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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, November 20. If you have not received it, you can find it on our website at www.latamairlinesgroup.net in the Investor Relations section.

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

Now it is my pleasure to turn over the call to Mr. Ramiro Alfonsín, Chief Financial Officer of LATAM Airlines Group. Mr. Alfonsín, please begin.

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

Thank you, Stephanie, and good morning, everyone, and welcome to LATAM Airlines Third Quarter Earnings Call. Joining me today are Ms. Claudia Sender, Vice President of Customers; Mr. Roberto Alvo, Chief Commercial Officer; Mr. Jerome Cadier, CEO of LATAM Airlines Brazil; and Mr. Andres del Valle, Vice President of Corporate Finance.

We had a very challenging third quarter for LATAM and for the industry as fuel prices continued to increase. Prices rose 36% year-over-year representing $185 million additional cost for LATAM in third quarter versus last year. In addition, demand slowdown, influenced by the situation in Argentina and in Brazil with the severe devaluation of their respective currencies. In this challenging environment, LATAM did not lose focus of its cost initiatives and managed to offset part of the circumstances that affected the economic results. Initiatives under our control were successfully implemented and improved the results we anticipated.

Please turn to Slide 2, where you will find the highlights for the third quarter. Operating income for the quarter amounted to $175 million representing an operating margin of 7%. After July 1, 2018, the Argentine economy was considered for purposes of IFRS at hyperinflationary. In an hyperinflationary environment, financial statements must be expressed in the functional currency adjusted by inflation since the beginning of the year and converted to the exchange rate of the end of the reporting period instead of the Stock Exchange rate at the day of each transaction. This means that the peso denominated financial statement of our Argentinian subsidiaries have been converted at 41 pesos per dollar instead of the 25 pesos per dollar representing each day of transactions. This accounting and noncash effect reflects approximately $100 million lower revenues and $90 million lower costs.

In order to better reflect the performance of our passenger operations without the hyperinflationary accounting effect, the operating figures of RASK and CASK and only those that we will discuss during this call exclude the impact of this accounting effect. The variations of RASK and CASK that include the effect of IAS 21 and IAS 29 are included in our release and in the notes of this presentation.

Total revenue for ASK for the third quarter declined 6.3%, mainly driven by passenger revenues from international operations influenced by the devaluation and high volatility of the Brazilian real and the Argentinian pesos. On the other hand, total operating expenses fell 3.5% and cost per ASK decreased 5.2% despite the 33% increase in fuel cost, which represents now 32% of our total operating costs. Cost per ASK ex fuel decreased 16% year-over-year. We are constantly -- consistently capturing efficiencies all over the organization to offset the pressures that are beyond our control. Cost efficiencies put the company in a good competitive stand and allow us to improve our performance when demand recovers.

We continued also to improve the utilization of our aircraft from 10.1 hours to 10.6 hours in the third quarter. In addition, during the next 18 months, we will increase seat count in the narrow body fleet by 3%. Improving utilization and seat count is allowing us to grow with fewer aircraft and therefore, will help us to keep the positive track in cash flow generation and continue our deleveraging plan. Having this in mind, we continued our efforts to adjust our fleet commitments. We have reduced $2.3 billion of fleet commitments for the period 2018 and 2021. With these reductions, we have a fleet plan that better matches the current demand environment.

Another important milestone in this quarter was that after more than 2.5 years, the Chilean Free Competition Court approved the JBAs between LATAM and American Airlines and IAG. This is good news for all our stakeholders and especially for our passengers, as these agreements have demonstrated to bring benefits, such as direct destinations, better schedule centers, seamless connections and more flights. We will be able to integrate our passenger and cargo network between South America and the U.S. and Canada with American and between South America and Europe with IAG, which will result in a much more efficient operation. This resolution from the antitrust authorities has been appealed to the Supreme Court by certain third parties.

I also wanted to take this opportunity to give you an update on the transaction between LATAM Airlines Brazil and Multiplus. As you know, on September 5, our subsidiary LATAM Airlines Brazil announced its intention to offer to acquire all common shares in Multiplus that it does not currently own, representing approximately 27% of the total shares, with the intention to manage its frequent flyer program in-house in the future. We have now submitted the required documentation to the CVM in October, and we are on track according to our schedule expecting to carry on with the tender offer during the first quarter of 2019.

Last, but not least, we are very proud to include -- to be included in the World category of the Dow Jones Sustainability Index for the fifth consecutive year, representing 1 of the only the 3 airlines groups in this category globally and the only one in the Americas.

Turning to Slide 3, you will find a summary of our income statement. Total revenues of the company declined by 5.8% in the third quarter to $2.5 billion as a result of the decreasing passenger and other revenues. On the passenger side, revenues per ASK fell 6.3% in dollar terms, mainly as a result of the devaluation and the volatility of the currencies in the region affected mainly our international business, in particular as a result of the (inaudible) industry capacity in goods between Brazil and U.S.

We continued to see a good performance of our new sales model. The Spanish-speaking countries, RASK increased 0.2% despite Argentina, which was influenced by currency and economic uncertainty. In Brazil, domestic operations revenue per ASK increased by 11% in local currency year-over-year despite a 2.1 percentage point decline in load factor. We have, therefore, decided to expand our new sales model to our international operations.

Other revenues fell by $42 million in the quarter due to the impact of the evaluation on Multiplus revenues and due to fewer aircrafts under sublease compared to last year's third quarter. Cargo revenues on the other hand amounted to $279 million, continued to show a recovery increasing 2.5% year-over-year.

Total cost declined by 3.1% -- 3.5%, sorry, in the quarter to $2.3 billion despite an increase of $185 million in fuel expenses. During this quarter, we have reduced headcount by 1,700 employees and continued to increase utilization of our aircraft. As a result, cost per ASK ex fuel decreased by 16% year-over-year. We are very happy to see our cost initiatives on track and producing results. And we wanted to thank our employees for their efforts and our customers for their continued support. With all this, our operating income for the quarter was $175 million accounting for 7% operating margin.

The nonoperating results amounted to $140 million loss in the third quarter compared to the $40 million loss in the third quarter of 2017. This is explained by a $68 million foreign exchange loss during this quarter, when in the third quarter 2019 -- 2017, we had a $59 million foreign exchange gain. With that, net income amounted to $53 million in the third quarter.

If we take a look at the year-to-date figures on the right-hand side of the slide, revenues increased 2.5%. During the year, we had $483 million increase in our fuel costs and the ASKs grew 4.5%. Cost ex fuel decreased 9.1% year-to-date. Despite the fuel impact, operating income is just $35 million below last year.

Net income for the 9 months ended in September 2018 was $33 million, including $146 million foreign exchange loss in the period, while in the same period 2017, LATAM recorded a net income of $88 million, including a foreign exchange gain of $48 million.

Finally, I just want to mention that we're still evaluating the effect of IFRS 16 in our financials. We have a preliminary estimation of approximately 1 percentage point higher in the last 12-month EBIT margin as of September 2018. In terms of leverage, our current 4.6x adjusted net debt-to-EBITDAR would be approximately reduced to 4.3x.

With that, I would like to turn the call to Andres del Valle, our Vice President of Corporate Finance.

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

Thank you, Ramiro, and good morning, everyone. Please turn to Slide 4. Looking at the -- each of our business units, you can see that the international operations were affected the most. They have represented approximately 57% of our total ASK's during this quarter, and we had a capacity growth of 8.3%. This is mostly driven by the new destinations launched from Brazil through the year such as Lisbon, Rome and Boston. Traffic was up 2.7% and load factors declined 4.5 percentage points to a still healthy 83.3%. The decline in load factor was driven mainly by fewer Argentine passengers due to the recent Argentinian pesos devaluation and volatility and by long haul routes from Brazil, especially to the U.S. As a result, revenues per ASKs were USD 0.06, 6.5% lower than the same quarter of last year. Revenues generated in U.S. and Europe accounted for 18% of our total revenues in third quarter 2018 compared with the 16% in the same period of 2017.

If you look at the domestic Brazil operations, which represents 26% of our total ASKs, total capacity increased by 2.5%, mainly at our São Paulo hub. When we look at the load factor, which reached 81.6%, the 2.1 percentage point decline is mainly written by the efforts of the company to increase yields promoting all pass through. In local currency, revenue per ASK grow 11.2%, while measured in U.S. dollar terms, revenue per ASK declined 9.5% to USD 0.057. Once we look at the Spanish-speaking countries domestic operations, which all together represents 17% of our total passenger capacity, capacity rose 3.6% with growth in all countries except Argentina. Traffic grew 3.3% resulting in 0.3 percentage points decline to 81.4%. Revenues per ASK remain relatively flat at USD 0.071 with operations in Chile, Colombia and Peru offsetting RASK declines in Argentina, in part due to the depreciation of the Argentine peso. As a result, our overall passenger capacity grew by 5.9% year-over-year this quarter. Revenues per ASK declined 6.3% year-over-year and the load factor reached 82.5%.

Once we go to the cargo side, our capacity rose by almost 4% this quarter, and with the load factors of 53.5%, 0.7 percentage points lower than the third quarter of last year, which coupled with flat yields resulted in a 1.4% decline in revenues per ATK. This decline reflects the impact of the currency devaluation in imports to Brazil and Argentina, while exports continue to show improvements compared to last year mainly looking at that salmon out of Chile.

Please turn to Slide #5. During the past years, we have been working very hard to address our cost structure. On the top of the slide, you can see that LATAM today continues to expands its operations and transports more passengers, while -- with a much leaner organization. Notably in the third quarter, despite a 53% increase in fuel costs, overhead cost declined by 3.5% year-over-year to $2.3 billion. This reduction is explained by efficiencies across the organizations together with depreciation of the local currencies and cost denominated on those currencies. If we exclude fuel costs, our total costs would have declined by 14.6%. Fuel costs rose 32.9% in the quarter as a result of a 28% increase in the price paid per gallon, excluding hedge together with the 6.3% increase in fuel gallons consumed. Costs associated to wages and benefits decreased 23.3% or $123 million year-over-year as savings, mainly driven by a reduction of 4.1% in the headcount of the quarter as you can see in the chart at the top of slide and the 25% and 85% of devaluation of the Brazilian and Argentine currencies, respectively.

If you look at the fleet cost, which includes aircraft rentals, depreciation and amortization and maintenance expenses, those were down by 6.7% year-over-year in the quarter in line with the decline in the previous quarter and mainly explained by the lower redelivery cost as the company did not return any aircraft in period, while in the same period of last year, 6 aircraft were returned. Lastly, the other cost on this slide declined 13.8% despite the increase in passenger and cargo operations as a result of our efficiency initiatives being implemented. As a result, cost per ASK decreased by 5.2% to USD 0.065 where cost per ASK ex fuel declined by 16.1% year-over-year to USD 0.044.

Please turn to Slide #6. I want to give you an update regarding our new sales model implemented in our 6 domestic markets since 2017. We believe that this is the correct approach to compete in our markets effectively. As you know, domestic passengers represent more than 75% of the total passengers carried by LATAM, so a major portion of the passengers have been buying their tickets under this new model and paying for the services they need. In this slide, you can see that we carried approximately 750,000 more passengers in our domestic operations in the 9 months through September 2018 compared to last year. We carried more passengers in all our markets with the exception of Argentina, where we have decided to cut capacity this year. In terms of our market share, during this year, we have maintained and even increased our market share in countries where we have low-cost competitors since mid-2017 and the beginning of 2018, such as Chile, Peru and Argentina.

If you look at the load factors, in every country, we have been able to maintain load factors of over 80% and those are equal or higher than the ones from our low-cost competitors in each market. Overall, our load factor is 81% in our domestic operations and RASK in the Spanish-speaking countries was flat over the 9 months, and increased by 7% in domestic Brazil in local currency in the same period. Our new sales model and cost efficiencies are producing results, and we have a much differentiated offer. In addition, we offer international connections and network that best serves the passengers, key slots at the main airports in region and the largest frequent flyer program.

Since October, we expanded our new sales model to our international operations. Now, our passengers in the international markets can purchase the tickets with the same flexibility that they currently have in the domestic flights, paying for the service they use and value the most. Under this model, we would be able to continue to stimulate demand and provide the growth of air travel in South America. We will also benefit from a continuous increase in the ancillary revenue generation. Lastly, we believe that we have a very solid and proven competitor resilient in different market conditions.

Please turn to Slide #7. Part of our cost efficiencies came from higher utilization of our existing assets. We're looking to further improve the utilization and to grow in ASKs with the same assets to increasing seats per aircraft. We are able to announce in [part for] this year with a fleet commitments reduction. If you look at the expected fleet arrival schedule, you can see that the changes that Ramiro mentioned earlier at the beginning of the presentation, we extended the arrival of 25 aircraft up to 2021, both narrow and wide body models. Those 25 aircraft represent approximately $2.3 billion reduction for the period, which means that we have reduced fleet commitments by roughly 41% for the period 2018 through 2021 compared to last quarter's fleet plan. We expect that for 2018 all the deliveries will be under operating lease contracts, so no CapEx related to fleet in 2018. For next year, 2019, we will evaluate different options. It should be mentioned that approximately $0.5 billion -- actually $1.1 billion has already been financed. We believe that this plan gives us the flexibility to adapt our growth in different market conditions. And this cautious view has allowed us to continue to improve our cash flow of investments, helping us to maintain our debt profile control and a healthy liquidity level.

If you turn to Slide #8, you can see that we reached $936 million of free cash flow of investments in the last 12 months. The discipline of our investments, especially fleet investments, has been the main driver of this cash flow generation. It is worth mentioning that 2017 was a year with, historically, the lowest investment for LATAM, so the comparison against last year, it is harder now. We remain focused and committed with the delevering process of the company, taking a disciplined approach towards our investments.

Please turn to Slide #9, you can see our metrics. Regarding our financial metrics shown on this slide, our total gross debt was down by roughly $300 million to $7.6 million compared to the December 2017, reaching a leverage ratio of 4.6x. We continue having a very good liquidity position with $1.2 billion of cash on hand, plus $600 million of a revolving credit facility. The RCF is totally undrawn as of today. With this, LATAM's liquidity position reached 17% of last 12 months revenues as of Q3. Our debt maturity profile shown at the bottom of the slide, shows a reminder of around

$300 million in 2018 of debt maturities and $941 million for 2019. Our weighted average cost of debt is around 4.5% and the major portion of the debt is asset backed. In terms of interest rates, approximately 60% of our debt is fixed, which is a significant portion in current context of rising interest rates.

Please turn to Slide 10. Here, we can see our fuel hedging portfolio. For the third quarter of 2018, our hedge position was 44% of our estimated fuel consumption. For the coming months, we have hedged a good portion of our fuel consumption. For the fourth quarter of 2018, we have 54% and moving into 2019, we're about 40% for the first half.

Please turn to Slide #11. The Free Competition Court in Chile approved the JBAs between LATAM and American Airlines and IAG. This is a very important milestone after more than 2.5 years since we subscribed the agreements. These agreements are an opportunity to ensure growth for the industry and will bring remarkable benefits to all stakeholders, especially our passengers. Under this agreements, we will be able to offer network of over 420 destinations for passengers compared with the 140 destinations that we currently operate. In addition, we will be able to launch new direct destination from South America to the U.S. and Canada and to Europe. Furthermore, we will offer better fares and schedules. Once we implement the JBAs, we would share the revenues with our partners and the traffic between both regions, including the destinations behind and beyond because this is a (inaudible) mutual agreement. This means that we will split revenue irrespective of who operates the flight. So we will work together with our partners to improve the network and better serve the connecting traffic, both for passengers and cargo. Despite that the antitrust authorities decision was appealed by certain third parties to the Supreme Court of Chile, the U.S. Department of Transportation is now reviewing the agreement between LATAM and American Airlines, while we evaluate the implementation with IAG and routes to Europe.

Finally, if you turn to Slide #12, we reaffirm the guidance provided in the previous quarter. We are expecting total capacity to grow between 4% to 6% this year. This is composed by a 5% to 7% target for international segments, 2% to 4% growth for domestic Brazil and 4% to 6% for domestic Spanish-speaking countries operations. We're also expecting cargo capacity to increase between 1% and 3% this year. As a result, we expect our operating margin to be between 6.5% to 8% this year. Third quarter was undoubtedly very challenging and market conditions were tough. However, our plans are producing results, and we were able to offset conditions beyond our control. In addition, we are continuing to prepare the company for the future, strengthening its balance sheet and assuring future cash flow generation and growth.

This concludes our presentation for today. And we would be happy to open the line for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And the first question comes from Michael Linenberg with Deutsche Bank.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

A couple of questions here. Ramiro, when you started out with your commentary, you characterized as demand having slowed in Argentina and Brazil. And if we look back in the third quarter, that was during a period where we saw energy prices hit a peak, and we saw some of the currencies hit a trough. As we look into the fourth quarter and even into 2019, have the trends -- have the revenue or demand trends have they stabilized somewhat? Have they gotten better from maybe where they bottomed in the third quarter? Any color that you could give us on where current trends are -- current revenue trends and demand, and I'm specifically referencing Argentina and Brazil long haul.

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

Mike, thank you for your question. I think Roberto is in better position to give you more color.

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

So let me go by market. In Argentina, in particular, I think, we are seeing healthier domestic demands and we believe that some of the demand that would have gone to international moved to domestic markets because of the devaluation and higher cost of traveling abroad. We have not seen yet a rebound in international demands in Argentina, and we believe we'll still see the weakness for a few more months. In the case of Brazil, I think we're seeing quite healthy levels of demand today in domestic Brazil. I think it was reflected on the third quarter numbers on the one side, and also post-election in domestic Brazil, we're seeing strong demand as compared to last year. International is still somewhat affected. And I would say that the main challenges in international are related to a very important increase in capacity both to the U.S. and Europe. Although, we're starting to see on an industry level a slowdown in capacity growth to the U.S. and even a slight decrease when you look at what's being published on the second quarter of 2019 already. Capacity to Europe is still high in the double digits for the whole industry. So situation is stable in terms of demand international. We are starting to see slight improvements, and I think our biggest concern today is the unbalance between that -- timid rebound in demand as compared to the capacity, they're still very strong.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay, great. Just some questions over to Andrés. Just 2 quick ones here. The fuel hedge, the 40% position for the first half of 2019, can you give us a sense of where those contracts were struck, where those -- at what price?

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

We typically do not disclose all the price, but now given the most recent I think, decrease on fuel prices they are still in the money, but we do not reveal exactly the strike price.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. That's actually very helpful. And then secondly Andrés, you mentioned -- you highlighted on the Joint Business Agreements, the fact that it's now that there are certain third parties that are appealing the approval of that to the Supreme Court. And I can think back, some of the court cases that we've had to deal with in Chile over the years, they tend to take some time. Can you give us a sense, is this something that the Supreme Court can hear rather quickly? Or is this something where they're not even going to be able to present the facts and the full case to the Supreme Court for some time? Do you have any sense on the timing and how much this ultimately slows down the approval process?

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

I will give this over to Roberto.

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

This is Roberto, again. It's viable, if you look at past cases from Supreme Court, it could take as little as last 5 months and as long a year. At this point in time, the Supreme Court will set a hearing date, and we will know better when that's set. So I think it's a matter of months what's in front of us. Despite that, and as mentioned in the deck here, we're evaluating particularly with IAG potential implementation outside of Chile or the JV. And please remember, that's still pending the [deal team] signing and therefore, whatever the time it takes in Chile, it runs in parallel with the approval with the DOT.

Michael John Linenberg - *Deutsche Bank AG, Research Division - MD and Senior Company Research Analyst*

Okay. So Roberto, just to be clear, it's good you brought up the U.S. DOT issue because the U.S. DOT is looking at a lot of different cases right now, so I think everybody is backed up. But from the European perspective, it sounds like are you free and clear, you could move actually quickly on what you could do with British Airways, with IAG?

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

Counting Chile, we have all the approvals, but of course, we have this issue is the Supreme Court. So what we're analyzing from a deal perspective, it's implementation outside of Chile in the first stage. We're still looking at this, we have no decision.

Operator

And our next question comes from Savi Syth with Raymond James.

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

Just a quick -- first, a very quick follow-up on Michael's question on international. Are you able to kind of give us a high-level breakout of the RASK between shorter haul, the regional and the long-haul segments?

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

Sorry, can you repeat the question, Savi?

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

Short haul, regional and long haul.

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

Sure. I was kind of curious, the RASK decline in international, if you can kind of break it out between long-haul and regional to kind of get a sense of how much of a drag that long haul segment is having?

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

Yes. So again RASK decrease is basically due to devaluation. I think that if you were to see international RASK in local currency for point for sales Brazil, that's positive. And where we see the main weakness today is Brazil to the U.S. more than Europe and regional.

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

Okay. Okay, that makes sense. And then just on the domestic Brazil side, third quarter RASK is really strong in the local currency terms. Is that kind of a clean core number and we could expect that going forward? Or how are you thinking about the RASK level going forward?

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

It is a clean number. Remember that in the second quarter, we had issues with the change of our PSS System in Brazil, that was completely cleared out and had no impact that was measurable in the third quarter. And as I explained before, we are seeing healthy levels of demand going forward. So it looks that the situation has stabilized in the domestic Brazil.

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

And for the Spanish-speaking countries Savi -- Savi, for Spanish-speaking countries, I would like to add that if you take aside Argentina, which was affected by the devaluation of the currency, you would see a positive RASK in the remaining Spanish-speaking countries.

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

That's very helpful. And if I might ask just one last question that, your slide 6 was very helpful in evaluating how this business model change has shown up. I was wondering if you could -- we've discussed corporate shared trends in Brazil in the past, but I was wondering if you could provide for the other countries what you are seeing on the corporate side, if it's similar or if you are gaining or if you are losing any ground on that side as a result of the business model change?

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

In most of our domestic countries, we're seeing, I would say, a very stable corporate shared market share, but we are increasing our market share particularly in domestic Colombia in the last year, I would say. So in general, we've kept a health level, we have increased slightly our market share here in Brazil as well and Colombia, in particular.

Operator

And the next question comes from Petr Grishchenko with Barclays.

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

Just first, I want to follow-up on what you're seeing in Argentina. Can you maybe talk a little bit more on what you're seeing in terms of fares and yields and the progress on offsetting FX devaluation?

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

So in domestic Argentina, now we're seeing increases very close to the inflation in domestic fares month by month. So I would say that there is a positive reaction in domestic demand in Argentina. For international, Argentina is a very important point of sale for us and for many other airlines and there has been substantial RASK pressure and fares pressure because of the tremendous devaluation. And we still see quite significant weakness in demand and fares coming up for Argentina.

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

Got it, that's helpful. And looking at the guidance and just noticed that your competitors in Brazil, so looking at the domestic market, the capacity increase that you're projecting is somewhat higher than that of your competitors. So I'm trying to understand, trying to reconcile that given the comments that we heard are fairly cautious in adding capacity given the impact on revenue management. So what are your thoughts and what gives you comfort that you can grow yields in Brazil given your assumptions on capacity additions?

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

So for the fourth quarter or for the remainder of the year, what we have published in the system is, I would say, a very, very small capacity increase. We're only growing around 2.5% capacity for the remainder of the year. We'll provide capacity increase guidance for 2019 in a couple of more months. So at this point in time, we believe that actually capacity at an industry level has slowed down and it'll beat when you see all carriers. And therefore, I would say that it's a little bit more stable in terms of capacity for the market in the very short term.

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

Got it. And last question from me just on the revolver, so the $600 million, can you just remind us if there is any restrictions or covenants on drawing that amount or it's kind of freely available to draw?

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

Sorry, I was on mute. There are no covenants on the revolving credit facility, it's full undrawn and fully committed by banks.

Operator

And the next question comes from [Rafael Franco] with Bradesco.

Unidentified Analyst

I have 2 questions on my side. The first one, I'd like to know if the tender offer to do this Multiplus is maintained given that the appraiser report suggests a lower price? And second, you announced the reduction of the fleet commitments until 2021 and 55% of this reduction will have -- will happen, actually, in 2021. I was wondering if you could give the breakdown between narrow and wide-body aircraft?

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

The breakdown on the fleet commitments is on our press release. So just not too bore anyone, but it's fully available there, so you can see the amount of aircraft. But for 2019, I can tell you that we're planning on 4 wide bodies from Airbus and 2 wide-bodies from Boeing, and we're expecting 7 narrow-bodies for 2019 and you can see the remaining of the years per breakdown on the press release. We're only receiving 2 wide-bodies in 2020, and we're expecting 4 wide bodies in 2021. I couldn't listen to your first question regarding Multiplus. Could you repeat it?

Unidentified Analyst

Yes. I'd just like to know if the tender offer is maintained, given that the appraiser report is now suggesting a lower price?

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

At this point in time, if we move with the calendar that we have expected and announced and we moved fast, we wouldn't be changing the price of the tender offer.

Operator

And your next question comes from Duane Pfennigwerth with Evercore ISI.

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

Just going back to your fleet changes and the lower CapEx, how much of the reduction in CapEx is a function of, you know, aircraft deferrals, aircraft deliveries at a slower rate versus how you're choosing to finance those aircraft? In other words, is this really just more operating leases? Or is this all a function of fewer deliveries?

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

Thank you Duane for that question. And let me clarify. It's not that we're reducing CapEx overall. We're changing the way we're investing. We're investing more on the passenger side. Even this year, we're going to be investing and we're going to finalize 7 new international destinations, 27 new routes. We have invested on the new sales model, and we're investing and we have committed investment for the next 2 years on the new cabins, changing all the layouts of all our 777, so improving business class, improving economy class in all of our narrow bodies. In addition to this, we're investing in IT and digital to improve the customer experience. On the fleet side and the way we're financing all this investment is since we have seen that we have improved utilization and we're expecting more seats per aircraft, we would be growing with improved utilization and the densification of our airplanes. So we saw that we weren't or we shouldn't need as much airplanes as we had initially committed. So what you see on the press release is fleet commitments independently or how we're financing those. What Andrés said is that for 2018, all of them will be financed at sale and leaseback, and for 2019, we're still deciding how much we're going to finance through sale and leaseback and how many we're going to finance with our own financing. We're seeing very good conditions for our own financing. So we still need to make a decision. But let me be clear, what you are seeing on the press release in the reductions, it's all fleet commitments independently of how we're going to finance them.

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

And then just for my follow-up on this hyperinflationary accounting change. Can you say, are we seeing just the third quarter impact in those third quarter breakouts? Or is that the 9-month impact just pushed into 1 quarter? And then secondly, what is it that triggered this, is it a function of the percentage of your revenue or the percentage of your cost base? In other words, why would you have to take this accounting treatment whereas maybe some other peers do not?

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

As you have seen this has a very little impact in margin only less than $10 million, $7 million in terms of margin. But it does affect the revenues and it does affect the cost. What you're seeing here is since the beginning of the year, the whole adjustment in this quarter. And what you do is that you need to adjust all your figures to the inflation for the whole year since January to September. But the most important effect is that all the conversion from our Argentinian subsidies that have peso denominated balance sheets, you need to transform them into our consolidated segments into dollars balance sheet and you need to convert everything at the exchange rate at the end of September. And this is what produces the most impact. So I would say that you're seeing this 9-month impact in this quarter and especially, accentuated by the conversion rate that was very high and you need to use the end of the previous exchange rate.

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

That's helpful. And any idea why this would trigger for you and not maybe some peers? Is it just a function of what percent of revenue you source from there? Or is it some other trigger?

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

No, it's because we have a peso denominated subsidiary in Argentina and when you're seeing our figures, you see them in dollar terms. So when we consolidate this Argentinian subsidiary, you see it in dollars and you have this conversion rate.

Operator

And our next question comes from Manuela Echavarría with CrediCorp Capital.

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

Manuela?

Manuela Echavarría Cuartas

I have 2 questions. First, can you quantify how much of your CASK reduction was related to FX? And then, related to the issues with Rolls Royce, have you recovered all the fleet at this point in time and return of the -- with leases?

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

The first question was, can you repeat it?

Manuela Echavarría Cuartas

Yes. can you quantify how much of your CASK reduction was related to FX?

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

Oh, yes. Thank you for that question. Actually more than 60% of our CASK reduction is due to efficiencies, the sustainable efficiencies that we have implemented during the past 2 years. And I would say a little bit more than 1/3 is due to FX with the evaluation of the currencies. Regarding the Rolls Royce question, we currently have 2 planes on ground up to 24 we operate. And we expect that by January next year, all the planes will be flying, and we have a full solution for our fleet.

Operator

(Operator Instructions) Our next question comes from [Diego Torres] with [MCC].

Unidentified Analyst

I have 2 questions. The first one is regarding the debt maturity profile. I mean 50% of the debt comes due within the next 3 years. So could you provide any color in terms of extended debt maturity profile? And the other one is in terms of the minimum cash that the company is considering to have, I mean, in terms of amount and/or in terms of percentage of last 12 months sales?

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

Yes. I think on the debt maturity, if you look at -- for 2018, we had over $1 billion of debt maturities. And next year, we have less than $1 billion, at least $941 million, which is shown at the left lower side of that Slide #9. So of course, we are always looking at the opportunities to possibly refinance and extend the debt profile. But with today's cash generation and today's allocation on commitments given the fleet restructuring, we feel very confident that there is nothing to be done just that we could do it on an opportunistic basis. So we see a very healthy debt profile going forward for now. And the other question was on?

Unidentified Analyst

Related to the -- I mean, if you have any minimum cash position either in terms of amount or -- and/or in terms of percentage of last 12-month revenues?

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

Sure, yes. We have reported now 17.4%, I think, cash on hand plus the RCF. We expect to be around those same levels or maybe a bit higher at the end of the year. Our policy is to target around that 20%. This year, of course, we saw a very adverse macro environment, which of course, implied a lower margin with the same investment. So that's why I think once this is, I think, comes back to normal, we should see, I mean, higher levels of liquidity going forward.

Operator

Thank you. At this time, I'm showing no further questions in queue. I'd like to thank you all 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.

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

Thank you. Goodbye.