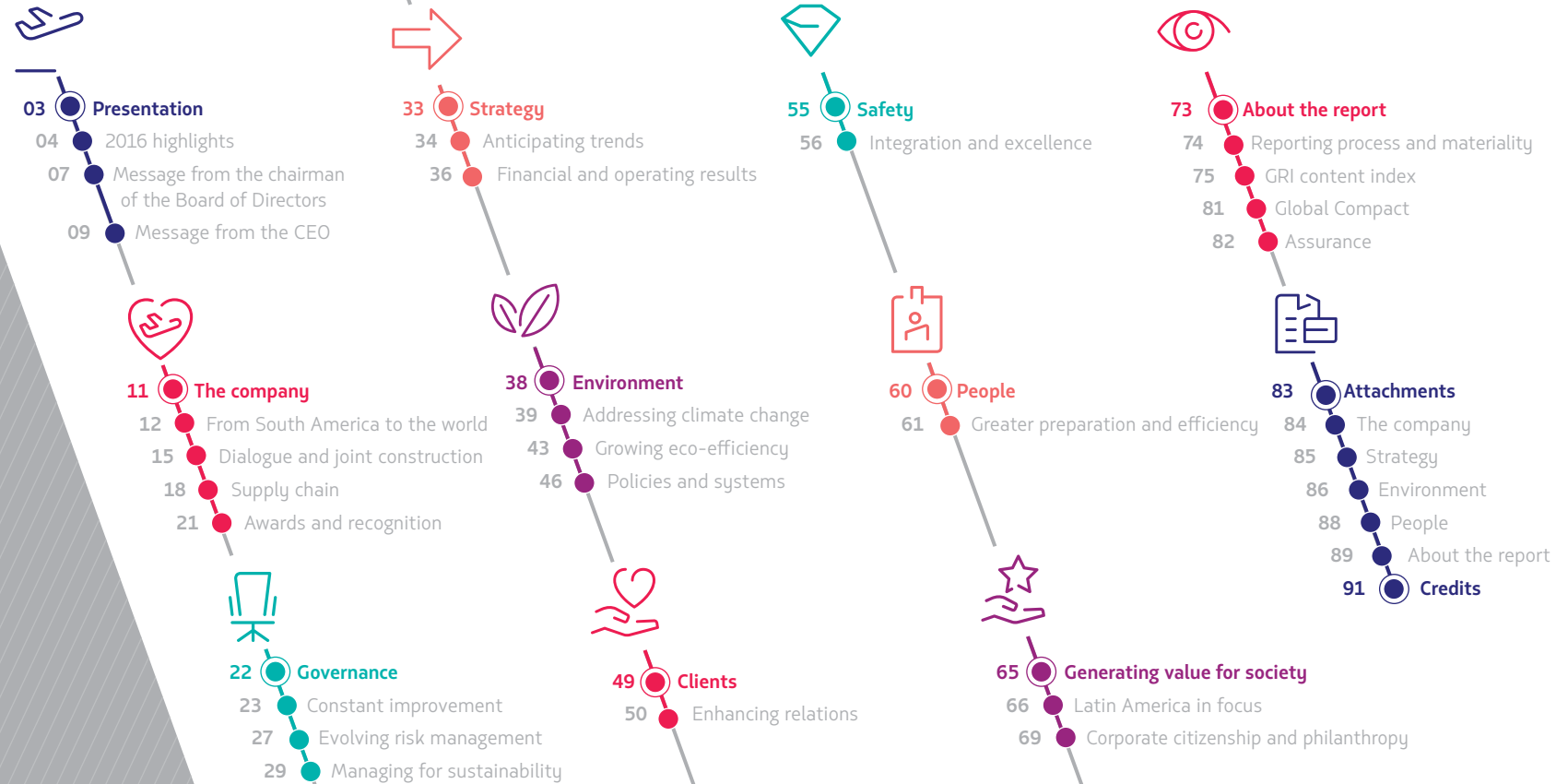


SUSTAINABILITY REPORT 2016



Summary

Cover: Chiloé, Chile



Click on the buttons to navigate the PDF.



Presentation

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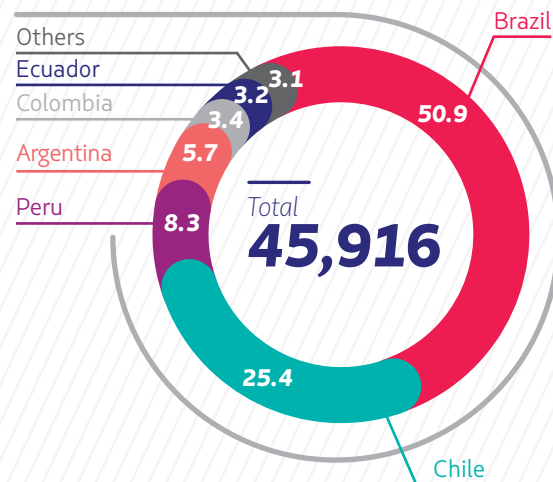
2016 Highlights

LAUNCH OF NEW LATAM BRAND DURING THE 2016 RIO OLYMPIC GAMES

67 million passengers transported to 135 destinations

944,000 metric tons of cargo transported to 138 destinations

EMPLOYEES (%)



RESILIENCE TO ECONOMIC CONJUNCTURE

US\$ 69.2 million in net income

Ebitda
US\$ 1.5 million

60 nationalities
25 countries

CLIENT FOCUS



Digital check in (via application or website):

50.1%



App LATAM:
4 million users



26.1 million members in loyalty programs:
15.4% up on 2015



14 new routes and reinforcement of strategic hubs

Among the best in the world

In 2016, for the third year running LATAM was listed on the Dow Jones World Sustainability Index. Only two airlines in the world are in this group.

ENVIRONMENTAL CARE

fuel use
8.3% more efficient than
the industry average

2.3% reduction in greenhouse
gas emissions

91% of the operations
have environmental
management systems



Fleet renewal,
with aircraft that
consume up to
25% less fuel
and generate
50% less noise



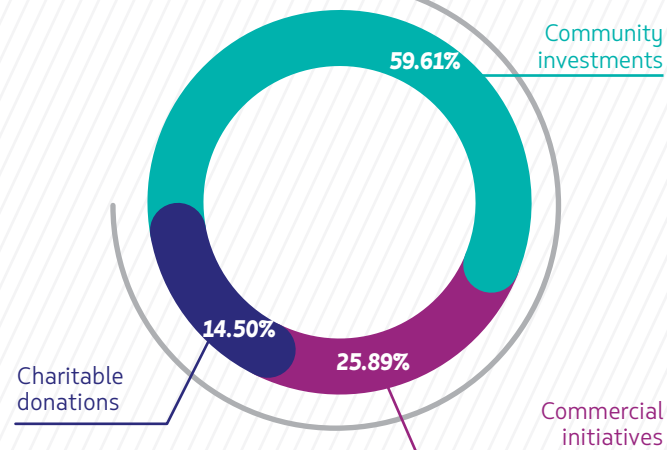
SCL — FJK

Fuel savings:
enough for
**1,244 return
flights from
Santiago (Chile)
to New York (USA)**

TRANSPARENT SOCIAL ACTIONS

LATAM has a
corporate policy
that clearly
sets forth the
criteria, validation
stages and
responsibilities
for charitable
donations.

US\$ 4.8 million
in philanthropic actions¹



¹ Includes: donation of air tickets, free or discounted cargo transportation, free advertising space for social initiatives, financial contributions for institutions and investments in management and infrastructure for company's own social programs.

CARE IN SUPPLIER CHAIN



100%
of the supplier chain is submitted to significant
social risk assessment, such as participation in cor-
ruption schemes, financing of terrorism and drug
traffic, exploitation of child and slave labor and oth-
ers. This is monitored via international data bases.

14,204
assessments
conducted
in 2016



5,460 hours
dedicated to
volunteer work

AFFILIATES



Argentina

Enhancing its commitment to punctuality, LATAM Airlines Argentina achieved a rate of

86% of flights with delays **not exceeding 15 minutes**

95% with delays of **under 60 minutes**



Colombia

From March 2017, LATAM Airlines Colombia started **operating flights between Cartagena-San Andrés and Medellín-Santa Marta**, driving tourism in the north of the country and decentralizing the company's domestic operations. According to the local civil aviation authority worthy of note was the company's

96% punctuality rate



Brazil

LATAM Airlines Brazil was the **first company to receive the Airbus A320neo aircraft**. The inaugural flight was in September. In May, one of the first aircraft bearing the new LATAM brand landed in the country carrying the torch for the 2016 Rio Olympic Games.



Ecuador

To promote tourism and the country's economic development, **a non-stop flight was inaugurated between Quito and Baltra** (South Seymour) Island in the Galapagos archipelago. LATAM Airlines Ecuador was also involved in **transporting humanitarian aid after the earthquake** that hit Ecuador in April.



Chile

Incentivizing tourism, LATAM Airlines Chile **increased the number of seats available on tourist routes by 17%**

Worthy of note is the direct flight to Puerto Natales, in Patagonia, Southern Chile, inaugurated in December.



Peru

To ensure ongoing improvement in the services offered to clients, LATAM Airlines Peru incorporated five **Airbus A320s** into its fleet. The model enables the **transportation of a higher number of passengers in greater comfort**.

MESSAGE FROM THE CHAIRMAN OF THE BOARD —

[102-14]

The year 2016 was characterized by a low growth period for the countries of Latin America and the Caribbean, which had a reduction of regional gross domestic product of the order of 1.1%, according to data from the Economic Commission for Latin America and the Caribbean (ECLAC). It should be noted that the region already came from a contraction of 0.4% in its economy.

South America was the most affected sub-region, with an expected decline of 2.5% of GDP in 2016. In the years 2015/2016 Brazil was responsible for the greatest negative impact on economic activity in the region. The country's GDP fell 3.8% in 2015 – the biggest drop in history – and 3.6% in 2016, establishing the largest wealth loss in Brazil's history.

Brazil is going through one of the biggest political crises in its history, with the consequences of the impeachment of the former President of the Republic amplified by an anti-corruption action, Lava Jato operation. As a result, the private sector has adopted defensive strategies, postponing investments, increasing unemployment and reducing stock replenishment in factories, which contributed sharply to the persistence of the recession in 2016.

Simpler, more efficient and more competitive

Despite the poor performance of the Brazilian economy, it is important to note that government policies aimed at balancing public finances and structural reforms were initiated, not only approved by the markets, but have also revised their projections favorably for 2018.

Therefore, we can say that Brazil is emerging from a serious turbulence to have a more stable flight, which aims at a GDP growth that although still modest, has a highly positive effect on the economy of the whole continent.

One of the creative and renovating actions carried out by the group during the year was the design of a new model to reduce the costs of passenger transportation. In it, customers can choose to fly by paying for additional services according to their needs. This initiative will put us in a more competitive position with any of our competitors, and may represent a 50% increase in the volume of passengers transported in the coming years.



In the area of sustainability, whose adherence and improvement are necessary conditions for competition in the market, we are rapidly advancing in new practices and the improvement of old ones, in order to maintain a leading position and create the bases for its permanence. A stimulating recognition was our inclusion in the Dow Jones Sustainability Index for the third consecutive year as one of the leading companies in sustainability, based on economic, social and environmental criteria.

Our long-term strategy has not changed. It can be mentioned in three cardinal points: a continent, a wide network of destinations and a brand. These three points are interconnected by common premises: being simpler, more efficient and more competitive.

In LATAM, constant attention to reducing costs to replace processes and equipment that have become costly and unproductive is an essential requirement. The restructuring of our fleet allowed a reduction of US\$ 2.2 billion of our fleet assets projected for 2018 during the last 12 months. In Brazil, where we are implementing changes due to the intense importance of that market for the company, the reduction of flight capacity reached 12% in 2016, preparing the way for a market recovery.

All the setbacks that emerged in this very complex period for the economy of our continent, and in particular for the civil aviation sector, only reinforce my conviction that the union of TAM and LAN could not have been more successful. I am very proud to have participated in the construction of

this great group, which represents a milestone in the history of aviation. I think it was the most important experience of my professional and business life. If not for the creation of LATAM, the wind of the crisis could have shaken the structure of the founding companies and divert them to other non-successful routes.

In LATAM, my story had a new beginning. Starting with my friends and partners, the Cueto family, followed by executives and professionals from different areas, from TAM and LAN, or those who later joined us. They were enriching relationships from all angles – business, work and affection. I have learned a lot. I think I collaborated a lot too. I will always collaborate. But for LATAM, renewal is the first word of our informal nature, our conviction as shareholders and managers, the principle that governs the philosophy of the group.



Mauricio Rolim Amaro
Chairman of the Board
of LATAM Airlines Group



MESSAGE FROM THE CEO —

[102-14]

2016 will be remembered as one of the most challenging years in our company's history, with us continuing to adapt to the volatile environment of recent years. We initiated big changes and major projects, so we can better deal with the evolving airline industry landscape and the slowdown of Latin American economies.

We seek to consolidate ourselves as the leading airlines group in the region, connecting the continent with an expansive network under a single brand. Guided by this long-term vision, we are proud to have successfully launched the unified brand LATAM, which combines the best of LAN and TAM and provides the client with a single image.

We have continued to strengthen our network – despite modest growth in the region – with the launch of 14 new routes in 2016 and the announcement of a further eight for this year; a record number for the group. Of these routes, we inaugurated four new destinations that improve connectivity both within the region and with the rest of the world: Puerto Natales, Jaén, Washington D.C., and Johannesburg. In doing so, we became the only Latin American airline to offer a direct service between Latin America and Africa.

Furthermore, as part of our commitment to further expand our network of flights and connections in South America, we continue to make progress to-

wards achieving our 'Joint Business Agreements' with IAG (the holding company of British Airways and Iberia) and American Airlines, so we can connect more people in Latin America with the rest of the world. We are convinced that these agreements will strengthen the connectivity of our region and deliver access to a wider destination network, more flights, better connecting times and lower prices as well as contribute to the development of tourism in the region with the arrival of more travelers from the USA and Europe.

In 2016, we worked on one of the most significant changes for the group and our customers in our history with the renewal of the domestic flight model for the six countries in the region where we have national operations. The new model, which is already being gradually implemented in some markets, will give our customers the flexibility to choose how they want to fly, by only paying for the additional services they use. As a result, we will be able to offer fares up to 30% cheaper, allowing more people to choose flight as a means of transport as well as helping those who already fly, to do so more often.

All of this will be supported by a new digital experience, where passengers can control their own flight experience using only their phone. In addition to the benefits for passengers, this change will allow us to better compete with the increasing number of low



Long-term focus to generate shared value

cost operators in the region. With the new travel model, we project to increase our passenger numbers for domestic flights by 50% by 2020, helping to consolidate flight as a widely-accessible means of transport in the region and boost economic growth in the markets where the company operates.

The last three years have been very challenging. However, thanks to the work over this time, we have seen a significant improvement in our profitability, achieving a 6% EBIT margin in 2016 and the first positive net profit in five years. This improvement in profitability in a tough year showcases the resilience of our business model and demonstrates that we are on the right path with the strategic initiatives we have put in place. These positive results, together with the restructuring of our fleet plan and the strengthening of our balance sheet, have also been recognized by the financial markets, as demonstrated by the 53% recovery of the LATAM share in 2016.

In 2016, we also made progress in our sustainability practices, which increasingly cut across the entire organization, driving advances in the social and environmental spheres as well as financial and efficiency gains for the business. During the year, the LATAM Sustainability Policy was approved, ensuring a unified approach to the group's sustainable development strategies. Simultaneously, we are seeking to strengthen relations with our supply chain, driving best practices among our partners and enhancing monitoring processes among this stakeholder group.

Progress was also made in key questions for the airline sector, such as our ongoing pursuit of efficiency in the use of fuel and reductions in greenhouse gas emissions, with concrete results in the indicators for these areas. Fuel economy translated into consumption avoidance of 6,050 TJ, the equivalent of 440,300 t CO₂e in emissions. These advances gain even greater significance in tandem with the organization's carbon footprint management measures: total emissions decrease by 2.3% and emissions intensity by 0.95%.

In the social area, worthy of note are LATAM's philanthropic initiatives, which accounted for more than US\$ 4.8 million. These include making the LATAM operations available for social and humanitarian aid – such as providing air tickets and cargo space –, financial contributions to institutions and investment in corporate citizenship programs.

With specific focus on sustainable tourism, we maintained the Cuido mi Destino program, which foment

social and economic development while preserving the historical, natural and cultural heritage of diverse regions in South America. Since it was created in 2009, the initiative has benefited 26 destinations in 66 interventions that mobilized 3,515 students.

These are some examples that demonstrate our commitment to generating value in the long term and which undoubtedly contributed to LATAM's inclusion in the Dow Jones World Sustainability Index for the third year running. Our presence on the index is confirmation that we are on the right path.

In conclusion, I would like to thank our teams for all their work this year. Without their commitment and dedication it would have not been possible to carry out these significant changes we are currently implementing. I would also like to especially thank our shareholders – both new and long-standing – for their patience during the challenges of recent years, for their support in this period of adjustment and for the faith they have placed in our project. Our challenge and what motivates us is to maintain our industry leadership, strengthen our financial position and secure our long-term sustainability. For this reason, I invite everyone in the LATAM family to maintain their trust in this project and to continue moving forward together towards these objectives.



Enrique Cueto
CEO, LATAM Airlines Group



The company

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- 18 SUPPLY CHAIN
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FROM SOUTH AMERICA TO THE WORLD —

[102-1, 102-2, 102-3, 102-4, 102-6 and 102-7]

With cargo and passenger services, domestic and international flights and ones operated in partnership with other companies, LATAM connects 29 countries

The LATAM Airlines Group is the largest airline group in Latin America. In 2016, around 67 million passengers flew with the group, which also carried 944,000 metric tons of cargo. The operation covers 135 passenger and 138 cargo destinations (11 of which exclusively for cargo), totaling 139 different destinations.

The group is headquartered in Chile with a work force of 45,900 people, comprising more than 60 nationalities. It has domestic operations in six countries in South America – Argentina, Brazil, Chile, Colombia, Ecuador and Peru. The international operation includes regional flights within South America and the Caribbean and long-haul services to North America, Europe, Africa and Asia-Pacific. To facilitate access to these different destinations, the group uses a hub model, concentrating connections in larger airports, such as Guarulhos in São Paulo (Brazil) and Lima (Peru).

In 2016, the group inaugurated 14 new routes – including 12 international services such as the new flight between São Paulo and Johannesburg, South Africa's largest city, making LATAM the only company in Latin America with a direct connection to Africa. In October 2017, the group will also operate a non-stop flight between Santiago (Chile) and Melbourne (Australia), which at 15 hours, will become LATAM's longest ever flight.

The group has a presence worldwide via the **oneworld** global alliance, which comprises 15 airlines with flights throughout Latin America, North America, Europe, Africa and the Middle East. During the year progress was made towards commercial agreements with American Airlines and International Airlines Group (IAG), the parent company of British Airways and Iberia. These alliances will further strengthen the network of connections open to LATAM clients, providing them with more flights, better connection times and more competitive prices to destinations not operated directly by the group. The agreements have yet to be approved by the relevant authorities.

The best fleet

Committed to always providing its clients with the best possible experience, LATAM has a fleet of 332 aircraft, with an average age of seven years. In 2016, it became the first company in Latin America to take delivery of Airbus's latest model, the A320neo. For long-haul flights, LATAM also incorporated six more Airbus A350 aircraft into its fleet, totaling seven.

67

*million passengers
flew with LATAM
in 2016*



The LATAM Airlines Group (formerly LAN Airlines) comprises affiliates in Peru, Argentina, Colombia and Ecuador, as well as LATAM CARGO and its subsidiaries; TAM S.A and its subsidiaries, TAM Linhas Aéreas S.A. (LATAM Airlines Brasil) and its business units TAM Transportes Aéreos Del Mercosur S.A. (LATAM Airlines Paraguay) and Multiplus S.A.

As a publicly traded company, in 2016 Qatar Airways became a shareholder with a 10% stake in LATAM, reinforcing its financial sustainability and global presence. The group ended the year with an EBITDA (earnings before interest, taxes, depreciation and amortization) of US\$1.5 billion, a 5.5% increase compared with 2015.

Airbus A320neo

In 2016, LATAM became the first airline group in the Americas to receive the Airbus A320neo. Worldwide, it was the fourth company to operate this model. The A320neo has advanced technology and the latest generation engines that enable a 15% decrease in fuel consumption and a positive impact on CO₂ emissions. LATAM Airlines Brasil was the first to incorporate the model with an inaugural flight on September 19 between São Paulo/Guarulhos and Porto Alegre. It is expected that LATAM will be operating seven A320neo aircrafts by the end of 2017, increasing to a total of 11 by the end of 2018.

New brand makes its debut in the 2016 Rio Olympic Games

The 2016 Olympics were the event chosen to showcase the single LATAM brand, designed to incorporate the best attributes and the cultures of LAN and TAM. As the official airline for the 2016 Rio Olympic Games and the 2016 Rio Paralympic games, the group was responsible for transporting the Olympic torch from Geneva (Switzerland) to Brasília (Brazil). The aircraft that carried the Olympic flame was one of the first in the fleet with the new branding. After its arrival in the Brazilian capital, the LATAM aircraft flew another 8,000 kilometers, carrying the torch to 13 cities in the north, northeast and midwest regions of the country over 15 days.

With the increase in passenger traffic during the event in August, the group scheduled an additional 140 flights. During the month, the Rio de Janeiro-São Paulo route operated with an occupancy rate of 81% – compared with 68% in the same period of 2015.

The new visual identity is gradually being applied to the fleet and to the operational units. In 2017, the new brand will be applied to the uniforms of all client-facing employees. The visual renovation process is scheduled to conclude by mid-2019.



Affiliates

LATAM has affiliates in six countries in South America, that account for 95% of the region's air traffic

Colombia

LATAM Airlines Colombia has operated in Colombia, Latin America's third biggest market, for five years. It covers 14 local destinations and is the second largest airline in the country, after the Colombian company Avianca.



4.8 million passengers (+ 4.4%)



80.3% 21.1% +8.9% RPK¹ +6.8% ASK²

Ecuador

Present in the country since 2009, LATAM Airlines Ecuador operates in five cities.



1 million passengers (- 8.3%)



79.3% 30.5% -2.4% RPK¹ -0.7% ASK²

Peru

LATAM Airlines Peru has been in Peru for 17 years. The company is market leader and operates in 17 domestic destinations.



6.6 million passengers (+ 6.7%)



80.4% 61.4% +6.5% RPK¹ +8% ASK²



84

North America



Amsterdam (Holland)
Basel (Switzerland)
Guadalajara and Merida (Mexico)
Guatemala City (Guatemala)
San Jose (Costa Rica)
Panama City (Panama)
Kingston (Jamaica)
Santo Domingo (Dominican Republic)
Valencia (Venezuela)
Cabo Frio (Rio de Janeiro)



46

Europe



4

Africa



Total

165

international flights (LATAM and codeshare)



9

Asia



22

Australasia (Australia, New Zealand and New Guinea)

Brazil

This is the largest domestic market in South America and the third largest in the world. LATAM Airlines Brazil operates in 41 airports, with an average of 580 flights a day.



29 million passengers (-9.7%)



82.3% 35% -10.7% RPK¹ -11.5% ASK²

Argentina

Present in the country for 11 years, LATAM Airlines Argentina is the second largest operator of domestic flights after state-owned Aerolineas Argentinas, which has 75% of the market. It serves 15 domestic destinations.



2.6 million passengers (+ 7%)



77% 25% +7.2% RPK¹ +5.5% ASK²

Chile

As the market leader, LATAM operates 16 destinations from the north to the south of the country.



7.8 million passengers (+ 8.8%)



83% 73.1% +9.6% RPK¹ +10% ASK²



INSTANT SNAPSHOT

LATAM IN NUMBERS	2014	2015	2016
Passenger operation			
Passengers transported	67 million	67 million	67 million
Destinations	135	137	135
Cargo operation			
Cargo transported (t)	1 million	1 million	944 thousands

Domestic flights Occupancy rate Market share Consolidated traffic Capacity International flights Cargo only operations

1 Revenue Passenger Kilometers: number of paying passengers transported multiplied by the distance flown. 2 Available Seat Kilometers: number of seats available multiplied by the distance flown.

DIALOGUE AND JOINT CONSTRUCTION

Relations with strategic stakeholders are underpinned by transparency and a commitment to enhancing business dynamics and the evolution of the industry

For LATAM, relations with different social actors represent an opportunity for joint construction and permanent growth. Systematic integration and engagement with key stakeholders is in accordance with the global guidelines set forth in the group's Corporate Stakeholder Relationship Policy.

The document sets forth 19 stakeholder groups and the priority focuses for engagement, which are reviewed periodically. There are specific relationship channels (see below) and engagement plans for each group, under the responsibility of different LATAM areas. [102-40, 102-42 and 102-43]

Enhancing the sector

The strategic stakeholders mapped by the group include public and regulatory authorities, sector associations and sustainability-oriented initiatives.

LATAM maintains close relations with these bodies to ensure it does business responsibly and in alignment with legal frameworks, developing joint initiatives and influencing best practices. There is emphasis on the group's positioning in the main discussions in the air industry and, in line with its environmental strategy, participation in the main discussion forums on the industry's environmental impacts, in particular those related to climate change and other emissions. [102-12 and 102-13]

19
stakeholder
groups were
mapped

RELATIONSHIP CHANNELS



In 2016, LATAM's involvement was focused on:

- **IATA (International Air Transport Association):** as a member of the association, LATAM prioritizes participation in environmental discussions such as climate change, noise and environmental management. In 2016, the association had a positive influence on the discussions that culminated in the approval of the CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation), which establishes reduction and mitigation measures up until 2035. The aviation sector was a pioneer in approving a global level agreement aimed at carbon neutral growth.
- **ALTA (Latin American and Caribbean Air Transport Association):** LATAM has been playing a leading role in regional discussions on emissions reduction and climate change, especially through the Environmental Group.
- **CDP (Carbon Disclosure Project):** The group participates in CDP discussions on climate change, as well as regularly reporting its emissions to the entity.
- **Reforestemos Patagonia:** With the intermediation of LATAM Airlines Chile, the group is one of the founders of this initiative to reclaim the Patagonian ecosystem in Chile.
- **BAM (Bosques Amazónicos):** LATAM Airlines Peru offsets the emissions of its ground operations by means of a REDD (Reducing Emissions from Deforestation and forest Degradation) project run by the organization. The partnership has been in place since 2012 and has so far offset more than 24,000 metric tons of CO₂ emissions.

Dialogue to drive sector growth

- **Abraba (Brazilian Alliance for Aviation Biofuels):** LATAM Brasil is part of this group formed in 2010 with the goal of promoting public and private initiatives aimed at the development, certification and commercial production of sustainable biofuels for aviation.
- **CEBDS (Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável):** a non-profit civil association that promotes the sustainable development of companies operating in Brazil in association with government and civil society, in addition to disseminating the most up-to-date concepts and practices in this field.
- **WWF – Brasil Business Network:** LATAM Brasil is a member of this group of companies which is committed to ensuring that Brazilian society values and conserves biodiversity and promotes the rational use of natural resources to drive sustainable development.
- **FGV-GvCes Brazilian GHG Protocol Program:** this is aimed at encouraging a corporate culture engaged in publishing greenhouse gas (GHG) emissions inventories, providing participants with access to world class instruments and quality standards.
- **SAFUG (Sustainable Aviation Fuel Users Group):** SAFUG is focused on accelerating the development and commercialization of sustainable biofuels for the aviation industry. The group is represented by LATAM Airlines Brasil in the initiative.



MATERIAL TOPIC

Government relations, fair competition and regulatory specificities

- Permanent dialogue
- Legal compliance
- Development of the air industry

2016 Highlight

By means of IATA (International Air Transport Association), LATAM participated in the negotiations for the CORSIA agreement, an unprecedented move to reduce and offset the GHG emissions of airline companies (see page 39)

Engagement plans with priority stakeholder groups

Membership of associations [102-13]



Argentina

- Cámara de Comercio Argentino Brasileira
- Cámara de Compañías aéreas de Argentina (JURCA)
- Centro de Implementación de Políticas Públicas para la Equidad y el Crecimiento (CIPPEC)
- Consejo Empresario Argentino para el Desarrollo Sustentable (CEADS)
- Instituto para el Desarrollo Empresarial de la Argentina (IDEA)
- Pacto Global de las Naciones Unidas



Brazil

- Associação Brasileira de Agências de Viagens (Abav)
- Associação Brasileira de Anunciantes (ABA)
- Aliança Brasileira para Biocombustíveis de Aviação (Abraba)
- Associação Brasileira de Comunicação Empresarial (Aberje)
- Associação Brasileira dos Consolidadores de Passagens Aéreas e Serviços de Viagens (AirTKT)
- Associação Brasileira das Empresas Aéreas (Abear)
- Associação Brasileira de Franchising (ABF)
- Associação Brasileira de Logística (Abralog)
- Associação Brasileira das Operadoras de Turismo (Braztoa)
- Associação Brasileira de Relações Empresa-Cliente (Abrarec)
- Associação Latino-Americana de Gestão de Eventos e Viagens Corporativas (Alagev)
- Câmara Americana de Comércio (Amcham Brasil)
- Conselho Empresarial Brasileiro para o Desenvolvimento Sustentável (CEBDS)
- Rede Empresarial WWF
- Conselho Nacional de Auto-regulamentação Publicitária (Conar)
- FGV-GvCes – Programa Brasileiro GHG Protocol Brasileiro
- Flight Safety Foundation (FSF)
- Grupo de Estudos Tributários Aplicados (Getap)
- Instituto Brasileiro de Executivos de Finanças (Ibef)
- Instituto Brasileiro de Hospitalidade Empresarial (BHE)
- Interactive Advertising Bureau (IAB Brasil)
- Junta de Representantes das Companhias Aéreas Internacionais do Brasil (Jurcaib)
- São Paulo Convention Bureau – Fundação 25 de Janeiro
- Sindicato Nacional das Empresas Aéreas (SNEA)
- Pacto Global da Organização das Nações Unidas
- Sustainable Aviation Fuel Users Group (SAFUG)



Chile

- Asociación Chilena de Aerolíneas (ACHILA)
- Acción RSE
- Cámara Chileno-Brasileña de Comercio
- Cámara Chileno Norteamericana de Comercio (Amchan – Chile)
- Cámara de Comercio Chileno-Argentina
- Cámara Chileno-Colombiana
- Cámara de Comercio Chileno- Peruana
- Cámara de Comercio de Santiago
- Cámara Oficial Española de Comercio de Chile
- Corporación de Estudios para Latinoamérica (CIEPLAN)
- Comunidad Mujer
- Federación de Empresas de Turismo de Chile (Fedetur)
- Instituto Chileno de Administración Racional de Empresas (ICARE)
- Sociedad de Fomento Fabril



Colombia

- Asociación de transporte Aéreo de Colombia (ATAC)
- Cámara Colombo Chilena



Ecuador

- Asociación de Representantes de Líneas Aéreas del Ecuador (ARLAE)
- Cámara Ecuatoriana Americana de Comercio
- Cámara de Industrias y Producción



Peru

- Asociación de Empresas de Transporte Aéreo Internacional (AETAI)
- Asociación Peruana de Empresas Aéreas (APEA)
- Cámara Binacional de Comercio Peruano Uruguayo
- Cámara Binacional Perú-Brasil (CAPEBRAS)
- Cámara de Comercio Americana del Perú (AMCHAM)
- Cámara de Comercio Peruano-Chilena
- Cámara Nacional de Turismo (CANATUR)
- Sociedad de Comercio Exterior del Perú (COMEXPERU)

Alliances and codesharing [206-1]

In 2016, an agreement was reached between LATAM and the Chilean tax authority (Fiscalía Nacional Económica) related to detailing the company's obligations under codeshare agreements. The agreement was approved by the Chilean antitrust authority TDLC (Tribunal de Defensa de la Libre Competencia), annulling the fine requested by the FNE.

LATAM may maintain its codeshares with Asian airlines in diverse alliances. A small minority of alliances on other continents were affected. Two codeshares with Aeroméxico, which were under review, were excluded. One codeshare with Turkish Airlines, which was never actually implemented, and a number of operated with Lufthansa were also excluded. LATAM will be able to request these codeshares again at a later date.

It should be noted that the agreement does not constitute recognition on the part of LATAM that it committed any illegal anti-competitive act, infraction or violation of conditions imposed by the TDLC related to the merger between LAN and TAM.

SUPPLY CHAIN —

[308-2 and 414-2]

A focus on compliance, best practices and proactive risk management strengthens relations and underpins joint growth

To shape and guide relations with suppliers – another key LATAM stakeholder group –, the group developed its Procurement and Supply Chain policy. The document is based on the contents of other internal standards such as the Code of Conduct and Anti-Corruption policy, as well as taking into account regulatory requirements in the countries in which the group operates. The Code of Conduct is available online for all stakeholders. <https://goo.gl/foPg9i>

The new policy standardizes the financial, social and environmental criteria adopted in contracting and monitoring partners at all group units, establishing common guidelines for managing risks in the value chain and ensuring transparency and ethical conduct in negotiations.

To sign a contract with LATAM, the supplier must adhere to the group's Code of Conduct, which includes directives on ethics, anti-corruption, occupational health and safety, social and environmental responsibility and human rights, in particular the guarantee of proper working conditions and non-use of slave and child labor. Contracts also contain environmental clauses requiring that suppliers be

Suppliers work in alignment with the LATAM Code of Conduct

compliant with all pertinent legal environmental provisions, assume responsibility for any breaches and sanctions and inform LATAM of any environmental damage caused, among other points. It should be noted that the environmental question is a selection criterion, with priority given to suppliers who manage the greenhouse gas emissions, energy and water consumption and waste disposal related to their activities efficiently. [+ Attachment]

During the year, no supplier contracts were terminated in function of the identification of social and environmental impacts.



MATERIAL TOPIC Value chain

- Ethical relations based on transparency and trust
- Compliance with standards and legislation and encouragement of best practices
- Sustainability and risk management parameters (mapping and monitoring)

2016 Highlight

- Corporate Procurement Policy: standardization, transparency and sustainability criteria
- Risk management and monitoring: cross checking data on all suppliers via international systems for controlling corruption, child and slave labor, financing of drug traffic etc.

Risk management and monitoring

The LATAM risk matrix monitors the most significant risks and impacts in each supplier category, examples being risks related to compliance with labor, tax, industry and sanitary laws and standards, the financial health and ethical conduct of the company, respect for human rights and the adoption of best environmental and social practices. Preventive risk identification processes encompass all categories of product and service providers.

For suppliers considered critical, the group also carries out periodic audits to ensure compliance with corporate ethical, sustainability and legal compliance parameters. Third-party suppliers and sub-contractors are also audited for labor compliance. Suppliers of components that are essential for the operation and difficult to replace, as well as those with annual contracts in excess of US\$ 1 million, are classified as critical. These include suppliers of fuel, aircraft parts, airport equipment, back up and passenger tracking systems. This segment accounts for 11% of the total supplier base, but represents up to 72% of the purchase volume.

In 2016, LATAM conducted 42 audits aimed specifically at financial matters. No irregularities were found, but in two cases deemed to be higher risk the company opted not to renew its contracts.

Technical partners' performance is appraised on a monthly basis, with suppliers classified in three categories: red, yellow and green. The red and yellow classifications generate action plans, with defined improvement targets and deadlines.

Categories

RED



- Request for urgent top executive visit with action plan
- Reduction in business, with exclusion from any future bids
- Excluded from operational quotations
- Quarterly review visit for action plans
- Low evaluation on Airbus survey if applicable

3 months to go Yellow

YELLOW



- Marked as a less competitive supplier on any bid
- Executive visit with action plan
- Low evaluation on Airbus survey if applicable
- Two-month basic visit from customer support

6 months to go Green

GREEN



- Public recognition (1 year in this category)
- LATAM vice-president letter to senior management
- Top supplier for any future business

14,204

*assessments using
international data bases*

Cross-checking data

In June, LATAM started using a system that cross checks information on its suppliers with international data bases, enabling the identification of supplier involvement in schemes of corruption, financing terrorism and drug traffic, and the exploitation of child and slave labor in the supply chain. The information on potential new business partners is assessed before any contract is validated. The process of cross checking supplier data is repeated on a monthly basis. For providers who deal with government authorities on behalf of LATAM or who have higher value contracts, a more in-depth analysis is undertaken.

The measures to be adopted when any irregularity is identified have already been established in conjunction with the Compliance area. These guidelines have been incorporated into the Procurement and Supply Chain policy.

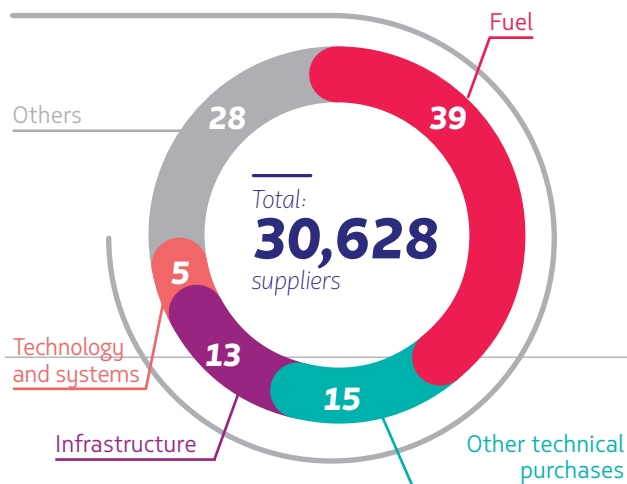
In 2016, 14,204 supplier assessments were carried out. In 600 cases, these were specific assessments conducted based on alerts generated by the system; no cases of non-compliance were identified.

Supplier base

Currently, the LATAM supplier base comprises 30,628 partners broken down into different categories within two major groups: technical and non-technical purchases. The technical purchases encompass fuel suppliers; engineering services; consumables; PMA (part manufacturer approval); wheels, brakes, tires and avionics; in-flight entertainment; seats, materials and trim; sales and rotables; larger components (landing gear and oth-

ers); pool (repair, exchange and rental of certain components made available via a pool system) and non-pool purchases (tools and other types of components). Non-technical purchases comprise categories indirectly related to the LATAM operation: administration; airports; infrastructure; catering; hotels and uniforms; marketing; professional services; technology and systems; and transportation. [102-9]

SUPPLY CHAIN – TOTAL PURCHASES (%)



SUPPLY CHAIN – GEOGRAPHICAL DISTRIBUTION¹

Continent	Total	%
America	29,097	95.0
Asia	120	0.4%
Europa	1,200	3.9
Oceania	211	0.7

¹ Based on location of headquarters.



INSTANT SNAPSHOT

SUPPLY CHAIN	2016
LATAM supplier base (21 categories)	30,628
Critical suppliers ¹	
Percentage of supplier base	11%
Percentage of LATAM purchase volume	72%
Identification of potential risks	
% of categories undergoing sustainability risk assessment	100%
% of suppliers screened for sustainability criteria	100%
Monitoring and management of compliance	
Preventive assessments conducted (international data base system)	14,204
In-depth assessments (based on system-generated alerts)	614
Contracts terminated for non-compliance	0

¹ Includes companies with contracts in excess of US\$ 1 million, that deal with government authorities on behalf of LATAM or that supply the operation with components that are essential or difficult to replace.

AWARDS AND RECOGNITION —

Service quality and variety, sustainability and organizational reputation were some of the LATAM attributes that received recognition in 2016. Highlights include:



Services

World Line Airline Awards – Skytrax 2016, the most important award in the air industry

- LAN: 1st place in the Best Company in South America category
- TAM: 2nd place in the Best Company in South America category
- LAN: 2nd place in the Best Service in South America category
- TAM: 4th place in the Best Service in South America category

Global Traveler's 2016 - Tested Reader Survey awards

- 1st place in the Best Airline Company in South America category for the 3rd year running



Sustainability

Dow Jones Sustainability Index

- Listed for the third consecutive year in the Dow Jones Sustainability World Index, which includes only two airline companies worldwide

Alas20 Award – Sustainable leaders

- 1st place in the Leader in Sustainability category
- 2nd place in the Leader in Investor Relations category

Socially Responsible Company – Peru 2021

- Award of Socially Responsible Company seal for its culture of sustainable and responsible competitiveness

Capital magazine – Chile

- 2nd place in the Corporate Sustainability Index (ISC)

2016 Corporate Transparency Report – Business Intelligence (IdN) – Chile

- 1st place in the category Most Transparent Service Sector Company – Publicly Traded Companies
- 3rd place in the category 2016 Best Practices – Publicly Traded Companies



Other awards

Most Admired Companies in 2016 Peru (EMA 2016) – Management Guide and PwC

- Outstanding commercial strategy

Merco Companies and Merco Leaders – Chile (7th edition)

- 2nd place in Best Corporate Reputation category

IF Design Awards – World Design Guide, the most important international design award

- LATAM and Interbrand: 1st place in New Brand Identity category for the creation of the new LATAM brand

eCommerce Awards 2015, the most important e-commerce award

- LAN Chile: e-commerce leader in the tourist industry
- LAN Peru: e-commerce leader in the tourist industry
- LAN Ecuador: e-commerce leader in the tourist industry

2016 Folha Top of Mind – Brazil

- TAM: brand with highest recall in the Airline Company category for the 8th year running

Hall of Fame Grupo Valora – Chile

- Recognition as a major Chilean brand because of its prominence overseas



Governance

In this chapter

- 23 CONSTANT IMPROVEMENT
- 27 EVOLVING RISK MANAGEMENT
- 29 MANAGING FOR SUSTAINABILITY

CONSTANT IMPROVEMENT —

New corporate policies and wide-reaching internal engagement initiatives reinforce ethical conduct and commitment to legal compliance in day to day operations

In its day to day business, LATAM is guided by the principles of ethics and transparency. Using best practices as a reference, the group constantly strives to enhance the internal instruments, processes and structures that ensure legal compliance and alignment with LATAM values.

The internal compliance and accountability policies are aligned with the laws applicable to companies whose shares are traded on the stock exchanges of New York and Santiago de Chile. In the diverse countries in which LATAM Airlines Group operates, the local head of the Legal area provides support to the Senior Vice President, who has overall responsibility for legal questions.

In 2016, the group's self-regulatory framework was reinforced by four new corporate policies (see *next page*). In parallel, there was a company-wide effort to drive the active engagement of all company areas in training and communication initiatives related to the policies and standards that guide employee conduct and relations with other stakeholders. By April 2017, around 200 staff should be trained to act as "compliance ambassadors" at all company units. This exercise involved the direct participation of 14 areas: Airports, Public Affairs, Audit, Supplier Management, Infrastructure, Legal, LATAM Travel, Marketing, Cargo Operations, Operations and Maintenance, Personnel, Network and Fleet, Treasury and Sales.

Ethics, compliance, anti-corruption, antitrust and other related matters are integrated into the company's training programming from the induction of new employees to the periodic reviews required as part of the performance appraisal process.

The different training programs are planned in two-year cycles, depending on the area of activity. In the most recent cycle, from 2014 to 2016, 44,000 people were trained. These included almost 1,800 leaders and senior managers and 1,300 professionals from areas in which risk is considered to be more accentuated.

Consolidated coverage in 2015 and 2016 encompassed 99.9% of the designated staff, with a 99.9% approval rate. Specific compliance-related email communications were sent to 92% of the total work force. To ensure external audiences are aligned with the company's standards and procedures, all business partners must sign a Term of Commitment to comply with the Code when they are contracted. [205-2]

Employees are submitted to mandatory periodic training in ethics and compliance

200

"compliance ambassadors" in training

4

*new internal
policies reinforce
self-regulation***Confidential channel**

The company's Ethics Channel website receives reports of breaches of laws and internal standards of professional and personal conduct, covering compliance with the LATAM Code of Ethics, labor issues, all forms of harassment or discrimination, fraud, corruption or bribery.

The channel is managed by a third-party provider to ensure independence, integrity and objectivity in analyzing and responding to reports. All reports are examined and investigated by committees in each country. In the event that an irregularity is confirmed, the Code of Conduct Management Committee in each location, comprising the Personnel, Compliance, Legal and other areas, decides on the measures to be taken.

These processes are certified externally.

Voluntary agreement ^[419-1]

In 2016, LATAM consented to the entry of a cease-and-desist order by the Securities and Exchange Commission (SEC) related to payments made by LATAM Airlines Group S.A. (formerly LAN Airlines S.A.) to a consultant who assisted in the resolution of labor issues in Argentina in 2006-2007. The investigation of this case by the SEC and by the United States Department of Justice (DOJ) was initiated in 2011 with LATAM's active cooperation. The company agreed to pay a US\$75,000 penalty to the SEC, in accordance with the company's compliance structure and internal accounting controls and to ensure observance of SEC book and records requirements. In July 2016, after multiple and prolonged exchanges of opinions and discussions with the DOJ and the SEC, LATAM reached definitive agreements with both authorities.

In the case of the DOJ, the agreement took the form of a Deferred Prosecution Agreement (DPA), pursuant to which the DOJ will dismiss the charges after the expiration of a three-year period if LATAM complies with all terms of the DPA. As part of the agreement, LATAM has admitted that the accounting for the payments made to the consultant in Argentina was incorrect and that at the time these payments were made (2006-2007) the company lacked adequate internal controls.

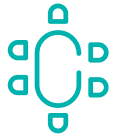
LATAM has also accepted monitoring by an independent consultant for the period of 27 months. The consultant's function will be to evaluate, and report to the DOJ on the effectiveness of LATAM's compliance program. Similarly, LATAM committed to reporting to the DOJ on the effectiveness of the

CORPORATE STANDARDS ^[102-16]

A series of internal policies applicable to all the business units orientates employee and senior management conduct and alignment with best practice in ethics and transparency. The main policies are:

- Code of Conduct
- Management Committee Code of Conduct
- Policy on executives' Roles and Responsibilities
- Anti-corruption Compliance policy
- Scale-Up policy
- Special Services for Civil Servants Policy
- Procurement Policy¹
- Policy on Presents, Hospitality and Entertainment for government representatives and third-parties
- Safety, Quality and Environment Policy¹ (see page 87)
- Donations Policy¹ (see page 70)
- Sustainability Policy¹ (see page 29)

¹ These were the four new policies approved in 2016.



The Board of Directors is the highest governance body

aforementioned compliance program for 9 months after the work of the independent consultant has finished. Lastly, LATAM agreed to pay a fine of US\$12,750,000 to the DOJ.

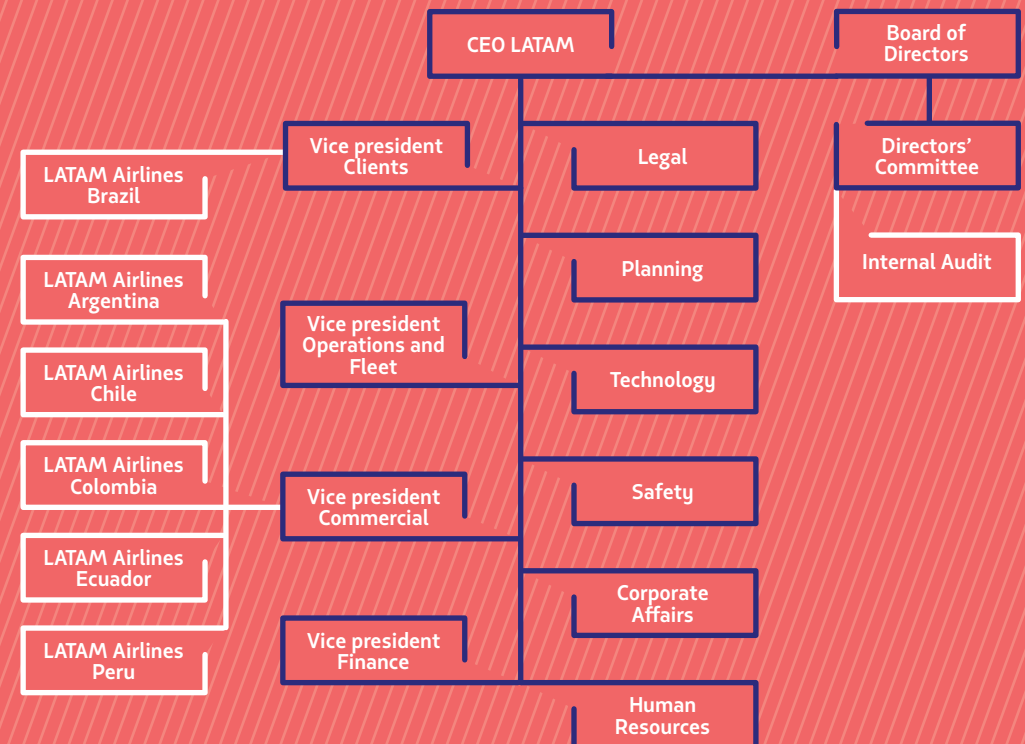
The settlement with the SEC included the issuance by the SEC of a cease-and-desist order, which is an administrative order closing the investigation upon LATAM's acceptance of certain obligations and statements of fact. The order also refers to the obligations related to the monitoring arrangement agreed upon under the Department of Justice's Deferred Prosecution Agreement. LATAM agreed to pay the amount of US\$6,700,000 plus interest to the SEC. As of December 31, 2016, a balance of US\$ 4,718,894 was payable to the SEC.

Decision making structure ^[102-18]

The group's main corporate governance body is the Board of Directors, which has nine members elected for a two-year term. The Board is responsible for establishing the group's strategic directives and is bound by the legislation for publicly traded corporations and the respective standards of the Securities and Exchange Commission (SEC). In the decision making process it is supported by the Board of Directors' Committee. The governance structure also includes

specific committees: Strategy; Finance; Leadership; and Brands, Products and Loyalty Programs.

At the executive level, the CEO, corporate vice presidents and senior executives of the diverse business areas are charged with executing the strategic directives in alignment with regulatory standards and the standards of ethics and transparency established by the Board.



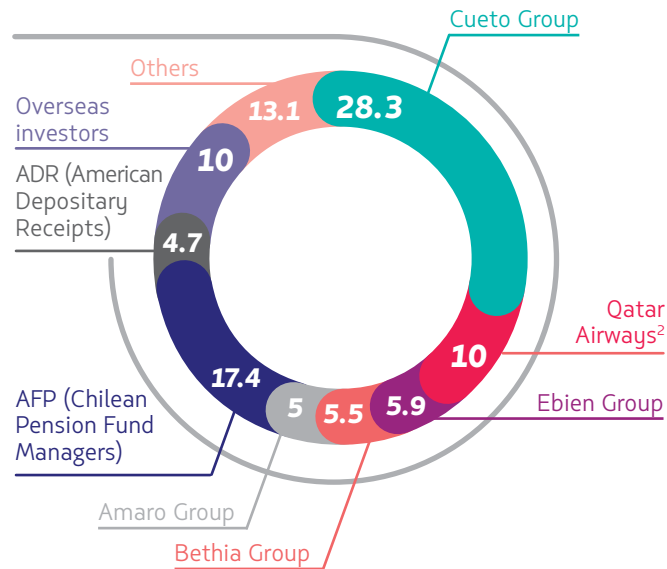
Market relations

The Investor Relations area is responsible for relations with LATAM shareholders and other capital market agents, adopting a transparent communication policy employing specific channels.

The website www.latamairlinesgroup.net provides financial and governance information on the group in English, Spanish and Portuguese. The group makes its results available to the market on a quarterly basis by means of reports and teleconferences.

OWNERSHIP STRUCTURE¹ (%)

[102-5 and 102-10]



¹ Information referring to December 31st, 2016.

² Corresponding to 9.99% of all the shares issued.

LATAM Airlines Group is a publicly traded company with shares on the Santiago Stock Exchange, the Bolsa Electrónica de Chile, the Valparaíso Stock Exchange and the New York Stock Exchange (NYSE).

Total:
606,407,693
subscribed and
paid shares



EVOLVING RISK MANAGEMENT —

The structure for identifying and mitigating risks cuts across the entire operation, considering different aspects of the business and the specificities of each operating unit

Risk management is deemed to be a key enabler for the company to accomplish its strategic goals. It is supported by a framework of processes in continuous evolution. After the preparation of the strategic risk matrix in 2015 conducted by the Risk area, which mapped the group's risks based on the probability of occurrences and potential financial and reputational liabilities, LATAM Corporate Risk Policy was approved by the Board and published at the beginning of 2016. The document formalizes the question of risk internally, reinforcing the monitoring systems and allocates roles and responsibilities in the organization.

Risk mapping indicates cross-cutting risks that affect more than one business category and those considered to be emerging risks. Examples of emerging risks are more restrictive legislation that could be passed on greenhouse gas emissions, affecting the group's economic results adversely in the medium term, and the propagation of infectious diseases which, in extreme cases, could impact demand for services. To minimize these, LATAM maintains a permanent dialogue with the competent authorities and in the event of epidemics, conducts awareness and preventive campaigns. This kind of incident is also covered in the group's emergency response plan.

The company's risk maturity has evolved year on year, and social and environmental risk is no exception. Analysis has been refined, for example, distinguishing emissions that affect climate change from ones impacting local communities, permitting greater understanding of consequences and effects on society. This enables a more effective, in-depth accompaniment of each risk and its potential impacts. For 2017, there will be greater focus on reputation and image risks, with the development of a standardized methodology across the company that will permit any eventual risks to be visualized in a more tangible manner.

All units follow the same corporate policy





All the countries jointly drive enhanced mitigation

Permanent monitoring

The strategic cross-cutting and emerging risks are monitored by the Risk Management Team. The Board of Directors' Committee validates the risk management model deployed in the company. In its monthly meetings, the committee undertakes a more detailed analysis of each risk depending on the agenda, following an annual program that is adjusted in accordance with events and trends.

Also engaged in managing risk is the Risk Desk, commanded by the Risk area with support from professionals from different areas (Sales, Safety, Environment, Legal, Compliance, Strategic Planning, Finance, Corporate Affairs and Internal Audit), driving a more integrated overall vision of risk and helping to identify synergies. These meetings occur every two months.

On a regular basis the risks monitored and any resulting action plans are reported to the group's Internal Audit area, which incorporates the relevant information into its monitoring program.

From global to local

The logic implanted in the corporate sphere to manage cross-cutting strategic risks was extended to all the local operations in 2016, ensuring standardization of risk identification, monitoring and reporting systems.

In relevant countries the group operates, the financial area is responsible for the local implementation of the LATAM risk management system, identifying specific risks in the unit and updating them periodically based on the methodology used throughout the company. The risks are reported to the head of the responsible unit and to the Risk area, which meets regularly with each unit.

The degree to which the risk management system has been implanted varies from country to country, with consolidation scheduled to take place during the course of 2017.



New advances are planned

MANAGING FOR SUSTAINABILITY —

A corporate policy, approved by the highest governance body, establishes the directives for putting the group's vision of sustainable development into practice

LATAM's commitment to generating shared value for shareholders, the market, employees, clients, suppliers and society as a whole is incorporated into company strategy and informs decision making. Advances in sustainability, which cut across all business practices, constitute a key driver in the organization's aspiration to be one of the three biggest airline groups in the world.

In 2016, practices that were already a reality in the day to day operations of the group became corporate policy with the approval of LATAM's Sustainability Policy. The document was validated by the Board of Directors, the highest body in the governance structure, setting forth the main directives and principles to be followed by executives in the development of sustainable development strategies and initiatives for the entire group.

The policy took into account a series of international references and commitments which will guide the organization's activities (see page 31), making the correlation between managing the diverse aspects of sustainability and running the business explicit. The clearest example is risk management: the matrix for mitigating risks includes a series of sustainability-related topics such as the environment, labor relations, stakeholder relations and reputation, ensuring integrated management in conjunction with other types of risk, such as financial and operational ones.

Based on a long-term perspective, the company's sustainability strategy is organized in three dimensions:

- **Governance for sustainability:** the company adopts a clear, transparent positioning in relation to its commitments and targets, and the decision making, execution and results monitoring structures support the implementation of strategy;
- **Climate change:** to drive a balanced vision of risk mitigation and the pursuit of new opportunities in managing the business's actual and potential environmental risks, underscoring eco-efficiency and the reduction of LATAM's carbon footprint;
- **Corporate citizenship:** to make LATAM and the relationship network in its value chain —

3
—
dimensions
underpin
management for
sustainability



encompassing suppliers, employees, clients and society – catalysts in driving social and economic development and environmental balance in the region by means of developing employees, fomenting tourism, promoting best practices and private social investment.

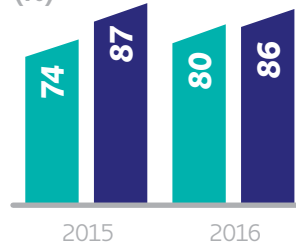
These dimensions encompass the company's main development objectives and are broken down into goals and targets, helping to systematize the continuous improvement process and to quantify the results achieved. The group's performance on the Dow Jones Sustainability Index (DJSI) is the main tool for measuring this development.

The DJSI is the key global gauge for measuring the economic, social and environmental components of long-term value generation. Selection is based on Best in Class methodology, which analyzes the economic, social and environmental performance of large publicly traded companies in different industries. Only leading companies enter the list, which is disclosed on an annual basis. The selection process for the DJSI listing is conducted by RobecoSAM, an investment consultancy specialized in sustainability.

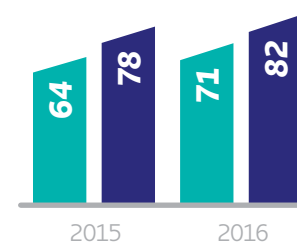
LATAM has been listed since 2012, when it was selected for the Emerging Markets segment. Since 2014, it has been listed on the World index, which comprises the top 10% of the entire ranking. In 2016, the 2,500 largest companies (according to the S&P Broad Market Index) from 28 countries were analyzed and 316 were selected. There are only two airline companies in this group.

The Dow Jones Sustainability Index is a reference for continuous improvement

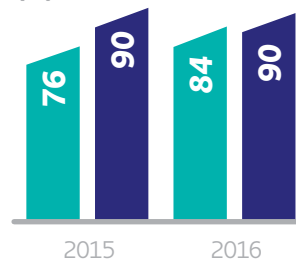
ECONOMIC DIMENSION (%)



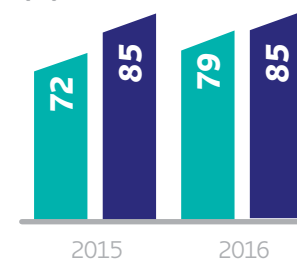
SOCIAL DIMENSION (%)



ENVIRONMENTAL DIMENSION (%)



SUSTAINABILITY TOTAL (%)



■ LATAM performance
■ Best in sector

Alignment and information

To ensure the alignment of information and the strategic vision of senior management regarding goals and targets and monitoring progress, the Board of Directors will track data on an annual basis. This new strategic validation stage complements the oversight already conducted periodically by the Board Committee.

Furthermore, whenever senior management incorporates a new member, this individual undergoes an immersion in business strategy, which includes a module focused specifically on managing for sustainability.

International references



Standards and best practices guide conduct

To drive improvements in managing for sustainability, LATAM is guided by a series of standards, references and commitments of international importance.

The main ones are described here:

- **ISO 26000 standard:** the first international Corporate Social Responsibility standard
- **Global Compact:** a United Nations Organization initiative to encourage the adoption of corporate responsibility practices in the areas of human rights, human rights at work, the environment and anti-corruption.
- **Sustainable Development Goals:** a global development agenda promoted by the UN, which defines goals and targets for the eradication of poverty, food security, health, education, gender equality, reduction of inequality, energy, water, sanitation, sustainable production standards, protection and sustainable use of ecosystems and inclusive economic growth, among others.
- **Guiding Principles on Business and Human Rights:** a guide prepared by the special representative of the United Nations General Secretariat, John Ruggie, which sets forth parameters and guidelines to protect, respect and remedy human rights in the business world.
- **Tripartite Declaration of Principles concerning Multinational Companies and Social Policy:** this was drafted by the International Labor Organization (ILO) aimed at promoting the active participation of multinational companies in driving economic and social progress, while simultaneously minimizing the negative effects of their activities.
- **The Organization for Economic Cooperation and Development's (OECD) Guidelines for Multinational Companies:** this provides a series of recommendations for companies and governments with principles and voluntary standards to ensure business conduct adherent to the law and best international practices.
- **GRI Methodology:** the main reference in reporting sustainability. This was drafted by the Global Reporting Initiative, an international multistakeholder organization that seeks to drive standardization and ongoing improvement in managing and communicating sustainability in companies and organizations of different sizes and in different sectors worldwide.

The LATAM Sustainability Policy takes international parameters into account

Focus on what is most relevant

To ensure focus for its performance improvement efforts, LATAM employs a structured process for defining the most relevant sustainability-related topics, taking into account the operation's actual or potential impacts on its diverse stakeholder groups, the expectations of these groups, the company's future vision, the commitments it has assumed, industry and international sustainability drivers and global trends (*further information on page 74*).

There follows a list of the organization's material topics:

- **Mitigating climate change:** continually reduce emissions intensity and research new energy technologies;
- **Eco-efficient management:** to achieve levels of excellence in the rational use of fuel;
- **Reducing noise and other emissions:** control aircraft noise emissions in communities close to airports and the impacts of emissions on air quality;
- **Client connectivity and relations:** invest in service quality, in transparent, ethical communications and in meeting clients' new demands. Pay attention to opportunities and technological trends and client demands, investing in service quality and in transparent, ethical communication;
- **Health and safety in the air and on the ground:** manage potential risks, including cyber risks, and ensure the highest safety standards for clients, employees and the community;

- **Managing talent and productivity:** enhance performance and career management in the different business units, with a view to driving professional growth and to maintaining a high performance culture;
- **Government relations, healthy competition and specific regulatory matters:** maintain permanent dialogue with governments, local authorities and industry associations, focused on compliance and the creation of responsible business solutions;
- **Value chain:** promote best ethical, sustainability and eco-efficiency practices among suppliers and drive the development of the communities with which the group relates;
- **Economic-financial sustainability:** strive for synergy in cost and asset management, planning current and future investments focused on driving value for the group and for its providers of capital.

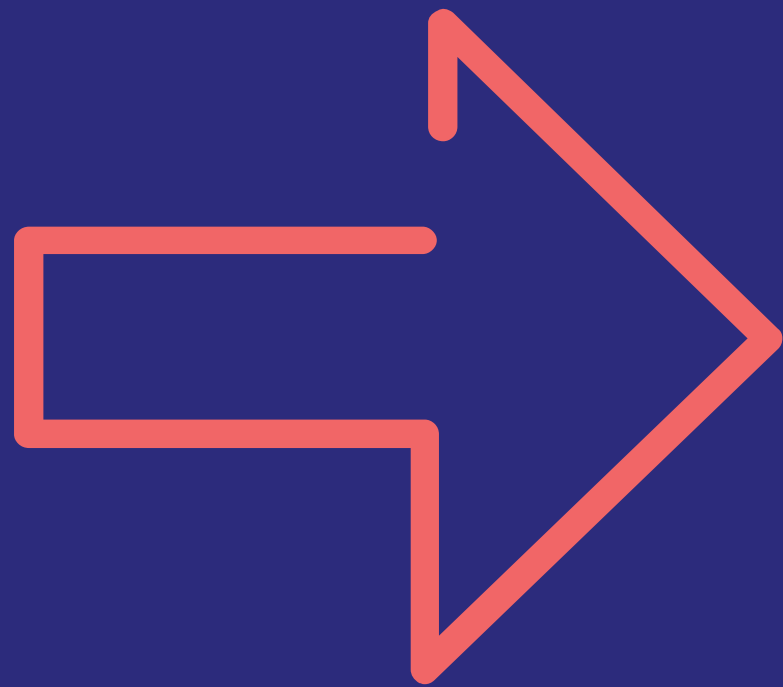
Each material topic has one or more indicators (*see page 89*) through which the company monitors its progress against goals and targets. All are directly or indirectly related to the macro objectives of the business and are backed by defined strategies and people responsible for their execution.

Actions are concentrated on

9

material topics





Strategy

In this chapter

— 34 ANTICIPATING TRENDS

— 36 FINANCIAL AND OPERATING RESULTS

ANTICIPATING TRENDS —

New value proposition transforms the LATAM client experience and bolsters the group to face airline industry challenges



*Towards
the future*

Being attentive to the evolution of the market and society and acting rapidly with flexibility to adjust to changes are indispensable for guaranteeing a business's future and generating value for shareholders, the market, employees, clients, suppliers and society as a whole. This concern drives the LATAM Airlines Group's strategic planning and in 2016 led to an intense transformation with the potential to modify the way in which the group manages its business, as well as its relations with clients.

Known as *Change to One*, the process is aimed at enhancing the intensity, depth and speed of the changes underpinned by the group's strategic pillars (see next page), making LATAM a leaner, more agile and more competitive company. The idea is to lay the groundwork that will enable LATAM to maintain and strengthen its leading role in the airline industry in Latin America and worldwide.

Around 1,300 initiatives are being implanted, involving more than one thousand employees. These have been organized in 18 lines of work, each divided into five development stages programmed to run until December 2018. It is expected that 80% of these initiatives will be implanted in 2017, generating concrete results mainly in terms of reducing costs, boosting revenues and adapting to the new market reality.

One of the most visible facets of *Change to One* is the new value proposition for short-haul flights, which takes into account the current reality of the airline market, the different profiles and expectations of clients and the way they relate to the airline companies in an ever more digital world. Moreover, the macroeconomic context in the region has changed. After a period of growth, Latin America has been experiencing stagnation and economic recession in recent years. This has resulted in greater efforts on the part of the airlines to become more efficient and competitive and to seek out new markets or niches.

1,300

*initiatives to leverage
the transformation*

Within this context, the LATAM Airlines Group has designed a new model for its domestic flights in the six countries in which the affiliated airlines of the group operate, which represent approximately 40% of the group's sales and 80% of the passengers transported annually. The goal is to provide a more flexible offering for these flights by breaking down the components of the price that are currently commercialized in closed “packages”: the actual flight, the possibility of choosing specific seats, dispatching baggage, and in-flight meals.

On shorter flights of up to three and a half hours, the prices of these components will be presented separately in a transparent manner so that clients can adjust their fare based on the services they actually use. In-flight meals will be acquired during the flight based on an extensive menu implemented with the new service “Mercado LATAM”. It is expected that the minimum fare will decrease by between 10% and 20% compared with current prices, enabling the company to attract even more clients.

The gradual implantation of the new model began with LATAM Airlines Colombia in February 2017. All other affiliates are scheduled to be adapted by July, after which the model will be extended to short flights within Latin America.

STRATEGIC PILLARS

LATAM's development strategy is underpinned by five pillars. Here are some of the main measures undertaken in each of them in 2016.

- Destination network: inauguration of 14 new routes; consolidation of hubs in key airports in the region.
- Leading brand and client experience: launch of the LATAM brand; expansion of actions in the Twist project to drive a cultural transformation in client service with a positive impact on satisfaction; definition of the new domestic flight business model based on a new value proposition enabling clients to acquire the services they want on each trip.
- Costs: pursuit of synergy and efficiency in processes; financial management and review of fleet plan; identification of new revenue opportunities.
- Organizational strength: reinforcement of the company's single culture; engaging employees in the main strategic initiatives; managing organizational climate.
- Risk management: integrated approach; approval of corporate risk management policy; systematization of management of emerging and strategic risks in the local operations.

“Mercado LATAM”, the new on board beverage and food purchase service is being implemented in LATAM Airlines Group and its affiliates domestic flights. The objective is to improve the travel experience for passengers, who have access to a broad gastronomic selection of more than 50 products designed to suit all tastes.



FINANCIAL AND OPERATING RESULTS —

A proactive stance and assertive handling of the manageable aspects of the adverse economic conjuncture ensure positive results, with a net income of US\$ 69.2 million and a reduction in financial leverage

LATAM ended 2016 with positive results: operating result reached US\$ 567.9 million, 10.5% up on 2015, and the operating margin was 6.0%, 0.9 p.p. higher than the previous year and in line with the upper limit of the company's guidance. Net income was US\$ 69.2 million, the first positive annual result since 2011. [\[+ Attachment\]](#)

The strategy of rationalizing passenger capacity on domestic and international routes in the Brazilian market proved to be effective and in the two operations boosted the relative revenue indicator (measured by available seat kilometers or ASK).

Throughout the year, LATAM also progressed in its plan to reduce total assets and fleet commitments. The commitments for 2017 and 2018 are the lowest ever in the company's recent history and ensure a US\$ 2.2 billion reduction in fleet assets for 2016-2018, in line with planning.

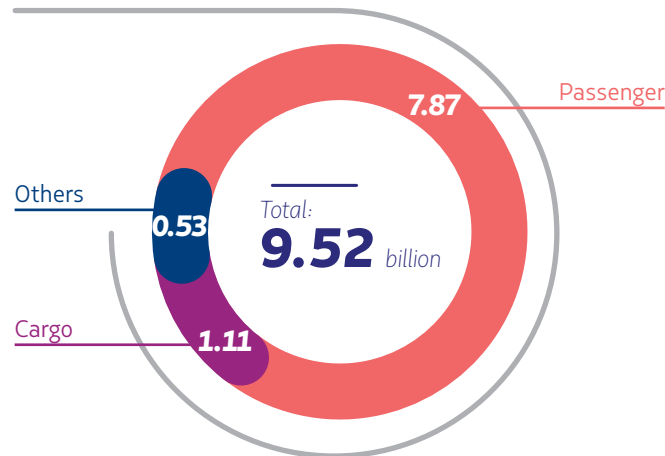
The indebtedness indicator also improved during the year and the company's level of financial leverage (net debt to EBITDAR ratio) decreased from 5.8 in 2015 to 5.3 in 2016. Liquidity reached US\$ 1.8 billion (including a US\$325 million revolving credit facility fully available as of December 2016), reinforced by

the capital increase of US\$ 608.4 million concluded on December 28th 2016 with Qatar Airways' acquisition of 10% of LATAM's total stock.

Net income

US\$ **69.2** million

REVENUE 2016 (US\$ billion)



MATERIAL TOPIC

Economic-financial sustainability

- Value generation for the group and its financiers
- Seek synergies in cost and asset management

2016 highlight

- Adjustments in cargo and passenger capacity
- Review of fleet plan: US\$ 2.2 billion reduction in projected expenditure to 2018
- Cost rationalization
- Change to one
- New domestic model, with potential to boost passenger volume by 50% in the coming years



INSTANT SNAPSHOT

MAIN INDICATORS	2015	2016	Δ%
Financial (US\$ thousands)			
Operating revenues	10,125,826	9,527,088	-5.9%
Operating expenses	(9,611,907)	(8,959,185)	-6.8%
Operating result	513,919	567,903	10.5%
Net income	(219,274)	69,220	131.6%
Net margin	(-2.2%)	0.7%	2.9 p.p. ¹
EBITDA ²	1,448,325	1,528,231	5.5%
EBITDA margin ²	14.3%	16.0%	1.7 p.p. ¹
Cash and cash equivalents/revenue	13.4%	15.6%	2.2 p.p. ¹
Financial leverage ³	5.8 X	5.3 X	-
Operational			
Passengers (ASK) ⁴ – million	134,167	134,968	0.6%
Passengers (RPK) ⁵ – million	111,510	113,627	1.9%
Occupancy rate (based on ASK ⁴)	83.1%	84.2%	1.1 p.p. ¹
Revenue per ASK ⁴ (cents of US\$)	6.3	5.8	-6.9%
Cargo (ATK ⁵) – million	7,083	6,704	-5.3%
Cargo (RTK ⁶) – million	3,797	3,466	-8.7%
Occupancy rate (based on ATK ⁵)	53.6%	51.7%	-1.9p.p. ¹
Revenue per ATK ⁵ (cents of US\$)	18.8	16.6	-11.7%

P.p.: percentage point.

² EBITDA: Earnings before interest, taxes, depreciation and amortization.

³ Leverage: adjusted net debt /adjusted EBITDA.

⁴ ASK (Available seat kilometers): measurement of passenger transportation capacity.

⁵ ATK (Available ton-kilometers): measurement of cargo capacity.

⁶ RTK (Revenue ton-kilometers): revenue generated in metric tons per kilometer.



Environment

In this chapter

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- 43 GROWING ECO-EFFICIENCY
- 46 POLICIES AND SYSTEMS

ADDRESSING CLIMATE CHANGE —

Mitigating greenhouse gas emission impacts in the airline operation is a strategic topic for the group, which drives reduction and offsetting initiatives, as well as joint improvement commitments with the sector as a whole

Climate change issues are particularly important in LATAM's management for sustainability. This is because while airline operations represent 2% of the greenhouse gas (GHG) emissions caused by human activity¹, they constitute the sector's main environmental impact. The company is committed to this question and has a structured continuous performance improvement strategy in place, comprising reduction and offsetting measures. The strategy also takes into account operational risks arising from extreme climatic events, as well as those related to costs stemming from alterations in regulatory frameworks governing emissions. [201-2]

Through its participation in the Air International Transport Association (IATA), LATAM was closely involved in the CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation) negotiations to limit CO₂ emissions. The document, which was signed by the 191 member-states of the International Civil Aviation Organization (ICAO) at a meeting held in 2016 in Montreal, Canada, made the aviation industry the first to assume a public commitment on this scale.

CORSIA is the evolution of the Carbon Neutral Growth (CNG2020) voluntary initiative led by IATA aimed at limiting air industry emissions from 2020, with a focus on international flights. The goal for the global airline industry is to achieve carbon neutral growth by 2035, in parallel with potential future technological advances and other operating measures that may have a positive impact on reducing the sector's emissions. With the approval of CORSIA, the next step will be the definition of ways to measure, report and verify (MRV)² emissions related to the international flights operated by airline companies in countries that are signatories to the agreement, as well as the rules for compensation.

¹ Data from the International Panel on Climate Change (IPCC).
² Principle introduced by the 13th annual Conference of Parties (COP 13), the decision making body of the United Nations Organization Conference on Climate Change. The goal is to ensure transparent mechanisms and monitoring and communication systems for the performance of the organizations in their efforts to manage GHG emissions.

Civil aviation accounts for 2% of GHG emissions generated by mankind



The goal for the global airline industry is to achieve carbon neutral growth by 2035



The schedule allows for an initial pilot phase from 2021 to 2023, to which countries may adhere on a voluntary basis. So far, 65 countries, accounting for 85% of the world's air traffic, have adhered to the commitment. In Latin America, Mexico, Costa Rica and Guatemala have formalized their participation. The first stage of the implantation, also voluntary, is scheduled to occur between 2024 and 2026. From 2027, CORSIA will be mandatory for all countries whose airline operations exceed 0.5% of global air traffic. In the mandatory phase, the countries' reduction targets will be reviewed every three years, which will reflect the advances in the implementation of the agreement.

In addition to the environmental aspects associated with climate change, emissions management in the company also takes into account potential impacts for the business. The question is integrated into the company's risk matrix and drives a series of measures aimed at ensuring the operation's resilience to extreme climatic events and changes in the legal and regulatory environment.

The airline industry is the only one that has a voluntary emissions reduction agreement

The airline industry in the context of climate change

The airline industry is the **only one in the world** to have an agreement aimed at achieving carbon neutral growth.

Around
2%

of the total GHG emissions generated by human activities are related to airline operations.

Around
80%

of the industry's greenhouse gas (GHG) emissions are related to flights of more than 1,500 kilometers, for which air travel is the most efficient alternative.¹

Since the beginning of the air industry², relative fuel consumption (measured in RTK³) has dropped

70%
On average

Flights are also **more efficient** with respect to emissions: while total passenger numbers have grown at around 5% a year, the annual increase in emissions has been around 3%.

¹ Air Transport Action Group (ATAG), 2014. Aviation – Benefits beyond borders, p.7.
² Air Transport Action Group (ATAG), 2014. Aviation – Benefits beyond borders, p.23.
³ RTK: revenue tonne-kilometres. Total weight multiplied by the distance travelled.



MATERIAL TOPIC Mitigating climate change

- Reducing emissions intensity
- Limiting growth of total emissions
- Achieving carbon neutral growth by 2035

2016 Highlight

Unprecedented industry commitment: CORSIA (Carbon Offsetting and Reduction Scheme for International Aviation)

Refinement of systems for the rational use of fuels



The group's entire air operation is engaged in a continuous effort to reduce emissions, focused on the target of carbon neutral growth by 2035

What LATAM already does

The commitment to achieving the CORSIA targets is yet another step in LATAM's ongoing progress in managing its GHG emissions. The group had already been aligned with CNG2020, the sector's voluntary commitment to offset all **flight operation** emissions above the 2018-2020 average from 2020. The group's target is to achieve carbon neutral growth by 2020 and to halve its carbon footprint by 2050 against base-year 2005.

Regarding emissions generated by its **ground operations**, in the period from 2012 to 2016, the group reduced emissions by 27%, while offsetting measures totaled 13,873 t CO₂e. The total compensation undertaken by the company during the period, including travel by employees and other indirect emissions, was 26,573 t CO₂e. Diverse initiatives contributed towards this result.



27% reduction
in GHG
emissions in
the ground
operation
from 2012
to 2016

In Peru, since 2012 ground operation emissions have been offset by the acquisition of carbon credits from the Bosques Amazónicos (BAM) initiative. Compensation to date has totaled 24,138 metric tons of CO₂.

In Colombia, 2016 was the third consecutive year in which the company neutralized the CO₂ emissions from all its ground operations through the purchase of 1,335 carbon credits related to a project to reclaim degraded areas in Cáceres in the northeast of the country. In total, 3,346 metric tons of CO₂ related to emissions from 2013 to 2015 have already been offset. Now the company is studying means of also offsetting emissions from its domestic flights in accordance with legislation recently approved in the country.

To track its performance, LATAM monitors its greenhouse gas (GHG) emissions on an annual basis. The calculation takes into account international reference data and information collected from the management systems of diverse areas of the group. Whenever necessary, data from utility bills are also incorporated into the estimates.

The emissions inventory has been conducted since 2010, but for purposes of comparison and for measuring annual progress, the data from 2012 is used. This was the year when LAN and TAM were merged and when the ISO 14.064 standard was introduced as a monitoring tool. In the most recent inventory, for 2016, the intensity of GHG emissions corresponded to 83.02 kg CO₂e/100 RTK, a decrease of 0.95% compared with 2015.

For more detailed technical information about the emission factors used for the calculation, the scope of data coverage and the references used, see the Attachments.

0.95% drop in emissions intensity



Eco-efficiency initiatives focused on fuel consumption also provoked a positive impact on GHG emissions, with a 440,300 t CO₂e reduction in emissions in 2016

[305-5]

[305-1, 305-2, 305-3 and 305-4]

GREENHOUSE GASES (t CO ₂ e)	2013	2014	2015	2016	Δ 2016/2015
Direct emissions ¹	11,844,687	11,716,772	11,610,378	11,343,650	-2.30%
Indirect emissions ²	18,597	18,003	20,660	15,767	-23.68%
Other indirect emissions ³	4,282	7,092	4,214	7,718	83.14%
Total	11,867,567	11,741,868	11,635,252	11,367,134	-2.30%
Emissions intensity (kg CO₂e/100 RTK⁴)	84.11	83.36	83.82	83.02	-0.95%

¹ Direct emissions (Scope 1): fuel consumption in flight operations, fixed sources and LATAM fleet vehicles, as well as fugitive refrigerant gas emissions.

² Indirect emissions (Scope 2): purchase of electricity. The increase in 2015 refers to changes in Ecuador due to the expansion of coverage from 28% to 88%, and in Brazil, due to new constructions and to the opening of new units.

³ Other indirect emissions (Scope 3): ground transportation related to the operations (employees, suppliers and waste) and employee business-related air travel (using other companies).

⁴ Emissions intensity, specific indicator for air operations only.

Obs.: the formula for calculating revenue ton kilometers (RTK) revenue was adjusted and the weight of revenue passenger kilometers (RPK) in its composition was reduced by 10%, affecting the intensity indicator. To ensure comparability, the data for previous years were restated in this table.

GROWING ECO-EFFICIENCY —

LATAM does more with less based on investment in a modern fleet, reduced aviation fuel consumption and the rational use of natural resources

To progress towards its target of a 1.5% annual increase in fleet fuel efficiency by 2020, LATAM invests continuously in improving flight procedures and in fleet renewal, with positive year on year results. LATAM is the world leader in fuel efficiency. The group's median fuel consumption is 8.3% lower than the IATA average¹, which encompasses around 260 airlines worldwide, representing more than 80% of international air traffic.

In addition to representing important environmental gains, such as savings of non-renewable resources and a reduction in greenhouse gas emissions, efficient fuel use also ensures competitive advantages for LATAM from a financial standpoint and in terms of market positioning. In 2016, these measures generated fuel savings of 6,050 TJ, with cost avoidance of US\$ 76.1 million. [302-4]

Among clients, the group's robust environmental performance is a key differential, particularly in the cargo transportation sector. Around 25% of LATAM's revenues in this segment come from clients who apply environmental criteria in the selection of suppliers.

The company's strategy of eco-efficiency in the use of fuels is based on two key fronts: improved flight procedures and the periodic renovation of the fleet.

Currently comprising 332 aircraft, the average age of the aircraft in the LATAM fleet is seven years and these models are equipped with efficient engines that employ leading edge technology to avoid wastage of fuel. In addition to reducing CO₂ and nitrogen oxide (NOx) emissions, fleet renewal also ensures a decrease in noise generation, another priority topic for the group, especially given the expansion of urban zones, the growth in populations living in areas around airports and the increase in air traffic over recent years.

In relation to improvements in procedures, the initiatives are concentrated in the LATAM Fuel Efficiency program, a corporate effort in place in all group units that ensures 3.9% less fuel consumption per flight in comparison with 2010. This performance positions LATAM at world class levels of excellence and very close to the estimated maximum savings of 5%.

Young fleet

- Average age: **7 years**.
- In 2016, the Airbus A330 models, which have low environmental performance, were withdrawn from service.
- During the year, the fleet received six Airbus A350 aircraft, totaling seven in the fleet. This model consumes up to **25% less fuel** than other similar-sized models and generates **40% less noise**;
- Two Airbus A320neo aircraft were also incorporated into the fleet. They have latest generation engines that use **15% less fuel** and generate **50% less noise**.



Among the world leaders in efficiency

¹ Comparison with the IATA 2015 average. The data for 2016 were not available at the time of publication.



During the course of 2016, after achieving world class levels of excellence in fuel consumption during the take off and landing phases, work was focused on seeking efficiency during the cruise phase, which can account for up to 95% of total fuel consumption. A high technology system was introduced to process flight information and cross reference it with pre-established plans, enabling the identification of reduction opportunities on a route by route basis.

Based on this system it is possible to optimize speed during the cruise phase; alter, when necessary, route plans, and drive efficient fuel consumption, as well as standardizing the approach and landing operations, providing a more accurate estimate of the amount of fuel necessary for these stages.

The new measures complement the initiatives which have already been incorporated into the company's routines, such as:

- Only activating the external lights in approach and landing procedures at lower altitudes, decreasing energy consumption by the lighting system;
- Coordination of aircraft inspection and maintenance activities with flight operations to avoid need for aircraft to fly to a different location to carry out inspections or maintenance.

Satellite navigation

LATAM was the first airline in South America to implant Required Navigation Performance (RNP) in its aircraft and in the airports in which it operates. The satellite navigation system permits the predefinition of landing routes, reducing the need for maneuvers, which in turn increases safety for passengers and crew members and reduces fuel consumption. The tool is particularly useful for landing procedures in adverse weather conditions, such as low visibility.

Internal energy consumption dropped by 2.4% from 2015 to 2016, driven especially by reduced fuel consumption

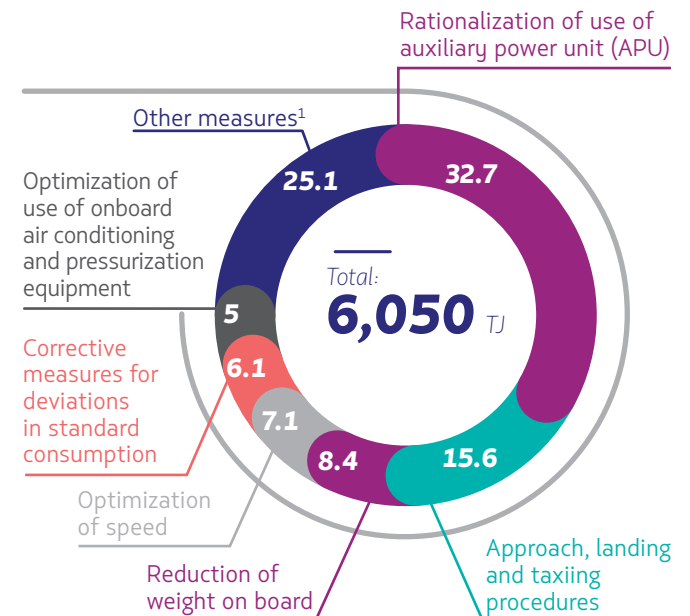
The diverse efficiency measures in fuel use led to a 6,050 TJ reduction in energy consumption

[302-1]

ENERGY CONSUMPTION (TJ) - INTERNAL	2013	2014	2015	2016
Aviation fuel	163,009.44	159,801.37	158,889.43	155,310.60
Gasoline	4.98	5.43	10.07	24.48
Diesel	86.52	79.65	351.70	161.33
Liquefied petroleum gas (LPG)	6.30	8.57	7.23	6.88
Natural gas	0.04	0.04	1.28	0.01
Ethanol	-	-	0.26	-
Electricity	218.04	228.36	214.92	165.39
Total	163,325.31	160,123.42	159,474.89	155,668.69

ENERGY SAVINGS – FUELS (2016) (%)

[302-4]



1 E.g.: route reviews, engine washing focused on aerodynamic performance, satellite enabled approach procedures.

Alternatives to non-renewable fuels

After pioneering two commercial flights with bio-fuel in South America in 2012 and 2013, LATAM continues to support efforts and studies for the use of more sustainable fuels in the air industry in the future. The company is actively engaged in discussions on this question. In Brazil, for example, it participates in the debates on the legal framework for biofuel production, including biokerosene, promoted by the Ministry of Mines and Energy.

NO_x, SO_x and ozone layer depleting gases are monitored

[305-6 and 305-7]

SIGNIFICANT ATMOSPHERIC EMISSIONS	2013	2014	2015	2016	Δ 2016/2015
Ozone layer depleting gases ¹ (t CFC11 _e)	3.86	2.18	4.96	6.44	29.84%
Nitrogen oxides (NO _x)					
Total (t)	40,752	40,022	39,722	38,828	-2.25%
Total intensity (g NO _x /RTK ²)	2.89	2.84	2.86	2.84	-0.91%
Intensity in passenger operation	0.28	0.26	0.26	0.27	0.47%
Intensity in cargo operation	1.57	2.02	2.13	1.85	-13.36%
Sulfur oxides (SO _x)					
Total (t)	1,805	1,776	1,759	1,720	-2.22%
Total intensity (g SO _x /RTK ²)	0.13	0.13	0.13	0.13	-0.91%
Intensity in passenger operation	0.01	0.01	0.01	0.01	0.47%
Intensity in cargo operation	0.07	0.09	0.09	0.08	-13.36%

¹ Includes: HCFC-22; PFC-218; HCFC-141b; HCFC-142b; HFC-134a; R507A; R410A; R422D; R438A; Halon-1211 and Halon 1301.

² RTK (Revenue tonne-kilometers): revenue generated in metric tons per kilometer.

Obs.: the formula for calculating revenue ton kilometer (RTK) was adjusted and the weight of revenue passenger kilometer (RPK) in its composition was reduced by 10%, affecting the intensity indicator. To ensure comparability, the data for previous years were restated in this table.

Currently, it is the group's understanding that the large-scale adoption of this type of fuel still depends on an integrated strategy that would include fuel producers, aircraft engine manufacturers, the airlines and the pertinent regulatory authorities. Up until now, the use of alternative fuels by the group has encountered difficulties, such as the discrepancy between the volume produced and the potential demand, as well as high prices and complicated distribution logistics. LATAM does not invest directly in biofuels, but will be interested in using them when prices, production conditions and commercial terms are similar to those for aviation fuel.



MATERIAL TOPICS

Eco-efficient management Reducing noise and other emissions

- Maintain levels of excellence in the rational use of fuels
- Continuous improvement and investment in technology
- Managing compliance in noise generation

2016 highlights

Renewal of fleet to include models with lower fuel consumption, lower GHG and noise emissions

Information technology applied to pursuit of efficient fuel use during all flight stages

Initial steps towards the integrated management of other impacts, such as water consumption and effluent disposal

POLICIES AND SYSTEMS —

Clear corporate directives, structured environmental management systems and international certifications and references that drive integrated process improvements and impact reductions



Currently, 91% of the group's operations have environmental management systems in place, and 25% of these are certified under an international standard

In 2016, LATAM progressed in unifying procedures for managing all aspects of the business, publishing its global Safety, Quality and Environment Policy. The document was validated by senior management and establishes guidelines for the integrated management and monitoring of progress by the periodic appraisal of performance and the review of targets, goals and resources allocated. [\[+ Attachment\]](#)

Focused specifically on the environmental area, the policy determines the adoption of best practices with a view to preventing any kind of contamination and driving the efficient management of LATAM's carbon footprint.

Environmental management at LATAM spans all the operation's activities, including maintenance services, logistics and waste disposal. It is underpinned by the adoption of structured systems based on international standards, both in flight and ground operations.

In the operational area, the group is certified under the IATA Environmental Assessment (IEnvA) voluntary program, a wide-ranging system created by the International Air Transport Association (IATA) to drive improvements and progress in environmental management. The international operation in Chile obtained this certification in 2015, making LATAM the first

company in Latin America and the third worldwide to have the seal. Currently LATAM is studying the possibility of seeking certification for other operations.

The IEnvA program is aligned with ISO 14.001 environmental management standards and takes into account the specificities of the aviation industry, covering aspects related to the legal requirements at the certified company's destination network and enabling the development of improvement processes customized for each organization's most relevant environmental aspects. In addition to minimizing legal non-compliance risks, driving greater transparency in governance, improved communication of environmental questions and promoting continuous improvement, the certification enables LATAM to manage resource allocation more efficiently, generating financial gains for the company.

The LATAM environmental management systems enable greater accuracy in tracking environmental investments and the results achieved in terms of gains in efficiency and cost avoidance.

ENVIRONMENTAL MANAGEMENT (US\$)	2013	2014	2015	2016
Investments (Capex)	12,522,000	2,522,000	911,691	148,297
Operational expenditures (Opex)	817,760	983,110	1,925,418	2,168,387
Total	13,339,760	3,505,110	2,837,108	2,316,684
Costs avoided¹	72,140,601	93,786,247	79,155,500	76,176,514

¹ Takes into account savings based on efficiency measures, costs avoided because of non-compliance and other factors.

Best practices

IEnvA certification also serves as a parameter for the integrated management of other potential company environmental impacts. LATAM pursues conformance with the IEnvA Best Environmental Management Practices Manual to enhance procedures related to water, effluents and waste. [\[+ Attachment\]](#)

In relation to water, for example, LATAM has monitored consumption and adopted rational usage measures for a number of years. In 2015, when Southeastern Brazil was affected by a water supply crisis, the company adopted a contingency plan whereby its planes avoided filling up with water in airports located within the region affected by the drought. As part of a more integrated vision based on the IEnvA manual, the group included the complete consumption and discharge cycle for its diverse operations in the monitoring process. This analysis was the reason behind the decision taken in 2017 to not discharge water from aircraft in certain specific locations, such as Easter Island (Chile).

The integrated vision of the topics fortifies management

Analysis of environmental risks

LATAM's environmental performance is incorporated into the group's risk matrix, which guides leaders in the definition of business strategies and other decisions. Considerations include any potential operational impacts on the environment, the capacity to adapt to increasingly rigorous standards and legislation, management of the supply chain and eventual climatic changes, such as temperature increases and variations in rainfall volumes.

In constant evolution, in 2016 the risk analysis process incorporated possible costs related to emissions in the countries in which the company operates, for example Colombia, which recently approved a tax on the emissions generated by domestic flights. To enhance management, the decision was made to separate the risks related to CO₂ emissions from nitrogen oxide (NOx) and noise emissions. In the course of the year, the company also incorporated the potential risks of soil contamination from fuel and lubricant spills into its matrix.



Social and environmental aspects are incorporated into the risk matrix



COMMITMENT	BASE-YEAR ²	TARGET	2016 RESULTS
1.5% improvement in fuel consumption efficiency by 2020 (IATA ¹ target n° 1)	2009/2012	1.5% a year by 2020	13% reduction in fuel use per 100 RTK ³ since 2012, when LATAM's consolidated monitoring was initiated.
Carbon Neutral Growth (CNG) in 2020 (IATA ¹ target n° 2)	2009/2012	Carbon growth stabilized by 2020	Systematic, gradual reduction in carbon footprint. In comparison with 2012, the decrease is as high as 8%
Halve net CO ₂ emissions by 2050 against base-year 2005 (IATA ¹ target n° 3)	2009/2012	Emissions stabilized at 2005 levels	Systematic, gradual reduction in carbon footprint. In comparison with 2012, the decrease is as high as 8%
Carbon neutral ground operations by 2020	2012	Zero carbon in ground operations	Mitigation measures resulted in a 27% reduction in ground operation emissions compared with 2012. Additionally 13,873 t CO ₂ e were offset from 2012 to 2016.
10% improvement in infrastructure energy efficiency by 2020	2014	10% energy intensity reduction target in buildings (MWh/FTE ⁴)	4% reduction
10% less waste by 2020	2014	10% reduction in waste generation	It has not yet been possible to establish the systematic monitoring of this indicator in the ideal coverage scope, but LATAM has been working on enhancing the measurement systems to enable this. The data for 2016 indicate a drop in total generation.
Implement an Environmental Management System (EMS)	2012	Full implementation	In 2016, 91% of the main hubs operated by the company had an EMS, and the company continues to work on ensuring implantation in all of them.

¹ International Air Transport Association.

² Base line used to establish the evolution in the company's consolidated performance. In some cases, in addition to the base year defined by LATAM at corporate level – 2012 or 2014, depending on the commitment –, monitoring also encompasses comparisons with performance prior to the merger.

³ RTK: revenue ton-kilometers. Total weight multiplied by the distance traveled.

⁴ Full Time Employee.



INSTANT SNAPSHOT

ENVIRONMENTAL PERFORMANCE	2013	2014	2015	2016
Climate change				
Emissions intensity (kg CO ₂ e/100 RTK) ¹	84.11	83.36	83.82	83.02
Total emissions (t CO ₂ e)	11,867,567	11,741,868	11,635,252	11,367,134
Eco-efficiency, reduction of noise and other emissions				
Rational fuel use (reduction compared with IATA average)	7.68%	7.42%	7.44%	8.30%
Average age of fleet (years)	7	7	7	7
Noise (% compliance with chapter 4 of ICAO ²)	100	100	100	100
Energy consumption (TJ) ³	163,325.31	160,123.42	159,474.89	155,668.69
Energy intensity (MWh/100 RTK)	0.32	0.32	0.32	0.32
Policy and systems				
Units with EMS ⁴ implanted	7	7	7	7
Units with EMS ⁴ certified	0	0	2	2

¹ Takes only flight operations into account.

² International Civil Aviation Organization.

³ Takes flight and ground operations into account.

⁴ Environmental management system.



Clients

In this chapter

— 50 ENHANCING RELATIONS

ENHANCING RELATIONS —

The group is developing a series of initiatives to fulfill client expectations and to enhance their experience prior to, during and after each trip

LATAM is committed to enhancing the way it relates to clients and to anticipating the ever faster transformation in consumer demands and habits. Focused on proximity and quality, the aim is to offer a differentiated experience prior to, during and after each trip.

During the course of 2016, the group consolidated a new approach to interacting with clients in all service areas – airports, contact centers and crew members. This is based on the three pillars of the LATAM culture – efficiency, safety and care – and is aimed at establishing a new level of delivery for clients, defined based on a global strategy and adjusted to the specifics of each operation.

Routine processes, team organization and demand flows were reviewed, analyzing information about client profiles and needs. In this new dynamic, employees gained autonomy to take decisions, while leaders received specific training to enable them to manage their teams more effectively, driving engagement, recognizing outstanding performance and identifying points demanding attention and requiring adjustment.

This change began in 2015, with the implantation of the Twist pilot project in the Estado Contact Center,

in Santiago, Chile, and Brasilia Airport in Brazil, the fourth largest in the group operation. Throughout 2016, the new culture was extended to other units and by the end of the year, eight different contact centers had experienced the transformation – encompassing both, company teams and service providers. 45 airports were involved (60% of the total), including all the larger ones; the new way of working was introduced first among crew members. The target is to reach all LATAM airports and all flight attendants by the end of 2017.



The actions have a positive impact on clients and the LATAM team

45

*airports and
8 contact centers
have already
taken part in the
change*



The locations in which the cultural transformation has already taken place have shown positive changes in the main indicators monitored. In the airports, the impact rate during the year reached 87%, exceeding the target (85%). The index takes into account performance of four key indicators: adherence to the new procedures, team efficiency— based on service rendered, punctuality at the airports and baggage dispatch management—, employee satisfaction and client satisfaction.

The level of client satisfaction increased at all the airports in which the group operates, with the final result per country ranging between 80% and 93% against a target of 85% for the period. With respect to team adherence and satisfaction, results improved steadily over the months, varying between 80% and 110% of the targets established; however, there is further room for improvement.

Increasingly digital

To offer clients new forms of connectivity and communication, LATAM continues to invest in technology. Via the company website and smartphone application, it is possible to buy tickets, make reservations, check in, obtain a virtual boarding pass and access real time flight status information. A significant advance in 2016 was the expansion of the online service enabling passengers to alter travel and check in dates to all countries, even for tickets using different flight codes (LA and JJ). Today, over half the check ins are done digitally, directly in the app or on the website; almost 9% take place via self-service totem.



MATERIAL TOPIC Connectivity and client relations

- New technology
- Attention, communication and care
- Service excellence



2016 Highlights



LATAM App

+ than

2.3
million

clients downloaded
the LATAM app
in 2016

+ than **4**
million

active users
during the year

The largest number of
clients who used the app
were concentrated in
Brazil, Chile and Peru



New service culture

client satisfaction:
80%-93%

team efficiency:

96%-101%

increase

of up to
39% in team
satisfaction

7 mil employees
impacted
(15% of the total)

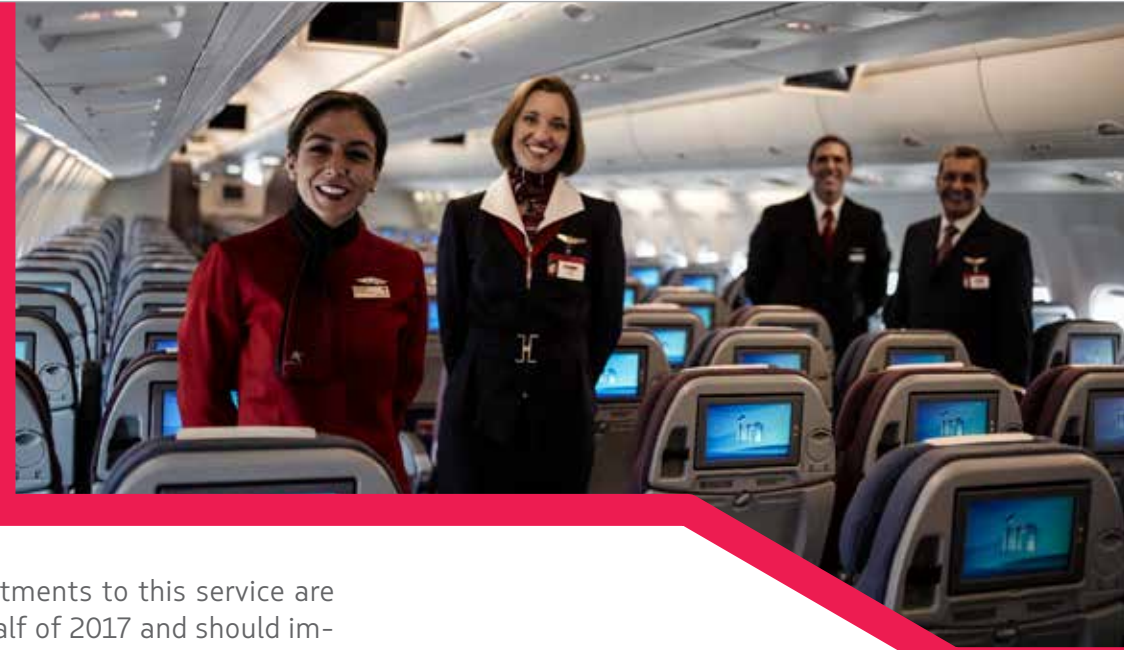
During the flight, passengers can also access LATAM Entertainment, an application that offers a menu with films, television series, news programs, music and books that users may access directly on their cell phones, tablets or laptops. The service is offered on short haul domestic flights that are normally operated with smaller aircraft that do not have individual screens.

In the post-flight satisfaction survey there was an increase in the number of passengers who recommend the company, indicating the onboard entertainment service as the main reason.

Satisfaction

LATAM tracks passenger satisfaction via an on-line survey using Net Promoter Score (NPS) methodology. In 2016, the degree of satisfaction was 41 points, on a scale from 100 negative to 100 positive. The diminutive one point increase is highly significant. This was the first consolidated satisfaction survey since the launch of the new LATAM brand, and it demonstrates the migration of the positive attributes and level of excellence of the former LAN and TAM brands in the perception of clients. [102-43]

The increase in the overall satisfaction rate was influenced mainly by the improved punctuality of flights, but there were variations between the different operations. In Brazil and in Chile, the degree of satisfaction increased by 5 and 7 percentage points respectively. In Colombia and Peru, there was a decrease due to alterations in the in-flight



meal service. New adjustments to this service are scheduled for the first half of 2017 and should impact the rating positively. [102-44]

As a result of the cultural change implemented during the course of 2016, the frequency with which client satisfaction is measured was increased and expanded to include different interaction times with LATAM. At the airports after finishing the check in, the user can now evaluate the service provided on electronic panels at the check in counter. The data is monitored in real time by supervisors and is used as an input for team management on each shift. The reduction in time between the actual experience and the clients' feedback is helping the company to identify deviations and to drive process improvements in a faster and more segmented manner. The surveys to rate the flight experience are also more straightforward. Currently, they are sent to the passengers the week after the flight; however, a new platform that will provide the passenger with the survey questionnaire on the day of the flight is under development.



The client surveys drive improvement measures

Cargo segment

In 2016, LATAM adopted Net Promoter Score (NPS) methodology to survey client preferences related to LATAM Cargo services. The methodology was already in use to monitor passenger satisfaction and enables the more accurate identification of the positive attributes of the service provided and those which need to be improved. The consolidated result for 2016 was 14 points, on a scale from minus 100 to plus 100. In the group's domestic operations, the index reached 20 points, with variations among the countries. The best result was in Brazil: 24 points. In the group's international operations, particularly worthy of note was Miami with a score of 48 points. Performance in Asia and Europe was rated negatively, and specific action plans to improve this are being undertaken in 2017. [102-43]

The positive attributes indicated in the most recent survey include the product and service portfolio (updated in 2016 in accordance with client needs), the capillarity of the destination network, the quality of the attention paid to clients, the LATAM brand image, the speed of commercial processes and fulfillment of

reservations (times, itineraries and care with the cargo transported). The opportunities for improvement identified are concentrated on greater agility in operating processes and digital tools for clients to track and manage processes. Strategies for addressing these demands will be determined in 2017. [102-44]

As part of the consolidation of the LATAM brand, in 2017 the group launched the new website: www.latamcargo.com, which includes a section for posting complaints. LATAM has a Customer Care team which proactively tackles any problems in cargo operations. It is also responsible for addressing customer complaints.



The Miami cargo operation is the champion in client satisfaction

Monitoring of the cargo and passenger segments is based on the same methodology



Now the loyalty programs are LATAM

As part of the LATAM brand unification process, in 2016 the company's two loyalty programs were re-named. The LAN Pass program, valid in the Spanish speaking countries, is now LATAM Pass, and the TAM Fidelidade in Brazil, is now called LATAM Fidelidade.

Highly valued by clients, the programs are still aimed at rewarding passengers who fly more by means of a series of benefits, such as free tickets and products and faster access to check in and boarding. They have also incorporated a number of improvements. These include the possibility of receiving confirmation of upgrade requests with 12 hours notice – previously the confirmation depended on the availability of seats in the aircraft and only occurred after the flight closed. This benefit is valid for all the routes operated by LATAM, regardless of the user's loyalty program.

Another change was the unification of the membership categories (Gold, Platinum, Black and Black Signature) in alignment with the airlines in the one-world global alliance. However, the loyalty program "currencies" remain distinct: miles in LATAM Pass and points in LATAM Fidelidade.



26.1 million members in the loyalty programs

At the end of 2016, LATAM had 26,1 million members in its loyalty programs, an increase of 15.4% over the previous year. Of these, 13 million were members of LATAM Pass and 13.1 million, members of LATAM Fidelidade.

LATAM Fidelidade is part of Multiplus, the largest loyalty network in Brazil. A publicly traded company, Multiplus is listed on the BM&FBovespa exchange and its controlling shareholder is TAM.



INSTANT SNAPSHOT

CONNECTIVITY AND SATISFACTION	2015	2016
Active users of the LATAM app ¹	2,535,214	4,021,213
Auto check in (as a percentage of total check ins)	57.7%	59.0%
Digital check in (via app or website)	44.9%	50.1%
Check in via self-service totems	12.8%	8.9%
Passengers – Satisfaction (NPS) ²	40	41
Cargo – Satisfaction (NPS) ^{2 3}	-	14

¹ Used the app at least once during the period of one year.

² Scale from -100 to + 100.

³ NPS methodology was adopted in the cargo sector in 2016.



Safety

In this chapter
— 56 INTEGRATION AND EXCELLENCE

INTEGRATION AND EXCELLENCE —

Safety is a high priority at LATAM, which invests in high technology systems and drives team compliance with all established procedures

Care for employees, passengers and communities is a constant concern at LATAM. Using technology as an ally, risk management in the company is focused on pursuing continuous improvement and involves the systematic monitoring of every stage of the operation, enabling the group to evolve its processes and practices year on year while simultaneously boosting employee engagement in this area.

After the advances achieved in standardizing procedures and the integration of information in 2015, last year was marked by the consolidation of integrated safety risk management. LATAM is aligned with the most rigorous international standards and participates actively in diverse working groups and forums for the exchange of experiences and knowledge aimed at improving safety in the industry. Worthy of note among these is the International Air Transport Association (IATA) and the Latin American and Caribbean Air Transport Association (ALTA).

Safety at LATAM is managed on four different levels: operational or flight safety, corporate or infrastructure, occupational and emergency response.

An automated system provides support for integrated flight analysis

Operational safety

In 2016, LATAM enhanced the monitoring and analysis of information about all the flights it operates. A system centralizes data on all the aircraft operated by the company, covering up to 96% of flight information. In the most modern aircraft in the fleet, which are equipped with wireless networks, information is transmitted on a fully automated basis as soon as the aircraft lands, ensuring even greater efficiency in the process.



2.6 TB
of data
analyzed
per year



Every day, 10 GB of information are processed and analyzed by specialized teams. The integrated view of this information provides an accurate diagnosis of the state of the company's equipment, the situations encountered during the flight and the attitudes adopted by the flight crews, enabling the definition of improvement plans. The data gathered in 2016 indicate full air crew compliance with company standards, the result of constant investment in training. Furthermore, this information enables a proactive stance in anticipating possible problems with equipment.

This monitoring drives one of the main advances in management, providing an integrated view of all flight stages: take off, the cruise phase and landing. In line with industry trends and the increasing technological sophistication of the aircraft, the company has been applying the learning acquired during years of identifying and systematically managing risks to the cruise stage of flights. In parallel with the evolution in the equipment, since 2010 LATAM has been reinforcing training in manual flight procedures to ensure that the crews are prepared to act rapidly in the event of any failure in automatic protection processes. Tracking of the new indicators demonstrates that the air crews comply fully with all recommendations and best practices.

Systematic risk management drives continuous improvement

Dynamic scenario

At LATAM, the pilot training program is extremely dynamic. Pilots undergo periodic re-training, with the course contents updated every year to incorporate experiences within the company or reported by other airlines and disclosed by the competent authorities. The objective is to ensure that the pilot is always prepared to act assertively when faced with adverse situations, which are mutable and demand flexibility.



MATERIAL TOPIC *Health and safety in the air and on the ground*

- Managing potential risks
- Ensuring the highest standards
- Focus on employees, clients and communities

2016 Highlight

Approval of the LATAM Safety, Quality and Environment Policy (page 87)

Integration of flight information monitoring systems: LATAM processes

**around
96%**

of flight information, enabling more effective monitoring of air crew compliance with established procedures

Internal public: risk management and promoting a safety mindset

Volcanic ash

Managing safety at LATAM is a cross cutting process that takes a wide-ranging series of risks and variables into account, supported by knowledge and technology to leverage ongoing improvement. This enabled the group to effect a veritable turnaround in air operations in environments with volcanic ash – particles of rock and minerals expelled during volcanic eruptions which remain suspended in the air. This is a recurrent problem in some regions of South America, representing a threat for aircraft engines.

Armed with scientific information about the precise characteristics – size and concentration – of the particles which could compromise aircraft, allied with investments in measuring equipment and monitoring of eruptions and air currents, LATAM managed to reduce deviations from routes and flight cancellations caused by the problem. In 2016, for example, LATAM was the only airline that was able to maintain normal operations in complete safety in the region affected by the cloud of ash that hovered in the air for 15 days after the eruption of the Cabulco volcano in Southern Chile.

The process of enhancing operations in environments with volcanic ash was initiated in 2013, after a series of eruptions from the Copahue



volcano located on the border between Chile and Argentina impacted LATAM's activities in the region for almost 40 days. The learning process involved the exchange of information with air authorities in Europe who deal with this kind of situation and contracting a specialist in the area. The company also installed a network of sensors that monitor the presence of particles in more than ten airports in regions with active volcanoes in Argentina, Chile and Ecuador.



Knowledge and technology reinforce safety

Safety infrastructure

LATAM adopts standardized processes at the airports in which it operates, in line with corporate criteria and local regulations. One focus of attention is monitoring the boarding of passengers without valid documentation (expired or fraudulent) or who are barred from entry at the destination. Another refers to inappropriate passenger behavior during the flight – frequently caused by alcohol or drug abuse before boarding. In addition to inconveniencing the other passengers and presenting a potential safety risk, these situations can lead to delays or deviations from the route. In these cases, LATAM follows the law and is prepared to adapt to any new measures that may be introduced by the competent authorities.

Occupational safety

The main risks of accidents mapped by the company are those involving work at height or in confined spaces, exposure to noise and handling mobile equipment, hydraulic systems and aircraft engines. Risks of disease range from exposure to glass fiber, ultraviolet radiation, solvents, dust mites, vibrations, manipulation of metals, manual work involving cargo and psychosocial risk which may cause asthma, allergies, skin cancer, stress, tendinitis and other injuries.

Even having a culture that prioritizes proactive risk prevention, there was one fatal accident involving an LATAM employee during maneuvers by an aircraft at the Salgado Filho airport in Porto Alegre, in the South of Brazil. The company provided the victim's family with all possible assistance and co-operated with the investigation conducted by the Rio Grande do Sul police. The final report indicated a communication failure in the team.

After the accident, the company reviewed all airport maneuvering and maintenance procedures, modifying processes and retraining ground crews worldwide. As a result of the case an awareness workshop was organized for leaders in Brazil.

In the consolidated results for the operations, LATAM maintained the trend towards a reduction in the total number of injuries (from 739 in 2015 to 542 in 2016) and in the corresponding rate (from 1.42 to 1.18). The number of days lost, however, was higher than that for the last two years, due to the fatal accident in Brazil. [403-2]

Emergency response

LATAM has in place a unified emergency response plan, overseen by the Emergency Committee, which reports directly to the CEO. The plan, which provides for the mobilization of 5,000 people organized in 11 local committees, is based on the following directives:

- care for passengers and family members, including psychological support;
- support for the authorities in investigation processes;
- provision of information to the communication media;
- guarantee of execution of operational activities.

In 2016, the group adopted a new system for activating the emergency response plan, decreasing the time needed to mobilize the 5,000 people to be involved in this type of incident. Now, all are notified in just 4.5 minutes.

During the year, LATAM initiated the organization of an Emergency Week in each one of its 11 branches (Chile, Brazil, Argentina, Peru, Colombia, Ecuador, the United States, Paraguay, Spain, Mexico and LATAM Cargo Brasil). This involved training for the team and for leaders. A total of 2,391 people took part. At the end, there was an emergency drill to assess compliance with the guidelines set forth in the response plan.



INSTANT SNAPSHOT

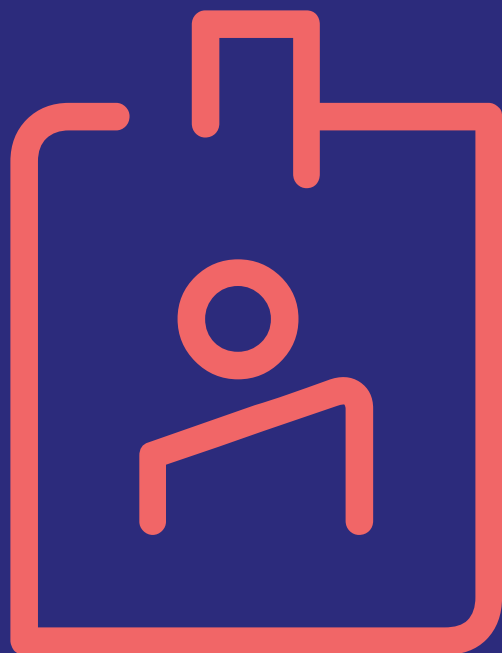
OCCUPATIONAL HEALTH AND SAFETY	2014	2015	2016
Number of injuries	1,234	739	542
Injury rate ¹	2.40	1.42	1.18
Number of days lost	12,764	12,072	13,486 ²

¹ Total injuries / average number of employees x 100.

² 6,000 days lost were added to the calculation due to the occurrence of a fatal accident, in accordance with Brazilian regulations governing this question.

EMERGENCY RESPONSE	2014	2015	2016
Emergency team members	4,287	5,000	3,723
People trained	1,987	2,129	2,391

Safety management is based on four perspectives: operational (in flight), infrastructure, occupational and emergency response



People

In this chapter

— 61 GREATER PREPARATION AND EFFICIENCY

GREATER PREPARATION AND EFFICIENCY —

The group invests in enhancing management to gain agility and sustainability, driving closer ties between leaders and employees

LATAM is fully aware of the important role its work force plays in growing the business and achieving the company's future vision. For this reason, the group's personnel management model is focused on team development and encompasses structured talent attraction and retention actions, performance monitoring, training and development, health and safety (*further information in chapter Safety*) and succession planning. The company ended 2016 with 45,916 employees, representing more than 60 nationalities in the 25 countries in which it operates. [102-8] [\[+ Attachment\]](#)

In 2016, the year the LATAM brand was officially launched, the group maintained its commitment to consolidating a unified culture. In parallel, the initiatives aimed at simplifying the company and making it more efficient, productive and agile were maintained, the objective being to resume growth and remain competitive in a delicate economic conjuncture, particularly in certain markets such as Brazil.

In the initial stage, the changes were concentrated particularly on the support areas, pursuing efficiency and opportunities to simplify processes by means of the standardization or centralization of activities in order to avoid overlapping responsibilities. An example was the restructuring of the Human Resources area with the creation of a unified call center for all the countries and areas to clarify doubts regarding

routine processes, maintaining a dedicated team to deal with strategic issues in a more focused manner. An in-depth analysis was also undertaken to identify possible adjustments to the company's benefits policy, focused on senior management.

Considered necessary to ensure the long-term sustainability of the business, the measures affected the entire work force. During the year, the staff turnover rate was 14.8%, slightly less than in 2015 (15.5%). [401-1] [\[+ Attachment\]](#)

Due to its complexity, the transformation plan, which will impact the way the business is managed throughout the organization, will be continued in 2017.

LATAM Recognition Platform

The LATAM Recognition Platform was launched as a means of enhancing existing forms of recognition and encouraging engagement in the group's culture. This mechanism permits any employee to recognize and to be recognized for good conduct and best practices in safety, efficiency and caring for people. The platform is open to all employees and, exceeding expectations, received more than 17,000 recognitions from May to December.



Focus on process simplification and standardization of training for the entire group





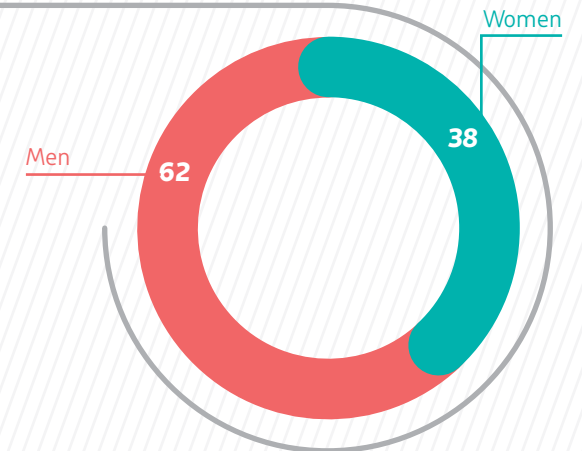
The people behind LATAM ^[102-8]

LATAM's work force comprises 45,916 professionals

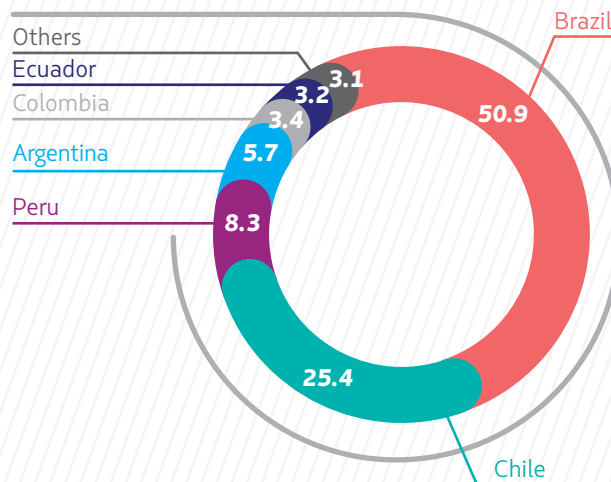


Alignment
and high
performance

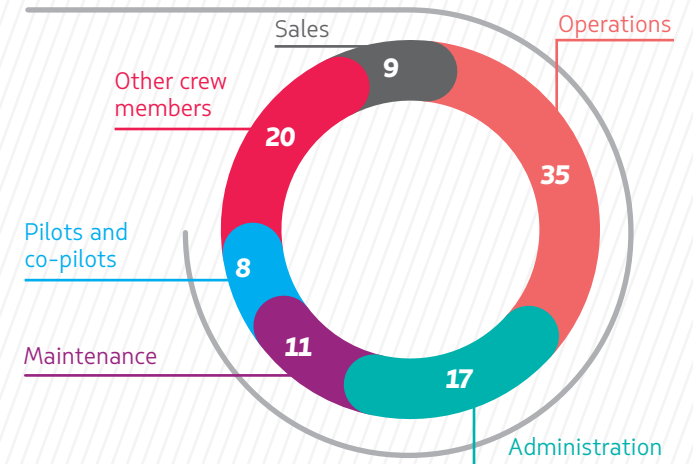
GENDER (%)



COUNTRY (%)



FUNCTION (%)



Closer ties with leaders

The cultural change initiated in 2015 in the LATAM service areas, which include the operational teams (airports, contact centers, and in flight services), is serving as inspiration for the implantation of new relationship dynamics with leaders.

The model is aligned with the transformation that is taking place throughout the company – the Twist project –, and was devised collaboratively during workshops with leaders at all levels. The goal is to bring leaders and their teams closer together, with a focus on engagement, development and recognition. Appraisal and feedback tools – used by managers with their employees and vice-versa – are also faster and more straightforward.

As a result of the model a new communication practice has been implanted for leaders and their teams. In LATAM News, leaders meet with their employees on a weekly basis to report on the main occurrences in the company and to give a preview of important upcoming matters. The leader is also at the team's disposal to clarify any doubts.

Another novelty is the online Barometer platform – in which employees respond to a survey on the performance of their immediate chief. The survey is applied three times a year for teams with a minimum of five people. The information gathered is discussed in a meeting with the whole team and is used to feed improvement plans.

362

*leaders attended
workshops
on assertive
communication*

Climate survey

LATAM carries out an annual internal climate survey. Since 2014, the assessment has been based on the Organizational Health Index methodology, which goes beyond questions related to satisfaction, encompassing engagement and degree of alignment with the company's strategic drivers. Around 71% of the employees took part in the survey in 2016, and the result remained stable compared with the previous year at 63%.

Training and development

In 2016, the training program was enhanced with new courses aimed at supporting the new client care model, which drives the entire business. 34 workshops on assertive communication were attended by 362 leaders. The Managing Emotions course was developed for client facing employees with the objective of further enhancing service levels. 90% of the staff who work at the airports and in the LATAM contact centers completed the course.



MATERIAL TOPIC

Talent management and controlling staff turnover

- Professional development
- High performance culture
- Strengthening leaders

2016 highlight

- Tools to bring leaders and their teams closer and promote strategic alignment: LATAM News, Barometer
- New training programs for client facing leaders and teams, in line with the cultural transformation strategy: assertive communication and managing emotions
- Advances in the succession plan

The updates regarding regulatory contents and internal procedures proceeded, incorporating revisions aimed at the simplification and standardization of processes.

Overall, more than 1.6 million hours of technical, behavioral and leadership training were given, resulting in an average of 36 hours training per employee. [404-1] [\[+ Attachment\]](#)

Performance appraisal and career progression

The group has a unified employee appraisal and feedback process, undertaken in accordance with pre-established criteria and involving leaders in the stage known as the calibration forums. In 2016, the company appraised 99% of its eligible employees. This corresponds to 70% of the work force.

The results of the performance appraisal serve as a reference for career advancement. In the course of the year, 65% of leadership position vacancies



1,663,571 hours
of technical, behavioral
and leadership training

US\$ 20.3 million
invested

were filled internally and 35.7% of the executives classified as high potential and high performance assumed new positions in the group.

With a structured succession plan, currently 81% of the critical positions in the company have potential successors mapped among employees considered to be ready to assume a new position immediately (66%) and others still at the preparation and development phase (15%). The result for 2016 is aligned with the projected target for the period, which corresponded to 70%.

Remuneration and benefits

LATAM remuneration policy comprises a fixed salary and variable remuneration, calculated based on the company's financial performance, achievement of corporate targets, area targets and individual performance. As a talent retention tool, senior management receives a bonus linked with LATAM share prices. The bonuses are cumulative and redemption is progressive, reaching 100% two years after being granted.

The company benefit plan also includes life insurance, insurance for business travel, health plan and discounts on air tickets for the employee and spouse or companion. Discounts are up to 75% for tickets with prior guarantee of seat and up to 100% for those subject to confirmation at time of travel.

All legal benefits are guaranteed, such as maternity and/or paternity leave in each country, and those determined by Chilean law: medical assistance, accident insurance and private pension plan. [401-2]



INSTANT SNAPSHOT

PERSONNEL MANAGEMENT	2014	2015	2016
Total employees ¹	53,072	50,413	45,916
Turnover ¹	14.6%	15.5%	14.8%
Employee satisfaction	62.0%	63.0%	63.0%
Average number of hours training per employee	36	41	36
Career management			
Performance appraisal (among employees eligible for assessment ²)	NA	95%	99%
Performance appraisal (considering the complete work force)	74%	73%	70%
Internal recruitment for leadership positions	NA	85%	65%
Succession plan			
Critical positions with successors mapped	NA	78%	81%

¹The numbers reflect the adjustments made by the group in pursuit of greater efficiency and competitiveness.

²Takes into account employees eligible for appraisal during the period, which excludes temporary contracts, special cases, employees on leave in excess of 180 days and pilots and copilots. Although other crew members are submitted to the general appraisal process, they follow a different schedule which extends to the first months of the year following the appraisal period.

NA: data not available.



Generating value for society

In this chapter

- 66 LATIN AMERICA IN FOCUS
- 69 CORPORATE CITIZENSHIP AND
PHILANTHROPY

LATIN AMERICA IN FOCUS —

The continent is a source of inspiration for and a driver of sustainable tourism, as well as business initiatives that value and help preserve the region's cultural and environmental heritage [203-1]



US\$
1.8
million
invested in
Cuido mi destino
since 2009

By means of its relationship network, LATAM acts as a catalyst for the development of the countries in which it operates. This involves the promotion of sustainable tourism, environmental care, as well as a social and economic balance aimed at valuing local culture. These actions are driven by values integrated into the company's culture, such as a genuine care for people.

With a focus on sustainable tourism, since 2009 the company has run its Cuido mi Destino program, which engages employee volunteers, students, representatives of public authorities and civil society organizations in projects to repair or rebuild tourist spots and to provide training for local community members. The program generates immediate reflexes on local economies, boosting commerce and other services.

In 2016, the program was active in all the South American countries in which LATAM operates, with the exception of Brazil, which will implement a project in São Luís (Maranhão) in the Northeast of the country in 2017. The amount invested in 2016 was US\$ 181,612. Total investment since the launch of the program is US\$ 1.8 million.

There follows a description of some of the measures undertaken:

Argentina: The community chosen for the Cuido mi Destino program in Argentina was San Pedro de Colalao, in Tucumán province. Involving an investment of US\$ 51,562 and the participation of around 60 students, the program restored the People's Theater. This included painting the interior, repairing the boxes and recuperating the gardens. Another measure in which 50 community members participated was the revitalization of the gardens in one of the city's squares.

*Local culture
and development*



*Awareness to
drive sustainable
tourism*



Chile: With help from students, teachers and company employees, LATAM built an exclusive area for the guides at the Huilo Huilo nature reserve, located in the village of Neltume in the province of Valdivia. 38 new guides were also certified to work in the reserve. The investment totaled US\$ 30,000.

In the Quemchi region on the island of Chiloé, LATAM provided support for the construction of a space to provide the local community and tourists visiting the region with free handicraft workshops. In addition to LATAM, the project involved the local government and civil society organizations. The company's investment in the project was US\$ 17,000.

Colombia: In Colombia, an important pedestrian trail was revitalized on the island of San Andrés, including the planting of seedlings, painting bridges and cleaning up the beach. Cuido mi Destino also reached Pereira, in the province of Risaralda, with the installation of an open air work of art created by a group of artists. In the two locations, some 90 student and LATAM volunteers were involved, receiving support from the local governments, the Gran Colombiano Polytechnic University and the Academy of Innovation for Sustainability (AISO). A series of workshops and dialogues on business models for sustainable tourism, leadership, conscious tourism and tourism in the digital age, among other topics, was also organized. The investment totaled US\$ 44,019.

The sustainable tourism initiatives supported by LATAM strengthen local economies

Ecuador: In 2016, the third edition of the program in Ecuador focused on the Guayllabamba zoo in Quito. Benefiting the local population and tourists visiting the country's capital, the zoo received new signage and trash cans. Its public areas were smartened up and a rest area for visitors was revitalized. The measures, which involved an investment of more than US\$ 17,000, were undertaken by 40 LATAM employees and 50 students from a high school in the city.

Peru: In Cusco, the Taray Gazer belvedere, from which it is possible to view the Sacred Valley of the Incas, was the tourist spot that benefited from the Cuido mi Destino program. Signs and new handrails were installed and exclusive paths for pedestrians were laid out to increase safety for visitors and community members. Stands were also installed for the artisans who sell their work at the site. Additionally a tourist map of the city was elaborated. Moreover, talks on environmental education and sustainable tourism given by specialists from the Peruvian ministries of the Environment, Foreign Trade and Tourism were organized for 60 young people in the region. The investment totaled US\$ 28,000.

Gastronomy and sustainability

The pursuit of shared value and the commitment to provide clients with differentiated offerings were the key elements of a project which reviewed the meals served on board LATAM's international flights in 2016. The route chosen was to focus on the cuisine of the different destinations and, in close collaboration with suppliers, to redesign the menus based on the following five factors:

- choice of ingredients and dishes characteristic of the region in which the flight originates;
- local produce (short distance);
- preference for organic foods;
- to optimize the use of animal products, with non-traditional cuts and forms of preparation;
- seasonal products.

The definition process involved testing more than 500 different dishes and applying the concept in full to the meals served on the Buenos Aires (Argentina)-Miami (United States) route in an eight-month long pilot project. This change boosted passenger satisfaction with the meal service by 25%. Adjusted for the specificities of the situation and the limitations imposed by the large scale, the new menu is now a reality on all executive class flights, changing in two-month cycles in line with the seasonality of the ingredients.

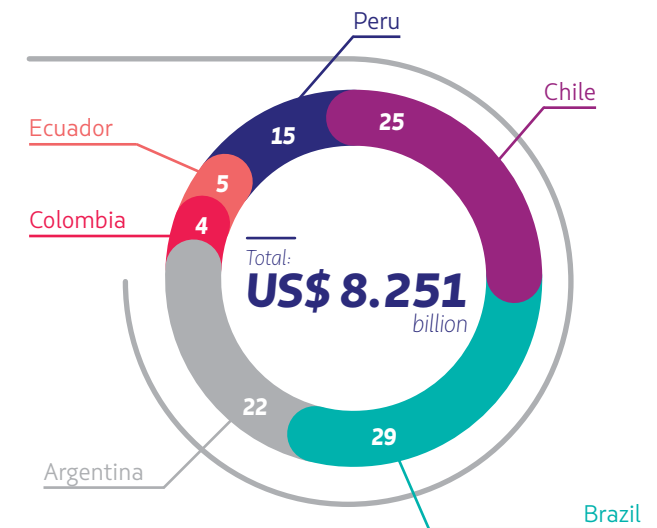
Tourism and development [203-2]

In 2016, LATAM inaugurated various non-stop flights to tourist destinations in South America. These included one between Santiago and Puerto Natales, in Chilean Patagonia, another from Quito to the island of Baltra or South Seymour in the Galapagos archipelago, Ecuador, and the route from Lima to Jaén, a region in Peru with important archaeological sites. The new routes, which facilitate travel for visitors to these regions, are aligned with LATAM strategy of fomenting sustainable tourism through measures that boost the development of the local economy while preserving cultural heritage and the environment.

These initiatives are made possible thanks to partnerships between the group and other companies, non-governmental organizations and public authorities and further leverage tourism as an agent of economic foment in the region. According to local estimates of the average amount each tourist spends, the more than 8.2 million passengers transported by LATAM on international flights within and to and from South America injected more than US\$ 8.2 billion into local economies. The calculation includes international flights between countries on the continent.

8.2 million passengers transported international flights within and to and from South America

LATAM PASSENGERS – TOURIST SPENDING IN 2016 (%)¹



¹ Based on the average spend per tourist as informed by the different local tourism and statistics bureaus: Department of Tourism, Chile (2015); Empresa Brasileira de Turismo – Embratur (2016); Instituto Nacional de Estadística e Censo – INDEC, Argentina (2016); Peru Export and Tourism Promotion Commission – PROMPERU (2015); National Administrative Statistics Department – DANE, Colombia (2014); and Ecuadorian Ministry of Tourism (2015).

CORPORATE CITIZENSHIP AND PHILANTHROPY —

Humanitarian aid, the donation of air tickets and the transportation of recyclable materials are some of the social measures LATAM promotes in the six South American countries in which it operates

One of LATAM's corporate responsibility measures is free or subsidized transportation for people and cargoes involved in initiatives driving a positive impact for society and the environment. These include the donation of air tickets benefiting individuals and social organizations, the transportation of recyclable materials and support for seminars and other social and environmental events, to mention but a few. In parallel, the group encourages its employees to engage as volunteers to ensure the continuity and growth of these and other initiatives.

In 2016, the entire group was mobilized after an earthquake hit Ecuador in April, leaving more than 650 people dead and 2,000 missing. LATAM activated its Solidary Aircraft program, that transports humanitarian aid in the event of natural catastrophes and other emergency situations. This was the first time that the plan took on an international scope, involving the mobilization of volunteers, permanent contact with authorities, including embassies, and partnerships with non-governmental organizations and other civil society bodies. More than 672 metric tons of humanitarian aid were

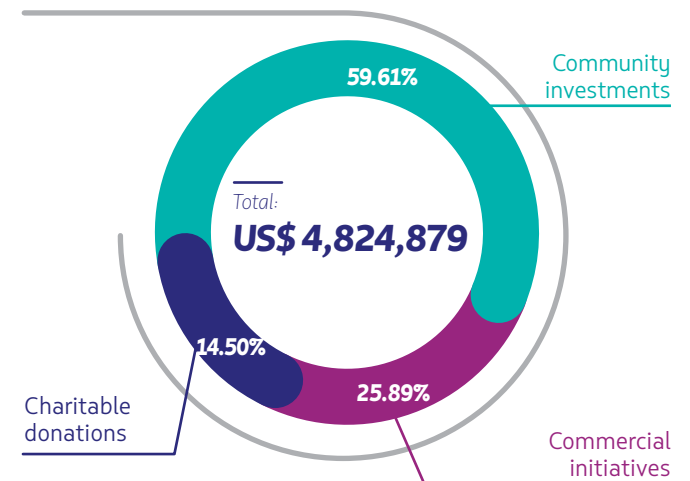
transported – a part in three exclusive flights organized by LATAM immediately after the tremors. In a commercial operation, the volume transported would have generated around US\$ 1.9 million in revenues for the company. LATAM also transported doctors, firemen and other professionals to the scene of the disaster. The group's proactive initiative earned it tributes from the Ecuadorian Red Cross and the Quito Metropolitan Region Fire Brigade.

LATAM also partnered with DIRECTV in a voluntary movement to build 10 houses (more resistant to seismic tremors) in the Manabí region, one of the most affected by the earthquake. The company donated air tickets for groups of people participating in the rescue efforts. The experience resulted in a documentary that will be available on the LATAM Entertainment app and on the individual screens in some aircraft.

Partnerships with governments and social organizations boost the effectiveness of the measures

PHILANTHROPIC INITIATIVES IN 2016¹

[203-1]



¹ Includes: donation of air tickets, free or discounted cargo transportation, free advertising space for social initiatives, financial contributions for institutions and investments in management and infrastructure for company's own social programs.

5,460 hours dedicated to volunteer work

Supporting health care initiatives

By means of ticket donations, LATAM provides travel assistance for people involved in social initiatives and individuals who need to travel for some kind of medical treatment. In 2016, the company provided tickets in the six countries in which it operates. LATAM also responded to the requests of certain organizations that have partnered with the group for years, providing tickets for low-income individuals requiring medical treatment in other locations.

In Colombia and Peru, for example, a significant portion of the donated tickets went to doctors and volunteers participating in the Operación Sonrisa, which provides special care for children with cleft lip or palate, as well as to the actual patients and family members. In Colombia, 1,078 children were examined and 445 were operated on. In Peru, there were 380 consultations, with 199 surgical interventions.

The transportation of doctors and volunteers in Operación Sonrisa enabled the **treatment of 1,458 children** in Colombia and Peru and the execution of **644 surgical procedures**



Transparency in the donation process

At the end of 2016, the Board of Directors approved the LATAM Group donations policy. This is valid for all company units and objectively establishes the criteria for donations, as well as the validation stages, with the proper definition of roles and responsibilities.

In accordance with the document, donations should be made by means of the provision of services (free transportation for individuals and cargos), goods or cash contributions. In line with the group's sustainability strategy, the funds raised should benefit works and projects that will provoke positive social, environmental, educational and/or cultural impacts and should be directed primarily at low-income individuals in the regions in which the company operates.

All donations must be analyzed and validated by the Vice President of Corporate Affairs and the CEO; donations in excess of US\$ 10,000 require the approval of the Executive Board. The approval flow also involves the Legal and Compliance areas, to ensure that the LATAM principles of ethics and transparency and any pertinent legislation are being observed. To further guarantee propriety, the donation contract must include the anti-corruption clauses in the company's Anti-Corruption Compliance policy.

Wishes come true

The partnership with the non-governmental organization Make-a-Wish was maintained in Brazil. This project aims to make the wishes of children with serious diseases and who would like to travel to somewhere special in the world come true. Thanks to the work done by employee volunteers, 51 children benefited from the initiative in 2016. A different kind of wish also came true when a girl who dreams of being a flight attendant spent a day immersed in this universe at the company's corporate academy. The project was also run in Peru, where 39 children made a trip with LATAM.

Partnerships with public authorities

In Brazil, LATAM has an agreement with the Ministry of Health to provide free transportation for medical teams, as well as donated organs and tissues nationwide. During the year, 195 organs and 658 tissues involved in transplant procedures were transported.

In partnership with the Brazilian environmental authority Ibama (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis), LATAM helped 15 animals to return to their natural habitats, including jaguars, parrots, toucans, macaws and even a penguin.

The actual cargo and passenger transportation operation is used for philanthropic purposes and to promote corporate citizenship

Environmental protection

The only airline operating on Easter Island, located in the Pacific Ocean some 3,700 km from the west coast of Chile, LATAM transports the recyclable waste collected by the island's local government. In addition to helping preserve a fragile habitat and free up space on the island, this ensures that the waste is disposed of properly.

A total of 143 metric tons of waste were returned to the continent in 2016, including cardboard, plastic and aluminum – the separation of the latter was initiated at the beginning of the year. The funds raised from the recycled materials are invested in environmental preservation projects on the island.

In San Andrés, in Colombia, LATAM is finalizing a co-operation agreement to transport used tires. The goal is to remove these tires over a period of six months, transporting 5 metric tons per week. The material will be disposed of by means of co-processing.



143 tons of recycled waste removed from Easter Island (Chile) in 2016

Other actions

- **Un Día en LATAM** (One Day in LATAM): the program, which has been run in Chile for 20 years, brings children closer to the aviation universe by opening the company's doors to primary and secondary school children from the Santiago Metropolitan region and other cities. Around 4,000 children visit the group's headquarters every year.
- **Donation of 50 notebooks** to the social enterprise Laboratoria, based in Lima and Arequipa, Peru, which provides free training in graphic design and web development for young women, driving their insertion in the labor market.
- **Donations:** two **collection campaigns** benefited charity organizations in Brazil. The Winter Clothing Campaign collected approximately 5,000 garments; another campaign resulted in the collection of more than 8,400 toys, foods, school materials and personal objects.
- **In flight cinema** (focused on raising awareness): in Argentina, short films on the environment were shown; in Brazil the theme was the exploitation of children.



Support for different initiatives

- In partnership with Airbus, LATAM promoted a **guided tour** of the A350 aircraft at Guarulhos airport in São Paulo (Brazil) for 62 children who receive support from the NGO Instituto Cultural Gotas de Flor.
- **Donation of furniture** no longer used by the company to Más Tecnología, a Guayaquil local government program that provides computer rooms for disadvantaged schools in this Ecuadorian city. Since 2015, LATAM has been part of this project and has donated more than 50 computers.
- **Volunteer measures** for children, elderly people and the victims of violence in Peru, including the donation of aircraft blankets restored by volunteers.

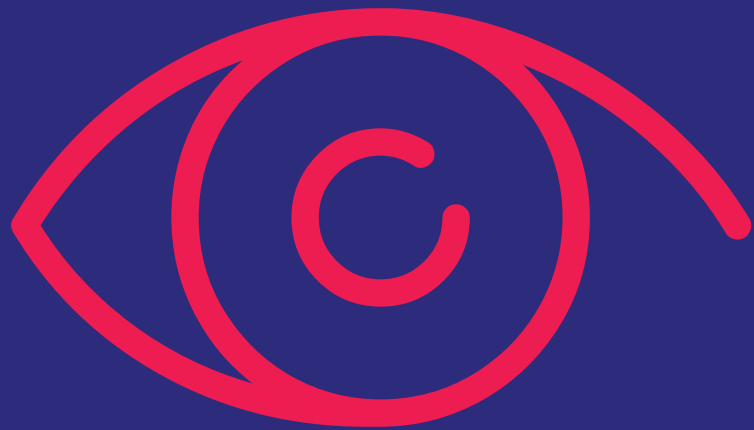


INSTANT SNAPSHOT

GENERATING VALUE FOR SOCIETY	2015	2016
Foment for sustainable tourism: Cuido mi Destino		
Locations benefiting	9	7
Students involved	516	358
Total investment (US\$)	228,913	181,612
Corporate citizenship and philanthropy		
Tickets donated	4,558	4,059
Humanitarian aid transported (metric tons)	139	678
Recycled materials transported (metric tons)	303	143
Children who flew in the Make-a-Wish project	NA	90
Total investment (US\$)	4,055,424	4,824,879

NA: data not available.

Different strategies combine to make the operation a catalyst for generating shared value in the countries in which LATAM and its affiliates operate



About the report

In this chapter

- 74 REPORTING PROCESS AND MATERIALITY
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- 81 GLOBAL COMPACT
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REPORTING PROCESS AND MATERIALITY —

The 2016 LATAM Sustainability Report presents the advances and challenges in managing sustainability in all the LATAM Airlines Group companies during the period from January 1 to December 31 2016. The content was defined based on the principles of balance, completeness, materiality and stakeholder inclusion determined in Global Reporting Initiative (GRI) methodology, the main reference used for reporting on sustainability and was subject to an independent verification conducted by Deloitte.

The definition of materiality applied in the report took into account internal company elements, its commitment to generating shared value, its strategic risk map, the context of its activities, trends identified and stakeholder expectations and needs, including:

- the results of the broad-based **stakeholder consultation process** conducted in December 2013, which involved individual interviews, meetings, panel discussions, online surveys to gather the opinions and perceptions of executives, employees, clients, suppliers, market analysts and aviation industry specialists;
- global **reference documents** on the sector's critical impacts and topics, such as the publications *Sustainability Topics for Sectors – What do Stakeholders Want to Know*, from the Global Reporting Initiative (GRI) and the *Airlines Sustainability Accounting Standard* from the Sustainability Accounting Standards Board (SASB);

- internal **LATAM policies**, including its Sustainability Policy, strategic business pillars and the strategic risk matrix;
- external **company commitments**, such as Carbon Neutral Growth 2020, an agreement with the International Air Transport Association (IATA), and the Carbon Offsetting Scheme for International Aviation (CORSIA);
- **principles and references for companies**, such as the Guiding Principles on Business and Human Rights and the Sustainable Development Goals;
- analysis of the company's performance in the economic, social and environmental spheres as reflected in the **Dow Jones Sustainability Index**;
- analysis of **group leaders** focused on the extent of the company's influence on each topic and the potential impact on LATAM and on its stakeholders;
- **strategic evaluation and revalidation** of the topics, undertaken at the beginning of 2017 by the teams directly involved in managing sustainability. [102-43 and 102-46]

Full commitment

The group's performance in sustainability topics is one of the components used in calculating the variable remuneration of leaders having responsibility for results in the organizational matrix. For example, safety performance, and specifically the non-occurrence of any accidents, is the trigger for the payment or not of an annual bonus.

A second stage of the calculation takes into account performance against corporate targets, directly impacting the variable remuneration of the Executive Committee and the variable component of all employees' remuneration. Among the targets monitored, worthy of note are aspects related material sustainability topics, such as client satisfaction, linked with the topic connectivity, and talent management and controlling employee turnover, which are part of the Organizational Health Index (OHI). The topic of economic-financial sustainability is also part of this stage of the calculation and is monitored via financial result and cost efficiency indicators.

The third stage considers specific topics and indicators for each area.

Information on the management of material topics and the results achieved is disclosed in the 2016 LATAM Sustainability Report, which is designed to inform the diverse stakeholder groups about the organization's performance in integrating the economic, social and environmental dimensions of the business, balancing the goals of economic growth, managing environmental impacts and generating social progress in the communities in which the organization operates.

GRI CONTENT INDEX —

[102-55]

TOPIC	DISCLOSURE	PAGE/RESPONSE	OMISSIONS
Organizational profile	102-1 Name of the organization	12	
	102-2 Activities, brands, products and services	The main services provided are passenger and cargo transportation; there are no cases of banned services in any of the markets in which the company operates. There is a complete description on page 12.	
	102-3 Location of headquarters	Chile	
	102-4 Location of operations	12	
	102-5 Ownership and legal form	26	
	102-6 Markets served	12	
	102-7 Scale of the organization	12	
	102-8 Information on employees and other workers	61, 62 and 88	
	102-9 Supply chain	20	
	102-10 Significant changes to the organization and its supply chain	There were changes in the ownership structure (<i>see page 26</i>). Other information regarding changes in the operations or the administration can be found in 2016 LATAM Annual Report (http://memoria2016.marketinglatam.net/).	
	102-11 Precautionary Principle or approach	LATAM does not formally adopt the precautionary principle, but takes the potential risks and impacts for consumers and society into account in its planning. All the group's services, including routes, itineraries, maintenance activities and loyalty programs are in compliance with applicable legislation.	
	102-12 External initiatives	15	
	102-13 Membership of associations	15 and 17	
Strategy	102-14 Statement from senior decision maker	7 and 9	
Ethics and integrity	102-16 Values, principles, standards and norms of behavior	24	
Governance	102-18 Governance structure	25	

TOPIC	DISCLOSURE	PAGE/RESPONSE	OMISSIONS
Stakeholder engagement	102-40 List of stakeholder groups	15	
	102-41 Collective bargaining agreements	39% of the work force are union members and 73% are covered by collective bargaining agreements.	
	102-42 Identifying and selecting stakeholders	15	
	102-43 Approach to stakeholders engagement	15 and 74	
	102-44 Key topics and concerns raised	89	
Reporting practice	102-45 Entities included in the consolidated financial statements	All the subsidiaries were covered by the report.	
	102-46 Defining report content and topic Boundaries	74 and 89	
	102-47 List of material topics	89	
	102-48 Restatements of information	The formula for calculating revenue ton kilometer (RTK) was adjusted, affecting all the indicators dependent on it. To ensure comparability, data from recent years were recalculated in the indicators: Significant atmospheric emissions, Emissions intensity and Energy intensity. The amounts for effluents and waste in the 2015 LATAM Sustainability Report were corrected.	
	102-49 Changes in reporting	There were no significant alterations.	
	102-50 Reporting period	From January 1 to December 31, 2016.	
	102-51 Date of most recent report	2016	
	102-52 Reporting cycle	Annual	
	102-53 Contact point for questions regarding the report	investorrelations@lan.com	
	102-54 Claims of reporting in accordance with GRI Standards	This report has been prepared in accordance with the GRI Standards: Core option.	
	102-55 GRI content index	75 and 89	
	102-56 External assurance	The report was subject to external assurance. For more details, see page 82.	

TOPIC	DISCLOSURE	PAGE/RESPONSE	OMISSIONS
Economic performance	103-1 Explanation of the material topic and its boundaries	34 and 89	
	103-2 The management approach and its components	36	
	103-3 Evaluation of the management approach	27	
	201-1 Direct economic value generated and distributed	85	
	201-2 Financial implications and other risks and opportunities due to climate change	39	
Indirect economic impacts	103-1 Explanation of the material topic and its boundaries	66 and 89	
	103-2 The management approach and its components	70	
	103-3 Evaluation of the management approach	70	
	203-1 Infrastructure investments and services supported	66 and 69	
	203-2 Significant indirect economic impacts	68	
Anti-corruption	103-1 Explanation of the material topic and its boundaries	23 and 89	
	103-2 The management approach and its components	24	
	103-3 Evaluation of the management approach	25	
	205-2 Communication and training about anti-corruption policies and procedures	23	
	205-3 Confirmed incidents of corruption and actions taken	No cases of corruption were confirmed, neither were any supplier contracts terminated due to corrupt practices.	
Anti-competitive behavior	103-1 Explanation of the material topic and its boundaries	23 and 89	
	103-2 The management approach and its components	24	
	103-3 Evaluation of the management approach	25	
	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	In 2016, LATAM did not receive any significant fines, defined by the company as amounting to more than US\$ 40 million or having the potential to affect its image or operations. The company has made provisions for the pending monetary sanctions, which are disclosed transparently in the company's Annual Report. For information on pending suits, see page 86. Details about the company's agreement with the Chilean tax authority Fiscalía Nacional Económica related to the use of codeshares may be found on page 17.	

TOPIC	DISCLOSURE	PAGE/RESPONSE	OMISSIONS
Energy	103-1 Explanation of the material topic and its boundaries	39 and 89	
	103-2 The management approach and its components	43 and 46	
	103-3 Evaluation of the management approach	46	
	302-1 Energy consumption within the organization	44	
	302-4 Reduction of energy consumption	43 and 44	
Emissions	103-1 Explanation of the material topic and its boundaries	39 and 89	
	103-2 The management approach and its components	41 and 46	
	103-3 Evaluation of the management approach	46	
	305-1 Direct (Scope 1) GHG emissions	42	
	305-2 Energy indirect (Scope 2) GHG emissions	42	
	305-3 Other indirect (Scope 3) GHG emissions	42	
	305-4 GHG emissions intensity	42	
	305-5 Reduction of GHG emissions	42	
	305-6 Emissions of ozone-depleting substances (ODS)	45	
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	45	
Effluents and waste	103-1 Explanation of the material topic and its boundaries	39 and 89	
	103-2 The management approach and its components	47	
	103-3 Evaluation of the management approach	46	
	306-2 Waste by type and disposal method	87	

TOPIC	DISCLOSURE	PAGE/RESPONSE	OMISSIONS
Environmental compliance	103-1 Explanation of the material topic and its boundaries	23 and 89	
	103-2 The management approach and its components	25 and 46	
	103-3 Evaluation of the management approach	24 and 46	
	307-1 Non-compliance with environmental laws and regulations	In 2016, LATAM received four fines totaling US\$ 4,329.75 from the Brazilian environmental authority Ibama (Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis). None of these were considered significant. LATAM defines significant fines as ones with the potential to affect the group's image, the continuity of operations or provoking a significant financial impact (fines in excess of US\$ 40 million).	
Supplier environmental assessment	103-1 Explanation of the material topic and its boundaries	29 and 89	
	103-2 The management approach and its components	18	
	103-3 Evaluation of the management approach	19, 29 and 46	
	308-2 Negative environmental impacts in the supply chain and actions taken	18	
Employment	103-1 Explanation of the material topic and its boundaries	61 and 89	
	103-2 The management approach and its components	61 and 64	
	103-3 Evaluation of the management approach	25	
	401-1 New employees hires and employee turnover	88	
	401-2 Benefits provided to full-time employees that are not provided to temporary or part time employees	64	
Occupational health and safety	103-1 Explanation of the material topic and its boundaries	56 and 89	
	103-2 The management approach and its components	56 and 57	
	103-3 Evaluation of the management approach	24	
	403-2 Types of injury and rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities	59	

TOPIC	DISCLOSURE	PAGE/RESPONSE	OMISSIONS
Training and education	103-1 Explanation of the material topic and its boundaries	61 and 89	
	103-2 The management approach and its components	63	
	103-3 Evaluation of the management approach	25	
	404-1 Average hours of training per year per employee	64 and 88	
Supplier social assessment	103-1 Explanation of the material topic and its boundaries	29 and 89	
	103-2 The management approach and its components	18	
	103-3 Evaluation of the management approach	19 and 29	
	414-2 Negative social impacts in the supply chain and actions taken	18	
Marketing and labeling	103-1 Explanation of the material topic and its boundaries	50 and 89	
	103-2 The management approach and its components	23 and 24	
	103-3 Evaluation of the management approach	24 and 25	
	417-3 Incidents of non-compliance concerning marketing communications	In 2016, LATAM did not receive any significant fines. The group defines significant fines as ones with the potential to affect the group's image, the continuity of operations or provoking a significant financial impact (fines in excess of US\$ 40 million).	
Socioeconomic compliance	103-1 Explanation of the material topic and its boundaries	23 and 89	
	103-2 The management approach and its components	23 and 24	
	103-3 Evaluation of the management approach	25	
	419-1 Non-compliance with laws and regulations in the social and economic area	In 2016, LATAM did not receive any significant fines. LATAM defines significant fines as ones with the potential to affect the group's image, the continuity of operations or provoking a significant financial impact (fines in excess of US\$ 40 million). Details about the other fines disclosed by the company may be found on page 24 and in the LATAM financial statements.	

GLOBAL COMPACT —

LATAM is a signatory to the Global Compact, a United Nations Organization initiative aimed at mobilizing the international business community to adopt a series of fundamental and internationally accepted values in the areas of human rights, labor relations, the environment and anti-corruption in business practices.

The group is committed to the goals expressed in the initiative's 10 principles and is mobilizing efforts to achieve them

The following table indicates the location in the report of the main actions undertaken.

PRINCIPLE	PAGE
Human rights	
1. Support and respect the protection of internationally proclaimed human rights	24 and 31
2. Ensure non-complicity in human rights abuses	18 and 19
Labor	
3. Uphold the freedom of association and the effective recognition of the right to collective bargaining	76
4. Support the elimination of all forms of forced and compulsory labor	18 and 19
5. Support the effective abolition of child labor	18 and 19
6. Eliminate discrimination in respect of employment and occupation	24
Environment	
7. Support a precautionary approach to environmental challenges	27, 39, 40, 41, 46 and 47
8. Undertake initiatives to promote greater environmental responsibility	15, 16, 18 and 19
9. Encourage the development and diffusion of environmentally friendly technologies	43 and 45
Anti-corruption	
10. Work against corruption in all its forms, including extortion and bribery	23, 24 and 25



ASSURANCE —

INDEPENDENT REVISION REPORT OF LATAM SUSTAINABILITY REPORT 2016

Mr. Enrique Guzmán
Sustainability Senior Manager
Present

Dear Mr. Guzmán,

Hereby, you can find the outcomes of the revision of LATAM Sustainability Report 2016 according to the following aspects:

Scope

Limited security revision of the contents and indicators' adaptation of the 2016 Sustainability Report according to the GRI Standards, related to the organizational profile and material indicators arisen from the materiality process developed by the Company following the GRI Standards related to economic, social and environmental dimensions.

Standards and Assurance Process

We have carried out our task according the guidelines of the International Standard on Assurance Engagements Other than Audits or Reviews of Historical Financial Information (ISAE 3000) issued by the International Auditing and Assurance Standard Board (IAASB) of the International Federation of Accountants (IFAC).

Our review has consisted in an enquiring process to different units and management areas of LATAM, which have been involved in the developing process of the report, as well as in the application of analytic procedures and checking tests, which are described in the following items:

- Meeting with the Corporate Social Responsibility Chief, Miss María Loreto Silva.
- Meeting with the entire team which has led the materiality process.

- Analysis of the adaptation of the 2016 Sustainability Report's contents to the GRI Standards: Core option, and the review of the indicators included in the report in order to verify that they are aligned with the established protocols in the standard. We also check whether the character of not applicable or not material indicators is justified.
- Verification, through checking tests of quantitative and qualitative information according to the GRI Standards indicators included in the 2016 report, and its adequate gathering from the data provided by LATAM information sources.

Conclusions

- The assurance process was based in the indicators established in the materiality process carried out by LATAM. Once those indicators were identified, prioritized and validated they were included in the report. The reported and verified indicators appear in the following table:

102-1	102-2	102-3	102-4	102-5	102-6	102-7
102-8	102-9	102-10	102-11	102-12	102-13	102-14
102-16	102-18	102-40	102-41	102-42	102-43	102-44
102-45	102-46	102-47	102-48	102-49	102-50	102-51
102-52	102-53	102-54	102-55	102-56	103-1	103-2
103-3	201-1	201-2	203-1	203-2	205-2	205-3
206-1	302-1	302-4	305-1	305-2	305-3	305-4
305-5	305-6	305-7	306-2	307-1	308-2	401-1
404-2	403-2	404-1	414-2	417-3	419-1	

- Regarding the verified indicators, we can say that has not revealed any attention that causes us to believe that the Sustainability Report 2016 LATAM has not been prepared in accordance with the GRI Standards in those areas identified in the scope.



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Improving Opportunities Report

Additional to this letter, Deloitte is presenting to LATAM a special report including improvement opportunities in order to reinforce management aspects, and the ability of the Company in the elaboration of future sustainability reports.

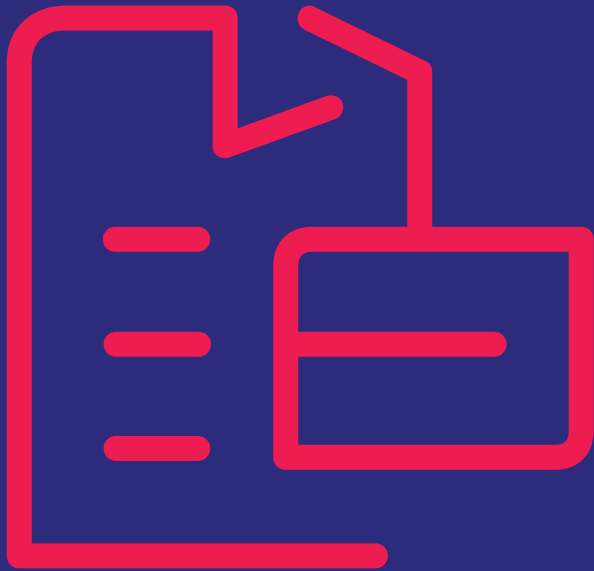
LATAM Direction and Deloitte Responsibilities

- The preparation of the 2016 Sustainability Report as well as its content is under LATAM responsibility, which is in charge of the definition, adaptation and maintenance of the management and internal control systems from which the information is obtained.
- Our responsibility is to emit an independent report based on the applied procedures in our review.
- This report has been prepared exclusively by LATAM interest, in accordance with the terms established in the Engagement Letter.
- We have developed our work according to the Independence norms established in the Code of Ethics of the IFAC.
- The conclusions of the verification made by Deloitte go for the last version of the 2016 LATAM Sustainability Report received on May 22, 2017.
- The scope of a limited security revision is essentially inferior to a reasonable audit or security revision, thus, we do not give any audit opinion about the 2016 LATAM Sustainability Report.



Fernando Gaziano
Partner

May 22, 2017



Attachments

In this chapter

- 84 THE COMPANY
- 85 STRATEGY
- 86 ENVIRONMENT
- 88 PEOPLE
- 89 ABOUT THE REPORT

THE COMPANY —

Dialogue and joint construction

Environmental clause

“Once selected, the supplier must sign a contract, which contains an environmental clause. By this clause, providers are compelled to comply with all environmental legal requirements and to take responsibility for any sanctions in this regard. Also, contractors are bound by this clause to safeguard the environment and to avoid actions that may harm it, taking any preventive measures needed. The clause applies to all types of providers, especially those working with hydrocarbons, fuels, effluent discharges, atmospheric pollutants and waste, in particular hazardous varieties.

Also, by this clause the supplier agrees to:

- a. Report any event that may cause real or potential environmental damage to the client.
- b. In the event of an environmental incident, to act strictly in accordance with the guidelines provided by the client (LATAM Airlines Group or any of its subsidiaries), including the application of controls and mitigation measures.

- c. Heed the observations and apply the corrective or preventive measures proposed by the client or any other inspection authority.

- d. Provide all the information requested by the Client to facilitate audits and verification of compliance with client guidelines and environmental regulations.

Suppliers’ failure to comply with this clause may result in termination of the contract.”

Source: LATAM standard contract.

STRATEGY —

Financial and operating results

[201-1]

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED (US\$ THOUSANDS)

Revenues	9,527,088.00
Sales of goods, products and services	8,988,340.00
Provision for doubtful debts - reversal/constitution	0.00
Non operational values	538,748.00
Goods acquired from third-parties	-6,049,694.00
Raw materials consumed	0.00
Cost of goods and services sold	-3,993,051.00
Materials, energy, third-party services and others	-2,056,643.00
Loss/Profit from assets	0.00
Gross economic value	3,477,394.00
Retentions	-960,328.00
Depreciation, amortization and exhaustion	-960,328.00
Net economic value	2,517,066.00
Economic value received in transference	74,949.00
Equity result	0.00
Financial income	74,949.00
Total economic value to be distributed	2,592,015.00

DISTRIBUTION OF ECONOMIC VALUE (US\$ THOUSANDS)

Distribution of economic value	2,317,044.81
Employee wages and benefits	1,951,133.00
Taxes and contributions	-163,204.00
Interest and rent	416,336.00
Interest on capital and dividends	0.00
Retained earnings/losses	110,670.00
Community investments	2,109.81
Retained economic value	1,169,349.19

ENVIRONMENT —

Addressing climate change

EMISSION SOURCE	EMISSION FACTOR	SOURCE
Jet fuel	3.15 kg CO ₂ /kg fuel	EU Regulation (EU) N° 601/2012
Gasoline	69,300 kg CO ₂ /TJ	Intergovernmental Panel on Climate Change (IPCC) 2006
Diesel Gas oil	74,100 kg CO ₂ /TJ	IPCC 2006
Natural gas	56,100 kg CO ₂ /TJ	IPCC 2006
Liquefied Petroleum Gas	63,100 kg CO ₂ /TJ	IPCC 2006
Electricity (Chile)	326.26 g CO ₂ /kWh	http://www.iea.org/co2highlights/
Electricity (Argentina)	540 g CO ₂ /kWh	http://energia3.mecon.gov.ar/contenidos/verpagina.php?idpagina=2311
Electricity (Peru)	547 g CO ₂ /kWh	http://www.fonamperu.org/general/mdl/bienvenida.php
Electricity (Ecuador)	731.1 g CO ₂ /kWh	http://web.ambiente.gob.ec/sites/default/files/users/gre-ino/Informe%20de%20Factor%20de%20Emision%20de%20CO2%202011.pdf
Electricity (Colombia)	284.9 g CO ₂ /kWh	http://www.minminas.gov.co/minminas/kernel/usuario_externo_normatividad/form_consultar_normas_energia.jsp?parametro=2266&site=1
Electricity (Miami)	555.9 g CO ₂ /kWh	http://www.iea.org/co2highlights/
Electricity (Brazil)	81.7 g CO ₂ /kWh	http://www.mct.gov.br/index.php/content/view/321144.html

DATA COVERAGE		2015	2016
Fuel in air operations	Jet Fuel	100%	100%
	Diesel	95%	96%
	Natural Gas	100%	100%
	Gasoline	95%	100%
Fuel for fixed sources	LPG	100%	94%
	Diesel	86%	79%
	Gasoline	82%	93%
	LPG	100%	100%
Fuel in mobile sources	Various	100%	100%
Refrigerating gases	Jet Fuel	100%	96%
COBUS in other airlines	Electricity	96%	93%
Water consumption	Water consumption	90%	89%
Waste	Non-hazardous waste	94%	87%
	Hazardous waste	95%	99%

Policies and systems

Latam's safety, quality and environment policy

LATAM Airlines Group is committed in achieving the highest standards of Safety, Quality and Environment in all its operational and administrative activities, facilities and locations where it operates, providing the necessary resources for this purpose.

For that, we are committed to:

- Declare Safety as a non-negotiable value of our Company, by encouraging a culture of self-care between our employees, developing prevention-oriented processes, identifying hazards, assessing and mitigating the risks associated with the various operational and administrative activities, inherent to the Company's operations and ensuring that the operational staff is psychophysically and medically suitable for the performance of their functions.
- Comply with all applicable laws and regulations while also observing the internal procedures established by the company and the voluntary commitments to which it is a signatory.
- Promote the development of a Safety Management System for all the employees involved in operational activities.

- Appraise the action and unsafe condition reports by ensuring that no penalties will be applied to those who make them, considering that the error is inherent to the human condition, but without accepting intentional and deliberate deviations to the Company's operational standards or processes, in this way we are ensuring the correct compliance with the LATAM Airlines Group's Code of Conduct.
- Develop a Safety, Quality and Environmental Management System to regularly review the performance of goals, objectives and resources provided, by implementing the best environmental practices, prevent any type of pollution and efficiently manage our carbon footprint.

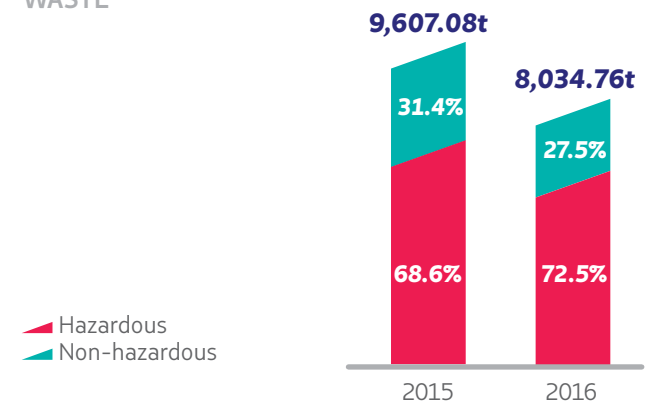
At LATAM Airlines Group we apply the principles of ethics, excellence and continuous improvement in our Operator and/or Repair Station management processes, in order to move towards our goal of positioning LATAM Airlines Group as the best airline in Latin America and one of the best in the world, by reinforcing our commitment to provide a good value for our customers, shareholders, suppliers, authorities, employees and places where we develop our operational activities.

[306-2]

WASTE DISPOSAL (t)	2015	2016	Δ 2016/2015
Hazardous waste	6,592.72¹	5,823.53	-12%
Sanitary landfill	92.21	69.80	-24%
Recycling	132.96	211.08	59%
Incineration	92.04	97.31	6%
Co-processing	223.55	226.69	1%
Controlled deposit	238.14	236.28	-1%
Effluent treatment	5,795.61	4,849.41	-16%
Others	18.21	132.96	630%
Non-hazardous waste	3,014.36	2,211.23	-27%
Sanitary landfill	1,606.30	1,302.94	-19%
Recycling	1,210.85	871.42	-28%
Incineration	0	0	0
Co-processing	19.18	23.67	23%
Controlled deposit	0	0	0
Effluent treatment	0	0	0
Others	178.03	13.20	-93%
TOTAL	9,607.08	8,034.76	-16%

¹ There were errors in the data on hazardous waste published in the previous report; these were corrected in this edition.

WASTE



PEOPLE —

Greater preparation and efficiency

[102-8]

EMPLOYEES 2016

By country

Brazil	23,338
Chile	11,671
Peru	3,818
Argentina	2,597
Colombia	1,564
Ecuador	1,487
Others	1,441

By gender

Men	28,327
Women	17,589

By functional category

Administration	8,010
Maintenance	4,895
Operations	15,924
Crew	3,882
Other crew members	8,970
Sales	4,235

By age group

Up to 30 years	15,006
From 31 to 40 years	19,095
From 41 to 50 years	8,329
From 51 to 60 years	2,967
Over 60 years	519

Total¹ **45,916**

[401-1]

STAFF TURNOVER RATE (%)

By gender

	2015	2016
Men	15.77	13.47
Women	15.05	16.97

By age group

Up to 30 years	19.90	18.17
From 31 to 40 years	14.28	13.47
From 41 to 50 years	10.40	11.71
From 51 to 60 years	9.77	12.74
Over 60 years	24.56	28.52

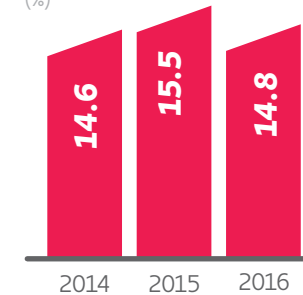
By country

Argentina	5.81	7.59
Brazil	16.82	11.18
Chile	14.43	23.61
Colombia	19.52	16.24
Ecuador	16.26	14.32
Peru	15.89	12.91
Others (includes the United States)	12.54	19.22

Total **15.49** **14.81**

STAFF TURNOVER [401-1]

(%)



[404-1]

TRAINING (h) PER EMPLOYEE - 2016

By professional category

Administration	14.56
Maintenance	47.04
Operations	39.47
Crew	42.67
Other crew members	45.83
Sales	26.32

By gender

Men	37.66
Women	33.93

Total **36.23**

¹ All work contracts are permanent and involve full-time employment.

ABOUT THE REPORT —

GRI content index

[102-44, 102-46, 102-47 and 103-1]

MATERIAL TOPIC	STAKEHOLDER GROUP INDICATING RELEVANCE OF TOPIC	GRI TOPIC	BOUNDARIES		DISCLOSURE ¹	CHAPTER ²
			Where does the impact occur?	Organization involvement		
Client connectivity and relationship	Senior management, Society, Employees and Clients	General disclosures	The impact occurs at the points of contact between the company and clients, affecting both groups, mainly where commercial activities are conducted (physical stores and the virtual environment) and in operational service activities (airports and aircraft).	The impact is the result of the company's operations.	102-43	The Company Clients
		General disclosures			102-44	Clients About the Report
		Marketing and labeling			417-3	Attachments
Health and safety in the air and on the ground	Senior management and Employees	Occupational health and safety	The impact occurs within the organization, mainly in the aircraft and in airports.	The impact is the result of the company's operations.	403-2	Safety
Talent management and controlling staff turnover	Senior management and Society	Employment	The impact occurs in all the organization's facilities, affecting all employees and executives.	The impact is the result of the company's operations.	401-1	People
		Training and education			404-1	
Eco-efficient management	Senior management and Employees	Energy	The impact occurs in the environment and in the diverse company areas engaged in this topic.	The impact is the result of the company's operations.	302-1 and 302-4	Environment
		Effluents and waste			306-2	
		Environmental compliance			307-1	
Mitigating climate change	Senior management, Employees and Society	Emissions	The impact occurs in the environment and in the diverse company areas engaged in this topic.	The impact is the result of the company's operations.	305-1, 305-2, 305-3, 305-4, 305-5, 305-6 and 305-7	Environment
Noise reduction ³	Senior management, Employees and Society	There is no related GRI topic.	The impact occurs in airports and in urban areas the aircraft fly over during landing and take off.	The impact is the result of the company's operations.	-	Environment

¹ GRI disclosure whereby LATAM monitors performance in each material topic. In addition to these priority topics, other GRI disclosures relevant for company management are presented in the report.

² Chapter in which the topic is addressed in this report.

³ Although not directly related to any GRI topic, the material topic was covered in the report by collecting information on how it is managed in LATAM, the group's goals and targets and the results achieved.

MATERIAL TOPIC	STAKEHOLDER GROUP INDICATING RELEVANCE OF TOPIC	GRI TOPIC	BOUNDARIES		DISCLOSURE ¹	CHAPTER ²
			Where does the impact occur?	Organization involvement		
Government relations, healthy competition and regulatory specificities	Senior management and Society	Anti-corruption	The impact occurs within the organization affecting all employees and executives and outside the organization, affecting the whole of society.	The impact is the result of the company's operations.	205-2 and 205-3	The Company
		Anti-competitive behavior			206-1	Governance
		Economic performance	The impact occurs within the organization affecting all employees and executives and outside the organization, affecting the whole of society.	The impact is the result of the company's operations.	201-1 and 201-2	Governance
Economic-financial sustainability	Senior management	Indirect economic impacts	The impact occurs outside the organization, affecting the whole of society.	The company contributes to the impact.	203-1 and 203-2	Generating value for society
		Socioeconomic compliance	The impact occurs outside the organization, affecting the whole of society.	The impact is the result of the company's operations.	419-1	
Value chain	Senior management	Supplier social assessment	The impact occurs at suppliers, mainly in activities related directly with LATAM.	The company contributes to the impact.	414-2	The Company
		Supplier environmental assessment			308-2	

¹ GRI disclosure whereby LATAM monitors performance in each material topic. In addition to these priority topics, other GRI disclosures relevant for company management are presented in the report.

² Chapter in which the topic is addressed in this report.

FREE COMPETITION [206-1]

LATAM acts in compliance with the guidelines established by regulatory and antitrust authorities. It received no definitive sanctions related to this question in 2016 and continues to monitor the suits in progress, seeking judicial revision from the competent bodies.

Among the processes pending, there is a EUR\$ 8.2 million fine imposed by European Commission on LAN Cargo and its parent company LATAM, for al-

leged violations of free competition in 2010. This fine had been annulled by the European Court of Justice in 2015. The suits brought by users based on the original fine are still pending and are at the presentation of evidence phase.

In Brazil, the obligation of publishing the sentence passed by the anti-trust authority Cade in a mass circulation newspaper remains suspended. The suspension is the result of a request for annulment

with injunctive relief in the investigation of alleged violations of free competition – in particular related to fuel surcharges – by air cargo companies. Initially the investigation resulted in the imposition of four fines, the amount of which is under review.

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