

Company Name: Latam Airlines  
Company Ticker: LTM CI  
Date: 2018-05-09  
Event Description: Q1 2018 Earnings Call

Market Cap: 5.37TRI  
Current PX: 8851  
YTD Change(\$): +133.1  
YTD Change(%): +1.527

Bloomberg Estimates - EPS  
Current Quarter: -0.013  
Current Year: 0.639  
Bloomberg Estimates - Sales  
Current Quarter: 2440.000  
Current Year: 10945.000

## Q1 2018 Earnings Call

### Company Participants

- Ramiro Diego Alfonsín Balza
- Andrés Del Valle Eite
- Roberto Alvo
- Claudia Sender
- Barbara Halberstadt

### Other Participants

- Savanthi N. Syth
- Duane Pfennigwerth
- Petr Grishchenko
- Stephen Trent
- Miguel Moreno
- Michael J. Linenberg
- Rogério Araújo
- Bruno Amorim

## MANAGEMENT DISCUSSION SECTION

### Operator

Good day, everyone and welcome to the 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, May 8. If you have not received it, you can find it in our website, [www.latamairlinesgroup.com](http://www.latamairlinesgroup.com) – [www.latamairlinesgroup.net](http://www.latamairlinesgroup.net), sorry for that, 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.

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

### Ramiro Diego Alfonsín Balza

Thank you, Victor, and good morning, everyone. And welcome to LATAM Airlines first 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. Andrés del Valle, Vice President of Corporate Finance.

Please join me on slide 2 where you will find the highlights for the first quarter 2018. Our operating income increased 50% year-over-year to \$229 million while our operating margin expanded by 2.2% points to 8.4%. This result was explained by improvements in the performance across all passenger and cargo business units, offsetting the increase in costs resulting mainly from higher fuel prices.

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Total revenues for the first quarter increased by 10% to \$2.7 billion as we registered unit revenue increases across all our business units and the 16.6% increase in cargo revenues. Passenger revenues per ASK increased by 7% year-over-year, while increasing passenger capacity by 2.9% during this quarter. Total operating expenses increased by 7.6% mainly explained by the 20% increase in the fuel price during the quarter, which currently represents around 29% of our total operating costs.

Excluding fuel cost per ASK increased only by 0.2% offsetting inflation in the region. For the first quarter 2018, net income amounted to \$94 million, \$28 million higher than last year. While in the first quarter 2017, net income had a foreign exchange gain of \$35 million, this year the foreign exchange gain was less than \$1 million.

In addition, Moody's upgraded the corporate rating for LATAM from B1 to Ba3, reflecting the improvements in operating performance, leverage, and liquidity, considering that this improvement in results are sustainable and leverage will continue to decrease in the following periods. In addition, during March 2018, Fitch ratings changed the outlook of the company from stable to positive.

Finally, on April 26, 2018, the shareholder's meeting approved the dividend distribution of \$46.6 million which represents a 30% of the net income of 2017 payable on May 17, 2018.

This is the second consecutive year of dividend payments after the association between LAN and TAM.

Turning to slide 3, you will find a summary of our income statement. Our revenue performance continued to improve in the first quarter of 2018 with total operating revenues increasing 10% year-over-year to over \$2.7 billion. This increase is a result of an increase in passenger and cargo demand, as well as revenue per ASK recovery in all our business units. We flew over 600,000 additional passengers in this quarter, 400,000 of which correspond to the domestic operations and this translated from the new business model that we implemented in the past year.

Passenger and cargo revenues increased by 10% and 16% respectively. Other revenues decreased 0.7% mainly as a result of the implementation of IFRS 15 in the first quarter of 2018, which resulted in \$19 million less revenue as compared to the previous disclosure standard. Total cost amounted to \$2.5 billion, increasing 7.6% year-over-year mainly explained by \$123 million higher fuel costs as a result of a 20% increase in the average price compared to the first quarter of 2017.

Despite the overall increase in costs, we continue to make progress in our efficiency initiatives which resulted in a leaner and more efficient organizational structure as we have reduced the number of employees by 4.3% on a year-over-year basis and the numbers of aircraft that were flying by 10 aircraft. As a result, cost per ASK ex fuel increased by only 0.2% year-over-year. With all this, our operating income for the quarter rose 50% year-over-year to \$229 million, accounting for an 8.4% operating margin, 2.2 percentage points higher than the first quarter 2017.

The non-operating result of the first quarter amounted to \$74 million loss in the first quarter of 2017 compared to the \$24 million loss in the first quarter 2017. This year-over-year difference is mainly explained by the foreign exchange gain of \$35 million in the first quarter of 2017.

Net income amounted to \$94 million which is \$28 million higher than last year's result. I would like to spend a few minutes to comment on some events of the past weeks. Regarding the legal strike that affected mostly our domestic Chilean operations, and although the strike isn't legally over yet, we have restored 100% of the operations since May 2.

This is because 827 of our crew members individually decided to return to work, these 827 crew members are of a total of 842 crew members that were under the Union. Between April 10 and May 2, the company had to cancel 2,000 flights affecting over 400,000 passengers. We regret the occurrence of this strike, and the impact it had on our passengers.

We understand that the aviation is a fundamental service for the connectivity of Chile. We have preliminary estimated the impact of the strike in around \$25 million to the operating margins that will be affecting our results in the second quarter.

Secondly, I would like to give you an update on the fleet regarding our wide body fleet in particular. As you probably know, at this moment, we are not operating seven Boeing 787 aircrafts out of the 24 aircrafts of this model in our fleet.

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This is due to the extended maintenance requirements for the engines that we use in those aircrafts. As a result, we are subleasing four Airbus A330s and one Boeing 747 to support international operations. We are working very close with Rolls-Royce today to reduce the impact to our passengers and the company. We regret the impact that this industry-wide situation is having on our passengers.

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

## Andrés Del Valle Eite

Thank you, Ramiro, and good morning, everyone. Please turn to slide 4. We can see in this slide an overview of the revenue performance of the company during this quarter. We continue to see an improving revenue trend for the passenger and cargo businesses. This is resulting in part by a proactive capacity management across the markets and another part by stronger demand compared to the first quarter of 2017. As you would see in the slide, we have increased our capacity in all of our markets while improving passenger unit revenues and load factors at the same time.

When we look at our international operations which represent 56% of our total capacity, we see that our capacity was up 3.4% this quarter, and the load factor reached a very high 87%. Our revenue per ASK which was \$0.066 increased by 9.2% versus last year both in long haul and in regional international routes.

On the domestic Brazil front, which represents 26% of total capacity we have 1.9% increase in total capacity, and load factors relatively stable at 82.3%. Revenues per ASK are improving almost 6% in U.S. dollar terms with respect to last year while [indiscernible] (00:10:06) in Brazil real the revenue per ASK increased by 8.7%.

In the Spanish-speaking countries domestic operations, together representing 18% of our total passenger capacity, we grew capacity growth by 2.8% with load factors that increased 1.5 percentage points to 83.6%. Revenues per ASK improved by 4% to \$0.073 reflecting that we are well-prepared to compete in this market despite the additional competitive pressure that we are seeing. As a result in the passenger operations, revenue per ASK grew 7% year-over-year. This improvement was driven both by an increase in yield of 6.3% and load factor 0.6 percentage points to 85.3%. We have also increased our capacity by 2.9% year-over-year this quarter.

Lastly, our cargo in revenues have also benefited from that better demand outlook mainly in Brazil's import markets resulting in a consistent improvement in unit revenues and load factors in the past quarters. During the first quarter of 2018, we increased cargo capacity by 5%. EBIT revenues increased 11% to \$0.184 while load factors rose almost 2 full points to reach 54.8%. Despite these improvements, in general terms, market volumes are still below [indiscernible] (00:11:37) have not yet fully recovered in Brazil.

We believe that the approach toward the cargo market will continue yielding results in the next quarters. We have just sold one of our Boeing 777 Freighters during the first quarter of 2018. And we would sell the last Boeing 777 Freighter during this week. This leaves us with a cargo fleet composed only by nine Boeing 767 freighters. We expect that cargo capacity will slightly increase in 2018 with this homogeneous fleet.

Please turn now to slide number 5. We see that LATAM is growing almost in all of its markets. Only in the first quarter of 2018, LATAM transported more than 17 million passengers of which almost 13 million were domestic passengers and 4 million were international passengers. This increase means that we transported around 600,000 more passengers in the first quarter of 2017 evidencing that despite a competitive scenario in the region especially in Chile and Peru, we continue to grow in these markets while maintaining very healthy load factors as we just saw on the previous slide.

In addition, we continue to strengthen our network. Early in the first quarter of 2018, we inaugurated 11 new routes excluding four seasonal routes that we operated during [ph] December (00:13:00). Of the 11 new routes, we launched 6 routes in the domestic market in Brazil, and 5 new international routes which include new destinations such as Rome from São Paulo and San José, Costa Rica from Lima.

Also, we continue to inaugurate new routes from our hubs to secondary cities in other countries such as new flight from Lima to [indiscernible] (00:13:22) and from Guarulhos, São Paulo to Mendoza.

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Please turn now to slide number 6. Here, we see that our operating costs have increased at 7.6% year-on-year to reach \$2.5 billion. In general, what we see is an important increase in fuel cost which represents around 29% of our total operating cost. Fuel paid per gallon excluding hedge rose by 20% during the quarter, which resulted in \$123 million of higher fuel expenses. Cost associated wages and benefits have decreased by 2% year-over-year mainly driven by a reduction of 4.2% in the average head count for the quarter as you can see in the chart at the bottom center of the slide.

Regarding fleet cost which includes aircraft rentals, depreciation and amortization and maintenance expenses, they were up by 0.2% year-over-year in the quarter in which higher maintenance costs were offset by low rental costs. As a result of the reduction of 10 aircraft as compared to the first quarter of 2017, as you can see at the bottom right of the slide. Lastly, the other segment increased almost 9% year-over-year mainly as a result of increased volume of operations. As a result, cost per ASK increased 4.6% year-over-year, while the cost per ASK ex-fuel increased only by 0.2%.

Please turn to slide 7. Here, you can see the fleet plan for next years. Looking at fleet commitments, they maintain the same numbers that you're already familiar with. No news here. Regarding the stock in this year, we have received the two Airbus A321 and one of the two A350s – Airbus A350s planned for this year, while we're delivering one Boeing 777 Freighter. Furthermore, we're subleasing five additional aircraft to support our international operations, as a result of a lower availability of Boeing 787 aircraft, seven of which are not operating to sustain our growth plan for the year. We expect to end the year with a total fleet of 318 aircrafts and for 2019 with 324 aircrafts.

Please turn to slide number 8. Here we see that our credit metrics for the first quarter. On the upper left-hand side, you can see that that leverage has decreased from 4.5 times at the end 2017 to 4.3 times adjusted net leverage. We expect this number to continue decreasing towards the end of this year.

On the upper right side, we also have a healthy liquidity position of \$1.5 billion of cash on our balance sheet. In addition to that, we have a revolving credit facility of \$450 million that is fully available. With that, our liquidity position represents 18.4% of the last 12 months revenues.

Below on the same chart, you can see the debt maturity profile as of the end of March 2018. Here, you can see that most of the debt maturities for the next two years is composed by secured debt, mostly related to aircraft debt. In 2020, we have the maturity of the LATAM 2020 unsecured bond issued back in 2015. This is [indiscernible] (00:16:49). So, we will – probably the best way to address this maturity either this year or the next one.

Please turn to side number 9. Regarding on fuel and FX hedging portfolio shown in this slide, at the first quarter 2018, we have had 20% of our estimated fuel consumption recording \$6.5 million of fuel hedging gains, above the \$2.4 million gains recorded in last year's quarter. For the second, third, and fourth quarter of 2018, we have 45%, 44%, and 23% respectively of our estimated fuel consumption hedge. For next year, we started to build our hedge position with just 3% for the first quarter of 2019.

Regarding the BRL during first quarter 2018, we recognize \$0.7 million gain related to foreign currency contracts compared to the \$2.9 million loss recorded in the same period of 2017. We have hedged \$100 million for the second and third quarters of 2018, and \$60 million for the fourth quarter of 2018.

Please turn to slide number 10. Finally, here, we wanted to reaffirm the guidance provided earlier this year. We are expecting total capacity to grow between 5% to 7% this year. This is composed by a 6% to 8% target for both the international and the domestic Spanish-speaking countries segment, and a 2% to 4% growth for domestic Brazil business unit. We are also expecting cargo capacity to increase between 1% to 3% this year. As a result, we expect our operating margin to be between 7.5% to 9.5% this year, an improvement from the 7% operating margin recorded in 2017.

With this, we conclude our presentation, and we will be happy to address any questions from the audience. Thank you very much.

## Q&A

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## Operator

[Operator Instructions] One moment for questions. And our first question comes from the line of Savi Syth from Raymond James. You may begin.

<Q - **Savanthi N. Syth**>: Hey. Good morning. Thank you. Fuel prices have been coming up quite a bit here, it went up a lot today, and just historically I think in the region, there's been somewhat of a correlation between kind of high fuel and commodity prices and the demand. Could you talk about your sense about the ability to maybe pass through these costs in the form of kind of higher fares or higher tariffs in the – in kind of the three entities as well as the cargo segment?

<A - **Roberto Alvo**>: Yes. Hi, Savi. This is Robert Alvo. How are you? Yes. Of course, everybody has seen fuel prices have come up significantly in the last few weeks. Ability to pass on prices to fuel depends on markets and current capacity situations. We are – we believe that in the short term in the second quarter this would be slightly more challenging since capacities already been published by everybody. But we think that we'll see a passing on of the fuel prices as the year progresses if the price of the fuel stays in the levels that it is today.

<Q - **Savanthi N. Syth**>: Are there some entities that you feel more confident than others?

<A - **Roberto Alvo**>: Yes. There are some markets where we believe that it's – as in any companies have different segments. We see some markets probably internationally slightly more easy today to see passing on of the fuel prices than in other markets. But conditions depend on how capacity will move going forward in the rest of the year.

<Q - **Savanthi N. Syth**>: Got it. And if I may on the on the cargo front, you have really good results especially when you consider the higher capacity. It looks like for the year the capacity – in 1Q capacity you're 5%, but the year you're still thinking 1% to 3%. Are we to assume that, kind of, the capacity growth should slow down for the rest of the year, and then any thoughts as you kind of look forward on trends and capacity – on the cargo front?

<A - **Roberto Alvo**>: Yes. So, we have seen healthy figures in demand in cargo both northbound and southbound, particularly southbound. Our take is that the industry will stay healthy throughout the year. We are at this point in time, I think that the biggest concern we have in terms of capacity will depend on the recovery of the Boeing 787s because the airplanes that we are – the Airbus A330s have lower belly capacity than the Boeing 787s so we have some impact in our capacity. So we're not moving our guidance for capacity basically due to the fact that we have the issue with the Rolls Royce engines at this point in time but we see a positive trend for cargo throughout the year at this point in time.

<Q - **Savanthi N. Syth**>: All right. Thank you.

## Operator

And our next question comes from the line of Duane Pfennigwerth from Evercore. You may begin.

<Q - **Duane Pfennigwerth**>: Hi. Thank you. Regarding your RASK growth in the first quarter here, 9% in local currency in Brazil and similar 9% in long haul RASK, how do you see those trending here into the June quarter?

<A - **Andrés Del Valle Eite**>: Second quarter is low season in South America. And therefore, I would say that our view is slightly more conservative for the second quarter of the year in terms of RASK movement as compared to last year. We see different situations in different markets but all-in-all, it's going to be a more challenging quarter in terms of revenue because of seasonality.

<Q - **Duane Pfennigwerth**>: Okay. Care to speak to where you see sort of greater deceleration – do you see greater deceleration in long haul or do you see a greater deceleration in Brazil domestic?

<A - **Andrés Del Valle Eite**>: No, I would say the long haul is relatively stable. We see deceleration in domestic Argentina to an extent, domestic Chile of course because of the strike that has a significant impact particularly in April, and that has an impact on us for that particular month in that particular business. And we see some degree of stability in

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domestic Brazil although slightly weaker than the first quarter. The other markets are just in the low season.

<Q - **Duane Pfennigwerth**>: Great. And then just lastly, I don't know if you're willing to comment, but can you speak to at what levels your fuel hedges and your FX hedges are in the money? Thanks for taking the questions.

<A - **Andrés Del Valle Eite**>: We cannot provide too much detail on the levels of fuel hedges or FX hedges, but we can say that as of today they're both in the money.

<Q - **Duane Pfennigwerth**>: Okay. Thank you.

## Operator

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

<Q - **Petr Grishchenko**>: Good morning. This is Petr Grishchenko from Barclays, and thanks for taking my question. So, just given the volatility in FX, we see in Brazil and Argentina over the past several weeks if there is no kind of subsequent recovery, do you think you would meet – you would have to update your margin guidance for this year?

<A - **Andrés Del Valle Eite**>: So, in terms of demand, at this point in time on international markets out of both Argentina and Brazil, we have not seen significant impact or an impact in bookings due to lower currencies, local currencies as compared to the Eurozone. We have not seen that effect. I think that still Brazil is an uncertainty in terms of the political situation going forward. But what we've seen so far is the second quarter remains relatively stable in terms of bookings as we try to understand the effect or the potential effect of FX movement for those markets.

<Q - **Petr Grishchenko**>: Okay. And would consider I guess maybe hedging more BRL just considering disclosure you provided it's not like a very large portion of your exposure. So, I'm just curious if you anyhow increased the hedges.

<A - **Andrés Del Valle Eite**>: Yeah. To date, we have \$100 million for Q2, for Q3 which is roughly 75% of the exposure. For Q4, we will continue building up the position because we have \$6 million and that whatever we build up should be in line with that you're seeing for both Q2 and Q3. And then, of course, going forward, I should see our hedges I think increasing.

<Q - **Petr Grishchenko**>: Got it. And last question, I guess, you reported the capacity adjustments you have to make on a route from Brazil to Europe to maintain RASK. I was just wondering if that was in line with your prior expectations or you have to make some adjustments on fleet size there?

<A - **Andrés Del Valle Eite**>: No. The capacity adjustments we've made are more tactical adjustments related to how we deploy the different aircraft we have in the different routes. They're more related to those operational movements than [indiscernible] (00:26:53)

<Q - **Petr Grishchenko**>: Got it. All right. Thank you very much and best of luck.

## Operator

And our next question comes from the line of Stephen Trent from Citi. You may begin.

<Q - **Stephen Trent**>: Hi. Good morning, everybody, and thanks for taking my questions. I just had a follow-up on Duane's question if I may. One, I think about the unit revenue in Spanish-speaking markets up 4% year-on-year in dollars in the first quarter. Any color with respect to what the RASK trend in the Spanish-speaking markets is on a local currency basis as we consider the shift from 1Q into 2Q, any color on that?

<A - **Andrés Del Valle Eite**>: So, we normally don't provide guidance on our forecast on unit revenues. I think that we have to – I mean, we stick to the guidance and the impact we expect that the movements in the market will have on our margins. As I've said before, we see – demands are relatively healthy. Having a low season in place, of course, with the

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second quarter, but we don't see, today, impact that [indiscernible] (00:28:09) in terms of demand.

**<Q - Stephen Trent>**: Okay. Appreciate that. And just one other question. I think your opening comments you mentioned that your employees in Chile have been back to work and everything's normalized since May 2, but the strike's not technically over. Kind of any broad view with respect to what financial or other concessions you have made to get those employees to return?

**<A - Claudia Sender>**: I'm sorry. This is Claudia. No. What happened is that as employees decided voluntarily and individually to come back to work, they agreed to the last offer that the company had made, which is very similar to the working conditions and benefits that they had prior to the strike, and no real salary upgrades.

**<Q - Stephen Trent>**: Okay. Appreciate it. In that regard then, I was just not sure what you guys meant by the strike not being technically over?

**<A - Claudia Sender>**: By the Chilean law, the strike is only legally over once the last employee comes back to work. Today, we have less than 20 crew members that still have not come back to work. Most of them are in health license or post-birth licenses. So, that does not impact at all our operations.

**<Q - Stephen Trent>**: Okay. I appreciate it, Claudia. I'll let somebody else ask a question. Thank you.

## Operator

And our next question comes from the line of Miguel Moreno from Larrain Vial. You may begin.

**<Q - Miguel Moreno>**: Hi, everyone. Thank you for taking my question. I have two questions. The first one is regarding the elasticity of demand especially when – if oil prices continue to rise and regarding the question of the pass-through, which of the segment have higher elasticity? How could this – increase in prices could affect demand?

The second question is regarding load factors. You have done an excellent work especially international work. Do you have like a top structural like – like a top in load factors, 80% sounds high. Do you have room to continue improving? How do you see the load factors in Domestic Brazil and SSC rising for this year? Thank you.

**<A - Roberto Alvo>**: Miguel, this is Roberto again. So I'll try to answer your second question first and then – and the first one. So load factors are in the upper 80%-s in International. We have steadily improved load factors International, and that's through the years. We don't have a specific target. Our target is to maximize RASK all the time. But as we have become more sophisticated on our revenue management policies and procedures, we believe that we can keep improving the load factors slightly year by year, period by period without diluting our revenue per ASK.

So going forward, we'll work in trying to maximize the revenue on our aircraft haul design without taking consideration of the load factor as being the main – the most important metric here. It's good news that we increased our RASK, 9% in international, and at the same time increased the load factor, I think that's the main take.

With respect to elasticity, I'm not sure I can explain. The question is technical so at the end of the day, there's relatively higher elasticity in lower-priced passengers as it happens in any market, as we pass through fuel or we try to pass through fuel, we'll see what happens. At this point in time, again, I think the demand relatively healthy in most of the markets. So, we don't have today as big concern in terms of elasticity. We have basically an understanding of how [indiscernible] (00:32:09) move throughout the year.

**<Q - Miguel Moreno>**: Okay. Thank you.

## Operator

And our next question comes from the line of Mike Linenberg from Deutsche Bank. You may begin.

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<Q - **Michael J. Linenberg**>: Hey. Good morning, everybody. I guess I have two questions here. I just – recently, there has been press reports about LATAM contemplating the start of a stand-alone LCC operation, and whether there's some truth behind that or not, I'm just curious based your new domestic operations sort of the low-cost domestic platform that you have today, what would you like to say that you could possibly get via a separate LCC subsidiary rather than – versus what you're able to do with what you have today? Wouldn't be that the operation that you've been developing internally that that's sufficient or do you feel like you have to go to the next step and have a separate LCC subsidiary? Just your thoughts on that.

<A - **Claudia Sender**>: Okay. Hi, Mike. This is Claudia.

<Q - **Michael J. Linenberg**>: Hi.

<A - **Claudia Sender**>: Hi. Good to talk to you again. I think, first of all, we're always looking into strategic projects, and of course, we have to contemplate given the competitiveness of our markets which is increasing every day. And here in Chile more than any other market with the arrival of new low-cost carriers, we need to be looking into new potential projects. And the process of implementing – potentially implementing a low-cost carrier is something that has to be open. And the only thing that we've done was ask for an operational license to be able to launch it in case we want it to.

So, today, it's still very [indiscernible] (00:33:56) not a reality. And it's something that we will always be contemplating to make sure that LATAM is the leader airline in the region position which we want to maintain has to contemplate to make sure that we can face the competitive pressures in each of our individual markets.

<Q - **Michael J. Linenberg**>: Okay. Great. That's helpful. And then, just my second question with respect to the disruption of having grounded Boeing 787s with the Trent engine. To see those planes parked with engines off of them is obviously not a great sight. There's obviously some costs there. I mean, I know you highlighted the fact that the strike impact in the June quarter was \$25 million, but I would think that having grounded airplanes, and the fact that you have to go out and wet lease a few Airbus A330s and a Boeing 747. There's obviously cost there. Is it safe to assume or the way to think about this is that whatever cost of disruption and wet lease is maybe being offset by some form of compensation from the manufacturer, the OEM, so that at the end of the day we should anticipate a hit from the disruption of the long-haul fleet. Is that the right way to think about it or is that something that we have to be mindful of as we move through the second quarter?

<A - **Roberto Alvo**>: Mike, this is Roberto. Thank you.

<Q - **Michael J. Linenberg**>: [indiscernible] (00:35:26)

<A - **Roberto Alvo**>: So, of course, [indiscernible] (00:35:32) is very aware of the impacts of having not only parked aircraft also operating aircraft that are not our product. [indiscernible] (00:35:40) enable us to provide the service and the product that we want to provide to our customers. So, they have full awareness of this. Of course, there's commercial conversations going to which I will not, for confidentiality purposes, address. But [indiscernible] (00:35:53) I don't think that we are – we feel that this is going to be – we're more concerned in the fact that we are affecting our passengers than anything else at this point in time. We want to solve this problem as quickly as possible.

<Q - **Michael J. Linenberg**>: Okay. Great. And then could I just squeeze in one last one as it relates to domestic Argentina. You've talked – you've mentioned about demand across the region and that was the one country that was down. Now, I know we just had a big move in the currency, but this is a March quarter number where it was down 16%. And I did see that it looked like LATAM Argentina actually pulled out of some markets. And so I'm not sure what's driving that. Is it currency? Is it macro? Is it new competition, or is it just rightsizing the Argentine operation? What's behind that down 16% in some of those market withdrawals that we've seen?

<A - **Andrés Del Valle Eite**>: I think it's the latter comment you made. It's – we're rightsizing to the current situation in domestic Argentina more than anything else.

<Q - **Michael J. Linenberg**>: Okay. Great. Thank you. Thank you very much.



Company Name: Latam Airlines  
 Company Ticker: LTM CI  
 Date: 2018-05-09  
 Event Description: Q1 2018 Earnings Call

Market Cap: 5.37TRI  
 Current PX: 8851  
 YTD Change(\$): +133.1  
 YTD Change(%): +1.527

Bloomberg Estimates - EPS  
 Current Quarter: -0.013  
 Current Year: 0.639  
 Bloomberg Estimates - Sales  
 Current Quarter: 2440.000  
 Current Year: 10945.000

## Operator

Thank you. And our next question comes from the line of Barbara Halberstadt. from Bank of America. You may begin.

<A - **Barbara Halberstadt**>: Hi. Thanks for the opportunity. Actually, my question was going to be on the low-cost carriers was already answered, and in which I can fit another one, would be regarding the Open Skies agreement and the JV with American Airlines, if you could comment a little bit, what's the status of that and what's the next steps to get this launched? Thanks.

<A - **Andrés Del Valle Eite**>: Okay. So during the last few months, we got approval from both the lower and the upper houses in Brazil for Open Skies that basically ends up the approval process in the Congress in Brazil. The only thing that's waiting is the ratification from both the U.S. and Brazil of the Open Skies Agreement that was signed several years ago. So this is more of a bureaucratic process that is underway. As soon as that happens, we will re-file with the DOT a request a JV between America and LATAM. And that will happen as soon as we get the approval as I said, and then we will have to wait for the DOT to pronounce itself. So it's positive. We've passed all the most important milestones in this process with America in particular and now we're just pursuing the last step in the agreement with American Airlines.

In the case of the JVs in general, we're still waiting for the approval of the antitrust court in Chile. We don't have – they don't have a timeline. So they can make their decision at any point in time. Basically, an implementation at this point in time is still subject to that with that particular approval, an indication [indiscernible] (00:38:49) approval, and of course what I just mentioned the DOT.

<A - **Barbara Halberstadt**>: Okay. That's great. Thanks.

## Operator

And our next question comes the line of Rogério Araújo from UBS. You may begin.

<Q - **Rogério Araújo**>: Hey. Good morning and thanks for the opportunity I have two follow-up questions here. First on [indiscernible] (00:39:11). There was an increase in the volatility of local currency in the U.S. in the recent weeks and I want to know how lockdowns, international flight bookings are behaving if there is really any impact from people – from local people less willing to fly abroad, if you already saw that movement and what to expect? This is the first question.

The second follow-up is regarding the low-cost carriers. When you look at the Chilean and Peruvian markets the volumes are going up. For LATAM, we see 6% increase in Chile in the beginning of this year, 5% in Peru, even though LATAM has been losing market share because of the ramp-up of the local low-cost carriers. So, my question is regarding how LATAM is perceiving this competition if there is an impact on the demand or in ticket fares and how you are dealing with that in terms of yields in the specific routes where those new players are ramping up? Thank you very much.

<A - **Roberto Alvo**>: Hi, Rogério. This is Roberto again. So, on your first question, I think I've pretty much answered. We have not seen at this point in time impact on bookings due to the movement of the currencies in the region. We're closely monitoring but we have not seen a significant impact that we can measure at this point in time from there. Just bear in mind that the second quarter is low season, but it's in line more than with the expectations in terms of the potential impact that the currencies could have on bookings. So, we don't see it at this point in time.

With respect to the second question, as you know, we've implemented a model, it was announced over two years. We're quite happy with the results of the model at this point in time, [indiscernible] (00:41:05) is working well. In most of the features that we've deployed, we have seen positive results. Overall, we think we have the right strategy for our company to compete with low-cost carriers. We're prepared to do that. Our market share is not our most significant metric, but of course we will defend our leadership position in the places where we see that there's competition coming. Load factors of some of those competitors are relatively low, which I think underlined that our strategy has been paying

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off as we deployed.

<Q - Rogério Araújo>: Very clear. Thank you very much.

## Operator

[Operator Instructions] Our next question comes from the line of Bruno Amorim from Goldman Sachs. You may begin.

<Q - Bruno Amorim>: Yes. Hi. Good morning. Thank you for the opportunity. So, my question regards international traffic. I'd like to understand to the extent possible what's the share of outbound traffic out of the region – out of Brazil or Argentina, the main countries in LatAm – as opposed to the traffic from other regions – from the U.S., from Europe – into the region? I'm just trying to understand to what extent if the currency depreciates in the region and outbound traffic falls, to what extent inbound traffic could offset this eventual downturn? Thank you very much.

<A - Andrés Del Valle Eite>: Hi, Bruno. So, on average, approximately 55% of passengers are sold in local point of sales. So, in the countries in South America we operate in, and the remaining 45% is sold abroad. It varies of course route-by-route and country-by-country, but that's more or less the split, 55/45.

And, of course, depreciation of the currencies in South America also make South America cheaper for traveling here. So, in general, when we see changes in the past in currencies, one thing compensates pretty much the other. And, today, our revenues are relatively well balanced between what we sell in the region and outside of the region.

<Q - Bruno Amorim>: That's clear. Thank you very much. When you look forward through your bookings are you seeing this move? People from other regions booking more, and Brazilian, Argentinians booking less or not yet?

<A - Andrés Del Valle Eite>: I think as I explained earlier, at this point in time, we have seen no impact due to the currencies in our bookings.

<Q - Bruno Amorim>: Okay. Thank you.

## Operator

Thank you. And I'm showing no further questions at this time. 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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