

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

LAN.SN - Q3 2015 Latam Airlines Group SA Earnings Call

EVENT DATE/TIME: NOVEMBER 13, 2015 / 2:00PM GMT



## CORPORATE PARTICIPANTS

**Gisela Escobar** *LATAM Airlines Group SA - Corporate Controller and Director of IR*

**Claudia Sender** *LATAM Airlines Group SA - TAM President*

**Roberto Alvo** *LATAM Airlines Group SA - SVP of Network and Fleet*

## CONFERENCE CALL PARTICIPANTS

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

**Josh Milberg** *Morgan Stanley - Analyst*

**Michael Linenberg** *Deutsche Bank - Analyst*

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

**Pablo Zadvar** *GBM - Analyst*

**Stephen Trent** *Citibank - Analyst*

**Daniel Guardiola** *LarrainVial - Analyst*

**Marcio Prado** *Goldman Sachs - Analyst*

**Victor Mizusaki** *ASCO BDI - Analyst*

**Fernando Abdalla** *JPMorgan - Analyst*

**Renato Salomone** *Itau - Analyst*

## PRESENTATION

### Operator

Good day, everyone, and welcome to the LATAM Airlines Group earnings release conference call. Just a reminder, this conference is being recorded. LATAM Airlines Group earnings release for this period was distributed on Thursday, November 12. If you have not received it, you can find it on our website, [www.LATAMAirlinesGroup.net](http://www.LATAMAirlinesGroup.net) in the Earnings and Release section.

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

Now it is my pleasure to turn the call over to Ms. Gisela Escobar, Corporate Controller and IR Director of LATAM Airlines Group. Ms. Escobar, please begin.

---

### **Gisela Escobar** - *LATAM Airlines Group SA - Corporate Controller and Director of IR*

Thank you very much. Good morning, everyone, and thanks for joining us on our third-quarter earnings call today. With me here in the room is Andres Osorio, who is the CFO of LATAM Airlines Group; Andres del Valle, Corporate Finance Director; Roberto Alvo, who is in charge of the International Passenger Operations; and Alvaro Carril, from the Cargo Operations. And also joining us from Brazil is Claudia Sender, who is the President of TAM.

We wanted to start today as usual by going through some slides with the main highlights of our third-quarter earnings results. And then we will have time for Q&A at the end.



If you -- when we look at our third-quarter numbers, the main highlight is the strong improvement in our operational results during the quarter. As you saw, our EBIT margin for the quarter reached 4.8%, and this was driven mainly by a very strong performance on the cost side. Our cost per ASK equivalent for the quarter, excluding fuel, decreased by 14% when compared to the third quarter of 2014.

Also, very relevant to mention is regarding the domestic Brazil operations, we continue to make capacity adjustments to our networks, both in the domestic and international routes in Brazil. Regarding the domestic routes specifically, our revenue per ASK in Brazil improved by 11% on a quarter-over-quarter basis when we look at it in Brazilian real, and by 6% in reals as compared to the third quarter of 2014. This is very relevant and it's driven mainly by this reduction in capacity, which we implemented in the domestic market in the third quarter, which reached a reduction of 0.5% of ASKs when compared to the third quarter of 2014.

Another very important announcement for the quarter has to do with the revision of our fleet plan. As we mentioned in our release, we are reviewing currently all of our fleet CapEx for the next three years -- that is the period between 2016 and 2018 -- with the objective of reducing these fee commitments by approximately 40%. So that would result in a \$3 billion reduction in our fleet CapEx over this three-year period.

Of this, we have already achieved a reduction of \$1.8 billion as compared to the fleet plan that we had at the beginning of this year. This revision is in response to the weaker demand environment that we are seeing in the region, and especially in the Brazilian market, and also has to do with our focus on maintaining a solid balance sheet and adequate liquidity levels for the coming years.

If you look at our balance sheet for the quarter, we closed September with a leverage of 5.2 times, which is very much in line with what we had at the close of June, and with a cash balance of \$1.5 billion, which is a little bit over 14% of our last 12 months' revenue. All of this was done in a macroeconomic environment that continues to be very weak. We see weakened demand trends, especially in the Brazilian market, in line with what we have already been discussing for the past couple of quarters. And we continue to see strong devaluations in the Latin American currency.

If we look at the Brazilian currency, we had a devaluation of over 55% in the third quarter compared to the third quarter last year. And we also saw a devaluation of over 50% of the Colombian peso and of 17% of the Chilean peso, all of which affect our revenues in these countries in the region. We continue to also see, as a result of this environment, weak cargo demand on the back of this slowdown in economic growth.

And some of this, on the positive side, is offset by the fuel price decline. So in the third quarter of 2015, fuel price was down over 40% compared to the third quarter of last year, and that provides some benefit on the cost side, of course.

If you turn to page 3 on our webcast presentation, you can see a summary of the numbers that we published for the third quarter and for the nine-month period January through September. On the revenue side, as a result of these more challenging macroeconomic conditions, we are seeing revenue declines in the range of 20%, both on the passenger and cargo side. And this has been more than offset by the reductions on the operating costs.

Part of this is having to do with the lower fuel costs, part of it also having to do with the effect of the devaluation of the currencies, and also a significant part having to do with our cost efficiency initiatives, which we have been implemented already since the end of last year, as well as our fleet renewal, which allows us to have a fleet that has a lower cost per ASK.

As a result of this, our operating income increased by 1 percentage point, reaching 4.8% in the third quarter and reaching 4.7% so far for the first nine months of the year. This is very much in line with the guidance that we have already provided, which is to reach an operating margin of between 3.5% and 5% for the full year.

Regarding the bottom line, we continue to see the impact on our nonoperating results of the devaluation of the Brazilian currency on the balance sheet of TAM mainly. So as a result of the TAM balance sheet being denominated in reals, the devaluation of the Brazilian currency has a negative impact that needs to be adjusted. And that results in a nonoperating cost of \$242 million in the third quarter of this year, which effects very significantly our bottom line and results in our negative bottom line of \$113 million for the quarter.



If you turn to the next slide to talk a little bit more in detail about our passenger operations, you can see that, during the quarter, we grew in terms of capacities in our passenger business by 5%, with different growth rates by market, and maintained a relatively high load factor at close to 84%. If we look at it by market, on the international side, our ASK growth for the quarter reached 8.5%.

Our growth in -- and we will talk a little bit later about our guidance -- but, in general, our growth on international routes is focused on taking advantage of certain opportunities outside of Brazil and on strengthening our hubs, especially in the Spanish-speaking markets, and is offset by capacity reduction that we have been implemented on certain routes from Brazil, and specifically from Brazil to the United States.

Overall, on our international passenger business, the revenue per ASK declined 17%. This number is mostly impacted by the reduction of revenue per ASK on the Brazil routes, which is a result of the devaluation and the volatility of the Brazilian currency, which obviously has an impact on international demand from that country.

Looking at the domestic Brazil operations, which is approximately 32% of our total passenger ASKs, we were the only carrier this quarter to reduce capacity in the domestic Brazil routes. Capacity adjustment reached 0.5% as compared to last year, and that resulted in a 6% improvement in revenue per ASK when we look at it in the Brazilian currency. When we factor in the devaluation of the Brazilian currency in US dollar terms, revenue per ASK is down over 30%.

And then on the bottom of the slide, when we look at the Spanish-speaking markets, you can see that capacity was up 5.6% in these markets, with growth being driven mainly by Peru and Chile, with load factors remaining very healthy at 81.4%. Revenue per ASK declines on these routes are mainly a result of the devaluation of the local currency. When we look at Chile, for example, we had a devaluation of the peso of 17%, and that was mainly the impact there in terms of revenue per ASK. When we look at the yields in local currencies, they are remaining very healthy compared to the third quarter of last year.

If we turn to the cost side, you can see that, overall, we had a reduction in our cost per ASK equivalent of 23%. An important part of this, obviously, had to do with the reduction in terms of fuel prices. Fuel prices were down 42% as compared to last year. And overall, our fuel bill was down 37% as compared to last year. In addition to that, we had a 14% reduction in our cost per ASK equivalent, excluding fuel. And this was driven by a series of different efficiency initiatives that we have already implemented, and that we continue to see the benefit of each quarter.

On the wages side, wages are down 16.5%, or over 17% when we look at it on a cost per ASK equivalent basis. Aircraft costs are down 1.7% or almost 4% when we look at it on a cost per ASK basis. And the aircraft costs includes rentals, depreciation and maintenance expenses. And then all the other costs, which include basically passenger, service costs, commissions, sales and distribution expenses, and others, are down approximately 15% and almost 17% on a cost per ASK basis.

All of these numbers basically reflect the cost efficiency initiatives that we implemented and that we estimate, so far this year, have produced savings in the range of \$240 million, in addition to the savings coming from the lower fuel prices and the savings coming from the exchange rate devaluation.

A couple of other elements to highlight during the quarter. We announced this quarter a series of adjustments to our international network. When we look at our planned growth for international routes, this is a growth that's very focused on taking advantage of certain opportunities that we see, especially in strengthening our main hubs in the region, and especially also on adding capacity on certain routes from our Spanish-speaking countries to the United States and Europe. The new routes that we have announced of additional frequencies are on the slide that you can see in the webcast presentation. And you can see that they are all focused on our main hubs of Lima, Santiago, Guadalupe and Brazilian airports.

When we look -- turning to page number 7 -- at the evolution of the domestic market in Brazil, we announced in July of this year, certain adjustments to our capacity growth plans for the domestic market in Brazil that were going to result in a reduction of about 8% to 10% in terms of ASKs in the fourth quarter as compared to the first quarter of 2014. We are already moving towards that reduction. We published our October numbers already this week. And if you look at our third-quarter numbers, we already showed a 0.5% reduction in terms of capacity, which actually includes a almost-6% reduction in terms of capacity in the month of September.



So as a result of this, we were the only operators to reduce capacity in the domestic Brazil during this quarter. We were able to maintain load factors that were higher than the industry average during this quarter at 81.9%, and we were also able to see an improvement in our revenue per ASK denominated in BRL, which was an improvement of 11% as compared to the previous quarter.

This strategy in the domestic Brazil market continues to leverage the connectivity of the LATAM Airlines Group network through connectivity in our hubs, especially in Guatemala and Brasilia, and we also continue to focus on providing the best service to the corporate passengers, and we continue to see improvements there in terms of our market share of revenues of the corporate passenger segment.

Turning to page number 8, we announced this quarter a reduction in terms of our total fleet commitments for the period between 2016 and 2018. What you can see on the slide is a reduction of \$1.8 billion, which is what we have already accomplished. If you look at the fleet plan that we had beginning of this year -- which is the fleet plan that we also published in our 20-F, which was filed in April of this year -- we had total fleet commitments that reached \$7.7 billion for the period between 2016 and 2018.

Our target is to reduce the \$7.7 billion to \$4.7 billion, so we are a little over halfway there in terms of the fleet plan that we have, but we still have ongoing negotiations which -- through which we expect to achieve the remaining reductions. What's on this slide is basically the fleet plan that we have so far.

This adjustments responds to the new -- the current demand environment in the region, so we are seeing weaker demand levels, especially in the Brazilian market. And, as a result, we really see the need to adjust our fleet deliveries. And we also are focused on maintaining a very healthy balance sheet and on preserving our liquidity levels. So, the revision of the fleet plan basically responds to those purposes.

If you look at our current fleet plan for 2016 and 2017, we expect a \$2 billion fleet commitment for 2016. Of this, approximately half will be financed through sale and leasebacks, and half through a financial lease. So the actual CapEx for 2016 will be close to \$960 million, not these \$2 billion, which also include the sale and leasebacks.

As a result in 2016, we expect to end the year with 331 aircraft. Basically the -- and for 2017, with 345 aircraft. For 2016, the increase is coming mainly from narrowbody aircraft. In regards to the wide-body fleet, we will be taking deliveries of wide-body aircraft, but we will also be phasing out our Airbus A330s. So, as a result, we should end the year with a similar number in terms of the total passenger wide-body aircraft.

And we also expect to continue our reduction in terms of our Freighter fleet. We have already, during this year, negotiated the sublease of four Freighter aircraft. And we expect a reduction of two additional Freighter aircraft during 2016.

Turning to the next page, you can see that our credit metrics for the quarter remain at similar levels than what we had at the close of the June quarter, and remain stronger than what we had at the close of last year. We have reduced somewhat our leverage with respect to December 2014, and we maintain it at levels similar to June. And we also maintain our target \$1.5 billion in terms of cash and cash equivalent, which, at the close of this quarter, amounts to about 14% in terms of total revenues.

And regarding our fuel hedging strategy, this slide shows our current fuel hedge positions. We have hedged currently 37% of our total estimated consumption for the next five quarters. That's basically a 50% hedge position that we currently have for the fourth quarter of this year, and then reducing for the next four quarters of 2016.

We also hedge our BRL exposure. We have an estimated operating exposure to the BRL of approximately \$800 million per year, of which we currently have a hedge of over \$400 million for the next six months.

And finally, we also introduced our preliminary guidance in terms of capacity growth for 2016. As you know, for this year, we expect total passenger capacity growth to be in the range of 2% and 4%. For 2016, we are expecting total passenger capacity growth to be between 0% and 3%, with growth coming mainly from international markets and Spanish-speaking markets, and being offset by important capacity declines in the Brazilian domestic market.



So, for the domestic Brazil, our estimate is to reduce capacity between 9% and 6% for next year. On international routes, the 4% to 6% increase in ASKs is coming mainly from the market -- from growth outside of Brazil markets; and on the Spanish-speaking markets, growth of between 6% and 8%, being driven mainly by growth in the Peruvian and the Chilean markets.

On the cargo side, we expect to continue to see reductions in terms of cargo capacity growth. This 0% to negative 2% growth is basically a continued reduction in terms of our Freighter ATKs, offset by some growth in our belly capacity driven by the growth in our wide-body fleet. But we continue very committed to seek opportunities to adjust the Freighter ATKs.

That's all the slides that we have prepared. And that concludes our prepared remarks for today. We will be happy to answer any questions that you have for the team.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Savi Syth, Raymond James.

---

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

Could you talk a little bit more about -- on two fronts -- the domestic SSC -- Spanish-speaking country RASK, I was just wondering what that might be on kind of a constant currency basis? And then also on the international segment, just ex-Brazil, what it might be? And the reason I'm asking for this is, because it seems the capacity growth in 2016 is quite high, given the unit revenue declines that you are seeing. And I'm wondering maybe, based on where you're growing, if you're expecting maybe the RASK to be better next year than this year?

---

### Claudia Sender - LATAM Airlines Group SA - TAM President

Yes. Hi, Savi. Regarding the Spanish-speaking markets, basically, we see in general -- I mean, there's obviously different realities in each of the five different markets where we operate. But generally, the revenue per ASK in local currencies is flat -- is relatively flat with different percentages by market. But generally, in our main market, it's pretty flat compared to the third quarter last year. And the negative number is almost purely explained by the devaluation of the currency.

---

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

Okay. And on the national front?

---

### Roberto Alvo - LATAM Airlines Group SA - SVP of Network and Fleet

International -- on international front, the RASK in the Spanish-speaking countries is -- follows pretty much the same dynamics that are in domestic countries. We have currencies in local currencies that have not depreciated, but we have the effect of devaluation as well.

---

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

Got it. And then so I guess I'm a little surprised by the level of growth in international and domestic SSC. Can you talk a little bit more about -- especially why the exploration and kind of the capacity growth next year?

**Claudia Sender** - LATAM Airlines Group SA - TAM President

In -- yes. In the Spanish-speaking -- let me talk a little bit about the Spanish-speaking markets and then I'll let Roberto talk about the international side. In the Spanish-speaking markets, we continue to see healthy markets in terms of demand. These are markets where GDP growth is growing at between 2% and 4%, depending on the markets.

So they are markets that are still growing. And where we have seen, if you look at our -- the breakdown in 2015, growth picking up a little bit in the second half of the year, 2015 versus the first half. So, for next year, basically what the plan is to take advantage of these growth opportunities in the main markets where we operate, which is not really going to be a change in trend with what you have been seeing in the third and fourth quarters of this year.

---

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

Okay.

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

And these are markets where historically our growth rates have been 10%, 12%. So this number is, if you look at it sort of on a longer-term basis, it's not a very high number.

---

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

Helpful. I'm sorry -- and international?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

International, you see the guidance we have for next year is already a slowdown from the growth we've had in the last months. And like in the Spanish-speaking side, we are taking opportunities particularly on the Pacific side, where we are focusing on looking at new routes that add to our network. A good example is really our newly launched route to Washington from here.

---

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

Got it. Sorry -- thanks. And if I may just ask one last -- just on the CapEx, a quick one is -- just so the remaining target to get to that \$3 billion in reduction, could we -- is it fair to assume that that's probably weighted more towards 2017, 2018, and probably not a whole lot of room to kind of reduce the 2016 CapEx?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

That's correct.

---

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

Okay, great. Thank you.

---

**Operator**

Josh Milberg, Morgan Stanley.

---

**Josh Milberg** - Morgan Stanley - Analyst

So, just a couple of questions. One on the 8% to 10% capacity reduction. I think in the past that you had said that that reduction would just be in December, not for the quarter as a whole. So I was just hoping you could clarify that. If we assume that that reduction is in the quarter as a whole, we get to kind of a number of full-year ASK growth number that's a little bit different than the one that you presented. That's why I'm asking.

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

Are you talking about the domestic Brazil, Josh?

---

**Josh Milberg** - Morgan Stanley - Analyst

Yes, correct.

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

Well, in the -- we already published the October number for the domestic Brazil. And capacity was down 8.6%. And that follows the 6% reduction in September. So, it's a number for the quarter, the 8% to 10%.

---

**Josh Milberg** - Morgan Stanley - Analyst

Okay. I think it had been in the past just for December, but we did see that good performance. Do you think that that means that your guidance for full-year 2015 could be conservative? Because I think that's what we are having a little bit of a tough time reconciling.

---

**Gisela Escobar** - LATAM Airlines Group SA - Corporate Controller and Director of IR

We could be in the range that we announced, probably closer to the higher part of the range, but yes, it should be within the range we announced. And yes, the result is for (technical difficulty) the month.

---

**Josh Milberg** - Morgan Stanley - Analyst

Okay. That's great. And then just one other quick question related to your international capacity growth. Just wanting to -- if you could just remind us how much of your international originates in Brazil? That would be great.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Approximately 50% of international capacity originates in Brazil.

---

**Josh Milberg** - Morgan Stanley - Analyst

Thank you very much.



---

**Operator**

Michael Linenberg, Deutsche Bank.

---

**Michael Linenberg** - Deutsche Bank - Analyst

Hey, just a couple questions here, some quick ones. Just on your fleet plan, your Freighters go from 11 to 8 over the next few years. What airplanes are leaving the fleet? Are those the 777 Freighters that are leaving?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Yes, we're planning -- we reduced three -- four, sorry (inaudible). The idea now is to reduce more the capacity on the 777's. We already took away one of those and we are looking forward to take away one or two more of the remaining ones.

---

**Michael Linenberg** - Deutsche Bank - Analyst

Okay. Great. So you will essentially, in addition -- oh, in addition to getting out of the A330, so you're getting rid of one fleet type, it sounds like you'll be getting rid of two, is the way to think about it, right? Just confirming that.

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

Well, the A330 passenger fleet, yes. On the 777 Freighters, we do want to reduce the capacity, but we don't, at this point, expect to get rid of all of them.

---

**Michael Linenberg** - Deutsche Bank - Analyst

Okay. All right, thanks. Just two other quick ones here. One of your new services is Toronto/New York. I know that's a market you actually served in the past. My sense was that in the past, the results were somewhat mixed. So you're going back into the market, right now the Canadian economy isn't all that strong, given its dependence on commodities. What's -- what do you see in the marketplace that gives you a feel that it will be successful this time around prior than the past?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Different from the past now this flight connects our flights not only from Lima and Santiago, but also the traffic we have from Brazil. So now we have a much stronger base of passengers that we can seat from Sao Paulo, Santiago, Lima into Toronto. So the continuation of the flight is mostly relying on that we have better source of passengers today than what we had as planned in the past.

---

**Michael Linenberg** - Deutsche Bank - Analyst

Oh, that's a really good point. Actually, will your flight from Ecuador connect to that as well?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

At this point in time, it does not connect.

**Michael Linenberg** - Deutsche Bank - Analyst

Okay. Okay. I know that's a very -- that's a big difference. And then just lastly, the Northeast Brazil hub, or I guess -- yes, the hub that you've talked about setting up, I know it's been pushed back, I think you will reveal the airport, I think, in maybe June quarter or maybe later. Is the focus of that city, is that Brazil to Europe? Or will there also be a Brazil to US and Caribbean connections? What's the focus of that city?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

In time might be South America to Europe, mostly.

---

**Michael Linenberg** - Deutsche Bank - Analyst

Okay.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

We are looking to other opportunities for the hub, but this is the main focus of the hub.

---

**Michael Linenberg** - Deutsche Bank - Analyst

Okay. Okay, great, thank you.

---

**Operator**

Duane Pfennigwerth, Evercore.

---

**Duane Pfennigwerth** - Evercore ISI - Analyst

Hey, thanks for the time. Just wanted to ask the team about ROIC, or Return On Invested Capital, as a measurement this team is focused on, or if that's changing at all. And what are the long-term targets for LATAM in that regard? And when does the Company believe it can again achieve a return in excess of your cost of capital?

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

Hi, Duane. Yes, we -- well, our target for the long-term in terms of Return On Invested Capital is a 15% target, which is something that we've had in the past, and that we aim to recover going forward. But looking at the next year or two years, we don't expect to achieve this number.

I think currently we are expecting, as we've already discussed, weaker demand trends in our most important markets during 2016, at least, which will follow the trends that we already saw in 2015. So, although it is our long-term plan, it's not something that we expect to be able to reach in the next year or two.

---

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

Okay, that's helpful. And then as we think about capital allocation, how should investors think about the \$2 billion in CapEx in 2016 versus other alternatives? Why is \$2 billion in CapEx, given where your returns are and where they've been for some time, why should investors think that that's the best place for that capital to go?

---

**Roberto Alvo** - *LATAM Airlines Group SA - SVP of Network and Fleet*

Particularly in the long haul fleet, we are replacing our A330s, which are quite old, 16-year-old airplanes with very bad (inaudible) for A350s, that's the main source of arrival of planes. This is more than double-digit decrease in cost per ASK and a completely different experience to our passengers. We think that for the long haul routes, this is key in order to sustain the leadership that we have between South America and the US. So the focus for next year is replacing the A330 fleet which is old and inefficient as compared to the new 350s.

---

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

Okay. And then just I'll ask one more here. As you're planning your network and thinking about where to grow -- and I applaud you on what you're doing in the Brazil domestic market -- but if we think about Brazil versus international, unless the scheduling date is wrong, it seems like you grew high-single digits second quarter, low-teens third quarter. And again, thinking about, from an investor perspective and capital allocation and capacity allocation, how do we get confidence that that's the best place for that capacity? It seems like one of the weakest markets that we cover.

---

**Roberto Alvo** - *LATAM Airlines Group SA - SVP of Network and Fleet*

Duane, so as we said in our guidance, we expect to increase only 4% to 6% capacity in each year. And as you saw in our press release, we are decreasing capacity in certain routes, particularly from Brazil to the US. And we are looking to where is the best place to balance our capacity. And we are very clear and very thorough in our process here.

And we're going to look at our capacity depending on market conditions. And we understand the situation (inaudible) and that's where we're cutting capacities for select routes.

---

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

But you're growing long haul international from Brazil?

---

**Roberto Alvo** - *LATAM Airlines Group SA - SVP of Network and Fleet*

I don't think that's what you'll see next year. Just following our guidance.

---

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

Thanks for the time.

---

**Operator**

Pablo Zadvar, GBM.

---



**Pablo Zadvar** - *GBM - Analyst*

Thank you for taking my question. I would like to start briefly on your new CapEx or maintenance adjustments in terms of the fleet plan, your restructuring. Your goal is now \$3 billion. Do you see that like as a maximum, the maximum savings you could get? Or is there -- or could there be more for the CapEx reductions going forward in terms of postponing delivery?

---

**Roberto Alvo** - *LATAM Airlines Group SA - SVP of Network and Fleet*

We think that the plan to reduce [distribution] and CapEx, of which we already achieved \$1.8 billion, is the adequate target we have set ourselves for the current economic situations. But just, as you know, conditions vary and we will revise these if necessary.

---

**Pablo Zadvar** - *GBM - Analyst*

Okay. Thank you. And my other question is regarding your new brand implementation. How is that going? Have you seen any advances or any benefits so far? I know it's going to take a while, but during this quarter, were you able to receive anything new?

---

**Claudia Sender** - *LATAM Airlines Group SA - TAM President*

We -- regarding the new brand, so far as you know, we made the announcement of the new brand a few months ago. But the actual process -- the actual launch and the process of integrating the two brands will be more visible during 2016. So, to date, we have not yet made any changes to the existing brands. We are working on the rollout of that for next year.

---

**Pablo Zadvar** - *GBM - Analyst*

Okay. Thank you very much for your time.

---

**Operator**

Stephen Trent, Citibank.

---

**Stephen Trent** - *Citibank - Analyst*

Thanks for taking my questions. Just one or two from me. If you could refresh my memory, I see on the results that -- and the revenue line, other revenue, you're getting some revenue from third-party lease activity. Could you give us a view as to potential growth in that area over the next year? Or do you think it's going to be stable? And how are you seeing the operation these days?

---

**Roberto Alvo** - *LATAM Airlines Group SA - SVP of Network and Fleet*

Yes. This lease activity you see is basically a sublease of those [three 767] fighter aircraft that we have starting this year. We added a sublease of a 777 fighter that we also announced in this quarter, so you'll see an increase in this. And we are looking into some additional opportunities, particularly in passenger airplanes, for [reasons] going forward.

---

**Stephen Trent** - *Citibank - Analyst*

Great. I mean, I would say one of -- it seems one of your Brazilian competitor seems to do that, and I was curious if you are contemplating doing something along the same lines?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Yes.

---

**Stephen Trent** - Citibank - Analyst

And it sounds like it -- yes. Great, great. Okay, thank you. And just one other quick question. Looking at the mix of 2016 ASK growth, kind of a very simple kind of dumb question on my front, but one can assume at least some modest increase in average [stage] length when I look at ASK growth numbers?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Yes.

---

**Stephen Trent** - Citibank - Analyst

Yes. Okay, great. Well, let me leave it there as my other questions have been answered. Thanks very much.

---

**Operator**

Daniel Guardiola, LarrainVial.

---

**Daniel Guardiola** - LarrainVial - Analyst

Thanks for the call. Just a couple very quick questions. I was wondering if you could please -- I would like to know your thoughts on a possible JV or commercial alliance with either North American or European carrier in order to enhance your exposure to less asset-sensitive passengers.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Sorry, what was his name?

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

Daniel.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Daniel, hi. This is Roberto Alvo. [As any] airline dollars we always look at opportunities for increasing the relationship we have with a partner that we are with. And with new opportunities as a cost of Endeavour, we have nothing to announce.

---

**Daniel Guardiola** - LarrainVial - Analyst

Okay. And if I may have a follow-up question. I'd like to maybe pretty sure we asked -- I mean, you're taking any actions, or what are you planning on doing once the open skies with USA enters into operation.



---

**Roberto Alvo** - *LATAM Airlines Group SA - SVP of Network and Fleet*

I think I would just have to repeat the answer I just gave you. We're looking constantly into opportunities, and depending on regular situations, our market situations when we take decisions at any point in time.

---

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

Okay.

---

**Operator**

Josh Milberg, Morgan Stanley.

---

**Josh Milberg** - *Morgan Stanley - Analyst*

Thanks for the additional questions. Just another quick one on your 2016 CapEx number. You mentioned the 950 fleet number. I was just hoping you could update us on what additional amounts you expect to invest next year, and also in 2017? I know you've investing in unifying the brand and also in upgrading customer experience.

---

**Claudia Sender** - *LATAM Airlines Group SA - TAM President*

Yes, our total non-fleet CapEx or our total CapEx in addition to the fleet commitments that you see on this slide is approximately \$400 million per year. And that's what we expect for 2016 and 2017 at this point.

---

**Josh Milberg** - *Morgan Stanley - Analyst*

Wonderful. Thank you very much.

---

**Operator**

Marcio Prado, Goldman Sachs.

---

**Marcio Prado** - *Goldman Sachs - Analyst*

Thank you for taking my questions. I'd like to ask about leverage. And just starting with when looking at your cash statement on page 13 of the press release, we see that operationally LATAM was cash-neutral according to our operationally cash-neutral occurring to our calculations in these nine months.

So you mentioned this \$1.5 billion is the cash balance that let them feels comfortable with. I would like to understand it if this is a minimum cash balance, and -- or is it exactly like an average cash balance that if you're comfortable.

Also, like with regards to leverage, the Company reached now EBITDA, a net debt of EBITDA of around 5.2 times. It was higher last year. So what would be a maximum level that you would be comfortable with? And just following up on the CapEx, in 2016, you mentioned the CapEx -- a fleet CapEx of \$2 billion, but then the actual commitment would be \$900 million, I think because part of that would be financed via sale-leaseback. If you could give the same data for 2017 and 2018. Thank you.



---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Okay. On the level of cash, we mentioned [\$1.5 billion or \$1.6 billion]. That of course is not an absolute number, but that number in that region we believe being 14% of (inaudible). And given our repayment profile going forward, we believe that is an adequate number. I think we on top of that that we have committed credit lines, and we are working on possibly additionally committed credit lines.

And so to the leverage we saw [that four] times end of December 2014; 5.1 in June and 5.2 as we have just reporting. Going forward, returning a level of cash of [1.5, 1.6], at that level should not be significantly different from what you are seeing today. The last part of the question was in respect to the CapEx, typically we don't have a fleet matching plate yet for 2017; for 2016 was roughly 50/50, so sale-leasebacks and finance leases. And going forward I think the fair assumption to think that would be roughly the same slate, 50/50 for sale-leasebacks and finance leases.

---

**Marcio Prado** - Goldman Sachs - Analyst

Okay. Thank you for the answers.

---

**Operator**

Victor Mizusaki, ASCO BDI.

---

**Victor Mizusaki** - ASCO BDI - Analyst

I have two questions here. The first one's a follow-up on international ASK growth in 2016. What's the guidance for international ASK growth in Brazil? I mean, you mentioned that around [6%] is originated in Brazil, so I don't know if you can give some color on that.

And my second question, also with regards to Brazil, can you comment what happened with domestic [yield] in September and October when you start to reduce capacity in the country? And what's -- I mean, I don't know if you can give some color on your forward booking.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Okay. I'll answer the international capacity and then I'll pass onto Gisela for domestic. So we should -- so from this 4% to 6%, you should see flat capacity on the Brazil side approximately.

---

**Victor Mizusaki** - ASCO BDI - Analyst

Okay, but I mean isn't that around 6% is Brazil, and flat year-over-year, so you're likely to see other high-growth on Spanish-speaking countries. I mean, something -- I mean, you've had some 6% of international ASK growth in Spanish-speaking countries, you should expect something around 12%.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

That's correct.

---

**Victor Mizusaki** - ASCO BDI - Analyst

Okay.



---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Gisela?

---

**Gisela Escobar** - LATAM Airlines Group SA - Corporate Controller and Director of IR

Just to make sure I understand your question, yes. You're asking about our forward bookings and how [RS] is responding to the capacity [projects] in this quarter, right?

---

**Victor Mizusaki** - ASCO BDI - Analyst

Exactly.

---

**Gisela Escobar** - LATAM Airlines Group SA - Corporate Controller and Director of IR

So what we've seen is that we were able to slightly increase our load factors, so in terms of-- but not significantly, so apart from the end, our forward bookings are maintaining the same drop as capacity. So we expect to maintain our load factor levels, approximately in the next quarter. This is the expectation we are working with. And regarding (technical difficulty) we have not seen a significant pickup, and we are expecting to continue factoring this benefit from the capacity reduction.

---

**Victor Mizusaki** - ASCO BDI - Analyst

Okay, thank you.

---

**Operator**

Savi Syth, Raymond James.

---

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

Thank you for the follow-up here. One question I had was in kind of domestic Brazil market, appreciate what you're doing and kind of managing the supply there. I wonder how you are achieving that? And is there kind of a change in how you're doing? Because I know one of the concerns was maybe kind of maintaining adequate slots and congruencies and not losing them. And so can you talk a little bit more about how you will achieve those cuts and maybe if there's any future change in Brazil?

---

**Claudia Sender** - LATAM Airlines Group SA - TAM President

Sure. Let me start by saying that we recognize that the market could go south a lot earlier than most of the other players. TAM was the only company to reduce capacity in the domestic market in the third quarter of this year. And I think it's very clear that with the right decision and we are forecasting that the market is probably not going to recover in the short-term.

When we look at the way we adjusted capacity, we are very confident that we are doing it without any precedent to our main passages which are the corporate passengers. TAM remains the leader in the corporate segment and also the leader in top of mind.





So the way we are addressing this capacity reduction is by protecting the (technical difficulty) not reducing capacity there, and maintaining the very high level of productivity to our main passengers which are the corporate passengers. Also we are able to -- at least work there as well as the productivity that we have with the other companies in our group. So the connectivity that we have with Argentina, with Chile, with Peru, we have somehow protected the flows that feed into these markets to make sure that we keep leveraging the strength of the LATAM group.

---

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

That's helpful, Claudia. Are you seeing your other competitors -- and we heard from one of them yesterday -- but are you seeing kind of others being -- starting to be rational now as well?

---

**Claudia Sender** - *LATAM Airlines Group SA - TAM President*

It's kind of hard to talk about our competitors. All I can say is that we are ready to address the market changes. We see a complicated economic year for Brazil, economically speaking. That's why we are forecasting another -- or a further reduction for next year if necessary. So the way we are addressing the market is with the same conservatism that we did in the past years.

---

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

That's helpful, thanks. And just one last question on the cost side. I know you've achieved the cost efficiencies, maybe a little bit more than you had anticipated. Is that coming from just earlier realization of the cost efficiencies? Or are you kind of finding additional cost efficiencies that weren't in the target you had outlined for 2018?

---

**Gisela Escobar** - *LATAM Airlines Group SA - Corporate Controller and Director of IR*

Hi, Savi. It's a little bit of both. I mean, basically what we have been looking at is opportunities to accelerate as much as possible all of our cost-saving initiatives that we had already identified at the end of last year. So we have been able to -- we have been looking at opportunities to do what we had planned, but faster on as many fronts as possible.

And also in pursuing some of those initiatives, we've seen opportunities to have savings that were larger than what we expected. So, for example, in terms of renegotiating all of our procurement initiatives, we had an estimate that we have been able to surpass on certain fronts. And those are the numbers that you are seeing reflected in our cost per ASK decline.

---

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

Are you ready to kind of revise the 2018 target, or --?

---

**Unidentified Company Representative**

No. So we continue to maintain it, because I think that -- I mean we still -- for now we continue to work along the same plans.

---

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

Okay. Great. Thanks, everyone.

---



**Operator**

Fernando Abdalla, JPMorgan.

---

**Fernando Abdalla** - JPMorgan - Analyst

Just a follow-up question regarding M&A. There was an interview earlier this week with the CEO of IAG, and he is saying that he is pursuing some M&A alternatives and he has a clear desire to work closer to LATAM Airlines. I was just wondering if you could provide more detail here, if it would make sense for you to make an alliance or even an M&A with this specific airline, given that both of you are part of one world? If you could give more color on that front, it would be helpful. Thank you.

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

Yes. We made a public statement earlier this week where we explained that we have no conversations with IAG regarding them entering into the ownership of LATAM Airlines. I don't know if you saw that. And with respect to opportunities, as I mentioned before, of course, we are looking at opportunities all the time. If we think that there's something that's good for the Company, we will look at it in detail.

---

**Fernando Abdalla** - JPMorgan - Analyst

Okay, thank you.

---

**Operator**

(Operator Instructions). Renato Salomone, Itau.

---

**Renato Salomone** - Itau - Analyst

So we applaud that LATAM is taking the lead in adjusting capacity in domestic Brazil, but the industry, in our opinion, also needs to cut capacity in Brazil's international routes, especially those between Brazil and the United States. When we look at forward seat availability for the first half of next year, Delta and American are cutting ASK's out of Brazil in the teens, compared to the same period of 2015; United in the high-single digit range; and Copa by more than 20% year-over-year.

LATAM, on the other hand, points to a low-single digit ASK contraction on Brazil US capacity. So following up on Duane's question about the best location of the Company's resources, wouldn't a higher capacity cut be needed to try and restore fares and profitability on international routes out of Brazil?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

As I explained before, we are constantly looking into these. We just published a decrease of four frequencies from Buenos Aires to New York this week, so this is an ongoing positive that we look at. And if at some point in time we believe that we need to take further action, we will.

---

**Renato Salomone** - Itau - Analyst

Okay, so the level of cuts that you see in the industry right now, you believe that fares will be able to rebound from the current level of \$300, \$400?

---

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

I think it's very difficult to foresee in the Brazilian environment what will happen in the next months. And we believe -- we don't believe this is a healthy level but we believe that we need to cut more capacity, we will take those decisions at the right time.

**Renato Salomone** - Itau - Analyst

Okay.

**Roberto Alvo** - LATAM Airlines Group SA - SVP of Network and Fleet

(technical difficulty) published an increase of four frequencies from Buenos Aires to New York.

**Renato Salomone** - Itau - Analyst

Thank you.

**Operator**

Thank you. And I'm showing no further questions, I'd like to turn the call back to Ms. Escobar for any closing remarks.

**Gisela Escobar** - LATAM Airlines Group SA - Corporate Controller and Director of IR

Great. Well, thank you very much for your questions and for participating in the call today. And, as always, we will be happy to take any additional questions or calls if you want to contact our Investor Relations Department after the call. Thanks very much and have a good day.

**Operator**

Thank you. Thank you, ladies and gentlemen. This does conclude the program. You may all disconnect. Everyone have a great day.

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.