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PRESENTATION

Operator

Good day, everyone, and welcome to LATAM Airlines Group earnings release conference call. Just a reminder, this conference is being recorded.

LATAM Airlines Group earnings release for the period was distributed on Wednesday, May 11. If you have not received it you can find it in our website at www.LATAMairlinesgroup.net in the investor relations section.

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

Now it is my pleasure to turn the call over to Mrs. Gisela Escobar, Corporate Controller and Investor Relations Officer of LATAM Airlines Group. Mrs. Escobar, please begin.

Gisela Escobar - LATAM Airlines Group S.A. - Corporate Controller & Director of IR

Thank you very much. Good morning everyone and thank you for joining our call.

First I want to introduce the people that are here with me on the call. We have Andres Osorio who is the CFO of LATAM; Claudia Sender, the COO of TAM in Brazil; Roberto Alvo, who is in charge of the International Passenger Operations as well as Fleet; and Andres del Valle, the Corporate Finance Director of LATAM.

As usual, we will go through some brief comments regarding the highlights for our first-quarter results. And then we will be happy to take your questions.

If you turn to the webcast presentation, on the first slide we have some important highlights that we're going to go over for the quarter. Firstly, we're happy to report very strong operating results this quarter. Our operating margin reached 9.4% EBIT margin which is the highest margin that we've had over the last four years.

We also had a net income that was \$102 million positive bottom line. So we're pleased with these results. And although going forward we continue to see a challenging demand environment and as a result we're maintaining our operating margin guidance for the full year which we provided in January this year and which is a margin between 4.5% and 6.5% for 2016.

Briefly to mention for our capacity guidance in the domestic Brazil operation, we had provided a guidance of between 8% and 10% for ASKs for the full-year 2016. In the first-quarter 2016 our ASKs in domestic Brazil declined by 8.4% over the first-quarter 2015 with us being the leaders in the industry in terms of capacity reduction.

Going forward we prefer to remain conservative on our outlook for a potential recovery in demand in Brazil. And we're convinced that this rational approach to capacity is key to being able to improve our results in that market. As a result of this we are increasing our capacity reductions in Brazil during the second half of the year and we now expect capacity to be reduced between 10% and 12% for full-year 2016 over 2015.

In line with this we are also continuing to evaluate opportunities to reduce our fleet. We are now targeting a reduction in our total fleet assets that are expected for 2018 of between \$2 billion and \$3 billion which we expect to achieve over the next 18 months and we are evaluating a series of alternatives including aircraft sales, including also re-deliveries of our current fleet and also renegotiations of future fleet deliveries, all of this with the objective of adjusting our fleet to the current demand levels that we're seeing in the markets we operate (technical difficulty).

During the quarter we also want to mention that we closed a \$325 million revolving credit facility. We actually closed \$275 million as of March and it was upsized in early April to \$325 million with the objective of bolstering liquidity which we maintain at \$1.3 billion at the close of the first quarter.

Also, very important to highlight for this quarter is that we made the formal launch of LATAM as the new brand of the Company. We're the first airline to launch a new brand as a result of a merger and this is a very exciting step for us. It's probably one of the most important steps in the consolidation process of LAN and TAM.

And this will be a gradual change to the LATAM brand. So over the course of the next month and years, the passengers will gradually be able to see more aircraft painted with the new brand, new uniforms, the new branding at the different airports. We already have rebranded our frequent flyer programs and a new unified website among other things.

If you turn to the next slide and we look a little bit in more detail at the numbers for the first quarter, you can see that we continue to see similar trends that we saw in past quarters both on the revenue and on the cost side. Our revenues are down this quarter by 16.6% with passenger revenues declining 16.4% and cargo revenues declining 21.2%. These declines are driven by the currency devaluations that we continue to see in all the markets where we operate as well as the deceleration in demand levels in all our markets. They are also on the passenger side entirely driven by lower yields as load factors have remained relatively stable.

On the cost side, we continue to see an important cost reductions which in this case offset the decline in revenue. These cost reductions are driven by lower fuel but we also are seeing lower ex-fuel cost in response to in part the currency devaluations and also to the different cost-reduction initiatives that the Company has already implemented over the last year. So as a result our operating margin improved by 130 basis points over last year and we also see net income of \$102 million which includes a foreign exchange gain of \$68 million which is a result of the 9% appreciation of the BRL between December 31 and March 31.

If you turn to the next slide and we look a little bit in more detail at our passenger operations in our different business units, here we see that the decline in revenue per ASK on the passenger side overall reached 19.1% with 3.3% growth in terms of ASKs. When we look at the international passenger business unit capacity is up 9.4% this quarter. This is driven by a stronger growth, over 10%, on the Spanish-speaking international routes from the Spanish-speaking markets and a much smaller growth on the Brazilian routes.

We have load factors that are up by almost 1 point compared to the first quarter of last year. And our revenue per ASK continues the trend that we already saw in the fourth quarter, driven again by stronger declines on international routes from Brazil. We are also seeing some declines in revenue per ASK on routes from the Spanish-speaking markets mainly because we have readjusted both us and the market in general has reassigned some capacity from the Brazilian market to the Spanish-speaking market, putting some pressure on yields in those markets.

When we look at the domestic Brazil operation we had a very significant 8.4% reduction in capacity in the domestic Brazil market. We have healthy load factors that are at 82.5% for the quarter and we saw an improvement in revenue per ASK in local Brazilian currency of almost 3% this quarter as a result of this. When we look at it in US dollar terms, we see unfortunately that this decline is close to 25% as a result of the devaluation of the BRL which was 36% on average compared to the first quarter of last year.

When we look at the domestic operations in all the other markets, in the five Spanish-speaking markets that we operate, here capacity is increasing by 7.4% in the quarter with load factor increasing as well. We have load factors in our Spanish-speaking markets that range between 80% and 87% in the five different markets where we operate and where we see a revenue per ASK declines that are almost entirely driven by the devaluation in the different local currencies: the Chilean peso devalued by around 12%, the Peruvian currency as well, the Argentine peso devalued by 66% in this quarter compared to last year. So that continues to impact our revenue per ASK.

When we look at -- one thing that I want to mention here is that we have undertaken a project that we are now working on in order to transform our domestic operation both in our Spanish-speaking markets as well as in Brazil with a focus on increasing efficiency and a more aggressively reducing cost in all of these domestic operations. We are also evaluating ancillary revenue opportunities and increasing our focus on the development of digital technologies to simplify and improve our passengers' experience when they fly on our domestic routes.

The objective of this project is to continue to stimulate demand in these markets and increase the penetration of air travel in South America which is still at very low levels. And we expect that the results of this should be an improvement in profitability in all of these domestic routes and also that should make our domestic business models more sustainable in the longer term as we include some of these industry trends that have become best practices for many different carriers in different parts of the world.

If you turn to the next slide and we look a little bit at our cost performance for the quarter, we continue to see declines on a cost per ASK, cost per ASK overall. And here we're talking about cost per ASK equivalent including the cargo portion of our operations. So it's not easy to compare this number with numbers reported by other carriers.

But this \$0.042 of cost per ASK equivalent is a 17.4% reduction versus the first quarter of 2015. If we look at this number ex-fuel, so fuel costs in the first quarter were down 38% but if we take out the effect of fuel our cost per ASK equivalent declined by 9.1%. So we continue to see efficiencies and if you look at the breakdown in our P&L there's cost declines in pretty much all our different cost lines.

Just a brief comment in terms of the new brand. We've mentioned -- we already had announced and unveiled what the new image would be in August of last year but now in April we did the formal launch of the new brand and we also did during the month of May the first three commercial flights of our aircraft painted with the new LATAM livery. We unveiled the new uniforms for all the different staff and crews at LATAM with the new colors.

And the process of launching the brand will be a gradual process. We currently already have the new website up and running and we already have the new brand image at our 13 main airports where we operate. We expect to end the year with over 50 aircraft painted with the new livery and we expect to continue to roll out the new image at more airports and also towards the end of the year you should be able to see the new uniforms on most flights.

The process will be gradual thinking. In order really to make it more efficient the aircraft will be painted with a new livery as they go into their routine checks. So we expect that this process will take the better part of the next two years in order to really see the LATAM brand widespread in all our operations.

We also want to mention the continued development of our network. So even though we're making significant capacity cuts in certain parts of our network in order to adjust to the prevailing demand environment, we continue to focus on strengthening what we have defined as our main hubs in the region. For 2016 we've made important announcements of new routes and more frequencies out of Lima which is our main hub on the Pacific side of the region.

In 2016 we're flying new routes between Lima and Washington, DC, between Lima and Montevideo and Uruguay. We already launched a Lima-Antofagasta flight and also flights from Lima to additional cities in Argentina which are Salto Rosario and Mendoza.

In October we will also begin flying from Guarulhos in Sao Paulo, a flight to Johannesburg which will be the first flight between South America and the African continent. So this will also be a critical and key new route that will go to strengthen the connectivity of our network with the African continent.

To talk a little bit about our ongoing fleet initiative, as you probably recall in our last conference call, we announced that we had completed a reduction of 37% in our total fleet commitments for the three-year period between 2016 and 2018. The objective of this adjustment was basically in order to adjust our expected fleet deliveries to the ASK growth that we were projecting for these markets for the next three years.

Today what we wanted to share is that we continue to evaluate opportunities to reduce our total fleet assets. And we have a target of a reduction of between \$2 billion and \$3 billion in our fleet assets compared to the total assets that we expect to have with this fleet plan at 2018.

This reduction will be achieved through a series of different initiatives which include sales of existing fleet which include redeliveries and which include renegotiations of fleet deliveries that are currently in the plan. So we expect every quarter to be able to update you in terms of what we have been able to -- the progress that we have been able to make in line with this plan.

When you look at the next slide, just briefly a look at our credit metrics and at our balance sheet at the close of the first quarter, our adjusted net debt to EBITDAR our leverage is at 5.9 times. So a slight increase with respect to the leverage that we had in the fourth quarter of last year and a slight increase in our liquidity levels when we look at liquidity as a percentage of revenue to 13.9%, maintaining the \$1.3 billion that we have in cash and cash equivalents.

Regarding our hedging strategy, we have on this slide, slide number 10, on the top portion of the slide a look at our fuel hedging portfolio. We have for the first quarter of this year we had a 27%, so the blue parts of the graph show our hedge, our fuel hedge positions that were taken at current fuel prices, were taken early this year and the red portion on the graph shows our older portfolio hedges which were taken at prices that are currently out of the money.

In the first quarter of 2016 our fuel hedge position resulted in a loss of \$29 million. The system much better than when we compare it to the first quarter of 2015 where we had a loss of \$104 million.

Also it's important to note that when you look at the red portion of this graph for the next three quarters, so the 27% for Q2, 27% for Q3 and 11% for Q4, the maximum loss that all of these will generate with the current structure is \$36 million. So the loss is capped at that amount as of today.

Regarding our FX hedges for 2016, we have with the BRL an exposure of approximately \$700 million operating exposure to the BRL. We hedge, we fully hedge that exposure on a regular basis and we currently have hedges of approximately \$180 million per quarter for the first three quarters and \$90 million hedged for the fourth quarter of 2016.

These positions are currently at BRLs that are higher than the BRL that we are seeing today. So they are at around the BRL80 per dollar. But obviously the negative effect of that is compensated by the positive effect on demand of having a currency that is more appreciated than we originally expected.



Finally, just a word on our guidance. As we already mentioned, the main adjustment here with respect to what you saw last quarter is an adjustment in our growth rate for the Brazil domestic operation where we are expecting capacity reductions of between 10% and 12% for the year as compared to our previous guidance of between 8% and 10%.

On the passenger side, our guidance for international and for the Spanish-speaking domestic capacity remains the same. So overall we expect our ASKs for the year to be relatively flat in the range of minus 1% to plus 1%.

And on the cargo side, we continue to try to adjust the freighter fleet to a very weak demand environment, especially when we look at the demand for imports into the region. And that continues to affect a demand for air cargo. And as a result we are adjusting downward our cargo guidance to a reduction of between 2% and 4% for the year.

This is driven by a reduction that we expect to be in the range of 7% to 8% on our freighter fleet. With this we have remained with the same operating margin guidance, so we continue to expect our EBIT margin for the year to be in the range of 4.5% to 6.5% which is the same number that we had already shared with you last quarter.

That completes the remarks that we had prepared and the main highlights that we wanted to share for the first quarter. And as always we will be happy to take any questions that you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Savi Syth, Raymond James.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Good afternoon. Just a clarification point first.

I think I missed this in your comments, Gisela. Does the \$2 billion to \$3 billion reduction in assets, is that reflected in the fleet plan that you have for 2018?

Gisela Escobar - *LATAM Airlines Group S.A. - Corporate Controller & Director of IR*

No, it's not. The fleet plan that we published is the same one that you saw last quarter and it has all of our current fleet commitments. So it doesn't include these additional initiatives of between \$2 billion and \$3 billion in reductions.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

And so as you think about capacity, what level are you thinking? Is this kind of low single-digit capacity growth for the next couple of years?

Gisela Escobar - *LATAM Airlines Group S.A. - Corporate Controller & Director of IR*

Yes.



Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Okay, great. And that if I may on the domestic Brazil side, clearly you've seen unit revenues improve from what we saw at least on a year-over-year basis from fourth quarter. But it still seems a little light for how much capacity you're taking out.

And I was wondering if you can provide a little bit more color on maybe what you're see? And it seems to me that that might imply that demand is deteriorating and I was just wondering is demand kind of similar to last year or is it continuing to deteriorate?

Claudia Sender - *LATAM Airlines Group S.A. - TAM President*

Hi, this is Claudia. We have taken a very conservative approach regarding the future demand, the behavior of demand.

What we have seen in the first quarter is that despite, what you just said, despite the strong capacity cuts that the market implemented and we implemented 8.4%. It was still not enough to compensate for the demand drop and we still had to stimulate demand.

So therefore the tariffs didn't go up as much as we expected and we still see a corporate segment quite depressed. Given that we have taken a more conservative approach looking forward and we've decided to increase our guidance in terms of capacity cuts to 10% to 12%.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Great. Thank you. And just one last question if I may ask.

The project that you're implementing on the domestic operations, I was wondering if you could provide a little bit more color on maybe how the different domestic operations differ and maybe what types of new ancillary revenue opportunities you see on the domestic side? Thank you.

Gisela Escobar - *LATAM Airlines Group S.A. - Corporate Controller & Director of IR*

At this point we have been we just wanted to share that we are embarking on this project and we are at this point evaluating all the industry trends and we expect to have more color on this over the next few months. We currently have some ancillary revenue initiatives on different routes where we offer, for example, the sale of preferred seating on certain routes and also an upgrade bidding product that allows you to bid for seats that are available in business class on certain routes. That applies more to long-haul routes where we offer business class.

But there's obviously in-line looking at what's going on in the industry and different trends there's obviously an opportunity there and we want to really look at that in detail to see how much of this would be applicable in our different domestic markets. The idea here is obviously not only on the ancillary revenue side but also on the cost-reduction side to really rethink any opportunities for increasing the profitability levels of our different domestic markets but with the idea of having cost reductions that you're able to pass through in terms of lower fares and to be able to continue stimulating growth in the different domestic markets where we operate.

Generally the region, although we've seen increases in the penetration levels in all the different markets in the region over the past years, there is still very low penetration levels compared to what you see worldwide. So there is a significant opportunity here to be able to continue stimulating this market profitably. And that's really what this project is aiming at.

Savi Syth - *Raymond James & Associates, Inc. - Analyst*

Is that a response to maybe more kind of ULCs? These are other low-cost carriers in your market, or just trying to take lessons you've seen from other geographies and apply it and kind of be the first mover in that?



Gisela Escobar - LATAM Airlines Group S.A. - Corporate Controller & Director of IR

Yes, it's more the second. It's not really a response to anything in particular. But there's obviously things that are going on in the industry that make us want to look at our model and to be able to really incorporate any trends that we think are applicable to our operation.

Savi Syth - Raymond James & Associates, Inc. - Analyst

All right. Thank you very much.

Operator

Mike Linenberg, Deutsche Bank.

Catherine O'Brien - Deutsche Bank - Analyst

Good morning, this is actually Catherine O'Brien filling in for Mike. So just a couple regarding your reduced Brazil domestic capacity outlook.

Could you give us some details on how that reduction is being achieved? Is that more through reduced utilization or does that reflect some of your fleet reduction plan? And then are there any particular markets in which you're seeing the most weakness that the cuts will be focused on?

Claudia Sender - LATAM Airlines Group S.A. - TAM President

Our reduction has been conducted through actually fleet reduction to increase capacity utilization of our fleet. And also it's very targeted in the markets that we still see overcapacity where we have seen lower load factors and lower yield recovery. It's not generalized in the whole network.

Catherine O'Brien - Deutsche Bank - Analyst

Okay. And is that more like the shorter-haul business routes?

Claudia Sender - LATAM Airlines Group S.A. - TAM President

It's very hard -- it's very targeted market by market. I couldn't tell you if it's just short haul or longer haul but it's based on where the demand has gone down.

Catherine O'Brien - Deutsche Bank - Analyst

Okay. So if things continue to get worse in Brazil is there room to reduce your capacity further or that's kind of pending this additional \$2 billion to \$3 billion in fleet reduction?

Claudia Sender - LATAM Airlines Group S.A. - TAM President

So the reduction that we see going forward is between 10% and 12%. We think this will be enough in a conservative scenario. Of course, we're working with a lot of different scenarios and we have a lot of flexibility given the size of our fleet and our ability to transfer fleet between countries.

And also we still have room to increase capacity utilization if the demand is to go up. So we have a lot of flexibility to respond to whatever the market -- to whatever is the market behavior.



Catherine O'Brien - *Deutsche Bank - Analyst*

Okay great. And then if I can sneak one more in, some of your competitors have noted this earnings season that they continue to see weakness in Colombia and Venezuela. I was just wondering if you could update us on your exposure there and then maybe give us some idea of what your capacity plans look like into those markets this year?

Roberto Alvo - *LATAM Airlines Group S.A. - SVP of Network and Fleet*

Yes, from an international side our exposure to Venezuela is very low. We only have two biweekly flights from Santiago and Lima respectively and one weekly flight from Guarulhos. So it's really very limited.

We've seen huge weakness in that market as other companies have seen. But it's completely insignificant for our international operation.

In the case of Colombia our exposure from international perspective is also quite low. And the devaluation of the Colombian peso together with a slight weakness of the economy given the decrease in the oil price has affected to an extent yields just as much as other countries, particularly Brazil.

Catherine O'Brien - *Deutsche Bank - Analyst*

Okay, great. Thank you for all that color.

Operator

Marcio Prado, Goldman Sachs.

Marcio Prado - *Goldman Sachs - Analyst*

Thank you for the call. I'd like to make two questions. Actually both are about yields.

I just wanted to hear more color on your international yields. You've mentioned that on the capacity side you're adding more capacity to the Spanish-speaking countries in international routes when compared to Brazil. I'd like to hear a bit on if you could give more color on yields from South America, North America and South America to Europe.

Are we continuing to see like the US carriers with very strong declines year over year in Latin America yields. So I wanted to hear from you on any different dynamics in South, North America or South America to Europe. That's on international yields.

The second question is on Brazilian domestic yields. In the presentation you show that the domestic yields in Brazil have grown in BRL around 3% and like other Brazilian carriers that disclosed results recently showing a much stronger yield growth in the first quarter.

So could you qualify that? Is that related a bit to the capacity reduction plan in Brazil? Just qualify on a relative basis the higher but the weaker relative yields when compared to comparators in Brazil. Thank you.

Roberto Alvo - LATAM Airlines Group S.A. - SVP of Network and Fleet

Yes, on the international side it's clearly more weak from Brazil to both the US and Europe than from the Spanish-speaking countries to both the US and Europe. We see yield declines in both markets but they are much more accentuated in Brazil, particularly to the US. And this is why we are cutting down capacity of approximately 35% as compared to the same semester for second semester this year vis-a-vis 2015.

We don't see that same kind of weakness in Europe. And in Europe we also have much more diversification in our (inaudible). So we're in a better competitive position with respect to what's in the US.

In the case of Spanish-speaking countries again, yes, some weakness in yields, particularly to the US, because of what you said I mentioned, some shifting of capacity between Brazil and Spanish-speaking markets but still markets and industries that we think are relatively healthy. In the case of Spanish-speaking to Europe, our exposure is relatively low, we have very few flights and we also see relative [sanity] in those markets, is point in fact.

Claudia Sender - LATAM Airlines Group S.A. - TAM President

Regarding the Brazilian domestic market what we can see the 3% growth was in passenger RASK and not necessarily yields. Yields was a little above that, around 4%. The thing is we are here only talking about the domestic market yields.

We're not talking about tickets sold in Brazil which I think it's a little bit different than whatever is being published. I will not comment on our competitors' results. But what I can tell you is that our results, our yields and our RASK that you see in our presentation regard only to the domestic passenger yields.

Marcio Prado - Goldman Sachs - Analyst

Thank you. Thank you for the answers.

Operator

Renato Salomone, Itau.

Renato Salomone - Itau BBA International - Analyst

Good morning. I have a follow-up to the previous questions on demand. Both Copa and GOL have emphasized in their calls that demand in the second quarter has been very weak in their markets.

It seems that seasonality doesn't explain all this weakness. So it would be great if you could help us understand if there were any markets that deteriorated beyond your original expectations so far in the June quarter and if this weakness is driven by corporate or leisure demand? Thank you.

Roberto Alvo - LATAM Airlines Group S.A. - SVP of Network and Fleet

In the case of international point-of-sale Brazil is clearly weaker than other points of sale and that affects international flights from Brazil. The other markets have not seen such a large increase with respect to what's normally season. And I think it's the same type of answer for domestic Brazil.

Renato Salomone - *Itau BBA International - Analyst*

And is it corporate or leisure demand mostly, the weakness?

Roberto Alvo - *LATAM Airlines Group S.A. - SVP of Network and Fleet*

It's across the board. I wouldn't say that it's particularly in one segment or another.

Claudia Sender - *LATAM Airlines Group S.A. - TAM President*

If I could just add some color to that, what we've seen is that our industry is very impacted by expectations. And what we have seen so far in this quarter is that expectations in Brazil in particular are very low. So that's why the second quarter has been impacted as Roberto mentioned across the board both in the corporate and leisure markets.

Renato Salomone - *Itau BBA International - Analyst*

Thank you.

Operator

[Juan Pablo Palazuelo], GBM.

Pablo Saldivar - *GBM - Analyst*

Hello, good morning this is actually [Pablo Saldivar]. I just have a couple of questions. The first one could you give us -- I'm sorry I joined the call a little bit late -- regarding the asset reduction that you're aiming to achieve by 2018, how much can we expect to happen throughout this year?

Roberto Alvo - *LATAM Airlines Group S.A. - SVP of Network and Fleet*

You are asking about fleet reductions?

Pablo Saldivar - *GBM - Analyst*

Yes, the new fleet asset reduction you announced between \$2 billion and \$3 billion by 2018.

Roberto Alvo - *LATAM Airlines Group S.A. - SVP of Network and Fleet*

Most of the reductions that we expect to achieve these \$2 billion to \$3 billion will be effective in years 2017 and 2018. Don't expect a significant asset reduction in 2016, although we have some initiatives that will have effect this year but are not material to the total amount.

Pablo Saldivar - *GBM - Analyst*

Okay, perfect. Thank you. And another question regarding the current competition and pricing environment in the region in South America, could you give us a little bit of insight of how things are behaving, please?

Gisela Escobar - LATAM Airlines Group S.A. - Corporate Controller & Director of IR

I think that's in line with sort of what Roberto and Claudia were just mentioning. We basically had seen (technical difficulty) growth expectations have been (technical difficulty) well we obviously don't a level of GDP and macro declines in the other countries in South America. As we see in Brazil we have seen that the trend in terms of expected economic growth in all of these countries has come down.

Approximately 40% of our ticket sales are overall for our network both domestic and international in Brazil and approximately 40% are in other Spanish-speaking markets. The Brazilian market as Roberto just mentioned has been the most impacted but we've seen some (technical difficulty) obviously in terms of our capacity, reassigning some capacity from Brazil, increasing the expected capacity reductions that we have there both in domestic and international routes. We're growing a little bit more on this side of our operations.

Pablo Saldivar - GBM - Analyst

Okay, thank you very much for taking the questions.

Operator

Victor Mizusaki, Bradesco BBI.

Victor Mizusaki - Banco Bradesco - Analyst

I have two questions. The first one, now that you integrated TAM Fidelidade and LANPASS to have LATAM Fidelidade, what's the plan for Multiplus? Is there any plan to I don't know maybe incorporate Multiplus in the future?

And the second question, can you give more details on this plan to decrease \$2 billion to \$3 billion of fleet asset? I mean the plan is to sell used aircraft or basically return or wait for the lease contracts to expire and then return to the source?

Roberto Alvo - LATAM Airlines Group S.A. - SVP of Network and Fleet

Okay, as regard to the first question we have not changed our plans with respect to Multiplus and LATAM Pass in this case. So we're still working on the harmonization of frequent flyers and the benefits to the customers and now harmonizing the names or changing the names of the frequent flyer program. So no news there.

With respect to fleet, as we mentioned in the press release we have a series of initiatives that we're undertaking. They are related to delays of deliveries of planes, eventual cancellations of deliveries of planes and also sales of planes that we have in our current fleet and also re-delivery of planes as leases expire. There's a combination of initiatives here and since there are many and affect most of our fleets we will update our fleet plan as we finish these initiatives and we complete them.

Victor Mizusaki - Banco Bradesco - Analyst

And is there any deadline to conclude those negotiations?

Roberto Alvo - LATAM Airlines Group S.A. - SVP of Network and Fleet

We are working on those as we speak. As we mentioned also in our press release we expect to finish this in the next 18 months and we will update quarterly our transmits. And also we're going to monitor what's happening in the industry in the next six to 18 months to see if the adjustments are necessary or more will be needed.

Victor Mizusaki - *Banco Bradesco - Analyst*

Okay, thank you.

Operator

Magdalena Santana, Citi.

Magdalena Santana - *Citi - Analyst*

Thank you for taking my calls. I have two questions. The first is if you can tell us whether recent developments within the Oneworld Alliance provide any long-term upside for you including potentially greater collaboration with British Airways and with nonmember Interjet seemed to make more of and to reach agreements with various members?

And also I have another one that as the first-quarter result of this year came in so well, any reason why you didn't increase guidance? Thank you.

Roberto Alvo - *LATAM Airlines Group S.A. - SVP of Network and Fleet*

So on the Oneworld question, I'm not completely sure if I understood it but we've announced that we are entering into a JV agreements with both IAG and American Airlines in January. These transactions that are currently under regulatory review from antitrust regulators we don't expect to have these deals approved until 12 to 18 months after we announced this. And we are just working with authorities and providing other required information for them to access this.

I think you mentioned something on Interjet. Interjet is not part of the is not part of the Oneworld Alliance at this point in time. So I have no comments on that.

Magdalena Santana - *Citi - Analyst*

Okay.

Gisela Escobar - *LATAM Airlines Group S.A. - Corporate Controller & Director of IR*

The second question regarding guidance we have maintained the guidance at the same level because at this point we do not see in our outlook for the year any reason to modify it. We had a strong first quarter but we are preferring to remain very conservative and cautious in terms of our expected outlook for demand in the region for the coming quarter.

And I think -- and there's also as we've all seen significant volatility in the markets in the region, especially in Brazil which makes it very difficult to predict accurately where the main variables that affect our industry will be over the coming quarter. So for now we are maintaining our EBIT margin expectations where they are which is at a margin of between 4.5% and 6.5% for the year.

Magdalena Santana - *Citi - Analyst*

Thank you very much for taking my questions.



Operator

Daniel Guardiola, LarrainVial.

Daniel Guardiola - *LarrainVial* - Analyst

Hi, good morning guys. I have a couple of questions here. First of all, I wanted to touch on your network adjustments.

And I was wondering if you could share with us which markets are you expecting to redeploy the capacity that you are expecting to cut in Brazil and what are the costs related to these adjustments in 2016 capacity? So that's my first question.

And my second question is regarding the competitive environment in Brazil. And I wanted to know your results on the competitive environment market taking into account that Avianca Brazil has been increasing capacity by over 15% year to date. Thank you.

Claudia Sender - *LATAM Airlines Group S.A.* - TAM President

Let me start by addressing the second question. I think each player has its own strategy and what we have seen is that a significant overcapacity in certain markets has been very damaging to the yields. And that's why we have decided to cut capacity in the markets that we see have overcapacity, have excess offer.

So what we see is that in due time what happened to other competitors capacity will come to a more balanced level as compared to demand. So this is what we're doing. Of course, we'll never comment on the competitors' actions so this is what they are going to do.

We don't know what they are going to do. This is what we are going to do.

In terms of the capacity redeployment, part of our planes are being redelivered or we are postponing some of the delivery of the aircraft that were planned. And this is how we're planning to reduce capacity here in Brazil.

Daniel Guardiola - *LarrainVial* - Analyst

And Claudia, regarding to the cost of these adjustments, could you please share with us what's the cost of planes redeploying, also deliveries?

Claudia Sender - *LATAM Airlines Group S.A.* - TAM President

The cost is already, I mean the regular cost of redelivering the aircraft I think maybe Roberto can give you some more color on that.

Roberto Alvo - *LATAM Airlines Group S.A.* - SVP of Network and Fleet

We do not expect any one-time relevant cost or anything like that with respect to our current redelivery plans and our quarter-by-quarter record cost related to redeliveries in our statement. So it's ongoing business from our perspective.

Daniel Guardiola - *LarrainVial* - Analyst

Okay thanks.

Operator

Leandro Fontanesi, Bradesco.

Leandro Fontanesi - *Bradesco BBI - Analyst*

Hi, thank you for the question. So just one quick question.

So basically you increased your capacity cuts in Brazil, so basically we assume here that you've seen a tough market going forward. But we have some political change in Brazil as we speak. And in case you have a change in market sentiment here in Brazil and if in the following months you see some recovery that is unexpected, so how fast or could you change this plan from more let's say conservative basis?

Claudia Sender - *LATAM Airlines Group S.A. - TAM President*

As I mentioned before we have a lot of flexibility in terms of increasing our fleet utilization and also postponing the deliveries. So if the market turns to the bad we have a lot of flexibility to increase our capacity here in the country.

Leandro Fontanesi - *Bradesco BBI - Analyst*

Okay, thank you.

Operator

Renato Salomone, Itau.

Renato Salomone - *Itau BBA International - Analyst*

Yes, a quick follow-up. And sorry if I missed this from the presentation, but could you please tell us the average jet fuel price in BRL embedded in the guidance provision?

Gisela Escobar - *LATAM Airlines Group S.A. - Corporate Controller & Director of IR*

Our original guidance when we provided it was at a jet fuel of \$52 per barrel and add a BRL of [425]. That was in January of this year when we provided the guidance.

Last quarter we adjusted that two levels that are -- we have obviously a sensitivity analysis to levels that are much more in line with the jet fuel prices and BRL levels that we have today. But we are still within the same range. So this guidance range reflects today the current expectations for jet fuel price in BRL.

Renato Salomone - *Itau BBA International - Analyst*

Thanks.

Operator

I am showing no further questions from our phone lines. I would now like to turn the conference back over to Mrs. Escobar for any closing remarks.

Gisela Escobar - LATAM Airlines Group S.A. - Corporate Controller & Director of IR

Well thank you all very much for participating in the call today and thanks for your questions. And we will be happy to take any follow-ups you may have if you want to call us during the afternoon or the coming week. Thanks very much and have a good day.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone had a wonderful day.

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