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Merger Reshapes Latin Air Market

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By PAULO WINTERSTEIN and GRACIELA IBÁÑEZ

SÃO PAULO—Airline consolidation took another step forward Friday with the stock-swap takeover of Brazilian airline TAM SA [TAM +1.35%](#) by Chile's LAN Airlines SA, [LFL +1.10%](#) creating South America's largest carrier by traffic, with an estimated market capitalization of \$13 billion, the largest of any airline in the world.

	TAM		LAN
Taking Flight	\$7.8 bil.	Revenue 2011	\$5.7 bil.
Latam Airlines Group, combining Brazil's TAM and Chile's LAN, eclipses the region's other carriers	37.7 mil.	Passengers 2011	22.6 mil.
	29,800	Employees	21,800
	161 aircraft	Fleet	149 aircraft
	61	Destinations	100 plus

Source: the company

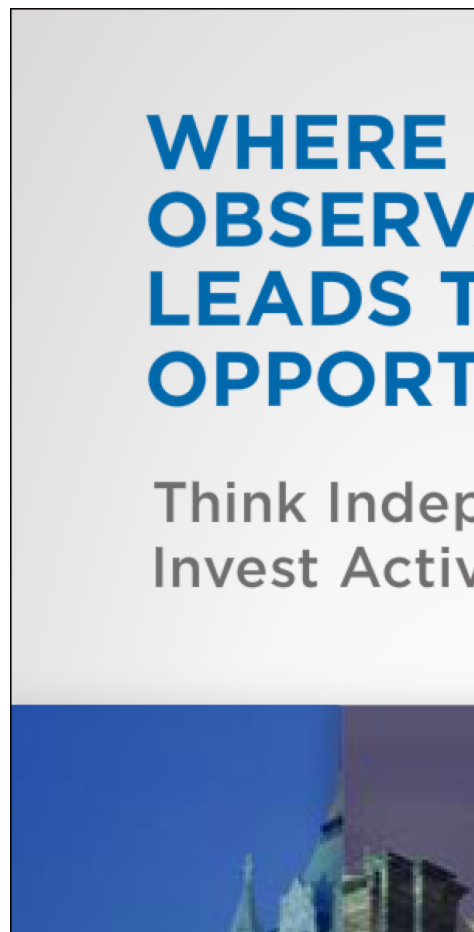
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The new company, Latam Airlines Group SA, encompasses airlines in six South American nations and has four major hubs—São Paulo, Lima, Santiago and Bogotá. Latam would control 40% of the passenger traffic within South America and be the second-largest airline by passengers after American Airlines on routes to the U.S. and third-largest to Europe.

Enrique Cueto, Latam's chief executive, said the combined capacity puts the airline in a better position to negotiate network agreements with U.S. and European airlines. "Every airline is trying to fly to Brazil or Latin America," he said, and will need Latam flights to connect to cites across South America.

"This is a growth merger," said Mr. Cueto. It gives LAN access to the Brazilian market, the largest in the region. Only 3% of the two airlines's routes overlap, mainly on flights from São Paulo to Santiago and Buenos Aires. It also brings LAN's regional affiliates in Peru, Argentina, Ecuador and Colombia into the combined company's mix, offering opportunities to route their passengers to TAM's flights.

Latam is structured as a holding company with the LAN and TAM brands and operations separate. But the two frequent-flier programs next week will allow members to earn and redeem kilometers and points over the combined flight network. Each brand's elite fliers also will receive reciprocal perks when traveling on the other airline.



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The \$2.7 billion transaction underwent extended antitrust scrutiny and a drawn-out share exchange that gave TAM holders 0.9 shares of LAN stock for each one of their shares. About 50% of the shares are held by the public and the rest by four major investors. Mr. Cueto's family, the majority holders in LAN, will roughly own a 25% stake in the new company.

The company expects to collect between \$600 million and \$700 million a year in cost savings and additional revenue by the merger's fourth year. Cost savings from joint purchases and other economies of scale would provide about 40% of the total and improved revenue the rest.

According to Standard & Poor's, Latam's market value would exceed all other airlines. On Friday, Air China Ltd. was the top airline by market capitalization, at \$10.7 billion, followed by Delta Air Lines Inc. at \$9.4 billion, Singapore Airlines Ltd. at \$9.3 billion and United Continental Holdings Inc. at \$8 billion. Both Delta and United are products of recent domestic mergers, reflecting industry consolidation as airlines build larger route networks and seek efficiencies to offset high fuel prices.

The merger has implications for global airline alliances. AviancaTaca Holdings SA, a Colombian-Salvadoran airline, said this week that it will join the Star Alliance, a global airline marketing group anchored by [United Continental Holdings Inc.](#) [UAL +1.41%](#) and [Deutsche Lufthansa](#) [DLAKY +0.87%](#) AG. Chilean antitrust authorities ruled in the LAN-TAM merger that the combined company couldn't join the same alliance as AviancaTaca.

LAN is a member of Oneworld, a group that includes [AMR Corp.'s](#) [AAMRQ +2.42%](#) American Airlines and British Airways and Spain's Iberia. Latam was expected to move TAM into Oneworld. Mr. Cueto said on Friday that a final decision hasn't been made.

"We need very strong partners in the U.S. and Europe. We will negotiate to get the best deal. If they are in the same alliance, bingo, easy decision for us." If not, "we have to think about what is best for us." He said it isn't a foregone conclusion that Latam will stay in Oneworld and said there are several options.

Latam's shares will begin trading Wednesday on the Santiago Stock Exchange, the São Paulo Exchange and the New York Stock Exchange. TAM shares will be delisted in Brazil and the U.S. On the Santiago Stock Exchange, LAN shares fell 1.1% to close at 13,489 Chilean pesos (\$26.83) on Friday while the select IPSA stock index ended 0.06% lower.

—Susan Carey contributed to this article.

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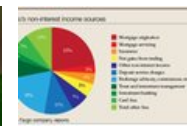
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