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CORPORATE PARTICIPANTS

Gisela Escobar *LATAM Airlines Group S.A. - Director IR & Research*

Andres Osorio *LATAM Airlines Group S.A. - CFO*

Roberto Alvo *LATAM Airlines Group S.A. - Chief Corporate Officer*

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

Jorge Vilches *LATAM Airlines Group S.A. - CEO Long Haul*

CONFERENCE CALL PARTICIPANTS

Jim Parker *Raymond James - Analyst*

Duane Pfennigwerth *Evercore - Analyst*

Eduardo Couto *Morgan Stanley - Analyst*

Brian Foster *CreditSights - 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 Tuesday, August 20. If you have not received it, you can find it in our website at 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 the international market. Therefore, they are subject to change.

Now, it is my pleasure to turn the call over to Ms. Gisela Escobar, investor relations Director of LATAM Airlines Group. Ms. Escobar, please begin.

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

Thank you, operator. Good morning, everyone, and thanks very much for joining us on the call this morning. I would like to introduce the people that we have here in the room. First, Mr. Andres Osorio; he is the new CFO of LATAM Airlines Group as of this month.

Andres Osorio - *LATAM Airlines Group S.A. - CFO*

Hi, everybody. Glad to be with you today.

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

We also have joining us Mr. Roberto Alvo, who is the Chief Corporate Officer of LATAM Airlines; and Mr. Tomas Silva from the cargo division; Andres del Valle from the finance department. And joining us from Brazil, we have Claudia Sender, the CEO of TAM Linhas Aereas; and Jorge Vilches from the international long-haul passenger operations.

Before we go through the brief presentation that is on our website, I would like to turn the call over to Roberto Alvo, the Chief Corporate Officer for some introductory remarks.

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

Thank you, Gisela. Good morning to everyone. So before going into the presentation, I'd like to just give you a few remarks. First of all, I think it's important to mark that we have completed our first anniversary of the merger, and we are very satisfied with the work we've done in the last 12 months.

We've significantly improved our operating margins as compared to second quarter of last year on a pro forma basis in more than 500 basis points, which we believe is a substantial change with respect to the Company's operation on a pro forma basis as of last year.

In particular, in the case of domestic Brazil, we have made a very significant improvement in our operating margins. We have significantly reduced our capacity. We have increased our load factors by more than nine percentage points, as compared to second quarter last year, and we have been able to increase our revenue [per a SK] in local currency in Brazil reais in more than 14%.

We've been able to achieve this despite a depreciation of the Brazilian real of 5.3% against the dollar, as compared to the second quarter of last year.

In international business, there are two important milestones we have achieved in this time. We are doing strong optimization of capacity in both LAN and TAM. In particular, we've canceled flights from Rio de Janeiro to Europe in order to strengthen our presence in the hub of Sao Paulo, which is the main hub for regional and long-haul traffic in South America.

And the changes in capacity in LAN are enabling us to make substantial improvements in cost and product in TAM by replacing all A330s that the Company has operated for more than 10 years, by 767s that are made available by LAN. We believe that this will improve significantly our strategic positioning out of Brazil. These 767 airplanes have full-flat business class seats, so our improvement in product is also very substantial.

In addition to that international business, another very important step towards strengthening our international presence out of Brazil is the implementation of the codeshare agreement between TAM and American Airlines, which came into effect last week. This will enable us to connect more than 50 destinations in the US from the cities that TAM currently operates on the East Coast, mainly Miami and New York. TAM has a strong presence to the United States; more than 30% of the capacity of the long-haul business of TAM is to the East Coast of the United States.

At the same time, from an organizational perspective, we have advanced significant integration. Today, most of the corporate functions of the Company are fully integrated, as well as the commercial areas of both cargo and international passenger business. In that sense, the Company in this area is working as a single combined entity. And we have also met our synergy targets for the first 12 months after the merger that actually were slightly higher than what we anticipated last year, when we announced our synergies before the merger.

On the fleet side, the important changes in capacity have made us change our fleet plan. And we have been able to adjust to the new reality in capacity, and we have decreased our commitments in fleets for -- by more than $1 billion in the next 30 months. While at the same time, we have retained significant capacity flexibility in order to adjust or (inaudible) exchanges or seize new opportunities. A flexibility we have been able to attain for the next two years, gives us the opportunity to vary our capacity between three and six percentage points per year on both single-aisle and twin-aisle operations.

In summary, I think we believe we have completed significant milestones in these 12 months, both on an operating level as well as from an organizational perspective. We feel that we've built a solid platform for development going forward, and thus we expect to see a more predictable and stable operation in the future.

Finally, I'd like to remark one more thing. We believe that the high complexity and relation of the many businesses of LATAM make difficult to follow our trends and results. In this context, we are working increasing to be providing better information so that the Company can be better understood by the analysts in the market. And, as of this quarter, we've included operational margin guidance for full-year operations of consolidated operations of the Company in LATAM. And we will keep on providing operational guidance for the years coming in the future.

Finally, in a separate note, I'd like to refer to an event that happened yesterday night. Yesterday evening, LAN Argentina S.A., our subsidiary that operates domestic and international flights from Argentina, was notified by the National Airport Agency of Argentina, the ORSNA, that it must vacate the maintenance premises it operates at the Aeroparque Jorge Newbery Airport in Buenos Aires within 10 calendar days. And unilaterally anticipated, the expiry of that contract, which we have with the airport concession company Aeropuertos Argentina 2000 that was signed in 2008 in July and, in accordance with its terms, expires in July 2023.

Even though it's early to evaluate the impact of the measure, we believe that the decision is legitimate and that we will evaluate taking every legal action necessary to restate our contracts and our rights to full and complete effectiveness. This is not an isolated action, but rather one that seems to be in line with an increasing level of actions against us and damaging our operations in Argentina. We will report on the effect of the Company's financials and operations as soon as we complete our assessment of the event. And, in the meantime, we can assure to our customers in Argentina that LAN Argentina will take every and all actions that are necessary to continue to provide as seamless a service as possible. And we can, with given the circumstances to every passenger. The measure adopted impacts only domestic operations in Argentina out of the airport of Aeroparque, and will not affect international operations to and from Argentina on either LAN Argentina or the other airlines that operate in the LATAM Airlines Group.

Thank you very much. With that, I'll pass it to you, Gisela, for the presentation.

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

Thank you. Now we'll go through the slides that are on the website. If you turn to slide number 3, you can see a summary of our results for this second quarter of 2013, as compared to the second quarter pro forma numbers for 2012.

During this quarter, we are happy to show very strong operational improvements, despite the fact that the second quarter is seasonally the weakest period of the year. And also despite the fact that results were impacted by a 5.3% average depreciation of the Brazilian currency, as compared to the US dollar.

As a result, operating margins reached 1.3%, $39 million at the EBIT level, as compared to a $117 million loss on a pro forma basis in the second quarter of 2012. EBITDAR margins for the quarter reached 12.4%, as compared to 8% in the second quarter of 2012.

It's important to note that, at the bottom-line level, our net income was impacted negatively by the depreciation of the Brazilian currency in June, as compared to the close of the previous quarter in March of 2013. That depreciation was 10%, and it has an impact that is non-operating and non-cash on our balance sheet accounts. That FX loss this quarter amounted to $360 million and resulted in net income that -- or a net loss for the Company of $330 million for the second quarter.

If you turn to slide 4, you'll see the main variation in our operating margin during this quarter. You can see that we had yields decline that amounted to 3% in the passenger business and over 1% in the cargo business. That was partly offset by load factor improvements of about 2 points in the passenger business. And, in addition to that, we saw the positive impact of decline in fuel prices, which declined almost 10% in the second quarter as compared to the same period of 2012, and a series of efficiency initiatives, both in terms of fuel consumption as well as other efficiency initiatives related to the synergies from the merger with TAM.

On the cost side, it's also important to note that the depreciation of the Brazilian real has a positive effect on the cost items denominated in reais.

Turning to slide number 5, you can see a summary of the variations in our passenger operations. These are variations in total passenger operations for the consolidated group; passenger capacity overall declined 0.6% in the quarter. Passenger traffic showed an increase of almost 2%. As a result, load factors overall reached 79% for the quarter.

Yields were slightly down by 3.2%. Here again, we have the effect of the depreciation of the Brazilian currency on the revenues of the domestic Brazil operations. And, as a result, revenue per ASK declined by 0.7%, as compared to the second quarter last year.

Slide number 6, you can see the distribution of our passenger capacity. We continue to have a very diversified breakdown in terms of our total passenger operations. Our growth -- or our 0.6% decline in total ASKs was mainly driven by an 11.6% decline in Brazilian domestic groups. This was offset by an increase of about 18% in the Chile domestic and Peru domestic operations, which is where we saw the most capacity growth, and a slight increase of 3.6% in capacity on international routes both long-haul and regional.

Regarding where we are at in terms of the strategy of our international passenger operations. The main focus is -- of this operation is a rationalization of the international passenger operations as we integrate the operations of LAN and TAM.

As Roberto already mentioned at the beginning, we have been focusing on reducing capacity from Brazil, especially from Rio on long-haul routes to Europe and focusing on consolidating our capacity at the Sao Paulo hub at Guarulhos Airport.

In terms of fleet, we have been making certain changes, specifically to the TAM long-haul fleet. We have been grounding the oldest of the Airbus A320 aircraft. We have three -- A330 aircraft, sorry. We have three of these aircraft grounded as of June, and expect to eventually reach 10 of these aircraft grounded that are also in the process of being sold. And we have replaced some of that reduction with the 767 aircraft from LAN that are going to TAM to be operated by TAM. These aircraft, the 767, have a significantly lower cost per ASK as compared to the A330s and also allow us to offer an improved product to our customers, since they have the full-flat business-class configuration.

We also want to highlight the importance of the codeshare agreement that TAM has signed with American Airlines. This is an agreement that we had already mentioned in previous calls. But that is now being marketed as of last week. And it's very significant in terms of allowing TAM to provide improved connectivity from the destinations it operates in the US. So passengers now will be able to connect to up to 50 destinations in the US from the TAM gateways in North America, which are basically Miami and New York, and also Orlando.

Regarding the Brazil domestic operation on the next slide, we continue with the strategy in this business unit that we have discussed already in the past. We continue focused on reducing capacity. We have shown approximately an 11% reduction in ASKs at June 2012, as compared to -- at June 2013, as compared to June 2012. This, together with a much better segmentation of the market, has allowed for a significant improvement in load factors that has been between nine and 13 percentage points in the past four quarters. Our load factors for the second quarter reached 78%. Our load factors in July, which we are ready published, were well over 80%. And this has allowed us to show an improvement in revenue per ASK of over 14% in Brazilian reais, as compared to the previous year.

This improvement is less, obviously, when we look at it in US dollars because of the depreciation of the Brazilian currency. But it's still a positive variation as compared to the second quarter of 2012 in US dollar terms.

Turning to the next slide to talk a little bit about the cargo operations. During the quarter, we saw about a 3% increase in cargo capacity, and a 3.3% increase in cargo traffic. This increase was in part driven by delayed seasonal demand, as compared to the second quarter last year. And that was offset in part by the continued trend of relatively weak demand on routes into Latin America, especially Brazil.

On the yield side, we've seen a decline of about 1.5% in terms of cargo yields, basically resulting from increased competitive pressures that we continue to see both from regional cargo operators as well as from international cargo operators.

Now, despite this challenging environment that we've been operating in in the cargo business, we continue to focus on certain very important initiatives. And, basically, in order to reaffirm the business model that LAN has historically had of integrating the cargo and passenger operations and maximizing the utilization of the belly capacity of the Company's long-haul aircraft.

So the belly, which now represents about 50% of our total cargo capacity, is the main focus of the cargo operation. We also are focusing on new opportunities in the domestic Brazil cargo operations, with better integrating the freighter operations that LAN had with the belly operations that TAM operated.

We are focusing on shorter-term operational and cost efficiencies and optimizing the operations with the Company's dedicated freighter fleet.

Regarding the synergies from the merger, the synergies are on track. We continue to expect to achieve the $600 million to $700 million at an EBITDA level by the fourth year after the merger, which is June 2016. During the first 12 months since the merger, we have estimated that merger synergies reached about $230 million in terms of the P&L impact. This is before merger costs, one-time merger costs, reaching approximately $100 million over the same period. And the main cost synergies are detailed on -- both cost and revenue synergies are detailed on this slide, and basically have to do on the cargo side with integrating the cargo operations of LAN and TAM, and maximizing the utilization of belly capacity on the passenger side by enhancing the conductivity by synchronizing the networks of LAN and TAM as well as sharing best practices. And, on the cost side, by a series of contract renegotiations and procurement initiatives, as well as other efficiency initiatives and best-practice sharing.

Now, the next couple of slides are basically to explain the impact on our financial results of the exposure to the Brazilian currency. As you can see on this slide, in terms of our operating exposure, we have about 35% of total LATAM revenues that are denominated in Brazilian reais, and approximately 27% of the overall cost of the Company denominated in reais. So this means a GAAP of about eight points that creates, obviously, a negative impact when we see a depreciation of the Brazilian currency versus the US dollar.

We've a series of initiatives that are focused on trying to manage this operating exposure, basically by trying to increase US dollar-denominated sales in the Brazil operations, for example. As well as by increasing the percentage of costs that are denominated or indexed to the Brazilian reais. We have already been able to reduce some of this exposure over the last 12 months. Since the merger, we estimate that this exposure has been reduced by approximately $100 million a year.

Now, on the balance sheet -- and this is something that we have also been discussing since the beginning of the merger; since a year ago, basically. The balance sheet exposure is generated because on the TAM balance sheet, the assets are denominated in Brazilian reais and liabilities are denominated in US dollars. Therefore, we see a negative impact that is non-cash and that is recognized as a non-operating impact but that still generates significant volatility at a net income level. This exposure on the TAM balance sheet was approximately $4 billion on day one of the merger in the second quarter of 2012, and we have certain initiatives in order to reduce that exposure that are already well advanced. And, as you can see on the slide, we've reduced the exposure to approximately $2.4 billion by June of this year.

That means that the volatility in our income statement is much less, and we expect to continue to reduce this exposure and to completely eliminate it by June of 2014 -- or mid-2014. Basically, this plan entails moving aircraft from the TAM balance sheet to the balance sheet of LATAM Airlines Group, where the functional currency is the US dollar.

Regarding the Company's fleet plan, you can see on the next slide our fleet plans at year-end for the next three years. We expect to end 2013 with 327 aircraft, same number that we had at the end of 2012. For 2014, a slight reduction in total number of aircraft. And for 2015, 334 aircraft.

We want to highlight that we have been working hard on modifying this CapEx plan and our fleet deliveries over the next few years, basically as a result of our strategies in both the domestic and international passenger businesses, and also as a result of the macro environment in general in the region. We believe that it's very important for the Company to have a conservative fleet plan, and also a fleet plan that maintains a certain degree of flexibility each year in order to adjust ASK growth as necessary.

You can see on the next slide how we have varied our fleet commitments as compared to the fleet plans that we had on day one of the merger. Fleet commitments in our prior fleet plan as of June 2012 for the next three years was $6.1 billion. Today, we have reduced the net free deliveries in 21 aircraft, and therefore reduced our total fleet commitment in $1.1 billion.

In addition to that, we have returned, or plan to return, certain number of aircraft and to sell also certain aircraft. For example, the A330; the 10 A330s that we mentioned previously. And this also has a positive impact when you look at the Company's adjusted net debt. If you add these two items together, the total impact on adjusted net debt, the total reduction would be $2.5 billion over the three-year period, as compared to what we had at June of 2012.

Finally, we are -- we want to share the guidance that we have for year-end of 2013, as compared to 2012. On the ASK front, in our passenger operations, we expect total passenger capacity this year to grow by between zero and 2%. This breaks down -- as shown on the slide, the international passenger operations grow in capacity between 2% and 4%. Domestic Brazil operations in that market, we expect to reduce capacity by between 7% and 9%. And in the Spanish-speaking countries, we expect to increase capacity between 12% and 14%.

Important to note that, for example, in the international passenger business, it's -- decreased capacity growth is actually reflected in a smaller operation when you look at year-end or the month of December of 2013, compared to December of 2012. So at December 2013, we actually have an operation that is 10% smaller than the operation that we had at year-end of 2012.

On the Cargo front, growth there is being mainly driven by the growth in our international passenger operations by the bellies of our wide-body aircraft. And we expect Cargo ATK growth this year to be between zero and 2%.

On the synergy side, we expect the synergy capture at an EBITDA level to be between $250 million and $300 million. This was a figure that we had already mentioned to you last quarter.

And, on the operating margin front, this is new guidance that we are introducing now that we will be updating on a quarterly basis. We expect operating margin for the full year of 2013 to reach between 4% and 6% in 2013. And this includes certain that assumptions regarding the average exchange rate of the Brazilian real versus the US dollar, which we currently have for the second half of 2013 at approximately BRL2.30, and the jet fuel price for the second half of this year as well of $122 per barrel.

That concludes the prepared remarks that we have. And now we'll be happy to answer any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jim Parker, Raymond James.

Jim Parker - *Raymond James - Analyst*

I have a question, first off, regarding capacity -- domestic capacity growth in Brazil. So you give for the year, you give the number -- well, a decrease for the year and then December year-to-year. So what does that imply for the third and fourth quarters year-to-year domestic Brazil capacity?

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

Thanks, Jim. Claudia?

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

Hi. Good morning, Jim, this is Claudia Sender from Brazil. We actually -- December is a month where, last year, we had already decreased our capacity quite significantly. For the first semester, we have already decreased our capacity by between 10% and 11%. So the second semester should have a slightly lower capacity reduction, which would be around 5% to 6%.

Jim Parker - *Raymond James - Analyst*

So how much would that be in the third quarter year-to-year? Then how much in the fourth quarter?

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

It should be around 5% to 6% both quarters.

Jim Parker - *Raymond James - Analyst*

In both quarters. Okay. And Claudia, regarding TAM. All right? Now, so in reais, if you could exclude any currency exchange impact, what is the profitability -- or is domestic Brazil profitable. And how does that look year to year for the second quarter? And I ask the same question about TAM's international operations.

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

Jim, as you know we do not comment on individual business unit profitabilities. What I can tell you is that our route increase has been quite significant and well above our cost increase. So our profitability has been improving significantly every quarter since second quarter last year. And we've been working to offset all the cost increases that are a consequence of the exchange rate movements here in Brazil. But we do not comment on the profitability of each business.

Jim Parker - *Raymond James - Analyst*

Okay, you say -- you do reveal that unit the revenue domestically is up in the quarter year to year 14%? I may have missed it, but what was the improvement -- or what's the year-to-year change in international unit revenue in Brazil?

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

We are not -- as of now, we've been looking at the revenue as an aggregate, not necessarily separated by brand. But I will turn over to Jorge Vilches, then.

Jorge Vilches - *LATAM Airlines Group S.A. - CEO Long Haul*

Yes, good morning. Just a quick remark on that. What we're seeing so far is significant improvement in [reps] for this second semester. And this also comes with capacity reductions that we are taking place already. So that's what we can say. And also, we're increasing a lot our international OMD's going to Sao Paulo, and that reduces our exposure to the Brazilian market.

And so far, what we're seeing in these last months, we're doubling the presence of international passengers from South America and long-haul passengers in long-haul [tubes] coming out of Brazil. And that reduces significantly our exposure in the international TAM operations.

Jim Parker - *Raymond James - Analyst*

All right. Thank you.

Operator

Duane Pfennigwerth, Evercore.

Duane Pfennigwerth - *Evercore - Analyst*

I just wanted to ask on your CapEx plan versus the last update, and maybe not versus the second quarter last year but versus what you'd published in the March quarter this year. It looks like sort of the sum of 13 through 15 is actually up about $200 million. Yet, your aircraft are lower, so it looks like maybe 14 is lower but 15 is net higher and, net, it's little bit higher. So could you just explain if the fleet plan is lower, which is good and looks like it supports capacity reduction into next year, why would the CapEx plan be higher?

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

Yes, hi, this is Roberto Alvo. Just a clarification there. We made a mistake in the last-quarter CapEx release because we included in 2015, we took out from CapEx airplanes that are already being financed through sale and lease-back. So we are changing -- actually, as you can see here, we're talking about [no] fleet commitments, so that you can clearly understand exactly which aircraft are entering the Company regardless of their going to be financed with normal financial debt or with sale and lease-back. So the decrease is $1.1 billion, as compared to one year ago. The decrease in 2015 -- or the change particular in 2015 from the previous quarter is pretty much unsubstantial. The most important change from the previous quarter relates to a lower quantity of airplanes arriving on the single-aisle. So less 320 family aircraft than what we anticipated in 2014 as of last quarter.

Duane Pfennigwerth - *Evercore - Analyst*

Okay, that's very helpful. I wonder if you would begin to discuss or maybe give investors some visibility into how you think about your total net adjusted debt. And I'd appreciate, certainly as a first step, the reduction versus the plans you had this time last year. But maybe just from the level at the end of the second quarter, I think there's roughly $12 billion in net adjusted debt. How should investors be thinking about that line over the next three years?

Unidentified Company Representative

We believe that the Company has declared that it's a very important goal to go back to investment-grade metrics. According to our Internet planning, we believe that to the course of maybe 2015, this will be achieved on a gradual deleveraging process the Company as soon as we see margins getting more to the levels that we expect to be in [long-branded] margins. And then, of course, there's going to be coupled with the [non-equity] offering at some time. But this is something that we expect to be happening in the next maybe three months, to go back to investment-grade metrics (multiple speakers) at three years, which is roughly talking about adjusted net debt going back to levels of 3.5 to four times adjusted net debt over EBITDAR.

Duane Pfennigwerth - *Evercore - Analyst*

Okay. Thank you.

Operator

Mike Linenberg, Deutsche Bank.

Unidentified Participant

Hello everyone, it's actually (inaudible) filling in for Mike. First, just general housekeeping. On your cash, can you tell us what the biggest driver was behind the increasing cash? I believe it went from $780 million at the end of the March quarter to $1.2 billion. What was the key driver behind that?

Unidentified Company Representative

Maybe increasing balance for loans and cash flow. So we stand at $1.2 billion as of June of this year. We expect to sustain the same levels of cash going forward, absent any equity offering.

Unidentified Participant

Great, okay. And then on your codeshare operation now with American Airlines and TAM. I know it's really early; I know you said it's only been running for a week or so, but what is your initial take from the start of that? Is it -- the development is positive, and are you feeling good about your prospects with pursuing that arrangement?

Jorge Vilches - *LATAM Airlines Group S.A. - CEO Long Haul*

Yes, Jorge Vilches again. I'm sorry, we don't comment on the merger between these two airlines. But what we can say is that our codeshare, Taman American, is moving forward. And we're really excited about the perspectives because -- let me give you some figures on this.

Today, the Brazil/US off-line market doubled the size of the Brazil online market; and on that market, we only have 5% of market share. So this opens a tremendous opportunity to go into the biggest market connecting Brazil to the US, which is the Brazil/US off-line. So it is going forward, and we're thrilled with the perspective starting right now for the second semester and next year.

Unidentified Audience Member

Okay, that's very helpful. And then, lastly, I just had a question about your revenue management system. I don't know if it's in the plan to have a joint revenue management system between LAN and TAM. Can you comment on that? And if you are planning to have a fully joint revenue management system, if there's any timing that we should be aware of? Just because, in the past, we've seen some airlines, usually [safe] operational issues when they reach that technology milestone. So I wanted to get more clarity around that. Thanks.

Jorge Vilches - *LATAM Airlines Group S.A. - CEO Long Haul*

Yes, on our international operations, we are working with (inaudible), but we are slowly introducing routes in single revenue management system. We already have decided which one it is. And by the end of this year and first quarter of next year, we're going to have all of our international operations in only one revenue management system.

Unidentified Audience Member

Okay. Thank you very much.

Operator

Eduardo Couto, Morgan Stanley.

Eduardo Couto - *Morgan Stanley - Analyst*

I have two questions, if I may. The first one is on the -- if there is any update on the equity offer. That's the first one.

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

Yes, hi, Eduardo. We continue to work on the registration of the rights offering. It's a rights offering that's going to be registered both in Chile as well as outside of Chile. And we are currently working towards being able to launch the rights offering in the fourth quarter.

Eduardo Couto - *Morgan Stanley - Analyst*

And the size, Gisela, it's going to be [$1 billion]? That's the number?

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

Well yes, I mean, what we approved at the shareholders meeting that was held in June was the issuance of 63.5 million new shares. Of those, up to 1.5 million could be used for the Company stock option plan and the remaining 62 million would be what's issued in the market. So the dollar amount is going to depend on the price at which the rights offering occurs, and that is going to be designed by the Board prior to the launch of the rights offering program.

Eduardo Couto - *Morgan Stanley - Analyst*

Okay, very clear. And just a second question. I saw that you guys cut the fleet plan for -- specially for next year. There was also an adjustment for this year. But for next year, there was like -- you are now expecting 10 aircraft less than what you are going to end this year. And then when we look to mix, it's pretty much a decline on the three 319s, which are domestic aircraft. Just wondering, this year, you're cutting like 10% capacity in Brazil. So can we expect another capacity reduction in Brazil next year, given that you're going to have less 319s, which I think operate pretty much here in Brazil?

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

Yes, Eduardo, this is Roberto Alvo. We are -- the fleet line going forward is focused basically on 787s and 321s. We have more than 50 319s in both LAN and TAM today. And our expectation going forward is to change the size -- average size of the airplanes and single-aisles both in the Spanish-speaking countries and in Brazil. So we're very comfortable by decreasing an amount of 319s in the years following. And we will see an important increase in 321s, particularly in Brazil next year and the Spanish-speaking countries probably in 2015.

We feel very comfortable by the fact that we will reduce our cost per ASK close to 20% with the replacement of the 319s with 321s in particular.

Eduardo Couto - *Morgan Stanley - Analyst*

But this is going to translate to lower capacity overall for Brazil next year, no?

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

Claudia, would you like to talk on capacity for next year?

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

Yes, let me comment. As of now, we're not looking at any capacity increase for 2014. And we're building flexibility to reduce capacity if necessary, given the macroeconomic conditions of the market. So we are not looking for another capacity cut, but we'll do it if necessary.

Eduardo Couto - *Morgan Stanley - Analyst*

Okay. And just a final question, Claudia, if I may, regarding the Brazilian strategy. Now you -- clearly, this year, you are shifting your load factor, right? Big jump now, almost 80% load factor, 10 percentage points higher than last year. But, you know, now you're at this 80% level, which seems a high level. So I was just wondering if you really continue to reduce some capacity or keep capacity flat in Brazil. Do you see much more room to start to increase prices more aggressively? Or how do you see the price trends, given that your load factor is now in a much higher level?

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

We've been saying this at every call, our strategy is to maximize routes, right? And, as you mentioned, we have achieved high levels of load factor. There are also some improvements that can be achieved. However, the future route increases will definitely come more focused on yield improvements rather than load factors. We have -- for the third and fourth quarter of 2013, we have expectations to keep the high 10% or above 10% (inaudible) level at around 14% of 15% for the second semester. And for 2014, where the cost impact that we've had, most likely we'll have some price increases to offset part of the cost increase.

Eduardo Couto - *Morgan Stanley - Analyst*

Very clear. Thank you all for the answers.

Operator

Stephen Trent, Citi.

Unidentified Participant

Good morning all this is Kevin (inaudible) filling in for Stephen Trent. Now, we were just kind of curious. I know you've been alluding to a possible equity offering to reach your target net debt to EBITDA levels. And also, you were talking about the right to offering that you already mentioned. We were just kind of curious if you are going to try to sell more than that 63.5 million shares anytime like the next couple of years, or is that kind of ceiling there?

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

The rights offering and the equity offering are the same transactions. So this new share issuance is being done through our rights offering first.

And no, for now, this is the only transaction that we have planned, and we are planning to issue the amount of shares that we have approval for. And that's really the only plans that we have for the near future. We'll reevaluate as necessary in the coming years if the need arises.

Unidentified Participant

All right great. Thanks. That was very helpful. Also, we just wanted to know if you sold any receivables during the second quarter?

Unidentified Company Representative

No, that still has been (inaudible) future flows receivable $450 million as has been delayed because of mainly market conditions. But we expect to go back, we're testing the waters now, in maybe September or early October. The plan is to go with that transaction to market with the $450 million.

Unidentified Participant

Great. Thank you. That was very helpful. That's all we have.

Operator

Brian Foster, CreditSights.

Brian Foster - *CreditSights - Analyst*

Yes, I just had a question about the balance sheet. Were the TAM senior unsecured bonds also moved up to the holding company? And if not, are there any plans to replace the value of that aircraft at the TAM subsidiary? Thanks.

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

There are no plans on the TAM bonds for the time being.

Brian Foster - *CreditSights - Analyst*

So they are at the TAM subsidiary?

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

I'm sorry? What did you say?

Brian Foster - *CreditSights - Analyst*

So the TAM bonds are still at the TAM subsidiary, they weren't moved up to the holding company?

Roberto Alvo - *LATAM Airlines Group S.A. - Chief Corporate Officer*

Correct.

Brian Foster - *CreditSights - Analyst*

Okay, thanks.

Operator

Duane Pfennigwerth, Evercore.

Duane Pfennigwerth - *Evercore - Analyst*

Hey, thanks for taking the follow-up. I just want to ask, you know, I think lawn historically had persistently high margins, right? Double-digit margins. I look at this period, 2006 to 2010, and maybe that clearly was a better economic environment in many of your markets. But is there any part of your business today that's sort of operating at similar levels to what LAN achieved historically? And how should we be thinking about sort of getting back to high margins for the Companies? Is there anything about TAM that's sort of structurally different that would prevent you from ultimately getting back to the kind of margins that your Company has historically enjoyed?

Unidentified Company Representative

Okay. I think it's important to note that this is not a TAM problem at all. The rationale -- the strategic rationale doing this deal and the value that we contemplated when we thought about the transaction, the synergies, and the positioning of the Company in the region and what it means stays exactly the same. We see no fundamental reason to think about not being able to come back to the previous land margins. So we're confident that what we are doing is providing fruits already. You can see that already in the change of results on the second quarter as compared to last year. So we're confident that we will reach profitability levels that you used to see at LAN before the merger.

Duane Pfennigwerth - *Evercore - Analyst*

Okay, thanks.

Operator

At this time there are no further audio questions.

Gisela Escobar - *LATAM Airlines Group S.A. - Director IR & Research*

Great. Thank you, everyone, for joining the call, and we'll speak to you next quarter. And you can reach us, obviously, at any time in between for any follow-up questions you may have. Thanks again. Bye.

Operator

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