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PRESENTATION

Operator

Good day everyone, and welcome to the LATAM Airlines Group earnings release conference call. Just a reminder, this conference is being recorded.

LATAM Airlines Group earnings release for the period was distributed on Thursday, November 13th. 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 international markets. Therefore, they are subject to change.

Now it is my pleasure to turn the call over to Ms. Gisela Escobar, Corporate Controller and IR Director for LATAM Airlines Group. Ms. Escobar, please begin.

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

Okay. Thank you very much and good morning to everyone. Thank you for being on the call. Here in -- we have with us on the call Andres Osorio, the CFO of LATAM Airline Group and Claudia Sender who is the CEO of TAM. And we're also joined by Andres del Valle, Corporate Finance Director; Nicolas Goldstein in charge of the International Passenger Operations and Alvaro Carril in charge of the Cargo Operations.



We're going to go through the slide presentation and then have some time for Q&A. If we start on the first slide in our presentation, the first thing to mention when we look at our third quarter numbers is that as we have already stated in our last call, in our second quarter results, we see during the third quarter the impact that we had related to the World Cup in the month of July. We were projecting already, as we had mentioned, this impact, and we estimate that it was approximately \$130 million in terms of reduced revenues.

As a result, we have overall passenger revenues compared to the third quarter of last year dropping by 6.5%. Passenger revenues are down approximately 7% and cargo revenues approximately 6%. Part of this was offset by a reduction in total costs. Operating costs declined by close to 3% compared to the third quarter of last year. And as a result operating margin reached 3.8% lower than what we had in the third quarter of last year.

When we look at the bottom line this quarter, it's important to understand that we had an impact of \$144 million on the non-operating side related to the exchange rate fluctuations. There was an 11% devaluation of the Brazilian reais in September compared to June, which was reflected in this exchange rate loss.

This in part was mitigated by the fact that we have been consistently reducing the exposure on the TAM balance sheet to the Brazilian reais. If you recall, last year at this time we were at an exposure of over \$2 billion and now we are down to approximately \$700 million of exposure at the end of September. And we expect that to be -- continue to be reduced a little bit more until the end of the year. So had we not had that, this impact would have been much larger.

And the other important thing to mention here when we look at the bottom line is the tax reform in Chile. As you know, there was an increase in the corporate tax rate. This is a gradual increase in the corporate tax rate, going up from 20% to 27% by 2017. And in Chile, for Chilean accounting purposes, the impact that we see on our deferred taxes of this higher tax rate is recognized in the balance sheet under a -- under the equity account. So we do not see this impact in our P&L and we will not see it in our P&L for Chilean accounting purposes.

If you look at our P&L in our 20-F which we will publish after the close of this year, under IFRS we will see that \$150 million impact in the P&L. That's related to the tax reform.

We wanted to talk a little bit about the global scenario that the industry as a whole is facing. In general, we have seen over this year, partly last year as well and going into next year, a generally weaker macro scenario globally and in Latin America. We have seen GDP growth rates slowing down significantly in most of the countries where we operate. And we have also seen depreciation in local currencies.

If you look at an average of the local Latin American currency, we had almost a 20% depreciation in 2013 and a 15% depreciation in 2014. All of this has affected in general the industry as a whole and especially yields across the industry as well.

In addition to that, and also in spite of that, to a certain extent we have seen that over the past -- and this is a bit of a longer time horizon, here we're looking at ASK growth from 2011 until 2014. Latin America in general continues to be a region with higher expected growth rates than other parts of the world.

It's also a region that represents attractive opportunities for most carriers to increase their service to South America. And we have seen the impact of that in increased capacity growth from many and most of our competitors.

Not only our competitors in the region, if you look on the slide you can see an estimate of ASK growth from our main South American competitors, and also significant growth in capacity from players from the US, from Europe and also from the Middle East that are flying into South America and especially into Brazil.

Considering this context, it's important to understand that we feel that we are in a much more strengthened position to face this environment having already completed the merger between LAN and TAM. So this scenario reinforces even more the strategic logic of the reason why we did the merger in the year 2012.

Now, we recognize that in general the environment is much more complex and much more challenging. And in the face of this we have been working on a strategic plan looking out until 2018 where we have identified three main critical success factors that we feel are key for us to focus on. And those are the customer, the strength of our network and our cost structure.

When we talk about the customer, basically our main objective is to seek to -- is to seek and to maintain the preference of our customers, and basically we do that by offering them a value proposition that is in line with the main attributes that those passengers are looking for.

We are seeking to offer a differentiated passenger experience, we're seeking to leverage digital technology tools for our passengers to be able to manage their own trip and their own experience. And we are also in the process of building a single brand and a single product and a single value proposition that's coherent across our network.

All of this we expect will improve the passenger experience. And we are already seeing over the next -- we have already seen an improvement on certain routes as we changed our aircraft to our -- to the newer, more modern models which in addition to efficiency provide a better passenger experience.

We are also in the process of retrofitting our 777 fleet which we expect to complete by -- probably most of it by the end of the first quarter of next year with premium business class which will also improve the passenger experience on the long haul routes out of Brazil.

If we talk a little bit about the network, we feel that we have a significant advantage in terms of the network given our presence in terms of -- and the connectivity that we can provide within the region. We're focusing this connectivity on strengthening certain hubs. And a very important milestone in this process has been the inauguration of Terminal 3 at Guarulhos Airport in Sao Paulo.

LATAM Airlines moved all of our operations to Terminal 3 at the beginning of October. So today if you've flown into Brazil, it's really a very different experience from what we had a few months ago. And we also inaugurated this week the new VIP lounge that we have at Guarulhos Airport. So this is an important step towards improving the strength of our network and really making Guarulhos the main hub in South America.

When we look at our cost structure, we have identified certain key initiatives in order to increase the efficiency of our operations. We believe and we are targeting a reduction of \$650 million in our total cost by 2018. This \$650 million are estimated based on our 2014 operations so that they are in today's dollars basically. And those savings will come from initiatives in all of these different elements that you can see on the slide.

The largest elements here in terms of fuel and fees where we have a smart fuel and lean fuel initiative that we have implemented, and also efficiency in the supply chain operations. We see reductions in terms of operations, in terms of overhead costs. We have important initiatives by 2018.

We also are working on reduction in distribution costs which will come from unifying our inventory and distribution systems between LAN and TAM. And we also have projects to significantly reduce our procurement costs.

So all of these initiatives are already being implemented and we expect to see the results over the next few years.

In 2015 towards a part of the savings that we'll achieve will be offset because inevitably we're going to have one-time costs related to some of these savings. But we still see, expect to see a net positive effect in 2015, and we expect that effect to increase going forward until 2018.

Looking with a little bit more detail, if you turn to slide 9, at our results and our margin performance during the third quarter, what we can clearly see here is that our main impact this quarter was in terms of revenue per ASK mainly driven by a lower yield. A part of that was in July as a result of the World Cup.

It's important to note here that we are comparing to a third quarter of 2013 where we had very strong revenue per ASK performance, especially in the domestic Brazil market. So that makes the comparison with last year much more difficult. And to offset that we have seen strong load factors, very strong load factors throughout the network and also savings and efficiencies in certain cost lines.

If we look a little bit more in detail at the passenger operations, on slide number 10, you can see that we continue to be very disciplined in terms of our approach to capacity growth. Our capacity in international long haul operations, it has been relatively flat, slightly down compared to the third quarter of last year. And that has allowed us to reach very strong load factors.

Load factors are up over 300 basis points. And revenue per ASK is declining mainly as a result of yield impact.

In terms of the Brazil domestic operations, this 2% reduction in ASK is mainly driven by a strong reduction in the month of July as well, and the same goes for the passenger traffic and for the revenue per ASK reduction which is mostly coming from lower yield as compared to the third quarter of last year.

And in the domestic Spanish-speaking operations, if you recall, initially when we started the year we expected higher growth rates. We have reduced those growth rates taking advantage of flexibility that we have in all of the different markets and also looking at a more challenging environment with more depreciated currency. So that has allowed us to mitigate the negative impact of the slowdown because we had the flexibility to reduce our growth. And basically we saw a decline in revenues per ASK of approximately 5% as a result of lower yields offset by higher load factors.

Looking at the cargo operations on slide 11, you can see that in terms of cargo we have been very strict in terms of reducing our cargo growth, especially when we look at our freighter fleet. We have been consistently focused on controlling the growth in our freighter fleet basically focusing on making the best possible utilization of our belly capacity. That has allowed us to offset somewhat the impact of the relatively weak cargo demand that we are seeing throughout the network. And as a result, the cargo load factors improved about 2 points as compared to last year.

This strategy of a very disciplined freighter capacity management, we expect that to continue going forward. And specifically we have reached an agreement with an operator outside of the region to lease out three of our 767 freighters to this operator. So that is very good news in terms of being able to reduce our freighter capacity and to better deal with this weaker cargo environment.

If we look at the cost side in general, here we have seen clearly positive performance in terms of fuel, fuel and of ex-fuel costs. Our operating costs ex-fuel are down 3.6%. Cost per ASK equivalent ex-fuel are down 1.6%, the main drivers here being wages and benefits which is the largest line, as well as other costs.

Aircraft fuel costs were down 0.8%, in part driven by a relatively good performance in terms of market fuel prices but also by increased efficiencies as a result of our more efficient and newer fleet models.

If you look at the next slide, number 13, we can see our fleet plan going forward. Here we are basically expecting a relatively small variation in terms of the total number of jets that we are operating. We expect next year to end the year with 320 jets, down from 325 jets this year. And in 2016 a small increase.

The important thing here to highlight is the growth that we have in terms of new aircraft is coming mainly from new technologies and much more efficient aircraft. We expect to have at the end of this year 10 787s in operation. At the end of 2015 this will go up to 17, and by 2016 we should have 23 787s in addition to seven Airbus A350s in operation.

In terms of the narrow-body fleet, we are looking also at almost doubling our capacity in A321s which given the larger size of the plane has a lower cost per ASK as well.

The 787s that we have today allow us to reduce our cost per ASK by about 10% as compared to last year when we look at that at our long haul operations. And for 2018, our estimate is that we will get close to 70% of our total ASKs in our long haul operations with new technologies. So that's going to result in significant efficiency.

All of these fleet efficiencies that we have already talked about in the past are not included in the \$650 million of cost savings that we mentioned before. So our cost savings plan that we have put in place now as a result of our strategic objectives for the next two years are all in addition to the renewal of our fleet which is something that we had already discussed a few quarters ago with you.

And finally, we are maintaining our guidance for this year both in terms of ASK growth and in terms of margins. Looking at the margin performance that we've had in the first nine months of this year, we are targeting the bottom of the 4% to 5% operating margin range. And we have introduced our ASK growth and ATK growth guidance for 2015. Preliminarily we're expecting to grow our total ASK by between 2% and 4% for next year.

The Brazil domestic operations we expect to remain flat in terms of ASKs with about 5% growth coming from our international operations and our domestic Spanish-speaking operation.

In terms of cargo capacity, we expect between 1% and 3% capacity growth, with that growth coming mainly from growth in the belly capacity, so driven by that 5% growth in international routes. No growth coming from freighters. On the contrary, we have a reduction in terms of our freighter capacity.

Those are all the prepared remarks that we have and we feel the most important highlights for the quarter. And we'll now be happy to take any questions you may have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Michael Linenberg, Deutsche Bank.

Michael Linenberg - Deutsche Bank - Analyst

Couple of questions here. Gisela, when you started out with your comments, you talked about the fact that yields were under pressure, you were seeing a deceleration in GDPs across the region. The currency is under effect -- is under pressure. And so that would suggest to me that as we look out over the next six or 12 months you would want to take a -- you would want to take sort of a position where your capacity growth would be very modest. Maybe you would even see additional contraction.

On the other hand, you did mention the fact that the competition had been adding a lot of capacity in your market. And so I look out at your 2015 capacity plan and it just -- I'm trying to sort of reconcile that with what's going on with respect to the macro on one hand, on the other hand you have the competition.

And so are your growth rates in many of your different segments including cargo, is that in response to the competition or is it that you think the economies in the region are going to get better in the later part of 2015? I mean, what's going on here? It just seems too aggressive based on what the macro situation looks like presently.

Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

This is del Valle talking (multiple speakers).

Michael Linenberg - Deutsche Bank - Analyst

Hi.



Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

We believe we already did the adjustments during 2014. And as you can see, the growth that we are foreseeing for next year is related to the new fleet that we are getting. This is a smart way of growing which is with more efficient fleet. That's why we are growing not with new routes but mostly with new airplanes, with more seats and more efficiency.

Michael Linenberg - Deutsche Bank - Analyst

Okay. Okay, so that's --

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

So there's no -- not a significant development of new long haul routes, for example. It's basically we're taking delivery of a 787-9 that are -- that have 50 more seats than on 787-8. And that by replacing those aircraft on the routes that they operate we're able to get a much more efficient operation and relatively efficient growth.

Michael Linenberg - Deutsche Bank - Analyst

So maybe the way to think about it is the 2% to 4% ASK growth across your system, maybe 90% of that is increased gauge, improved efficiency of the current fleet and maybe there's a small part that's -- there's always some new markets. Maybe that's the way to think about it.

Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

More fleets, efficiency with these new fleets and also we are growing a little bit to Caribbean also.

Michael Linenberg - Deutsche Bank - Analyst

Okay.

Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

^ (Multiple speakers).

Michael Linenberg - Deutsche Bank - Analyst

Okay. Okay, good. Perfect.

My second question, the new regional aviation plan, let's -- if we assume that that does pass the -- in Brazil the upper house, the lower house, and it's signed by Dilma in the next few weeks, from what I'm hearing is in the initial year it looks like the subsidies could be something on the order of like BRL500 million.

I know on the GOL call yesterday, they said \$20 million. So when I think about that, that's BRL50 million. So it seems like there's another BRL450 million in the first year up for grabs. What -- just based on your current fleet, what do you think the potential upside is to TAM?

And then I know that it's also been reported that you are potentially planning and bringing on some smaller jets maybe starting in 2015. How much of that initial 500 million do you think you could capture as a result of having a new flight? It's the incremental aircraft that will that will serve those regional markets. So it's sort of a two-part question.



Claudia Sender - LATAM Airlines Group SA - TAM President

This is Claudia from Brazil. Thanks for your question.

I think it's very hard to predict the amount of subsidy that, first, will be distributed, and, second, that each company will be entitled to. Given that the measure that it's transiting through the houses does not give the formula, does not say the formula for calculation of the subsidies.

But after it passes through all of the houses and it's vetoed or approved by President Dilma, then there is a whole other definition which is how will the subsidy be distributed. Therefore, it's very hard to today to define. Probably our competitors are doing some sort of estimates. But today it's very hard to define how the subsidy will be distributed, which will be formula for calculating it and how much would each company be entitled to.

Currently TAM already flies through 11 regional airports. We do have a lot of flexibility into our current -- with our current fleet and current operational capacity to serve additional cities. And regardless of what is approved by the government, we do believe that there are other regional cities in Brazil that are interesting for us to serve with our current fleet and with a new fleet. And our way of looking at the subject is that getting into a new market must make sense both strategically and financially independently of what the subsidy will bring.

Therefore, we're finishing our studies to understand which are the cities that we want to address first, how we want to do it, but do it in a much more integrated way that will strengthen our connectivity and give more -- bring more passengers to the whole of the LATAM network not only the domestic Brazil.

Michael Linenberg - Deutsche Bank - Analyst

Great. That was helpful, Claudia. Can I ask you just one more too, and this is on Brazil-US open skies, which I believe it fully phases in at the end of 2015 or sometime in 2015. And I'm just curious, I believe at that point you would have the right, probably by way of TAM, of using TAM to seek anti-trust immunity and establish a joint venture with a US carrier which presumably would be American Airlines.

At what point do you start that process and at what point could we actually see American and TAM flying basically as a -- almost as a single entity as a joint venture with anti-trust immunity. Is that a 2016 event? Could we see it in 2015? What's the timing on that? Because I know we're getting up to the final year of the phase in?

Claudia Sender - LATAM Airlines Group SA - TAM President

Yes, you are absolutely correct about the open skies definition. However, the whole process is still, it's still ongoing and we don't have set dates yet.

Michael Linenberg - Deutsche Bank - Analyst

Okay.

Claudia Sender - LATAM Airlines Group SA - TAM President

So as soon as we have more information we may disclose them to you. But we're in the process, we're defining the strategy of how to pursue this type of anti-trust and immunity deals going forward.



Michael Linenberg - Deutsche Bank - Analyst

Okay, great. Thank you.

Claudia Sender - LATAM Airlines Group SA - TAM President

Thank you.

Operator

Savi Syth, Raymond James & Associates, Inc.

Savi Syth - Raymond James & Associates, Inc - Analyst

My first question is on just domestic Brazil. I was wondering if you could share with us the monthly progression of the (inaudible) in 3Q and just to get a sense of how it's looking as we move into the fourth quarter here.

Claudia Sender - LATAM Airlines Group SA - TAM President

Sorry, just to make sure I understood your question. You asked about our CASK evolution?

Savi Syth - Raymond James & Associates, Inc - Analyst

Yes, CASK in the domestic Brazil.

Claudia Sender - LATAM Airlines Group SA - TAM President

All right, so I think this is one of the very good news that we have. When we look at our capacity to reduce capacity at the time as we gain efficiency, third quarter compared to -- this year compared to last quarter's the same year, our total cap has increased less than 1% for the narrow-body operation in Brazil. Therefore, our capacity to generate more margin with our revenues has definitely improved.

Savi Syth - Raymond James & Associates, Inc - Analyst

Okay, helpful, thanks Claudia. And just, and as you look forward, is the unit revenue, is that improving? I know July was really bad. But how is it looking at as we look into the seasonally stronger fourth quarter?

Claudia Sender - LATAM Airlines Group SA - TAM President

Well I think one of the things that come to mind when we look at the performance in this last third quarter compared to last year is that last year we had already -- we were already operating at a very high level of load factor. Last year third quarter, we operated around 81% load factor which was more or less the same as we operated this year. So we had already increased our performance in capacity utilization and how do we use our assets.

Looking forward, what we do believe is that we'll grow -- the corporate traffic will catch up compared to what was seen during the World Cup. So as we look at this year's performance compared to last year, given that there was a lot less corporate revenue and we had to stimulate the leisure traffic, we did suffer in our yields but we didn't expect a significant growth anyway for this year.

So next year we do expect the bulk of leisure traffic and the corporate traffic to catch-up compared to what happened this year given that during the World Cup the corporate traffic was very -- went down to bare minimum and also it was impacted later in the quarter by the election process as well.

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

Understood. That was very helpful, thank you. And then just returning to the regional market, the pressure, you mentioned in the press release about competitive capacity being reallocated from Venezuela and that putting pressure on the rest of the region. How is that progressing and when do you expect that pressure to start to abate?

Andres del Valle - *LATAM Airlines Group SA - Corporate Finance Director*

This is a reality that we need to face, which is more capacity and prices for the customers going down every bit. But again this is adjusting, and now we are observing that this is stabilizing during this quarter, okay. So we are -- then with the adjustment with Venezuela with the operation that we have today and what we see looking forward is like a regular operation in the rest of South America.

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

And from your competitors as well?

Andres del Valle - *LATAM Airlines Group SA - Corporate Finance Director*

For the competitors as well. I mean, they already did the adjustment also on the capacity.

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

Got it. And are the yields improving or will that take time?

Andres del Valle - *LATAM Airlines Group SA - Corporate Finance Director*

Yields went down during this quarter and are coming back slowly to regular numbers.

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

Got it. All right, really helpful. Thank you.

Operator

[Bernardo Villas], GBM.

Bernardo Villas - *GBM - Analyst*

I was wondering if you could share with us a timeframe of -- on your efficiencies and cost reduction initiatives, meaning how much should we get from in 2015?

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

We expect that by the end of 2015 we should be able to reach between 25% and 30% of the target, but 2015 is also the year when we will probably have the most one-time costs related to these savings initiative. So that will mitigate probably about half of the savings. And then going forward for 2016-2017, it would just be a sort of linear ramp-ups to the \$650 million target.

Bernardo Villas - GBM - Analyst

Okay. Perfect. And one of these one-time cost that you are mentioning, how much will they amount in the next few years?

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

For next year, I probably do -- we're estimating something between \$70 million and \$80 million for the full year, part would be -- would be just -- part of it would be investments and part of it would be -- would actually be one-time costs.

Bernardo Villas - GBM - Analyst

Okay, perfect. And does this one-time costs, are they also related to your other two factors that you are willing to improve like customer experience, unifying your brand and something like that?

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

They don't include -- no, they don't include costs related to the other projects.

Bernardo Villas - GBM - Analyst

Okay. So the other projects, how much investments should we expect from?

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

That will depend. There are certain decisions that we have not yet finalized. So, for example, we do have a plan to move to a single brand, but we're still defining exactly what that will be and when the change will be made. So once that decision is taken, we'll be able to quantify exactly what the costs associated to that will be. So we don't have a number right now regarding that.

Bernardo Villas - GBM - Analyst

Okay. Thanks so much for your time.

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

Thank you.

Operator

Eduardo Couto, Morgan Stanley.



Eduardo Couto - *Morgan Stanley - Analyst*

Two questions from my side. First one on flexibility for next year. Can you comment a little bit what type of flexibility would you have to maybe reduce capacity next year if demand is softer than expected or if competition is tougher, how much can you reduce in terms of capacity for 2015?

And also for 2016 you have a big jump in the fleet. So if demand also does not improve in 2016, what can you do to control capacity and avoid oversupply?

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

We have in general when we look at our narrow-body fleet a significant amount of flexibility that comes from being able to [lease out] our aircraft to different markets.

So if you -- we saw that this year for example especially with the Spanish-speaking operations. We had initially started the year expecting to grow between 6% to 8% in our Spanish-speaking operations and we are going end the year growing probably about half of that.

Mainly because we were able reassign aircrafts to other routes. And also we have a certain amount of aircraft, we have approximately one-third of our fleet that is on operating leases. And as those aircraft expire, we are able to (technical difficulty).

So we always maintain a certain amount of flexibility. I think that part of it also has to do with being able to renegotiate some of our fleet deliveries if necessary. If you recall, at the beginning of this year we made significant changes in terms of our fleet deliveries for the next few years. So today this is a fleet plan that we feel very comfortable with.

As Nicolas already mentioned, a lot of this growth is really efficient growth, so it just comes from new aircraft that come in replacing existing aircraft, and therefore providing a better passenger experience and a more efficient operation in terms of cost per ASK.

So we don't -- we feel that this fleet plan is something that at this point we are very comfortable.

Eduardo Couto - *Morgan Stanley - Analyst*

So would you be able to maybe contract 2%, if it's necessary, Gisela?

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

Yes, so in [2017], we have 17 aircraft that are expiring their leases. So that gives us a certain amount of flexibility. If you look at the total fleet, that's about 5%.

Eduardo Couto - *Morgan Stanley - Analyst*

Okay. And --

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

(Multiple speakers) -- beginning of the year, so it's probably half of that. But there is flexibility in that sense.

Eduardo Couto - Morgan Stanley - Analyst

Okay. And the second question is regarding forward booking on the international flights out of Brazil. Can you give us some color on forward booking for international? The reals is getting weaker. You also have new competitors starting to fly to the US now in December. So if you could give us color if forward booking international out of Brazil is good or if it's really deteriorating, it would be helpful.

Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

So the demand is sort of fine. I mean, there are passengers, you can see that in the load factor that we have. Actually we are improving the load factor in a good amount and we are around 85. So there are passengers (technical difficulty).

Eduardo Couto - Morgan Stanley - Analyst

But you are not concerned about the new competition that is coming?

Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

Of course we are very, very concerned about any competition, but they are (inaudible) depending on the price. We can play games (inaudible) for them, for us and the passengers are there. The Brazilian market is huge and you can simulate the market with load factors.

Eduardo Couto - Morgan Stanley - Analyst

Is there any currency level that you think would maybe impact demand for international flights out of Brazil more significantly, meaning if the real goes to three or weaker, do you think that could be a more mature impact on international demand or no?

Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

It can impact our demand if there is a huge change overall. But with the numbers that we observe today, 265, close to 260, the demand is still there. If we don't see a huge impact with this price.

Eduardo Couto - Morgan Stanley - Analyst

Okay. Thank you.

Operator

Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - Evercore ISI - Analyst

You probably have it in the slide back there which we don't have access to, but could you just remind us what your hedge positions are for 2015 both for fuel and FX and what the price points are?



Andres del Valle - LATAM Airlines Group SA - Corporate Finance Director

Andres del Valle here. For 2014, we have a hedge in place, (inaudible) [fuel] of 70% of total consumption, that's for Q4. And going forward, we have 30% for Q1 and 15% for Q2 and 10% for Q3.

Now, we are building the hedge for the next year. Of course we have seen a big drop on prices. And then of course we will start (inaudible) with that -- I mean, lower baseline. That's up for fuel.

So we should see losses in Q4 in respect of our fuel given that the levels are high at the current (inaudible) price. We have seen a lot of volatility and then lower prices, that's for fuel.

For FX exposure, mainly real, we have hedges in place which go through the end of Q4 of this year at the level of roughly 2.41. So it's in the months to speak. So we should see a cross-effect on those hedges for Q4 on the real. Of next year, given the recent volatility on currency, especially of the real given the elections was very volatile. So we haven't yet build our position for next year, but we do intend to do so.

Duane Pfennigwerth - Evercore ISI - Analyst

Okay. That's very helpful. Thanks.

And then I wonder if you could comment on one market specifically, Argentina. What you are seeing on the ground there in terms of demand and the competitive environment? And I wonder if you would be able to quantify what the impact was from a profitability perspective in the third quarter from that market. And thanks for taking the questions.

Nicolas Goldstein - LATAM Airlines Group SA - CEO, International

This is Nicolas again. What we observe in terms of demand is passengers going down, close to 15% and yields -- a strong 10% to 15% and yields going down from 5% to 8%. So when you combine both, we are close to 20%, which is less than what we commented on the last call.

Of course, we are doing on a weekly basis review on Argentina because we know that the demand can change. So we are observing this market very close, every single week with the domestic market, with the regional market and in the international long haul market.

Duane Pfennigwerth - Evercore ISI - Analyst

Okay. Thank you.

Operator

Daniel Guardiola, LarrainVial.

Daniel Guardiola - LarrainVial - Analyst

I have a couple of questions. First of all, I would like to, maybe if you could please share with us what your thought is on a possible yield contraction looking forward as a result of basically lower prices and greater competition in Latin America?

And my second question is regarding IG metrics. Basically I would like to know your thoughts on when are you expecting to [comp] back IG metrics in this scenario in which you are expecting to implement cost cutting initiatives and to further execute synergies. Thank you.



Andres Osorio - LATAM Airlines Group SA - CFO

I didn't get the first question, so let's answer the second and maybe please do the first one again.

As to investment grade, as I told a couple of weeks ago, based on the plan and the strategic plan that we have to the year 2018, we expected that we can recover the investment grade by that time.

As you may know, this year the results will not help us to recover, but we expect that that would increase some result for 2015, 2016 and 2017. When the evaluation of 2017 will be in place, we expect that the numbers and the balance and the results will come out with a good evaluation and that we can recover our investment grade by that time.

Daniel Guardiola - LarrainVial - Analyst

Okay. Thank you. So my first question was regarding basically a scenario of low oil prices. And I would like to know what are your thoughts on a possible yield contraction looking forward as a result of lower fuel expenses and greater competition in South America?

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

Yes, well, in general there is -- a scenario of low oil prices will inevitably in the medium term in general be passed through into yield. So we do expect to see the fuel prices go down. Obviously most carriers will eventually pass that through in terms of prices and prices will tend to adjust downwards in the same way that when fuel prices go up through a fuel surcharge mechanism, we increase and try to pass through a significant part of that in our yield. So, yes, we would expect lower yields if the fuel price decline significantly.

Daniel Guardiola - LarrainVial - Analyst

And a follow-up question regarding this. I mean, while expecting a specific market such as Brazil and Colombia regarding the competitive environment, I mean, basically regarding the low-cost carriers, I mean, in a low price -- in a low oil price scenario, could you expect a further deterioration in market share?

Claudia Sender - LATAM Airlines Group SA - TAM President

Hi, this is Claudia. Let me try to tackle the Brazil question. I think overall when you talk about oil prices, that impacts everybody the same way, depend -- especially for us going into more competitive aircrafts I think, our oil -- our fuel consumption and all of the initiatives that were implemented in terms of smart use of fuel, we do see that our consumption will go down, our cost will -- should go down comparatively. But I think it impacts everybody, so it's shouldn't the overall dynamics of the market.

Daniel Guardiola - LarrainVial - Analyst

Okay, thanks very much. And what about Colombia?

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

In Colombia regarding the fuel price or --?

Daniel Guardiola - *LarrainVial - Analyst*

Yes, yes, exactly, because basically where we have seen Colombia is there is a new low-cost carrier that has been gaining very rapidly market share. So I would like to know looking forward what your strategy is to somehow counteract this effect in a low oil price scenario?

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

Well, I think that in a low -- I mean regardless of the oil price scenario, I think what we've been seeing in Colombia is a very healthy market. We have seen a -- we have seen very significant growth this year in Colombia from all the carriers. We actually ended up growing domestic Colombia more than we had additionally expected as did our main competitors.

Part of that -- and this is the third player in that market which is the low-cost carrier you're referring to is also in line with that. I think that for this year Colombia has been probably the healthiest market in the region. And I think if the fuel price declines significantly we'll probably see the same sort of effect in terms of the competitive environment that we will see in other markets, but it shouldn't change the fundamental dynamics that we're seeing in that industry.

Daniel Guardiola - *LarrainVial - Analyst*

Okay. Thank you very much.

Operator

Thomas Kim, Goldman Sachs.

Thomas Kim - *Goldman Sachs - Analyst*

I wanted to go back to one of the earlier questions that was asked about corporate travel. But I'm not sure why there is this static here on this line.

How do we get confidence in corporate travel actually picking up and improving other than the fact that you've got a low based effect? Is this based on conversations we're having with companies? I realize that corporate travel budgets are only being thought about right now.

But I'm curious as to what initial discussions that you may have had and I'm not asking to spell out specific customers, but how do we get indication based on your conversations or if you can give us color in terms of your talks with your corporate customers as to how they're thinking about corporate travel budgets next year in view of a challenging economy.

Claudia Sender - *LATAM Airlines Group SA - TAM President*

I was the one who made a comment about the corporate traffic, so I'll try to tackle your question. Let me know if I answered your question correctly.

What we do see is that especially during the World Cup period the corporate traffic went down to levels that we haven't seen in a very, very long time. And since July we have seen a very significant pick up during the months of August and September. We have seen a very significant pick up in corporate travel in actual flown traffic.

October was a little softer due to elections and lower traffic in Brazil. But since after the election, we have seen again a pickup in corporate booking. So this comes from both our conversation with the travel -- corporate travel agents but -- agencies but also from the real bookings that are coming from these agencies and these clients.



Thomas Kim - *Goldman Sachs - Analyst*

I mean, is there any -- I realize, look this is a very transactional industry and it's hard to know what the forward will be, but I guess as the year progresses I mean would you be able to include in some of the commentary the -- further sort of commentary around corporate bookings? I mean I feel like this is a really good point. But it's just one for us where this seems like transparency.

It's harder to -- for us to really see other than just looking at some of the bigger macro trends or even looking at various CapEx budgets which can be sort of indicators on that front. And I'm just wondering how do you -- how can you help us think about the forward for corporate travel into next year, again other than just the fact that you've got a low base effect.

Claudia Sender - *LATAM Airlines Group SA - TAM President*

Well, I think it's hard to -- given compared to this year, we're confident that there will be a pickup given the, what you said the base effect and the World Cup and elections effect. Other than that, it does have a lot of dependency on how the economy will grow in the regions. So it's kind of hard, it's very hard right now to make a full year projection of how the corporate traffic will behave in 2015.

Thomas Kim - *Goldman Sachs - Analyst*

And that's fair enough. Can I switch topics on the fuel, the base case assumption for fuel? May I ask why you're using \$120 as the base for your fuel assumptions? It seems really conservative.

Claudia Sender - *LATAM Airlines Group SA - TAM President*

Yes, the \$120 is what we are using for 2014. So it's probably going to end up being slightly lower than that for full-year 2014. But for 2015, we still haven't -- we still haven't finalized the budgeting or provided any guidance. So it will most probably for 2015 be using a number lower than that in line with the current market trend.

Thomas Kim - *Goldman Sachs - Analyst*

Okay, all right, that's really helpful. Thank you.

Operator

[Kevin Keznic], Citigroup.

Kevin Keznic - *Citigroup - Analyst*

This is Kevin Keznic filling in for Steve. Basically all our questions have been answered. But just kind of circling back to the regional aviation bill. Now, assuming that Dilma doesn't veto the foreign ownership part of the bill and it does pass through all the houses, do you think this could lead LATAM to try to buy out Amaro's voting stake?

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

When we first did the structure of the merger we have a -- we have certain shareholders agreements and that basically maintained a percentage of the voting shares with the Brazilian shareholders. And unless anything is revised in the law, we would not make any changes to that structure.

Kevin Keznic - Citigroup - Analyst

Okay, yes, but I mean there is a potential, I guess, that -- I don't know, the statutory 20% cap gets lifted to like, I mean, theoretically 100%. Would it be interesting to you to kind of pursue a higher percentage, I guess, or buying out of some of the voting stake if that does pass?

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

It would be something that would -- that, yes, that it's provided for in the shareholders agreement, but it would require this change to go through first.

Kevin Keznic - Citigroup - Analyst

Understood, thank you.

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

Yes.

Kevin Keznic - Citigroup - Analyst

And just one more question. What are the key factors in your decision to purchase regional aircraft? Are you seeing like Brazil's potential regional aircraft stimulus against high jet fuel, kerosene taxation on domestic flights and FX risks? And when you think of regional aviation are you thinking about fleet related to adjustments on system-wide basis or just in Brazil?

Claudia Sender - LATAM Airlines Group SA - TAM President

Well, I think the first market we're seriously considering is for domestic Brazil for the regional routes given that it makes sense. Well, the key factors that we're looking into are, first, what type for routes are better-served with a lower cost per trip rather than a lower cost per seat. Second is what type of airports do not support bigger airplanes, that would require smaller fleets to operate and are markets in development.

And third, I think this is the -- del Valle talked about before, is as we want to provide the better -- the best network coverage for all Latin American passengers to, from and within Latin American cities. And to make sure that we provide that we will need probably in the future smaller aircraft to serve some markets that are growing and are -- that are very interesting and are important for our clients.

But first and foremost, this market need to be both financially and strategically viable regardless of the subsidy. After that, we may consider getting into other international or regional markets out of Brazil.

Kevin Keznic - Citigroup - Analyst

Understood. And I'm sorry you actually led right into the next question I wanted to ask. How would potential aircraft fleet additions in the lower gauge, I guess, segment dovetail with your announced plans to reduce your costs overall by like \$650 million, especially since you're like -- like you're accepting larger planes and that's driving your capacity growth expectations for 2015? But how would these smaller planes, if you acquire them over time, fit with your cost reduction plans?



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

Well, I think as Claudia said, these planes are evaluated on their own in terms -- I mean, we would look at the whole project and make sure that there is financial viability in that.

The numbers that we have provided in our current plans do not include any investments in regional aircrafts, the fleet plan that you saw in the slide. And the \$650 million in terms of cost would occur independent of the decision that we take regarding the regional aviation aircraft. Those would be evaluated on their own based on the financial feasibility of their operations.

Kevin Keznic - Citigroup - Analyst

Okay. A very useful color, and thank you for taking the questions.

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

No problem.

Operator

Renato Salomone, Itau BBA International, SA.

Renato Salomone - Itau BBA International, SA - Analyst

Just wanted to check if you've come to the decision on the timing for the migration of TAM's reservation systems from Amadeus to Sabre. And when you talk about the one-off costs that you have projected for 2015, if you are considering implementation costs related to reservation systems and a potential, I don't know if there will be a fine if you decide, if you leave Amadeus. If I'm not mistaken, you've signed a 10-year partnership with them in 2010. If could explain this and then give some color on when this migration of systems will take place on -- at TAM.

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

Well, currently, as you know, TAM and LAN are functioning on different reservation systems. We are in a process of evaluating both of those to define how a potential integration of this could take place. There is not a decision which one it would be. So we're still looking at that and we haven't laid any definitive decision regarding that.

And in any case it would not be something that is -- that would happen within the next probably year to two years. So it's a bit of a longer term project and there still hasn't been a definition taken to that effect.

Renato Salomone - Itau BBA International, SA - Analyst

Okay. Thanks.

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

Thank you.



Operator

Bob McAdoo, Imperial Capital.

Bob McAdoo - Imperial Capital - Analyst

-- queue a little bit. Could you tell us what you're actually paying now in terms of your current fuel price and how that is as compared to what it was in the third quarter so we get a sense of how much downturn we've seen in the price. And then secondly as to rates to fuel, when you talk about being 70% hedged, do you hedge with swaps where you're actually locked in or are these calls or the derivatives where, yes, there is a premium that you've paid but that premium is a one-time deal? Could you tell us how you actually do your hedging?

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

Yes, regarding the price for the third quarter, we were paying \$3.39 this quarter on average excluding the hedge effect. And that's 1.5% lower than what we were paying in the third quarter of 2013. And Andres, can give you more details on the hedging trend.

Unidentified Company Representative

Yes, regarding the second part of the question, you have exactly what we had for Q4. We have roughly 50% of total consumption hedged at (inaudible) swap and then the rest at 20% to total 70% against that commerce.

Bob McAdoo - Imperial Capital - Analyst

20% in commerce? I was having trouble hearing you. It wasn't quite loud enough, please.

Unidentified Company Representative

20% is commerce and 50% is in swap.

Bob McAdoo - Imperial Capital - Analyst

Okay. And then another -- my question on prices was what we're seeing today in the fourth quarter versus sequentially the third quarter we just completed. How much are we seeing in the -- within the last few weeks with the price of oil coming down as much not what was it versus last year.

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

Yes, well, we're seeing the same, so our fuel prices go down in line with the market price reduction with approximately like a two-week lag.

Andres Osorio - LATAM Airlines Group SA - CFO

Right, right.

Bob McAdoo - Imperial Capital - Analyst

Two-week lag, okay --

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

So something in line with market prices, probably with a 15-day delay.

Bob McAdoo - Imperial Capital - Analyst

Okay, great.

And then secondly, in the last several quarters, going back to Brazil and domestic Brazil and the revenue issues over there, in the last several quarters we've seen both with you and with GOL where you've reduced capacity wisely to get rid of flying that was less productive and as a result the RASK has gone up. And both of you carriers seem to be moving in the same direction and doing the right thing. But in this quarter, there seems to be a divergence where both of you reduced your capacity but their RASK went up 9% and yours went down 11%. And obviously you both had World Cup issues. Is there something else that happened there that I'm missing?

Claudia Sender - LATAM Airlines Group SA - TAM President

Yes, I think the big difference is that in the same quarter last year TAM was already operating at 81% load factor whereas the competition was below 70%. Therefore, the yield impact was felt by everyone, but there was more room for load factor improvement in the other carriers than we had in our operation. But if you look back in the previous 18 months, in the last six quarters, we have been improving our load factors and now we have a more limited room for growing in terms of additional passengers.

Bob McAdoo - Imperial Capital - Analyst

So the difference is --

Claudia Sender - LATAM Airlines Group SA - TAM President

So that's where the RASK difference really impacted us compared to last year.

Bob McAdoo - Imperial Capital - Analyst

So it's really, there really isn't anything other than just that -- we all knew that their load factor had climbed in the last quarter, so. And you're saying really that's really the only difference that we see is --

Claudia Sender - LATAM Airlines Group SA - TAM President

That's our point of view. Also if you look at our RASK, there are fewer RASK. There is some difference between the two companies which is our stage length is on average 17% higher than the -- the main competitor. So when we compare RASK's stage length adjusted, our RASK still carries a premium of around 5% even in the third quarter of this year.

Bob McAdoo - Imperial Capital - Analyst

Yes, I know, I was aware of that. I was just curious about this difference in the change. And I guess -- and I had -- I didn't realize that the -- I was wondering if there was anything other than the load factor. That's very helpful. Thank you.

Claudia Sender - LATAM Airlines Group SA - TAM President

You're welcome.

Operator

Ms. Escobar, there are no further questions at this time.

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

Great. Well, thanks to everyone very much for participating. And if you have any follow-up questions, we'll be happy to discuss; you can call us directly. Thanks. And have a good day. Bye.

Operator

Thank you. Ladies and gentlemen, thank you for joining us today. Please feel free to contact our Investor Relations department if you have any additional questions. We look forward to speaking with you soon. You may now disconnect.

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