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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 Thursday, August 17. 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 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 Mr. Ramiro Alfonsín, Chief Financial Officer of LATAM Airlines Group. Mr. Alfonsín, please begin.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

Thank you, Carmen. Good morning, everyone, and welcome to LATAM Airlines' second quarter earnings call. Joining me today are Ms. Cláudia Sender, Vice President of Customers; Mr. Jerome Cadier, CEO of LATAM Airlines Brazil; Mr. Roberto Alvo, Chief Commercial Officer; Mr. Andres del Valle, Vice President of Corporate Finance; and Ms. Maria Jose Ortiz, Head of Investor Relations.

Please join me in Slide 2, where you will find the highlights of the second quarter 2017 results. During the second quarter of 2017, our operating income amounted to $48 million, representing an operating margin of 2.1%. This constitutes the best operating margin in a second quarter since the business association between LAN and TAM.

We continue to see a revenue trend improving in a year-over-year basis for this quarter. LATAM's revenues increased by 7.7% during the second quarter, completing 4 consecutive quarters of revenue increases. This improvement reflects our proactive capacity management in each market, where the capacity adjustments made during 2016 in Brazil are bearing results on both domestic and international routes. In addition, capacity adjustments made in the second quarter 2017 in the Spanish-speaking countries domestic markets are also providing results.

We have implemented the new domestic CADE model in our domestic markets. This project reached nearly 75% of LATAM's passengers that now have access to 4 clearly segmented fares, with the option to include additional services according to their needs. We have installed over 400 self-attendance kiosks in over 70 airports, where passengers can -- may check in and check their bags and -- or pay for additional bags if they want

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to, making the process at the airport easier and faster for our customers. Buy-on-board services was launched in our domestic markets, and now our passengers have access to a wide selection of food and beverage, improving their travel experience.

LATAM continues to strengthen its networks by launching new routes from its main hubs, but also starting operations from some point-to-point routes where we saw an opportunity. New routes announcement from our hubs includes Lima to Rio de Janeiro and Lima to San Jose, Costa Rica, or Brazilia to Punta Cana.

We have continued our efforts to adjust the number of our operating fleet. And we are right on track to end the year with 306 operating aircraft, which was the original commitment that we made to the market and that means 23 less than what we had in December 2016. Furthermore, LATAM is reducing fleet commitments for 2019 by over $400 million as compared to our previously announced in March 2017 plan. In this sense, we have deferred the arrival of 2 Boeing 787-9 and 4 Airbus 320Neos, resulting in a total fleet commitments for 2019 of $1.1 billion instead of the $1.6 billion originally forecasted. We also will be receiving 3 Airbus 320Neos originally expected in 2017, but we will be receiving them in 2018, lowering fleet commitments of 2017 but increasing in that same amount the fleet commitments for 2018.

LATAM continues to focus on strengthening our balance sheet. Our net debt amounted to $6.9 billion, a decrease of over $700 million compared to 1 year ago. Our liquidity as of June amounted to 21% of the revenues of the last 12 months, and our leverage reached 5.2x, a reduction from the 5.4x that we reported as of March 2017.

We maintained a solid liquidity level in each quarter, enhanced by a credit facility that, since December 2019, remained completely undrawn and that was -- and that we increased recently in June by up to $375 million.

During April 2017, we completed 2 financial transactions, including a $7 million senior unsecured note due in 2024 and a $140 million in the third tranche of the existing EETC structure through a private placement. Additional efforts recently made to improve our capital structure of the company was the liability management exercise that we announced to redeem the $500 million of an 8 3/8% senior unsecured notes that was issued by TAM Capital, a subsidiary of TAM, and that was the last TAM bond outstanding. Funds to cover this transaction will partially proceed from the issuances of 2 local notes of around $350 million with maturities in 2022 and 2028. This operation will provide additional savings for the company by the call of the currently highest coupon among LATAM obligations as well as the reduction of financial obligations for 2021 and an improvement on the maturity profile by extending the average duration of our existing debt.

Turning to Slide 3, you will find a summary of our income statement. Our revenues performance continued to improve in the second quarter 2017, with total operating revenues up to 7.7% year-on-year to almost $2.3 billion. The improvement has been driven by a recovery in passenger revenues as a result of RASK improvement in all of our passenger business units as well as the positive impact of currency appreciation, in particular, in the Brazilian domestic operations. Passenger revenues increased by 10%, while cargo revenues declined by 1% and other revenues decreased by 10%, primarily due to the gains related to sale and leaseback transactions during the second quarter of previous year.

Our cost increased by 5.5% compared to the second quarter 2016. This increase is explained mainly by $43 million of higher fuel costs resulting from an increase in fuel price as compared to the second quarter of 2016, and nonrecurring costs associated to the redelivery of 7 aircraft during the quarter that amounted to $38 million. In addition, severance payments during the quarter amounted to $25 million.

With all this, our operating results amounted to $48 million and an operating margin of 2.1%, which is 2 percentage points higher if compared to last year and the highest second quarter since the business combination between LAN and TAM.

On the nonoperating side, we had a negative impact from the develop -- the Brazilian real between the end of March and June of this year due to the expunction to this currency on the balance of our subsidiary TAM. Liabilities denominated in U.S. dollars suffered the exchange rate and generated a foreign exchange loss of $46 million in the second quarter compared to what we had as a gain of $76 million in the second quarter of 2016. With that, and including other nonoperating costs basically related to financial expenses, we reached a net loss of $138 million in the second quarter.

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Finally, for the first half of 2016, LATAM generated over $300 million of cash flow after investments, an improvement from the $152 million generated on the first half of 2016. This cash flow generation was supported by higher cash flow from operations and the positive impact of the negotiations related to our fleet then that we were commenting on previous calls.

With that introduction, I would like to hand it over to Maria Jose Ortiz for a more detailed analysis.

Maria Jose Ortiz

Thank you, Ramiro, and thanks, everyone, for joining us today. Please turn to Page 4 on the webcast presentation. I would like to start by talking about the revenue environment. The important thing here is the evolution of revenue per ASK. It's not a secret that in Latin America and in Brazil, in particular, we have been going through one of the toughest economic theories in recent history, and this is -- laid out what we've been able -- how we've been able to address the demand context we have operated in. Here, you can clearly see that there is a significant improvement in both passenger and cargo operation in terms of revenue trends over the last few quarters. Part of this is driven by the appreciation of the local currency, especially the Brazilian real. However, another significant part is related to the positive impact of LATAM's proactive capacity management, which has resulted in a better pricing environment; and, moreover, our load factors have expanded to some of the healthiest levels in our history.

When we look at the passenger operations, as you can see in one of the graphs at the top, we have been consistently taking a disciplined approach in terms of capacity, slowing down our growth over the last few quarters. Moreover, consolidated capacity remained flat over the last 2 quarters. On the right-hand graph, you can see a very good evolution on the passenger unit revenues than the first quarter of 2015 from a 21% decline on an average for 2015, a 7% decline in 2016 to an 8% increase during the first quarter of this year and a 10% increase this quarter. So this is really a very positive trend.

For the cargo operations, we have more or less the same dynamic as we continue to be very focused on reducing cargo capacity, which you can see on the bottom left. Our capacity reductions during 2017 have been increased in line with our guidance for 2017, which is a reduction of 10% to 12%. So even with the yields, we are achieving -- remain below historical levels. We're very encouraged by the change in trend, especially as we're also seeing an increase in load factors.

If we turn to the next slide, we can see an overview of the revenue performance of our business units during this quarter. Unlike past quarter, this time, we're seeing an improvement in all of our passenger businesses. As we mentioned before, our ASKs are flat with respect to last quarter of 2016, where we have been adjusting capacity to the prevailing market condition in each of our different markets.

When we look at the international operation, which represents 57% of our total ASKs, our capacity is up 3.1% during the quarter and load factors are improving, reaching very healthy levels of 87%. Our revenue per ASK was 8.7% higher on a year-over-year basis, mainly driven by a strong improvement on revenue per ASK between Brazil and the U.S. as well as some routes between Brazil and Europe, which is partially offset by weaker unit revenues on the Spanish-speaking countries market to Europe. This, because we've been seeing some additional competitive pressure on these routes.

When we look at the domestic Brazil operations, which represent 20% -- 27% of our total ASKs, we have a 3.9% decline in total capacity, mainly as a result of the adjustments that we did to our network during 2016. Load factors are still healthy at 80%, and our revenue per ASK is improving over 16% with respect to last year. This improvement in U.S. dollar is partly driven by the appreciation of the Brazilian currency, which is 8% on a year-over-year basis. There is almost a 4% improvement in revenue per ASK in local currency as a result of the capacity adjustments that I just mentioned.

When we look at the Spanish-speaking markets, these markets altogether represent 16% of our total ASKs. Here, capacity was down 2.1% as compared to last year, and that resulted in a 12% improvement in revenue per ASK when we look at these numbers in U.S. dollar terms. When we factor out the slight appreciation of local currency, revenue per ASK continued to be significantly up by almost 10%.

Finally, on the cargo front and as we mentioned before, we continue to be very focused on reducing cargo capacity. For this quarter, we have a 9% reduction in total cargo ATKs with respect to last year, mainly driven by a reduction of about 30% of our freighter capacity since we have been

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reducing the number of freighters that we operate. For a second consecutive quarter, we have an improvement in unit revenues. Revenue per ATK was up almost 9% compared to last year, driven by stronger load factors as well as by our capacity adjustments. We're also seeing a recovery in the imports from North America and Europe to Brazil as a result of a more stable market condition in that country as well as the appreciation of the Brazilian currency. However, we continue to see some weakness in the export market from Peru.

Turning to Slide #6. Here, we have an overview of our operating costs for this quarter. Overall costs increased by 5.5% on a year-over-year basis. This number includes almost $63 million of costs that are nonrecurring and that they're related to the rightsizing of the company, mainly severance costs and fleet redelivery costs. The increase in our overall costs, especially wages and benefits, also includes the negative impact of high inflation rates in the region during 2016 as well as the 8% appreciation of the Brazilian currency. We have approximately 20% of our total costs denominated in BRL, and we also had the relevant impact on the cost side, which is the increase in fuel prices during the quarter. When we include ships, the price of the fuel is almost 17% higher on a year-over-year basis.

We must point out that despite of these cost headwinds, we're very pleased with the significant work that we've done on the cost side structure over the past year. Our efficiency initiatives have resulted on a reduction of 11% of our employees on a year-over-year basis and 3% lower than what we had in -- back in March. We have also taken a very highly disciplined approach to our fleet, focused on reducing the number of aircraft, ensuring that we have the right level of capacity for the current market conditions. As shown on the bottom of the slide, we passed from operating 333 aircraft to 322 aircraft. Despite of that, capacity remained flat, as we mentioned before.

We are also -- continue deepening the efficiency initiatives that we have already implemented as we roll out our new domestic business model, which will further increase our cost savings on a variety of different fronts. So with that, we continue -- very much focused on the rightsizing company and on implementing the different efficiency initiatives.

Turning to Page 7. Here, we have our fleet plan for the next 3 years. On the left, you can see that in terms of number of aircraft, we will be reducing the number of jets in operation from 329, 2016; to 316 (sic) [306], 2017. And from there, we will see a gradual increase to 315 aircraft by the end of 2019.

Fleet commitments. What you can see on the right-hand side of the slide are slightly different to what we showed you last quarter as we had industrial delays on some of our aircraft from 2017 to 2018. And if you look at 2017 and 2018 numbers, these are very historically low fleet commitments for the company. We have $326 million for 2017 with no cash-out CapEx, and we have $701 million for 2018. Moreover, we're very pleased to announce that we have reduced fleet commitments for 2019 by almost $450 million as compared to what we published back in March in our last 20-F form, reaching slightly more than $1 billion on commitment, which is a number that we had not provided before but we continue working in the fleet plan for this year, maintaining the right amount of flexibility, considering the demand environment that we're seeing and the macro trends that we're seeing in the region. This fleet plan not only has a positive impact on our cash flow generation, but it will also improve our asset utilization.

On Slide #8 and turning to the cash flow. Our improved margin and our strict capacity disciplines resulted in $616 million (sic) [$614 million] of free cash flow, measured as flow -- cash flow from operations after investments. This represents a significant improvement compared to last year and almost double the result of the full year 2016. We believe that our conservative approach to cash flow commitments allow us to look forward to the next few years, significantly improving our funds from operations after investments and providing more cash flow to continue improving our financial position.

Turning to the next slide and as Ramiro mentioned at the beginning, we have announced a important liability management action. We're very happy to say that we have concluded the refinancing process of some legacy bonds issued prior to the business combination between LAN and TAM. We feel that these transactions, coupled with other financing initiatives already implemented, including the issuance of the $700 million that we issued back in April this year, puts LATAM in a much stronger position than 1 year ago.

On the liquidity side, we saw very strong cash position for the quarter, reaching $2.1 billion, which includes $371 million (sic) [$375 million] of revolving credit facility, which is completely undrawn at the close of June and represents 21% of our total revenue.

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Over the past year, we have been able to successfully deleverage the company. Our leverage, measured as adjusted net debt to last 12 months EBITDAR, ended at 5.2x, which is driven by a reduction of $734 million of our total net debt; as well as an increase of 9% in our EBITDAR, which reached $2.1 billion for the last 12 months. With these, we have successfully restructured our balance sheet, and we have the best financial position since the business combination between LAN and TAM.

Furthermore, in addition to the efforts that we've made to improve our P&L, we have focused on reducing other outflows as well, in particular, in our fleet. And as a result of negotiations with aircraft providers, we have reduced fleet commitments by over $1 billion from last year's fleet plan between 2017 and '18. These, coupled with the redelivery of leased aircraft and sale of our own aircraft, we will reduce the number of jets by 14, which is solid progress as we continue to strengthen our balance sheet.

On Slide 10, we continue delivering on our strategic initiatives with the primary objective of ensuring the sustainability of our model in the long term, and continue stimulating new demand and driving traffic growth in South America. We couldn't be happier about the implementation of our new travel model in all our domestic markets. It's a major transformation and includes 75% of our LATAM passengers, and we did it in a very short time. We feel that we are on the right track towards a solid path to build a more modern and competitive airline.

One of the most visible changes for our passengers is LATAM's new branded fare structure, which is aimed at offering our customer more choices. If you look at this slide, we have introduced a new booking experience at latam.com that displays additional travel options, allowing customers now to select the product that best meet their travel needs in a simple and more transparent way and paying only the price corresponding to the product and services that they value the most. The booking process allows for passengers to quickly see the fare choices that include additional features such as checked bags, no change fee, priority seating, earning more LATAM Pass kilometers or Multiplus points or other benefits. And having said that, we believe that we can drive our ancillary passenger revenue up significantly, in line with industry trends.

Turning to Slide 11. We wanted to address some of your concerns regarding competition. We recognize that we're likely to see increased competition in the future, especially from low-cost operators that replicate models that have been very successful in other parts of the world. Therefore, as we look forward, we are sure that we have taken the right steps to ensure that our business model remains competitive and successful over time. We're confident that we're well prepared and that we have the ability to offer competitive pricing with low-cost carriers while offering connectivity to our broad network, the leading frequent flyer program in the region and maintaining the key attributes that integrate our value proposition across the network. In particular, as laid out in this page, we have introduced our new buy-on-board service, Mercado LATAM, in all our domestic flights, and already 5 million passengers have tried it with increasing levels of satisfaction. We have 2 million passengers flying under our new travel model, choosing the conditions and the price of their trip. And we have also invested in services to improve our customer experience such as self-attendance kiosks, with presence in more than 70 airports throughout our network.

On the next slide and regarding our network. We continue to execute our strategy, seeking constant improvement on shelf KPIs such as city leadership, frequency advantage, among others. Over the last 18 months, we have announced 24 new routes, and we have also canceled 15 routes. On the international side, we have focused on adding new routes that connect secondary cities from our different markets with our hubs in Peru and Chile. And on the domestic front, although we have been making some adjustments in certain markets, we've been seeing weaker -- where we have been seeing weaker performance, we continue to see important growth opportunities. Therefore, we are then starting to develop point-to-point routes on domestic markets, certain of which have -- are already operating and 4 have been announced.

Finally, and if you turn to Slide 13, we are adjusting our 2017 outlook for the passenger business, where we're expecting capacity growth of between 1% and 3% growth for the year as compared to our previous guidance of between flat and 2%. For the international operations, we are adjusting upwards our capacity guidance to growth of between 3% and 5%. For domestic operations in Brazil, we're adjusting our capacity downwards to a reduction of between 1% and 3% as a result of a stronger capacity adjustment during the third semester. And for domestic Spanish-speaking markets, we're also adjusting our capacity downwards to growth of 2% and 4% for year 2017. On the cargo side, we continue to reduce capacity in line with what we published the first quarter, a reduction of 10% to 12%. And finally, we wanted to reaffirm our operating margin guidance, so we continue to expect an EBIT margin for the year to be in the range of the 6% to 8%, which is the same number that we already shared with you last quarter.

With that, I'm happy to turn over the call back to Ramiro to go through some closing remarks.

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Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

Thank you, Maria Jose. Just a brief comment before we close and we move to the Q&A session. This quarter, it's the 5-year anniversary of the association between LAN and TAM. And as you know, it's also my anniversary here in LATAM. I have joined LATAM for 1 year now. And I have found that this was a very exciting time for me as Vice President of Finance and CFO. I have found people that are engaged and enthusiastic here in LATAM, which is a key element for -- when working towards one of the most admired airlines group in the world. And I'm also very encouraged with our refreshed and balanced senior leadership team; a new functional structure that we have established that is providing us a much simpler, more efficient administration of the company. On behalf of our management team here present, Claudia, Jerome, Roberto and I would like to recognize our employees for all the work that they have done, working tirelessly to deploy in record time, in my opinion, one of the most significant changes for the company and our customers, which is the new business model that we announced in November last year and that is currently implemented in all of our domestic operations. And I believe this is really a showcase of how important it is for LATAM to create competitiveness and resilience for the long term so that we can really create value for our customers and our shareholders, building from our own strengths.

Just a final word for the -- on the performance of our financing team. 1 year ago, when I addressed you, we mentioned we were going to focus on transformation initiatives to simplify our process, increase efficiency, to keep a very strict look on cost discipline and to generate healthier and more sustainable cash flow. I believe we have delivered on that commitment. We have been able to maintain a strict cost discipline and a conservative approach to cash flow commitment and investments. And with that, we have helped to improve the financial results and to strengthen and restructure our balance sheet. I believe, at this point, we are comfortable with the maturity profile, in particular, after the liability management exercise that we have announced in the past weeks. We are very comfortable with the maturity profile of our debt, and we're very confident that we're going to continue deleverage the company in the process that we have initiated. And now I believe we're turning the page, and we're focusing again on operations and profitability of our company.

So with that, I would like to thank you all for listening and hand it back to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from the line of Michael Linenberg with Deutsche Bank.

Matthew Vernon Fallon - *Deutsche Bank AG, Research Division - Research Associate*

This is actually Matt on for Mike. I know you guys touched on this, but could you please provide some specifics on how LATAM is planning to respond to the rise between OCCs such as JetSMART from a competitive standpoint?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Yes. This is Roberto Alvo. So thanks for the question. As you know, we've been preparing for more than a year already in transforming our business model into something that is much more competitive, particularly for the domestic businesses. We have changed into branded fares. We have significantly reduced our unit cost in each of our domestic markets. And at this point in time, we have, we believe, the tools and the abilities together with the strength we have in the markets where we compete to face the new low-cost competition in each of the markets. So we feel very confident with what we've done. We still have, I think, lots of opportunities in terms of reducing our cost and increasing the way we've been deploying the new business model. We're in the process of learning how to use it better and to suit our customer needs in the different markets. That happened to be very different. So as we've deployed it in the different countries, we see that the needs and the customers of our customers vary from market to market. But we think we have done the work to prepare for this, and we're extremely competitive going forward.

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Matthew Vernon Fallon - *Deutsche Bank AG, Research Division - Research Associate*

Just as a follow-up, what drove the sort of increase in capacity in international? Was it just stronger demand trends in those markets? Was it more opportunistic? If you can just provide a little bit of color on that, that would be great.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Yes. I think it's a combination of 2 things. We've seen a good recovery, particularly from Brazil to both the U.S. and Europe, but mostly to Europe. But we've also launched a set of new routes at an increasing pace. We've been testing opportunities for flights from our hubs and also from point to points in a way that we didn't used to do in the past, becoming much more aggressive at seeking opportunities. So a significant portion of the growth we've seen in the operating markets comes from improvement of the different demands but also on launching new routes, seeking for new opportunities of business.

Operator

And our next question is from the line of Savi Syth with Raymond James.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Just -- I was wondering on the outlook here. I'm assuming the capacity adjustments, clearly, are as you allocate capacity to stronger regions. And I was wondering maybe why the -- in the margin that may have not moved upwards. Do you think you're tracking at the higher end of the margin guidance?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

I'm sorry, so -- not sure that I understood completely your question. Do you want to talk about the guidance?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

Yes. I guess the question is -- go ahead, Savi.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

No. I was just -- yes. Sorry. I mean, you're doing the right thing then you're kind of reallocating the capacity where the strength is. And I'm kind of curious if that -- why that might not be driving a better kind of margin outlook here. And maybe it seemed to me that you are tracking at the higher end of the margin guidance and just wondering any color on that.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

Yes. A couple of things maybe. First, we're still very cautious on demand in Brazil. We have seen some very positive weeks in terms of demand in Brazil, but we're still very cautious on how the work is going because we also are seeing that certain weeks are not very good. Internationally, as Roberto mentioned, we're doing very well. But domestic in Brazil, I would say, we're cautious still on the second half of the year. And regarding Spanish-speaking countries, we have certain concerns regarding Argentina on the domestic side. We're still seeing demand not catching up also in Argentina. Another second point, I would say that you have to consider that this particular year, we have certain one-offs regarding all the transformation that we're currently using. So you still are going to see that we're going to continue redelivering planes, and this has nonrecurring cost. You still are going to see that we're going to continue in the trend on reducing personnel, and this has also severance payments here in the

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second half of the year. So this guidance that we've provided between 6% to 8% includes nonrecurring items that were going to be in place in 2017. So I would say these are the 2 factors that are inclining us not to review guidance at this point.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

That's actually very helpful. And if I may follow up on the fleet returns and the severance payments, very helpful kind of disclosure that you have there. It appears, at least on the severance payments, we might be on kind of the second year of this. When should we start to see kind of this -- the fleet return cost, I mean, is that truly nonrecurring? And if that's the case, like, when shall we see that taper off?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

Yes. We expect to reduce fleet by 23 planes this year. And from next year onwards, it should be quite flat level or maybe increasing slightly. So this will be the last year where you will see redelivery cost in this magnitude. Regarding severance, also a big part of the process that we're currently undertaking was in 2015. A second big part is in 2017. You are -- probably are going to see certain initiatives taking place on the first half of 2018, but majority would be during 2017.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Okay. That's very helpful. And if I may ask a quick modeling question. On the tax front, there was a kind of tax expense even though you're showing kind of tax losses. What's driving that?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

The tax issue is derived that we're not longer recognizing our deferred tax assets in TAM. We have that opportunity of benefiting from them on the tax side, but on the accounting side, since September 2015, we stopped accounting for those tax assets. So that goes directly as a loss into our P&L account, and this is the impact that you're seeing. We're not benefiting from the tax shield of the losses that we're having in TAM in Brazil.

Operator

And our next question comes from the line of Petr Grishchenko with Barclays.

Petr Grishchenko

First, can you please provide maybe more color on your refinancing efforts and whether, going forward, you intend to continue focusing on the local market and EETCs? Or we should kind of expect you issuing a national bond?

Andres del Valle

Andres del Valle here. For this year, we have sort of completed the financing and refinancing efforts. We -- it should be a secured bond. And we have no fleet CapEx this year, so no fleet financing for this year. For next year, again, the amount is still sort of on the low side. It's $700 million. But I think part of those are coming from this year, which are sale and leasebacks. So you're talking that universe, which is I think -- I don't think it's pretty much for capping the CapEx margin again in 2018. I think the first year in which we could eventually [recapping] the EETC market is come 2019, for which we have lowered the commitment from $1.6 billion down to $1.1 billion. So we still have sort of a significant CapEx there, which, of course, the preferred route could be eventually the EETC market. In terms of refinancing, again, as Ramiro said, we have completed our refinancing and bonds, so that's taken care. And if we look at the debt maturity going forward, this year, 2017, was sort of a happy $1.5 billion; whereas next

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year, it's below $1 billion. So the next sort of important amount comes due in 2020, which come 2020, that we will -- in due course of time, we will address that maturity.

Petr Grishchenko

Got it. Right. And also, when did you guys renegotiate your revolver? I think it shows now $375 million, and I was just curious if the terms are similar or anything changed.

Andres del Valle

Yes. I think we've done 2 things on the revolver. Number one, it was extended for 1 additional year, so now it comes due in March 2020. That's the first, I mean, proration. And the second one, it was upsized to $375 million exactly under the same terms and conditions.

Petr Grishchenko

Got it. Very helpful. And also, I just want to follow up on the fleet commitment, and clearly, a very significant reduction. I was just curious, what's the fleet commitment for 2020?

Andres del Valle

For 2020, whatever we still published on the...

Maria Jose Ortiz

Yes. We have published in our 20-F around $1.5 billion of commitments.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

And that's a combination of both 320Neos, 787s and 350s.

Petr Grishchenko

Right. The reason I'm asking because you clearly shift your -- due to industrial delays like you mentioned, you shifted deliveries from '17 to '18. So I'm just curious if this reduction that we saw in '19, it wasn't just shifted towards '20.

Andres del Valle

No. No. This was explained in our press release. Exactly, we are downsizing couple of aircraft. Then we'll also, I think, deferring more with the aircraft. I would not take delivery of a small aircraft as well. So it's an actual reduction of more than $400 million for 2019. The industrial [delay] is due 2018, 3 aircraft at work because of our productions. This was deferred into 2018.

Petr Grishchenko

Great. Very helpful comment. And last, if I may, on fuel cost perhaps. Can you share your hedging strategy and how much -- I guess, what percentage of your fuel consumption is hedged this year?

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Andres del Valle

Sure. We still have -- currently hedged for Q3. We have 38% of total consumption hedged. And for Q4, we have 33% of partial consumption hedged. I think deposit is still up to typically 12 months. But we are more skewed towards the first 7 months, which we're aiming at protecting margin. We have changed the instruments that we used. In the past, we would use, I mean, forwards and swaps and collars. Whereas now, we use 4 ways: aiming at protecting the margin, protect it on the way up, but also having a limited loss should we experience a sudden fall in prices as we did back in 2014.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO*

We don't provide much disclosure, Petr, but all our hedges are currently in the money.

Andres del Valle

Right.

Operator

(Operator Instructions) And our next question is from the line of Alberto Valerio with Citibank.

Alberto Valerio

Just a quick question in Brazil. You had some routes voting in the Congress. And I would like to -- what is the expectation from LATAM about the ceiling for ICMS, the tax on fuel? And what should be the exposure from São Paulo states?

Jerome Cadier

This is Jerome Cadier from Brazil. I'll take that question. It's hard to say where this is going to fall. The -- basically, the discussion on the cap of 12% of ICMS in Brazil will happen during the next 3 to 4 weeks. Very hard to predict. Of course, we would love to see a cap being in place because that would, of course, stimulate additional growth, which would be very welcome in Brazil. But at this moment in time, it's very hard to say if this is going to pass or it's going to stay as we have it today. Of course, this would benefit most of the states, but it would come at an expense to the São Paulo states where most of our fuel is currently bought. But again, we do believe that, that's a positive effect on the overall demand for the sector, so that's why we believe it would be a good decision if we go down this path.

Alberto Valerio

Just one more question. About the hedging of FX, give me some color for next 12 months.

Andres del Valle

Sure. We have currently hedged $100 million for Q3 this year and $100 million for Q4. Same instrument at fuel [4 way] at money instruments. So those are currently, I think, slightly below the threshold that we have [contracted] those but nothing significant; nonetheless, we are, I mean, covered. So going forward, we will continue with the hedging policy so we should -- you should be seeing us building up the position for Q1 up on next year.

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Operator

And ladies and gentlemen, this concludes our Q&A session and program for today. Thank you again for joining us. Please feel free to contact our Investor Relations department if you have any additional questions. We look forward to speaking with you again. You may all disconnect.

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