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## CORPORATE PARTICIPANTS

**Andres Osorio** *LATAM Airlines Group - CFO*  
**Gisela Escobar** *LATAM Airlines Group - Corporate Controller*  
**Claudia Sender** *LATAM Airlines Group - CEO of TAM*  
**Damian Scokin** *LATAM Airlines Group - CEO of LATAM Airlines*  
**Alvaro Carril** *LATAM Airlines Group - In-charge of Cargo Business*  
**Roberto Alvo** *LATAM Airlines Group - In-charge of Fleet Business*

## CONFERENCE CALL PARTICIPANTS

**Duane Pfennigwerth** *Evercore - Analyst*  
**Savi Syth** *Raymond James - Analyst*  
**Richa Talwar** *Deutsche Bank - Analyst*  
**Bernardo Villas** *GBM - Analyst*  
**Thomas Kim** *Goldman Sachs - Analyst*  
**Eduardo Couto** *Morgan Stanley - Analyst*  
**Stephen Trent** *Citi - Analyst*  
**Pedro Balcao** *Santander - Analyst*  
**Bob McAdoo** *Imperial Capital - Analyst*  
**Daniel Guardiola** *LarrainVial - Analyst*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the LATAM Airlines Group Earnings Release Conference Call. This is a reminder this conference is being recorded.

LATAM Airlines Group earnings release for the period was distributed on Tuesday, May 13th. If you have not received it, you can find it on our website at [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net) in the Investor Relations section.

At this time, I would like to point out that statements regarding the Company's business outlook and anticipated financial and operating results constitute forward-looking comments. These expectations are highly dependent on economy, the airline industry and international markets. Therefore, they are subject to change.

Now it is my pleasure to turn the call over to Mr. Andres Osorio, Chief Financial Officer of LATAM Airlines Group. Mr. Osorio, please begin.

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### Andres Osorio - LATAM Airlines Group - CFO

Thank you very much. Good morning, everybody. Thanks for attending this call. Today we will participate from LATAM Airlines Claudia Sender, CEO of TAM; Alvaro Carril, In-charge of Cargo Business; Andres del Valle, Corporate Finance Director; and Gisela Escobar, Corporate Controller.

So what we will talk about during this call is regarding the financial result. We will talk about that in compared to our first quarter of 2013 we have increased our operational margin in 130 basis points, that excluding non-recurring fleet restructuring cost that we will talk later about that.

We continue adjusting our capacity. We have decreased 4.3% compared to the first quarter of last year, and domestic passenger continues improving its results basically through improving their yields.

Also during the conference, we will talk about our fleet restructuring costs, which means that we have booked during this quarter \$147 million. \$34 out of those are in the operating line and \$112 million will be non-operating costs.

The reason of that -- we have talked in past -- is that we work for long to define the best fleet that we were going to fly on the future. This new fleet is more efficient, more modern. We will be able to present a better build to our passenger. But to do that, we have to take away some families of planes and aircrafts and those which is one-time costs are presented now in our financial statement and we will talk about that later.

Finally, it's good to announce that on March 31st TAM became a member of the oneworld alliance. So about this and on all other matters that you wanted to talk later during the Q&A session, we are happy to attend.

Thanks again. And Gisela will make the presentations.

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

Great. Thanks, Andres. Thanks everyone for joining. We are going to go to the slides. If you look at slide number 2, you can see the highlights of the results for the first quarter. In the top line, our revenues are down by about 6.8%. 85% of our revenues are passenger business revenues, which are down about 6%. About 13% of revenues are cargo related, which are down approximately 12%.

On the costs side, our costs are down more or less in line with revenues, approximately 7%. That's makes for a flat operating income versus the first quarter of 2013. However, that number includes the cost related to fleet restructuring which we recognized during the first quarter. We'll look in detail at the breakdown of those fleet restructuring costs, but basically it's important to know that in our operating costs we have \$34 million related to those fleet restructuring costs.

If we exclude those \$34 million at the operating level, our total operating income is \$147 million, which is a 4.6% operating margin.

Net income for the quarter was a negative \$41 million. Again, excluding the fleet restructuring costs, net income was positive \$81 million. Also important to note here is that given that the Brazilian real appreciated between December 31, 2013 and March 31, 2014 we actually this quarter saw a non-operating FX gain of \$57 million on the non-operating side. And our EBITDAR margin excluding the fleet restructuring was 16.4% for the quarter.

Turning to slide number 3, you can see the main variations in our operating margin excluding the fleet restructuring costs. Overall, you can see that the negative effect during the quarter is coming from a reduction in yields. Passenger yields overall are down 6% in US dollars and cargo yields are down 10%.

Part of this is offset by very strong load factors during the quarter, which reached 83% on the passenger side and 59% on the cargo side. We saw lower fuel costs during the quarter, driven by a 6.5% decline in the price of fuel versus the first quarter of 2013 as well as lower consumption and also gains from our hedging strategy.

And on the cost side, excluding fuel, we saw savings or reduced costs on wages and benefits as a result of reduced personnel and also the positive effect of the depreciation of the Brazilian and Chilean currencies, which has a positive impact on the percentage of our costs that are denominated in those currencies.



If you turn to slide number 4, you can see that we continue with significant capacity adjustments overall in the passenger business. Capacity is down 4.3% in the first quarter as compared to the first quarter last year. This is mainly driven by a strong capacity adjustment on the international routes of 7.6% and a continued reduction in the domestic Brazil, where ASKs are down 3.5% versus the first quarter last year.

In Spanish-speaking countries, we have an increase in capacity of 5.4%. This we are increasing capacity in all the Spanish-speaking markets, especially Colombia and Peru. And if you look overall at the revenue per ASK, for the whole passenger business revenue per ASK is down 2.2% and there the main decline is in part due to the domestic Brazil, where we'll look at in the next slide more in-depth, but that's mainly related to the depreciation of the currency because in reais we are actually seeing a strong improvement.

And in the Spanish-speaking market, we have a decline of 4.5% in revenue per ASK, which is mainly driven by yield declines in all of these markets also as a result of strong depreciations in all the local currencies.

The Chilean peso during the first quarter depreciated by 17% when we compare to the first quarter of 2013 and the Chilean domestic operation represents approximately half of all of our Spanish-speaking countries operations.

The Peruvian sol also depreciated by 9%, the Argentine peso depreciated 50% and the Colombian peso depreciated 12%. So we are seeing that impacting our yields in all our Spanish-speaking markets.

If we turn to the next slide, you can see the results of our domestic Brazil operation. Here we continue to see reductions in ASKs. Capacity is down 3.5%, so we continue with very rational capacity strategy in the domestic Brazil with a very positive effect on load factors. So we have one of the highest load factors in the industry and we continue to see improvements there. Load factors reached 82% at TAM and are up 3.4 percentage points compared to the first quarter of 2013.

And also importantly, we continue to have a strong leadership position with the corporate passenger in the domestic Brazil. We have a 34% market share in the corporate market and that's basically 10% higher than our main competitor in those routes -- or with those markets.

If we look at the international passenger operations, we continue with the strategy that we have already been discussing, where basically we are focused on a strong capacity adjustment. Most of the capacity adjustment currently on long-haul routes is on routes to Europe, where the market continues to be relatively weak in terms of demand.

We are also focused on building our regional and international hub at Guarulhos Airport in Sao Paulo. We expect that to be implemented after the World Cup in the third quarter with the move of the international passenger operations to the new Terminal 3 at Guarulhos Airport.

We are also focused on significant restructuring of the fleet on long-haul routes. We are, as we've already mentioned before, phasing out the A330 fleet and replacing it with 767s from the LAN fleet as well as A350s when they start being delivered in 2016. We at the end of this year, in December, expect to have 13 767s in operation on TAM routes versus the eight that we are currently operating today. We are also undertaking a retrofit of the 777 fleet, of the TAM long-haul 777 aircraft, and that's going to occur between November of 2014 and May of 2015.

And finally, as Andres already mentioned, TAM joined oneworld officially on March 31st, so is now operating as part of the oneworld alliance in addition to the bilateral agreement and codeshare that we were already operating with American Airlines.

Our main challenges on international routes during this year are basically three. We are seeing an impact of the World Cup. As you know, the World Cup is going to occur in Brazil between June and July and that makes it difficult to predict exactly what the impact is going to be and how demand is going to behave during those two months. July is the high season in Brazil for international passenger operations and there is a lot of demand, Brazilians that are travelling internationally. And that's something that we are -- it's difficult to predict how that demand is going to behave given that the World Cup is will be occurring during those months.

We are also seeing continued competitive pressures, especially in the Brazilian market, of international carriers both from the US and from Europe that are increasing operations to Latin America. And in addition to that, what we are seeing during the first quarter is an impact in terms of a demand



of Argentine passengers that are travelling on our international network. As a point of sale, Argentina represents 8% of our total revenues and given the 50% depreciation of the Argentine currency, we've seen an impact of international passenger demand from Argentina, which we are compensating with increased sales in other parts of our network, but at lower yields than what we were seeing from the Argentine market.

On the cargo side, as we've discussed, we have seen generally a global cargo market that has been relatively flat over the past two years. In that context, LATAM has been reducing the freighter capacity. If you look at our first quarter numbers, our cargo capacity measured in ATKs is down 6.6%, which has led to improvements in our load factors that are reaching close to 59% levels in the quarter.

Nevertheless, we've seen declines in yields of approximately 10%, driven by strong competitive pressures especially to the Brazilian market. In addition to that, we have seen in these first months of the year another impact, which is a very weak seasonal seed exports from the region, which we had a very strong seed season in 2013. So that also impacts the comparison versus last year.

If we look at the cost lines, overall during this quarter we saw an 8% reduction in operating costs excluding the \$34 million that are related to the fleet restructuring. Here we have an almost 3% reduction in wages, a 7% reduction in fleet cost and about a 5% reduction in other cost lines in addition to a 5% reduction in fuel cost.

Overall, when we look at it on a per ASK basis, the reduction is 3% basically because of the strong reduction in ASK equivalents, which reached 5% this quarter versus the first quarter last year.

If we look a little bit more in detail at what this fleet restructuring costs that we are recognizing this quarter, basically it's a total impact of \$147 million in this quarter that's divided in a non-operating impact and an operating impact. On the non-operating side, in the other non-operating costs we are recognizing \$112 million before tax. And this is related to the aircrafts that we are phasing out of our fleet.

So they are aircraft models that we are no longer going to operate in the medium term. We have 29 aircrafts of the total 39 aircrafts that we are redelivering that are included in these \$112 million, and they are basically the old fleets of LAN Colombia, the 737 -- the Boeing 737s of LAN Colombia and the Q400, some of the old TAM 767s which we are phasing out and the A330s and the A340s, which TAM had a couple and LAN also had A340s. And those are all aircraft models that we will not be operating anymore and that which will be leaving the fleet in 2014, 2015 and 2016.

We are also on the operating side are recognizing \$34 million in redelivery costs that are related to fleets that include basically A319s, A320s and 767s as well as one 767 freighter, which are aircraft models that we will continue to operate but that given this fleet restructuring, we are basically phasing out faster than we had anticipated and all at the same time, which leads to this strong increase in redelivery costs.

We still have some decisions that we need to make which are minor compared to the \$147 million, but we still have 13 A330s, five of them leased and eight that are owned that we still need to make a decision regarding how and when we will be phasing those out. And we also have the Dash 200s of the Colombia fleet, of which we have seven in operation and that we also expect to be phasing out over the next years.

When we look at our overall fleet plan, basically we expect to have declines in the number of total jets that are in our fleet, with basically around 20 aircraft deliveries per year that are offset by around 30 aircraft redeliveries each year. And you have the CapEx numbers related to fleet commitments. On the bottom of that chart, we have \$1.2 billion in aircraft CapEx expected for this year and \$1.7 billion in aircraft CapEx in 2015. Most of that expected to be financed with ECA and Ex-Im Bank set as well as seven leaseback finance.

Regarding the guidance for this year, we have basically maintained our operating margin guidance between 6% and 8% excluding these non-recurring fleet restructuring costs. And on the capacity side, we have maintained overall our capacity guidance on the passenger side at relatively flat, although we have brought down a little bit our estimated ASK growth in the Spanish-speaking countries. We were originally expecting a little bit higher between 6% and 8% and today we are looking at growth closer to 5% to 7%.

And on the cargo side, given the efforts that we are making to reduce our freighter capacity, we have also brought that number down from approximately zero to minus 2 to a reduction of between 2% and 4% in our total ATKs for this year.



That concludes the slides that we had prepared and we'll be happy to take any questions that you may have.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Duane Pfennigwerth, Evercore.

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### Duane Pfennigwerth - Evercore - Analyst

Just wondering if you could give us a sense for capacity change in the second quarter for the passenger business. It looks like you are still cutting -- you are maybe about 2% or 3%. And are you seeing any firming of the yield environment yet?

And I wonder -- you gave us a lot of detail there on FX sort of by region. Could you give us just either to the revenue growth or to the change in yield what a constant currency number would look like? Thanks.

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### Gisela Escobar - LATAM Airlines Group - Corporate Controller

On the -- we do expect to see continued reductions in ASKs during the second quarter. Basically, any leveling out of the ASK growth will come especially during the fourth quarter and after the World Cup. So we should continue to see ASK reduction.

And overall if we exclude the currency fluctuations, it varies by market. Well, you saw in Brazil we have an improvement in yields of about 12% in the Brazilian currency, so we are seeing a strong improvement. And Claudia can speak more in detail to that.

But in the other markets, we should basically -- in local currencies we are seeing improvements in yields. However, it's more than offset by the strong depreciations that we have. And we expect that to continue because we are, as I mentioned, pulling back our ASK growth in some of the domestic Spanish speaking markets for the year.

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### Duane Pfennigwerth - Evercore - Analyst

Okay, that's helpful. And then just with respect to the World Cup, I appreciate your cautious or maybe conservative view on that. But can you talk about kind of revenue visibility today, and I guess we care most about system as opposed to international versus domestic. But based on the bookings level that you have over that period of time, based on the fares that you are seeing over that period of time, does the revenue visibility lead you to that cautious commentary or is it just the uncertainty of how the closing is going to behave once you are in that period of time?

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### Claudia Sender - LATAM Airlines Group - CEO of TAM

This is Claudia Sender from Brazil. A quick comment on that. I think it's a combination of both. Here, especially when we talk about the corporate segment, bookings come in with advance purchases of around -- between seven and 14 days. So there's a lot of uncertainty on what is going to happen during that period since the corporate bookings are still not coming in.

What we do see, however, is that people that generally take vacation, leisure vacations during this period of time are more cautious and tend to stay home given the uncertainty of how busy the airports are going to be and also to follow the World Cup here in Brazil. So I would say it's a combination of both factors.

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**Duane Pfennigwerth** - *Evercore - Analyst*

Okay, thank you.

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**Operator**

Savi Syth, Raymond James.

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**Savi Syth** - *Raymond James - Analyst*

On the international side, I understand kind of the currency weakness in Argentina. So is the exposure there now less than 8% of revenue with the devaluation you've seen and are you -- are any of kind of the -- because you saw a 7% year-over-year increase in (inaudible) in the fourth quarter. So is all of that kind of good things that you've done in getting out of unprofitable markets and everything, just getting wiped out as we move forward?

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**Damian Scokin** - *LATAM Airlines Group - CEO of LATAM Airlines*

This is Damian talking from the international business. The exposure of Argentina is reduced from historic levels thanks to our increased revenue pool out of Brazil and other markets. Nevertheless, it's still significant and we monitor the Argentina situation very thoroughly and in detail.

The impact on LATAM has been smaller than on other airlines because we have a good pool of bookings in advance and the perspective we have on the upcoming market conditions. It's not as bad as the initial thinking was, let's say, February-March. So we see Argentine market affected, but not as much as a couple of months ago.

As for your questions of the total impact in capacity reduction and the Argentine effect, I think it's -- the Argentine effect is certainly relevant, though -- but the net effect of that is a combination of the Argentine effect plus competitive conditions in Brazil in particular.

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**Savi Syth** - *Raymond James - Analyst*

Okay. And then if you turn to cargo, like how much of the weakness in cargo was related to the Brazilian real depreciation and how much of it was from just the weak seat sales?

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**Alvaro Carril** - *LATAM Airlines Group - In-charge of Cargo Business*

This is Alvaro Carril from the cargo business. Only our domestic operations, cargo domestic operations within Brazil is generated in reals. That accounts for around close to \$400 million, yes, which is pretty large out of the total.

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**Savi Syth** - *Raymond James - Analyst*

Okay. And then the last question, I guess I'm a little surprised by -- given 1Q performance, maybe the margin guidance still remaining unchanged. Just to achieve the high end of margin guidance, I wonder what you would need to see or what kind of environment you will be able to reach that, the high end of the margin guidance?

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**Claudia Sender** - LATAM Airlines Group - CEO of TAM

Well, I think today given the situation that we are seeing, we are probably estimating something closer to the lower end of the range, closer to the 6% than to the 8%. But I think there is some uncertainty in that number related to what we expect after the World Cup and obviously there is external factors that can make a difference that are basically the usual, fuel and currency impacts.

So a significantly stronger Brazilian real environment, a significantly stronger demand environment, a significant change in our competitive environment, all of those things could obviously help for the positive.

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**Savi Syth** - Raymond James - Analyst

Okay, helpful. Thank you.

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**Operator**

Richa Talwar, Deutsche Bank.

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**Richa Talwar** - Deutsche Bank - Analyst

So first, I just wanted to talk a little bit more about the fleet restructuring plan. Can you quantify the impact of your efforts on that? And if not -- I mean if you can't give us like a precise savings number you expect from the actions, if you could talk through how we should be thinking about that and long-term how this should benefit the profitability of the Company?

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

Yes, we -- well, there's a few things. I think, first, we are aiming at adjusting -- and this has been a long process that we've been I think mentioning over the past year or so because we really have been aiming at adjusting the fleet plan and the aircraft orders of LAN and TAM to what we think is the right fleet for LATAM Airlines Group.

And there is many sort of different ways of looking at it. But one of the important things is that we see a very significant technological change especially in the long-haul fleets, but also in the narrow bodies with the A320neos and so forth, where the new technologies are significantly more efficient than the existing ones.

And if we compare, for example, an A350 with one of the TAM A330s, we have about 20% to 23% savings in terms of cost per ASK. If we compare a 787 with one of the existing 767s in our fleet, we have approximately a 12% reduction in terms of cost per ASK.

So if you look at currently our fleet plan going forward after this fleet restructuring, the only aircraft that are being delivered are 787s, A350s and in the narrow bodies A320neos and the larger A320 and A321 of the narrow body fleet. So we are not taking any new deliveries of the older or existing aircraft technologies and we are also reducing our residual value risk of those existing aircrafts because we are doing -- basically creating the flexibility in order to phase those aircrafts out.

There are some savings associated, for example, to the A330 fleet that we -- given the fact that we are phasing those out of the fleet. We have about a little bit over \$20 million of savings in lease cost, for example, that we expect to save. But basically most of it will come from having the right fleet and being able to be in a position to benefit from the competitive advantage that the new fleet technologies will bring.



**Richa Talwar** - Deutsche Bank - Analyst

Okay, perfect. And then one on the balance sheet. You've made great progress on improving the liquidity position of the Company and I was hoping you could talk a little bit about any roll down left on the leverage front like in terms of potentially refinancing higher coupon debt. And maybe you could refresh us on your thoughts on regaining your investment grade credit ratings?

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**Andres Osorio** - LATAM Airlines Group - CFO

I think -- Andres over here. I think we have seen boost on the liquidity that basically came from the offering done last year plus the [placement] of the bonds. With that, we have basically prepaid and we paid a lot of the short-term debt. The liquidity position as of the end of the year last year was something like 19%. And the target is to maintain a level of approximately 15%. Plus we have uncommitted lines of roughly \$800 million and we have committed lines in the region of \$200 million.

We feel comfortable with the current liquidity position. We can say that all of the CapEx of this year, which is \$1.2 billion, has been completely secured with financing. So the next financing campaign will start maybe in September of this year aiming at the delivers of 2015. So for this year I don't think we should be seeing any sort of a novelty. Just the targets to maintain the level of cushion at that 15% of cash.

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**Richa Talwar** - Deutsche Bank - Analyst

Okay. And on the investment grade credit rating? Do you think you will get to that anytime soon?

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**Andres Osorio** - LATAM Airlines Group - CFO

I think we continue with the deleveraging process in the Company. When we merged with TAM the -- I mean the leverage indicator was 7.9 times. We are down to 4.8 times roughly, and the plan is to continue with that deleveraging process. And for this year should we achieve the expected margin to be down to maybe 4.5 times, then I think according to plan maybe by 2016 we should be back to investment grade metrics.

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**Richa Talwar** - Deutsche Bank - Analyst

All right. Thank you.

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**Operator**

Bernardo Villas, GBM.

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**Bernardo Villas** - GBM - Analyst

I was wondering regarding the fleet restructuring expenses on the quarter. First, if you could give us more color regarding this provision recognizing other non-operating costs, if this provision is what we can expect of operating expenses throughout the year. And what impact would the total phase out of the LAN Colombia airplanes would have on expenses?

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**Andres Osorio** - LATAM Airlines Group - CFO

What's going on this booking is we have studied which fleet we wanted to stay in the future. The restructuring -- the IFRS when you have a merger or acquisition give us through the accounting rules a possibility to book on a non-operational side the effect of restructuring any fixed asset or whatever part of a business you are not going to use in the future. So what we have booked is the cost of the new fleet that we're going to manage in the future we have in the way of some families of aircraft or some aircraft. What is in -- on the ongoing concern, which means if you have about



300 aircrafts, you're going to be redelivering aircraft every year. But it's from the ongoing concern business that will be operating cost from now and the future.

What we have recognized is what is an effect because of the restructuring of this fleet because of the merger of these two companies. So on the future you will find on the operating side the provision, monthly provision in order to -- when you get them out to deliver the plane that will be basically all provision and all booked.

Today we have talked this very long with the auditors and we have get to this numbers. So at the end of the day because -- and it's more accounting and very complex stuff to explain through a phone call, but the full number of \$147 million are already paid related to what we have seen up to date on the restructuring of our fleet for 2014, mainly 2015 and 2016 as well. And that part is on the non-operational side. What we are going to do on 2014 is already booked on first quarter, which are these \$34 million. But that is for the whole year.

We don't expect to do any other booking regarding this concept on the future. That's the information that we have today. If there is any other consequence of restructuring -- because of restructuring this fleet, for example, some A320s that we haven't decided yet -- because this is important to say. To do this, you have to take a plan. You have to have talks with your suppliers and everything. It's not that you have only an intention. Whenever we decided to -- and we have a full agreement with the (inaudible), for example, which are left we are going to book that number as well.

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**Bernardo Villas** - *GBM - Analyst*

Okay. And just a ballpark number, what would these expenses reach if you decide to phase out all of this fleet?

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

No -- well, with the A330s it depends. It depends on how we decide. If we have five that are -- I mean a portion of the 13 A330s that we have left are leased and a portion are owned. It depends on the sale price. It depends on how the phase out will occur. So we are not in a position to give you an estimate at this point.

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**Andres Osorio** - *LATAM Airlines Group - CFO*

But (inaudible) number is already booked. Whatever is left is much smaller in proportion to this.

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**Bernardo Villas** - *GBM - Analyst*

Okay, perfect. Thank you.

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**Operator**

Thomas Kim, Goldman Sachs.

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**Thomas Kim** - *Goldman Sachs - Analyst*

I have a few questions here. First, I want to start off with the proceeds from PP&E disposals. Can you detail for us what the \$514 million comprises because it's a large number and it's more than sort of what the commentary suggested in the text? So can you just give us a little bit more detail as to what's behind that big number, the \$514 million in your cash flow statement in the first quarter?



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**Andres Osorio** - LATAM Airlines Group - CFO

It's most related to (inaudible) and all that, different things. I think we will send you -- we will be happy to send you the details of exactly what it is. We need to carefully look at the cash flow statement. It's comprised by many different things. So we will send you that on to you.

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**Thomas Kim** - Goldman Sachs - Analyst

Okay. And also can you let us know like how many sale leaseback transactions did you enter into and what gains if any were booked on those?

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

We have done so far sale and leaseback for eight 777s and for 10 A330s, and the effect in terms of one-time gains were not really -- there was not any relevant impact in terms of one-time gains.

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**Thomas Kim** - Goldman Sachs - Analyst

Okay. And then there was also a couple of planes that were sold as well, a couple -- I think it was -- I forgot exactly what it was, A320s.

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

A320s.

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**Thomas Kim** - Goldman Sachs - Analyst

Yes. So did you call out exactly what those --?

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

Well, we financed basically the -- when you finance a new aircraft delivery with a sale and leaseback, there is no one-time effect because it's an aircraft that you haven't yet booked because it hasn't been delivered. So the only times when we would have had an impact would be for one of an owned aircraft that we sell and leaseback that is not a financing of a new plane. And that was the case for eight of the A330s and four of the 777s. But those didn't generate any significant impact. We do expect to finance of our total CapEx. We are financing approximately one-third of our deliveries with sale and leaseback.

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**Thomas Kim** - Goldman Sachs - Analyst

Okay, that's really helpful. But just to clarify, the two Airbus A320s, they were not owned aircrafts. They were actually -- because it wasn't clear. To me it looked like that they were owned, because you specifically said that there was the sale-leaseback of the four 777s and so on. So the two Airbuses were also on a sale-leaseback, not owned aircraft, not previously owned already?

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

Yes, that's right. I'm going to --



**Thomas Kim** - *Goldman Sachs - Analyst*

Okay, all right.

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

Wait. Just -- Roberto, I don't know if you want to add something here?

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**Roberto Alvo** - *LATAM Airlines Group - In-charge of Fleet Business*

Yes. Hi, this is Robert Alvo. I'm in-charge of fleet. So let me try to clarify 777s here. We don't see an impact of the 777s basically to phase them out towards the end of the decade. We don't view these transactions to book any gains with respect to these aircrafts. What we've done basically give us the flexibility so that these aircrafts can be replaced with 350s as the end of the decade comes, okay. Out of the 10 777s that TAM currently operates, six of those have been entered into sale and leaseback transactions already. Four of those are still owned for us and pending. That's the main reason for the (inaudible) to give us our sales picture big flexibility going forward and there's no impact in the P&L due to this transaction.

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**Thomas Kim** - *Goldman Sachs - Analyst*

Okay, all right. Thank you. And then can I just ask with regard to the merger synergies, obviously there's a lot going on, so many moving parts right now. So it's hard for us to know what's happening with the merger synergies and what you've been achieving.

Can you just update us on what your target would be for 2014? What you kind of see -- what you have seen so far and whether you think you are on track to sustain the improvements this year given some of the challenges and some -- also importantly, some of the proactive changes which on the fleet side look encouraging?

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

Yes, we are on track to meet the target during 2013. We recognised over \$300 million at the EBIT level related to the initiatives that were identified as the synergies both on the cost side and on the revenues side. And for 2014 it should be a number over that. And that basically put us on track to reach our target of between \$600 million and \$700 million annual synergies on an ongoing basis by mid-2016.

We have basically -- at this point the synergies are very much incorporated in the day-to-day management of the operations. If you recall, we had approximately 40% of the total synergies that were coming from international passenger operation and those are today very much part of the day-to-day operations of the international passenger business.

So we are not necessarily detailing them. But if we don't do -- even if we did nothing new with regards to synergies, just the ramp up of the actions that we have already taken related to synergies puts us to achieving the \$650 million approximately in mid-2016.

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**Thomas Kim** - *Goldman Sachs - Analyst*

All right. I appreciate all that detail. Thanks a lot.

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

You're welcome.

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**Operator**

Eduardo Couto, Morgan Stanley.

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**Eduardo Couto** - *Morgan Stanley - Analyst*

I have two questions, the first one on the -- regarding the World Cup. I just want to hear your thoughts. Do you think the World Cup is going to be positive or negative for LATAM? Now we have been discussing with some other airlines and the company seemed concerned about the impact on June and July. So I just want to hear your thoughts on that.

And the second question is on the Brazil long-haul and I just want to try to understand the strategy a little bit because the -- we have seen competitors adding capacity, right, global players and also local carriers that will launch operations in the upcoming months. So I just want to understand if the strategy on the -- in the long-haul is to cut capacity or to cut prices or what are you going to do to respond to this stronger competition?

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**Claudia Sender** - *LATAM Airlines Group - CEO of TAM*

Hi. This is Claudia. Let me -- as far as answering the first question, by saying that the World Cup -- we look at the World Cup from two different points of views. First from a long-term perspective, we think it's extremely positive. I think the World Cup has somehow made viable the really necessary, the very much needed investment in infrastructure. And we think long term this is a very important legacy for our country and will actually help us grow again and eliminate most of the bottlenecks.

Also it will give the country a very important visibility worldwide and we think we are very capable of delivering a good service and good logistics during this period of time. So long term, we think it's very, very positive.

Short term during the period of between mid-June and mid-July, there will be an important impact in demand, yes, and revenues will come to a shortfall for sure given that the corporate traffic will be reduced due to the number of holidays that we will have here in Brazil. So I think it's a -- we have to look at the World Cup from these two perspectives.

And then I'm going to handover to Damian, who will talk a little bit about the international business.

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**Damian Scokin** - *LATAM Airlines Group - CEO of LATAM Airlines*

The international business out of Brazil I think it's something you need to look in the context of the international regions of Latin America, because that can be the big difference between LATAM and other carriers that have increased in capacity into Brazil.

The competitive environment in Brazil remains very encouraging in a situation in which the economy is growing not as fast as in the past. But we remain extremely positive because LATAM has a lot of attractive advantages that other carriers do not have. One of them is Terminal 1 I was mentioning -- the part of having the network of Latin America, and based on that, we are building the hub of Guarulhos into a different level from the past.

As you know, this week the airport opened a new terminal that gives us a lot of opportunities to increase our connectivity in Guarulhos and that's the driver of the capacity reductions we decided out of Rio. The capacity reductions even though were mostly out of Rio because we knew in advance that we were going to focus in Guarulhos.

So the strategy is basically to strengthen our capillarity in Latin America, make a much stronger hub out of Guarulhos and that will give us the opportunity to grow in destinations out of Latin America.

On top of that, if you also consider that the origination of passengers in most international routes out of Brazil is heavily tilted towards Brazilian passengers, we still have a lot of room to improve our commercial execution in the field that will leverage our frequent flyer program and the position in domestic that will further increase our competitiveness in this market.

I don't know if that answers your question.

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**Eduardo Couto** - *Morgan Stanley - Analyst*

But do you expect to cut capacity on the international or not?

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**Damian Scokin** - *LATAM Airlines Group - CEO of LATAM Airlines*

Well, we don't expect to cut capacity further.

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**Eduardo Couto** - *Morgan Stanley - Analyst*

Okay. And just one final point on the Guarulhos expansion, right. I understand that long, long term it's positive, but don't you think that it also brings much more competition because so far what we had was TAM with a strong position in Guarulhos especially in the international and the global players really struggling to get slots and being able to increase capacity.

So now with the expansion I think those international carriers will be the -- will have room, right, to add much more capacity. So don't you see that even though the Guarulhos expansion could be good for the long, long term, it could also bring some more competition from international carriers?

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**Damian Scokin** - *LATAM Airlines Group - CEO of LATAM Airlines*

Yes, you are right in the sense that we take note of competition in the future, though, as I said, we rely on our Company's advantages to remain very profitable in the long-haul. Moreover, those carriers that arrive at Guarulhos will also help our overall business by requiring our distribution now that TAM joined oneworld, which is another set of advantage that will help us overall in terms of the usage of our not only Brazilian domestic, but regional network.

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**Eduardo Couto** - *Morgan Stanley - Analyst*

Okay. Thank you, guys.

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**Operator**

Stephen Trent, Citi.

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**Stephen Trent** - *Citi - Analyst*

Two from me, the first is on President Dilma's regional aviation plan, Brazil, which I know is not exactly official. Are you seeing any early indications that there's going to be enough of a benefit there to offset the increased cost of airlines, potentially adding new fleet types? Or is it way too early to tell at this point?



**Claudia Sender** - LATAM Airlines Group - CEO of TAM

I think -- this is Claudia again. Looking from an incentive perspective, it's still early to say which way this is going to go. Talking specifically about the regional aviation, we are looking at it from strategic and financial point of view if it makes sense to invest in this market or not.

It has to make sense regardless of investments for us to make a significant move going forward. But I think anything to say about the subsidy right now is just pure speculation.

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**Stephen Trent** - Citi - Analyst

Okay, very helpful, Claudia. Appreciate that. And just one other question. It was actually a follow-up to somebody else's question. You guys gave helpful color about this year's aircraft CapEx, roughly being one-third financed by sale-leaseback activity. Any broad color as to what extent aircraft sales might finance some of that?

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**Andres Osorio** - LATAM Airlines Group - CFO

For this year? Stephen, Andres here. Everything has been being financed. It's a combination of sale-leasebacks, commercial financing, some Ex-Im. We are not relying on the [aide] this year. For next year, again, given the CapEx that we have in front, again to be very well diversified, again mostly the same mix. But to know exactly would -- that addresses your question.

Any more sales this year? Everything has been done this year already. So it is at --

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**Stephen Trent** - Citi - Analyst

Okay, very helpful, Andres. So that's it for me. I appreciate that.

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**Andres Osorio** - LATAM Airlines Group - CFO

Okay, thank you.

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**Operator**

Pedro Balcao, Santander.

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**Pedro Balcao** - Santander - Analyst

I do appreciate the fact that you recognized that the guidance for the big margin this year is now more challenging than before. I just wanted to clarify to what extent -- is that the result simply of the depreciation of the LATAM currencies or really if it's really a weaker market that is penalizing this guidance? Thank you.

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**Claudia Sender** - LATAM Airlines Group - CEO of TAM

I think the World Cup poses a big challenge in terms of revenue especially in one of our highest season months and this has a significant impact in our overall profitability for this year. We don't see this as a structural trend going forward.

Does that answer your question?

**Pedro Balcao** - Santander - Analyst

Not really. I'm sorry. I was wondering -- I think you recognized that the guidance for the big margin of 6% to 8% this year, it has become more challenging than before than when you announced it back in November. I just wanted a clarification to what extent the fact that it is now more challenging reflects simply the depreciation of the LATAM currencies year-to-date or if it actually reflects a weaker market, a weaker demand in Latin America? Thank you.

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

Yes, Pedro, I think it's really a mixture. I mean we -- there's various elements that are moving parts in the environment and we have definitely been impacted by the weaker currencies. There's also, as Claudia mentioned, other variables that we are still in the process of quantifying like the World Cup, like a more challenging competitive environment that we have seen basically increased capacity in the markets.

So I think it's not really only one thing, because also in addition we have taken certain business decisions in light of this environment that also -- that are a reaction to the environment that we are seeing and that we also expect to offset some of these negative impacts going forward; certain minor capacity adjustments in the local domestic markets, for example, and certain decisions of how to operate around the World Cup, et cetera. So it's really very difficult to say that it's only one single element.

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**Pedro Balcao** - Santander - Analyst

Thank you very much. One additional question, Bradesco and Banco do Brasil here in Brazil they just announced the creation of a new loyalty program company here in Brazil. How does that affect your strategy for Multiplus? Could you just make a brief comment on that? Thank you.

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**Andres Osorio** - LATAM Airlines Group - CFO

Yes, we've heard of the announcement. We don't think at this point in time this changes significantly Multiplus situation, although we'll have to look at this in more detail. And I'm sure that Multiplus will have [probably] in their conference call with more detail.

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**Pedro Balcao** - Santander - Analyst

Okay, thank you.

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**Operator**

Bob McAdoo, Imperial Capital.

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**Bob McAdoo** - Imperial Capital - Analyst

Most of my questions have been asked. But it seems like last quarter you mentioned that you had one freighter that was parked and with continuing weakness in the freight system, I'm wondering is that still parked or have you parked an additional freighter?

And also then related to that, I notice in the list of aircraft that are scheduled to be returned there is one freighter there. Is that the one that is parked or is that a different one? I'm just trying to understand that a little bit.

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**Alvaro Carril** - LATAM Airlines Group - In-charge of Cargo Business

Yes. This is Alvaro Carril from the cargo division. What I mentioned in the previous conference call is that we have the equivalent -- 2.5 freighters are not being operated. It's not that we have these freighters parked actually, but that we have used our [fleet] in order to utilize our complete fleet in much less hours.

That means the equivalent of 2.5 freighters are being parked. But this is not actually one freighter parked. They are all flying. Here we are considering to reduce -- in the fleet restructuring plan we are considering to reduce one freighter from our fleet. But as I said before, we have the equivalent of 2.5 less aircrafts actually flying.

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**Bob McAdoo** - Imperial Capital - Analyst

You say the equivalent of five aircraft less flying. Is that --?

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**Alvaro Carril** - LATAM Airlines Group - In-charge of Cargo Business

Two point -- sorry. 2.5, 2-1/2.

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**Bob McAdoo** - Imperial Capital - Analyst

2.5, okay. Thank you. And then --

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**Alvaro Carril** - LATAM Airlines Group - In-charge of Cargo Business

Right, 2.5.

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**Bob McAdoo** - Imperial Capital - Analyst

Go ahead. And then the other thing is there was a mention that -- weakness in the revenue stream from the Brazilian domestic freight. And I was wondering is that because Brazilian domestic freight is denominated in real and therefore when translated into the US dollar it makes it -- even though the demand is there for freight services, it turns into less US dollars on the corporate books or is there actually a weakened demand for Brazilian domestic freight service?

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

No, the demand in the Brazilian domestic market has been strong in terms of cargo. The impact has been basically with relation --

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**Bob McAdoo** - Imperial Capital - Analyst

Excuse me. I could not hear.

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**Gisela Escobar** - LATAM Airlines Group - Corporate Controller

Sorry, we had a problem with the line. But what I was mentioning is we have -- in the domestic Brazil market for cargo demand has been very strong, but the impact that we see for that portion of the business is that since revenues are denominated in Brazilian reals the depreciation of 18% of the Brazilian currency has a negative impact. And the --



**Bob McAdoo** - *Imperial Capital - Analyst*

That's what I thought. Okay.

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

Approximately 20% of the total cargo business.

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**Bob McAdoo** - *Imperial Capital - Analyst*

Okay, very good. Thank you. That's what I had. I appreciate it.

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**Operator**

Savi Syth, Raymond James.

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**Savi Syth** - *Raymond James - Analyst*

Since you mentioned that you are increasing in SSC, you are increasing capacity into Colombia and Peru, I was wondering if you could talk a little bit about Colombia. Just anecdotally it sounds like it's probably weak in the domestic market with -- you've seen Copa pulling out capacity and you've seen VivaColombia really come into that market.

And I believe that's a largely breakeven market for you and I was just kind of curious as to the thinking around adding capacity to that market.

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

Yes. Basically, we see a very important opportunity in the domestic Colombian market. It's a market that is growing at healthy rates and it's also the second largest market in the region. So we see that there's definitely a continued opportunity there.

We do, however, see obviously a much more challenging competitive environment in the domestic Brazil than we do in our other domestic markets because obviously we are not the leading player in that market and there's another flight carrier, that's the Colombian airline.

So we have seen I think from a competitive standpoint that it's a challenging market, but nevertheless we see an opportunity to grow there and we also see an opportunity to improve our position with the corporate passengers in the domestic Colombian market, which is something that our strategy aims to do.

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**Savi Syth** - *Raymond James - Analyst*

And what's the timeframe around that? I know that the corporate position was a little bit harder to really crack. And so like how long does that opportunity take and how long do you think it takes for Colombia to be more than a breakeven contribution?

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

It's more like a two-three-year timeframe.

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**Savi Syth** - *Raymond James - Analyst*

Okay, understood. Thanks so much.

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

It's not something to except for this year, let's say.

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**Savi Syth** - *Raymond James - Analyst*

Okay, understood. Thanks.

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**Operator**

Thomas Kim, Goldman Sachs.

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**Thomas Kim** - *Goldman Sachs - Analyst*

I may get the time for the follow-up here. I just want to get back to some of the earlier questions with regard to operating margins. I think historically [Legacy Land] did a phenomenal job just managing through a lot of challenging macro periods of time. And if we just look through only at the first quarter operating margins, like your average had been around 17.5% and we notice like for 2004 or 2005 when the conditions were not necessarily as ideal you were able to respond or sort of snap back and recover margin growth and get back to sort of your normalized level within like six quarters or so.

And then just -- if you can maybe just help us contextualize what might be different this time around. I mean there have been questions kind of suggesting, eluding to is it the macro or is it a combination of macro as well as the integration or the increasing -- is the competitive landscape any different.

But from your perspective I mean -- how realistic is it for us to assume that you will be able to get back on track towards your industry leading margins for a large network carrier within, let's say, 2015-2016 time horizon? Or should we maybe resetting some of our expectations just given that the situation is really very different today?

You've got tougher macro. You have a growth environment that may not look like what we have seen in the 2000s. And then obviously integrating TAM, which is a huge undertaking also sort of complicating the underlying operation.

So I mean to the extent that you could perhaps help us understand in just setting -- in us setting our expectations, not just for the next quarter or two, but more for a medium term, 2015-2016 perspective, I thought it would be really helpful. Thanks.

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**Roberto Alvo** - *LATAM Airlines Group - In-charge of Fleet Business*

Hi. This is Roberto Alvo. In the medium to long term, we are confident that the Company, LATAM, all together can return to the levels of profitability that you used to see, as you called the old LAN.

We have to say, though, that the macro is affecting in the shorter term. Countries were growing at a very higher pace in the past five-six years than what it's today. But we know -- we are confident in the region and we think that these levels will come back.



We've done all the -- we've taken all the necessary steps to organize the Company, reduce cost, bringing synergies. We still have a lot of work to do in execution. But we don't see any fundamental constraints today not to think about us returning to levels of double-digit margin, operating margins for the Company in relatively medium term.

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**Thomas Kim** - *Goldman Sachs - Analyst*

Do you think -- are you planning perhaps another Investor Day that will help us walk through maybe in more detail like the game plan and just to help us from the sales side just to better understand, to help us increase the confidence of your ability to get back? Because I think a lot of us do know your history and track record and think you guys have done an amazing job before. But do you think that would be helpful and would you be potentially planning something like that?

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**Gisela Escobar** - *LATAM Airlines Group - Corporate Controller*

We do have plans this year to be in -- I mean to be in all the relevant markets and to have ongoing discussions with investors and with analysts regarding the plan so that people feel comfortable with the story. We are not planning this year to have an Investor Day, but it's something that we are thinking of in -- more for --for probably for next year.

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**Thomas Kim** - *Goldman Sachs - Analyst*

Okay. All right, great. Thanks a lot. I appreciate your time.

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**Operator**

Daniel Guardiola, LarrainVial.

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**Daniel Guardiola** - *LarrainVial - Analyst*

I just have a couple of questions. First of all, I would like to know if you can please give us an update on the situation of Venezuela.

And the second one is regarding the entry of TAM to oneworld alliance. I would like to know if you could please share with us by how much are you expecting the increase in USD revenues because of these movements. Thank you.

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**Damian Scokin** - *LATAM Airlines Group - CEO of LATAM Airlines*

On the first topic of Venezuela, as we mentioned during the last conference call, we've taken measures to reduce our exposure towards that and the amount of -- the pool of money, revenues in Venezuela today remain stable or slightly decreasing from our last call due to our decisions to sell more seats in other points of sales rather than Venezuela. And we expect that in the future that will remain the same, flat or on a decreasing trend. So our exposure to Venezuela is going down.

And the other question regarding oneworld, as you know, TAM joined the oneworld March the 1st, so we are in the initial phases of calculating the benefit from that transition. And we remain on track given the synergies estimations that we did before the transition -- even slightly larger. We are not I believe [ready] at this point to share a specific number, but all the traffic flows, the frequent flyer revenues and the connecting passengers in Miami, Madrid are slightly above our initial expectations. So that's good news.



**Daniel Guardiola** - *LarrainVial* - Analyst

Okay, thank you.

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**Operator**

And at this time, I would now like to turn the presentation over to Gisela Escobar. Please proceed.

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**Gisela Escobar** - *LATAM Airlines Group* - Corporate Controller

Well, that concludes our call for today. Thank you all very much for participating and for your questions, and as usual, we are available if you want to have any follow-up discussions. Thank you and good bye.

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**Operator**

Ladies and gentlemen, that concludes the presentation for today's conference. You may now all disconnect and have a wonderful day.

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