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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, November 10. If you have not received it, you can find it on our website, 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 Alfonsin, Chief Financial Officer of LATAM Airlines Group, for opening remarks at introductions. Mr. Alfonsin, please begin.

Ramiro Alfonsin - *LATAM Airlines Group SA - CFO*

Thank you, operator. Good morning, everyone, and welcome to LATAM Airlines' third-quarter earnings call.

Joining me today are Ms. Claudia Sender, President of LATAM Brazil; Ms. Gisela Escobar, Head of Corporate Control and Investor Relations; Mr. Roberto Alvo, Head of International Passenger Operations and Fleet; and Mr. Enrique Elsaca, Head of Spanish-speaking Countries Operations. Also joining us is Mr. Andres Del Valle, Head of Corporate Finance.

In today's call, I will be providing a brief overview of the highlights of our third-quarter results. Gisela will then walk us through the details on the quarter. And before our Q&A session, Mr. Enrique Elsaca will address the new travel model that we announced on Wednesday.

On the second slide of our presentation uploaded on the webcast, you will find the highlights of the third-quarter 2016. Earnings before interest and tax amounted to $152 million in the third quarter of 2016, representing an operating margin of 6%. This is an increase of 26% compared to the third quarter of 2015. With that, our margin for the first nine months of 2016 was 5.4%, which is in the midpoint of the guidance provided by the Company for the year.

As a result of this, and based on the visibility we have for the fourth-quarter 2016, we are narrowing our guidance for 2016 to the higher end of the range originally provided. Operating margin guidance was in the range of 4.5% to 6.5%, and we are narrowing it down to the range of 5.5% and 6.5%.

On the revenue side for the first time after 11 consecutive quarters of revenue decline, we experienced an increase of 0.2%. This revenue improvement reflects the positive revenue (inaudible) trend in the domestic and international routes in Brazil in particular to the US, driven by the significant capacity adjustment. In addition to this, we also had a stronger currency environment in South America, especially of the Brazilian real.

We continue to take a cautious approach in Brazil with respect to capacity. We reduced capacity in the domestic Brazil market by 13% during the third quarter. Revenue per ASK has increased compared to the third quarter of last year, continuing the trend we have seen in the past three quarters.

We have also continued our efforts to adjust our fleet commitments. We have deferred the arrival of two Airbus A350's, resulting in total fleet commitments for 2017 of $482 million, the lowest in the history of LATAM and well below the $1.9 billion of 2016. In addition, the seven aircraft that we are receiving next year will be all financed to operating leases. Therefore, we will have no fleet CapEx cash out in 2017.

Yesterday, we provided more details regarding an important project to renew the travel model for domestic services in order to address the changing dynamics of customers and the industry. The objective of this early sign is to increase competitiveness and to assure the sustainability and the profitability of our domestic operations in each of the six markets where we operate. This includes both the Spanish-speaking markets as well as Brazil.

Later in this presentation, as I mentioned, Enrique will be providing additional color on the changes of our domestic operations.

Please join me on Slide 3, where you will find a summary of our income statement. Although the environment is still challenging in most of our region, on the third quarter, revenues improved when compared to the same period of last year as a result, as I mentioned before, of the more stable currency environment, as well as the positive revenue per ASK trend in the domestic and international routes in Brazil.

Passenger revenues declined 0.6% compared to a reduction of 13% on the prior quarter, and cargo revenues declined 40%. These reductions were more than compensated by an increase in other revenues originated from multiples, as well as an increase in sales from two operations associated with the Olympic Games in Rio de Janeiro.

Our cost decreased by 1% if compared to third-quarter 2015, mainly driven by a decline in fuel prices, partially offset by the appreciation of the local currencies, especially the Brazilian real. As a consequence, we will reach an operating result of $152 million, which represents a [26%] increase compared to the same period last year and an operating margin of 6%.

Our nonoperating costs included $82 million in net financial expenses and [$62 million] in income tax. In addition, we registered a slight impact coming from the 1.5% depreciation of the Brazilian real when compared to the June exchange rate. We generated a foreign exchange loss of $11 million in the third quarter of this year, which is considerably lower when compared to the $242 million loss of the previous year.

With that, our net income amounts to $5 million compared to the loss of $113 million of 2015, which is mainly explained by the foreign exchange impact and the improved results on the operating side.

When we look at the results for the first nine months of the year, on the right-hand side of the slide, revenues decreased by almost 10%, especially driven by the reductions of the first and the second quarter. The reduction on the first quarter in revenues was 16% and on the second quarter was 12%. Reduction in revenues was offset by a 10% reduction in cost. Therefore, the Company improved its operating income by 2.2% year-to-date. And operating margin reached 5.4%, an improvement when compared to the 4.7% we had last year.

Our net income amounted to [$50 million] and our EBITDAR showed an increase of 3.1%, with a margin of 21%, increasing 2.7 percentage points compared to the same period of 2015, with the [fixed] to the resilience of our business model in this macro environment.

I will now hand the call to Gisela to provide further details on the quarter.

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

Thank you. If you turn to the next slide, we can take a closer look at the revenue trends we saw during the third quarter. Although we continue to see unit revenue declines in both the passenger and cargo business, we do see an improvement in the trends that we have seen during the first half of the year.

On the passenger side, the revenue per ASK declined 0.7% this quarter versus last year. This compares to a 15% to 20% revenue per ASK decline that we were seeing during the first half. And on the cargo side, a revenue per ATK is down 8.9% versus the 17% to 18% declines that we saw during the first semester.

Most of this improved trend is due to an improved demand [is an area in] Brazil especially on international routes, as well as the appreciation of the Brazilian real with respect to last year, and the significant and proactive capacity adjustments that LATAM has made over the course of the last few quarters.

If we look at the international passenger operations, which represent 54% of our passenger capacity, on those routes, our capacity is up 4.9% this quarter, with traffic increasing 7% in load factors at very strong levels of 87.8%. The revenue per ASK decline of 6.8% includes an improvement in the revenue per ASK of Brazil US routes, which had been significantly impacted over the past couple of quarters, and where we are now seeing improvements year-over-year of approximately 20% in terms of revenue per ASK.

And that is offset by declines in revenue per ASK on some of the long-haul routes from Spanish-speaking countries, where we are continuing to add capacity and where we are seeing some weakness in terms of demands related to a weaker macro environment.

On the domestic Brazil routes, we have made a significant capacity adjustment this quarter in line with our guidance and with a capacity adjustment that we have already made during this year. With that, capacity is down 13.2% this quarter and almost 12% for the first nine months as compared to last year. Load factors are slightly up 82.4% this quarter. And with that, revenue per ASK improved 8.6% as compared to the third quarter of last year. This 8.6% is a 1.8% improvement in revenue per ASK in Brazilian currency, and includes the effect of the approximately 8% appreciation of the Brazilian real versus last quarter.

On the Spanish-speaking countries domestic operations, which are approximately 18% of our total capacity, we are growing capacity at around 10% compared to last year. Traffic is up approximately 8%. And with that, our load factors are 79.6% for the quarter. Here, although we have seen stabilization of most of the currency in the region -- except for Argentina, when we compare it with the third quarter of last year -- we are seeing weaker economic growth. And that has resulted in weaker demand.

And we have not seen yet a significant capacity adjustment in these markets to adjust to those weaker macro trends. And this is largely what led to this reduction in revenue per ASK of 18.3% during this quarter. This drop has been similar across the five different Spanish-speaking markets.

And going forward, what we expect for the fourth quarter is some adjustment in terms of our ASK growth. Our ASK growth in the fourth quarter will be lower than this 10%. And with that, we expect to see an improving trend in this revenue per ASK number going forward.

On the cargo side, we continue with capacity reductions. Capacity is down almost 6% this quarter. And we are seeing load factors at 49.6%, stabilizing with respect to last quarter and showing less of a decline that we saw in the first and second quarters. And the 8.9% decline in revenue per ASK is also an improving trend, which is mainly related to a recovery of import into the Brazilian market.

Turning to the next slide to talk a little bit more in detail about operating costs, this quarter, our cost per ASK equivalent is up 1.3% with respect to the third quarter of last year. There is a few significant impacts here. First, we recognized severance losses -- severance costs of $25 million during this quarter related to personnel reductions. And in addition to that, we also recognized $25 million in costs associated to the tourism operations for the Rio Olympics.

That also generated additional revenue. So the net effect on the margin was positive, but it was $25 million of additional costs during this quarter. So those two elements represent approximately [$58 million] of costs that should be nonrecurring going forward.

In addition to that, the appreciation of the currencies we saw that that obviously has had a positive impact on the revenue side, but it has a negative impact on the costs that are denominated in local currencies, especially weighted. And in addition to that, another important element, when we look at cost on a cost per ASK basis, had to do with the very strong capacity adjustment.

This quarter, it was the most -- we did the most capacity adjustments of the year, with passenger ASKs being flat. And as a result of the ATK reductions, ASK equivalents are down 2%. So that means that even if we maintain our cost in absolute terms flat, our cost per ASK is going up.

The capacity adjustments that we're making require adjustments in fixed costs and in our fixed cost structure, which we continue to work on, but that obviously don't necessarily fall -- are not necessarily immediate related to the reductions in capacity. So far, over the last year, we have had a net reduction in personnel of approximately 5,000 people. And some of that is related to overhead and support functions. Some of that is related to the capacity reductions that we have implemented, but a part of that will be delayed into the fourth quarter.

When -- if you turn to the next slide, if we look at punctuality levels, in line with our constant and continued focus on providing the best passenger experience, on-time performance is one of our most important focus. We continue to see strong improvements in our on-time performance in all of our business units.

In Spanish-speaking countries, we saw an improvement of 5 points. This includes the record levels that we saw in Chile during the month of September, with on-time performance reaching 97%. We see improvements also in Brazil domestic routes, with strong punctuality in all of our hubs, and on international routes as well, where we saw 1 point improvement with respect to last year.

Turning to the next slide to talk a little bit about (technical difficulty) going forward, we continue to work on our fleet -- on rightsizing our fleet commitments as a reaction to the demand environments that we're seeing in the region. And with that, we have -- during this quarter, during the third quarter, been able to defer the delivery of two A350s that were originally planned for delivery in 2017, and that now -- will be coming in 2018.

With that, as you can see in this slide, we have historically low fleet commitments for next year. In 2017, fleet commitments are $482 million, only a fraction of the $1.6 billion or $1.9 billion of fleet commitments that we've seen in recent years.

In addition, all of this will be financed through operating leases or sale and leasebacks, so there's no actual cash fleet CapEx during 2017 that needs to be financed. With this, we completed a reduction in our total fleet commitments of almost $5 billion for the 2017/2018 period over the last year. And we are still looking at further reductions to reach our $2 billion to $3 billion target that we have mentioned in previous quarters.

Turning to the next slide and looking a little bit at our balance sheet, we continue to have very stable credit metrics with respect to the numbers that you saw in June. Our leverage remains flat at around 5.8 times in terms of adjusted net debt to EBITDAR. In terms of cash, our cash and cash equivalents reached 14.5% of revenues, either adequate cash levels for the current environment, with a total cash balance of $1.4 billion at the close of September.

On the bottom part of the slide, you can see our debt amortization profile for the coming year. For 2017, the $1.5 billion in debt amortization includes $300 million of TAM unsecured bonds that is coming due in the second quarter next year. We expect to cover all these debt amortizations with free cash flow generated from operations, as well as some additional financing initiatives.

Looking finally at our fuel and FX exposure, these -- what you see on this slide are fuel hedging and FX hedging positions at the close of September. For the fourth quarter of 2016, we currently have approximately a 50% of our total fuel consumption hedged; 11% of that was hedged in 2015 at higher fuel prices and 38% of that is our current portfolio that has been done during 2016.

For the January-September nine-month period, our fuel hedging losses reached $53 million, which is significantly lower than what we recognized in 2015. And at current prices, our expected fuel hedge loss for the full year would be $59 million. So only slightly higher than what we've already recognized.

For 2017, we currently have so far only 35% hedged for the first semester of next year. Regarding the BRL, we've hedged, for the fourth quarter, $90 million of our cash flow exposure to the Brazilian currency. And during this year so far, we've recognized a $38 million loss related to all of our FX hedging.

Finally, just a word on our guidance, as was mentioned at the beginning of the presentation, we are adjusting our operating margin guidance for this year, just narrowing the range that was originally provided to the higher end of the range. So we are currently expecting operating margins to be between 5.5% and 6.5% for the full year.

We have not made any changes to our capacity growth guidance for this year. We are -- if you look at our total capacity for the nine-month period January through September, we are growing approximately 1% in terms of ASKs, and we expect that our growth rate in each of our business units will be within the range that we provided in our guidance.

Just as a summary of the main highlights then for what we've mentioned for this quarter, we've been able to maintain our operating margin within the range of our guidance, 5.4% EBIT margins so far for the first nine months of 2016, despite the challenging macro scenario that we've seen with weak demand in different markets and with currency volatility during the year.

We continued to be very consistent and cautious with respect to capacity. We've taken a very conservative approach to capacity during this year, especially in the Brazil domestic market, where we've reduced 12% capacity so far this year in the domestic operations, which is the most of any Brazilian airline operating in that market.

We've also continued with our cost reduction efforts, with our cost per ASK equivalent ex-fuel being down almost 3% for the first nine months of this year. We are taking care to maintain an adequate cash position at all times in the range of $1.4 billion. And we continue to work very actively on rightsizing our fleet commitments, with very good news for 2017 on that front, with no cash CapEx and very low fleet commitments for next year.

With that, I want to turn it over to Enrique Elsaca, who, as Ramiro mentioned in the beginning, is the Head of the Spanish-speaking Domestic operations, and has been leading over the past year, the redesign of our domestic business model for passenger operations. So he's going to go through what this new business model entails.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Thank you, Gisela. Good morning, everybody. First of all, I will give you an overview of the domestic operations we have, then talk about the reasons why we are doing this change, and then talking a little bit more about the elements of the change and what we expect to gain through this process.

LATAM has domestic operations, as you know, in six markets throughout South America, Brazil Chile, Peru, Argentina, Ecuador and Colombia. These markets represent approximately 45% of our ASKs and passenger revenues, but most importantly, it represents 78% of our passengers transported -- 44 in Brazil and 34 in Spanish-speaking, and therefore is very significant in our operations.

Despite the recent macroeconomic slowdown in our region, all of these markets have significant growth potential in the long-term, based on penetration rates that are still very low compared to developed countries. In South America, trips per capita, including both domestic and international, are between 0.5 to 1 trip per inhabitant, while in developed countries, this number is over 2; in Europe, it's also over 3.

LATAM is a leading player in most of these markets, especially Chile, Peru and Brazil, and as such, has been instrumental in the development of air travel in the region. Ten years ago in 2006, LATAM changed its business model for domestic operation to become much more low-cost, reducing its CASK by about 20% and achieving continuing and significant growth through lower (inaudible), making air travel more accessible.

In particular in Chile, the domestic industry has tripled the size over the past 10 years, going from 3 million to 10 million passengers, as you may see in the chart in the left part, while the airfares on these 10 years have went down almost -- or more than 50%. Today airfares have never been lower than what you can see in Chile. They are comparable to ultra low-cost fares globally.

As an example, the cheapest fare in Chile today is 7,000 pesos. That is equivalent to $11 one way, excluding taxes, which is similar to the cheapest fare offer by locals carried in the world.

Turning to the next page. While we are doing this change, and with mainly three reasons. First, the growth of leisure passengers. These are passengers represent between 50% to 70% of our passengers in our different domestic markets, and they are growing at double and sometimes triple the rate of corporate passengers, and increasingly taking a major part of the market. These passengers are very price-sensitive and require low fares, which requires carriers to have competitive and efficient cost structure to grapple with that demand.

Second, competitors both globally and within South America, are increasingly adopting low-cost models in order to remain competitive. Although within South America, there is currently only one low-cost player, Tristeva, we believe that the growth of potential of these markets makes them attractive for other low-cost carriers.

And third and finally, the way in which airlines sell their tickets in the industry is changing. Ticket price are simple and more transparent for passengers, as you may see in the picture. And ancillaries allow passengers to pay separately for those specific elements of their trips that they value or they need, such as checking luggage and preferred seating among other ancillaries.

What are the elements of this model? As you see in the chart here, you can see a circle that we have in order to explain the model. Our new business model addresses the changing dynamics of the industry, making us more competitive, and ensuring our sustainability in the long-term, allowing us to lead the growth of the industry while maintaining and improving the profitability of our domestic operations.

Through this virtuous circle, an increasingly efficient cost structure will allow us to provide lower fares, stimulating demand in ASK growth, which in turn through economies of scale, will allow us to continuous efficiency and so on. We are convinced that cost efficiencies are key in order to maintain our competitive advantage.

For this reason, we have been working over the last two years to continue to reduce our operating costs, and we will continue to do so in the context of this new business model. Cost efficiencies will include the following things -- first, the reduction in sales costs, the increased web sales penetration. We target to increase or to reach up to 80% of our direct sales.

Second, increasing operational profitability, including the areas of maintenance, crew, airports and so on. Third, continued reduction in overhead costs, including the centralization and simplification of support factions. Fourth, lower airport cost through digital empowerment tools including self check-in and self backpack. And fifth, the increasing utilization of our aircraft -- we believe that we can improve it 15%.

We are not providing at this time a target for cash reduction we expect to achieve with these changes, but we expect to show the positive evolution of our quarterly numbers during the course of the next two years. It will be a gradual process, since the rollout will be relevant in different countries, and because certain changes require IT and digital enablers, which we are currently working on.

But we believe that with these changes, our costs or ASK in domestic operations will allow us to compete with any low-cost carrier operating in the region or that could come or want to enter in the region.

Another key element of this virtuous circle are the ancillary revenues in each of these. Ancillary revenues are a very good trend in South America, (inaudible) [percent] over $15 to passengers for US carriers. We expect to [develop] ancillary revenues, offering a better onboard experience to a valuable model that provides more food and beverage options and improved products.

Also we will unbundle our first structure, allowing our passengers to pay for the services they require, such as additional bags, preferred seats, flexibility on changes, hotels insurance, et cetera. We expect this model to result in significant growth in the number of passengers transported, reaching up to 50% more passengers in the next four to five years.

This will be addressed to efficient capacity growth, including higher load factors moving from 81% to up to 86% higher aircraft utilization, [15%] higher, and lighter aircraft as we move towards more 320s and 321s. Therefore, we are not at this time considering additional aircraft orders.

This model will be implemented gradually country by country, and the rollout will begin during the first semester of next year. We estimate the model will be fully implemented over the next two years.

And onto the and last page, it is important to highlight that this is a renewal of LATAM business model, but LATAM will not become a low-cost carrier. These changes are necessary for LATAM to compete with low-cost, but maintaining our heritage and our preference for more business clients.

Between 30% to 50% of our passengers in different domestic markets are business passengers. The rest are leisure passengers, which grow, in many cases, up to three times as fast but are price-sensitive and regard lower fares.

Our new business model will allow us to maintain our market share with business clients, but also capture the explosive growth potential of leisure passengers, driving the development of the airline industry and increasing the penetration of air travel. Our model will be different from low-cost carriers in that low-cost carriers serve only a portion of the market.

LATAM will continue to serve all types of passengers with a value proposition specific to each. We will have the right cost structure to be able to provide accessible fares to price-sensitive passengers who are price-driven, but we will continue to prioritize elements that are valuable to corporate passengers.

These are, one, our unique network and frequencies of connection both within South America and abroad; second, the best frequent flyer program of the region; and third, a digital platform that gives business passengers a better control of their travel experience.

Thank you.

Ramiro Alfonsin - *LATAM Airlines Group SA - CFO*

Thank you. Enrique would like to turn it over to the operator for the Q&A session.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Thanks for the time. I wonder in this quarter, if you could say how much higher your margins might have been without any FX hedges in place?

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

The FX hedges this quarter was an $18 million loss that's recognized in the fuel cost line. FX -- it's recognized in the fuel cost line, even though it's an FX loss, but that's the line that all of our hedging results go into -- both the fuel and the FX. So it would have been $18 million higher, our operating income.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay. That's helpful. And then can you comment on what you're seeing in Brazil domestic, and specifically in the close-in pricing environment into the fourth quarter?

Claudia Sender - *LATAM Airlines Group SA - President of LATAM Brazil*

Hi, Duane, this is Claudia. I think in Brazil's domestic market what was seen is that after 14 months of consistent traffic drop, demand drop, we see that this drop is decreasing in rate, so it's decelerating, but we still don't see a pickup in demand. It's very early to tell that there is a consolidation of the demand here in the country.

So we're still looking forward very cautiously in terms of capacity; we still believe that there's some exit capacity in the market. So we maintain our capacity posture stance going forward, we're not adding -- we're not thinking about adding any capacity in the next few months.

In terms of pricing -- again, we have some good weeks, some bad weeks, so it's hard to say that there is a consolidated perspective from a price perspective. But it's hard to say that there is consolidated trend from a pricing perspective, but we do see some pickup in the earlier weeks.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Do you see any outliers with respect to that close-in pricing? I mean, is that something you can comment on? Because you have a pretty different shaped capacity. It seems like some carriers are appropriately shaping their business to the economic environment and obviously there's some outliers to that. So I wonder if you see a consistency among your competitors?

Claudia Sender - *LATAM Airlines Group SA - President of LATAM Brazil*

It's very hard for me to comment on competitors' decisions, but as far as I can tell from our perspective, we maintain our conservative you on the speed of the economic pickup in the country.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Thank you.

Operator

Savi Syth, Raymond James.

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

I was just wondering on the -- just a clarity on the new low-cost carrier program on the domestic operations side. Does that encompass all of the fleets operating in the domestic side? So it's going to be just one product? And do you -- can expect from the business passenger side any additional complexity in connecting the domestic passengers over to the international product, given the difference in your product offering?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

The product is just one product. We are not having two different products; we are having the same brands and the same value propositions. So we are not changing our planes; we are not changing the pitch of our planes. Because we know that we have a mixture of corporate passengers and leisure passengers. But we will do the cost efficiencies in order to have the competitive to have the fares for the price-sensitive customers.

Also we expect to do this change in the domestic businesses first, and once we accomplish that during the next year, we will most probably go the way to go further in the regional flights with these models. For regional, we have flights in the regional that are even shorter than the domestic flights we have in our operation.

So we believe that we can combine the model that we are designing that is not completely a low-cost model -- it has elements of the low-cost model -- with the long-haul business that we have and the regional business we have. And also with the corporate or business passengers that we serve in the countries we operate, that is -- as we mentioned, is in some places, is 30% up to 50% of our passengers are corporate. So we would want to get both markets.

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

That makes sense. I appreciate that. And then it's helpful to hear from Claudia just on what you are thinking on the supply demand in Brazil. And I know you are still probably working on your 2017 capacity plan. But I was wondering if you could just talk about just what you're seeing in the different segments and what levels of capacity we might expect next year, kind of ballpark?

Claudia Sender - *LATAM Airlines Group SA - President of LATAM Brazil*

We're still not disclosing any capacity plans for 2017, but in terms of the segments, we've seen a very strong demand drop in the corporate segment that now is actually getting back to the last year's demand. So I think this is the segment that was affected the most. Leisure was affected a little less, but we do see some pickup in corporate demand in the last few weeks.

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

Okay. Helpful. Thank you.

Ramiro Alfonsin - *LATAM Airlines Group SA - CFO*

Savi, we will be providing guidance early next year.

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

Okay. Yes, I understood. I was just kind of wondering if the trends -- you were seeing enough of a trend change where we might see some regions kind of growing faster next year.

Operator

(multiple speakers) Josh Milberg, Morgan Stanley.

Josh Milberg - *Morgan Stanley - Analyst*

Thanks for taking the questions. I was hoping you guys could provide a little color just on how your EBIT margins have evolved by division. We saw that if you had a similar improvement as a goal in your Brazil domestic business, then that would imply some meaningful pressure in other divisions. And I don't know what you can say, but is that something that occurred?

And can you maybe talk about also just the profitability outlook for 2017? (multiple speakers) Is what you're doing -- yes, I mean, just adding to that, is what you're doing in terms of cost efficiencies and rightsizing maybe mean that there is some upside next year? Sorry I cut you off.

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

So, regarding our -- yes. No. Thanks. Regarding our different business units, as you know, we don't really go into detail regarding the profitability in each of the different business units. We have said that during this year, we have seen a very challenging situation in the domestic Brazil market. And generally, we have had the higher -- the units with the higher profitability has been the domestic Spanish-speaking market relative to our other operations.

We're not -- we can't really comment at all on our competitors' results or on what -- on the numbers that they've recorded. And I think that when we look going forward, we're obviously working on significant cost reduction initiatives throughout the organization. A lot of our cost initiatives related specifically to the domestic operation for this low-cost model, but a lot of them are also reductions in overhead and support functions, that at the end of the day, are going to benefit all of our different business units.

It's still too early for us to say what numbers we expect for 2017, and we do expect to provide, as we always do, operating margin guidance. But that will probably be within the next few months.

Josh Milberg - *Morgan Stanley - Analyst*

Okay. Thank you very much.

Operator

Mike Linenberg, Deutsche Bank.

Mike Linenberg - *Deutsche Bank - Analyst*

I have a couple of questions. Just back to the slide -- Gisela or Ramiro, where you highlighted your debt maturities over the next couple of years, you talked about both paying those down by way of operating cash flow, as well as some financing initiatives.

And I just -- I wanted to get a feel for what you were seeing in the market right now. It's been pretty turbulent with respect to the fixed income market. And along those lines, why that exchange a few weeks back? What happened there? It looked like that that was pulled. And what was the catalyst there? So anything that you could provide on that front would be great.

Ramiro Alfonsin - *LATAM Airlines Group SA - CFO*

Sure. Hi, Mike. This is Ramiro. Yes, the issuance of a new bond was -- I mean, devised in order to fund the tender for two TAM legacy bonds, namely counting one and terms of Matin, such as we place an offer to purchase in something like a [$463 million] of those bonds, [2021 and 2017], but the results of the tender were not as planned in the sense that many -- few bonds were tenders.

So people sort of held to those bonds. So the main objective that we had to put for this transaction is to do this [legacy] management really wasn't there. That's what we sort of -- I think canceled the transaction. I think we didn't get the sufficient amount of bonds we had basically. That's one thing.

So now on the next year, we have, as we showed, that $1.4 billion -- $1.48 billion in 2017. Of those $300 million is of course the TAM 2017 that matures in April. Now end of this year, we will have ample liquidity plus we have a capital financing initiatives that, should that be necessary, we can tag along. But we are now confident that that will all be -- the maturities for next year are going to be, I mean, loosely covered -- no problem there.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Great. And then just turning over to Enrique on the new domestic operation. And I recognize that you don't break out profitability by division, but I'd be very curious that with Project Laser in Chile from 2005 to present, if you were to sort of normalize for fuel and sort of macro, that moving over to that model, did you see a meaningful improvement in margins or a modest improvement?

Or maybe margins stayed the same, but because you grew the revenue base so much, that your absolute profit improved dramatically. I mean, can you give us any color on how that played out? That was kind of the laboratory and a bit of an experiment, and it sounds like it was a success to the extent that you now want to replicate that across your entire system.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Well, the example of growth you have seen is very similar to the one we have in Peru and Ecuador. And so if you see the market in our regions, all of the markets in the last 10 years, they either double or triple. So that not only Chile was an example was the first one, but we did the same in all the other operations.

And even though the prices went down in the case of Chile -- you see the prices -- the average prices went down in 10 years about 60%, the lower prices went down more, maybe 70% in real terms. We also reduced our cost significantly and that allowed us to have a profit margin that is healthy with a bigger business.

So we expect with this change that we know that the prices will continue to go down; it's just a problem of mix of passengers. The leisure passengers compared to the business passengers -- business passenger may pay four, five times the leisure passenger, and we are going to be growing more leisure passengers. So the mix will continue the trend of reducing the price, the average price.

But we will have two things that will help us to offset that. First, we will continue to improve our load factor. When we launched this model 10 years ago, our target was to reach 75%. And we reached 76% in the first five years. So we never believed we could go further than 75%. Today our target, we are around 81%, 82%. Our target is 86%. So we want to offset that reduction in the mix or in the yield by the load factor.

And secondly, ancillaries. Ancillaries now is a new thing in South America, maybe not in the world, but for us it's new. And that will help us also to offset. And the most important thing we will reduce our costs significantly, and that equation we believe will help us first to compete and second to have a more healthy sustainable business in the long-term.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Thanks. And just one quick one on ancillaries, Enrique. Besides Brazil, are there any other domestic Spanish-speaking countries where you can't charge for first or second bag? Or is Brazil the only one where you can't impose bag fees across your system?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Brazil is -- Claudia may talk a little bit more, because there are more things on the regulatory part of Brazil and maybe she can speak better. Out of Brazil, the other five countries, we don't have the restrictions. We have some small restriction in Argentina with the ban that we have that it has a minimum, right, that it's not very low, and that can help to stimulate. But if every year they maintain the ban, the lower part of the ban on fixed terms, it will be diluted in the next years.

So beside that specific thing, all the other countries that have no restrictions, so we are prompted to go forward next year. And maybe Claudia can add something on what's going on in Brazil.

Claudia Sender - *LATAM Airlines Group SA - President of LATAM Brazil*

So as Enrique said, on the general transportation conditions, the so-called CGT here in Brazil, determined that if we have to have a minimum luggage franchise -- and this is under discussion by [NXAX]. So this might be reviewed soon, but we have no further news than whatever is public.

Mike Linenberg - *Deutsche Bank - Analyst*

Okay. Very good. Thank you, everyone.

Operator

[Arethia Martinez], GBM.

Arethia Martinez - *GBM - Analyst*

Thank you for taking my question. And my question is kind of a follow-up of the previous one -- it's regarding the new business model. As you mentioned, you are expecting further increases in fares going forward, around 20% for 2020, but I was wondering if you can share with us your expectations for unit costs? I mean, is the unit cost per ASK -- is this going to drop even more than fares? And which records will be the main drivers, specifically in order to make more lean operations?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Well, we will not provide at this time any target of cost reduction. But we expect [that] to show positive evolution over the course of the next two years, as we have said. And it depends also on the rollout per country and also in the enablers that helps to do this. And we have some enablers in the IP and digital that are important.

We believe that the cash and domestic operations will allow us to compete with the low-cost carriers face-to-face. And one of the main things we are going to be changing, as we mentioned on the chart -- and one of the charts of the emergency route, better circle -- is a further reduction in cost of sale. We will improve our penetration of web sales that we are around 50% and we want to improve that up to 80%. We are not moved to 100% of some low-cost because we have corporate business travelers that they do buy through different channels.

Second, we will increase our productivity in all of the areas -- airports, crew, maintenance. Third, we'll continue to make reductions, as you seen in our overhead costs; we will stream our organization and we'll make it more lean, more simple. We are centralizing -- we are outsourcing some functions, and we will continue. We have done that in the last 12 months and we will continue on that trend.

We will make an important change in airports with more digital power tools to help us to more self check-in and backpack. And also very important is the increase in utilization. We are not bringing more planes, we are improving our utilization from 9 to 9.5 hours to 11 hours. We are moving from 319s to 320s, and we are moving in some countries from 320s to 321s. They have 30 to 50 more seats.

And we are improving our load factors. So that those are the major things that are moving the cost reduction. And we believe in the next 12 to 18 months, we will have the costs necessary to compete to the current low-cost carriers or any low-cost carrier that can enter the region.

Arethia Martinez - *GBM - Analyst*

Perfect. Very clear. Thank you.

Operator

Gabriel Francisco, Goldman Sachs.

Gabriel Francisco - *Goldman Sachs - Analyst*

Thank you for taking my questions. Most have been answered. Just one thing on the low-cost new business model. One condition that we may assume is that you are not going to change your fleet size. Is that correct to assume?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Sorry. Can you ask again?

Gabriel Francisco - *Goldman Sachs - Analyst*

Sure, sure. Can you hear me better now?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Yes, you got cut off just a moment. Sorry. Could you go again?

Gabriel Francisco - *Goldman Sachs - Analyst*

Yes, sure. Absolutely, no problem. Just wanted to -- you said you -- will you change any type of planes to address this new business model? Change to more smaller planes or anything like that? Can you provide any color on that? (multiple speakers)

Ramiro Alfonsin - *LATAM Airlines Group SA - CFO*

Currently, as Enrique explained in the next 12 to 24 months, we have the Airbus fleet. And for the short-term, we don't expect to add any additional planes. Going forward, we will evaluate but this is not in the plans at this moment.

Gabriel Francisco - *Goldman Sachs - Analyst*

Okay. Thanks. And -- just some comments on how is this business model comparable with the point model that LATAM has for the mostly direct routes, and not in the actual hub, per se, like Copilot LCCs in Europe? Do you think it will increase a lot of margin in the load factor for even -- and especially for regional routes?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

For getting the load factor high, we will see the requirement of moving from one model to the other. We have a hub and spoke model in the regional and international business that we fly. And in most of our countries, we will have just one big city, and we operate point-to-point. But we don't see a big change to demand model to move from hub to point-to-point. Because I think that's not the main thing to get either the load factors nor the deals done, and less the passengers, in order to be successful and to grow.

Gabriel Francisco - *Goldman Sachs - Analyst*

Okay. Okay. Sorry, and then quite a few there as models as you can see. On to your Qatar capitalization, any color, like it's been due to 4Q but it has been a little bit out of the news lately. Any update on that?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Yes. We haven't seen the authorization from the FBS yesterday so we are preparing the preemptive [write-offer] for the next coming weeks.

Gabriel Francisco - *Goldman Sachs - Analyst*

Okay. Okay. And just my last one -- maybe Claudia could address that one -- we have had -- and she's been commenting on news, as I'm aware -- on the antitrust in Brazil not recommending the approval of the agreements with IEG and other European carriers. Do you think that -- what would be the impact if that was not accepted? What kind of routes would be most affected? That's my last one.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Yes. Hi, Gabriel. Just to clarify, Claudia did not say that they would not recommend the approval; they said that they would not recommend the approval as it was filed. And you know these things are filed without any measures --

Claudia Sender - *LATAM Airlines Group SA - President of LATAM Brazil*

Mitigations.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

-- mitigations. So we still believe very clearly that there's significant benefits for the passengers in both South American point of sales and European point of sales. As you know, these JVs have been authorized everywhere in the world. And we're working hard with CAVE to make very clear why this is going to be good for the market. So we are not setting up in a position where this would not be approved. We think that it will. And we think we will have news around the mid or the end of 2017.

Gabriel Francisco - *Goldman Sachs - Analyst*

Okay. Thank you. And thank you for the patience for taking so many questions.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Thank you, Gabriel.

Operator

Stephen Trent, Citi.

Stephen Trent - *Citigroup - Analyst*

Thank you very much, everybody, and thanks for taking the time. Most of my questions have been answered. Just a quick follow-up on the question from the gentleman from Goldman. When we think about this new low-cost strategy, at this time, you are not contemplating an ultradense seat configuration on any new aircraft? I just wanted to understand that.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Yes, we are not providing any changes in our seat selections for low-cost.

Stephen Trent - *Citigroup - Analyst*

Okay. Got it. And just also looking at what's currently going on in the market, the significant dislocation in FX markets, et cetera -- is it fair to say that you may have to reassess your BRL hedges as you look into 2017?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

As of now, we have [$180 million] on top of our Q3 [maximum dollars] for Q4, and that has been our policy to hit a large portion of our cash flow exposure. And we are indeed accounting to increase our position for the coming quarters. It's something under evaluation, correct.

Stephen Trent - *Citigroup - Analyst*

Okay. Great. Thank you. And also related to the antitrust thing about your partnering there, are you seeing any kind of meaningful movement from any European carriers? There was some discussion recently that Norwegian Air Shuttle is looking to maybe set up operations in Argentina, and curious what you are hearing there?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

What we see that is published in the systems today, you can also see; it is public. We don't see the entrance of these carriers to the region. So far we do not know anything else outside of what we see published in this instance.

Stephen Trent - *Citigroup - Analyst*

Okay. Very helpful. Let me leave it there and thanks for the time.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

Thank you.

Operator

Duane Pfennigwerth.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Thanks for taking it. I wonder if you could speak a little more directly about what your cost position is today in these domestic markets? And if there's a way to say, like on an apples to apples stage length adjusted unit cost basis, where do you stand relative to the competitive set that you pay attention to?

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

It's very difficult to do cost assumptions because some of these companies doesn't provide information, and you know, the information they provide is difficult to analyze. It depends country by country, but we believe today we have a gap that is not big. But if we do not move, that gap could increase.

So we want to prevent that. And that's why we are moving fast now in order to avoid that gap increase and to close the gap in order to have the cost structure to have the first to compete in that market. So when we are sure that whatever gap we have today, we will close in the following months. And that's key for this model to work.

And we are sure we can get out our cost reduction, and that we will be competitive with the current low-cost carriers and whatever new entrant that could come in any of the countries we operate.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Thanks for that. And just with respect to getting there, to these targets, which you haven't revealed yet but I assume you are going to reveal them at some point -- other than fleet, what are the structural costs that you believe you can take out the business? Thanks for taking the questions.

Enrique Elsaca - *LATAM Airlines Group SA - SVP of Spanish Speaking Countries*

So, as we mentioned, fleet is one important cost, but we are reducing significantly our overhead cost. We have been doing this for the last 12 months and we will continue on that. We will make an important change in our productivity and the operation; in maintenance, in crews, in airports, we will significantly improve our cost of sales in order to segment and to reach these customers with a cost of sales much lower than what we have today.

And I would say those are the most important ones. And we will be doing those by the onboard that also lists some costs to provide by free today that it will have an option to avoid that cost by selling a different sort of products onboard.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Thanks for the time.

Operator

I'm showing no further questions in queue at this time. I'd like to turn the call back to Mr. Alfonsin for closing remarks.

Ramiro Alfonsin - *LATAM Airlines Group SA - CFO*

Well, thank you, everyone, for joining and for your questions. Please do not hesitate to contact us if you have any further questions or to contact our Investor Relations team. Thank you for joining. Bye bye.

Operator

Thank you again for joining us today. Please feel free to contact our Investor Relations Department if you have any additional questions. We look forward to speaking with you again soon.