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PRESENTATION

Operator

Good day, everyone, and welcome to LATAM Airlines Group earnings release conference call. Just as a reminder, this conference is being recorded. LATAM Airlines Group earnings release for the period was distributed on Monday, May 15. 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 international markets. Therefore, they are subject to change.

And now it is my pleasure to turn the call over to Ramiro Alfonsín, Chief Financial Officer of LATAM Airlines Group, for opening remarks and introductions. Mr. Alfonsín, please begin.

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Thank you, Jonathan. Good morning, everyone, and welcome to LATAM Airlines First Quarter Earnings Call. Joining me today are Ms. Gisela Escobar, Corporate Controller and Investor Relations Officer; Mr. Roberto Alvo, Chief Commercial Officer; Mr. Jerome Cadier, CEO of LATAM Airlines Brazil; and Mr. Andres del Valle, Vice President of Corporate Finance.

Please join me in Slide 2, where you will find the highlights of the first quarter 2017 results. During this first quarter, our operating income amounted to $152 million, representing an operating margin of 6.1%, and net income totaled $66 million. Although we have seen a revenue trend that continues to improve year-on-year, this was offset by 44% increase in fuel prices, which meant $134 million more in fuel expenses comparing first quarter 2017 to first quarter 2016. Please bear in mind that fuel prices in first quarter 2016 was the lowest in more than a decade.

LATAM revenues increased by 6.4% during this first quarter, consolidating the positive momentum that we saw during the second half of last year and producing a third consecutive quarter of revenue increases. This improvement reflects our proactive capacity management in each market as well as stronger local currencies environment, especially in Brazil.

As a company, we remain convinced that cost efficiencies are critical and will lead us to sustainable growth and improvements in profitability. Over the last 3 months, we have reduced our headcount by a further 3%, with a total reduction of 11% of our headcount over the last 12 months. However, when you look at our cost performance during the first quarter of 2015 -- '17, fuel prices was considerably higher than 2016, and our labor costs were negatively impacted by the appreciation of local currencies, in particular the real that appreciated by over 19%.

Regarding the redesign of our domestic business model, we are on track with this implementation with our new buy-on-board service Mercado LATAM, representing the most visual change for our passenger. This has already been introduced in all LATAM domestic flights in Colombia, Peru and Chile, and will be implemented in Brazil and Argentina during the coming months.

Additionally, during this month, we will start implementing our branded sales model in Chile, followed by Peru next month and the coming countries in the months after that. Passengers will have access to clear segmented fares, with the additional services included in each fare type in order to align (inaudible) price to (inaudible). Our joint business associations are currently under evaluation by the regulatory competent bodies, and CADE and Aerocivil have approved during the last quarter the agreement with IAG.

Turning to our balance sheet. The company continues to focus on deleveraging, and we expect to improve our key credit metrics towards the end of 2017. As of March 2017, our gross debt amounted to $8.4 billion and our net debt totaled $7 billion, a decrease of $100 million compared to December 31, 2016. Furthermore, our liquidity position reached $1.7 billion, including an undrawn committed credit facility, and amounted to 18% of the revenues for the last 12 months.

Additionally, we would like to announce that during April, we completed 2 financing transactions, including a $700 million senior unsecured note due in 2024 at an annual interest rate of 6 7/8% and $140 million in the third tranche of the existing EETC structure through a private placement. With this, we have covered our financial needs for 2017.

Finally, our continued efforts to adjust LATAM's fleet commitments to current demand conditions have allowed us to improve our cash flow generation. During the first quarter of 2017, the company's operating cash flow after investments improved by 42%, which means approximately $127 million more if compared with the same period of 2016.

Turning to Slide 3, you will find a summary of our income statement. Our revenue performance continued to improve in the first quarter of 2017, with total operating revenues up by 6.4% year-on-year to almost $2.5 billion. The improvement has been mainly driven by strong recovery in passenger revenues as a result of RASK improvement on international routes as well as the positive impact of currency appreciation in domestic operations. Partially, this was offset by weaker demand in the Spanish-speaking countries.

Passenger revenues increased by 7.6%, and cargo revenues declined 8.1%. Other revenues increased by 26% primarily due to the increased revenues in Multiplus. In addition, during April, we have changed the process by which kilometers are accumulated to a revenue-based scheme on our frequent flyer programs.

Our costs increased by 10% compared to first quarter 2016. This increase is explained by $134 million of higher fuel costs. Excluding fuel costs, LATAM costs increased by 5% in dollar terms, which are explained by the negative impact of the appreciation of local currencies, especially the appreciation of the Brazilian real by 19% during this quarter. With all this, our operating results amounted to $152 million and operating margin of 6.1%.

On the nonoperating side, we generated a foreign exchange gain of $35 million, which is significantly lower than the $68 million gain of last year. This quarter's gain is mainly attributable to the appreciation of the real as compared to December's exchange rate. Taking this into account, our net income for the quarter amounted to $66 million.

With this, I will hand the conference call now to Gisela, who will be providing more detail on the first quarter results as well as the main developments for the quarter.

Gisela Escobar

Thanks, Ramiro, and good morning, everyone. Please turn to Page 4 on the webcast presentation.

We can see on Slide #4 an overview of the revenue performance of the company during this quarter. We continue to see improving revenue trends in -- overall for the passenger business, driven mainly by stronger revenues per ASK in Brazil, both on domestic and international routes. We also continue to take a disciplined approach on the capacity front. As you can see, our ASKs are flat this quarter with respect to the first quarter of 2016, where we've been adjusting capacity to the prevailing market conditions in each of the different markets.

On the international business front, which represents a little bit over half of our total ASKs, our capacity is up 4.5% this quarter, and our load factors are improving, reaching very high, almost 87%, load factor for the quarter. Our revenue per ASK at $0.06 is up 6.2% versus last year, mainly driven by a strong improvement on revenue per ASK between Brazil and the U.S. as well as on routes between Brazil and Europe, offset in part by weaker revenues per ASK on the Spanish-speaking market, especially the Spanish-speaking market to Europe, as a result of some additional competitive pressure on the routes.

When we look at the domestic Brazil operations, we have a 9.5% decline in total capacity, mainly as a result of the adjustments to the network that we did during 2016. Load factors are relatively stable at 82%, and our revenue per ASK is improving almost 25% with respect to last year. This improvement in U.S. dollars is mainly driven by 19% appreciation of the Brazilian currency, but there is also an underlying almost 3% improvement in revenues per ASK in Brazilian currency as a result of the capacity adjustments that the company has implemented over the past year.

On the Spanish-speaking front, the other 5 domestic markets where we operate together represent about 18% of our total passenger capacity. And here, we have a moderate growth of approximately 2% in terms of ASKs, with load factors that are slightly down this quarter, at around 81%, and revenues per ASK that are down 4% with respect to last year. The decline here is mainly a result of relatively weak macro conditions in these countries. Despite GDP growth, we have seen that internal consumption in most of these markets remains relatively weak. This is especially the case in Argentina and also, to a certain extent, in Chile and in Peru.

As a result of this going forward, we have taken a very cautious approach with respect to our capacity. And as you may have seen in the traffic figures that we published this morning, we are already reducing capacity in some of the Spanish-speaking markets. Overall, in April versus last year, we have a 1.9% reduction in ASKs for April 2017 versus April 2016. And with that, we expect to see an improving trend in this revenue per ASK going forward.

On the cargo front, we continue to be very focused on reducing cargo capacity. For this quarter, we have a 10% reduction in total cargo ATKs with respect to last year, mainly driven by a reduction of about 23% of our freighter capacity since we have been reducing the number of freighter aircraft that we operate via returning them to source or via subleases to third parties.

We have this quarter for the first time in over 4 years showed an improvement in unit revenue. So our unit revenue was up 2.4% versus last year, driven basically by stronger load factors as a result of our capacity adjustments, and we are also seeing a recovery in the Brazilian import market, the result of a stabilization of the situation in Brazil. But we continue to see some weakness in the export market from Chile and Colombia, especially.

Turning to Slide #5, where we have an overview of our operating costs for this quarter. In general, on the cost side, what we see is a very negative impact from the increase in fuel prices this quarter. Fuel prices in the first quarter 2016 were at historically low levels. We had Brent at around $35 a barrel in 2016 versus $54 a barrel in 2017. So this almost 20% increase -- $20 per barrel in the price of fuel led to a 29% increase in our total fuel costs for the quarter, fuel being the largest cost item on our P&L, representing approximately 26% of our total cost.

The other relevant impact on the cost side has been the appreciated exchange rate. We have overall approximately 35% of our total cost that are denominated in local currencies, especially wages and benefits. And as a result of the appreciation of the local currencies, especially the Brazilian real, which appreciated 19%; the Chilean peso, which appreciated 6%; the Peruvian currency, 5%; and the Colombian peso 10%, all of those impact negatively when we look at our cost in U.S. dollars.

When we look at our cost performance, we are continuing to be very focused on our efficiency initiatives that we have already implemented and that are going to be actually deepened over the coming quarters as we roll out our new domestic business model, which will further our cost reductions on a variety of different fronts. If we look at the first quarter numbers, we also see continued reduction in terms of employees. We have

11% less employees than we did last year and 3% less employees as of the end of March than we did in December. So we continue with -- very much focused on rightsizing the company and on implementing the different efficiency initiatives.

Turning to Page #6. These are our fleet commitment numbers for 2017 and 2018. These are the same numbers that you are already familiar with, so there's no news here. We are very comfortable with the fleet plans that we currently have for 2017 and 2018. These are historically low fleet commitments for the company. We have only 7 aircraft coming in, in 2017 and 8 aircraft coming in in 2018, which we believe is adequate levels for the current demand environment, and we are also returning a significant number of aircraft each year.

So as you can see, in terms of number of aircraft, we will be reducing the number of jets in operation from 329 in 2016 to 306 in 2018. These fleet commitments also consider 0 CapEx so -- for the year 2017, so we will be taking these 7 aircraft under rentals or sale leasebacks and, therefore, have no CapEx for the year.

We continue working on our fleet plans for 2019, considering the demand environment that we're seeing and the macro trends in the region where we're continuing to work on having an adequate fleet plan for 2019. And this fleet plan has a positive impact on our cash flow generation. It will, for 2017, significantly improve our cash flow generation. Already, if you look at the first quarter numbers, our cash flow after investments is $140 million, improved over what it was in first quarter 2016 as a result of having no fleet CapEx in this year.

Turning to Page 7. You can see our credit metrics for the first quarter. We have 5.4x adjusted net leverage, and we expect this number to continue decreasing towards the end of this year. We also had a healthy liquidity position of $1.7 billion of cash on our balance sheet. This includes the $325 million revolving credit facility and represents a total of 18% of our total revenue. We have fully financed our 2017 financial needs, primarily through a successful issuance of a $700 million bond that was placed in the international capital markets in the month of April. And as Ramiro already mentioned, we also did -- issued the fee tranche of our EETC for $140 million.

On the bottom part of this slide, you can see our debt maturity profile for this year. The $1.2 billion that we have in terms of debt amortization for the 9 months remaining in 2017 have already been fully financed, either through our own cash flow generation or as a result of the financing initiatives that I mentioned. So any additional or new financing initiatives that we have during this year will be basically used for refinancing purposes.

On Page #8, you can see our current hedge position, both on fuel and on FX, and we continued with our same fuel and FX hedging policies. And on the fuel side and on the FX side, both hedge positions are at current market prices, and we have today marginally negative mark-to-market on both of these fronts, but really very close to breakeven at this point.

Our main project for this year, as we've mentioned in the past and if you turn to Page #9 on the presentation, has basically to do with the implementation of the new domestic business model in all of our domestic operations, including Brazil. The objective of this new business model is to make more efficient our cost structure in order to be able to offer lower prices and to, in that way, continue stimulating the growth and development of the industry in all the domestic routes where we operate and also to close the gap in terms of cost per ASK with also low-cost carriers that may eventually start operating in some of the South American markets.

We are fully launched this year with implementation of this model on different fronts. So far, we have launched a buy-on-board service in 3 of our domestic markets, which are Colombia, Peru and Chile. And we expect to launch this buy-on-board service in Argentina, Brazil and Ecuador over the coming months. The next step here has to do with launching a branded fare model, which will include the sales of the first bags in all of our domestic markets as well, which is something that we also expect to complete by June in Chile, Peru, Colombia and Ecuador and, by the end of this year, in all of our domestic flights.

Finally, if you turn to the last page, which is Slide #10. We remain unchanged with respect to our guidance for 2017. We continue to expect our total ASKs to be relatively flat this year compared to last year, basically with very minimal growth on international routes, with flat growth or a slight decline in domestic Brazil operations and with very moderate growth in Spanish-speaking countries as well. So overall, our [total ASK] growth projected for the year is still between 0 and 2%.

And on the cargo side, we continue to focus on adjusting mainly freighter capacity, so for the full year, a reduction of between 10% and 12%. And with this, we expect our operating margins to be between 6% and 8% for 2017 compared to the 6% that we had in 2016. We continue to focus, I think, for this year, as I mentioned, on capacity discipline. We continue to focus on our cost-cutting and efficiency initiatives, especially when we roll out the implementation of our new domestic business model, and we also expect to see continued deleveraging during this year as we move forward with all of these initiatives. And that should result in improved cash flow generation for 2017 as well.

That concludes the remarks that we had prepared, and I'll turn it back over to Ramiro.

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Thank you, Gisela. And before proceeding to the Q&A, I would like to announce that Gisela will be taking a new role as Vice President of Corporate Affairs, reporting directly to Enrique Cueto, our CEO.

As you know, Gisela has worked in LATAM's finance team for the past 10 years, and she has played an instrumental role on so many fronts.

Having worked with Gisela for these past 10 months, I am truly sorry to see her go. And I know I speak on behalf of everyone in LATAM's finance team to wish her the best of luck, and we are sure that she will have great success in this new challenge. So best of luck, Gisela. [Maria Jose Ortiz] that you are familiar with and have met on many occasions will be reporting to me as Head of Investor Relations from now on.

So now we would like Jonathan to turn it over to Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Michael Linenberg from Deutsche Bank.

Unidentified Analyst

This is actually Matt [ph] on for Mike. So Norwegian has recently secured board approval to launch a Latin American startup, Norwegian Air Argentina. Can you guys just give me some color around how you assess competition in Argentina from low-cost carriers such as Norwegian?

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

Mike (sic) [Matt], this is Roberto Alvo. Yes, we've seen the news on them potentially flying Argentina. As mentioned by Gisela as well, we -- the strategy of changing our business model in the domestic business and also, to an extent, in the short-haul regional routes will enable us, we believe, to competitively -- effectively compete with low-cost carriers, no matter the country where we operate. We have the strength of our network, of our asset fleet, which is very important in Argentina at this point in time. And we believe that we can cater for the higher-yield passengers with our current proposition. And we are actively working in decreasing our costs, improving our efficiency and changing our business models not only in Chile, Peru, Colombia and Ecuador but, of course, also in Argentina.

Operator

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

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

I just wanted to follow up on the domestic SSC business. It's -- I know you called out a weak demand, not necessarily competitive issues. Can I assume that some of the kind of competitive issues that you saw last year have now kind of subsided and it's more just adjusting supply for the kind of the new demand environment?

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

Savi, this is Roberto Alvo again. Definitely in -- particularly Argentina, but, to a certain extent, in Peru and Chile, in this quarter, we saw a weaker demand environment than what we expected. We think that the situation is improving going forward, but we remain cautious with respect to our capacity plans in those markets out of a weakness in the consumption side of the economy (inaudible). We haven't seen yet an important entrance of low-cost carriers in Peru or other markets. And at this point in time, we believe that the biggest impact we've had in the first quarter is due to economic conditions rather than a dynamic of more capacity or strong LCC involvement in the Spanish-speaking countries. Our main concern remains today would be economic situation of this country, particularly Argentina.

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

That's helpful. And just maybe on the Brazil side, wondering if you could provide a little bit more color. I mean, it looks like U.S., Brazil, definitely improving there. Is that -- and we're starting to lap some of the capacity cuts. And just wondering if that improvement is still continuing despite lapping. And then maybe just if you can provide any thoughts on what you're seeing in the domestic market as well.

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

Not sure I completely understood your question, but I'm trying to answer what I heard. Yes, we still see -- on a quarter-by-quarter comparison, as of last year, the first half of 2016 was really the weakest point in demand in Brazil altogether, when the economy was at its worst and, I would say, that the political uncertainty was at its highest. So we are seeing an important improvement in both the international, Brazil, U.S. and Brazil to Europe. It's significant as compared to the very low base we had on those 2 quarters last year. And we see a picture of demand that is better, but albeit that's still not strong in terms of -- compared to previous years of -- in Brazil, in the international sector. Traffic figures, if you see them altogether from Brazil, international to everywhere, the number of passengers and RPK that we're seeing, and this is from public information, looks like 2012, 2013 figures. So Brazil has effectively lost 4 or 5 years of growth because of the crisis in the international markets after what happened in 2015 and 2016. So we are seeing a better environment but still far away from where it was and will cost us still with respect to Brazil at this point in time.

Jerome Cadier

I'll take the domestic Brazil piece, and the word is we remain cautious. I mean, it's still unclear, when we look at Q2 and the second half of 2017, whether demand is really going to strengthen. We hope as the macroeconomic conditions improve, that it will be reflected on demand, especially for the corporate passengers that we still do not see that at this moment.

Operator

Our next question comes from [Juan Pablo Pelapodos] from GBM.

Unidentified Analyst

So I was wondering, when can we expect any uptick in demand coming from the implementation of the segmented fares from the new domestic business model?

Gisela Escobar

Well, as we mentioned, we'll be rolling out the branded fare structure over the coming months. So that's something that's -- when we do that, it basically comprises different fares -- different groups of fare for the domestic businesses. And the lowest of those fares will be fares that will be probably between, I would say, around 20% lower than the lowest fares that we have today, with the unbundling of certain of the services. So if you access this lowest fare, you will be able to access fares, in some cases, up to 20% lower than you have today. But if you want to check a suitcase, for example, you'll have to buy that separately, or if you want an assigned seat, you will be able to purchase a specific seat or specific preferential seat on the aircraft separately. As we roll that out, these lower fares should be able to generate stimulation of demand in the lower fare class. So that's something that we should expect to see over the coming months as the business model is rolled out in the different domestic markets.

Unidentified Analyst

Okay, that's helpful. Also -- sorry.

Gisela Escobar

It is important -- I just wanted to add that whenever the additional demand is generated, we expect for this year to result -- to not necessarily result in -- should result in increased utilization of our aircraft and an increase in load factors potentially in the different domestic markets. So we are at no point considering additional aircraft orders for the coming years as a result of this launch.

Unidentified Analyst

Okay. Also, I was wondering about what has been the impact of Mercado LATAM on ancillary revenues. And together with the charges for the first bag, what can we expect going forward from these initiatives?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

So on Mercado LATAM, first, I think, that most importantly is that we -- to mention that we believe it has been a successful launch, both in terms of how it was going operationally and the reaction of our passengers to the new offer we have of food inside the planes. So we're very happy with the deployment in both -- in Colombia, Peru and Chile, where we have done this already. The result of that is good. We are still in the very early stages of this, so I would not venture too much to say with respect to ancillary revenue, but we're happy and within our plans in respect to how it's being deployed. And we think that we will see full the deployment of this in the 2 or 3 months, including Brazil.

Operator

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

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

Congrats to Gisela and [Maria Jose] on their new roles. My first question is just a follow-up on the Spanish-speaking countries' demand. Just wondering if you think the weakness you highlighted there could eventually compel you to lower ASK growth -- your ASK growth guidance for this year. And maybe if not, why not? I know you said that you are seeing some signs of improvement there.

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

Yes. So for now, Josh, we're still keeping our ASK guidance for Spanish-speaking in between 4% to 6%, although it is fair to say that with the first quarter results in, it looks like we'll be closer to the bottom of that guidance. We're not making any changes, but we're seeing how the economy develops in the next couple of quarters. We have elections in Chile later this year which is important and also election in Argentina that may have an impact on potential demand. So we're keeping the guidance, but we're looking very carefully on how this develops in the next 2 or 3 months.

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

Okay, very helpful. And the second thing I was hoping you could address is your longer-term investments. You obviously have these very low fleet commitments in '17 and '18. Do you think 2019 is a year that we're likely to see CapEx getting back to a level that's closer to your depreciation? And I was also just wondering, to what degree your 2020 domestic passenger growth targets are achievable just by boosting loads and aircraft utilization as opposed to adding new aircraft? You -- I know you mentioned that definitely you are expecting load factors and utilization to go up.

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

Yes. So with respect to fleet, as of 2019, we're still looking into this. I think it's fair to say that we will see probably investments that are still slightly higher than 2017 and 2018, but still we're looking into the final and most reliable numbers. We have had a significant change on the long-haul fleet already, particularly on the LANPASS. We're almost finishing the new -- the reinvestments on new fleet on the Spanish-speaking side. And we're in the middle of that process in Brazil, and we will see how demand in Brazil performs to understand if we need to change anything with respect to CapEx of fleet in 2019. We'll give you news as soon as we have better understanding of that.

Second question with respect to 2020...

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Utilization.

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

I'm sorry, utilization. Again, our business model, I think, attacks every single aspect of our cost base. One of those, and we announced this a few months ago, is increasing utilization significantly. That's also what makes our fleet plan being -- we're very confident in this fleet plan because it gives us the opportunity of growing more, if necessary, if the market conditions are so. But we expect to reach costs that we will -- that will enable us to significantly, how do you say in English, stimulate the market if economic conditions are right for that.

Operator

Our next question comes from the line of Leandro Fontanesi from Bradesco.

Leandro Fontanesi - *Bradesco S.A. Corretora de Títulos e Valores Mobiliários, Research Division - Research Analyst*

Can you please comment a little bit more figures for some of your main countries in the Spanish-speaking country segment, like you did in the last quarter conference call? So you mentioned in the last conference call what was the decrease in revenue per capacity in local currency. If you could provide this figure. And also, in the last quarter Argentina was a little of -- a market that was different from the other countries, so you had a big increase in revenue, in RASK in local currency. So if you could also provide sort of a color which countries performed better than others.

Gisela Escobar

Sure. Well, to give you a little bit more color by country, if we look at our ASK growth first, the 2.1% ASK growth that we have this quarter is basically driven by Chile and Argentina, where we're growing between 3% and 5% in ASKs. In Peru and in Ecuador, we are declining in capacity with respect to last year, and in Colombia, we are relatively flat with respect to last year in ASK. When we look at our revenue per ASK performance, we are basically seeing declines in revenue per ASK in all of the markets that are between 3% and 5%, in Chile and Peru. In Argentina, it's the strongest decline. So when we look at the situation in Argentina, we are seeing close -- around a 9% decline in revenue per ASK with respect to last year. And in Colombia, in U.S. dollars, it's actually a slight increase. So I hope that...

Leandro Fontanesi - *Bradesco S.A. Corretora de Títulos e Valores Mobiliários, Research Division - Research Analyst*

Yes, sure. And also, do you have the load factors as well?

Gisela Escobar

Yes. Well, the load factors are basically -- I would say the biggest decline that we were seeing is in Chile, and all the other markets is relatively flat.

Leandro Fontanesi - *Bradesco S.A. Corretora de Títulos e Valores Mobiliários, Research Division - Research Analyst*

Okay. And just a last question. With the implementation of your new business model, what sort of nonrecurring costs or expenses have been reflected in your results and will reflect in the following months?

Gisela Escobar

The biggest impact on the cost side that we've had on a nonrecurring basis has to do with severance payments as a result of the personnel reductions that we have been doing over the past year. So we have approximately an 11% reduction in headcount, and that led us to recognize severance costs of approximately $90 million in 2016 and approximately $20 million this first quarter of 2017. And that's something that we should continue to see probably in the coming quarters. And in addition to that, the other significant adjustments that we have been making has been on the fleet side, where we have also been returning approximately 20 aircraft per year. If you look at our fleet plan for this year, we are planning to redeliver 21 aircraft. So there's also redelivery costs associated to that, and that's something that we also incurred in 2016 and expect to continue in 2017. I will say, though, there are (inaudible) onetime or nonrecurring costs that we have.

Operator

Our next question comes from the line of Rogério Araújo from UBS.

Rogério Araújo - *UBS Investment Bank, Research Division - Director and Equity Research Analyst*

I have 2 follow-up questions here. First, on revenue per ASK. If you could just confirm that -- on a point-of-sale basis, if the reduction was double digit in these Spanish-speaking countries. And if you could also speak a little bit about second quarter of the year, if it remains as the first Q, if it deteriorated further or if it improved a little bit. And my second question is regarding yields in Brazil, if they stabilized it at -- in the current levels and if you expect the other players and even LATAM to start adding capacity again to Brazil and if this could deteriorate the Brazilian yields in the upcoming quarters.

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

So we do not provide revenues by point of sale. What Gisela basically provides to you is revenue changes or RASK changes by business unit. So that's the information we normally provide. With respect to Brazil, would you like to answer, Jerome?

Jerome Cadier

Yes, I'll take the Brazil question. Although when we see the first quarter, we did reduce our capacity by 9.5%, we still maintained that over the following -- over the full year, we will see an ASK reduction between 0 and minus 2%. That has not changed. And I'm not aware of what the competition is -- expects to do. We do expect that, hopefully, the macroeconomic conditions can improve. That doesn't necessarily mean that we will increase ASK because of that.

Operator

Our next question comes from the line of Renata Stuhlberger from Goldman Sachs.

Márcio Prado - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

This is actually Márcio Prado. Just a follow-up question on yield dynamics. You guys mentioned that the U.S. -- the Brazil-U. S. route has improved a bit, but I wondered if you could give us further guidance on your international yields. Even with the recovery in some important currencies like -- not only the Brazilian real but the Chilean peso, you still had pretty much flat year-over-year yields on your international routes. So if you could comment on the yield dynamics, like South America to the U.S., Brazil and Spanish-speaking countries and to Europe, and if we could expect like some additional improvement on yields on that front.

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

So I think we've already mentioned with respect to Brazil to both Europe and U.S. With -- on the Spanish-speaking side, we have seen, in the last 12 months, a very significant increase in capacity from Europe to Spanish-speaking. Alitalia started operations to Santiago. BA started operations to both Santiago and Lima. [Blue Azul] just started operations from Madrid to Lima and Santiago, and Air Madrid started operations from Madrid to Guayaquil. So strong increase in capacity, and that has definitely been impacting yields and revenue per ASK on Spanish-speaking, Europe. So a portion of the improvement we've seen in Brazil to Europe or Brazil to U.S. has been offset by a strong decrease in yields in Spanish-speaking to Europe due to this big increase in capacity. Spanish-speaking to U.S. is more stable, both in terms of capacity and yields.

Márcio Prado - *Goldman Sachs Group Inc., Research Division - Equity Analyst*

In terms of like -- just a follow-up, if you have the info. Like for the Spanish-speaking countries, like if we will think of RPMs or any other sort of volume metric, what will be the share of like U.S. and Europe?

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

So in terms of -- our capacity to -- from the Spanish-speaking long haul, our capacity to Europe represents approximately 20% of our capacity -- I'm sorry, our capacity in Spanish-speaking long haul, 20% of that is represented by Europe, and the remainder to Caribbean and U.S.

Operator

Our next question comes from the line of [Pedro Grizenko] from Barclays.

Unidentified Analyst

It's [Pedro Grizenko] with Barclays. Can you please provide maybe a little more color on your CapEx this year? Do you still expect it to be around, I think, $500 million for maintenance? And about like $140 million for PDP was your prior guidance. And also, on the fleet commitments, it's a nice chart, by the way. But how much of that will be financed via sale leasebacks?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

So total CapEx will be less than $500 million for this year. We're targeting roughly, I would say, between -- roughly $450 million this year. This will be maintaining CapEx and IT CapEx. Regarding our fleet commitments, of the $469 million that Gisela mentioned, all of those will be financed through sale and leasebacks.

Unidentified Analyst

Got it. And $450 million, does that include PDPs or it's separate?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Separate than PDP. PDPs are financed separately.

Unidentified Analyst

Okay. So it's $450 million. And then PDPs are still $135 million?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Yes, in that region. $135 million, $100 million, yes.

Unidentified Analyst

Got it. And second question I had, how much is drawn on the working capital credit facility, the -- I guess, the uncommitted line? And I think it was like $830 million the last time. And I was also wondering, why do you list this versus -- compared to other debt items?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Sorry, the question was on the committed credit line on the [OCF], what portion was funded? Was that the second question?

Unidentified Analyst

Question on the working capital uncommitted credit facilities. The last quarter, you had a total amount of about $1.2 billion, and I think $830 million was drawn. So I wanted to hear what's the current number as of the end of first quarter.

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Yes. I think the difference is mainly short-term (inaudible). That's called (inaudible), which is [trade finance], typically 90 days up to 180 days. So that's the main difference vis-à-vis last year on the uncommitted facilities.

Unidentified Analyst

So in terms of liquidity, should I think about it as -- like the delta between total amount and drawn as source of liquidity? Or that's not really available to draw?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

In terms of liquidity, you should think of the $1.4 billion in cash that we have plus the revolving credit facility that is fully committed and fully undrawn of $320 million. So total liquidity is $1.7 billion.

Unidentified Analyst

Okay. And last, I think maybe a couple of weeks ago, the company filed some forms to issue about [$350 million] in Chilean bonds. Has there been any progress? And should we consider that as kind of second quarter business?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

The company did file late in April, aligned with local [SPS], to issue up to USD 9 million, which is the equivalent of [$350 million] of bonds of long tenor, 11 years. And that activity (inaudible), but it takes anything between 30 to 60 days. So yes, maybe we should see some business in even Q2 or maybe Q3, depending on their timing. But then, of course, as we have announced, those proceeds will be used maybe to refinance, exiting that one.

Operator

Our next question comes from the line of [Natalina Santana] from Citi.

Unidentified Analyst

How should we think about LATAM Airlines' long-term financial results? Should we expect a regular dividend?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

I'm sorry, dividends for this year, I mean, it was announced that it will be 30% of last year's bottom line. Going forward, we don't have a declared dividend policy, but that's typically adjusted as minimum (inaudible) 30%. But then depending on the market situation, depending on the capital situation, we will be able to take that figure or not. For now, this year, it would be 30%.

Unidentified Analyst

Okay. How much annual investment should we expect going forward?

Gisela Escobar

How much annual investment?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

I think the rough expectation of maybe $400 million to $450 million in non-fleet CapEx is accurate going forward.

Unidentified Analyst

Okay, that is very helpful. And I have one last question. Can you refresh my memory regarding the status of Qatar obtaining a seat on the company's board?

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Qatar already has a seat on the board once the capital increase was materialized. Since they have 10% roughly of the company, they are allowed a board member. And on the past shareholders meeting, that seat was taken by Giles Agutter. That was the nominee from Qatar.

Operator

And 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.

Ramiro Alfonsín Balza - *LATAM Airlines Group S.A. - CFO*

Thank you.
