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PRESENTATION

Operator

Good day, everyone, and welcome to LATAM Airlines Group's Earnings Release Conference Call. Just a reminder, this conference is being recorded. LATAM Airlines Group's release -- earnings release for the period was distributed on Tuesday, March 12. 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 Mr. Ramiro Alfonsín, Chief Financial Officer of LATAM Airlines Group. Mr. Alfonsín, please begin.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Thank you, Victor, and good morning, everyone, and welcome to LATAM Airlines Fourth Quarter Earnings Call. Joining me today are Mr. Roberto Alvo, Chief Commercial Officer; Mr. Jerome Cadier, CEO of LATAM Airlines Brazil; and Mr. Andrés Del Valle, Vice President of Corporate Finance.

Turning to Slide 2, let me provide you with a brief update on the work we have been doing to ensure our long-term competitiveness. We have successfully delivered on a transformation plan to enhance our operational and financial performances, while focusing on continuous deleveraging. This is my third presentation of annual results since I arrived to LATAM, and since we announced our transformation plan, the objectives were very clear.

First, establishing a cost structure that would allow us to compete effectively with other carriers. Second, an investment discipline. And third, improving cash flow generation and deleveraging the company.

In 2016 and 2017, we incurred in some implementation cost of our cost-saving initiatives. And in 2018, we started to see the full benefits of these cost-saving initiatives. This transformation plan helped us to improve the resiliency of our company, allowing us to face a much more competitive landscape in our markets. We are proud of what we have accomplished.

If we compare to 2015, we were able to increase ASKs by 7%, while reducing our operational fleet by 5% and increase our EBIT margin to 6.8% in 2018. We are flying more passengers with fewer assets and producing more margin. We reported the highest net income ever since the association between LAN and TAM, and generated a strong free cash flow of more than $1.1 billion in 2018.

Finally, I want to highlight that we have maintained a consistent financial discipline. Gross debt between 2015 and 2018 decreased by $1.8 billion, with adjusted net debt dropping from 5.8x to 4.3x EBITDAR. This combined with an important reduction in our future capital commitments, significantly strengthened our financial position.

Please join me on Slide 3, where you will find the highlights for the full year of 2018. In addition to the regional volatility mentioned previously, 2018 was a challenging year for the industry. The main events we faced included a more expensive and volatile fuel environment, which led to an additional cost of approximately $660 million. The devaluation of currencies that affected demand for international travel, in particular in Argentina and in Brazil. A cabin crew strike in Chile and the transportation strike in Brazil during the second quarter of 2018. And an industry-wide Rolls-Royce engine maintenance issues that affected our Boeing 787 operating fleet availability.

In this difficult environment, LATAM proved its resiliency and achieved strong results. Our operating revenues reached $10.4 billion. EBITDAR amounted to $2.2 billion and free cash flow of more than $1.1 billion, with net income amounting to $182 million. These results were supported by our cost efficiency initiatives, which helped us offset the increase in fuel cost during the year. As a result, cost per ASK, excluding fuel, declined by almost 11% in 2018, while in the fourth quarter, this decline was 15% year-over-year.

Furthermore, in 2018, we achieved significant milestones for the business that will enhance our future performance even further. First, we reduced our future fleet commitments by $2.2 billion between 2018 and 2021. We also announced our intention to acquire the minority interest in Multiplus, a coalition of loyalty programs that includes LATAM Fidelidade our Brazilian frequent flyer program. The transaction was approved by the local regulator, and on March 1, 2019, LATAM Airlines Brazil launched the tender offer, process that will last until April 1, 2019. After 3 years, we obtained the approval from all relevant Latin American authorities required to implement the joint business agreements between LATAM and American Airlines and LATAM and IAG. Even though this decision was appealed by third parties in Chile, we are evaluating its implementation in routes to Europe by the end of the year. While for the U.S., we await the authorization from the Department of Transportation.

In summary, we believe we're taking the right steps to strengthen our business fundamentals and future performance. We want to take this opportunity to thank our employees for the efforts during this year, which has been very challenging for the reasons already mentioned and to our customers for their continued support. We believe these results show character. Our customers continue to be at the center of our decision-making process, and we reaffirm our commitment to put our customers first with the best possible experience. In this sense, we will continue with our $400 million investment plan in most of our aircraft cabins, which we have already started to materialize with the delivery of our first Boeing 767 for LATAM Airlines Peru on March 1.

With that, I would like to turn the call to Andrés Del Valle, Vice President of Corporate Finance, to see the quarter in more detail.

Andrés Del Valle Eitel - *LATAM Airlines Group S.A. - Senior Vice-President of Corporate Finance*

Thank you, Ramiro, and good morning, everyone. Please turn to Slide 4, where you would find a summary of the income statement. Total revenues in the fourth quarter reached $2.8 billion, recording a 0.8% year-over-year increase as a result of an increase in passenger revenues, while cargo and other revenues decreased as compared with the same period 2017. On the passenger side, capacity rose 6.5%, while revenues per ASK fell 4% in dollar terms, mainly as a result of the devaluation and volatility of the currencies in the region as well as the excess of industry capacity in long haul routes from Brazil. Moreover, cargo revenues declined by 7.4%, recorded to $312 million due to weaker import markets, especially from Brazil and Argentina and weather conditions that affected food exports out of Chile.

In the fourth quarter, total operating costs amounted to $2.5 billion. The same as in fourth quarter 2017, despite an increase of $181 million in fuel expense. Compared to fourth quarter 2017, we finished 2018 with 1,900 fewer employees and flew 6.5% more ASKs during the quarter. As a result, cost per ASK, ex-fuel, decreased by 15.6% year-over-year, in line with previous quarter's decline, as we continue to harvest from the efficiency initiatives and the optimization of our operations in our financial results.

Consequently, our operating income for the quarter rose 9.2% to $295 million, accounting for a 10.6% operating margin, 0.8 percentage points higher than the fourth quarter of 2017. The nonoperating result amounted to a $68 million loss in the fourth quarter 2018 compared to $132 million loss in fourth quarter 2017. This is explained by $67 million foreign exchange loss during fourth quarter 2017, while in the fourth quarter 2018, we had a foreign exchange loss of $12 million. With that, the fourth quarter 2018 net income amounted to $149 million, $82 million higher than the same quarter of last year.

For the full year 2017, on the right-hand side of Slide 4, revenue increased by 2%. Total operating cost rose 2.3%, exclusively due to $664 million increase in fuel costs. Our operating income amounted to $705 million with the operating margin reaching 6.8%, similar to the 7% obtained in 2017. Net income amounted to $182 million, the highest since the business combination between LAN and TAM, that is $27 million higher than the net income of 2017 and the third consecutive year with a net profit.

Please turn to Slide #5. As it was the case in the previous quarter, we continue to see a decline in unit revenue terms for both passenger and cargo, mainly as a result of the devaluation of local currencies year-over-year. When we look at our international operations, which represent 56% of our total capacity, we see that that capacity was up by 7.4% this quarter, driven by new destinations in [long haul] routes launched in 2018. Traffic grew 3.5% and load factors declined 3.1 percentage points to 83.1%. This decline in load factors was mainly driven by the negative impact in Argentine traffic due to the devaluation of the Argentine peso and more industrial capacity pressures, especially in long haul routes from Brazil to the U.S. As a result, revenues for ASKs were USD 0.058, 9.1% lower than the same quarter of last year.

On the domestic Brazil front, which represents 26% of total capacity, we had 4.4% increase in total capacity and load factors were down by 1.1 percentage points to 83.6%. As the company continues with its efforts to increase yields, promoting all pass-through. As a result, revenue per ASK grew 10.2% measured in local currency, Brazilian reals, while measured in USD, revenue per ASK declined 6.2% to USD 0.067.

Looking at the domestic Spanish-speaking countries segment, which represents 18% of the ASKs, our capacity increased by 7.1% year-over-year, mainly in Peru, Ecuador and Chile, while traffic increased 7% year-over-year. As a result, load factors remained relatively stable at 82.3% during the quarter. Revenues per ASK declined by 8.2% during the quarter, mainly in Argentina due to the currency devaluation and in Colombia due to a hard comparison base resulted from a strike that affected our main competitor during fourth quarter of 2017. As a result, our overall passenger capacity grew by 6.5% year-over-year this quarter. Revenues per ASK declined 4% year-over-year and load factor reached 83%.

Lastly, on the cargo front, ATKs grew 1.1% during the quarter. We saw load factors at 57.3%, that is 1.1 percentage points lower than fourth quarter of last year and revenues per ATK at the USD 0.188, that is 8.4% lower than same period of last year, mainly due to lower imports into the region.

Please turn to Slide #6. As Ramiro mentioned at the beginning, we became a much leaner company and now we fly and carry more passengers in a more efficient way as shown at the top of the slide. During the quarter, our operating costs remained flat at $2.5 billion, despite the 28% increase in fuel cost. We were able to completely offset an increasing fuel cost by harvesting the benefits of the cost-saving initiatives implemented together with the positive effect of the devaluation of local currencies on cost denominated of those currencies. Excluding fuel cost, our total cost would have declined by 10.1%. Fuel cost rose almost 28%, that is $181 million in the period resulted from a 21.4% increase on the average price per gallon, coupled with a 6.5% increase in fuel gallons consumed.

Cost associated with wages and benefits decreased 10.2% year-over-year, mainly driven by a reduction of 4.4% in the average headcount over the quarter, in line with reduction of the previous quarter and the 17% and 111% devaluation of the Brazilian and Argentine currencies, respectively. Regarding fleet cost, which includes aircraft rentals, depreciation and amortization and maintenance expenses, those were down by 8.9% year-over-year in the quarter, roughly in line with the decline in previous the quarter and mainly explained by lower redelivery cost, as company did not return any aircraft in the period, while the same period of last year, 4 aircraft were returned. Lastly, the other cost on the slide declined 10.7% despite increase in the operation as a result of our efficiency initiatives. Lastly, cost per ASK decreased by 6.3% to USD 0.067, while cost per ASK, ex-fuel, declined by 15.6% year-over-year, reaching USD 0.045.

Please turn to Slide #7, here we can see some metrics regarding the operations in our domestic markets. As a result of the unbundled fare model implemented across the network, we're competing effectively in every market, specifically, in the domestic markets in which we carry more than 75% of our passengers, we carried 1.3 million more passengers during 2018. The only country where we didn't grow in 2018 was Argentina, where we have decided to cap capacity. Despite increase in the competition in some of our markets, we were able to increase the volume of passengers carried through the year, a major appreciation as most relevant airline for the passengers in the region.

Under this model, we are stimulating new demand and driving the growth of air travel in South America. We are also benefiting from a continuous increase in the ancillary revenue generation in December 2018. Market shares in the domestic markets we operate were relatively stable if we compare our position in December 2018 versus last year. The exceptions are Peru, where we increased our market share substantially to 64% from 55% in December 2017, and Colombia, in which we saw a decline as compared to December 2017, because our main competitor in the country was operating with limited capacity due to recent strike in the fourth quarter of 2017.

If we look at load factors, in every country, we were able to maintain load factors over 80% and those are equal or above our low-cost competitors' load factors in each of those markets. Overall, our load factor is 82% in our domestic operations and revenue per ASK in the Spanish-speaking countries showed a slight decline over the year measured in U.S. dollars, that is a 2% year-over-year decline. And increased by 8% in domestic Brazil in local currency in the same period.

In addition, we offer international connections, a network that better serves passengers, key slots at the main airports in the region and the largest frequent flyer program. We have proven that LATAM is necessarily positioned to compete effectively in every market under challenging market conditions.

Please turn to Slide #8. Here we see no major changes regarding fleet commitments for the next 3 years compared to previous figures that we showed the market at the occasion of the third quarter results. For this year, 2019, we will [evaluate] different financing options for the fleet commitments. By now approximately $0.5 billion of the $1.2 billion commitments have been financed as sale and leasebacks. We believe that this plan gives us the flexibility to adapt our growth to different market conditions. This cautious view has allowed us to focus our efforts investing in our customers, while maintaining strong cash flow after investments that will help us to maintain, control our debt profile and a healthy liquidity level.

Turning to Slide #9, here you have some of these for big investments that we have been implementing. We have taken steps to ensure that the business offering remains attractive, competitively successful and comfortable. We are investing over $400 million in cabin retrofits during the next 2 years, reaffirming our commitment to putting our customers first with the best possible experience. This investment will improve the customer experience and will reduce the cost per ASK by increasing the number of seats per aircraft. We received the first aircraft with the new cabin on March 1, a Boeing 767 that operates for LATAM Peru. The reaction of our passengers has been very positive, as the customer satisfaction on flights operated by this plane has more than doubled as compared to previous levels.

Moving on to our loyalty program, we received the approval from the local regulator in Brazil to launch the tender offer to acquire the remaining stake in Multiplus. The tender offer started on March 1, and will last until April 1. The investment amounts to approximately $310 million, and we expect to benefit from that acquisition in a variety of ways, including enhanced revenue management and synergies. Lastly, we continue to move forward with other mergers to empower passengers with control over the flights and improve their brand experience such as through digital development, corporate investments and onboard connectivity.

If you turn to Slide #10, you can see a free cash flow of $1.2 billion in 2018, thanks to the discipline of our investments, especially fleet investments. It is worth to mention that 2017 was a year with the historic lowest investment for LATAM, so the comparison against last year, it's even harder now. We remain focused in the deleveraging process of the company, taking a disciplined approach towards our investments.

If you turn to Slide #11, here we see our financial metrics. You can see that the total gross debt was down by $630 million to $7.2 billion compared to December 2017 and the leverage decreased from 4.5x at the end of 2018 to 4.3x adjusted net debt over EBITDAR. On the right side of the slide, you see that we continue having a very good liquidity position with $1.4 billion of cash on hand, plus $600 million of revolving credit facility. The RCF is totally undrawn as of today, with this LATAM's liquidity position reached 19.3% of last 12 months revenues.

Turning to Slide 12, I'd like to share with you the estimates that we have regarding the implementation of IFRS 16, starting in January 2019. We expect that our EBITDA will grow by 5 percentage points and our EBIT by 1.6 percentage points, thus our 6.8% margin -- EBIT margin in 2018 would have been 8.4% under the new standards. Regarding leverage, our adjusted net debt-to-EBITDAR should decline by 0.4x, thus our current ratio would have been 3.9x instead of 4.3x.

Please turn to Slide 13, regarding fuel hedging portfolio. After fourth quarter of 2018, we hedged approximately 54% of the estimated fuel consumption. After this year, we have a good portion of our estimated fuel consumption hedged with over 60% hedged for the first half of the year, 40% for the third quarter and 15% for the fourth quarter.

Finally, regarding our guidance, please move to Slide #14. We're expecting total capacity to grow between 4% to 6% this year. This is composed by a 3% to 5% target for our international segments, 2% to 4% growth for domestic Brazil and 8% to 10% for domestic Spanish-speaking countries operations. We are also expecting cargo capacity to increase between 1% to 3% this year. As a result, we expect our operating margin to be between 7% to 9% this year.

Now with that, we conclude the presentation. We will be happy to open the line for questions. Thank you very much.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Savi Syth from Raymond James.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

I was wondering if you could share your view on Azul's proposed acquisition of the Avianca Brasil assets and if it should make -- would make sense for LATAM to bid on this as well?

Jerome Cadier

Savi, this is Jerome, the CEO for LATAM Brazil. I think at this point, it is still hard to define what future scenario really is going to be as things are evolving on a daily basis. We do see little uncertainties in the implementation of the proposed structure involving Azul, it was unveiled this Monday. But what we do expect is to see capacity reductions once all of this is solved one way or the other. And this is already happening in a sense that since last December, we do see less capacity added to the market coming from Avianca, and we do expect that to continue going forward.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

Understood. And then if I might ask, on the Colombian expansion that you talked about that was announced to -- in March. Just wondering what precipitated the division that can expand now? And if the $300 million, is that on facilities or what this all entails?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Yes. This is Roberto Alvo, Savi. So we -- domestic Colombia is the second largest market in South America after Brazil. It's an important market for LATAM, and we believe that there is an interesting opportunity of us increasing our product and providing a really good alternative to the business passenger in Colombia. And therefore, we announced this expansion. The investment of $300 million is already contained in the CapEx that the company has issued even in the past quarter and, of course, it's mostly aircraft. We believe that with the changes that we are doing into the lower parts of the narrow-body airplanes together with increases in utilization that we are achieving due to better efficiencies on our side, we can fully finance this expansion without any additional capital commitments.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

So is there -- what's the change that's going to happen? Is it just kind of more aircraft into the region? Or is it -- are you making any changes related to the -- some of the offering or -- I'm just trying to -- wondering why now for the expansion, has something changed in Columbia?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

So we are -- for the second semester of this year, we announced a capacity increase mostly focused in 3 routes, the 3 most important business routes in Columbia, which is Cali, Medellín and Bucaramanga. At the same time, we are changing the features of our frequent flyer program, making it the most competitive frequent flyer program in Columbia, and that's going to be communicated to the customers in detail in the next few weeks. And we -- what we are aiming at is having a product that the business passenger in Colombia really believes is a good alternative to flying domestically at this point in time. We think that the circumstances are right, but this point in time we think that with the efficiencies we've achieved in our operation altogether, we are in a really good position of offering our passengers in Columbia, and importantly, the business passengers in Columbia, a really competitive product. And remember that we are retrofitting our aircraft in a way that will provide a good value for our business class or business passengers with more pitch and more space in the first rows of the aircraft. So we believe that we have a compelling offer to the domestic Colombian passengers at this point in time.

Operator

And our next question comes from the line of Duane Pfennigwerth from Evercore ISI.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

Just with respect to Multiplus, the tender through April 1, is that when you would expect it to close? So maybe some thoughts on like when it could close. And any impacts on your P&L post the closing?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Yes. This is Ramiro. So the -- on April 1, the first period for the tender concludes if 95% of the minority or more approve the transaction, then, yes, we have the possibility of squeeze out the rest and that's the conclusion of the tender offer. If we achieve more than 2/3, then a new period of up to 90 days occurs where the remaining shareholders that did not concur to this tender offer can apply in the same terms to the tender offer, and that's an additional period of 90 days. Regarding the impact, I would like to refer you to the press release that we did and the conference call that we did at that time, that was beginning of September, because that's where we provided more detail. But basically there are synergies, there are cost synergies and mostly -- most important, revenue management synergies that we are expecting from that transaction. In additional there are some tax efficiencies that we expect once the merger is concluded to be benefited from.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

And then just along those lines, I saw in the slide deck the 30 million members in your loyalty plan, can you just talk about the credit card agreements you have relative to those 30 million members? Is there an opportunity to maybe focus that on one partner? And when would be an opportunity to perhaps renegotiate any existing credit card agreements that you may have against those 30 million members?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Yes. That's a very good question. It depends, it varies market to market. For instance, in Chile, we have one single co-branded card. In other markets, we work with different cards. And once we have -- if we have Multiplus fully in one unique program, with unique benefits, we might structure it differently. At this point, it's too soon to tell. But the strategy currently varies from country-to-country and it could make sense to have a broader approach, if we manage to make the merger happen.

Duane Thomas Pfennigwerth - *Evercore ISI Institutional Equities, Research Division - Senior MD*

And then just I'll sneak just one last one. Can you just give us the value -- sorry if you said it, just the value of your fuel hedge. I know you don't like to give kind of where those strike prices are, but what's the value of the fuel hedge today?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A. - Senior Vice-President of Corporate Finance*

Duane, Andrés Del Valle here. We typically don't reveal the strike price and value, but I will say that at today's curb, it is slightly neutral and we have covered over 60% in Q1 and Q2. So for the most part some of these hedges were contracted I think last year when fuel price was somewhat higher, but today, it is slightly neutral expected conversation, vis-à-vis today's curb.

Operator

And our next question comes from the line of Michael Linenberg form Deutsche Bank.

Matthew Vernon Fallon - *Deutsche Bank AG, Research Division - Research Associate*

This is actually Matt on for Mike. Which Avianca Brasil routes do you believe are most adversely impacted by Avianca Brasil chasing market share over yields?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

So I mean, just looking at what Avianca has published, they have focused mostly in the past their capacity in Guarulhos, Brasilia and Salvador. That's where most of the flights are. They also have a relatively important presence in Rio de Janeiro. And so they are pretty much in the biggest markets in domestic Brazil altogether. They have reduced capacity mostly in the routes where they have many frequencies per day. So not existing markets in general and just reducing capacity where they have several frequencies per day.

Matthew Vernon Fallon - *Deutsche Bank AG, Research Division - Research Associate*

And have you noticed any change in competitive behavior from other carriers in the Brazilian market following Avianca Brasil's bankruptcy filing?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Not sure I understand the question.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Changed behavior.

Matthew Vernon Fallon - *Deutsche Bank AG, Research Division - Research Associate*

I mean, any change in competitive behavior like anyone being more aggressive, going after more market share? Or they have a weaker player in the market?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

No. I wouldn't say that. No.

Operator

And our next question comes from the line of Josh Milberg from Morgan Stanley.

Joshua Milberg - *Morgan Stanley, Research Division - Equity Analyst*

I had a follow-up on the whole Azul/Avianca Brasil issue. You noted that really no matter what happens, it should imply a meaningful reduction of capacity. And my question is, if you think that, that situation could eventually lead to an upward revision of your Brazil domestic ASK growth guidance, because certainly, one interesting point of contrast in your guidance is just how much more you expect to grow in Spanish-speaking domestic versus Brazil domestic.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

At this point in time, we won't comment on our changes potentially in guidance in domestic Brazil until we understand how this whole situation develops. Of course, we are monitoring closely the market and what happens, but we don't have anything to say at this point in time.

Joshua Milberg - *Morgan Stanley, Research Division - Equity Analyst*

Okay. Fair enough. But I mean, independent of the whole Avianca Brasil situation, you noted your success in stimulating demand in Spanish-speaking countries. And maybe you could just address why those markets are, let's say, so much more conducive to growth than Brazil domestic?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

I think our strategy changes from market to market. And at this point in time, we believe that there are interesting opportunities, particularly in domestic Peru with the industry changes that we have seen in the last few months, one competitor basically stopping from flying their LC. And, of course, we are engaged in a very competitive environment in domestic Chile, a country where we are protecting our leadership. So the strategy changes from market to market. And although we see a good trend in domestic Brazil, we believe that capacity discipline is very important for the market and we're not intending to making relevant changes with the current situation as it is. Having said that though, in the international business, together with the devaluation of the Brazilian real relative to first quarter last year and the situation in Argentina, we are more cautious and we are probably going to look at moving towards the bottom of the guidance in terms of capacity growth. And today, I think that this is what concern us the most is how the international market develops over the next few weeks and months and particularly, the situation in Argentina has not improved. And we have a better outlook for the second semester, but we think it's going to be a complex environment during the first semester of the year.

Joshua Milberg - *Morgan Stanley, Research Division - Equity Analyst*

How is international out of Brazil performing these days?

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

I think that the changes in capacity between Brazil and the U.S. have stabilized the market, vis-à-vis last year. We still see a very active environment in Brazil to Europe, and there we believe that the market is not fully stabilized at this point in time. Capacity last year kind of grew close to 20% altogether between all the carriers. And that's a lot of seats. So as the second -- as the year progresses, the trend looks better in the first semester, I would say that this unbalances look a little bit more challenging.

Operator

And our next question comes from the line of Petr Grishchenko from Barclays.

Petr Grishchenko - *Barclays Bank PLC, Research Division - Fixed Income Analyst*

First, I was wondering if you have any further plans regarding debt issuance this year? I think you have $1 billion of maturities in the full year of 2019 and following the bond issuing last month, I'm wondering what are your plans regarding the remaining $400 million?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A. - Senior Vice-President of Corporate Finance*

Yes. I think that we're sort of always looking at opportunities as you correctly said, we did go-to-market with the $600 million year bond, which, of course, sort of our closest circle for reaching liquidity right like at 20%, which is our target. The spike of the upcoming maturities upon next year, I would say that we're continuing monitoring whether a liability management is possible as we did back in 2017. But I will say that for this year, we continue with our financing plans, which includes our pre-financing, maybe some PP financing, I will say that the year -- this year is sort of about taking care.

Petr Grishchenko - *Barclays Bank PLC, Research Division - Fixed Income Analyst*

Got it. And then another question. I think you mentioned the adoption of IFRS 16 would lead to leverage reduction of about 0.4x to 3.9 in terms of leverage. And I think that was based on lower NPV of aircraft rentals versus 7x multiple. Can you maybe briefly discuss some assumptions behind this NPV calculation?

Andrés Del Valle Eitel - *LATAM Airlines Group S.A. - Senior Vice-President of Corporate Finance*

Yes. I think the methodology on IFRS 16 calls for NPV rather than capitalize it times 7, which is what we were doing. So that means that our average lease rent lives, they are typically sold, it's something like closer to 5 years and this is what the positive debt comes from. So we have a shorter average life compared to 7x, so that's the benefit.

Operator

And our next question comes from the line of Andressa Varotto from UBS.

Andressa Varotto

I have 2 questions. The first one is regarding LATAM's 2019 guidance. While we saw a pretty strong revenue coming from domestic markets in local currency in the quarter, we estimate that LATAM would deliver an EBIT margin around 10.5% in 2019. If you'd remain flattish, just seasonally adjusted, which is above the figure of 7% to 9%. So what explains that? Is the company being conservative or maybe cost-control initiatives are expected to be not so strong? Or do you expect some RASK deterioration?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

We're maintaining guidance to 7% to 9%, and it doesn't come from a revision of our cost efficiencies going softer. We believe that we will be able to maintain our cost initiatives coming to 2019 and maybe improve a little bit. What concerns us the most at this time is what Roberto mentioned, is capacity on the international routes and the rebound of the Argentinian demand on the international segment. And this is why we're maintaining guidance at this point.

Andressa Varotto

And the second question is on that fuel price. We saw LATAM's ex-fuel price expanded 10% quarter-on-quarter, while oil brent price decreased around 10%. And what explains that? And should we see a revision in the next quarter?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

I'm sorry, we didn't get the question. The price -- you said that price decreased 10%, which price is it?

Andressa Varotto

Oil brent price.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Yes. You're probably seeing -- there are 2 factors here. The price that we effectively see on the P&L, it's 30 days previous to that. So what you see -- what you saw is a reduction in December 2018 of the fuel price, a dramatic drop. You're seeing those benefits on the first quarter of 2019 and not on the fourth quarter of 2018, because your purchases of fuel, it's an average of the last 30 days. That's what's you're probably referring to Andressa. But total fuel cost and fuel per barrel cost increased quarter-over-quarter more than 25%.

Operator

(Operator Instructions) And our next question comes from the line of [Lucas Lahi] from Citibank.

Unidentified Analyst

My first question is regarding the 2019 guidance, a follow-up on that. So you are saying that you are achieving 7% to 9% EBIT margin. Is this already including the impact of IFRS 16? And my second question is also a follow-up on the Colombian expansion. How do you see new trends for that region domestically? I mean, what's the more optimistic region in regards to use of adjustment compared to -- such as Brazilian domestic market or even Chile or Argentina? Those would be the 2 questions.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

So very fast on the guidance. Yes, it includes IFRS 16 and I'll let Roberto address the Colombia issue.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Again, Colombia is, as I said, the second-largest domestic market in South America and the development of the air market is relatively low as compared to, for example, Chile, only 0.6 passengers fly per person per year in Colombia, whereas in Chile it's already 1 passenger per person per year. So we believe there is significant upside potential in the traffic there. It is true that for Brazil the situation is slightly more developed in Brazil, but also similar as compared to Chile. But we assess the market opportunity in Columbia as good today and we're focusing in that market at this point in time because we believe there is a good opportunity of providing, again, business travelers in Columbia for a good alternative option to fly.

Operator

And our next question comes from the line of Savi Syth from Raymond James.

Savanthi Nipunika Syth - *Raymond James & Associates, Inc., Research Division - Airlines Analyst*

I just had -- wanted to follow up on, you've done a really good job on the cost this year. It sounds -- looks like the PSS annualization should help in 2019. You also have this maintenance helping in 2019. Could you talk a little bit about the kind of the headwinds and tailwinds on the cost side in 2019 and maybe on a unit cost basis if we should expect that to be down year-over-year again on a ex-fuel basis?

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Our expectations for 2019 is to be able to offset inflation and maintain cost per ASK ex-fuel as it was at the fourth quarter of 2018, that's our expectation. And in terms of headwinds, most of our concern is always fuel prices. And as tailwinds, we have some initiatives that we have put in place in 2018 that will produce full benefit in 2019, and there are initiatives that we're pushing through during 2019. But mainly there are addressing passenger compensations as a big initiative that we're carrying out in 2019. But what you should be expecting, Savi, is for us to be able to contain cost per ASK ex-fuel absorbing inflation.

Operator

All right. And I'm seeing no more questions. This concludes our program for today. And you may all disconnect, and have a great day. Thank you so much.

Ramiro Diego Alfonsin Balza - *LATAM Airlines Group S.A. - CFO & Senior VP of Financial Fleet*

Thank you, everyone.

Roberto Alvo Milosawlewitsch - *LATAM Airlines Group S.A. - SVP of Commercial*

Thank you, everyone.