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# EDITED TRANSCRIPT

LAN.SN - Q3 2012 LATAM Airlines Group Earnings Conference Call

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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 earnings release for the period was distributed on Monday, November 12. 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.

At this time, it is my pleasure to turn the call over to Mr. Alejandro de la Fuente, Chief Financial Officer of LATAM Airlines Group. Please begin.

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### Alejandro de la Fuente - LATAM Airlines Group - CFO

Okay, thank you very much for joining us today. This is Alejandro de la Fuente and with me on the call are Alvaro Carril, from our cargo business; Andres del Valle from our corporate finance department; and Gisela Escobar, our Investor Relations Officer. Joining us from Sao Paulo on the line we have Jorge Vilches, from our international passenger division, and Francisco (inaudible) from the domestic Brazil operation.

We hope that you have all received the press release and have been able to access the webcast presentation on our website for a better understanding of our consolidated results for the quarter.

Please turn to slide 3. The third-quarter 2012 represents the first three months since the merger between LAN and in TAM. LATAM Airlines Group successfully started the integration of its business units and the transformation process to achieve the estimated merger synergies. We have adjusted commercial practices underlying operations and processes in the international and domestic passenger operations in Brazil.



We are confident that this transformation will lead to the achievement of the expected synergies. However in the short term, we expect results to continue to reflect the transition cost as the businesses become fully integrated.

Total revenues in the third quarter 2012 reach \$3.3 billion compared to pro forma revenues of \$3.5 billion in the third quarter 2011. Operating income reached \$105 million at 3.1% operated and 3.1% and operating margin. Results this quarter reflect the challenges related to the transition postmerger, the turnaround process of the Brazilian domestic operations, the negative impact of the depreciation of the Brazilian currency on TAM revenues in reals, and continued weak market demand in the cargo business.

LATAM reported net income of \$21 million in third quarter 2012 excluding one-time items. One-time charges this quarter include \$19.5 million of expenses resulting from the merge with TAM mostly related to consulting and legal fees and the one-time accounting charge of \$70.4 million due to the increase in the Chilean corporate income tax rate from 17% to 20%. This is a noncash charge that comes from adjusting deferred taxes to the higher tax rate.

Turning to slide 4 you can see more detailed evaluations in our operating margins in the third quarter 2012. At a consolidated level, revenues this quarter were impacted by the 24% depreciation of the Brazilian real compared to third-quarter 2011 which affected TAM revenues in that currency in the amount of around \$196 million. The yields also show a decline especially in the Brazilian domestic market; however, this decline in yields was offset by an increase in passenger load factors compensating for partial declines in the cargo business.

Fuel costs decreased 1.5% compared to third quarter 2011. This decrease was mainly driven by a 2.1% lower average fuel prices per gallon partially offset by 0.6% increase in consumption.

Taking a closer look at passenger operations on slide 5, you can see in detail the evolution of the business during the quarter. We continue to experience solid traffic trends in [most] markets resulting in traffic growth of 7% while capacity increased 2%. Consequently load factors reached 80% on a consolidated basis so very high level. Overall, passenger yields declined 9% due to lower yields in most of our operations but especially in the Brazil domestic market. The yield decline in Brazil is also explained by the 24% depreciation of the Brazilian real during the quarter.

Passenger operations at LAN were also impacted by the chart -- the change in our passenger service system in September, the reservation inventory, and the (inaudible) control system of the airline were migrated to a new system provided by Sabre. This conversion process implied moving from our two previous suppliers, which were Amadeus and [Receiver], to a single supplier, Sabre. This was the result of a long-term strategic project at LAN, which left it over two years and represented total CapEx of \$82 million. As a result of the migration measures taken for the cutover period, LAN stopped the sale of all passenger tickets during one day and reduced sales during a period of seven days. It is important to note that this only affected LAN operations in [terms] provided of inventory on reservation system is Amadeus. We expect this change to result in substantial savings over the coming years.

Although the cutover has been successful, we are still working on adjusting processes and systems to accomplish full stabilization and continue to work on improving the functionality of the systems.

Turning to slide 6, LATAM continues to expand passenger capacity throughout its network. Passenger capacity expansion this quarter was driven by growth in our domestic markets -- in our domestic markets. Routes within Chile continue to be a growth driver where capacity increased by over 17% in line with strong demand trends.

Domestic operation in Argentina show a strong increase mainly due to a lower comparison base in third quarter 2011 when demand was affected by the volcano eruption. Despite recent regulatory and political concerns in Argentina, the country continued to be a strategic part of the LATAM network and our long-term business plans for LAN Argentina have not changed.

In Colombia, we continue to develop our domestic passenger operations and to integrate that market with the rest of LATAM network. As you know, our focus has been on the turnaround of [Aires] and on stabilizing operations in the domestic market in line with the operation model of LATAM. This means a complete overhaul of the Company and a gradual change in the fleet of the LATAM 8 Airbus A320 family. Currently we are in the process of improving the position of the LAN brand in the Colombian market.



Growth in the regional business has benefited from our opportunities to integrate the LAN and TAM networks. Capacity increases as a result of more frequencies, and a change in aircraft time on routes between Santiago and Brazil, Buenos Aires to Sao Paulo, Lima to Sao Paulo, and Santiago to Buenos Aires.

On long-haul routes, capacity increases have been focused on routes between Brazil and the US, offset by decreased capacity on routes to Europe. Hence new Boeing Super 7 is operating the route between Sao Paulo and Miami showing very strong load factors within a short period. Overall, LATAM's passenger capacity expansion remains highly diversified, providing the Group with significant flexibility to adjust capacity deployment to demand conditions in different markets.

On slide 7, you can take a closer look at the Brazilian domestic passenger operations. Continued capacity shipping in the domestic Brazil business unit has shown positive results. TAM reduced capacity by 1.8% this quarter. This adjustment together with improved revenue management practices allowed for load factors to increase 10.6% points to 78.1%. The figure is in line with the rest of the Group's domestic markets.

However, yields in domestic markets saw significant declines due to the 24% depreciation of the Brazilian real and accommodation in the first [tractor] of the industry in the domestic market in order to operate at higher load factors and a decreased demand for corporate [truck].

Overall, we believe we are in the process of an industry adjustment in the domestic market in Brazil which we expect to show positive results over the coming quarters.

Please turn to slide 8 for an overview of LATAM's cargo operations. The integration of LAN and TAM cargo operations has proceeded very quickly and has been substantially completed during the third quarter. This allows TAM's belly capacity to be commercialized as part of the LATAM earning group network, increasing efficiency along all routes.

Cargo markets continue to face a challenging environment reflecting a slowdown in global trade momentum. The decline in cargo traffic is driven in particular by weaker import into Latin America especially in the Brazilian market. However, we continue to see strong demand for commodities from South America including fresh salmon and other perishables.

At the same time, both regional and international competitors continue to be active in the region, pressuring prices. The Company was able to adjust capacity in its freighter fleet in line with lower demands, giving priority to the utilization of credit capacity in line with our integrated cargo and passenger business model.

LATAM's cargo traffic decreased 5.6% during the third quarter while capacity declined 3.2% due to capacity into adjustments in the freighter fleet and the reduction of (inaudible) leases partially offset by the incorporation of new Boeing 777 freighters towards the end of the quarter.

In September and October 2012, LAN Cargo took delivery of two new Boeing 777 freighters. This aircraft has a significant competitive advantage in terms of efficiency, transporting double the capacity of the Boeing 737 with only 40% higher fuel consumption. With this aircraft, LAN Cargo plans to increase capacity on routes to Europe and on the denser routes in Latin America replacing operations currently served by the Boeing 737 freighters.

Please turn to slide 9. Having completed the merge with TAM at the end of June 2012, during the third quarter, we have started the integration of certain corporate functions as well as the international passenger and cargo business units of LAN and TAM. The Company also began the implementation of its plans to achieve the estimated merger synergies. The work done during the first months of integration has allowed us to reaffirm the synergy target of between \$600 million and \$700 million to be fully achieved by the full year after the merge.

Please turn to slide 10. And regarding the national passenger operations, the Company has already started for [connectivity], cross-selling and culture on various international routes. In addition, passenger of both airlines already have access to the benefit of each other frequent flyer programs, TAM Fidelidade and LANPASS. The Company has established new and improved agreements with international carriers, most notably an SBA between TAM and American Airlines. Also we have aligned commercial practices and harmonized the onboard product on certain routes.



In addition, LAN and TAM have published new operations on regional routes in order to achieve the synergies expected from this business. In July, the cargo divisions of LAN and TAM were integrated, taking us -- taking advantage of the highly complementary nature of their operations.

The extensive network of TAM's passenger aircraft allows for growth coverage with over 40 domestic destinations while LAN's Brazilian cargo affiliate, ABSA, operates freighters and can provide increased capacity for denser routes. All domestic and international cargo operations in Brazil including better capacity and freighter aircraft will be commercialized under the TAM Cargo brand which is well positioned in the Brazilian market.

Cargo operations outside Brazil will continue to be commercialized under the LAN Cargo brand, which has strong brand recognition in the markets where it operates. The belly capacity of TAM's international passenger operations to and from Brazil previously commercialized mainly through third parties is being managed by LAN Cargo and its affiliates.

We are also on track to achieve cost synergies projected for the Group. As of today, LATAM was successfully completed field negotiations in some of its main airports as well as achieving efficiencies in terms of engine inventories and insurance negotiations among other initiatives.

On the other hand, LATAM Airlines Group estimates one-time costs associated to the closing of the transaction and the realization of synergies of approximately \$200 million. These costs do not include the transaction costs that have been (inaudible) LAN and TAM separately until the end of the second quarter 2012. During this quarter, we will recognize one-time merged costs in the amount of \$19.5 million mainly related to consultant and legal fees.

Regarding our plans with multiples, we are currently in the process of harmonizing the frequent flyer programs, LANPASS and TAM Fidelidade especially on routes where LAN and TAM have overlapping operations. Once that it is finalized, we will evaluate the impact on the relationship between TAM and multiples as well as the possible further integration between LANPASS and multiples.

Please turn to slide in 11 to see our estimate for ASK and ATK growth for 2012. On our passenger operations, we expect 2012 capacity growth of between 3% and 4% for the Group. TAM's domestic passenger ASK in the Brazilian market are expected to decrease approximately 2% during this year. Considering current market conditions, the Company expects passenger ASK growth in 2013 for LATAM Airlines Group to be approximately 4% to 6%.

TAM's domestic passenger ASK in the Brazilian market are expected to decrease by approximately 7% during the first semester of 2013. We are analyzing the capacity estimates for the second half of next year in the Brazilian market.

Regarding cargo operations, LATAM expects cargo ATK growth between zero and 2% for full year 2012 including TAM belly capacity. For 2013, the Company expects total cargo capacity to grow between 6% and 8% mainly driven by the incorporation of two Boeing 777 freighters in September and October 2012 as well as additional belly capacity on international routes.

Overall, we are optimistic about the opportunities we see for the LATAM Airlines Group. The first few months of the integration with TAM has proven there are plenty of business opportunities and we remain confident that the estimated synergies are achievable. However, we recognize that there is a transition period which reflects our lending process as the business units are integrated and processes are aligned. We expect this transition period to be a few quarters but we remain very confident in the long-term value of the merged company and that we announced \$700 million in synergies are achievable.

On slide 13, you can see our fleet plan for the coming years. Overall we continue to have confidence in the significant growth opportunities in the domestic and international markets in Latin America providing the basis for increases in passenger and cargo demand in South America for the coming years. Also our fleet plan reflects our commitment to keeping a modern and fuel-efficient fleet.

On slide 14, you can take a closer look at LAN's new Boeing 787 Dreamliner. In September, October we took delivery of the first two 787-8 Dreamliners, becoming one of the first airlines in the world to operate this smaller and efficient aircraft. Because of its composition, this aircraft will allow the Group to achieve unprecedented efficiencies in fuel consumption consuming between 12% and 15% less fuel than a Boeing 757.



The Dreamliners are currently operating on regional routes from Santiago Buenos Aires and to Lima. Next year we will start operating them in our local routes to Los Angeles, Madrid and Frankfurt.

On slide 15, you can see our consolidated fuel hedge positions for the upcoming quarters. Our financial hedging strategy is in addition to our fuel surcharge policy applied most passenger and cargo operations which allow us to recover approximately 50% of higher fuel costs.

Since the closing of the transaction, hedging is done jointly for both LAN and TAM at the LATAM Airlines Group. In order to mitigate the impact of the mark-to-market in fuel hedging contracts, we are not subject to hedge accounting at TAM. As of the third quarter 2012, LATAM accounts for these derivative contracts under hedge accounting and therefore their mark-to-market value are not longer reflected in the consolidated income statement.

LATAM has hedged approximately 47% of its estimated fuel consumption for the full quarters 2012 and 13% of its average estimated fuel consumption for 2013. The Company's fuel hedging strategy consists of a combination of collars, swaps, and call options for WTI and Brent at the price ranges shown on the slide.

In closing, we are very pleased that this quarter we were finally able to begin the integration between LAN and TAM. In the short term, this process will inevitably have costs and will learn each other's operations and integrated systems and teams in the different business units. Nevertheless, we continue to be fully committed to the integration and the turnaround of the Brazilian operations and are very confident in the long-term value creation as a result of this historic merge.

Now we will be pleased to answer your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Mike Linenberg, Deutsche Bank.

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### Richa Talwar - Deutsche Bank - Analyst

This is actually Richa Talwar filling in for Mike. Just a few questions from our side. First on your capacity plans for 2012, particularly for the domestic Brazilian passenger market, we noticed a change. It reads now that domestic capacity in the market will be down 2% in 2012 and I believe your prior guidance suggested a decrease of 2% to 3%. And we were just wondering the rationale behind the change especially as your commentary regarding demand trends remains relatively cautious.

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### Jorge Vilches - LATAM Airlines Group - International Passenger Division

Yes, this is Jorge Vilches for the long haul business. We did a reduction in capacity, a small reduction in capacity. Consider last year basically on routes, on TAM routes to Europe, routes originating in Rio de Janeiro that were not showing very good results, and that was done before the merge and so it was a slight reduction. And since then we haven't done any capacity adjustments. This has been taking place more than six months ago but now we are focusing on an increase for this fourth quarter where we are really putting or adding capacity mostly from Brazil to the US and other LAN markets to the US because we are receiving this aircraft of the Boeing 777 and also the 787. That's why we are increasing but this is focused on the fourth quarter.



**Richa Talwar** - Deutsche Bank - Analyst

Okay, got it, but in light of all this aircraft coming to the fleet, is there still ample flexibility if you do want to flex down going forward and demand doesn't satisfy the supply you've put into the market?

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**Jorge Vilches** - LATAM Airlines Group - International Passenger Division

Pardon me, can you repeat your question?

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**Richa Talwar** - Deutsche Bank - Analyst

Just asking if you still feel like even with all this aircraft coming on board that you still have ample flexibility to reduce capacity if need be?

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**Jorge Vilches** - LATAM Airlines Group - International Passenger Division

Yes, definitely, and actually we are focusing now on putting that extra capacity where it's more needed and some of that may even remain grounded if we feel that it's not the time to add more capacity. But what we are seeing so far for example, we just increased 60% the Sao Paulo to Miami route which is a lot for that route. It's one of the most profitable routes in our network and two weeks after that, we reached load factors above 80%.

So that gives us a good idea and a good sense that these are specific markets where we are improving increasing capacity are the ones that need it the most. Also in the case of New York, we're doing that. We see a good answer and good demand in this market. So still, yes, we keep flexibility and we will add capacity depending on how these markets react.

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**Richa Talwar** - Deutsche Bank - Analyst

Okay, great. Thanks. My second question is just on the replacement of the passenger service system at LAN. You mentioned that the change causing disruptions to your ticket sale process and although the issue had been mitigated, you are still working to fully stabilize your operations. So I was wondering if you could quantify the impact of that change at all in the September quarter? And then give us some color about how to think about it incorporating the potential savings as well for future quarters and then also provide some timing on when you think the related issues from the change will be fully resolved? Thanks.

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

This is Gisela. We did make this change in the reservation system on September 7 and as part of the mitigation measures, we did decrease sales for a week around the time when the cutover occurred. So there was some impact in terms of probably sales that would have occurred had we not tried to be a little bit more cautious. But it's not something that we are really able to precisely quantify it in terms of less revenue.

But it's something -- now right now what we are seeing is I think most of the issues that have already been resolved and it's just a period of time during which all of the sales personnel needs to get accustomed to the use of the new system and sort of other more just operational issues like that. I think that in the long term this is something that's very valuable because the previous system that we had was actually a dual system where we had the inventory system on one system and the distribution system on another so it produced a lot of inefficiencies that will create cost savings now that we have migrated to a single system.

So it's something that should be resolved during the rest of this year and that will have benefits in the medium term.

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**Richa Talwar** - *Deutsche Bank - Analyst*

Great. Thank you so much.

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**Operator**

Nicolai Sebrell, Bear Stearns.

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**Nicolai Sebrell** - *Morgan Stanley - Analyst*

I work for Morgan Stanley. Sorry about that. Cargo, can we talk a little bit about cargo? There was a little difference versus what we expected in the quarter. I was wondering if -- and you did comment a little bit about that but wondering if it's primarily the symptoms of a global slowdown or if you think it's temporary or whether competition has an impact in there? That's the first question.

And then maybe a little bit about what exactly are the next steps for TAM integration? You did throw the slide up and you talked about the things you expect but I was thinking about for example, the back-office systems. TAM, we understand has a back office that you would like to streamline, improve, integrate, into a single system that is LATAM. And I was wondering what kind of timeline that is and then whether you feel you've got a lot of that done already or you are still in the initial stages? So some details there.

And a third very quick question, airline alliance. I thought maybe we would have an announcement with the earnings release but when might you expect to make a final announcement on that? Thank you.

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**Alvaro Carril** - *LATAM Airlines Group - SVP of Sales*

This is Alvaro Carril from the Cargo business. Regarding the Cargo business on this quarter, I think there are three main issues that affected our business. The first one of course is the global crisis and that's hit everybody, every cargo airline in the world, and especially strong I think in July and August. I think that was the worst part of the year now September, October is getting better. This is always a part of the year when Cargo comes up a little bit but July and August were the worst months in terms of the downturn.

Especially on the cargo, I'm talking especially on the cargo going into Latin America, coming from the US and Europe and Asia, coming into Latin America especially into Brazil. Brazil was the market that posted the biggest decline in terms of cargo traffic.

On the northbound business or the business coming out of South America, it is the opposite. It's going up especially salmon in Chile that recovered from its production crisis and also all other perishables coming out of South America to Latin America into the US and Europe are going up.

The second thing that affected the market is the competition mainly because of the rest of the world having so much problems, everybody is willing to come to Latin America and there are many operators that started operating into Latin America or increased their operations into Latin America.

So this also this increased competition in a market that was slowing down of course affected yields and this was another and I think it impacted us.

The third thing is that we put a lot of attention and efforts in the integration with TAM and in the first couple of months, we were not able to achieve everything. We were in the process of changing the offices around the world from the former TAM arrangement mainly with third parties into our offices. And all this integration took time and effort especially in July and August but this is why load factors on daily capacity for the TAM routes didn't pick up until late September and now by the end of the year, they were on the international operations we are fully integrated and we will now start to see the benefits of these integrated operations.





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**Nicolai Sebrell** - *Morgan Stanley - Analyst*

Okay, the detail is extremely helpful so thanks especially other TAM part. The 777s that you are adding, the ones that your getting third quarter, fourth quarter, will those go on routes that will be accretive to yield -- I mean assuming all else stays constant? And are you competing on these new routes to Europe or etc. on price or how is that going to work? Because it is a lot of capacity.

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**Alvaro Carril** - *LATAM Airlines Group - SVP of Sales*

Let me say before, these two aircrafts first of all, will two 767s ACMI that we are taking away so we're taking them back. So don't -- part of the added capacity will replace that capacity that is going out and also we have recently started -- we have deployed another 767 from our fleet into our Brazilian subsidiary to fly for the Correio do Brasil from the Brazilian Post Office. And then the two 777 we will replace, all these operations into our markets from the US to South America and also increase our operations between Latin America and Europe.

How we compete, well, as always it's service and price of course. We think we have a very good service and I think our customers recognize that so we are able to charge a difference over our competitors. We mainly compete in Europe with the large -- the large European carriers like Lufthansa, Martinair from France, also Emirates line and we feel very confident that we will be going to be able to increase our market share mainly because of our service.

And also it's good to mention the combination between our freighter and belly capacity gives us the possibility to offer a very good product from six different origins in Europe to many also destinations in Latin America. This is a very similar situation that we have in the US where we have many origins in the US, four -- five now and also to all destinations South America a combination of freighter and passengers gives us the possibility to provide a very good service and this also allows us to charge a little bit more.

But with this slowdown of the economy and also the strong competition, yes, it's hard to maintain prices.

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**Nicolai Sebrell** - *Morgan Stanley - Analyst*

Thank you. And then the second question regarding TAM integration back office, timing, progress, etc.?

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

In general on the integration process, we have within the passenger international operations, cargo and the different support areas, different work streams that are working on different initiatives, each one with their own timeline in order to achieve the synergies over the rest of this year and next year. Each initiative obviously has its own milestones and its own process and they are all working in parallel. But for now with the track that we're on is that we are definitely still in line to achieve the \$200 million target that we have at the EBITDA level for 12 months after the close, which would be June of 2013. So we should achieve between \$170 million and \$200 million of a run rate higher EBITDA within the first 12 months.

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**Nicolai Sebrell** - *Morgan Stanley - Analyst*

Thanks, but I was wondering if -- maybe you don't know the answer which is fine because it is kind of a detailed. But I was wondering if the TAM back-office system and when I say back office, I mean the whole system as you've probably seen a diagram of it. It's pretty impressive and just curious if you knew what kind of timeline -- whether you think you could clean up or make more efficient that system within a year, within two years or within three years or is it six months? And so I was wondering if -- because \$200 million I absolutely believe you guys are going to hit that. I have no question about that.

I was just curious whether when you look at some of the details that are a little bit more challenging and whether you could give us a timeline or anything of that or maybe it's not something you can disclose.

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

Basically the timeline that we are working on for that is within a two-year period.

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

Within the next two years in the systems and back office.

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**Nicolai Sebrell** - Morgan Stanley - Analyst

Okay, perfect. Then just a last question on airline alliance.

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

Unfortunately we don't have any news there yet. It's something that we are still working on and we are not able to make a precise estimate of when that's going to be -- that negotiation is going to be concluded but it's moving forward.

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**Nicolai Sebrell** - Morgan Stanley - Analyst

Okay, thanks very much for your time.

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**Operator**

Eduardo Couto, Goldman Sachs.

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**Eduardo Couto** - Goldman Sachs - Analyst

Good morning, Alejandro. Good morning Gisela. Good morning, everybody. I have two questions if I may. The first one on load factor, passenger load factor. When we look your load factor in Brazil, I think it has been going up in the recent months. So my question is do you have a target load factor for your operation in the domestic market in Brazil? That's the first question.

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**Unidentified Company Representative**

This is Francisco from the Brazilian domestic operations. Indeed we have a target. We want to operate at the same level that we operate under our domestic market and there are maintenance happening around us now for some of the major players of the industry are taking us at the capacity discipline that will help for sure to increase the load factor. And also during the last month, we introduced some changes in our revenue management strategy that helped us to reach 81% of those sites in July or 78% in September.

So we are very optimistic that it's going to be a temporary change. It is -- we're working to sustain this number during the next month, quarter, and years and (inaudible) change also.

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**Eduardo Couto** - Goldman Sachs - Analyst

Okay, so we can work with something between 75% to 80% for loading in Brazil, that's your view?

**Unidentified Company Representative**

It depends on the environment, but it's our target. If you saw the September number, what the six-month -- in five years that the industry reduced capacity. It's up 2%. That means it's not only a TAM effort, it's an industry effort. And for example with freight less capacity next year if you compare 2011, so TAM (inaudible) effort to improve our load factor as an industry.

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**Eduardo Couto - Goldman Sachs - Analyst**

Do you expect to improve your load from much more from lower capacity or from lower [ut]? How is the ut management vis-a-vis the capacity discipline?

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**Unidentified Company Representative**

The (inaudible) set is the capacity because as you know, the (inaudible) fly with 65% of load factor and so at the early beginning, we are going to listen to capacity discipline of the industry and its coming after two effects. Our revenue management strategy is based on its factor value of the corporate passenger because we have the brand, we have the product, we have the network, but also be very competitive on the price-sensitive passenger that they buy with longer transfers to control and also (inaudible) demand.

Brazil is a growing country. And we strongly believe in the future of the industry because the numbers show that it will grow for sure. They are (inaudible) to grow.

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**Eduardo Couto - Goldman Sachs - Analyst**

Okay, it's clear. Just a second question regarding your fleet plan. You are going to add more or less [60] A320s in the next three years. So I was just wondering where you are going to put this new aircraft as the 320 I think you cannot do long haul, right? So I was just wondering if this is because 60 new aircraft, it's a lot of capacity. I was just wondering where you're going to launch those new planes?

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**Andres del Valle - LATAM Airlines Group - Corporate Finance Department**

Andres del Valle here from corporate finance. Typically we have a lot of Air 320s especially leaving the fleet so I think some of them is going to be for replacement aircraft and other ones could be for growth. But typically on any given year something like 12 to 14 aircraft leave the Brazil fleet, so the 320s, so it's not a pure growth. Most of them could be deployed in the region, of course domestic Brazil, domestic Chile and then as soon as we see fit any new operation, we will redeploy into those new markets.

One of the LATAM's B2B business model is that we can redeploy assets from market to market depending on market conditions.

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**Eduardo Couto - Goldman Sachs - Analyst**

Okay, it's clear. Just a final question, guys, on the LANPASS. Can you give us an update regarding the potential transfer of the LANPASS or the incorporation of LANPASS by Multiplus? Is there any timing for that or you guys haven't still decided what we are going to do with LANPASS and Multiplus?

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

As I explained, we are currently in the process of a program, LANPASS and TAM Fidelidade especially in routes where LAN and TAM have Latin operations but once LANPASS has already the impact on the relation between LAN and multiples as well as the possible integration between LANPASS and Multiplus.

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**Eduardo Couto** - Goldman Sachs - Analyst

But do you expect a merger in the short term or no?

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

No, don't know yet. We're still evaluating that.

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**Eduardo Couto** - Goldman Sachs - Analyst

Okay, so it's still something not decided by the company?

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

Exactly.

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**Eduardo Couto** - Goldman Sachs - Analyst

Thank you, guys.

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**Operator**

Savi Syth, Raymond James.

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**Savi Syth** - Raymond James - Analyst

Good morning, everybody. A question on the Brazil operations. I know there's a new connection fee coming up and there's also some changes to payroll taxes. I was wondering if you could kind of quantify what the impact would be on kind of overall operational costs from those two items?

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**Unidentified Company Representative**

You are talking about the new connection fee that the BRL7 of --?

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**Savi Syth** - Raymond James - Analyst

Yes.



**Unidentified Company Representative**

Well, we don't expect major changes. In reals, we don't like but it's very marginal in terms of our next year bucket so we don't expect major changes in demand because of the amount.

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**Savi Syth** - *Raymond James - Analyst*

Okay, is there any benefit from the changes to the payroll tax?

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**Unidentified Company Representative**

Sorry, I don't understand the question.

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**Savi Syth** - *Raymond James - Analyst*

I guess I'm under the impression that there are going to be changes to payroll taxes in Brazil that should save some costs. Probably not meaningful?

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**Unidentified Company Representative**

Sorry, here in Sao Paulo we don't understand your question. What change are you mentioning?

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**Savi Syth** - *Raymond James - Analyst*

Is there any changes to payroll taxes or in how the Brazilian payroll taxes?

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**Unidentified Company Representative**

You mentioned that it is called here the [parliament] to reduce the taxes to the salary.

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**Savi Syth** - *Raymond James - Analyst*

Okay, maybe I can ask a second question, then. On the Colombian operations, what was the profit or loss this quarter?

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

It was no big change from the previous quarter. Basically we are still showing similar margins and focusing on stabilizing that operation by next year.

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**Savi Syth** - *Raymond James - Analyst*

All right, great. Just a couple of maintenance questions. What was your shares outstanding? Also what were the combined Cargo ATKs for 2011 and the first half of 2012?

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

The share number was 476 million outstanding and I can send you the exact ATK numbers by e-mail.

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**Savi Syth** - Raymond James - Analyst

All right. Great. Thank you.

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**Operator**

Bianca Faiwichow, GBM.

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**Bianca Faiwichow** - GBM - Analyst

Great morning, everyone. I have two questions. The first one is regarding the new domestic yields. I recently read an interview with Boeing in Brazil in newspaper and he said that a 10% increase in yield is needed to reach the breakeven. So for this quarter, we start dropping Brazilian yields and I just want to know what we can expect for 2013 and for the second quarter and also 2012? And how do you think demand should be impacted?

The second question is regarding the recovery in the investment-grade process. How is it going and that's it? Thank you.

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

About the yields in Brazil, you are right that the third quarter was at the top of the yields but we believe this is part of the process of the industry adjustments and we include major changes not only the scenario of the Brazilian real, the new capacity and also our new revenue management strategy but also the prices and industry are slow -- a slowdown of the corporate demand.

We are doing August and September and it seems part of the profit. It would take some movements of fares but the good news is now in November we are back to the level as an industry that we feel comfortable. So we expect increase of yields during the next quarter. And in fact, if you drill down the quarter, our yields increased in Brazilian reals on July but after August and September, we (inaudible) again but to grasp the question -- to answer, we are confident of the future.

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**Bianca Faiwichow** - GBM - Analyst

Okay, thank you.

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**Operator**

Martin Perez, Santander.

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**Martin Perez** - Santander Investment - Analyst

Good morning and thank you for the presentation. I would like to ask what you can comment about the 39% increase in maintenance expenses, please.

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

Martin, basically the -- most of the increase is due to an increase in redeliveries of aircraft during this quarter, during the third quarter, redeliveries of some aircraft specifically. And then there's also some other issues in general the maintenance expenses in Brazil are not as smooth throughout the year as the ones in the LAN operations because it's much more -- it's basically on an expense basis where that LAN it's provisioned throughout the year. So you will see a bigger variability but it's basically that, nothing extraordinary.

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**Martin Perez** - Santander Investment - Analyst

You mean nothing that you were not expecting?

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

No, that line only shows -- remember that line only shows basically minor line maintenance because all of the major maintenance is now capitalized and depreciated, which is different from what TAM used to do prior to the merger.

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**Martin Perez** - Santander Investment - Analyst

So if I understand it correctly, when you move the assets to LATAM you will start accounting that way, capitalizing and depreciating?

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

No, we account that way for TAM regardless of what aircraft it is. The whole group has the same accounting policy.

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**Martin Perez** - Santander Investment - Analyst

Okay, thank you.

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**Operator**

Stephen Trent, Citi.

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**Stephen Trent** - Citigroup - Analyst

Good morning, all. I joined the call a little bit late, so I apologize if you've already answered this question. A quick question on fleet and I may have missed this but in the last quarter, you were describing how you would perhaps reincorporate some of TAM's existing fleet outside of Sao Paulo and into Santiago. And I am wondering if you could reveal where you are in that process and whether you've had any success in doing so?

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**Andres del Valle** - LATAM Airlines Group - Corporate Finance Department

Stephen, hi. Andres del Valle here. Is your question regarding the movement of a fleet, a TAM fleet up to the LATAM level? Is that the question?

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**Stephen Trent** - Citigroup - Analyst

Exactly, so in the Q2, results you suggested that maybe you could avoid some of the FX costs related earnings volatility by transferring some of those planes to Santiago.



**Andres del Valle** - LATAM Airlines Group - Corporate Finance Department

We are in the process. We are finalizing the studies that will lead to eventually move the fleet out to LATAM level from TAM but that's once we have the final blessings from all the authorities, tax impacts, accounting impacts, we will proceed and that process will take at least something like eight months. So this is something that you should see if it happens during the next year, not this year. But that's for the existing fleet. That's for the start.

Granted, the yet delivered aircraft for TAM, (inaudible) of the new incorporation this year especially the 777s and 320s, they have been added to the LATAM level, so the head lease goes to LATAM with a sublease into TAM. So off of the new fleet that's already in place and yet to be finalized for the (inaudible) fleets.

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**Stephen Trent** - Citigroup - Analyst

Okay, very helpful. Thank you, Andres.

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**Operator**

Nikolai Sebrell, Bear Stearns.

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**Nicolai Sebrell** - Morgan Stanley - Analyst

Yes, quickly you mentioned the potential for grounding aircraft. Do you have any aircraft currently grounded?

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

No.

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**Nicolai Sebrell** - Morgan Stanley - Analyst

All right, thanks.

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**Operator**

I would now like to turn the call over back to Mr. de la Fuente for the closing remarks.

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**Alejandro de la Fuente** - LATAM Airlines Group - CFO

Okay, 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, so thank you very much and goodbye.

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**Operator**

Thank you and thank you for your participation in today's conference. This concludes our presentation. You may now disconnect. Good day.

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