

Q4 2014 Earnings Call

Company Participants

- Edmar Prado Lopes Neto, Chief Financial & Investor Relations Officer
- Paulo Sergio Kakinoff, President & Chief Executive Officer

Other Participants

- Carlos Louro, Analyst
- Jeffrey Samuel Eisenberg, Analyst
- Kevin M. Kaznica, Analyst
- Pablo Zaldivar, Analyst
- Richa Talwar, Analyst
- Rob Norwood, Analyst
- Robert James McAdoo, Analyst
- Savanthi N. Syth, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and thank you for waiting. Welcome to GOL Airlines Fourth Quarter of 2014 Results Conference Call. With us here today, we have Mr. Paulo Kakinoff, CEO; Mr. Edmar Lopes, Chief Financial and IR Officer; and Mr. Eduardo Masson, Financial and Investor Relations Director. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GOL's remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and may be accessed through GOL's website at www.voegol.com.br/ir where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of GOL management and on information currently available to the company. They involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Paulo Kakinoff. Mr. Paulo, you may begin your presentation.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you very much. Good morning. Hello, everyone, and thank you for joining us for our earnings conference call for the fourth quarter and full-year of 2014. In 2014, we continue to expand our margins against the background of a challenging and highly volatile economic scenario. For GOL, it was a year of major deliveries in line with our strategic plan.

Let's begin our presentation with slide number 2. The chart on the left shows that the real depreciated by 13% compared to 2013 and a further 22% for full-year 2014 compared to year-to-date close. This trajectory together with the high volatility seen in recent months has resulted in a new foreign exchange scenario. The second half of 2014 was difficult due to the political uncertainty and low economic growth, resulting in substantial decline in the number of corporate passengers and reduced demand in general.

As for jet fuel, the international per barrel oil price fell by 45% in the year most abruptly (03:15) in the fourth quarter. However, due to the average 45-day delay from international jet fuel prices to prices practiced in Brazil, the lower per barrel oil had no impact on our 2014 operating expenses. The last item shows that the industry supply remain virtually flat for the year while GOL reduces domestic capacity by 1.7%. You will see more details on this in the coming slides.

On the right, we have the highlights for GOL, which recorded a series of important achievements in 2014. We maintain and expand our leaderships in terms of numbers of passengers transported in the domestic market in 2014, serving 3.5 million more customers than a second place airline. For the second consecutive year, we also carried the most corporate customers with a 30% share of the business passenger market according to the Brazilian Association of Corporate Travel Agencies, the Abracorp.

We delivered and improved our products and services, providing our passengers even better flying experience with great focus on service. For example, we expanded GOL+Conforto (04:42), our economy plus product seat to our entire domestic route network and since February 24 this year, we expanded our Comfort Class product with several enhanced attributes, including a blocked middle seat to all international destinations.

We also increased our connectivity in a number of destinations. Throughout the year, we launched new international flights to Chile, Miami and Punta Cana as part our strategy of strengthening our share of revenues in other currencies. In the domestic market, we have added new flights to Carajás and Altamira in Pará. We also began flying to Caldas Novas, an important tourist destination and Viracopos in São Paulo.

The new bases are also the result of our efforts to identify and seize opportunities. Currently, we fly to 71 destinations, be in 15 international and serving 11 countries and 56

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domestic with 22 being regional destinations. In 2015, we have already announced one more international destination, Tobago, and two regional ones, (06:00).

Moving on to slide number 3, we record - annual net revenue was BRL 10 billion, a new level for the company with growth of 33% since 2011 and 12.4% since 2013. This year, revenues in foreign currency and ancillary revenues accounted for 12% and 10% of the total, respectively.

In our strategic plan, we call 2014 the gaining altitude year characterized by an increase in operating margin and consequent neutral operating cash flow. Operating income totaled BRL 505 million, 90% up in comparison to 2013 and the highest figure recorded by a Brazilian airline in the last three years. The EBIT margin was widened by 16.2 percentage points since 2012 and 2 percentage points since 2013. This year, EBIT was 5%.

On the operational front in slide 4 shows what GOL's main asset is flexible management of domestic supply. The graph shows the last 14 months and you can see that between its lowest level in June 2014 and its peak in January 2015, our supply has varied by more than 31%. This flexibility allows us to rapidly take advantage of and adjust it to market opportunities in accordance with seasonality.

Increasing our supply in certain high season months is part of our plan. Overall, we record a capacity decrease of 1.7% in the year as a whole.

Moving to slide number 5, you can see that the industry RPKs grew by 5.8%. GOL captured 49% of this increase, recording an 8% increase in domestic demand compared to 2013. Industry's load factor increased by 3.7 percentage points over 2013, while GOL increased by 7 percentage points, achieving 77.8%. The industry supply remains virtually stable, up by 0.9%, while we recorded an 8.7% decline.

Consequently, as we show on slide 6, GOL increased its leadership in terms of number of passengers transported in the domestic market. According to ANAC, we carried more than 35.5 million passengers in 2014, almost 10% more than the year before and 3.5 million more than our main competitor. This advantage is roughly equivalent to our passenger volume in a single month. In addition to leading in passengers transported, in 2014, GOL ranked second in terms of RPKs with a share of 36% as detailed on the next slide.

In number 7, you can see that GOL expanded its market share by 1 percentage point in 2014.

Moving on to slide number 8, here you can see the continuous growth of our revenue indicators despite the highly challenging second half of 2014 and a decline in the number of corporate passengers. PRASK moved up by 11.7% over 2013 and by more than 32% since the beginning of our flight plan in 2012. In 2014, load factor grew by 7 percentage points, balancing the challenge of maintaining yield which increased by 1.4% over the previous year.

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On slide number 9, you can see the effort of our employees, our team of eagles (10:21) to increase GOL's efficiency and productivity indicators. Net revenue per employee has increased by 52% since 2011. The same trend can be seen in seat demand per employee which moved up by 36% in the same period.

Operating indicators have also recorded continuous progress with revenue generation per flight increasing by 37% and fuel consumption per RPK selling by almost 14% over the last four years.

The next slide number 10 shows the result of our international expansion strategy. We're continually strengthening our foreign currency-denominated revenue in line with our strategic plan. In 2014, we implemented a two-way codeshare partnership with Aerolineas Argentinas and increased our international frequency with new flights to Chile, Miami, and Punta Cana. As a result, our revenue in other currencies totaled around BRL 1.2 billion, 46% up in the annual comparison and representing 12% of total net revenue, an increase of more than 5 percentage points in two years.

International load factor increased by almost 8 percentage points over 2013 to more than 70%. In 2015, we will continue seeking partnerships that result in more benefits for our customers, exemplified by three new codeshare agreements with Copa, Korean Airlines and Air Canada.

On slide 11, we show that GOL has been working constantly on improving customer service and the flight experience through the introduction of innovative features and extra facilities. From tickets purchase to conclusion of the flight, including customer satisfaction ratings, GOL closely monitors changes in passengers' needs in order to improve its products and services.

As we went into each bullet of this slide in detail last quarter, on slide 11, I would just like to cover the launch of another unprecedented aviation functionality: geolocation (sic) [geolocalization] (12:35) process with track conditions. Slide 12 gives more details of the new functionality.

Using the mobile phone localization, passengers can receive information on how long it should take to arrive at the airport, as well as information on whether they should consider an earlier or later flight at their choice of - if necessary. The service is free of charge and is already available for smartphones equipped with iOS or Android. The resource will also be automatically updated for customers and who already have the GOL app.

We believe that in addition to adding value to customers' travel experience, the functionality will help GOL to maintain high levels of flight punctuality, regularity and allows us to sell more last-minute tickets at higher prices.

On the next slide, number 13, I would like to draw your attention to an important event in 2015. On January 21, we announced our proposal for a new corporate structure. On March 23, we held an extraordinary shareholders' meeting attended by shareholders making up 82% of our capital stock. The proposal was approved by 99% of those present.

On the left of the slide, you can see that a new corporate structure represents, by the way, a 25 (sic) [35] (14:14) times increase in the rights of preferred shareholders. Number two, a common share split in the same proportion. Number three, an improvement in corporate governance. Number four, a lock-up for the controlling shareholders. And number five, a public tender offer in the case of the acquisition of a share about 30% or more. The new format will ensure a greater and more flexible capitalization potential, as well as for the improving corporate governance, one of GOL's major pillars.

I will now hand you over to Edmar who will present our period financial results.

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi. Kaki, thank you very much. Good morning everyone. I'm in front of our page 15 and I will go over just the highlights of the quarter and the year. First is the level of revenue. We came flat year-over-year in terms of the quarter and this indeed reflects the new environment that we have seen here in Brazil in the last few months. That is, a softening of the market growth with the prospects of an even decreasing GDP over 2015.

For the year, we reached, as Kaki mentioned before, a BRL 10 billion level, which is again very important for us, a 12% increase over 2013 even if the GDP of Brazil came flat. In terms of EBIT, we improved on a year-over-year comparison 6.3% for the quarter against previous 6%. And we almost doubled the result from one year to the other, that is increase in EBIT was 90% which is very important if you take in consideration all the tough environment that we have seen here in Brazil.

EBITDAR came as a record level for full year BRL 1.3 billion (sic) [BRL 1.8 billion] (16:20), 18% margin which is again another improvement over the previous year, 1 percentage point. As for the results about the EBIT, we have been very clear over that, we suffered from losses related to FX with non-cash effect. And also, we have decided to unwind positions of hedges at the end of the year, so we took the hit in the fourth quarter. Therefore, we are, let's say, saving some issues for 2015.

As for the physics (17:03), I mean ASK came flat which is related to the decrease in the domestic market, as well as the double-digit growth in international markets always related to the strategy that we are in place here. As for margin expansion, they came primarily because RASK or RASM increased more than CASK here in Brazil.

Moving on to page 16, we highlight the growth in terms of revenues and in terms of margins in the last quarter of the year. So, taking two years into consideration, revenues went up by BRL 600 million and EBIT margin came at BRL 529 million. So, the full purpose here is to show that we have been able to capture in terms of margins, the growth in terms of revenues which is very important for us. Margins change in the last quarter compared to 2012 by almost 20%.

Slide 17 highlights the yield on a quarterly basis and it shows that in the last quarter, we are on a year-over-year comparison. We are starting to see a decrease in terms of how they have behaved. They do reflect this new environment in Brazil, which shows us that it will

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be softer in terms of pricing for a while. We have somehow mitigated that by higher load factors, although we could not net-off it in terms of PRASK, so PRASK came down by 4% on a year-over-year comparison.

Slide 18 shows the improvement that we had on the CASK ex-fuel side even with some increase related to Brazilian regulation or infrastructure issues that we have to deal with during the year. CASK ex-fuel for fourth quarter came below to BRL 0.12 which is an improvement over the previous year.

Slide 19 shows that although we have to deal with inflation here in Brazil with the fact that the company keep capacity flat for the last couple of years altogether, we are still very, very competitive in terms of ex-fuel CASK adjusted by stage length. So, this is a chart that we like because it shows all the efforts, and this is part of our DNA to keep it the way it is or even to improve that.

Moving on to the next slide. I would like to highlight the evolution over the last two years. If you compare 2012, we came at BRL 258 million that's for EBITDAR. We closed 2014 with just over BRL 1.8 billion. I have just mentioned that figure. So, this improvement of more than BRL 1.5 billion happened even if the environment was very tough on us. So, FX moved against us by 30%, and the GDP in Brazil showed these very, very bad numbers. We have indeed put the company at a different level. Therefore, we understand we are ready to take this new, let's say, even colder winter as Kaki mentioned here in the conference.

So, moving on to slide 21. We see that spread evolution was very, very significant over the last three years, moving on to BRL 1.02, which is very important. Again, operating margins are positive and consistent.

In order to face this winter that may be long here in Brazil, we also would like to highlight some aspects of our finance position. Slide 22 shows our cash position, 25%. This is the highest in the region. On average, our peers here, they have less than 15%. And we do understand this is one of the pillars for us to face the environment that we're seeing here in Brazil.

In terms of EBITDAR and this is the very next slide, EBITDAR again at BRL 1.8 billion. And leverage almost flat if you compare on a year-over-year basis. And this is very much related again to the FX which hurt us in the balance sheet. Target for cash during 2015 would be a range of 20% and 25%. This is very much in our plan and this is related to the fact that we do expect some volatility from now on in terms of FX in fuel.

As for amortization profile, and this is page 24, we have done a lot of liability management exercises in the last two years. So we have an amount of debt due in the next two years, and I'm including 2016 now, which we understand is quite reasonable for the results and for the level of cash that we have.

As for the Smiles debt, this I would like to highlight debt, we had an outstanding total of BRL 350 million at the end of 2014. At this time, installments are paid on a monthly basis.

We have just BRL 200 million which will be gone by midyear. Therefore, we have just to deal with this, let's say, just over BRL 400 million in the next 15 months.

With that, I will turn the floor back to Kakinoff who will go over our guidance results and what is happening in the business here in Brazil. Kakinoff, please.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you, Ed. I'd like to talk a little about our 2014 guidance. Our EBIT margin reached 5% last year. Given our original guidance in March of between 3% and 6% and the subsequent revision to between 4% and 6%, our result was in the top half of the band.

Although some macroeconomic indicators behaved differently than we expected a year ago, we were able to maintain control over domestic supply, and at the same time, expand our international capacity. The following slides will be using CASK (24:23) information already disclosed by GOL and our competitors to illustrate the 2015 scenario.

On slide 26, the numbers for the last 12 months showed a continuity of our capacity management. We reduced our seat supply by 1.9%, the biggest reduction in the market. In terms of RPK, we accounted for 42% of the industry upturn.

On the next slide, you can see that the strategy has been successful, with our load factor recording the biggest increase in the industry. Our load factor position clearly demonstrate the effect that GOL has prioritized in achieving the maximum possible yield in different market scenarios. The peer (25:07) improvement in our market share is based on this strategy of healthy growth.

Moving on to slide 28, here you can see that we are maintaining our firm commitment to not expanding domestic supply in 2015. Despite the challenge of estimating a foreign exchange event, we expect an average dollar of between BRL 2.95 and BRL 3.15, and an average per liter fuel price of between \$2.10 and \$2.30. As a result, we estimate an annual EBIT margin of between 2% and 5%. Given this complex scenario, we will be adjusting our guidance on the occasion of each quarter's result disclosure.

The final message on slide 29 shows that we will be maintaining the course of our strategy adopted in the flight plan which we have been executing with total discipline and commitment.

That brings our conference call to an end, at least our presentation, and now we can hand over to question-and-answer session.

Q&A

Operator

Thank you. The floor is now open for questions. The first question comes from Richa Talwar with Deutsche Bank. Please go ahead.

Q - Richa Talwar {BIO 17123496 <GO>}

Hello, everyone. Good morning. So first, I just wanted to ask, can you remind us where you stand with respect to your debt covenants, are you in compliance with all of your debt covenants right now?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Richa. This is Edmar here. Yes, we are in compliance with the covenants.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay, great. And then if you could tell us, on the margin guidance you've provided for 2015, are there any ex-fuel cost saving assumed in your guidance? In other words, do you think there's any opportunity to further reduce costs going forward and that's particularly non-fuel costs?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Richa. Yes. We expect to improve overall number but it will depend a lot on the FX. So final number – that's why we are, let's say, closing some of the disclosure we used to give beforehand, because of the uncertainty related to the FX. Okay. But yes, gaining efficiency here is a major issue for us.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. Any examples you care to share on what you're doing, maybe streamlining certain practices or anything like that or...

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

No, just generally speaking, we have project here over airport efficiency. We have procurement projects as well. So there's a lot of issues going on but no specific major. What we have been telling the market is there is no silver bullet but there is a lot of small items which we think we will show some improvement during the year.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

At the moment, we have three different fronts, three different initiatives. Edmar has already mentioned the procurement and airport. We have another one relating to the crew plans, I mean, the crew allocation, there are still room for further improvement and we do strongly expect to have further efficiency gains throughout this year by implementing those three initiatives.

At the airport side, you can see – I have just related an example. This geolocation device FF (29:08) in combination with the traffic conditions can release 5% of our airport crew just because we do not need to handle with last minute customers – or delayed customers come in order to rebook their flights while we have another customer waiting to occupy

that free seating. So those type of investment in technology has helped us to release several workstations at the airport side. This year, we will further improve that indicated to you (29:50).

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. I really appreciate that color. And if I could just ask one more. Kakinoff, you started off by talking about how you've seen some substantial decrease in demand from the corporate passengers and then you talked about how the growth in yields - the softening of the growth in yields is continuing or the softness in yields. Can you elaborate on that? Is that - have you seen any uptick in the corporate passenger demand? Any change there?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Not really. Considering that for us, we cannot provide any specific guidance for 2015 on top of the EBIT margin we do and the supply. Those we have already announced. But I can tell you the market behavior related to the corporate demand has been stable at a much lower level than in comparison to last year's. This is basically driven by four segments in Brazil. Those are pretty strong in corporate demand, but they are weaker, much weaker this year than last year.

These segments are oil and gas, the building companies, the automotive sector, and the mining sector. Those are among the top six largest corporate customers in Brazil and they are demanding between 20% up to 30% less airline tickets than they were last year. So, we are considering this new level. We have considered that and we elaborated our guidance for 2015. So, we are assuming an strong recover in those areas (31:52).

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. Thank you so much.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yeah.

Operator

The next question comes from Savi Syth with Raymond James. Please go ahead.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey, good afternoon, Kaki and Edmar. Just a couple of follow-up questions on what Richa was asking, just on the PRASK decline on year-over-year basis, is it fair to assume that 1Q 2015 the year-over-year declines are greater than in what we saw in 4Q 2014 or has it improved?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Savi, Savi?

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey, Edmar.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

This is Edmar here. I will ask you to hold your anxiety for a few weeks or a few days because we will disclose the number for the first quarter of the year when we release the traffic numbers, okay, as we have been doing in the past. The trends are, yes, that the number of - for yields in PRASK are down on a year-over-year comparison. Yes, you are absolutely right about the trend but full numbers will be released in a few days, okay.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Got it. And then the second question, Edmar, if you could, on the cost line, the non-fuel cost, would it be possible to walk us through a little bit on what the trends are on some of the bigger items like depreciation, obviously, was nicely done year-over-year on a per ASK basis in 4Q, and are we going to see that in 2015? And maybe some of the other kind of headwinds and tailwinds in some of the line items in 2015 on a year-over-year basis.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Okay. Savi, I will just go over a major trends so you get a good sense over that. Okay. So as for the lines related to FX, you will see an almost full impact on that and those lines are maintenance and leases, okay. Very much the correlation with FX is very high here, almost 100%. This is one.

On the costs related to reais, you see that we have been facing inflation in Brazil, wages increase on a year-over-year comparison were 7% this year. But if you are doing your model in USD, you see that they will decrease because of the FX. So, yes, increasing reais and a decrease in terms of USD.

As for depreciation, the full numbers should - be full year should be BRL 450 million, something like this or even lower, but this is overall what we have. The major line is fuel, okay. Fuel at current levels should be lower than last year, okay, but there is a lot of uncertainty here, you know that, because the price - the level of oil has changed very, very fast. This year, we had a 20% down and a 20% up in just 60 days.

But just assuming for a second that everything will remain the way it is now, by the end of year, and I will repeat that, by the end of the year, the level of jet fuel in Brazil in reais should be higher than the level that we had last year. Okay, but this is a hard call here. You probably would agree with me at this time.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Got it. Very helpful. And before I just jump on the queue, just to follow up on your comment on fuel and the volatility. Has that changed your hedging strategy?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

No. We are light (36:00) now. And as last year, with the exception of the fourth quarter for different reasons, we have been trying to build positions at fixed price in reais with Petrobras, but it depends very much on Petrobras' willingness to do that as well as the price to do that, okay? But for the time being, primarily, most of our positions are built in reais now as for fuel.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Very helpful. Thanks, guys.

Operator

The next question comes from Duane Pfennigwerth with Evercore ISI. Please go ahead.

Q - Jeffrey Samuel Eisenberg {BIO 2184105 <GO>}

Hi. This is Jeff Eisenberg in for Duane. With your plan to hold domestic supply flat and TAM holding Brazil domestic flat in 2015, how do you think about the competitive landscape? Is it fairly benign relative to the end of 2014 or are you seeing incremental pressure elsewhere in the network?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi. Actually, we - as I mentioned before, we cannot comment on our competitors' strategies, but I could say that we do see a more rational approach in the future sales inventory coming from the market as a whole. So, I do expect that our competitors will follow this rational approach already started by GOL followed by TAM, and we believe that it should be followed by Avianca and Azul along with the following months. At least we can see that their future sales curves, their inventories available for sale, are lower - or at a lower level than they were by the beginning of this year. So that's our expectations on the supply side.

Q - Jeffrey Samuel Eisenberg {BIO 2184105 <GO>}

Okay. Thanks for that. And on your hedge book, how much did you unwind? And do you have anything remaining in the book after 2015, either for fuel or FX? And if so, how much - what's strike prices?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi. So, as for the end of the year, we unwind - my (38:22) vast majority of our positions, we still have some fixed price positions for the short term, okay. As for the way we are now, we are close to the lower levels of our policy, which is between 20% and 25% coverage for the next 90 days, 180 days. And this is very much what we disclosed during the quarter, okay because again, this is a competitive data for us, okay.

Q - Jeffrey Samuel Eisenberg {BIO 2184105 <GO>}

Okay. Thank you for taking the questions.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Thank you.

Operator

The next question comes from Carlos Louro with JPMorgan. Please go ahead.

Q - Carlos Louro {BIO 17325073 <GO>}

Hi. Hello. Thank you very much for the call. I just have one quick question here. I wanted a little bit more detail regarding the company's leverage levels. I see that GOL has a declining covenant curve for 2015 with levels of around 4.4 times net debt-to-EBITDAR for the first half of this year. I would like to know if it's going to be necessary to renegotiate such debt covenants with bondholders. And if you have any estimates of the potential cost increases for this debt?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Carlos, this is Edmar here. The covenant is built upon what we have in the balance sheet, so it doesn't take into account the leases off-balance. So it's a little bit different than the aviation industry is used to. And at this moment, we don't foresee, let's say, a need to do that but it depends on the FX as you know. So if there is any sharp move on the FX, probably, we'll have to negotiate. But as before, the bondholders and this is Bradesco and Banco do Brasil, they have been very supportive.

In a nutshell, we're not – this is not part of our scenario now, but if we need to move, we don't see any reason why we shouldn't get the waiver as we got in the past proud to say (40:32).

Q - Carlos Louro {BIO 17325073 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Stephen Trent with Citi. Please, go ahead.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Hi, good morning guys. This is Kevin Kaznica filling in for Stephen Trent. Now, I guess the only thing that we noticed, we actually expected like capacity decline year-over-year and you guys are keeping it flat. And I guess we feel that that's keeping your EBIT margin guidance lower than it could be or should be. Do you think – I guess when you say that you're going to update us quarterly, do you think we should expect another capacity cut maybe coming in to next quarter or the upcoming quarters?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

It could be, just too early to say that. And as you can notice, GOL has adapted itself quite fast in order to supply the market with the right size according to our intention to always maximize use. So at the moment, we'll say our growth is zero growth. It could be lower. It pretty much depends on the following weeks' macroeconomic scenario evolution.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

And just over – just to complement that, standard-wise, we have – we may change the guidance during the year. This is part of the business. We have done in the past in the last two years, but it was always up. At this moment, the main message here is that we have closed some of our previous disclosure because of the uncertainty that we are facing here in Brazil.

So rather than just throwing the market any information, we decided to be very selective and again, show the commitment that we have to deliver the guidance. So we haven't changed the guidance downwards, as the competition has in the past year in the region, because we think that this is what we have doable for the moment.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay. Thank you very much. I guess just a follow-up, the flat capacity guidance that you're providing for 2015, is that because – are you losing flexibility? Can you not reduce it or you want keep it flat? I guess I was just wondering what's driving that.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

We can easily reduce that. Last year, as you can see, we have provided the same guidance to the market, zero percent growth. But actually, we ended the year with minus 1.7%. So, this is basically our clear signage to the market that we want increased capacity, but it could be lower. Basically, the same behavior that we had last year. It's at the roof, not the lowest level.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay. Great. And then finally, how do you – how are you guys doing FX going forward? Do you see it continuing to deteriorate or a leveling out? What are you guys – what are your expectations?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Just answer the one.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Really, this is probably the hardest question to be answered. I would love to know the answer, but in our current worst-case scenario in terms of guidance already released, I mean 2% EBIT margin, it considers a BRL 3.15 exchange rate real-dollar, and the year-to-date average is BRL 2.83. So, to achieve that, we would face a dollar – real-dollar level at BRL 3.50 by the end of the year. So, I believe that our current guidance is quite comprehensive in order to accommodate the current worst- and best-case scenario.

Q - Kevin M. Kaznica {BIO 17875244 <GO>}

Okay. Very helpful. Thank you very much.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

The next question comes from Rob Norwood with Goldman Sachs. Please go ahead.

Q - Rob Norwood {BIO 19117295 <GO>}

Hi there. Thanks for taking the question. First off, aircraft rent was up 4% in the fourth quarter versus the full-year run rate of up 21%. Can you just elaborate on that as you renegotiate some lease terms during the year? Any color you can provide there will be helpful.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Rob, aircraft lease is U.S. dollar-denominated. So every time that real depreciates, you see an increase in this line. So this is will be my first take over your question.

Q - Rob Norwood {BIO 19117295 <GO>}

Okay. Okay. So, it's FX-related. Thank you. And then, the direct sales channels' losses ramped in 2014, can you provide some background there? And then I think you also, in the release, mentioned that you expected to decline in 2015. What's driving that?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Yes. We do expect a decline and we are already seeing that in the first quarter of the year. We should go to levels below one-third of what we had last year. So all the efforts, all the investments that we made last year are showing results. Sorry to say but results for the first quarter are encouraging.

Q - Rob Norwood {BIO 19117295 <GO>}

Okay. Thank you.

Operator

The next question comes from Pablo Zaldivar with GBM. Please go ahead.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Hello. Actually, I have a couple of questions. The first one, could you give me a little bit more detail on your yields and that would be why did they fall, and can you tell me the performance in the domestic and international fronts in terms of yields?

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A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Pablo. Probably, we cannot comment any further on the current yields because we do not have released it. The first quarter 2015 information is going to happen in a four weeks' period of time. So what we are just giving to you guys is a sort of color on how the market has behaved. There is clearly a new decline, but we cannot deliver at the moment any precise information on that.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

But for the fourth quarter of 2014, could you just give me a little more detail on how the yields were performed on the domestic and international front?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I'm sorry, we can't. We cannot...

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. That's fair.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Okay.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. And the other question I have, do you have the detail of how the CASK would have behaved on a constant currency basis on the last quarter?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Pablo. Our IR team can send you later. But here in Brazil, normally we do not use this kind of mechanism because of the volatility of the real we see. So last year, the currency depreciated 13% and we had inflation here in Brazil. So on a U.S. dollar-denominated basis, there wasn't much of a change to see in the chart that we showed. But for instance, this year, although in nominal terms because it is again inflation in real, the number probably will be up.

If you're looking U.S. terms because of devaluation of the real being much, much further than the inflation here, probably it will show one of the - if not the lowest ex-fuel CASK for the whole of the Western world because just to make the math, we had \$0.046 with a BRL 2.65 FX rate. Just moving the FX by 25%, 30%, you see the amount that we have. We want to be - we would be below BRL 4. So that's why we do not take the FX out of the ex-fuel considerations here, okay?

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. And another question, if you guys allow me. Are you willing to share some of the benefits you will receive from the oil slump with your customers by reducing your prices or your purchase (49:47) or something or you plan to keep all the benefits?

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A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I'd say the other way around. We are pushing now the yields, trying to push our yields up. The windfall coming out the fuel price reduction has been more than absorbed by the exchange rate devaluation, the real devaluation. So there is no room for any price advantage to be forward to the (50:22), not at all.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Okay.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

And my last question. On your hedge impact you had in the last quarter, it was like a one-time rate because you decided to take the hit during that part. So we shouldn't be seeing a similar effect for the first quarter of 2015.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Pablo, yes. You are absolutely right. Just look at the financial statements of all the airlines, you'll see that everyone took a hit in the fourth quarter or in the second half of last year because of the change in the oil prices, okay? So that's a one-time, yes, and that comprise and if you consider different accounting measures. So some of the airlines have already accounted the hedging impact. Some others, they are just building it into their OCI account, okay? That's basically the difference between the airlines.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Thank you very much.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

Operator

The next question comes from Jon Murden (51:28) with Merchant Partners. Please go ahead.

Good morning. And I'd like to say, Paulo, you and your team, given all that you had encountered, done an excellent job of running the airline. And given that bad times are just that, they're bad times, sooner or later they pass and then we have less bad times, is there anything that would prevent you from perhaps considering selling off some of your Smiles position and then using the proceeds from that liquidation to buy in your stock price - your common stock which looks kind of dirt cheap right now all things considered? That's question number one, and then I have a second one after you answer this one.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Hi, Jon. (52:28) First of all, on behalf of the team here, I really would like to thank you very much for the comment. You probably - you are much more experienced than me in such business and hence, in the last three years, we could see, in terms of market economic scenario in Brazil, a kind of rollercoaster behavior you can imagine. It never indicated such fuel cost and exchange rate, GDP growth, so on and so forth. This is just to give you some pre-scenario or the environment we're going to subsidize.

Edmar's comment on your question right now. Please, Ed.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Jon (53:20). Good morning to you in the U.S. Okay. So, first, CVM, the local SEC does not allow us to buy some of our own stock. We cannot do that for regulation reasons, okay. So this is one. Secondly, we do not - it's not part of the plan to sell some of our Smiles stake in order to have some additional cash here in company.

Third, with the new corporate structure that we approved just a week ago, we understand we have the right tool to do that when the market is open. For the time being, we do not think that the market will be open for a Brazilian airline but now, we have a tool.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Then coming with an additional comment on that, you've probably seen exactly the same thing that we are related to company's capitalization and opportunity. And the new government structure gave us a huge sort of alternatives to make it without considering selling any specific asset of the company. Surely, it could happen. Just in case, we would have - we would say find a very attractive price to do so, but there is nothing I consider into our radar at the moment. We have different and more accepted alternatives (55:00) the company. And we are now, I would say, discussing that.

Q - Operator

Okay. And just as a follow-up, if you talk to the big three over here - Delta, American, United, Continental - one of the things they always talk about is the Brazilian market and how, despite the current bad times, they see that as a really big opportunity down the road. We also see Azul went out and ordered a bunch of long-range Airbuses. And I'm kind of wondering, they're all looking for some kind of domestic feed, and of course, when you think of that, you immediately think of GOL. And I've seem to recall you have a relationship of some sort, a codeshare, with Delta. Does this new corporate legislation that went through recently, does this allow one of the American airlines to buy a stake in GOL?

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I would say not as any kind of hostile try. I'd say the company can be virtually capitalized up to BRL 50 billion through this new structure. So, we are allowed to sell preferred shares to any buyer independent of the regional cap (56:51). So, that includes any airline. So, it's something that could only be implemented under our management and willingness.

So there is – in that case, any airline will be treated as a potential investor. But we have Delta, as you probably know, as our partner and they are holding 3% of company share. So we have developed together a long-term strategy or long-term view, and therefore Delta is our natural partner in running actually (57:33) any kind of investments coming from American airlines. I mean, not the American Airlines Company, but an American U.S. carrier. So there is – I'd say we are not blocked or limited to any kind of investor, including the U.S. carrier.

Q - Operator

Thank you very much for your time.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Thank you, Jon (58:04).

Operator

The next question comes from Bob McAdoo with Imperial Capital. Please go ahead.

Q - Robert James McAdoo {BIO 1881798 <GO>}

Yeah. Just very quickly, what is the actual – you give a jet fuel price range of BRL 2.10 to BRL 2.30 in your guidance. What is it today? What are you actually saying today with that in perspective?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Bob. This is Edmar here. For the first quarter, we should see levels around BRL 2 per liter. But looking forward, we see the pricing going up up to BRL 2.6 or even BRL 2.7 by the end of the year assuming that everything else remains where it is now, okay?

Q - Robert James McAdoo {BIO 1881798 <GO>}

And then...

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

So...

Q - Robert James McAdoo {BIO 1881798 <GO>}

...that increase is based on the shape of the curve is what you're looking at...

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Exactly. Exactly. The forward curve for both the FX and fuel.

Q - Robert James McAdoo {BIO 1881798 <GO>}

Okay. But today, it's BRL 2.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

It was BRL 2 for the first quarter, but in the second quarter, we'll see the price going up at least by 5% to 10%.

Q - Robert James McAdoo {BIO 1881798 <GO>}

And that's because of the currency changes.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Absolutely, yes. You're right.

Q - Robert James McAdoo {BIO 1881798 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Lana Parker with Raymond James. Please go ahead. Okay. Apparently, Ms. Parker has disconnected. The next question comes from Christina Ronac (59:38) with HSBC. Please go ahead.

Hello, everyone. Thank you for the call. I want to ask you when you just said on the first quarter being BRL 2 per liter, you're based on a 60-day lag. So I think that's based on 64 Brent about. So if you were at around 55 Brent, how would that look?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Hi, Christina. (01:00:03) This is Edmar here. Good morning to you in the U.S. Yes, you are right because you look backwards. You're right. But looking forward, there was a change in both the price of fuel and also for the FX. So the FX moved primarily during March. If you look at the number for the end of February was at BRL 2.8, not even BRL 2.9. Now, they are trading - the FX is trading at BRL 3.20-something. So the increase will come primarily from the FX change.

Q - Operator

Got it. Thank you.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Okay. Thank you for your question.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Paulo Kakinoff to proceed with his closing remarks. Please go ahead, sir.

A - Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I just would like to say thank you very much to you all. Have a nice day and that's it. Thank you, bye.

Operator

This concludes GOL Airlines conference call for today. Thank you very much for your participation and have a nice day. You may now disconnect.

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