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## 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 Thursday, August 11. If you have not received it, you can find it on our website, [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net) in the Investor Relations section.

At this time, I would like to point out that statements regarding the Company's business outlook and anticipated financial and operating results constitute forward-looking comments. These expectations are highly dependent on the economy, the airline industry, and international markets. Therefore, they are subject to change.

Now is my pleasure to turn the call over to Mr. Ramiro Alfonsin, Chief Financial Officer of Latam Airlines Group, for opening remarks and introductions.

Mr. Alfonsin, please begin.

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### **Ramiro Alfonsin** - *LATAM Airlines Group - CFO*

Thank you, operator. Good morning, everyone, and welcome to LATAM's second-quarter earnings call. My name is Ramiro Alfonsin and I recently joined LATAM as CFO of the Company. Joining me today are Claudia Sender, President of LATAM Brazil; Roberto Alvo, Head of International Passenger Operations and Fleet; Andres Del Valle, Head of Corporate Finance; and Gisela Escobar, Head of Corporate Control and Investor Relations.

I am truly excited to be part of Latam Airlines Group. You probably know I have been with the Company for four weeks now. I am originally from Argentina and have now been working in Chile for the past nine years. Prior to that, I spent over 15 years living and working in Europe. I am married and have two sons, both of whom were born in Chile.

Regarding my professional background, I started my career working in investment banking and mergers and acquisitions for European banks. For the past 16 years, I have been working for a multinational utility company, most recently a CFO and Deputy CEO of a generation branch for Latin America.

The airline industry is fascinating, and not without its challenges, which are certainly more pronounced as a result of the current macroeconomic situation in our region. This environment has taken LATAM to implement significant operational changes, and to reduce capital expenditures and commitments. We will continue that process in order to rightsize our asset base and strengthen our balance sheet.

I have found a committed management team with a clear vision for the Company and focused on important transformational initiatives in order to simplify processes, increase efficiencies, and improve our value proposition for our customers. I look forward to contributing to improve margins, and to generate healthy and sustainable cash flows, while maintaining a cost discipline so that we can fully take advantage of all the initiatives we are implementing and will continue to implement over the coming months.

It was a pleasure to greet you this morning, and I look forward to having the opportunity to meet with you personally over the coming months. I will now hand over conference to Gisela Escobar, who will represent the results for the second quarter. Gisela?

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

Thanks, Ramiro. Good morning, everyone, and thanks for joining the call. As usual, we are going to go through the main highlights for the second-quarter results, and at the end, we will be happy to take your questions.

If you turn to the first slide in our webcast presentation, here we have some of the main highlights of the second-quarter 2016 results. Firstly, we were looking at the P&L basically breakeven at the operating level for the quarter with an EBIT result of \$1 million in the second quarter. This is slightly lower than our second-quarter 2015 number of \$17 million. And with that, our margin for the first quarter 0.1%, our margin for the first half of the year is 5%. Our EBIT margin, which is basically within the range of the guidance that we have provided for the year.

For the quarter we had a net loss of \$92 million at the bottom line and we are ending the first half of the year with a bottom line of \$10 million net income. Importantly, the second point here is that we have been successful in continuing to adjust our fleet. We have made a reduction of \$1.1 billion in our total fleet assets through basically deferral and re-deliveries of the aircraft in our existing fleet and in our fleet plan.

Regarding Brazil, we continue to take a conservative approach in Brazil with respect to capacity. We reduced capacity in the second quarter in Brazil by 13.7%, the most of any of the Brazilian airlines operating in the domestic market. And we were also able to increase revenue per ASK in local currency as compared to the second quarter of last year.

Finally, and also as previously announced, we are in the process of a working to general shareholders meeting that will take place next week, which will approve a capital increase in order to facilitate the entry of Qatar Airways into the property of LATAM with up to a total 10% stake.

We are going to go through a little bit more detail on all of these points, if you turn first to slide number 3. Here, we have a look at the numbers for the second quarter and for the first half of the year. We continue to see a challenging environment on the revenue side, as you saw in the quarter, with a 12.5% reduction in terms of total operating revenue. This is partly offset by lower costs. We have total operating costs declining by 12% during the quarter, and with that, we reached basically breakeven at the operating income level.

On the nonoperating side, we have a positive impact from the appreciation of the Brazilian real with respect to the March exchange rate, and that appreciation generated a foreign exchange gain of \$76 million in the second quarter compared to what we had a gain of \$35 million in the second

quarter of 2015. So with that, our net income amounts to -- including that, including our other nonoperating costs basically related to financial expenses, we reached a \$92 million net loss in the second quarter.

When we look at the first-half numbers, it's basically the same trends that we see continuing in the second quarter and our operating margins as I mentioned for the first half is 5%, which is in the range of the guidance that we had provided for the full-year.

Looking at each of our business units, turning to slide number 4, you can see that overall on the passenger side, we had passenger ASK growth of almost 1% during the second quarter as compared to the second quarter of 2015. Traffic was up 1.8%. Load factors are also up almost 1 point, reaching almost 83%, and our revenue per ASK continues to decline at a rate of 14.3% with respect to the second quarter of 2015.

On the international passenger business unit, which represents approximately 55% of our total ASKs during this quarter, we have capacity growth of 8%. This is mostly driven by growth in the markets outside of Brazil. In the second quarter, our ASKs on routes between Brazil and the US, which as we mentioned are the routes that have been having the weakest performance, we reduced those by 24% in the second quarter compared to the second quarter last year. And we are expecting to reach a reduction of up to 35% in the second half compared to the second half of last year. And traffic overall on international routes was up 8%, load factors at 85%.

When we look at our revenue per ASK, the decline is somewhat lower than what we had in the first quarter. It's a decline of 17%, where we continued to see weakness mainly in the Brazil market and -- although here, and I think part of the slight improvement that we have with respect to the first quarter number, has to do with an improvement in routes between Brazil and the US as a result of capacity adjustments in those routes, and also, partly as a result of the real that has been slightly more appreciated and has remained at these levels for the past month.

When we look at the domestic Brazil market, which represents 28% of our total ASK, here we continue with significant capacity reduction. Our capacity is down almost 14% in the second quarter compared to last year, and our load factors are still healthy at over 81%. On the revenue per ASK side, here we see an improvement in revenue per ASK of 6.2% in Brazilian currency. Of course when we look at this in US dollars, it's a reduction of almost 10% because the real on average depreciated by 14% in this quarter compared to last year. But we're seeing a positive trend in local currency, which is obviously a positive.

When we look at the Spanish-speaking market, these markets altogether domestic operations in our five Spanish-speaking markets represents 17% of our total ASKs. Here, capacity and traffic continued to grow between 7% and 8%, and our load factor is almost 79%. Revenue per ASK in these markets is down 21% in the second-quarter versus last year. This is weaker than what we were seeing in the first quarter, mainly as a result of weaker economies that we are seeing throughout the region, which has obviously affected consumption.

And also we saw during the second quarter some specific weakness in Peru as a result of the elections that took place in April and with the second round in June, and also some additional weakness in Ecuador because of the earthquake that affected demand in that country. In addition to that, in Chile and Peru, we've been seeing aggressive competitive environment with our competitors in both of these markets growing at high double-digit numbers. And we expect we have already seen some of that capacity coming down a little bit before the second half, especially in Peru.

I would also like to mention here something that we already mentioned briefly last quarter and that we also mentioned in our press release, which is that we have continued to work on a project that is very important for the Company and that basically aims at redesigning the way that we operate in our domestic passenger market. In general, the objective of this redesign is to look at our domestic passenger business model and find levers to increase competitiveness and to ensure the sustainability and the profitability of our domestic operations in each of the markets where we operate. This includes both the Spanish-speaking markets as well as Brazil.

An important part of this has to do with additional reductions in terms of cost per ASK. We are looking at aggressive reductions in cost per ASK in different fronts, and that reduction would allow us to provide more competitive fares. And we are also looking at opportunities to generate additional revenue, basically evaluating ancillary revenue initiatives throughout these different markets. That has the benefit of allowing customers greater flexibility, as well as obviously finding additional revenue streams for the Company.

The project continues to be under design, so unfortunately at this point, we are not in a position to provide specific targets or much more detail. But it is something that we continue to work on and that we expect over the coming months to be able to provide you with much more detail of what this means, and the timing regarding the implementation.

If you turn to the next slide on the webcast presentation, to look at our cost performance, what you can see is that we've been able to continually reduce costs over the past year. And specifically in the first half of this year, our cost per ASK are down 13.9% overall. A part of this obviously has to do with lower fuel prices. Fuel costs during this period were down 35% for the Company.

So on an ex-fuel basis, our cost per ASK equivalent in the first half is down 6.3% compared to the first half of last year. We are continuing to work on a series of cost initiatives. These initiatives are ongoing and we expect the run rate of the savings that they are implementing continuing to grow over the coming quarters.

A couple of comments on the next slide regarding the continuous improvement that we have been focusing on regarding our passenger experience. We continue to be focused on developing options for our passengers to improve the travel experience. At the same time, we are looking at generating additional revenue streams with certain ancillary initiatives. We launched already the sale of preferred seats -- basically seats close to the emergency exit, and some seats in our widebody planes that have additional legroom.

We have also launched an upgrade bidding, where you can purchase online and upgrade from economy to business class on 24 different routes. And another important aspect that affects mostly the narrowbody fleet is the wireless in-flight entertainment system that is 100% implemented as of today on all of our narrowbody fleets. And that has been an important driver on passenger -- of passenger satisfaction on the routes where we operate with narrowbody planes.

We also have a live chat that we've implemented in English, Portuguese and Spanish throughout the operations where passengers can be informed of the status of their flight. And going forward, we continue to look at enhancing all of these and some additional improvements. We are focused on increasing the number of markets where we are able to offer these products.

Regarding our brand change, as you recall during the last quarter, we announced the unification of our brand. This is something that is gradual and that we expect to continue over the next couple of years. It has been progressing and we have some important highlights here.

The first is that all of our digital apps and our website have already been fully unified, so today we have a single website that's available for the Company in all of our different points of sale. And that allows us to have the same visual identity in all the points of contact that we have for all of our passengers.

Regarding the aircraft, we have 19 aircraft already with the new LATAM delivery. We expect to end the year with 44 aircraft, so approximately 15% of our fleet with the new delivery. The new aircraft that we are taking delivery have already come with the new delivery, and we are, in addition to that, gradually painting our existing aircraft.

Regarding airports, we have 15 airports today where you have the new signage and the new image at airport counters and ticket offices. We expect by the end of this year to have 100% of our airports with all the digital aspects already with the LATAM image basically screened at the kiosk. And by the end of next year, we expect 100% of our airports to have all the infrastructure already with the new image. So that is something that we continue to make progress on.

Regarding our network, we continue to strengthen the network. So even though we've been making some adjustments in certain markets where we've been seeing weaker performance, we continue to see other markets where there is important growth opportunities. On the international front, we have a new route for 2016 and for the beginning of 2017 that have to do especially with strengthening our hub in Lima. We have two long-haul routes, from Lima/Lima, the Lima/Washington route and Lima/Barcelona in addition to a series of regional routes that will improve connectivity in Lima.



An important group that we already announced is the Sao Paulo/Johannesburg route. This route will allow us to leverage Sao Paulo as a hub and as a very attractive point in order to connect traffic coming from all of our other markets via Guarulhos and on to South Africa, which is a new market for LATAM. And we will be the first carrier in the region to be connecting that market. And from Santiago, we have also a couple of new routes planned for this year, which is the Santiago/La Paz route and a direct route between Santiago and Los Angeles in the US.

Looking at the fleet plan numbers, as I mentioned at the beginning of the call, we are able to announce important progress here with our fleet assets reduction. As you recall last quarter, we announced a target of a reduction between \$2 billion and \$3 billion in our existing fleet assets.

We are happy to say that we have achieved \$1.1 billion of this reduction as of now. \$829 million of that \$1.1 billion has to do with deferral of aircraft delivery, so it has a direct impact on our fleet commitments, which you can see on the bottom part of the slide, especially for 2017, where we are reducing our fleet commitment from \$1.4 billion to \$700 million, and also an additional reduction in 2018 of approximately \$140 million -- \$150 million.

In addition to those \$829 million, we have a reduction of \$260 million in our fleet assets that basically will come from redelivery of nine additional aircraft in 2017. These are basically five A320s and three A319s and one 777.

Just a word on the Qatar transaction; this is something that was already announced. But basically, the Company signed an agreement with Qatar Airways to make a capital increase, which would be fully subscribed by Qatar, and through which Qatar would take a 10% stake in the Company. The capital increase would be at \$10 per share, so it will result in a \$613 million capital injection for the Company.

This is a very important transaction for the Company. It is significant for us to have the support of a global player like Qatar, who believes in the project and the strategy of building LATAM as a leading player in South America. It also improves our balance sheet situation with this \$613 million capital injection. And it also will open the door to -- for us to evaluate opportunities of increased connectivity between our operations and between South America and the Middle East, and the markets where Qatar is an important player.

So it's a significant transaction for us. And we expect it to be fully completed by the end of this year.

When we look at our balance sheet, there is not a significant change to our balance sheet situation at the close of the June quarter with respect to what we had -- to what we had at the end of last year. Our adjusted net debt over EBITDAR, so our adjusted leverage basically, is at 5.9 times.

We have reduced slightly, over the last quarter, our financial debt from \$9.3 billion to \$9 billion at the close of the June quarter. And we continued to have a healthy liquidity position. Our cash and equivalents are at \$1.2 billion at the close of the June quarter, which represents about 13% of last 12 months' revenue.

Finally, just a word on our hedging portfolio. Regarding fuel hedges, we have hedged approximately 57% of our total fuel consumption for the coming quarter. So, for the third quarter of 2016. Of that, 30% of that position is hedged at current market prices. The portion on the graph that is in red is the 2015 portfolio, which is basically at prices -- are positions that were taken in 2015, where the fuel prices were higher.

In the fourth quarter, we have another 30% that's hedged at current levels, and an 11% that we have from our legacy hedges that come from 2015. Overall, for the second half of the year, with this position, our maximum fuel hedging loss, if you continue to see fuel price declines, would be \$36 million for the second semester of the year. Looking at 2017, we have so far hedged 20% of the first quarter and 15% of the second quarter.

On the BRL front, where, as you know, we hedged a -- most of -- all of the BRL operating exposure to the BRL. We have a hedged position of \$180 million for the third quarter of 2016 and \$90 million for the fourth quarter of 2016. And we are building up a position for 2017.

Finally, regarding our guidance for the year, we have made no changes to our guidance this quarter. The numbers continue to be the same numbers that you saw last quarter. We continue to expect our passenger capacity to be relatively flat this year with respect to 2015 with some growth on international -- on the international passenger business unit between 3% and 5%, with significant capacity reductions in Brazil domestic between 10% and 12%, and with growth in the Spanish-speaking domestic markets between 6% and 8%.



On the cargo front, we continue to reduce capacity with -- especially with a focus to reducing our freighter capacity. And we'll expect to reduce between 2% and 4% of our freighter capacity during this year. And we maintain our guidance for operating margins to achieve an operating margin this year of between 4.5% and 6.5%.

That concludes the remarks that we have prepared for the quarter, and we will be happy to take any questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Savi Syth, Raymond James.

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

I was just wondering -- it was helpful to kind of hear the pressures and (technical difficulty) and maybe what the trends are. But could you provide a little bit more color on just kind of the different segments, and how fast you might be trending as we look into the second half?

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

You're talking about all -- we missed the first part of the question, so just to make sure we understand correctly, you wanted more detail on the trends in the different segments of the passenger business units?

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

Exactly, yes. That's right, Gisela.

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

Do you want to start with international?

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

Okay. Hi. With respect to international, we are still seeing weakness in Brazil, though in the last weeks, the trend is starting to change. Nevertheless, revenue [various case] to way below past years, and we think that the course for coming back to the levels of prior to the crisis still a long way to go. But for the first time in many quarters, we are starting to see very timid at this point in time change in trend. But we are still careful with respect to understanding the situation in Brazil.

We see healthy markets on the Spanish-speaking side, although slightly less active than in previous quarters but still healthy. And we see very interesting trends with respect to our new routes, whether they are to Africa or to Europe for the remainder of.

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**Claudia Sender** - *LATAM Airlines Group - President of LATAM Brazil*

This is Claudia from Brazil, talking from Brazil. It's more or less the same situation that Roberto described in the domestic market as in the international. So we started to see a very timid reaction in RASKs, and it's very early to say that this is a trend -- consolidated trend.



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

And just a word on the Spanish-speaking on domestic markets, we are -- we have seen, I think in the second quarter, some additional weakness there compared to the first quarter. This is basically resulting from markets where the economic situation has been weakening somewhat, and that's obviously had an impact on consumption.

A part of the RASK decline that we see there is obviously related also to the devaluation of the exchange rates in all of these markets. And I think that it's worth mentioning especially that in Chile and Peru, we've had a more aggressive competitive environment. So we have had our competitors growing at -- significantly, I would say, between 15% -- or above 15% in both of these markets.

So the industry was very high growth rates, while at the same time, this deceleration in consumption. We think of it in Peru, at least, this is something that should be resolved going forward for the next couple of quarters. At least we've seen some pull-back there. But in Chile, we still have to see how the second quarter of -- the second half of the year looks.

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

(technical difficulty) you are not fully participating from the currency recovery here, and maybe we will kind of -- from a year-over-year basis, maybe we will look better next year?

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

Sorry. Were you talking about --

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

The currency hedges --

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

-- a particular currency.

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

The currency hedges, Gisela. It seems like maybe the hedges are holding back the performance. And so at least in kind of the second half, maybe you would see a better recovery without the hedges)

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

Yes, well, I mean, definitely the hedges that we took on BRL were taken when -- before we saw the more recent appreciation of the real. So at this point, the BRL hedges are generating losses, those instruments.

We -- but, obviously, in overall, the appreciated real is positive because we expect to see some of what Roberto has been mentioning somewhat of a recovery of demand in Brazil, for example, and in general, a better economic situation in Brazil, will help the Company much more than whatever the negative effect of the hedges are. But at this point, yes. Those hedges are obviously at prices that are today out of the money.





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

Got it. I was just wondering if there was an estimate on what the drag would be for 2016 at current prices? Because I'm guessing that that drag will not be there any more in 2017. Is that fair?

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

In the first half, it was \$18 million and it will probably be at least similar in the second half of the year.

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

Okay, great, thank you.

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

Not for 2017, only for 2016. For 2017, the hedges are more recent.

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

Got it, thanks Gisela.

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**Operator**

Mike Linenberg, Deutsche Bank.

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

Welcome aboard, Ramiro. Just a couple questions here. With respect to the investment by Qatar Airways, who approached whom on that? Was that something that you were actively seeking? Or was this just Qatar Airways, who we know has been making investments in airlines around the world, just decided that it made sense to invest in you as well? Can you talk about maybe the genesis of that and sort of the catalyst?

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

This is Roberto. I did the negotiation with Qatar. They approached us. We were not actively seeking them. This is, as we explained publicly a few weeks ago, the conversations that have been happening in the last four or five months. We are not going to comment on Qatar's strategy of where to invest or how to invest. But this was basically an approach that was started by them.

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

Okay, great, and then if we think about the cash coming in, the \$600 million coming in, when we get to year-end, how does that -- I just haven't crunched the numbers, but how should we think about how that changes your ratios? Like if we think about adjusted net debt to EBITDAR, how much of a credit do we get towards your (technical difficulty) where the numbers are right now?

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

Well, we -- we'll definitely see an improvement there on our financial -- both on our leverage as well as in our cash. Regarding the use of funds, we are looking at whether a portion of that may be used to pay back some of our short-term debt, and probably another percentage will be just used to improve our liquidity position.

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**Mike Linenberg** - Deutsche Bank - Analyst

Okay, great. And then just --

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

-- and to end this year with liquidity in the range of \$1.5 billion.

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**Mike Linenberg** - Deutsche Bank - Analyst

Okay, great. And then just on CapEx, Gisela, how does that -- like you've had several initiatives here with respect to your CapEx. Can you just walk us back a few years and just put some context around this? I think your -- call it your five-year plan for CapEx, maybe it was \$7 billion or \$8 billion, and there's been these reductions. Where was it? Where was the starting point a few years back? And where are we going to end up when we think about how much you have cut on the CapEx front? And I am thinking it about it from like a five-year perspective.

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**Ramiro Alfonsin** - LATAM Airlines Group - CFO

Yes, Mike. If you just look back at the time of the combination with TAM, the fleet CapEx for the period 2012/2018 was approximately \$15 billion. The subsequent changes we've made because of the turndown of economic situation has brought that number -- I haven't made the calculations over the five or six years, but it's probably half or less than half than what it was when we announced the merger. We can clear those numbers out for you. We haven't made them (technical difficulty) --

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**Unidentified Participant**

Thank you for taking my question. My question is regarding yield after the claims we witnessed in this line outside Brazil. I was wondering if you can share your expectations on this line, and when do you expect you will start to recover? And also, if you can share with us any update about the joint business agreements we've -- AIG and American Airlines as we have seen some news flow there.

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

Well, on the yield front just overall, we -- I think what we generally see, and I think it's important to mention the second quarter is the weakest quarter seasonally. So when you look going forward, there should be a sequential recovery in the second half of the year. We will continue to see most probably yields weaker than last year. But I think that considering seasonality and also considering the FX performance if it continues along these lines, we should see sequential recovery in the coming quarters.

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**Roberto Alvo** - LATAM Airlines Group - SVP of Network and Fleet

As I explained before, the trend of yields coming down, which is what we've seen in the last two or three years in Brazil, has slowed down, but we are still being cautious about the forecast of this, and we want to (technical difficulty) what happens in the next few weeks to have a better understanding of the trend, and if it is stabilized or it changes.

And with respect to IAG -- I'm sorry, so we've filed the JVs both for the American Airlines transaction and the IAG transactions in all of the countries where we have to file. They are going in their normal course in all of these countries, particularly in Brazil this week that the transaction was deemed to be complex, which is normal. It's just a part of the process in Brazil.

And from our perspective, the process just continues as we expect. In the case of Chile, the filing which was directed by the FNE which is (inaudible) now moves to the anti-trust court in a process that we also understand normal. We don't have a forecast for when these transactions will be approved, but when we announce these deals, in January, we talked about 12 to 18 months for the approval period. And we have passed only the first six months at this point in time.

So we remain confident on the benefits on the JV and on the filing itself. We're just doing the process as we had expected.

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### Unidentified Participant

Perfect, very helpful. Thank you.

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### Operator

Rogério Araujo, UBS.

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### Rogério Araujo - UBS - Analyst

Thanks for the opportunity. I have two questions. First, how much were the gains with the [70s] back in the second quarter? And my second question is a follow-up on the Spanish-speaking countries RASK.

When you do the calculations on a weighted depreciation of the Spanish-speaking countries, you will reach something about 15% or 16% depreciation year-over-year, so that takes us to a 10% reduction on yields in the region on a point of sale basis. So I want to know if it makes sense.

And also, why LATAM -- most of LATAM's new routes comes from -- is inside the region of Peru to other regions, if Peru is in a tough competitive environment right now? What should we expect in terms of yields in the Spanish-speaking countries in the second half with that many routes addition and the competitive environment there? So that's my two questions. Thank you.

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### Gisela Escobar - LATAM Airlines Group - Corporate Controller and Director of IR

First, regarding your question on the sale and leaseback, we recognized a gain in other revenues related to that. And that was in the amount of \$24 million. It is basically a difference in the value of our sale and leaseback transaction which had a positive impact that amounted to \$24 million in the first -- in the second quarter.

Regarding your question on the Spanish-speaking countries, we are seeing a decline especially in Chile and in Peru in local currency. So you are correct even when we leave out the devaluation of the currency, which represents approximately half of the impact in RASK. The other half is related to declines in the RASK in local currency.

This is related to, as I mentioned earlier, just a weaker demand environment, as well as strong industry growth in both of these markets. In Peru in particular, we had the industry growing at rates of close to 17% in the first half of the year. This is something that we are already seeing, that will be adjusted for going into the third quarter and into the fourth quarter. And we do think that the economic situation in general in Peru will improve, especially going into next year.

So we do think that going forward, some of this will improve. We obviously have a more competitive environment in that country, and in general, it's something that we have to consider going forward in all of our domestic markets. And this is also part of the logic behind what I mentioned earlier regarding the redesign that we are looking at in our domestic passenger operations.

A lot of that has to do with increasing our competitiveness in terms of cost per ASK and increasing the sustainability in these markets in order to continue stimulating demand going forward in a profitable way. And a little bit of what we are thinking about strategically in the longer-term has to do with being prepared for that. I hope that --

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**Rogério Araujo** - UBS - Analyst

Okay, that's clear. Thank you very much.

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**Operator**

Leandro Fontanesi, Banco Bradesco.

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**Leandro Fontanesi** - Banco Bradesco - Analyst

Just to understand better the one-offs here in the results, so you mentioned the sale and leaseback gain of \$24 million. If I'm not mistaken, that's on the topline. It is also sale of fixed assets. Is that included in this \$24 million?

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

No, that's an additional, but that's only a couple-of-million-dollars. It's not very significant. The only -- the other important element there has to do with multitude switches, the main element there. And that's -- multitudes has been growing in terms of the contribution to revenue line.

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**Leandro Fontanesi** - Banco Bradesco - Analyst

Okay. And on the cost side, there is a -- if I'm not mistaken, a one-off related to lower guidance contingency? (technical difficulty)

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

(technical difficulty) -- which are basically reversed, depending on a certain review processes and depending on when they just expire and they're reversed. So usually, a significant portion of that happens at the end of the calendar year, but there are other quarters during the year when we do have some of these reversals.

In particular, during the second quarter, this second quarter, we did not have them. We did have in the second quarter of last year a reversal of around \$15 million in the second quarter, which had a positive effect.

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**Leandro Fontanesi** - Banco Bradesco - Analyst

Okay, thank you. That helps. And the sale-leaseback, do you have any further transactions for the following quarters that will have -- we would see the same effect here?

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

No, not at this point. No.

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**Leandro Fontanesi** - Banco Bradesco - Analyst

Okay, and just a final question. If I'm not mistaken, your denomination about Argentina, how do you see the market over there? We have been reading about some airlines wanting to add flights there. So we are talking more about Argentina. How have you been seeing the market over there?

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**Roberto Alvo** - LATAM Airlines Group - SVP of Network and Fleet

Yes. Argentina has had a recovery in the first quarter, particularly as compared to the previous year. And today the market is, I would say, relatively healthy. But the economic situation there makes us be careful about the out sales coming in Argentina. But the market there is healthy. We've added international routes basically linking our Lima hub to secondary routes in Argentina with Gutiset.

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**Leandro Fontanesi** - Banco Bradesco - Analyst

Okay, thank you.

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**Operator**

Gabriel Francisco, Goldman Sachs.

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**Gabriel Francisco** - Goldman Sachs - Analyst

Thank you for taking my questions. On the -- speaking of the Spanish-speaking countries, you mentioned a more competitive environment. You had some one-offs related to the Ecuadorian earthquake. Maybe that created harder comps this year. But still, is this still where you plan to add most of your capacity this year on a relative basis? I just wanted to ask if you -- what are the basis, what are the countries in specific where you plan to add that capacity? That's my first question.

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

We are basically growing at sort of high-single-digit rates in all of these markets this year, with the exception of Ecuador. where we pulled back our capacity growth and also as a result of a country, which is -- GDP is down more than 4% year-over-year, and so we are being very conservative in Ecuador.

But in the other markets, we see significant opportunities for growth there in general in all the different countries, a little more probably in Chile, Peru, Colombia, a little less growth in Argentina. But generally, even though there is pressure on the revenue per ASK side, as you know, we've also been reducing on the cost side. And these are markets that are all -- have had healthy profitability levels. So we do see opportunities to grow.

These are markets that generally grow at a significant multiple to GDP growth, so we've seen a slowdown, but there are still markets where demand continues to be healthy and that continue to contribute with good profitability levels to the group.



**Gabriel Francisco** - *Goldman Sachs - Analyst*

Thank you, that's helpful. My second question, you mentioned on your first remarks earlier on the call about the reduction on international. Brazil, you mentioned about a 35% decrease expected in the second half, if I am not mistaken. Please correct me if I am. How much of that represents of your international reduction between 10% and 12% negative?

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

Hi. Well, the 10% to 12% negative ASK relates to domestic Brazil, not to international. Okay? Yes, we are --

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**Gabriel Francisco** - *Goldman Sachs - Analyst*

My apologies, yes, I looked wrong. Sorry.

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

The capacity, as we have posted in the systems, is being reduced by approximately 35% in the second semester Brazil/US compared to last year. That's a market that has been very, very hurt, and although we've seen some stabilization between demand and supply in that market, that market still a long ways to go to come back to the revenues per ASK that we used to see in previous years. And Brazil to the US represents, with this reduction, less than 20% of long-haul or international capacity for LATAM.

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**Gabriel Francisco** - *Goldman Sachs - Analyst*

Thank you so much. That is helpful, too. Finally, my last question is that you rolled over some day both in first quarter and now again in the second quarter, as per your cash flow statement. I would like to know what are your expectations for the second half? Do you plan to amortize your debt? I know somebody else asked a similar question, sorry if I am being repetitive -- but on your debt management strategy going forward. Thank you.

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

Andres, do you want to comment?

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**Andres Del Valle** - *LATAM Airlines Group - Head of Corporate Finance*

Sure. Sure, yes. As you correctly said, we have had rollover capital of short-term debt, namely no trade financing debt. With the capital injection of Qatar, the plan is, as Gisela said, to target a cash level of roughly [\$1.5 billion] towards the end of the year. So we may retire some debt.

We are evaluating all the different options and we have other financing initiatives increase, which we are currently working on, like a RSVP, mortgage financing and other things. And the expectation, this is of course linked to the level of debt that would be capital injection from Qatar and all those measures that I've just mentioned, that the adjusted net debt to leverage would be between 5.5 and 6 times towards the end of the year.

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**Gabriel Francisco** - *Goldman Sachs - Analyst*

Okay, thank you all so much.

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**Operator**

Eduardo Montes, Euroamerica.

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**Eduardo Montes - Euroamerica - Analyst**

Thank you very much for taking my question. First of all, I would like to focus on your new ancillary venue like strategy that you are thinking forward. And I would like to know when are you going to implement it with more like -- more broad weight than what you are doing right now? Or how -- what are your targets in terms of cost reductions or a venue like implication? Thank you.

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

The ancillary revenue initiative is something that we are evaluating and that is being implemented gradually in the Company. As I mentioned earlier today, we have a couple of different products that we are -- that we've already started to launch. One has to do with the upgrade bidding on routes where we have on widebody aircraft economy in business class seats. The other has to do with sale of seats that either provide more legroom or that are our emergency exit seats. And also on domestic routes, we are also selling the -- charging for the second piece of luggage.

These are so far the three fronts that we have. We do recognize that there is obviously a significant opportunity to be able to offer passengers a more attractive fare, then at the same time offer them optionality in order to pay for any additional features that they would like. In general, our ancillary revenue today is in the range probably a little bit more than \$1 per passenger when we look at the whole network.

So, between that and when you look at international carriers in markets where ancillary revenues are much more developed, there is obviously a significant opportunity to grow. But how we will be implementing this strategy is something that we will be hopefully informing in more detail within the next couple of months, when we provide more detail on the new domestic business operations.

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**Eduardo Montes - Euroamerica - Analyst**

Okay, thank you very much.

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**Operator**

Savi Syth, Raymond James.

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

Just a couple of short follow-ups from the other questions that you had. First, just on the -- following the CapEx adjustments, the fleet plan that you have for 2017, and I know it's -- you're probably still not thinking through -- you still haven't finalized what the capacity growth programs are for 2017 -- but it seems like, at least from a seat growth, it's in the low-single-digits. So could we assume that we would have a similar maybe overall growth rate next year as we've seen this year?

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**Roberto Alvo - LATAM Airlines Group - SVP of Network and Fleet**

So we are keeping our expected reduction of \$2 billion to \$3 billion in total fleet assets for 2017 and 2018 combined. So you should expect to see still decreases in the fleet in the upcoming quarters. But at the same time, we are focusing in increasing our utilization, both on the widebody and the narrowbody aircraft. So we think that there is an important opportunity of flying the same or more with less assets. And that's a big lever of focus in the upcoming quarters.

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

Okay, got it. And then is that part of the -- and I apologies for the lack of patience here as you promised to share more in the next couple months -- but you guys have had great execution on keeping -- reducing costs in the Company over the last few years, especially as you navigate through this challenging time. So when you talk about this redesign, and reducing costs even more, is that coming from utilization? Or could we expect maybe kind of a radical change in the configuration of the aircraft? Just wondering what direction you are thinking there.

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

So when we announce this in the upcoming months, we will have more information. But the approach we are taking is very holistic, and utilization is only one of those.

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

Okay, got it, that's helpful. And then just on the cargo side, just wondering if you could -- is there an estimate you could provide, just how much the strike in Chile dragged that? Because I am guessing that's one-time in nature. So I am trying to understand core cargo. Is it continuing to deteriorate? And when should we see maybe a stabilization or improvement in that, especially as you kind of adjust the fleet side of it by retiring the kind of dedicated freight and then putting more in the belly? Thanks.

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

Yes. Cargo remains being extremely weak in the region. It has been a trend for the upcoming four or five years. Nonetheless, reevaluation of the real in Brazil may pose better demand for imports to -- which, at this extent, we have not seen. But clearly, the better exchanging rate in Brazil should make imports more competitive in the biggest import market there is in South America, that is Brazil.

Nonetheless, we are adjusting our cargo capacity at the same time. And as you saw in our fleet plan, we are adjusting our 777 fighter fleet, and we only operate two in 2017.

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

And does that capacity get replaced with the A350s that are coming on? Is that -- when I think about capacity-wise, does that just net it out? Or is there a net reduction there?

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

Oh, this is different aircraft. We are decreasing our freighter capacity and the 350R passenger freights.

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

But yes, does the belly space that you're getting replace the dedicated space that you are losing?

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

Not necessarily, because freighters normally fly to different locations in Brazil via compass in particular, and what are the sole products that we see for the bellies in freighters are not necessarily the same. And therefore the replacement is not one to one.





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

Okay. All right. Very helpful, thank you very much.

**Operator**

Renato Salomone, Itau.

**Renato Salomone** - *Itau BBA International, S.A. - Analyst*

Thanks for taking my question. I have a follow-up to Savi's question. On the cargo market, can you help us understand what has been a structural change in the industry? We see that it is not just LATAM. There has been a deterioration worldwide for the industry. And what is cyclical here for this -- for our market in particular?

**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

Yes. Probably the most structural change we've seen is increase daily capacity from larger aircraft, particularly 777's and 787-9's coming into the market with more belly capacity than other planes. And that's probably from the supply side, the biggest impacts. From the demand side, of course, the economic situation in the region hurts imports particularly on the Atlantic side of South America very significantly, and this may be significantly extend the economies recover, our imports recover.

There is a little bit of onshoring in some fabrication in certain places, but does not affect South America as much as it could affect other more developed economies.

**Renato Salomone** - *Itau BBA International, S.A. - Analyst*

Thank you. And another quick question, can you give us an update on the implementation of the new CSS platform and discuss what are the limitations that you have right now in operating Amadeus and Sabre in parallel?

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

Yes, you know this is a project that we have been working on for some time. We are planning at this point to move the LATAM operations in Brazil from Amadeus, which is the current platform, to the Sabre platform. And all of that would occur next year, the exact date still to be defined.

There is no restriction to -- currently to operating with the two different reservation and inventory systems. Obviously, it is less cost-effective, so there are obviously significant efficiencies from being able to have one single PSF system for all of our operations. We have anyway made, for example, the move to a single website, despite the fact that we have these two passenger service systems behind it.

It will be more efficient when you have -- when we have a single website and it's connected to a single distribution and reservation and inventories. But for the most part, today it's still -- we are still working on developing that, and hopefully we will be able to provide the exact date within the next few weeks.

**Renato Salomone** - *Itau BBA International, S.A. - Analyst*

Thank you.



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**Operator**

Bruno Amorim, Santander.

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**Bruno Amorim** - *Santander Asset Management - Analyst*

I do have a quick and more broad question. The scenario seems to be improving -- lower oil prices, appreciating currencies in the region, a more disciplined competitive environment, especially here in Brazil. Your main competitor has just released the number of seats available in the markets in the last month, and it was 22% down year-on-year.

So, everything seemed to be point toward a better scenario at the margin for you guys. So why not raising the guidance for EBIT margin this year? What is preventing you from having a better review towards the end of the year? Thank you very much.

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**Roberto Alvo** - *LATAM Airlines Group - SVP of Network and Fleet*

I mean, I think that as just we explained in the other questions -- and somebody here may add -- but although we are seeing that recovery, it is, at this extent, timid, and because of the developments of the last year's in Brazil, we prefer at this point to take a cautious stance. And we will see how the market develops and the situation in the region develops in the next few weeks. And if there is a significant change, of course, we will incorporate it into the information we give to the market.

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**Bruno Amorim** - *Santander Asset Management - Analyst*

Okay, thank you very much.

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**Operator**

Mike Linenberg, Deutsche Bank.

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

Just two quick ones on the income statement. You had a big tax hit, and so it looks like there was something there that was not deductible for tax purposes. Can you just tell us what that is?

And then the second one, the jump in the minority interest, it looked like it almost doubled. I mean, is that Multiplus? What's driving that move there?

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

Yes. Hi, Mike. On the tax front, the main difference with respect to last year is that we have a deferred tax asset in Brazil basically that we are no longer recognizing on the P&L as of last year, which is not really a change for tax purposes. So we continue to accumulate these tax losses, let's say, for tax purposes, but we are no longer recognizing it on the P&L.

So as a result of that, you see -- you don't see that. That would usually be a gain that was netted out on the tax line. And that is a change that happened as of last June, that's why you'll see a higher tax -- effective tax rate here during this year versus last.

**Mike Linenberg** - Deutsche Bank - Analyst

Okay, okay.

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

(multiple speakers) in Brazil basically. On the (technical difficulty) basically, the minority interest line is -- the main things there are Multiplus and the other subsidiaries where we don't have a 100% stake, which is basically LAN Peru is the other relevant one, where we have 70%.

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**Mike Linenberg** - Deutsche Bank - Analyst

Okay, okay, very good. So good performance there. Thank you.

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**Operator**

Maria Santana, Citi.

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**Maria Santana** - Citigroup - Analyst

I have two questions. Can you comment on news regarding the (inaudible) from Brazil looking into the cost share agreements? The second one is, what are you seeing on the competition front on international flights?

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**Roberto Alvo** - LATAM Airlines Group - SVP of Network and Fleet

Can you repeat your first question, please?

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**Maria Santana** - Citigroup - Analyst

Sure, the first question is if you have comments regarding the CAVE looking into your cost share agreements. And the second one is what are you seeing on the competition front on international flights?

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**Roberto Alvo** - LATAM Airlines Group - SVP of Network and Fleet

Okay, I assume that when you are talking about CAVE it relates more to the JV than the cost shares?

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**Maria Santana** - Citigroup - Analyst

Yes.

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**Roberto Alvo** - LATAM Airlines Group - SVP of Network and Fleet

And I was explaining this -- yes, in the Gulf, we are just following up on the process encountered normally. This is a process that we expect that it will take between 12 and 18 months. We filed with CAVE approximately six months ago (technical difficulty) -- clearly from region to region.

There is significant competitive pressure in all of the markets, but I wouldn't say that that has changed as compared what the industry trends have been in the last years, so we remain very focused on how to win in the markets that we participate in.

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**Maria Santana** - Citigroup - Analyst

Thank you very much.

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**Operator**

[Tyus Peovasin], Itau BBA.

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**Tyus Peovasin** - Itau BBA International, S.A. - Analyst

Sorry, my question has been answered.

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**Operator**

Thank you. And I am showing no further questions at this time. This concludes today's question-and-answer session. Thank you again 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 again soon.

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

Great. Thank you very much. Thanks for joining the call.

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