

## Commentary Related to Financial Projections

### **INTRODUCTION**

- Today we are disclosing certain information, including financial projections (“Financial Projections”). This material represents selected excerpts of the Financial Projections, which is part of the materials that different potential investor groups have had access to as part of an extensive due diligence process over the past few months.
- These Financial Projections were prepared to reflect LATAM’s best assessment of how the industry is going to evolve over the coming years, together with other important aspects of the business, 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 14th largest air carrier group in the world in terms of passengers carried. 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 COVID-19 vaccines and auto parts.
- These Financial Projections bank on the group’s unique and unreplicable network across South America, a singular value proposition that combines, among other things, the airline group with the most punctual record, the fourth largest frequent flyer program in the world, and a cost competitiveness 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**

- We expect that combined demand in the domestic markets where the group operates will recover to 2019 levels by late 2022 with a forecasted faster recovery for the affiliate operations in Brazil and Chile than in the other countries. Supported by LATAM Airlines Brazil’s domestic market’s operational ramp-up to date, which reached a capacity (measured in ASKs) of 77% in August, compared to 2019, the Financial Projections forecast that LATAM’s Airlines Brazil domestic ASKs will surpass 100% of 2019 levels in the beginning of 2022.
- International long-haul traffic demand is expected to recover more slowly, reaching 2019 levels by the end of 2024. This is particularly important for LATAM as international traffic represented approximately 45% of our revenues in 2019.
- Corporate traffic is not expected to fully recover to 2019 levels in the Financial Projections. We are forecasting that corporate domestic travel demand will reach 95% of 2019 levels in late 2022 and corporate long-haul travel demand will reach 85% of 2019 levels in 2024.
- Making predictions, particularly in the short term, is very difficult, but there is a general industry consensus as to what the market will look like in the outer years of the Financial Projections. While certain markets currently appear to be recovering faster than initially estimated, such as Brazil, other markets, like international, both regional and long haul, are recovering slower than anticipated as a result of continued travel restrictions. LATAM continues to deploy and adjust resources to benefit from relative recoveries, and continues to think that, on a consolidated level, the recovery expected in the Financial Projections is the most likely scenario for the region over the life of the projection period.
- Thanks to flexible arrangements with its suppliers as well as other business partners, LATAM has developed a highly flexible cost and operational structure that leaves it ready to capture additional growth

opportunities, if demand recovers faster, and to continue operating with a reduced cost structure, should recovery occur later than anticipated. This is largely as a result of near-term flexibility achieved through extended variable payment conditions for its fleet and flexible terms with suppliers and employees.

- This improved and variabilized cost structure will enable LATAM to adapt to a volatile recovery and is already producing results, where despite much lower international operations, the margins and cash flow are in line with what LATAM has forecasted.

## **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 LATAM's value proposition.
- LATAM's affiliates are a key piece of LATAM'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 Chile, Peru and Ecuador are leaders in their domestic markets, with shares above 60%. LATAM Airlines Brazil holds one third share in its domestic market, and LATAM Airlines Colombia has grown to over 20% share in its domestic market. In Brazil and Colombia, the affiliates are projected to continue growing consistent with the improvement of LATAM's cost competitiveness.
- In international markets, LATAM is the primary air carrier group connecting South America to the world. No other airline group provides the number of destinations and frequencies in the most highly congested airports as LATAM. Almost one in every two passengers that flies within South America travels with LATAM.
- LATAM group's capacity to aggregate and distribute traffic is unparalleled. Having been chosen as a partner by the leading Airlines in the world is proof of the unique presence we hold in the region.
- Moreover, the unique passenger-freighter combined network, together with LATAM's differentiated cargo capabilities, offer an exceptional reach and one-stop solution to our 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, we also focus on offering a seamless travel experience for our customers. We were the number one most punctual group of Airlines in 2018, 2019 and in the first half of 2021.
- We have simplified our fleet and are now operating an all Boeing wide-body fleet, creating additional efficiencies. We will be flying newly retrofitted B777s from Brazil and in the coming months we will be introducing the B787-9 in Brazil.
- We are also continuing to retrofit the cabins of our 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 our passengers. Once the retrofit is completed, LATAM will be the only carrier group in the region offering a differentiated service for our high-value customers (HVCs) on every flight on narrow-body aircraft.
- This investment will further strengthen our 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 fourth largest frequent flyer program in the world, is a key revenue management tool which further enhances our ability to segment customers and optimize revenues.

- Our steadily improving net-promoter score (NPS) highlights our customers' continued belief in our value proposition.
- LATAM Airlines Group S.A. was the only airline in Latin America to be part of the Dow Jones Sustainability Index and has now launched a transformational long-term sustainability strategy that will get us to become a carbon neutral carrier by 2050.
- LATAM's social commitment is also represented in its successful Avión Solidario (Solidary Plane) Program, which has just turned 10 years old. Under this program, we have transported donated organs, provided relief for emergency organizations and, during the COVID-19 outbreak, have transported medical personnel free of charge and flown over 100 million vaccine doses; LATAM group has donated the cargo space to provide the domestic transportation of vaccines in Brazil, Chile, Peru, Ecuador and Colombia.
- Last but certainly not least, LATAM has been recognized for its high safety standards – our #1 strategic pillar and priority. With the outbreak of COVID-19, this commitment has expanded to protect our passengers and workers' health during their journey. We have 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 Company to maintain its competitive position in every country in which it operated. We are confident we 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 us to compete effectively with ULCCs.
- The pre-pandemic transformation plan allowed us to improve our cash flow generation, to reduce our financial debt by USD 2 billion between 2015 and 2019, and to reduce our costs.
- During the past months, we have been working actively to further improve the cost structure and take full advantage of the restructuring opportunity to completely rethink LATAM's operations. We are convinced that simplified processes and a lean cost structure are key in this industry.
- We have put in place a plan to further streamline LATAM's entire cost structure over the coming years. Working across the group, we identified over 1,000 cost saving initiatives that, together with the rejection and renegotiation of contracts enabled by the chapter 11, will produce USD 900 million of savings per year, equivalent to approximately 15% CASK ex-fuel reduction. All of these initiatives will be fully operational by the end of 2021 and are already producing the anticipated results.
- We appreciate the support given to us by our employees, suppliers and financial institutions during these difficult conversations. LATAM will emerge stronger from chapter 11, with an improved cost structure and unique value proposition for our customers.
- An important part of this cost improvement comes from the renegotiation of our fleet, which is LATAM's largest fixed cost. We have already obtained Court approval for all the new terms regarding 95% of our fleet. These new terms will allow us to reduce the fleet-related cash outflows by over 40% in the forecasted period when compared to 2019.
- We have also entered into interest only or variable payments depending on utilization, extending to 2022 for 60% of our narrow-body fleet and to 2023 for 50% of our wide-body fleet.
- We expect that our passenger CASK will continue to improve. Before the impact of inflation, our passenger CASK ex-fuel in 2024 is projected to be 3.3 cents, including domestic and international operations, with certain Domestic operations even lower than 3.3 cents.
- In addition to focusing on cost reduction and improving the efficiency of our operations, LATAM has also worked to reduce fixed costs and shift to a greater percentage of variable costs.
- It currently has 80% of its cost structure as variable, allowing LATAM to adapt to an uncertain recovery that we believe is going to be non-linear in the region.

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## **2019-2024**

- By 2024, we expect LATAM to fly a similar amount of ASKs as it did in 2019. However, the mix of operations will be very different.
- Despite a similar number of ASKs, the stage length will be shortened as domestic markets recover faster than international, and we will be carrying 12% more passengers with a lower corporate passenger mix compared to pre-pandemic.
- LATAM group has secured slots for converting passenger aircraft into freighters, allowing the Group to increase cargo capacity by 80% in 2024.
- This heavier cost structure (larger cargo operations, more frequencies, shorter stage-length, more passengers) and the 5-year inflationary pressure will all be offset by the cost saving initiatives. By 2024, before inflation, we expect our total CASK ex Fuel to amount to 3.9 cents, representing a 0.6 cent improvement on the 2019 CASK ex-fuel.
- Including inflation, 2024 costs are lower than 2019 despite the incremental cargo operations, 12% more passengers carried and the incremental frequencies. The initial years of the projections also include the impact of the flexible terms on the fleet expense. On a cash basis, savings will be even greater<sup>1</sup>.

## **WHEN LOOKING AT THE P&L**

- We expect revenues to increase to USD 11.8 Bn in 2026 and EBIT margin to reach 11.2%.
- Growth comes from both the cargo and from the passenger business.
- The cargo affiliates of LATAM will incorporate at least 8 new freighters to their fleet and some of these Aircraft conversions have already started. The slower recovery in the international business provides for a unique opportunity for this business unit as there is less belly capacity available.
- On the passenger front we are forecasting a very competitive environment during the initial years of projections. We expect capacity of the group to exceed demand and the unbundling of our fares and the improved cost structure will play a key role. In the later years of the projections we are forecasting a more balanced supply and demand.
- LATAM unbundled its fares in 2017, implementing a successful ancillary products strategy. Ancillary revenue growth will be a pillar of future growth, facilitated by the new digital platform fully rolled out in 2021.
- Consequently, despite the highly competitive environment, RASK (inclusive of ticket and ancillary) will increase +6%.
- 2024 EBITDA is expected to reach similar levels to 2019, with EBITDA margin increasing to 25% in 2026.
- EBIT margin will increase 80% from 2019 to 2026, resulting in the highest margin for LATAM since 2012.

## **WHEN LOOKING AT CASH-FLOWS**

- Operating cash flow amounts to USD 1 Bn in 2022 and increases to USD 2.8 Bn in 2026.
- Free cash flow, including fleet capex, will be positive in 2023 and ramps up to USD 1 Bn in 2026.
- Although all additional aircraft are modeled as operating leases and therefore will not imply a cash out, we are 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), will be close to breakeven already in 2022 and over USD 700 Mn in 2023.

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<sup>1</sup> According to accounting standards we are registering the depreciation of the fleet (non-cash) and, in addition, also registering the variable payments (cash outs) as Aircraft rental. These non-cash items are increasing our cost structure particularly in years 2022 and 2023.

- 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 and availability for the ramp up in 2022 onwards.
- LATAM benefits from unique state of the art maintenance facilities in Brazil and Chile. This allows us to insource most of the maintenance as the world's MROs are congested to serve the deferrals of other companies.
- Ending cash is reflected without exit financing or repayment of the DIP, and amounts to USD 1.4 Bn as of December 31st, 2026.

## **TAKEAWAYS**

- LATAM is and we are confident it will continue to be the leading group of airlines in South America. Our unique network not only serves the main domestic markets, but also provides regional connectivity and connects the continent to the world.
- Being chosen as partner by the leading airlines in the world is probably the best recognition of LATAM's relevance in the region.
- We have leveraged the chapter 11 process, and are going to exit with a further improved operational cost structure that will position us as even more competitive vis-à-vis competitors that have not restructured under chapter 11.
- Domestic markets are recovering faster and we have a flexible cost structure to adapt to the recovery. In the international markets, in addition to the flexibility, benefiting from the fleet negotiations in particular, we are going to have a unique cost structure that will produce a very important competitive advantage once traffic recovers.
- 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, further improved an already competitive cost position, and a strengthened network.
- We are convinced that LATAM group will come out of this crisis stronger than ever.

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