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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 Tuesday, March 8th. If you have not received it, you can find it on our website, www.latamairlinesgroup.net in the Investor Relations section.

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

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

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

Thank you. Hi. Good morning, everyone. Thanks for joining us on the call. I wanted to introduce the team here in the room. We have Claudia Sender, who is the President of TAM and heads the Brazilian operation; Andres Osorio, who is the CFO; Andres del Valle, Corporate Finance Director; and Roberto Alvo, Head of the International Passenger and Fleet Planning Area.

I hope everyone is looking at the webcast presentation. We wanted to begin the presentation today going through some of the important highlights that we view were the most relevant events for 2015.

First off, I think it's important to mention that we ended the year with an improvement in terms of our operating results, at the higher end of the guidance that we published in August of 2015, with an operating margin of 5.1% for the full-year 2015, which is 1 percentage point above the 2014 operating margin that we had -- and this is despite the devaluation of all the local currencies in South America during the last year and generally a weaker macroeconomic environment in the region.

This result was mainly driven by a strong performance on the cost side, in line with the efficiency initiatives that we have announced; and also driven by the decline in fuel prices, we have been able to see an important reduction in terms of our operating costs. And specifically as a result of the initiatives that we have implemented, we were able to see \$325 million in terms of lower cost as a result of our efficiency initiative.

On the Brazil side, we have continued with the capacity reductions that we have announced. We finally for the fourth quarter of 2015 reduced capacity by 9.4% in Brazil, which resulted in a 2.5% reduction in ASKs for the full year. We maintain a very disciplined approach to capacity in general in the Brazilian market given the current context. And we have been leading the industry in terms of capacity reduction, and we expect to continue these capacity reductions for 2016.

On the fleet side, we have also achieved a significant reduction of almost 40% of our fleet commitments over the past year, and will show a little bit more detail on that front in the presentation.

In terms of our longer term strategy, we also continue to focus on the continuous improvement in terms of the passenger experience both before and during the flight, focusing mainly on the implementation of digital technology so that passengers can for the most part be able to manage their flight.

On the network side, we continue to focus on developing and strengthening our very strong network in South America with the objective of providing the best connectivity within the region. And in this sense it's important to mention that we announced two joint business agreements with American Airlines and with IAG just this past January with the objective of strengthening our network of connections between South America and North America and Europe. These JBAs are currently subject to regulatory approval and it's a process that we expect will take between 12 and 18 months.

And finally from a financial perspective, we closed the year with a slight increase in terms of our leverage, but our cash position remains very healthy at approximately \$1.4 billion of cash in addition to the \$105 million that we have in committed credit lines, and this represents approximately 13% of our total revenue.

So going now into a little bit more detail on what the numbers were for the fourth quarter and for the full-year 2015, if you look at slide number 3 in the presentation, you can see that generally for the fourth quarter as well as for the full-year we have seen continuous declines in terms of operating revenue, driven by the impact of the devaluation of the local currencies -- and especially the real -- on the portion of our revenues that are denominated in local currencies and also driven by a weaker demand environment in some of our markets.

For the most part we have been able to offset these declining revenues with reductions in costs, driven by the strong reductions in the fuel price, which represents 28% of our operating costs, as well as our cost efficiency initiative.

And with that, our operating margin for the fourth quarter reached 6.2% and for the full-year, as already mentioned, reached 5.1%.

On the non-operating side, it's important to mention a couple of things. In the fourth quarter of 2015 we included in our non-operating results this quarter is a provision of \$71 million that is related to the redelivery of the A320 -- sorry, of the A330 fleet that we are expecting to phase out during 2016. This is mostly a non-cash provision and it's related to the redelivery or sale of these aircraft.

We also on the non-operating side have the effect of foreign exchange losses. For the fourth quarter, the real was not so relevant as the effect of the devaluation of the cash that we held in Venezuela and also the effect of the devaluation of the Argentine peso, which occurred at the end of last year.



Just a mention on Venezuela, we had \$44 million of cash in Venezuela at the SICAD exchange rate for the bolivar, which was 13.5. And now we devalued that, so our current cash position in Venezuela including this write-off of \$41 million amounted to \$3 million. So our current -- of the total cash that we have, only \$3 million are currently held in Venezuela.

And then for the full-year, of course when you look at the \$468 million of the foreign exchange losses, 80% of that is related to the 50% devaluation of the real in December 2015 compared to December of 2014.

Turning to the next slide. If we look at an overview in general of our passenger operations this quarter we saw that overall our ASKs were up by 3.4% in the quarter. This is driven by growth mainly on international operations and the Spanish-speaking domestic operations. In Brazil we had ASK reductions of 9% in the fourth quarter.

And in general, our load factors overall remained very healthy at almost 83%, ranging from 81.5% in the domestic Spanish-speaking operations to almost 84% on the international side.

When we look at the revenue per ASK, overall we have a revenue per ASK decline of 24.4%. By business unit if we look at international operations, the revenue per ASK decline was 22.8%. Here there was a stronger decline on the revenue per ASK of the Brazil international operations as compared to all our international operations from the markets ex-Brazil.

On the domestic side, in Brazil, revenue per ASK in US dollars was down almost 38%, but this was in large part driven by the devaluation of the real. When we look at in the local currency, in Brazilian real the decline was only 2%.

And on the Spanish-speaking domestic countries, the decline there in terms of revenue per ASK was 13.3% in the fourth quarter. And this is largely driven by the devaluations of the different local currencies. Those operations include Chile, Peru, Colombia, Argentina and Ecuador.

Turning to the cost side; overall when we look at our cost performance this year, we saw very strong declines in terms of our unit cost performance. Our cost per ASK equivalent was down 20.5% in the fourth quarter and 20.1% for the full-year 2015. This 20.5% was in part driven by the 43% reduction in our total fuel cost, but there was also an 8% reduction in terms of our cost per ASK equivalent ex-fuel.

This 8% has -- a portion of that is related to the depreciation of local currencies, approximately two thirds of that. And then there's also the effect that we have of the ongoing efficiency initiatives that we have implemented.

If you recall, we have in the past talked about our cost efficiency plans. We had presented a plan with the objective of reducing our total operating costs by 5% by 2018, which represented approximately \$800 million cost reductions in run rate. That \$800 million in terms of run rate today is lower, it's actually closer to \$700 million as a result of the fact that the Company is growing less and also as a result of the decline in fuel price. But the percentage number, the 5% is still the same.

And when we look at what we've been able to achieve there, we have approximately \$325 million of savings that we have identified this year as a result of the different efficiency initiatives that we have. These include productivity initiatives in terms of fuel consumption. They include increased rational labor. They also include efficiency initiatives for our overhead and support function.

We implemented also a project called Total Cost of Ownership, which has to do with improving and making more efficient our procurement related to non-technical acquisitions. And then also on the distribution side, we have a series of efficiency initiatives related to lowering our distribution cost.

So that, all those initiatives together make up these \$325 million in savings that we have identified for this year. And with this we are on target to reach -- I would say we are even a little bit advanced in terms of what we had originally expected of reaching our target run rate to reach that 5% reduction by 2018.



I think it's also important to mention that in the current context we are always looking at additional efficiency initiatives, so we are conscious that our long-term competitive advantage really depends on having a very efficient cost structure. So we continue to look beyond this initial savings plan that we presented, add any additional efficiency initiatives that we can for in the coming year.

If we look at the different cost lines in our P&L, you can see that overall our total operating costs were down by 20.4%. Of that, fuel represents -- showed a reduction of 43.4%. And our operating cost ex-fuel were down 7.7%, which is an 8% reduction on a unit base. That was driven by a 12.3% reduction on the wages and benefit side; 7% reduction in terms of aircraft related costs, depreciation, aircraft rentals and maintenance; and 5% reduction in all the other cost lines.

The other very important highlight for this quarter is what we've been able to achieve in terms of our fleet commitments. If you recall, last quarter we had presented a plan to reduce our total fleet commitments for the period between 2016 and 2018 by 40%. Our original fleet plan that we had one year ago was fleet commitments of \$7.7 billion for the next three years.

And as a result of the negotiations that we've undertaken over the past 12 months, we currently have fleet commitments for this period that amount to a total of \$4.8 billion, having reached a reduction of \$2.9 billion for this period. And the breakdown of that by year is as shown on the slide, with the biggest reduction being achieved for 2018, almost \$1.4 billion; \$1 billion in 2017; and almost \$400 million of reduction for 2016.

Well, as a result of this, our fleet plan is the one that's shown on slide number 8. We expect to end 2016 with 329 aircrafts and then we expect a net increase of seven aircraft for 2017 and nine aircraft for 2018. These net increases are the result of approximately 20 aircrafts which we are redelivering each year that are being replaced by the newer -- the new technology aircraft that we are receiving, that are for the most part the A350s and the 787 Dreamliners.

For 2016 in particular, the \$2 billion of fleet commitments that we have are already fully financed. So we have completed all of our financing for this year for the aircraft that we will be taking delivery of. The \$2 billion will be financed 55% of the total fleet commitments. So \$1.1 billion will be financed via sale & leaseback and operating leases and the remaining 45% is a mixture that's partly financed by the EETC that we issued in mid-2015 and the remaining approximately \$400 million with ECA-backed financial leases and commercial loan.

When we look at our credit metrics, at the close of 2015 we ended the year with a slight increase in terms of our leverage ratio. When we look at our adjusted net debt over EBITDA it was 5.4 times at the close of 2014, it's up to 5.8 times at December 2015.

This is a combination of a slightly higher level of debt, which is up by about \$400 million overall, our adjusted net debt, driven mainly by the issue of the \$500 million bond that we issued last year, which was partly used to repay the call option on the TAM 2020 bond, and also a result of an EBITDAR that's 2.6% lower than what we had in 2014.

But our focus for this year and given the volatility that we are currently facing in the macro environment in the region, our focus today is really to prioritize maintaining very healthy liquidity levels. We are very focused on maintaining our cash levels at around this \$1.4 billion, \$1.5 billion in cash. So currently we have \$1.4 billion in cash plus the \$105 million in committed credit lines. And that puts us between 13% and 14% of revenues on a liquidity basis. We are also undertaking a number of financing initiatives that we can implement during the year in order to maintain liquidity at these levels.

Regarding our hedge position, we've currently hedged approximately 30% of our estimated fuel consumption for the first half of 2016. When you look at the graph on the top side of the page, the numbers are higher than that. The part that's highlighted in red is the hedges that we have from our 2015 hedges, which are at prices that are higher than what the current fuel prices are at. So the 30% that we are referring to in terms of the hedges that are actually active today, those are at current levels.

And this structure that you see here also includes certain stop loss instruments that result in the fact that for this year our maximum loss in terms of fuel hedges is approximately \$77 million.



We are also hedging our operating exposure to the Brazilian real and we have currently \$441 million hedged. We estimate that our total annual exposure is between \$600 million and \$700 million a year, and we have hedged approximately 80% of that for the first nine months of the year at an average rate that's below BRL4 per dollar.

Finally, to talk a little bit about how we are seeing trends for 2016. We closed 2015 generally within the guidance that we have provided both for operating margin and for capacity. When we look at 2016, we have made certain adjustments to our ASK guidance that we had initially provided in November last year. The main changes here involve further capacity reductions in the Brazilian market. We had originally talked about a reduction of between 6% and 9% of a reduction in our ASKs in the domestic Brazilian market and now we have increased that to a reduction of between 8% and 10%.

We are basically today quite conservative in terms of how we are seeing the macro outlook in Brazil and we feel that it's very important to stay focused on having very disciplined capacity in that market given the current condition.

On the international side, we've also made a slight reduction in terms of our growth expectations. We are reducing to a growth of between 4% and 6% to a growth between 3% and 5%. And that reduction is also driven mainly by further reductions on routes specifically between Brazil and North America, where we are expecting reductions of approximately 25% in the second half of 2016 as compared to the second half of 2015.

For the rest, in terms of our growth for the domestic market ex-Brazil, we are maintaining our growth estimates between 6% and 8%. And with that our total growth for the year would be a slight decline of between 1% to a small growth of up to 2%. And on the cargo side we are also maintaining our growth expectations that are basically flat to a reduction of 2%. And with that we are maintaining our operating margin guidance at a range between 4.5% and 6.5% for the full-year 2016.

That's the end of all the prepared remarks that we had for this quarter and we are of course happy to take any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Pablo Zadvar, GBM.

Pablo Zadvar - GBM - Analyst

I was wondering if you could give us a little bit more insight on what are your expectations from your cost saving initiatives for this year. I know the full plan until 2018 is now of \$700 million. I just wanted to -- if you could give us an idea of how much you expect this year and how much -- to see how it is spread out?

Gisela Escobar - Latam Airlines Group SA - Corporate Controller and Director of IR

Yes. This \$325 million that I mentioned puts us very close to the run rate, I would say in the range of between \$620 million and \$650 million. What we basically have left to do for 2016 are mainly some additional initiatives related to productivity. And the largest effect I would say is related to the change in our passenger service system, which will occur in 2017. So that's, I'd say, the part that is the largest piece that's missing to reach the run rate.

Overall, we've advanced faster than we had anticipated because we accelerated certain efficiency initiatives mainly related to overhead and procurement. So in that sense I think we're overall on track. And like I mentioned, the main thing that I would look for going forward is the change that we will see as a result of the change in our PSS.



Pablo Zadvar - *GBM - Analyst*

Okay, thank you. And the other question I had is could you give us -- I don't know if there are any updates regarding your new brand implementation. Recently, we saw the new adjustment in terms of the branding of the loyalty programs. I don't know if there are any other updates or anything important that has been going on regarding this.

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

This will be like -- we had explained I think in the last quarter, it's a gradual implementation of the brand. So during the course of this year we will be seeing a gradual replacement of the LAN and TAM images at airports, a change in uniforms, but all these things -- and a change in obviously the painting of the aircraft. But all the process will be occurring gradually during, I would say accelerating in the second quarter of this year.

So I think the only, I'd say, significant advance was this change in the branding of our loyalty program and we are also trying out the uniforms of our cabin crews in certain locations. But that's still at a trial stage and we should see the implementation picking up in the second quarter of this year.

Pablo Zadvar - *GBM - Analyst*

Okay, thank you very much.

Operator

Richa Talwar, Deutsche Bank.

Richa Talwar - *Deutsche Bank - Analyst*

So first off regarding the lowered international capacity growth, going from up 4%-6% to 3%-5% in 2016. I know you said that was driven by a 25% reduction on international routes between Brazil and North America in the second half of 2016. But I was hoping you could be more specific on what cities or regions in North America you are going to trim?

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Yes. Hi. This is Roberto Alvo. We've published those cancellations already in the system. So we are canceling Brasilia to Orlando. We are reducing our frequencies from Rio de Janeiro to Miami in addition to a reduction we already did to New York.

We are also decreasing our frequencies from Manaus to Miami and we will pull out from that route as well. And we are also decreasing operation from Guarulhos to Miami from 14 frequencies a week to 12 frequencies a week. And we are also decreasing from two frequencies a week to one frequency a week our Fortaleza-Miami flight.

Richa Talwar - *Deutsche Bank - Analyst*

Okay, great. That's helpful. Thank you. And then on the \$71 million charge related to the A330s, was that the result of early lease terminations or was it due to the natural lease expiration of this aircraft and maybe just maintenance cost to get those aircrafts back to the lessors in appropriate return conditions? You said it was non-cash, so perhaps it's neither and related to marking the fleet to market which resulted in impairments? Can you give us some more color there?



Roberto Alvo - Latam Airlines Group SA - SVP of Network and Fleet

Yes, most of the impact is mark-to-market on our owned 330 fleet that now we are selling in the next couple of months. So most of it is just an accounting adjustment reflecting current market prices of A330 fleet.

Richa Talwar - Deutsche Bank - Analyst

Can you tell us what you marked the planes down to or no?

Roberto Alvo - Latam Airlines Group SA - SVP of Network and Fleet

I'm sorry?

Richa Talwar - Deutsche Bank - Analyst

Can you tell us what you marked the planes down to, what the new fair value is that you assumed?

Roberto Alvo - Latam Airlines Group SA - SVP of Network and Fleet

No, we cannot disclose this.

Richa Talwar - Deutsche Bank - Analyst

Okay, no problem. And then along those lines, you mentioned that you sold four A330s so far and redelivered three, so that makes it seven adjusted aircraft. But I believe you have 10 A330s in your fleet. So can you tell us what you intend to do with the last three?

Roberto Alvo - Latam Airlines Group SA - SVP of Network and Fleet

Yes, we are -- those are three owned GE powered aircrafts, and we are in the process of selling those planes as well. The adjustment we did of the \$71 million also comprises a slight adjustment with respect to their mark-to-market value and book value of those three planes. So those are currently being marked to be exiting in the second half of this year we hope.

Richa Talwar - Deutsche Bank - Analyst

Okay, great. Thank you.

Operator

Savi Syth, Raymond James.

Savi Syth - Raymond James - Analyst

Just a few on Richa's question on the international side. I was wondering if it is possible to give a little bit more color on what you saw in Brazil versus non-Brazil, because it seems like some of that Brazil capacity is being diverted to the non-Brazil side. Just kind of curious if the non-Brazil side saw a deterioration, like if those declines were worse in the fourth quarter than the third quarter and what pressure this diversion might do?



Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Sorry, I hear you from far away, but I think I understood your question. So most of the decrease in capacity is due to the cancellations I already talked about in Brazil-US. We are also looking at to decreasing some capacity on the Spanish-speaking side. We cancelled Bogota-Punta Cana earlier this week and we're looking at down-gauging some of our routes. But we still see a relatively healthy demand on the Spanish-speaking side, particularly from Argentina. So we are still planning to grow on our Spanish-speaking countries to the US and to Europe.

Most of this growth though, it's important to say, is up-gauging because of the arrival of our 787-9 planes that are replacing some 767s in our currently operated route. So this is a very healthy growth in the sense that the cost per ASK that we're looking into this operation decreases substantially because of the change of the plane.

Savi Syth - *Raymond James - Analyst*

Okay, that's helpful. Then just on the cargo side, I wonder with the fuel surcharges if we're seeing fuel move higher, will those fuel surcharges naturally move through or given the weak environment is it difficult to push through fuel surcharges? I was kind of wondering how that mechanism works now.

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

You're talking specifically about the cargo fuel surcharges? They adjust automatically to the fuel price declines and increases.

Savi Syth - *Raymond James - Analyst*

Okay, got it. And then on -- just one last question, Gisela, on the hedge side. Any change in your hedging strategy here as you go forward and any new thoughts on what you'd like to do with hedges? It seems like Latin American economy there's somewhat directionally demand wise hike in fuel, so I wonder if you feel the need to continue hedging or what is your latest thoughts there are?

Unidentified Company Representative

Yes, we do consider to implement our hedging policies for fuel. So typically you will see some like 50% to 60% of the nearby quarter consumptions being hedged. I think the main change that we have done over the last maybe three years is that we have changed now to do sort of a four-way instruments that not only protect on the upside high prices but also we have limited loss.

So the aim is to protect the rather the margin of the Company rather than structural changes from very high fuel prices on 8 to 10 basis. That's why my colleague, Gisela, mentions that at today's portfolio the maximum loss for our hedging portfolio of fuel is \$77 million for the full 2016, which is very different compared to what you saw in 2014 and 2013. That's on fuel. So no changes, just the instruments. The tenure is typically up to 12 months out, but more skewed towards the front.

Savi Syth - *Raymond James - Analyst*

Okay, that's very helpful. Thank you.

Operator

Duane Pfennigwerth, Evercore ISI.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Just with respect to Argentina, I wanted to ask you a few questions there. Are you selling in the local currency and what are the differences between what we lived through in Venezuela with respect to these official rates and a black market that's very far away from those official rates, which obviously can change, and sort of how you recognize revenue and price in Argentina?

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Yes. Capital controls in Argentina were abolished, taken out three months ago, so today there's no black market, there's just one rate and everybody can buy and sell dollars into, it's a free market so we don't have any capital restriction consideration as it was in last year. So we're just selling as in any other country where there's no restrictions.

Duane Pfennigwerth - *Evercore ISI - Analyst*

And as a result of that devaluation, what have you seen in terms of demand specifically for international from Argentina?

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Actually demand has responded relatively well in Argentina, because, if you recall, the government had a 35% tax on purchases done on credit cards internationally and that tax was taken out. So actually the customers saw most of the benefit of that decrease in the tax that just made the tickets be much cheaper than they were before at the same exchange rate. So the general sensation in Argentina I guess and this impact of the tax means that the demand today in Argentina has not had the impact that it has in the other countries due to the slowdown of economies.

Duane Pfennigwerth - *Evercore ISI - Analyst*

That's helpful color. Do you have any view on what, how the attitude towards the flag carrier in Argentina may change from the government, how that might change the competitive position for you in that country?

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

No, we don't make comments with respect to competition.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Okay. And then just lastly, are you seeing anything on the ground in Brazil, any green shoots, any sense of demand improvement that would sort of confirm this firming of the real that we've seen recently?

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

We don't see a lot of changes on the demand side. What we do see is a capacity reduction overall in the industry, which we think will have positive impact in our yields in the future.

Duane Pfennigwerth - *Evercore ISI - Analyst*

And what would the magnitude of the FX gain be in the first quarter if this BRL3.70 level is correct?



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

Well, we closed the year -- that will depend on the exchange rate on March 31st. We closed the year at BRL3.90 and our balance sheet exposure is slightly below \$1 billion. So it will be whatever percent devaluation is over that \$1 billion.

Duane Pfennigwerth - *Evercore ISI - Analyst*

Very helpful. Thank you.

Operator

Renata Stuhlberger, Goldman Sachs.

Renata Stuhlberger - *Goldman Sachs - Analyst*

So I have a few questions here on my side. The first one is that given your fleet plan restructuring throughout the year, could we still expect further provisions related to these aircraft rescheduling?

Then my second question will be, you have mentioned amortization of around \$1.2 billion for this year and you also have a fleet CapEx of around \$900 million. So especially with your soon to be a strategic deal with other international carriers, could we expect any additional capitalization risks going forward? Is that something that has been on the table?

And finally my third question is mostly on Brazil. You have cut capacity in Brazil domestic by 9% year on year, but still your yields in [dollar] terms are down a little bit year on year and also sequentially in quarter-over-quarter terms. And we have seen peers like GOL be able to increase yields in [dollar] terms significantly also as a result of capacity cutting. So on your side when do you expect to see an improvement at least in [dollar] terms in your Brazilian domestic yields?

Unidentified Company Representative

So I believe the first question was on -- would the rescheduling of fleet would entail new penalties? Was that question the first question?

Renata Stuhlberger - *Goldman Sachs - Analyst*

Yes, that was the first question.

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

With respect to the first question, no, what we will have is just normal course of business, redelivery expenses for those planes that -- whose leases end and that we are returning. We don't have any other aircrafts in our fleet that we expect to have -- to make mark-to-market adjustments during the course of this year. That's for the first question.

Unidentified Company Representative

Yes. I think the second one you said amortization is \$1.2 billion dollars and then a fleet maintenance of \$900 million, but we sort of missed the question.

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Yes.

Renata Stuhlberger - *Goldman Sachs - Analyst*

So the question was more regarding if you feel any pressure in liquidity in the short-term given that amortization of \$1.2 billion and with also your fleet CapEx of \$900 million, and especially taking into consideration your JV with American Airlines, if we could expect any capitalization needs going forward?

Unidentified Company Representative

Yes, I think now as we have said that we have a number of financing initiatives that aim at keeping the cash level at all times around that \$1.5 billion. That's why you saw the increase in leverage from Q3 towards Q4. So mainly it's a reflection that given that we lost \$20 million because of FX losses, Brazil, Argentina and Venezuela. So we of course we, number one, increased the cash by financing initiatives.

Last year we also issued \$500 million, which then we called at \$300 million bond. So that's a \$200 million difference. And going forward the intent is to keep at all times \$1.5 billion dollars. So we think that this is very adequate for the amortization levels going forward and we do not see any pressure.

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

And also I think as we mentioned during the presentation, all the fleet commitments for 2016 are fully financed. They are either leases or 100% debt financed. And also during this year in particular given the fleet deliveries that we have, we should expect a positive effect from our pre-delivery payment.

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

And the final part of your question related to the JV with American Airlines. First, the JVs we don't expect to be approved this year. And secondly, these do not undertake any cash disbursements whatsoever.

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

Hi. This is Claudia. With regards to the yields improvement in Brazil, we do foresee an important yield recovery now already in the first quarter, but more strongly in the second quarter, going forward throughout the year given that the big capacity reductions overall in the market that are published already in the system are seen much more strongly in the second quarter going forward. But given that our capacity reduction was already very strong in the first quarter we expect a significant recovery now for the first quarter already.

Renata Stuhlberger - *Goldman Sachs - Analyst*

That's great, everyone. Great color. Thank you.

Operator

[Horace Upasal, Bice Investments].



Horace Upasal - *Bice Investments - Analyst*

My question is if you can give us some color on the RASK and yield recorded in Brazilian local currency? Is it possible to have some sense if yields have been improving during this year or you have not seen a major effect yet?

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

Yes, we have seen some improvement in the first quarter in RASK in Brazil and we expect it to grow even further, as I just mentioned, after the capacity reduction takes place, especially after April, which is what we see in the system.

Horace Upasal - *Bice Investments - Analyst*

Okay. Is it possible to have some sense of what are you expecting or a certain range of what you are expecting of RASK improvement in local currency in Brazil?

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

When you look at the size of the reduction that has been published, I don't think in any moment in the recent history in Brazil we have seen such a strong capacity reduction. So at this point in time given that it's a very recent move, it's very hard to predict the size of the improvement that we can expect. It's also hard given that we don't know how the demand will react to the political and economic uncertainty in the country. So I think it's too early to make any assumptions and forecasts on the yield recovery going forward. In any event, we do expect to have significant recoveries in the next month.

Horace Upasal - *Bice Investments - Analyst*

Okay, thanks a lot. Thanks.

Operator

Renato Salomone, Itau BBA.

Renato Salomone - *Itau BBA - Analyst*

My first question is regarding the joint venture applications with American and IAG. If there's any visibility regarding the timeframe for ratification of the open skies agreement between Brazil and the US and of the signing of a similar agreement with the European Union and what could be done in these joint ventures excluding Brazil or if it gets delayed for a while?

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

So let me start with the Brazil-Europe part, for the ratification of the JV we don't need the open skies with Europe signed. So it is an important milestone for our country, but not necessarily for achieving the JV agreement with IAG.

From the Brazil-US perspective, yes, we do need the open skies agreement ratified by the Brazilian Aviacao Civil and the Senate. And we expect it to move forward throughout this year given that the open skies agreement was already approved and all that needs to happen is its ratification. So we do expect it to be solved in the months going forward.

Renato Salomone - *Itau BBA - Analyst*

And for the Company as a whole, when should we start to see the benefits of these agreements?

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Well, definitely after implementation, which will happen, as we said, less than 12 months and probably between 12 and 18 months. And a few months thereafter we will start seeing the benefits of implementation as we are authorized to start coordinating with both IAG and American. But nothing can happen nor will happen before we get the necessary approvals.

Renato Salomone - *Itau BBA - Analyst*

Thank you. And with the accelerated capacity cuts in Brazil, [naturally] employee turnover likely won't be sufficient to prevent inefficiencies in labor costs. So for projection purposes, how should we think about fulltime employees per aircraft over the next couple of years?

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

We are still reviewing this number, but we do understand that we need to look for capacity -- sorry, for productivity levers and we'll have this more clear in the next quarters.

Renato Salomone - *Itau BBA - Analyst*

Okay, thank you.

Operator

Rogério Araujo, UBS.

Rogério Araujo - *UBS - Analyst*

I have just one question that is a follow-up from a former one regarding yields in Brazilian domestic market. Again, we saw GOL increasing their yields by 7% year-over-year in fourth Q while it reduced capacity much less than TAM. Just trying to understand what could explain that in terms of yield management? And if TAM changed its yield management strategy since the last quarter, how you are seeing this yield management and what are you doing in order to try to increase the yields in Brazil, if there is any change from the past quarter? That's it. Thank you.

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

Hi, Araujo. I think it's important to mention that TAM led the capacity reduction in the domestic Brazilian market and we did have a significant cut in the fourth quarter. That does come at a price, which is you have your aircraft fuller to start with and then when it comes to the revenue management, which (inaudible) and given our strategy to operate at higher load factors it's a little harder to do.

But when you look at how we ended the quarter we actually had a strong load factor advantage, which kind of -- which answers -- responds to part of your question. And going forward given the big movement of the market that we expect, we do believe we will have yield pickup and that we will recover this advantage in the next few months.



Rogério Araujo - UBS - Analyst

Okay, yes. I just was wondering if you could have reduced the capacity in higher yields routes and that's a matter of mix or it's not the case?

Claudia Sender - Latam Airlines Group SA - TAM President

No, it's actually the opposite. We have -- if you look at our network strategy, there are a few things that we protect and we take care very carefully, which is first guaranteeing that our hub strategy remains strong and we leverage our connectivity. So if you look at our long haul routes, for example, leaving from Brazil today, they are fed a lot by Argentinean and Chilean passengers that connect very well in our Guarulhos hub. So we protect the connecting routes and we also protect the corporate routes.

So we haven't touched most of the key corporate routes to make sure that these passengers have full access to the routes that they need.

And just to give you an example, when we look at the official the corporate market share numbers for the fourth quarter, Brazil we have maintained despite our capacity cut -- we have maintained our market share levels when compared to the prior year.

So we still focus on -- we maintain our focus in the corporate passenger and in strengthening our hubs and reinforcing our connectivity strategy, which we believe is one of the key strengths of LATAM.

Rogério Araujo - UBS - Analyst

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

Operator

Kevin Kaznica, Citi.

Kevin Kaznica - Citi - Analyst

I guess my first question is, do you see Brazil's relaxation of foreign ownership restrictions of airline voting capital as having created any new opportunities for the industry or do you think that the prior adjustments that certain carriers have already made to the shareholder structures (inaudible) effectively facilitate foreign investment?

Claudia Sender - Latam Airlines Group SA - TAM President

We think that going up to 49% will probably allow for more foreign capital entrants in the current players, not necessarily create an opportunity for major new players coming into Brazil, especially given the macroeconomic environment that we are living in, the excess capacity that we see in the market. But we don't see any major changes in the structure of the Company.

Kevin Kaznica - Citi - Analyst

Great, great.

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

And this all has to be ratified. It was a provisional measure signed by the president, still not ratified by Congress. So it's still midway until its final approval.

Kevin Kaznica - *Citi - Analyst*

Understood, understood. And thank you for the color on that. I guess finally, in your 2016 on EBIT margin guidance, do you have any color that you can provide on what your underlying assumptions on fuel cost and FX were?

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

Today -- well, when we had originally given the guidance, we were seeing the fuel average -- jet fuel price for the year at around \$52 a barrel and the real at around BRL4.25 on average for the year, although I think today both of those numbers are slightly better in the sense that fuel is a little lower and the real has appreciated a little bit from those levels.

I think the uncertainty that we're facing in terms of the demand environment especially in the Brazilian market and also the numbers that have come out since we published that guidance regarding the GDP growth rates in Brazil and even the GDP growth rate finally for 2015, which was actually a pretty big negative number, we have maintained the same guidance. So I think today with the current conditions -- I would say today it's -- the assumptions behind this number are really the current market conditions that we're seeing.

Kevin Kaznica - *Citi - Analyst*

Great, great. That's perfect. Thank you very much.

Operator

Daniel Guardiola, LarrainVial.

Daniel Guardiola - *LarrainVial - Analyst*

I have a couple of questions here. First of all, I would like to know if you could please share with us your thoughts on the competitive environment in Brazil and specific on the fact that Alianca Brazil continues expanding very aggressively its capacity in Brazil and its potential effects on yields in that country?

And my second question is a follow-up on the JV with American Airlines and IAG -- and I would like to know what is the expected effect in terms of revenues and margins of the full implementation of this JV? Thank you.

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

So let me start talking about the competitive environment. It's hard to talk from our competitor standpoint. What we do see is that overall the market is forecasting a strong reduction in capacity, which is already published in the reservation system. So we do forecast a strong reduction in capacity at around 7% in the Brazilian market. But I won't mention any specific competitors. But overall we do see conservatism in the sense that the industry will probably not grow; on the opposite it will shrink in terms of demand in the domestic market.



Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

And with respect to the JVs, we're focused on the fact that the JVs increase the attractiveness of the Company vis-a-vis the passengers. And if it's good for the passengers, it's good for the Company. We're not disclosing at this point in time our expectation of what we believe could be the changes in margin because of the JVs.

Daniel Guardiola - *LarrainVial - Analyst*

Okay. And if I may squeeze another question. I mean I was wondering if you could please share with us what are your thoughts on the potential effects of the Zika virus on the long haul traffic flying into Brazil?

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

As of now we have not seen any relevant changes in demand, neither from the US nor from Europe into the region, nor inter-regionally because of the Zika virus. So with the data we have, it hasn't had an important impact, an impact that we can see in the reservations the fact that Zika virus has been on the headlines.

Daniel Guardiola - *LarrainVial - Analyst*

Okay, thank you.

Operator

Sonny Kushwaha, Claren Road.

Sonny Kushwaha - *Claren Road - Analyst*

Thanks very much. My question has already been answered. Thank you.

Operator

Savi Syth, Raymond James.

Savi Syth - *Raymond James - Analyst*

I just had a few quick follow-ups. The first, Claudia, if you could clarify -- I understand the capacity cut should lead to yield recovery and it sounds like it already is. I was just kind of curious with corporate demand maybe showing up now for the first time for the year, if you can -- if you've seen any improvement in corporate demand, is it the same or worse, any color on that?

And my question was just on the CapEx side, what do you expect to see on CapEx beyond aircraft CapEx? Thanks.

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

Yes, we haven't seen a pickup in corporate demand yet. That reflects a lot the corporate optimism in Brazil, which is at record lows. So we don't foresee a strong pickup anywhere in the near future. We're operating under the assumption that this demand will remain a little depressed for the short-term.

Unidentified Company Representative

Yes, on the CapEx, our non-fleet CapEx for 2016 is in the region of \$300 million for the year.

Savi Syth - *Raymond James - Analyst*

Okay, got it. And the aircraft CapEx includes PDPs?

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

No, it does not.

Unidentified Company Representative

No, it does not. No.

Savi Syth - *Raymond James - Analyst*

Okay. Any color on PDPs then this year and next year?

Unidentified Company Representative

PDPs could be positive. We have a lot of deliveries this year. So as soon as we take out the long-term financing, I mean the PDP gets repaid. So it's a positive PDP inflow.

Savi Syth - *Raymond James - Analyst*

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

Unidentified Company Representative

Sure.

Operator

(Operator Instructions) Vitor Sanchez, Morgan Stanley.

Ricardo Alves, Morgan Stanley.

Ricardo Alves - *Morgan Stanley - Analyst*

This is actually Ricardo Alves. I had a quick question on your fleet plan and commitments for 2017 and 2018 -- actually, mainly in 2017. So just wondering if there's more room for cuts in 2017. We still see a meaningful net increase of aircraft driven primarily by the (inaudible) and the A350s. So just wondering how flexible these airbus deliveries are for 2017 and if there is room to further reduce the \$1.4 billion commitment for that year? Thank you.



Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Yes. So we have pretty much reached our goal and expectation of reducing \$3 billion for the period 2016-2018. But despite that and as we monitor the situation in the markets, we're looking into additional opportunities of decreasing the CapEx if we deem it's necessary. We have a certain level of flexibility and we will adjust this figure if we believe it's what we have to do going forward.

Roberto Alvo - *Latam Airlines Group SA - SVP of Network and Fleet*

Thanks.

Operator

Thank you. And at this time, I would like to turn the call back over to management for any further remarks.

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

Well, thank you everyone for participating in the call today and for all your questions, and as usual, we're happy to take your calls offline if you have any follow-ups. Thanks and have a good day.

Operator

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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