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ascend

Taking your airline to new heights



A TOP CONTENDER

A Conversation With ...
Enrique Cueto, Chief
Executive Officer, LAN
Page 12.

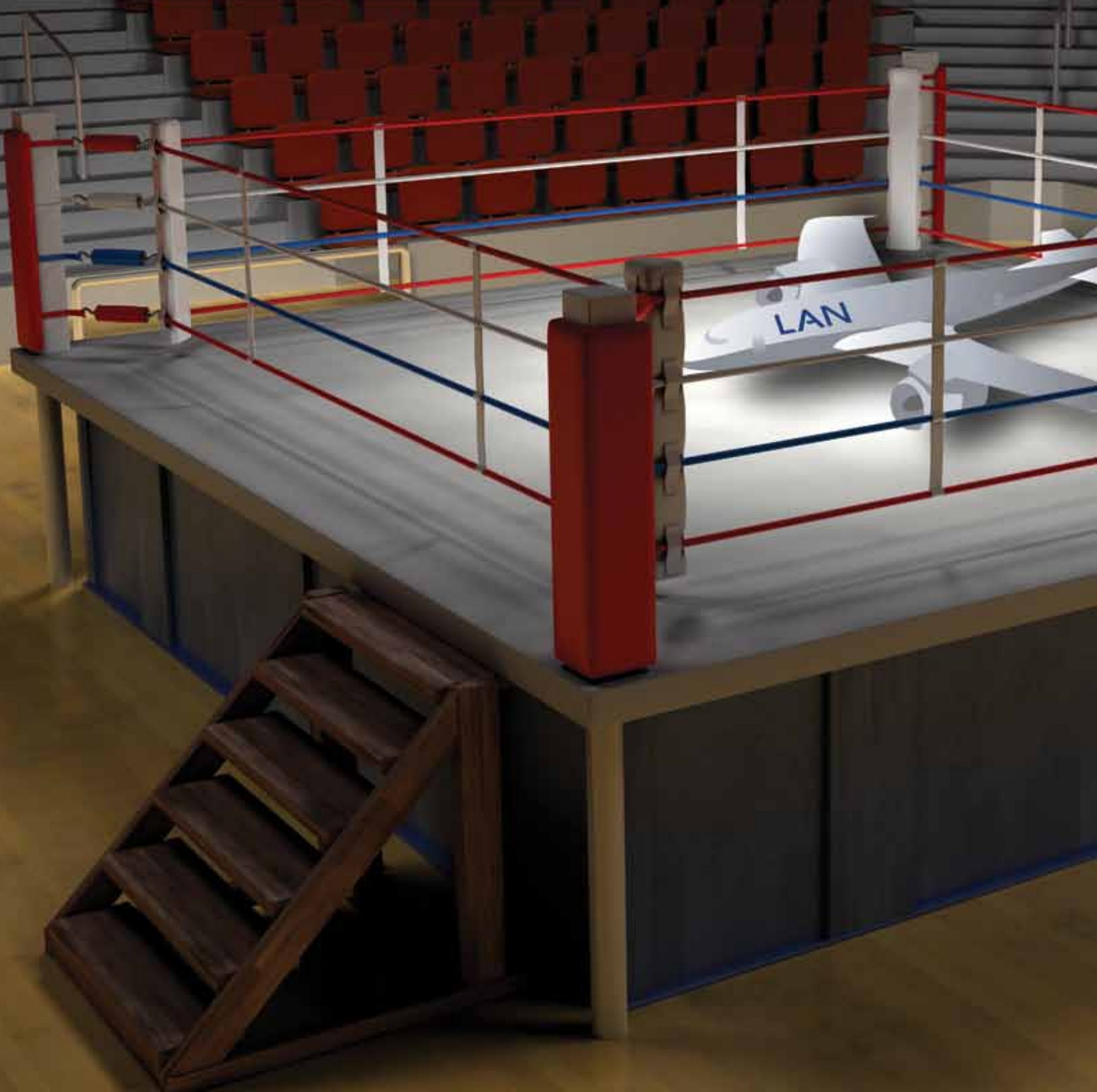
18 Cambodia has a new, proud national flag carrier

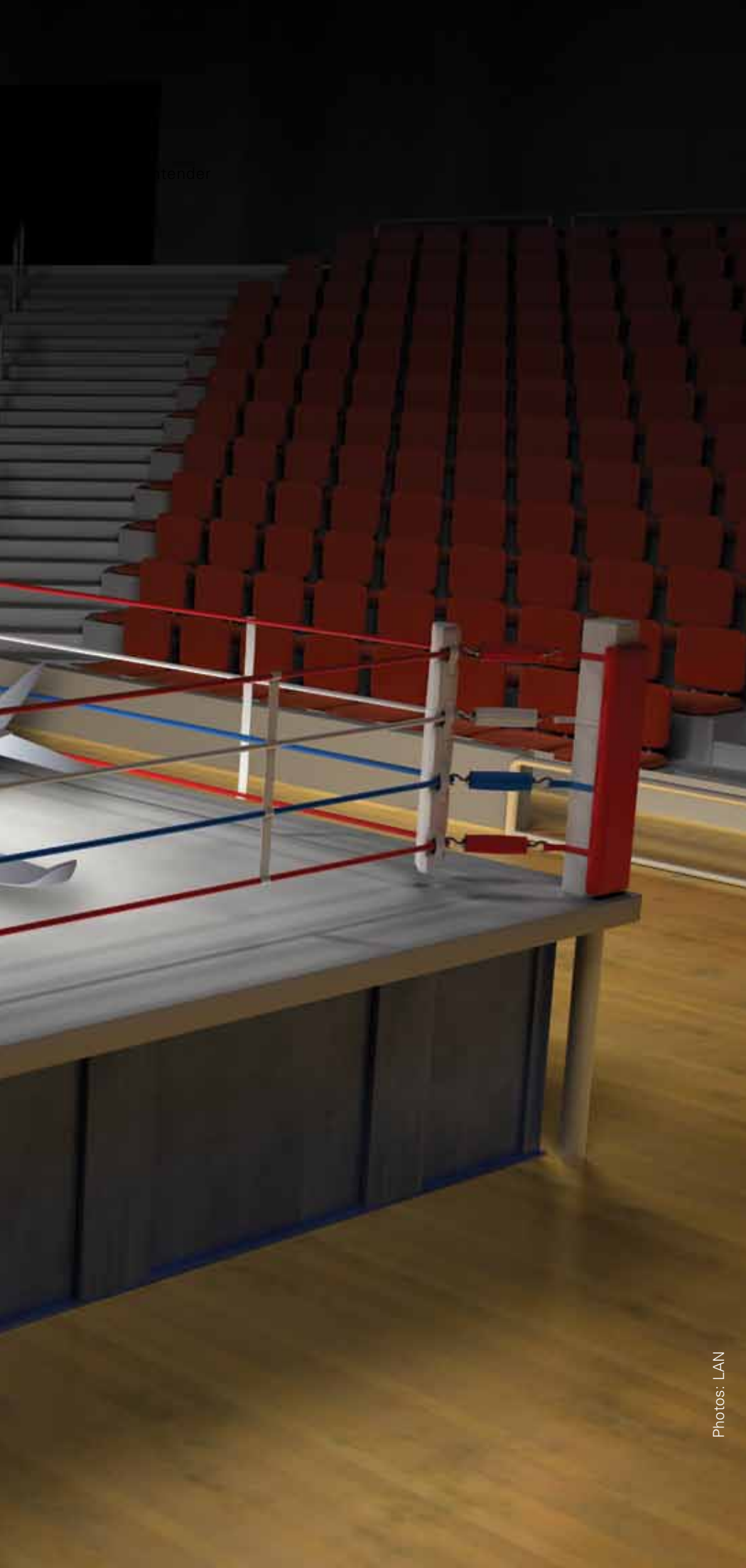
41 A new era in airline technology is upon us

76 single, robust platform

A TOP CONTENDER

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Photos: LAN

Earlier this year, Latin America-based LAN landed the sixth spot among the region's most globalized companies, according to the Multilantinas ranking, joining Mexico's Cemex (cement) and Telmex (telecommunications) as well as Brazil's Gerdau (steel). It is the most international carrier in the region and ranks third in Latin America in foreign investments abroad.

"It is a matter of great pride for LAN to be the most globalized airline in Latin America and improve its position in this category," said Ignacio Cueto, president and chief operating officer of LAN, which, in August, announced a US\$3.7 billion acquisition of Brazil-based TAM. "These achievements reflect the company's mission to grow internationally and contribute to the economic and social development of the countries in the region."

The globalization analysis is based on aspects such as sales volumes, number of countries with company operations, number of employees outside of the home country and financial results, all measured in terms of the firms' respective industries.

That's one of numerous milestones for the 81-year-old carrier and its sister companies. For example, in April, LAN CARGO unveiled its new cold storage facility at Miami International Airport. It's the largest airline-operated facility of its kind at a United States airport. The US\$4 million investment doubles the cargo carrier's capacity to process perishable goods (the main export products from Latin America to the United States, Europe and Asia via Miami International Airport).

One of LAN's distinct competitive advantages is its ability to profitably integrate its scheduled passenger and cargo operations. It takes into account potential cargo services when planning passenger routes and also reserves certain dedicated cargo routes using freight aircraft. Adding cargo revenues to its existing passenger service enables LAN to increase the productivity of its assets and maximize revenue, which has historically covered fixed operating expenses per flight, lowered break-even load factors and enhanced per-flight profitability. Additionally, this revenue diversification helps offset seasonal revenue fluctuations and reduces the volatility of its business over time.

Looking forward, another sizeable anticipated achievement is the scheduled delivery of the Boeing 787-8 Dreamliner early next year, making LAN among the first carriers to incorporate the next-generation aircraft into its fleet. Initially, the airline expected to begin taking possession of the Dreamliner in 2014; however, it has made adjustments with the aircraft manufacturer



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so it can begin utilizing the wide-body jet for long-haul routes.

The acquisition of the Dreamliner is part of LAN's re-fleeting plan that will enable it to modernize short- and long-haul fleets as well as reduce the number of aircraft families it operates.

In 2004, the company launched a new brand "LAN," under which all of its international passenger airlines operate. A driving objective of the branding effort was to help customers better identify with the high standards of service and safety that exist among LAN Airlines and its affiliates. The new image has improved the visibility of the LAN brand as well as the cost effectiveness and efficiency of the carrier's marketing efforts as it continues to expand in existing and new markets.

The carrier also strives to present a fun environment to its current and prospective customers. In another creative effort to build brand awareness and bring pleasure to the traveling public, LAN holds contests for its customers to reward them for their business. Last year, more than 145,000 people entered the "LAN invites you to the 2009 Sony Ericsson Open" sweepstakes, which included two tickets to the tournament semifinals matches, plus a night's hotel stay in Miami Beach, Florida, along with a two-day car rental.

The previous year, LAN held a contest called "Fly There Or Bring Them Here!" The winner received two round-trip tickets, which included the choice of either flying to any destination in South America or bringing any two friends or family members for a visit to the United States.

Keeping its customers and prospects aware, engaged and satisfied is certainly a critical part of LAN's overall strategy, but it also places strong emphasis on the communities it serves and providing aid in times of crises. Earlier this year, LAN CARGO committed resources to assist aid efforts in Haiti. A LAN CARGO Boeing 767-300 freighter carried approximately 48 tons of relief items to Port-au-Prince, including medical supplies, portable toilets and water from local and national organizations such as the Americas Relief Team, The Pan American Development Foundation, the University of Miami's Project Medishare and The Coca-Cola Company.

LAN CARGO team members accompanied the flight to assist with the unloading of cargo on the ground. Additional relief supplies including clothes, water and canned goods collected by LAN Airlines and LAN CARGO in Miami were also onboard. On the ground in Miami, the airline

partnered with Boston, Massachusetts-based Partners In Health, a non-profit organization that works to bring modern medical care to poor communities in nine countries around the world and has a 20-year history in Haiti. Partners In Health also used the LAN CARGO export warehouse at Miami International Airport as a staging point and hub for all relief supplies that were transported to Haiti.

Under the leadership of LAN Chief Executive Officer Enrique Cueto, the airline prides itself on keeping its eye on its customers, employees, shareholders and communities, ensuring continued long-term success for all parties involved. In a recent interview with *Ascend*, Cueto talks about what makes LAN a top contender in the markets it serves.

Question: After 60 years as a state-owned enterprise, LAN became privatized in 1989 with the sale of 51 percent of its equity to local investors and Scandinavian Airlines System. In 1994, the process was completed when current controlling shareholders and other major shareholders acquired 98.7 percent of the company's shares. What are the greatest benefits of operating as a private airline versus being government owned? In what ways

has becoming private contributed to the growth and financial success of LAN?

Answer: LAN's successful expansion is based on two key factors: LAN's growth strategy and its competitive advantages, as well as public policies in Chile and in countries where LAN has established its affiliates, which have favored the sustainable and competitive development of the airline industry.

Access to international capital markets, mobility of human resources and materials between countries; free market access for different companies; and freedom to determine the supply, quality and reasonable price of airport services have been critical variables in the sustained growth of the airline industry. LAN's development would not have been possible without the right public policy environment.

Q: Six years ago, the airline officially adopted the name LAN Airlines S.A. How has this change supported the company's goal to reflect the values and attributes common to all of the airlines making up the LAN alliance and emphasize the organization's internationalization strategy?

A: During the past 16 years, LAN has grown from a purely Chilean airline into a

regional operator with affiliates in different countries throughout South America. We adopted a common corporate image in 2004 under the LAN brand to reflect the regional nature of our operations.

Currently, LAN and its affiliates provide passengers and air cargo clients with the broadest connectivity for travel within the region, connecting Latin America with the United States, Europe and the South Pacific, thus creating the most complete network of international destinations to and from the region.

LAN and its affiliates have the same philosophy, image and common values of service excellence and the highest international safety standards. Thus, when international passengers buy tickets on different routes, including domestic routes, they have the certainty that they will experience the same product with identical service standards.

Q: Why did LAN launch premium business class four years ago? How has the new cabin service brought value to LAN and its customers?

A: We have focused on investing in areas that will provide the best product to our passengers. The new premium business class involved a total investment of

approximately US\$120 million and provides a service that only a select group of airlines in the world offer its passengers, featuring full-flat seats that offer complete rest on long-haul flights. This is in addition to a modern onboard entertainment system and a wine list featuring some of the finest selections from around the world.

Q: In 2007, LAN launched a new business model for short-haul operations. What is the strategy behind the new model? How has it measured up to the expectations set forth by LAN executives and shareholders?

A: The implementation of "low-cost" practices in domestic operations implied a revolutionary change that has broadened transport alternatives in such a way that even more people are considering flying as a means of transportation. LAN and its affiliates renewed their short-haul aircraft and increased aircraft utilization. In addition, sales and distribution, onboard service and airport processes were simplified and expedited, significantly reducing unit costs. All these efficiencies were passed on to passengers through lower fares, which have led to an explosion in terms of traffic growth, with three consecutive years of



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LAN's new premium business class, an investment of approximately US\$120 million, features full-flat seats that offer complete rest on long-haul flights as well as a modern onboard entertainment system and a wine list that includes some of the finest selections from around the world.

more than 20 percent growth in domestic markets.

Q: LAN holds the largest market share of passenger traffic to and from Chile, Peru and Ecuador as well as domestic passenger traffic in both Chile and Peru. What keeps LAN at the forefront in these markets? What sets it apart from its main competitors?

A: The pillars of LAN's management are service, safety and efficiency. In service, the company has worked unflinchingly to provide a world-class, consistent and differentiated product on all its routes. In safety, LAN has incorporated latest-generation aircraft and operates one of the world's most modern fleets. The efficiency of all its production processes, together with an adequate cost control and technological improvements, has allowed the company to provide a better service at attractive prices, contributing to the industry's development in the region and directly benefiting consumers. This would not have been possible without a team dedicated to professional excellence and highly committed to delivering the best travel experience to our clients on a daily basis.

Q: As the leading air cargo operator within, to and from South America, how does LAN leverage operating efficiencies between its passenger and cargo divisions?

A: The approach LAN takes to integrating its passenger business with the transportation of air cargo is a distinctive element of LAN's business model. We also transport cargo in the belly space of passenger aircraft, maximizing the utilization of the aircraft and increasing the efficiency of our operations. This is a competitive advantage for LAN, especially on long-haul routes where cargo operations are more significant. As a result, cargo has historically represented approximately one-third of LAN's consolidated revenues, a much higher percentage than the industry average.

Q: What are LAN's future expansion plans for its passenger and cargo operations?

A: We expect significant growth over the next years in both passenger and cargo operations. These expansion plans are based on significant fleet orders, which contemplate delivery of at least 45 narrow-body A320 family aircraft, 35 wide-body passenger aircraft and four freighters between now and 2018, with total fleet capital expenditures of US\$5.5 billion over this time period.

Q: In what ways has its membership in the oneworld global alliance benefited LAN and its customers? What value does LAN bring to other members of oneworld?

A: LAN Airlines this year celebrates its 10th anniversary as a member of oneworld, the global alliance that includes the best airlines in the world. Being part of oneworld has allowed us to offer a truly global network served by partners with the same belief in high-quality standards, which represents an important advantage for our passengers in international travel. This enables us to offer passengers travel to hundreds of destinations that LAN does not serve directly, while at the same time LAN provides oneworld members with the most extensive network within Latin America. For much of its 10 years as part of oneworld, LAN has been the only airline in South America to be a member of any of the global airline alliances, playing a key role in establishing oneworld as the leading alliance in the region.

Q: How has LAN's staggered lease maturities over time created the strategic flexibility to expand or reduce capacity according to market conditions?

A: Given attractive financing conditions, most of our aircraft orders are for aircraft purchases. Currently, 16 percent of our fleet is operating leases. These leases have staggered maturities, with a few coming due each year, allowing us to reduce the size of our fleet if necessary. This allows us ample flexibility to renew our existing fleet, reducing the

average age and increasing efficiency.

Q: Earlier this year, LAN signed an agreement with Boeing to adjust the delivery of 10 Boeing 787-8 Dreamliners to be incorporated into the company's long-haul fleet, making it the first carrier in the Western Hemisphere to receive the Dreamliner. How does this help ensure the company's sustainable growth while preserving the environment and incorporating state-of-the-art technology to deliver the best travel experience for LAN's passengers?

A: LAN will effectively be the first airline in the Western Hemisphere and one of the first airlines in the world to receive the Boeing 787 Dreamliner. This is a significant milestone, allowing us to provide the best travel experience for our passengers and also result in important efficiency gains.

The incorporation of the Boeing 787 — considered the world's most efficient aircraft with a significantly reduced effect on global warming — ensures the company's sustainable growth through a more efficient operation and competitive advantages over the long run.

Q: More modern aircraft certainly helps preserve the environment. In what other environmental initiatives does LAN participate?

A: Even though the impact of commercial aviation on global warming is relatively small, responsible for only 2 percent of CO₂ emissions, the industry as a whole and LAN in particular have significant concern for this matter and have adopted various initiatives and developed new technologies aimed at preserving the environment. These initiatives include the renewal of our fleet and the incorporation of the new 787, energy-saving initiatives, efficiency in fuel consumption and an extensive recycling program through which the company processes 90 percent of the waste generated on board its flights. We have also invested US\$70 million in the installation of winglets on all our Boeing 767 fleet, reducing CO₂ emissions.

In addition, LAN has been at the cutting edge of the industry's move to electronic tickets. More than 95 percent of tickets issued by LAN are electronic tickets and LAN CARGO is the first airline in Latin America and one of the first worldwide to transport cargo using an innovative system to process cargo without the need for printed documents.

The company has also decided on the creation of an environmental management position. This role will promote and strengthen these and other environmental

initiatives that will be launched in the near future.

Q: What role does technology play in LAN's immediate and long-term success?

A: LAN is permanently concerned with innovation, incorporating the most advanced technology to its operations in order to achieve significant efficiency improvements and to offer a differentiated product. This is reflected in one of the world's most modern fleets, with latest-generation aircraft such as the Boeing 777 freighter and the Boeing 787 Dreamliner, which will be delivered next year.

We are constantly developing innovative projects that improve upon existing technologies, such as a new navigation system using satellite technology that we implemented in the airports of Cusco in Peru as well as in Chile, allowing us to extend the range of our operations and offer the best punctuality standards.

Technological innovation has also

HIGHlight

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— Enrique Cueto, chief executive officer, LAN

allowed us to improve efficiency in different areas. We have applied the world's most advanced models to redesign our aircraft maintenance processes, allowing us to achieve a 50 percent reduction in the time that a plane remains on the ground.

Q: How does LAN support the communities it serves in terms of volunteer and fund-raising initiatives?

A: As a leader in Latin America, LAN has an integral vision that includes sustainable entrepreneurial management. The company is aware of its social role in the communities it serves, which is why we have focused on promoting sustainable tourism, caring for the environment and heritage of the destinations in the region. Added to this is the company's ongoing willingness to collaborate with different social organizations and support communities in transporting humanitarian aid when necessary, especially if they have been victims of diverse natural catastrophes, where air transport can play a key role.

Q: During the last five years, while much of the airline industry has faced significant competitive and liquidity crises, how has LAN enjoyed a 20 percent compound growth rate in total revenues and remained consistently profitable?

A: Airlines are constantly tested as the industry is affected by the many external shocks that in one way or another impact demand for passenger and cargo transportation. LAN has successfully faced these challenges due to our geographical and business diversification, efficient cost structure and flexible operations.

Q: Airlines around the world are becoming more creative with their marketing efforts to help build brand awareness and pique customer interest. In what unique ways does LAN market its brands to remain competitive?

A: We want to position LAN as the best way to fly to, from and within South America, and are focused on constantly improving our reputation. We believe that the way to build a strong brand is through providing the best travel experience and communicating efficiently with our clients. We constantly monitor the best way to get our message to our target customers and obviously have been exploring the way to best use online and direct marketing tools. For instance, we are learning how to best use the social media revolution.

Q: How would you describe LAN to the traveling public to win them over?

A: At LAN, we have a simple promise to the world's travelers: we will transport your dreams in a reliable way with all the warmth of South America ... fly with us, and you will not only enjoy the accomplishment of your dream, but you will also enjoy the road to it. **F**