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LAN.SN - Q3 2013 LATAM Airlines Group Earnings Conference Call

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## CORPORATE PARTICIPANTS

**Gisela Escobar** *LATAM Airlines Group - IR Officer*

**Andres Osorio** *LATAM Airlines Group - LATAM Airlines CFO*

**Claudia Sender** *LATAM Airlines Group - VP Domestic Brazil Passenger Operations*

**Damian Scokin** *LATAM Airlines Group - Senior VP International Passenger Operations*

## CONFERENCE CALL PARTICIPANTS

**Felipe Vinagre** *Credit Suisse - Analyst*

**Duane Pfennigwerth** *Evercore - Analyst*

**Mike Linenberg** *Deutsche Bank - Analyst*

**Jim Parker** *Raymond James - Analyst*

**Ricardo Alves** *Morgan Stanley - Analyst*

**Bob McAdoo** *Imperial Capital - Analyst*

## 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 Monday, November 11th. If you have not received it, you can find it in our website, [www.latamairlinesgroup.net](http://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. Andres Osorio, Chief Financial Officer of LATAM Airlines Group. Mr. Osorio, please begin.

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### Andres Osorio - LATAM Airlines Group - LATAM Airlines CFO

Thank you very much. Hello everyone and welcome to LATAM third-quarter 2013 conference call. Joining me today call are Claudia Sender, President of TAM; Damian Scokin, CEO of LATAM International Passenger Operation; Alvaro Carrill, VP of Cargo Operation; Andres del Valle from our Finance Department; and Gisela Escobar, Investor Relations Officer.

We are very pleased this quarter to show a strong improvement in our operating results with an EBIT margin of 7.6% and net income of \$52 million. Our strong results are driven by the continued improvement in TAM's domestic operations in Brazil, by the rationalization of our international passenger operations and continued synergy and efficiency initiatives.

In the domestic Brazil passengers operations, financial results have improved significantly over the last year, as a result of our strategy of continued capacity reductions and improved market segmentations and revenue management practices.

TAM continues to reduce domestic capacity with a 9% ASK reduction for the first 9 months of 2013. Our strategy enabled TAM to improve load factors and to increase revenue per ASK by 19% in Brazilian real during the third quarter as compared to the third quarter last year.



Regarding the Company's international passenger operations, our strategy is focused on rationalizing passenger capacity both in Brazil and in Spanish-speaking countries. We will have significantly reduced the size of our international passenger operation at the year-end 2013 as compared to year-end 2012, with a focus on consolidating Sao Paulo Guarulhos Airport as our main hub.

We have also made important changes in the fleet, with a focus on fleet renewal, which allow us to not only operate more efficiently but also to improve our product including full flat seat in business class.

An important milestone for TAM's international passenger operation is the codeshare agreement with American Airlines, launched on August 15, allowing TAM to provide improved connectivity from Miami, New York throughout the United States. We continue to focus on optimizing utilization of the belly capacity of our wide-body aircraft for the transportation of cargo in order to benefit from the competitive advantage provided by our integrated passenger and cargo business model.

LATAM also continues to implement cost reductions and efficiencies initiative focused on reducing fuel consumption and capturing cost synergies related to the integration of LAN and TAM. In line with this, we ended the quarter with a net reduction of 395 employees at LATAM as compared to last year.

In September, in line with the continued ASK reduction in the Brazilian market, we implemented a reduction of 780 employees, which include voluntary retirement and unpaid leave programs. As a result, we recognized a one-time severance cost of \$15.5 million during the third quarter.

We continue to implement measures to mitigate our exposure to the Brazilian reais, which depreciated 13% in the third quarter of 2013 as compared to the third quarter of 2012. These measures include reducing TAM balance sheet exposure and implementing operational measures to reduce the mismatch between revenue generated in reais and cost denominated in dollars.

In addition, we have implemented a financial hedging policy to cover approximately 50% of our operating exposure to the Brazilian reais for 2014 on a monthly basis at an average rate of BRL2.30 per dollar. We believe that as a result of this initiative we are better-positioned to face the continued volatility of the Brazilian currency.

All of this allow us to reconfirm the guidance we provided last quarter, both in terms of capacity growth as well as for the operating margin. We expect that our EBIT margin for the full-year 2013 to reach approximately 5%, plus or minus 0.2 percentage point.

Finally, I would like to mention that we continue to make progress in our balance sheet restructuring, having completed this month a successful issue of our securitized bond in the amount of \$450 million with a coupon of 6%. In addition, yesterday we received approval from the Chilean SVS for our right offerings of 62 million shares, approximately \$1 billion, which we expect to complete as planned by year-end. The proceeds from this transaction will be used primarily towards the payment of short-term debt and improve LATAM's liquidity position.

Now, I will turn it over to Gisela who will go through in more details the main variation in our result for the quarter. Thank you very much.

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Great. Thanks, Andres. We have on our website the slides for the presentation. So I'm just going to briefly comment on the main trends as shown in those slides.

On the first slide you can see the main highlights of the numbers for the third quarter compared to the third quarter 2012, in this case the actual 2012 numbers. We're no longer doing the pro forma comparison since we're already comparing to a full-quarter post-merger in the third quarter of 2012.

The main highlight this quarter clearly is the strong margin improvement both at the EBIT margin level as well as the EBITDA margin. Our operating margin reached 7.6%, which is an improvement of more than 4 points versus the third quarter of last year and EBITDAR margin reached 18.5%, an improvement of also 4 points.



And just important to highlight a few impacts in the third quarter 2013 numbers, which are non-recurring. We have a \$15.5 million severance cost, that's a one-time cost, resulting from a headcount reduction that occurred during the month of September. Those are recognized in wages and benefits. We also have \$9.6 million impact in other operating expenses that are related to increase in personnel costs also in Brazil. But this is a one-time impact. And we also have at the non-operating level a provision of \$22 million, which is a one-time impact as well related to the CADE ruling for the cargo business, specifically related to the operation of APSA.

When we compare the bottom-line numbers, it's also important to note that in the third-quarter 2012 we recognized \$70 million of additional tax provision because that was the quarter when in Chile the corporate tax rate increased from 17% to 20%.

Looking at the next slide, we can see the main variations in terms of operating margin, the 3.2% last year compared to 7.6% this year. There is a slight negative impact from a 1.1% decline in yields coming from both the passenger and the cargo operations. Cargo yields overall were down around 2%; passenger yield around 1%. This is offset in part by improvements in load factors. Passenger load factors were up, reaching 82.4%, offset slightly by a small decline in cargo load factor.

We have a very positive impact from a decrease in fuel costs. This includes the decline of the market price of fuel, which declined 4% to \$3.44 per gallon. We also see an impact from a positive hedge gain of \$23 million, in addition the fuel efficiency initiative and the renewal of the fleet that we have been carrying out on an ongoing basis.

On the wages side, the wages and benefits costs have also contributed positively to our margin improvement. Overall, when you look at the average headcount, we have a reduction of over 350 people in September compared to the close of September of last year. And we also see in this line the positive impact of the depreciation of the real on the wages that are denominated in the Brazilian currency.

And then we have an additional positive impact from a reduction in cost per ASK overall related to mainly the synergy and efficiency initiatives that we have been carrying out on an ongoing basis.

Turning to slide number 4, we can see some more details behind the variation in passenger revenues. Passenger revenues on a consolidated basis were up 0.8% this quarter. In terms of passenger capacity, we see overall that passenger capacity is relatively flat. But this is composed of a 2% increase in international passenger ASKs, a 6% decline in the domestic Brazil ASKs and a 13% increase in ASKs for the domestic Spanish-speaking countries.

Looking at the RPK numbers for traffic, we have a 2% increase in overall traffic numbers, driven mainly by a 2% increase in international passenger traffic and a 10% increase in the domestic Spanish-speaking countries. And therefore, you can see the resulting impact in terms of load factors in those three business areas.

Overall, yields were down by about 1.1%, and this also reflects the impact of a 13% depreciation of the Brazilian real on the Brazilian domestic operation. And revenues per ASK were relatively flat with a small increase of 0.4%.

On the next slide we can see a breakdown of our total passenger capacity. We continue to have a very diversified capacity distribution throughout the region. Approximately 50% of our total ASKs are international routes, both long-haul passenger routes as well as intraregional within South America. Overall, our international ASKs grew 1.6%, we saw in the previous slide. The domestic Brazil ASKs represents 34% of our total passenger capacity, and the remaining, about 15%, are the domestic Spanish-speaking countries, where the largest portion is the domestic Chile and the domestic Peru, both of which are growing at very strong rates, in Chile domestic over 13% and in Peru over 18%.

When we look at the domestic Brazil operations, we have been very happy to see a strong and successful turnaround in our operations in the domestic Brazil market. You have already been seeing since mid-2012 a strong improvement in load factors. Load factors for the third quarter reached 82%. They are up 14 points over the number in 2011 and they are up 4 points over the number in the third quarter of 2012.



We also continue to be very disciplined in terms of our ASK variations. We saw a 6% reduction in ASKs during the third quarter. As a result of this and as a result of our continued focus on passenger segmentation, we have been able to improve revenue per ASK in real in Brazil by 19% in the third quarter as compared to the third quarter of 2012, maintaining our leadership in that market with a 40% market share.

Looking at the international passenger operations, there we have seen a continuation of the strategy that we already discussed during the second quarter result's presentation and that we have been continuing since then. Basically, we have been focusing on rationalizing the capacity in these operations. We have made certain adjustments in terms of the itineraries. And we have reduced capacity on long-haul routes, especially from Brazil and the Rio operations to Europe.

At the same time, we have been focusing on strengthening our connectivity from Sao Paulo and strengthening the hub at the Sao Paulo airport.

In terms of fleet, we have also made significant changes. We have grounded nine of the older Airbus A330 aircraft in Brazil and we have replaced part of that capacity with Boeing 767 that are operating with a lower cost per ASK, and therefore improve the efficiency, but also improve the product. We have a full flat premium business product on those aircraft. And we have also seen -- so basically the benefit there is, on the one hand, reduced cost per ASK and, on the other hand, an improvement in terms of the product that our passengers can perceive.

We have also in August launched a codeshare agreement between TAM and American Airlines that has allowed TAM to offer much improved connectivity to the US beyond Miami and New York.

Looking at the cargo figures, we have seen during the third quarter no significant change in the demand trends in cargo. We have seen revenues overall for LATAM on the cargo side down 2.6% with our revenue per ATK down by 2.7% in the quarter.

Here our main focus continues to be on the synergy generation. We also are very focused on controlling capacity. Our capacity growth is basically coming only from the additional belly capacity, and we continue with our strategy more so even than before on really making the optimum utilization of the belly capacity of the passenger aircraft on long-haul routes.

In terms of merger synergies, we have continued to generate the expected synergies. We are on track to achieve our target of between \$600 million and \$700 million at the EBITDA level by year 4, which would be June of 2016.

During the first 9 months of this year we have estimated synergy generation of \$215 million at the EBITDA level. These come from the cargo operations, from the international passenger operations and from the cost side. So part of this is what we see reflected in the 1.4% reduction in the ex-fuel costs during the quarter.

Also just important to mention is that the synergy numbers do not include the domestic Brazil passenger operations. So we have never included in our synergy estimate the possible improvements that were to come from the domestic Brazil operations.

As a result of all of this and as Andres already mentioned, we just want to reiterate our guidance from full-year 2013. We are on track with our guidance in terms of ASKs and ATKs. We expect to grow in terms of total passenger capacity between 0% and 2% this year, with obviously a different behavior in the different markets; so low single-digit growth on international routes, a decline in the domestic Brazil market and 12% to 14% growth in the domestic Spanish-speaking countries.

On the cargo side, growth will be pretty much in line with the growth in belly capacity, so we're looking at a total capacity growth between 0% and 2%.

In terms of operating margin, we are reiterating the guidance that we already provided of having operating margins between 4% and 6% for the full year. But we want to be a little bit more specific in terms of focusing in the middle of that range at around 5% EBIT margin for the full year, plus or minus 0.2 percentage points.

And this also includes certain assumptions with respect to the average exchange rate for the BRL as well as the jet fuel price per barrel which we estimate at \$122 per barrel for the fourth quarter.

Briefly in terms of our fleet plan, we have not seen any significant changes here. We expect our overall number of aircraft at the end of the year for this year to reach 334. Of these, if you look at the fleet numbers that we provided for September, we have currently approximately 20 aircrafts that are grounded, which are either in redelivery process or for sale. So this is part of what will result in this reduction in the total number of jets by the end of 2014 to 327. And for 2015, we are currently expecting relatively flat, 330 aircraft at the end of the year.

The fleet commitments that you see on the bottom of the slide is almost \$2 billion this year for 2013, \$1.3 billion for 2014 and \$1.8 billion for 2015. This is the total fleet commitments irrespective of how they will be financed. So we're currently planning to finance approximately 30% of this with selling these stocks and for the most part -- the rest with financial debt.

We also, just briefly to reiterate, as you know, in November we issued a securitized bond that priced at 6%, it's a 7-year bond that was based on future flow receivables of credit card sales in the US in the amount of \$450 million. And that, as a result of that we also have continued to improve our liquidity position.

If you look at the September numbers, we've already seen an improvement in terms of liquidity. Liquidity was up from 8% to approximately 13% in September. And we've also seen a continued reduction in terms of our leverage ratios which have come down from over 6 times to 5.8 times in September, and we continue to see that deleveraging trend, mainly driven by an improvement in our operating cash flows.

And finally, just an update in terms of where our fuel hedging numbers are. We continue with our same fuel hedging strategy. We do, as you know, we hedge the fuel consumption for the whole Group, for LATAM Airlines Group as a whole, on a consolidated basis. We currently have hedged 61% of our total estimated fuel consumption for the fourth quarter of this year, 39% for Q1 next year and 15% for Q2 with -- in the prices in Brent that you can see on the slide that are between \$74 and \$112 a barrel for the most part with collars and a portion as well with jet fuel swap.

This concludes the prepared remarks that we had for this quarter and we'll be happy to take any questions that you may have.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Felipe Vinagre, Credit Suisse.

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### Felipe Vinagre - Credit Suisse - Analyst

I have two questions. First, despite the overall rationalization speech along the release, if you compare the fleet plan of this quarter compared to the second quarter release, it has increased by 7 aircraft in 2013 and 10 aircrafts in 2014. So just wanted to understand what's behind that, if you are postponing redeliveries due to better demand prospects, just some color on this?

And the second question would be on the cargo business. Can we still expect a decline in trend in terms of unitary revenues for the coming quarters? When the Company expects a stabilization or a turning point? If you could also give an update on competition in European market it will be great? Thanks.



**Gisela Escobar** - LATAM Airlines Group - IR Officer

Well, regarding the fleet, we have a -- well, we show the quarterly numbers in terms of the fleet deliveries and we have continued to take delivery of the aircraft that we had planned to. The rationalization has been for the most part from returning operating leases as they expire as well as from having grounding certain aircrafts and preparing them for sale, which is the case for the most part with the A330 fleet from TAM.

So the rationalization has to do not so much with an actual reduction in the number of aircraft, but with adjusting the fleet delivery schedules that LAN and TAM had at the moment of the merger. We had originally -- when we first put the fleet plan together, we had a much more significant fleet plan with many more aircraft deliveries for the period between 2013 and 2015 than what we have today and what you can see on slide 11 in the presentation.

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**Andres Osorio** - LATAM Airlines Group - LATAM Airlines CFO

Yes, to complement what Gisela was saying, out of the -- if you look at 2013, total number of aircraft 334, we have 23 aircraft which are grounded there including 319s, 320s which are in the process of being redelivered and nine A330s, four A340s, 767s and three Q400. If you look at the top part of the bar, 83 wide-body aircraft that is reduced significantly going into 2014. We're just having 75 aircrafts. So this is where we see the big rationalization of capacity after the merger of the two companies.

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**Unidentified Company Representative**

Regarding cargo, I think we have seen a reduction in our yields and our -- and also on the amount of traffic that we've been seeing in the past year and a half. Well, we think that we have hit the bottom. And in the last month we have seen a little increase in the demand throughout the region and especially now that we are coming into the high season for the export with South America. So I think that the demand had, as I said, hit the bottom and we are now improving a little bit.

And in terms of competition, yes, we have seen a lot of aggressive competition, not only for the current operators here in the region -- I'm talking about South America to the US, but also newcomers coming from Europe mainly and also Middle Eastern carriers as Emirates has being also going into the market flying from their hub in Dubai to (inaudible) in Brazil.

So competition is pretty aggressive at the moment and this has mostly affected yields. But in terms of the demand, we think that the worst is over and we have been seeing a little improvement in the demand throughout the region.

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**Felipe Vinagre** - Credit Suisse - Analyst

Okay, thanks.

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**Operator**

Duane Pfennigwerth, Evercore.

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**Duane Pfennigwerth** - Evercore - Analyst

Sorry to ask you to repeat, but just following up from that first question, what is the reason that you expect 10 more aircraft next year and why wouldn't that change the CapEx guidance?



**Gisela Escobar** - LATAM Airlines Group - IR Officer

Well, for next year, we -- going back to page 11, we -- for 2014 we are expecting the delivery of 23 aircraft in total, but we are taking out of the fleet 30 aircraft. So that's the net reduction that you can see on the slide, and a part of that is related to the sale of the A330 that TAM had for long-haul operation. So earlier this year we did a sale and leaseback for 10 of those A330s that are now on lease until 2016 and 2017, but there is another 10 will -- that we expect to sell at the beginning of next year.

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**Duane Pfennigwerth** - Evercore - Analyst

I appreciate that. But I guess the difference versus your last update, I think you had a number that was 10 aircraft lower, 317, and now it's 327 by the end of 2014. So what's driving that incremental 10 versus the last update in August?

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Well, I think that in August we may have had not all those A330s sold at the beginning of 2014. I think we may have had -- have had some of them being reduced in 2013. And also just a change in the redelivery schedules of the narrow-body fleet of the A320s.

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**Duane Pfennigwerth** - Evercore - Analyst

Okay, so you've (multiple speakers) --

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

And I can send you in more -- I mean, I can send you the quarterly delivery schedule in more detail after the call.

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**Duane Pfennigwerth** - Evercore - Analyst

Okay, that's great. And then just regarding your grounded aircraft, can you quantify sort of the carrying cost of that today and have you already reserved for that ownership cost and when does that go away?

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

So some of the higher or the impact in terms of our redelivery cost is reflected in the increase in the maintenance cost that you can see on a quarterly basis. We obviously have an increase in terms of our cost per ASK as a result of the fleet that's grounded, but we expect that to decline probably towards the first or second quarter of 2014. The 10 A330s that are grounded we estimate to have an impact of between around \$35 million.

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**Duane Pfennigwerth** - Evercore - Analyst

Annually?

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

On a year basis. Yeah, annually.



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

Okay, thanks. And then just my last one, if you don't finish -- for whatever reason you do not complete the rights offering this year, is 62 million the right share count number or is there any chance that could change? And thanks for taking the questions.

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

If we don't complete the rights offering this year we would have to have another shareholders' meeting. So whatever we do would be subject to new shareholder approval.

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

Okay. Thanks for taking the questions.

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

No problem.

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**Operator**

Mike Linenberg, Deutsche Bank.

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**Mike Linenberg** - *Deutsche Bank - Analyst*

Regarding your capacity, down 7% and 9% this year in domestic Brazil, when I look out at the forward schedules into 2014 you can see some of the capacity starting to creep back into the domestic market. I guess just a couple of points there. One, obviously it's being comped against a period where the capacity cuts are pretty sizeable, number one.

And then number two, as you do go out into 2014 I guess the schedules are less and less reliable. So as you think about your forward schedule domestically in Brazil in 2014, what are you looking at right now just based on your fleet plan? And I realize it's maybe some early planning. But as we look into that March quarter of 2014, are you going to be flattish or maybe up a few percent? Any color on that front would be great.

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**Claudia Sender** - *LATAM Airlines Group - VP Domestic Brazil Passenger Operations*

This is Claudia Sender speaking. Our expectation for 2014 in terms of capacity is a flat demand -- flat offer for 2013 compared to 2013.

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**Mike Linenberg** - *Deutsche Bank - Analyst*

Okay, very good. And then just my second question, the new codeshare, where TAM came into one world -- I mean I know it's not that long ago, it's in August. But a lot of times what we will see is when the hookup occurs, you tend to start seeing some quick wins, some quick benefits. Is there anything that you can tell us about maybe traffic flows or connections, even if there is anything anecdotal about what you are seeing with the linkup?

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**Damian Scokin** - LATAM Airlines Group - Senior VP International Passenger Operations

This is Damian Scokin speaking. From what we are tracking, and we are tracking this on a weekly basis, you can see the normal pattern of increased market share in the offline markets of the US as expected. So everything is going as plan, I would say, with the movements of market share we expected when we reach the agreement.

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**Mike Linenberg** - Deutsche Bank - Analyst

Okay great. And just one last question, I know some time ago there was a lot of conversation about a package of -- I don't know if we can call it relief or benefits in Brazil, where there were going to be different initiatives that were going to be put forth by the government. I remember there was -- it was supposed to be announced in May, then we heard a June 30th time line.

I haven't seen anything. There's lot that has been written about this. I feel like we have been talking about this for a couple of years. Are we anywhere close to hearing maybe an announcement from the government about the package of initiatives and the enhancements for the Brazilian airline industry or is it just still up in the air?

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**Claudia Sender** - LATAM Airlines Group - VP Domestic Brazil Passenger Operations

Hi, Mike. This is Claudia again. Well, we have been following together with Abear, our association, the airlines association here in Brazil, what are the structural proposals for our segment, our industry here. And so far the proposals -- we are still waiting for the answer from the government, but so far we haven't received any structural proposal yet.

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**Mike Linenberg** - Deutsche Bank - Analyst

Okay, great. And if I can just sneak in one last one, because I think this is important. You had a tremendous improvement in your operating profit for the quarter as well as your pre-tax profit, and yet it looked like you came in a little bit light on your bottom-line number. You did have a very high tax rate. And maybe, Gisela, you can address this, can you just talk about why that tax rate -- it looked like it was a bit higher than what we have seen in the past?

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Yes.

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**Andres Osorio** - LATAM Airlines Group - LATAM Airlines CFO

The reason is mainly referred to the higher tax in TAM. As you know, the tax rate in Brazil is 34%. In addition, TAM has a certain cost an item which are not tax deductible in which we have a disproportionate effect on the effective tax rate effecting us. So that's the reason that we have a high proportion on the tax effective rate, okay?

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**Mike Linenberg** - Deutsche Bank - Analyst

Okay, very good. Thank you.

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Thanks, Mike.

**Operator**

Jim Parker, Raymond James.

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**Jim Parker** - *Raymond James - Analyst*

Just want to follow-up on Mike's question, what is the tax rate going forward?

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Well, I think you can project a tax rate at least for next year I would say between 35% and 40%. But it will -- it may vary obviously quarter-to-quarter, because at the end of the day remember that our tax rate is a sum of all the taxes that we pay in the different countries. So it obviously varies depending on the seasonality in each of the different countries.

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**Jim Parker** - *Raymond James - Analyst*

Okay. And also in the quarter were there any merger related expenses that are non-recurring? I don't think you mentioned that in the press release.

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

No, there was nothing significant.

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**Jim Parker** - *Raymond James - Analyst*

Okay. And just quickly on your Rio flights that you cancelled, they were all to Europe, there were none to the US that you discontinued, is that correct?

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**Andres Osorio** - *LATAM Airlines Group - LATAM Airlines CFO*

That is correct.

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**Jim Parker** - *Raymond James - Analyst*

Yes, okay, thank you.

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**Operator**

Ricardo Alves, Morgan Stanley.

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**Ricardo Alves** - *Morgan Stanley - Analyst*

I wanted to focus on cost a little bit, regarding the cost cutting initiatives and the efficiency gains you mentioned. If you could go through the specifics here, and what will be the major drivers for cost control going forward? Is there still space to reduce the personnel cost like we saw this quarter or would come through, I don't know, for the synergy gains with TAM or maybe lower fuel consumption, as you mentioned as well in the

release? Any color on cost going forward or cost gains going forward that you could mentioned that will be helpful. That's my first question. Thank you.

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Yes, hi. Well, we are, as you know, involved in a series of initiatives, especially considering the fact that we are focused on controlling our ASK growth. We are very focused on not having that result in a strong increase in unit cost. What you can see this quarter probably most significantly is the reduction in fuel expenses.

Part of that is related to the synergies, and in general we have concluded a process of renegotiating a post merger all of our contracts with our major third-party suppliers. We have also in terms of fuel, and this is something that we will continue to see in the long-term, see the positive effects of the fleet renewal as the new aircraft that we incorporate into the fleet are more efficient in terms of fuel consumption. And this is the case both in passenger and in cargo. And in cargo with the 777s that are much more efficient on a cost per ASK basis than the 76s. And on the passenger side as we incorporate the 787 and also as we replace the A330s with 767s we will continue to see an improvement in that sense.

I think in terms of on the wages side, we are in line with smaller operation with a reduction in our ASKs. We will also, should see a behavior in terms of our total personnel and total headcount that's in line with that. And that's already what we are seeing this quarter.

We don't have planned any further large decreases in terms of personnel, but we do have a continued focus in terms of the efficiency in all of our operations. And I would say that those are probably the main elements. For the rest, we have -- I think we should continue to see trends that are similar to the ones that we have seen this quarter.

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**Ricardo Alves** - Morgan Stanley - Analyst

Okay, that's very helpful. Thanks, Gisela. The other one is a quick one regarding the \$22 million non-recurring provision. Can you remind us of this cargo investigation and maybe more specific if there is a timing to resolve the issue?

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Yes. Well, this is related, as you know, to the -- there was an investigation that was already completed in the US and in Europe related to the way that certain elements of the fare were set in the cargo business, and this included all cargo operators worldwide. In Brazil specifically the CADE made a ruling regarding APSA, and that's why we provisioned these \$22 million in this quarter. But this is a process that is still ongoing and we don't have a timeline as to when it could be resolved. It could be the next 4-5 years. It's not necessarily a short-term thing.

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**Ricardo Alves** - Morgan Stanley - Analyst

Okay, that's helpful. Thank you.

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

No problem.

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**Operator**

Bob McAdoo, Imperial Capital.

**Bob McAdoo** - *Imperial Capital - Analyst*

We've obviously heard a time or two now about the rights offering, that you want to -- you say you need to have done by the end of the year, you have to go through a process again. Could you just tell us specifically what has to happen or what would be the timeline between now and the end of the year? What are the steps that you go through? For some of us up here it's not clear since we've not been through with Chilean rights offering before or observed one. So could you kind of walk us through what the steps are over the next several weeks?

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Yes. Hi, Bob. Well, basically the steps what we need -- as Andres mentioned, we received approval from the Chilean SBS yesterday. So that allows us now to set a record date and launch the rights offering period, which we expect to do within the next couple of weeks. The rights offering in Chile as a matter of law has to be open for a period of 30 days. So once we launch that rights offering, that will last for a period of 30 days and we hope those 30 days will conclude before the end of this year.

During that period, the rights trade on the Chilean stock exchange automatically. So if you are a shareholder that doesn't want to subscribe to your rights, you can sell them on the Chilean stock exchange and someone else can acquire them. That's the way that the process works regularly in Chile. So this is nothing different than what's normal in the Chilean market.

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**Bob McAdoo** - *Imperial Capital - Analyst*

And that's really what happens and then at some point the people who buy those rights then end up -- how does the whole thing close, I guess that's what I'm trying to understand?

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Well, at any point during those 30 days of the rights offering, the shareholder who has the rights will subscribe them. So in Chile you basically present your intention to subscribe to your -- to the rights that you obtain either because you are a current shareholder or because you acquired the rights on the stock exchange.

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**Bob McAdoo** - *Imperial Capital - Analyst*

And you have to do that during those 30 day -- during that 30 day period? Is that what you are saying?

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Yes.

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**Bob McAdoo** - *Imperial Capital - Analyst*

Okay, very good.

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Yes, that's right, you have to do it during the 30 day period.

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**Bob McAdoo** - *Imperial Capital - Analyst*

Very good, thank you very much.

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**Operator**

Duane Pfennigwerth, Evercore.

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

Thanks for taking the follow-up. Just regarding your margin profile this quarter, 7.5%. I look back at historically long standalone kind of low double-digit operating margins in this kind of a period. I wonder if you'd comment on what else that you can sort of control internally will drive further margin expansion from here or do you need help from the macro environment to get back to the margins that you posted historically?

And then I guess lastly, is there something about -- structurally about TAM that will prevent you from getting back to the margins that you once enjoyed? Thanks.

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Well, we don't think -- I mean going forward, I think there is still a lot to do internally and there is further efficiency improvement that we can achieve as we continue along the path of synergy generation. So we planned this process to be a 4 year period and we're only a little bit over a year from the merger. So we do expect to see continued improvement from elements that we can control.

Now having said that, we are obviously not immune to whatever is going on in the macro environment and a stronger macro would help us and vice versa, let's say.

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

Okay, thank you.

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**Operator**

At this time, there are no additional questions in the queue and I would like to turn the call back over to management for closing.

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**Gisela Escobar** - *LATAM Airlines Group - IR Officer*

Great. Well, thank you very much to everyone for participating today, and we are available obviously as usual after the call if you have any additional follow-up.

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**Andres Osorio** - *LATAM Airlines Group - LATAM Airlines CFO*

Okay, thank you very much.

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**Gisela Escobar** - LATAM Airlines Group - IR Officer

Bye.

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**Andres Osorio** - LATAM Airlines Group - LATAM Airlines CFO

Bye.

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**Operator**

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a wonderful day.

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