

Commentary Related to Financial Projections

INTRODUCTION

- Today LATAM is disclosing certain information, including financial projections (“Updated Business Plan”).
- The Company previously prepared a Five-Year Business Plan Presentation dated as of July 2021, that was publicly released in a Material Fact dated September 9, 2021. Subsequently, the Debtors negotiated and executed a Restructuring Support Agreement on November 26, 2021, with an Ad Hoc Group of the Company’s claimholders represented by Evercore, Costa Verde Aeronáutica S.A. and Inversiones Costa Verda Ltda. y Cía en Comandita Por Acciones, Delta Air Lines, Inc., Qatar Airways Investment (UK) Ltd, Andes Aerea SpA, Inversiones Pia SpA and Comercial Las Vertientes SpA.
- The Updated Business Plan, which was publicly released in a Material Fact dated August [29], 2022, was prepared by the Debtors to address the requests of the RSA counterparties for a revised five-year plan that reflects actual results and further information relevant to the Chapter 11 Cases.
- These Financial Projections reflect LATAM’s ambitious targets and reflect LATAM’s commitment to continue to lead the airline industry in the region, with its unreplicable network in South America.
- From a part of the world that represents a small portion of global air traffic, LATAM has built the 12th largest air carrier group in the world in terms of passengers carried in 2021. Today, it is the only regional air carrier group with affiliate domestic operations in 5 countries in the region – Chile, Brazil, Peru, Colombia and Ecuador –, with a long-haul network that connects South America to the world and one that transports almost one in every two passengers that fly within the subcontinent. It has also built a unique business model that combines passenger and cargo operations, which have not only become a model in the airline industry, but also constitutes a key gateway for Latin American exports of goods – such as salmon, flowers and seeds – and imports of critical inputs – such as auto parts or COVID-19 vaccines amounting to more than 300 million to date.
- The Updated Business Plan banks on the group’s unique and unreplicable network across South America, a singular value proposition that combines, among other things, the “Mega Airlines” airline group with the most punctual record, the seventh largest frequent flyer program in the world, and a cost competitiveness and balance sheet, that will be unrivaled by any other full-service carrier and that has proven to allow the group to compete effectively with ULCCs.

DEMAND RECOVERY

- It is expected that the combined demand in the domestic markets where the affiliates operate will recover to 2019 levels by Q3 2022 with a forecasted faster recovery for the affiliate operations in Brazil, Colombia and Ecuador than in the other countries. Demand in Brazil and Colombia is already exceeding 2019 levels, a trend supported by the operational ramp-up to date of those domestic markets.
- International long-haul traffic demand is expected to recover more slowly, reaching 2019 levels by mid 2023. This is particularly important for LATAM as international traffic represented approximately 45% of the revenues in 2019.
- Corporate traffic is not expected to fully recover to 2019 levels in the Financial Projections. For instance, it is forecasted that corporate long-haul travel demand will reach 85% of 2019 levels in the post pandemic period.
- Making predictions in this very volatile scenario is difficult and this forecast can be impacted by the macro-economic environment, fuel prices and stability in the region, among many others.

NETWORK

- The pandemic gave LATAM group the opportunity to rethink the operations and LATAM has reaffirmed that its unparalleled and unreplicable network is one of the main building blocks of the group's value proposition.
- LATAM's affiliates are a key piece of the group's strong presence in each domestic market, as well as the regional and long haul connectivity.
- The scale that LATAM has achieved over the years and the synergies materialized in its growth throughout the continent have been augmented by the restructuring, resulting in LATAM becoming an even stronger player in the region.
- LATAM affiliates in Brazil, Chile, Peru and Ecuador are leaders in their domestic markets as of December 2021. LATAM Airlines Colombia has grown to over 25% share in its domestic market.
- In international markets, LATAM is the primary air carrier group connecting South America to the world. No other airline group provides this number of destinations and frequencies.
- LATAM group's capacity to aggregate and distribute traffic is unparalleled. Having been chosen as a commercial partner by the leading Airlines in the world is proof of the unique presence LATAM has in the region.
- The Joint Business Agreement with Delta has been approved by different regulatory bodies of Latin American countries and the US Department of Transportation has already issued an Order to Show Cause proposing an approval. A Final Order is expected within the next couple of months. The Joint Business approval would allow the signatory airlines to coordinate capacity, flight scheduling, and pricing, among other commercial activities within the scope of the JBA, which applies to the passenger and cargo business traveling between Brazil, Chile, Colombia, Paraguay, Uruguay and Peru and the United States and Canada.
- Moreover, the unique passenger-freighter combined network, together with LATAM's differentiated cargo capabilities, offer an exceptional reach and one-stop solution to the cargo customers. These passenger-cargo synergies constitute a key contribution to the overall profitability of the international business.

VALUE PROPOSITION

- While LATAM's network is a key part of the group's value proposition, the group also focuses on offering a seamless travel experience for its customers. LATAM is the number one most punctual group of Airlines in 2018, 2019 and 2021.
- LATAM group has simplified its fleet and is now operating an all Boeing wide-body fleet, creating additional efficiencies. LATAM Airlines Brazil will be flying newly retrofitted B777s and this affiliate also introduced the B787-9.
- LATAM also continues to retrofit the cabins of the narrow-body fleet, creating not only a more segmented and enhanced product, but also an expanded Wi-Fi connectivity program. This program adds to the wireless in-flight entertainment already available in all of LATAM's aircraft, providing a unique set of entertainment content for the passengers.
- This investment will further strengthen the groups unique capabilities to serve the high-value and corporate customers with a premium offering and frequent flyer program, while also offering low fares for the price-sensitive passengers.
- LATAM Pass, which is the 7th largest frequent flyer program in the world, is a key revenue management tool which further enhances the ability to segment customers and optimize revenues.
- LATAM's steadily improving net-promoter score (NPS) highlights the groups customers' continued belief in the value proposition.
- LATAM Airlines Group S.A. was recognized as the most sustainable airline in the region and number 4 worldwide by S&P Global in its Sustainability Yearbook 2022 and has now launched a transformational long-term sustainability strategy that will get us to carbon neutrality by 2050 and is based on three pillars: climate change, circular economy and shared value.

- LATAM's social commitment is also represented in its successful Avión Solidario (Solidary Plane) Program, which is more than 10 years old. Under this program, affiliates of the group have transported donated organs, provided relief for emergency organizations and, during the COVID-19 outbreak, have transported medical personnel free of charge and donated cargo space to fly over 300 million vaccine doses free of charge in Brazil, Chile, Peru, Ecuador and Colombia.
- Last but certainly not least, LATAM has been recognized for its high safety standards – the #1 strategic pillar and priority. With the outbreak of COVID-19, this commitment has expanded to protect the passengers and workers' health during their journey. LATAM Airlines Group SA has been the first Latin American carrier to obtain 4 stars in Skytrax's COVID-19 Airline Safety Rating and Apex's Diamond Health Safety certification.

COST IMPROVEMENT

- LATAM already had a very efficient cost structure prior to the pandemic, which allowed the affiliates of the group to maintain their market share in every country in which they operated. LATAM is confident it will emerge from the reorganization process with an operational cost structure unsurpassed by any other full-service carrier group, and that will continue to allow the affiliates of the group to compete effectively with ULCCs.
- The pre-pandemic transformation plan allowed LATAM to improve the cash flow generation, to reduce financial debt by USD 2 billion between 2015 and 2019, and to reduce costs.
- During the past years, LATAM has been working actively to further improve the cost structure and take full advantage of the restructuring opportunity to completely rethink the group's operations. LATAM is convinced that simplified processes and a lean cost structure are key in this industry.
- LATAM has put in place a plan to further streamline its entire cost structure over the coming years. The group identified over 1,000 cost saving initiatives that, together with the rejection and renegotiation of contracts enabled by the chapter 11, will produce over USD 1 Billion of savings per year. All of these initiatives are fully operational and are already producing the anticipated results.
- An important part of this cost improvement comes from the restructuring of the fleet, which is LATAM's largest fixed cost. Rightsizing the fleet (reducing from 341 aircraft to 301 as of 2Q 2022), negotiating variable fleet payment plans for extended periods and renegotiating long-term agreements for better terms, lowering rent payments and extensions of payment periods. Furthermore, LATAM has already obtained Court approval for all the new terms of the fleet. These new terms will allow LATAM to reduce the fleet-related cash outflows by over 40% in the forecasted period when compared to 2019.
- Despite inflation in the past years, LATAM expects passenger CASK ex fuel to amount to 4.2 cents in the second half of 2022. LATAM also expects that passenger CASK will continue to improve in the coming years. Before the impact of inflation from 2023 onwards, the passenger CASK ex-fuel in 2027 is projected to be 3.7 cents, including domestic and international operations.

2019-2024

- By 2024, LATAM expects to fly a similar amount of ASKs as it did in 2019.
- LATAM targets revenues to increase to USD 11.5 bn in 2024 from USD 10.4 bn in 2019.
- EBIT is targeted to reach over USD 1 bn by 2024 comparing with USD 0.7 bn in 2019.
- EBITDA is expected to be above 2019 levels by 2024.
- LATAM expects to have a unique capital structure in the region. Net leverage is forecast at 2.6x and liquidity to be above 20% in 2024.

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WHEN LOOKING AT THE P&L

- LATAM expects revenues to increase to USD 13.8 bn in 2027 and EBIT margin to reach 12%.
- Growth comes from both the cargo and from the passenger business, with an important component of ancillary revenues
- The cargo affiliates of LATAM will incorporate at least 8 new freighters to their fleet and 4 of these Aircraft conversions have already been delivered.
- Total RASK is expected to increase +10% from 2019 to 2027.

WHEN LOOKING AT CASH-FLOWS

- Operating cash flow are expected to amount to USD 2 bn in 2023 and increases to USD 3.2 bn in 2027.
- Although all additional aircraft are modeled as operating leases and therefore will not imply a cash out, LATAM is presenting in the fleet capex the present value of the future lease payments in the Free Cash Flow (FCF). These amounts are later adjusted to reflect the total cash flow.
- FCF adjusted by non-cash capex (i.e. the capitalization of operating leases, as per IFRS16), is expected to amount to USD 0.9 bn in 2023 and USD 1.8 bn in 2027.
- In addition to fleet and cargo conversions, LATAM will be investing in improving its performance and product going forward. Projects enhancing LATAM's digitalization, cabins, Wi-Fi connectivity are among the most important investments. Other investments in the initial years are targeted to ensure best in class operations.
- Liquidity is forecast above 20% throughout the period 2023-2027 and Net leverage reduces to below 2x in 2027.

TAKEAWAYS

- LATAM group is confident it will continue to be, the leading group of airlines in South America. It's unique network not only serves the main domestic markets, but also provides regional connectivity and connects the continent to the world.
- Being chosen as a commercial partner by the leading airlines in the world is probably the best recognition of LATAM's relevance in the region.
- LATAM's shareholders Delta, Qatar Airways and Costa Verde have elected to backstop the capitalization of LATAM.
- The group has leveraged the Chapter 11 process and is going to exit with an operational cost structure that will allow LATAM group to be even more competitive.
- Markets are generally recovering faster than anticipated in the Previous Business Plan and LATAM has secured the aircraft to provide the necessary capacity in each market.
- LATAM group has a unique business model that integrates cargo with passenger, domestic with international, competitive fares for the price seeker while being the only air carrier group with a full-service offering for the corporate and high-value customer and, above all, an unreplicable network to compete effectively across all segments and markets.
- The reorganization has allowed LATAM to introduce structural transformations: renegotiated fleet, improving its relative cost position, strengthened its network and reduce the financial debt of LATAM in approx. 36%.
- We want to thank the committed employees of the group for their continued support throughout the years.

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