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Q1 2017 Earnings Call

Company Participants

- Paulo SÃ©rgio Kakinoff, CEO and President
- Richard Freeman Lark, CFO, EVP and IR Officer
- Unidentified Speaker, Unknown

Other Participants

- Bruno Amorim, Head of Transportation
- Matthew Roberts, Analyst
- Mauricio Martinez Vallejo, Research Analyst
- Michael John Linenberg, MD and Senior Company Research Analyst
- Stephen Trent, Director
- Unidentified Participant, Analyst

Presentation

Operator

Welcome to the GOL Airlines First Quarter 2017 Results Conference Call. This call is being recorded. (Operator Instructions) This event is also being broadcast live via webcast. And may be accessed through GOL website at www.voegol.com.br/ir. And Engage-X platform at www.engage/x.com, where the presentation is also available. Participants may view the slides at 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 the platform. And their questions will either be answered by the management during this call or by the GOL Investment Relations Team after the conference is finished.

Before proceeding, let me mention that forward statements are based on the beliefs and assumption of GOL's 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 events related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

At this time, I will hand you over to Paulo Kakinoff. Please begin.

Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

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Thank you. Good afternoon, ladies and gentlemen. Welcome to GOL Airlines First Quarter 2017 Results Presentation. I am Paulo Kakinoff, Chief Executive Officer. And I am joined by Richard Lark, our Chief Financial Officer.

Richard Freeman Lark {BIO 3484643 <GO>}

Good afternoon.

Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

This morning, as you saw, we released the First Quarter numbers. Slide two shows that recurring operating results was BRL 345 million, as a result of 8.3% less passengers transported, a 0.5% reduction in RASK and a 5.6% decrease in recurring CASK. Yield decreased by 6.5%. And adjusting for the 13% increase in space left that resulted from our network rolled out in May 2016 (inaudible). It's worth mentioning that First Quarter '17 international net revenue was BRL 15 million lower compared to First Quarter '16. And if adjusted for the higher space left, it would remain stable. Our net profit after minority interest was BRL 160 million, representing earnings per share of BRL 0.46 and earnings per ADS of $0.01 about. Passenger revenue decreased 5.8%, while cargo and ancillary revenue increased by 27%. Our total net operating revenues were 2.5% lower at BRL 2.65 billion. We increased our average fares by 2.6% to BRL 280. And we continue to respond to the weak demand environment in Brazil with 4 less aircraft in the operating fleet, while improving costumer experiences and training cost. Excluding nonrecurring results from the return of aircraft on the finance lease contracts and sale-leaseback transactions, the total CASK reduced by 5.6%, as previously mentioned. And CASK ex fuel decreased by 7.6%. Our low cost base continues to be the key differentiator between GOL and all the other airlines. Not only we do have the lowest operating cost. But as this gets widened, we will continue to deliver an even better value proposition to customers to ensure we grow safely and profitably.

The highlights of the quarter, in addition to average fares being up 2.6% were: 16.7% increase in net capitalization to 10.5 flight hours per day; 2.1percentage points increase in load factors to 79.6% due to the maturity of the new GOL network launched mid last year; 13.6% decrease in total volume of departures, with 13.2% decrease in total number of seats available. It's worth noting that ASK decreased 2% in the quarter. And a pro forma adjusted net debt to EBITDA of 4.6x at March 31, 2017, excluding the professional notes and pro forma for the grounded aircraft in the midterm.

On the next slide, #3, we showed that at the end of March 2017, out of a total of 124 Boeing 737 NG aircraft fleet, we were operating 116. 4 were in the process of being returned to lessors. And the balance of 4 subleased to another airline. We continued to match our capacity route network and bases to the weak Brazilian economic conditions. Our single fleet type agile operations and fast turnaround times helps us to partially mitigate such adverse market conditions. The reduction in our operating fleet permitted a 2% decrease in ASKs and 17% reduction in the number of flights, in comparison with the same period in 2016. ASKs increased 1.9% compared to the Fourth Quarter of last year. Our current network, launched in May 2016, was refocused on higher-yielding routes. Also, as announced in March 28, we'll reconfigure our fleet of Boeing

737-800 next-generation aircraft, increasing the number of seats by 5% from the current 177 to 186 seats. The new configuration will be

completed by July 2018. And we will maintain our GOL+ Conforto spaces throughout the company's fleet, which has a 34-inch pitch and a 50% greater seatback recline, as well as GOL Premium Class on all international flights. This flexibility permits us to rapidly take advantage of and adjust to market opportunities in accordance with seasonality. Increasing our supply in certain high season months is part of our plan.

Moving to the next slide, #4. Our customers will continue to enjoy the comfort of sky interior cabin configuration, with LED lighting systems, eco leather armchairs and new luggage bins, known as â€œSpace binsâ€ , with a 50% greater storage capacity, the largest in its category. In addition, our aircraft will be equipped with WiFi antennas, allowing GOL customers to access the Internet and a complete onboard entertainment platform during flights.

Moving now to Slide 5. We can see that on the cost front, our low cost base has long been a key differentiator between us and all our competitors in Brazil and Latin America. We think what skewed is that our cost is still falling at the time when many of our competitors are reporting flat or rising unit cost. For CASK ex fuel, adjusted by the average seat left, we can see also that GOL has one of the lowest fixed cost structures in the world among the leading low-cost carriers. We have reduced the exposure to fixed cost, with an efficient administrative structure working towards improving our client experience and strengthening GOL's brand.

Non-fuel unit cost, excluding nonrecurring results on the return of aircraft under finance unit contracts, sale-leaseback transactions and expenses of tax regularization program, were down by 7.6%, as we reduced aircraft rents, grew our load factors and optimized maintenance, materials and repairs cost. Regarding the tax regularization program, expenses were BRL 106 million, of which BRL 52 million was in line with other expenses. And BRL 54 million in the line of passive interest. In the line of taxes, we had a positive value of BRL 160 million.

In terms of fuel, we were 35% hedged for the second half of 2017 at about $47 per barrel. And we are also 10% hedged for the 2018 year at an average price of about $46, which should deliver fuel savings. Looking forward, we should expect further unit cost reduction, as we implement the new configuration of our fleet of Boeing 737-800 Next Generation aircraft, increasing seat availability by 5% and improving productivity. Together with the arrival of the 737 MAX 8s, at least 13% more efficient in terms of fuel burn compared to the 737 NGs, we also mark the resumption of growth and modernization of our fleet.

On Slide 6, you see that we are among the top airlines in revenue generation per aircraft, primarily due to our productivity and high load factors. Also, if the real maintains its appreciation versus the U.S. dollar, this comparison could be even better in the subsequent quarters.

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On the right chart, we can see a comparison of total operating cost over total net operating revenue. The current 93% is too high. And our comprehensive cost-reduction plan is intended to contribute with higher and sustainable operating margins over the next two years.

Turning to our outlook for 2017 on Slide 7. We remain cautious. We hope there will be a favorable fare environment in the Second Quarter of '17, with only 2% decline or less in capacity. We are planning for rising costs in 2017 due to higher jet fuel prices and labor rates. Our goal is to arrest the trend of declining unit revenues in 2017. And achieve positive unit revenue comparisons for the year as compared to 2016. We will rely on effective revenue management. And will design techniques to achieve this. And we are leaning heavily on our fleet modernization to help mitigate unit cost pressures.

We expect better sustainable profits, cash flow and returns in 2017 in spite of the highly competitive environment. Our priorities for the balance sheet this year are unchanged. We will continue to focus on the basics of running a reliable operation, offering our customers exceptional service and delivering results for our employees and shareholders. The guidance for 2017 remains a small decline in capacity of 2% or less; average load factor from 77% to 79%; CASK ex fuel of BRL 0.14; EBITDA margin from 11% to 13% and EBIT margin of 6% to 8%. Downside risks are Q4 fares, external shocks and capacity growth.

Now before handing the presentation over to Richard and using the Slide 8, I would like to review some of the characteristics that make us the most competitive airline in Brazil. First, we have demonstrated our commitment to remain Brazil's lowest-cost carrier since our foundation in 2001. It is a continuous and relentless effort of the entire Team of Eagles, which enables a sustainable competitive advantage over all the other airlines in the region. Since we have a standardized single fleet, we will retain a smaller crew cost and battery spare parts management. Nevertheless, safety comes always first. And we maintained our FAA certification as best-in-class maintenance. Second, we are leaders in customer experience. And our efforts in expanding our WiFi infrastructure to all our operational fleets, as well as improving our digital platforms, should strengthen customer preference. Third, we are the most profitable airline in Brazil and our capital structure and leverage are improving. And last, we are the market leader with the best flight network. We also have lean and positive operations that position us as #1 in the most important and efficient airports.

With that, I'm going to hand you over to Richard, who is going to take us through the quarterly financial presentation. Richard, over to you.

Richard Freeman Lark {BIO 3484643 <GO>}

We had a solid March quarter, while maintaining the lowest cost in Brazil and our #1 position in traffic. As you can see on Slide nine here, we attained a 13.1% recurring operating margin. This figure excludes approximately BRL 92 million in nonrecurring expenses in the First Quarter.

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(technical difficulty)

Operator

Pardon me. This is the conference operator. We're having some difficulty with the speaker line. Please remain on hold until we're able to rejoin them. Once again, please stay on hold. We appreciate your patience. Thank you.

(technical difficulty)

This is the conference operator. I've rejoined the main line -- the speaker line into the call. Please proceed.

Richard Freeman Lark {BIO 3484643 <GO>}

Hi, again, I guess we dropped off on our end. Hopefully, you're hearing me. I assume you are. Maybe I'll just back up a step because I'm not sure where we cut off. I'll start quickly on Slide #10, which basically shows our forward bookings. I mean, we expect in the Second Quarter of this year the industry environment to continue to remain difficult. We are seeing improving underlying demand. For example, our ticket sales in April increased 1% over March. And we're running load factors around 78%. And since the launch of our new flight network in May of last year, we increased our load factors by an average of 2percentage points in the second half of 2016. And our forward bookings are pretty strong, as you can see in the slide on Page 10. For the 6-month period ending 2017, in other words, the next six months going forward, we expect loads to be in the high 70s.

On Slide #11, you can see that profitability as measured by EBITDA was affected by the 0.5% decrease in RASK. On the cost side, we had a reduction in our ex fuel cost of 7.6% from BRL 0.203 to BRL 0.191. And the fuel CASK decreased 1.6% from BRL 0.062 to BRL 0.061. The -- we mentioned our nonrecurring results, which were a result of the aircraft returned on their finance lease contracts and sale leaseback transactions in the First Quarter of last year and the expenses of our tax regularization program. As I mentioned, excluding nonrecurring results, our total CASK decreased by 5.6%, which was primarily driven by lower aircraft rent and optimized maintenance materials and repairs cost. And all this further detailed in our earnings release, which you received earlier this morning. As a result, our EBITDA decreased by 35% quarter-over-quarter to BRL 360 million. And EBITDA margin was around 14%. On a per available seat kilometer basis, EBITDA decreased 33% to BRL 0.03 in the First Quarter of 2017. And that compares to BRL 0.045 in the same period of last year. Our EBIT has improved significantly. This is attributable to the combination of our capacity reductions, network reorganization, cost discipline and the stronger Brazilian real. Our low costs are a key differentiator. And our growth in ancillary revenues and Smiles has contributed to our improved RASKs.

Moving now to Slide #12, which shows our net financial results for the quarter. We're negative BRL 100 million. We had BRL 168 million of financial income, which is offset by BRL 268 million of financial expense. In the same period last year, we had BRL 386 million of

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net financial income, which was an amount that included BRL 654 million of noncash foreign exchange gains.

On Slide 13, we've broken down our net income variations between the quarters, the First Quarters of each year. We exclude minority interest to show the net income that accrues to GOL's shareholders. Beginning from the left, GOL had BRL 67 million of lower revenues in the quarter, BRL 21 million in fuel cost savings, primarily due to depreciation of the real against the dollar and the reduction of fuel taxes, offset by 2.8% increase in the fuel price in reais, BRL 40 million in maintenance and materials repairs savings, BRL 82 million decrease in aircraft rent reductions and BRL 261 million increase in other expenses. And that number includes the BRL 92 million in nonrecurring expenses; BRL 27 million in higher net financial results, excluding FX impacts and exchange rate gains, in other words, the FX impacts were responsible for BRL 520 million variation in noncash net financial results. And this item here explains the majority of the variation in net income between quarters. And finally, income taxes explain the balance of BRL 127 million, with the income from the compensation of accumulated losses in previous years, which was a positive impact to our book value. We reported earnings of BRL 0.46 and $0.01 per ADS in the First Quarter of 2017.

Now we provided you a fair amount of detail on our cash flow, which is on Pages 17 and 18 of our financial statements, where you have our cash flow data. They're in a detailed basis. But I'll summarize for you here. Our net cash flow in the quarter, operating and investing, was a negative BRL 170 million, which is principally due to BRL 143 million of CapEx related to our investment program. GOL's total liquidity, as measured by cash accounts receivable, decreased by BRL 405 million to BRL 1.5 billion, primarily due to the negative net cash flow of BRL 175 million, a BRL 76 million reduction in debt, as we are paying down debt. And the payment of BRL 186 million in dividends to the minorities of Smiles. And that relates to the dividend payment that accrues outside of the group to the minority shareholders of Smiles. If we exclude the effects of our receivables management, our operating cash flow in the quarter was a BRL 31 million positive number.

On the left side of Slide #14, you see the evolution of our balance sheet liquidity for the current quarter. We continue to work on improving this. We had BRL 1.5 billion in balance sheet cash, cash equivalents and accounts receivable at the end of the March quarter. If we include our standby credit facilities, today, we have approximately BRL 2 billion of total liquidity available. On the right side, you can see our adjusted net debt to pro forma EBITDA ratio of 4.6x in the First Quarter of -- at the end of the First Quarter of 2017. The average maturity on our long-term debt in this quarter, excluding our aircraft financial leases and non-maturing debt, which is the perpetual bonds, was a 3.3 year average maturity. 22% of our debt is denominated in reais, with an average interest rate of 16%. And 78% of our debt is dollar-denominated, with an average interest rate of just over 7%. 2/3 of our debt is asset-based. And the main sources of our asset-based financing, our Ex-Im guaranteed debt, is 13% of the total. And aircraft leasing is 54% of the total.

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On Slide #15, we show the relative -- moving to Slide #15. We show the relative performance and liquidity of GOL's shares trading in the market. During the First Quarter of 2017. And up until last Friday, GOL shares have outperformed the American Stock Exchange Airline Index by 144%; the Tier 1 LCCs, which is Ryanair, Southwest. And JetBlue

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and WestJet, which we are -- uses our operating benchmarks, by 140%; and the IBOVESPA, the Brazilian stock exchange, by 144percentage points -- I'm sorry, 123percentage points. GOL's average daily trading volume per day in the quarter was $4.6 million for the ADSs and -- on the New York Stock Exchange and BRL 26 million per day on the Brazilian stock exchange in the same period. One of the challenges we've had in our public market trading value has been the relative lack of liquidity in the ADRs. And for that reason, on May 1, we altered the ratio of PNs to ADRs from 10:1 to 5:1.

And to finalize my part of today's presentation, we'd like to review our fleet plan, which is on Slide 16. At the end of March 2017, out of a total of 124 Boeing 737 NG aircraft, we are operating 116 aircraft, while 4 were in process of being returned to lessors. And the balance of 4 were subleased to another airline. We have recently announced the reconfiguration of our Boeing 737-800 NG fleet to increase the number of seats by 5% from 177 to 186. The reconfiguration will be concluded by June 2018. And we'll maintain the GOL+ comfort spaces, which is much appreciated by our customers, especially by our business customers. As you know, GOL is the #1 company in the corporate space in Brazil. In 2017, we will maintain an average fleet of 115 aircraft. And in 2018, we will resume fleet growth and begin aircraft replacement, with the first delivery of our 5 Boeing 737 MAX 8 aircraft, which will be delivered in 2018.

Well with that, I'm going to flip it over back to Kakinoff for questions.

Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Thanks, Richard. Before opening the floor for our audience questions, we received by e-mail some relevant questions from the analysts and investors this morning. I'd like to summarize them and reply for the benefit of all. A colleague of ours will read the questions we received. And we will answer that with a few support shots when applicable.

Questions And Answers

A - Richard Freeman Lark {BIO 3484643 <GO>}

Good. First question is what are you seeing in the corporate segment of your demand and your demand versus the leader segment?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

The total size of the corporate federal market is stable. But not increasing. Hopefully, in the second half of the year, as economic conditions improve, demands will increase. GOL has strengthened its leading position among business travelers in terms of tickets sold, supported by our unique customer experience that has made us the preferred choice in the corporate segment. As you know, we have made a significant investment to provide business customers more legroom, special packages, the highest punctuality, the best loyalty program, WiFi with the state-of-the-art onboard entertainment. More than half of our clients and corporate clients engaged the industrial projects around Brazil. With our replanned network launched in May last year, we have further strengthened our strategic position among the top 8 airports in Brazil, which accounts for 75% of the Brazilian GDP. These are the most important airports for business travelers. And our market share in

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terms of slots (will) rise from 35% to 52%. No competitor comes close to the product and service offer that we have structured for corporate customers in Brazil. So in the leisure segment, we had a Carnival season in line with previous years. But it's too early to anticipate what's going to happen during the second half of 2017. Due to the high unemployment rate and low confidence index, leisure travelers might respond favorably at the year-end or beginning of 2018.

A - Unidentified Speaker

Is there any either aircraft ownership embedded in the comp guidance that might be nonrecurring into 2018 and beyond?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Yes.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. We have 5 or 6 aircrafts that would be in maintenance and WiFi upgrades through the July, August period. As we manage our fleet plan, we can bring them in as demand and/or seasonality picks up in the September, October period. We also have 4 aircraft on subleases in Europe, which give us the flexibility on the capacity side. I guess what I would add also is that we expect the inefficiency on the cost side should go out of our system in the July, August period as we go back to having a lower number of aircraft in spares and maintenance capacity. For the Second Quarter, we have 4 to 5 average aircraft in lease expenses that are not producing revenues. And this is a specific strategy to deal with the lower seasonal demand in the Second Quarter in Brazil. So in summary, about 4 to 5 average aircraft in the Second Quarter will return online in July, August period to produce revenues.

A - Unidentified Speaker

What is the current number of shares in ADS for earnings per share calculation?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

The chart found on Slide 18 has a breakdown of our shareholdings as of May 5. The total stake in GOL in the column on the right, (consideration) of 35 common shares for each preferred share. To calculate EPS, one should divide the net income by 347.2 million shares. While for ADS, that currently represents 5 preferred shares, one should divide net income by 69.5 million ADS. Now hopefully that by explaining that, I can make the analysis even clearer to you guys.

A - Unidentified Speaker

What is your guidance for financial leverage for the end of this year?

A - Richard Freeman Lark {BIO 3484643 <GO>}

The overall target for adjusted net debt to pro forma EBITDAR ratio at the end of 2017 is to get close to 4x range, including the aircraft being redelivered. I don't think we're going

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to get under that. But we do expect to be at a leverage of around 4.5x by mid this year.

A - Unidentified Speaker

What are the benefit for -- of the Boeing MAX?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

In July 2018, we will resume fleet growth and begin our aircraft replacement, which is delivery of our first 5 Boeing 737 MAX 8s. On Slide 19, you see that the MAX delivers at least 13% less fuel burn than the 737-800 NG, increased operating range and improved performance. Compared to the 320neo, the MAX delivered 7% less fuel burn and carries more seats, which will ensure we remain the low-cost leader in Brazil, actually, the lowest cost in the region and among the international benchmarks. As you can see on the chart, we expect an approximate 10% reduction in operating cost.

A - Unidentified Speaker

What are your profit expectations and what do you might want to do on the financial front?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Good question. For 2017, we have approximately BRL 1 billion in CapEx. The majority, around 70%, is related to engine maintenance and our WiFi upgrades. As the majority of this is covered with financing sources, the cash portion of our CapEx is only around 20% of the total amount, with the remainder financed by low-cost financing sources such as Ex-Im-backed guaranteed facilities. And so when you look at our cash flow, you -- we are running a negative net cash flow, including our CapEx program. But that balances out when you include these low-cost financing sources.

A - Unidentified Speaker

Why did aircraft grants come down substantially in the First Quarter? What drove the decline. And what is the go-forward number?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Well it was mainly due to the impact of contract renegotiations throughout 2016 when we concluded a major fleet restructuring in which over 25 aircraft will have been returned. There was also an exchange rate effect and a drag which related to the time lag between removing an aircraft from operation until its actual return.

A - Unidentified Speaker

How do you compare GOL in terms of productivity and profitability with your Latin American competitors and other local carriers?

A - Richard Freeman Lark {BIO 3484643 <GO>}

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Well we prepared some charts that we think are relevant for benchmarking purposes. So -- to deal with this question. So if you could turn to those. The first one, on Slide 20, compares the productivity of the low-cost and Latin American airlines, as measured by EBITDA and ASK generation per aircraft. As you can see on this chart, on Page 20 of our presentation, which is in the appendices, you can see GOL has the best performance among the Brazilian carriers in 2016, with an EBITDA generation of $2.7 million per aircraft and a production of 396 million ASK per aircraft. On the other charts, on Slide 21 and 22, they show comparative data for operating cost of aircraft. And as you can see in the chart, GOL has the lowest lease expenses per ASK in the Brazilian market at $0.66 per ASK. And GOL also has the lowest maintenance expense per ASK in the Brazilian market at $0.39 per ASK. The last chart on Slide 23 shows GOL's conservative approach to its fleet restructuring. And which is indicative on this chart, where GOL's on the left side of the page with the highest amount of return cost provisioned at approximately $1.4 million per aircraft provisioned in our balance sheet.

A - Unidentified Speaker

What are the conditions of the sale-leaseback negotiations for the 5 Boeing 737 MAX?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Deliveries will start in the middle of next year. So the actual transactions happen according to the delivery schedule. We cannot provide the specific details around the negotiations we do with the lessors. But we have a very attractive price and a much desired asset with Boeing.

A - Unidentified Speaker

Any news on the view to end the restriction for foreign capital equity in Brazilian Airlines, what it could mean for the industry?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

No news so far. We are in favor of liberalization so that we have no restrictions on capital access. I believe that we are prepared to compete in Brazil with any kind of airline, even newcomers.

A - Unidentified Speaker

Is the drop in lease expense per aircraft in this quarter sustainable going forward?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. Our aircraft leasing, in nominal terms, had a 25% reduction compared to the First Quarter of 2016, BRL 324 million in 2016 versus BRL 242 million in 2017, with a reduction of 24% per ASK, 2.64 in 2016 versus 2.01 in 2017. This was mainly due to our plan to restructure the fleet. We have in our fleet today, they're in the process of being returned 4 aircraft. And we will further reduce our cost with aircraft leasing. In terms of cost per ASK, leases per aircraft is a sustainable number going forward at the level that it is now. We had some inefficiency in the First Quarter because we're still returning aircraft. In the Second Quarter, we have some aircraft in maintenance and Wi-Fi upgrades. So we

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continue to show lower productivity on aircraft in the Second Quarter, as I previously mentioned. In the second half of 2017, we should see improvement. We're also working to improve our aircraft utilization, as you can see in the 10.5 block out -- 10.5 flight hours per day in the First Quarter. And we are producing more ASKs per aircraft. Our Boeing 737 aircraft have the ability to increase utilization above current levels.

A - Unidentified Speaker

Is GOL comfortable with cash position and short-term debt as we are approaching to the low season?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

We do not have any significant short-term debt maturities this year. We are very careful with our cash position. Most of it will depend on the stability and improvement, rationality and capacity environment in Brazil. And also, to some extent, on the exchange rate. It's worth mentioning that we have adjusted our policy to reduce discounted receivables through lower financial expense and increased net income and equity. These affect the causes, the receivables to increase during the quarter and reduce the operating cash flow generation. Also, as you are seeing in our adjusted net debt-to-EBITDA pro forma ratio, we are working in reducing our leverage. This quarter, the ratio was 4.6x compared to 5.7x at the end of 2016. Our nonadjusted debt reduced by 7.8% or BRL 917 million to BRL 10.8 billion in the March quarter. We paid down BRL 76 million in debt. This (mild) cash position was down due to the annual dividend payment in March, with BRL 185 million in cash outflows for its minority shareholders.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. And I -- maybe just to add to that as well. As I mentioned, our operating cash flow, excluding the effect of our change in our policy of how we manage accounts receivables, actually was a slight positive at around BRL 30 million, BRL 31 million positive in the quarter. And as I also mentioned as well, we finished the quarter with BRL 1.5 billion of on balance sheet liquidity. But if you include our standby credit facilities, we currently have around BRL 2 billion of total liquidity available to the company on a consolidated basis.

A - Unidentified Speaker

Is GOL ready to charge for checked-in bags?

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Yes. We are currently working to fine tune the processes and systems as well as training attendants. This model will be available for tickets issued as of June 20. In this way, passengers will also have time to familiarize themselves with the news.

And now I would like to move the session to our operator in order to open the floor for further questions after this call. Anyhow, I'd like to thank you all in advance for sending us your questions, which was really, really helpful this morning. Thank you. So now open for Q&A.

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Operator

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

Q - Michael John Linenberg {BIO 1504009 <GO>}

Kakinoff and Richard, couple of questions here. So if we go back to early April when you put out your guidance, you had guided to unit revenue PRASK being down 3% to 3.5%. And so at that point in time, presumably, you probably had most of the quarter. Maybe there was stuff had to settle for the latter part of the quarter the last few days. So the headline number is down 3.9%. And I'm just curious, did you see weakness in the last week of the quarter? Is that what happened here that you saw weakness in your last few booking days and did that continue into the June quarter? I mean, you've given us the booking data with respect to loads. But should we be concerned about yields as we head into the June quarter?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes, Michael, that's exactly right. We were -- that was actually the -- and that starting right around the second week of March, we were having -- we had 2 rounds of price competition. Part of it was related to the launch of a new -- of a competitor's new network. And part of it was related to seasonality. And so we were seeing a lot of intense price competition right around in the beginning of April. But then it kind of backed off. I don't think -- in the short term, I don't think we' see anything out of the ordinary. I think we have seen a little bit better rationality once the pressures of the cost -- the cash flow had come out. One of the things that we did as a strategy is we -- today, GOL is the price leader. And so we've tried to provide a lot of discipline to the market. And so that also affected a little bit us on the load side of the equation as well as the yields, as you mentioned. And -- but from a cash flow perspective, we had basically already taken care of our needs for the Second Quarter. For example, where we stand right now, we're working on August-September cash flow. I mean, we're not even -- we've already got Q2 in the bag from a cash flow perspective. So that allows us to kind of sit back and be pretty disciplined. But it's a pretty important point because like I said, what we're trying to do is provide discipline for the market on pricing. Obviously, not everybody is onboard with that. So I don't know if Kaki wants to make any addition to that.

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

No. That is exactly right. I'd say that this year, we have, I'd say, the First Quarter a sort of sales pattern in comparison to last year. And at the moment, we are stable in comparison to this new sales pattern, which is above or better than what happened before around every quarter the PRASK was being affected, (views) would be affected due to economic crisis. But I'd say at the moment, we have a quite stable situation regarding the sales dynamic.

A - Richard Freeman Lark {BIO 3484643 <GO>}

But we also saw, Michael, as you pretty much nailed the costs. I mean we, basically, we were going to do a 6% reduction and we did a 6% reduction. So -- but what we're also doing is making sure that we kick it on the cost because that's what's giving us the protection on our margins.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Okay. Then just one other question on the -- when I look -- so during the quarter, you had nonrecurring expenses of BRL 345 million. And so that gets you to that 13.1% margin. Is that -- now is that a net number? Would that include any potential gains? And maybe this isn't a gain, I'm not sure. But when I look at the lease return provisions, that number came down by about BRL 45 million from the Fourth Quarter. And I don't know if that was just the change in the estimated costs and so you're able to basically take that number down. So that was a good guide. Do that -- does that flow through that -- is that BRL 345 million a net number of nonrecurring expenses and gains? Or maybe that's not even a nonrecurring gain. How do we think about that? How should we think about that?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes, yes, exactly. The gains in there were in Q1 of '16 when we had the gains on the aircraft transactions. Like back in Q1 last year, we monetized some aircraft to generate resources to basically cover the restructuring costs. And it was basically a wash there. On the Q1 2017, there is no gains, there is only cost. But in the comparison, we had the extraordinary gains in Q1 of last year. But in the Q1 of this year, it's basically the -- the lease return cost plus that the tax management program that we did. But as you mentioned also, we also did -- we also are managing the lease return costs. We've got around $270 million of provisions. I would probably argue that we're overprovisioned. But we have auditors, external auditors that require us to look all the way out to the maturity of our aircraft. I mean, we have to provision them. And so that's what -- part of the reason why we showed that curve, I mean, to some extent, we're probably on a benchmarking basis, we're way overprovisioned. But we have auditors and have to go through that. But -- and so we're adjusting that on a quarterly basis based on our management of the -- the message on that would be the following, is that we're doing a better job. In other words, we're doing a better job of, I would say we're, in our negotiations with the lessors, we are having actual costs that are ended up being lower than the cost that we had to provision. And that's a combination of our negotiations with the lessors as well as timing inter-quarter. It shouldn't have a big change in the year. But we are seeing some savings versus what we initially provisioned.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Okay. So that's good. So that BRL 540 million, there's some tailwind there. We don't how much a tailwind, maybe it's BRL 50 million, maybe BRL 100 million. And that's spread out over several years. So okay. So that's good to know. Just lastly, on the bag fees. I note -- so June 20. So that's great that you guys are going to get -- you guys are going to be able to participate there. Do you foresee a change in how you sell and distribute your product? I've already seen one carrier has come out and they've come out with like a fare family-type concept similar to how, I believe, JetBlue implemented bag fees and a few other, actually, carriers around the world. Are you going to potentially change around the product? Or maybe you're working on that right now and not ready to unveil how that's going to look? Or is it just going to be, this is what it's going to cost for this bag? And

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whether or not -- if you don't have a bag, you don't have to pay a fee. And if you do, you get the benefit. Whatever. Is that -- is it as simple as that? Or...

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Yes, Michael, we have, at the moment, really the commitment to introduce the new liberalization into the market, educating the customer for a completely new dynamic in buying tickets and baggage. So the most important thing now is really to not put in danger an important achievement for the whole industry, which is the modernization. So we have decided to go really simple and effective from next June 20 on, by offering to the customer the opportunity to get a cheaper fare by not bringing with him the bag or paying a fixed fare by each additional luggage the he would like to dispatch. This is how we're going to start. So certainly. And how -- following what we have done before, once we're going to have a more mature market in understanding that process, we can make the most out of it by bringing more sophistication in that sales process. But the intention from the beginning, it's to do it really simple, effective and easy to be understood by the customer.

Operator

The next question comes from Savi Syth with Raymond James.

Q - Matthew Roberts {BIO 21643740 <GO>}

This is Matt Roberts on for Savi, actually. I had another quick follow-up on some of those nonrecurring expenses. I know you said the BRL 92 million was mostly lease return cost plus tax management program and you're not getting the sale leaseback gains that you had in 1Q '16. But could you break that BRL 92 million out a little bit more? I mean, how much of it was for return of aircraft versus the tax management program?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. It's roughly half and half.

Q - Matthew Roberts {BIO 21643740 <GO>}

Okay. So it's what, because it was about what, BRL 2 million on the sale leaseback I think in 1Q. So BRL 90 million split half and half on that?

A - Richard Freeman Lark {BIO 3484643 <GO>}

You're asking about Q1 of '16 or Q1 of '17?

Q - Matthew Roberts {BIO 21643740 <GO>}

Q1 '17.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. Again, the gains on the leaseback were in Q1 of 2016. And so when we do the quarter-to-quarter comparison, you have the absence of those in the comparison on that

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in that number. But the cash costs, if you will, the cash or noncash costs on Q2 -- Q1 specific to 2017 are that BRL 92 million, which is roughly half our lease return costs actually occurred based on the aircraft return and then the tax operation that we did.

Q - Matthew Roberts {BIO 21643740 <GO>}

Okay. Great. Then just a follow-up to that...

A - Richard Freeman Lark {BIO 3484643 <GO>}

If you want to call me -- if you're having some trouble with that, you or Savi can call me offline and I can go through with you with the math on that later.

Q - Matthew Roberts {BIO 21643740 <GO>}

Okay. Yes. So we can take a look at what kind of a normalized run expenses going forward without...

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. But again, I think the purpose of the disclosure we provided, which is a heck of a lot of transparency, is actually for that. It's for you to be able to -- you should, excluding those numbers that we excluded, those are the numbers that you guys should be using for calculating the run rate expenses. Nothing different than that. But I can maybe help you understand the math on how you deal with the gains in the Q1 of last year versus the additional costs in Q1 of this year.

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Your question is more than welcome. (inaudible) highly appreciate it.

A - Richard Freeman Lark {BIO 3484643 <GO>}

And let's do it offline just to leave time available for the others because we've got a long list of questions here.

Operator

The next question comes from Mauricio Martinez with GBM.

Q - Mauricio Martinez Vallejo {BIO 19835511 <GO>}

My question would be on the other revenues front. If excluding cargo, what were the main drivers in ancillary revenues? And what we should expect on that line going forward?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Well excluding cargo, it's basically the Smiles program. That's the main effect. Smiles, I mean you guys are following the Smiles' results also. So that's basically the consolidated results on the Smiles side.

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A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

And also a second effect is the upsell of comfort seats, which has been improved each quarter.

A - Richard Freeman Lark {BIO 3484643 <GO>}

And that's our area in the front of the aircraft on selected flights which has a 34-inch pitch, which is the largest pitch in the space between seats in Brazil. And it doesn't sell the middle seat and has a kind of a more premium customer experience. And so we're being able to monetize that on those flights and that's increasing. It's been increasing quarter-to-quarter.

Operator

The next question is from Bruno Amorim with Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

I have 2 questions, if possible. The first one is on margins going forwards. You delivered 13% EBIT margin in the First Quarter. But last year, the adjusted margin in the Second Quarter was 15percentage points lower versus the previous quarter. So could we see a similar sequential falling margin this year in the Second Quarter? Is this what seasonality implies? Otherwise, your 6% to 8% guidance for the year would look too conservative, right? And second question, I have a question on the leverage guidance that you provided of around 4x at the end of the year. How is it calculated? Does it include the perpetual bond? And is it calculated on the basis of the full year EBITDAR? Or is it considering the annualized EBITDAR at the Fourth Quarter?

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A - Richard Freeman Lark {BIO 3484643 <GO>}

Sure, sure. Yes, yes. On the margin, I'll say, beauty is in the eye of the beholder. We're being very consistent with what we've been saying, is that we're looking at the current demand environment and providing our views to folks on that. I mean, as we sit right now, we see a very stable demand environment, meaning it's not declining anymore. You've seen that in the monthly traffic data. However, we're not seeing the other side of the inflection point yet. And so until we see that, we're not going to be changing our view of the future. You also have in our business here in Brazil, seasonality. We have a lot of downward seasonality in the Second Quarter. And as we mentioned, we started the quarter with a fair amount of price competition and we could see that again before we get through this quarter. So I think until we're on the other side of the Second Quarter, because of the combination of where we are on the demand environment locally, stable. But not seeing any increase. And the seasonality, we're not changing our view that we provided this morning. That pretty much, we think, it's a pretty accurate view of what's going on in Brazil. The -- having said that, you guys are following the news on Brazil, on the government side, the restructuring there. On the economic side, the reduction in interest rates, the big catalyst in Brazil still has the potential to be when get back to single digit interest rates in Brazil. We're kind of halfway on a road from a 14% interest rate down to single digit interest rates. And when we get below 10%, magic, demand stimulation starts to happen in Brazil, credit creation starts happening again. So you guys should look out for

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that as a leading indicator of how that might that reflect in our business. I think, on the other side, keep in mind that a lot of people focus on leisure traffic. But we're the largest provider of transportation, air transportation to the corporate segment in Brazil. And so to the extent that Brazil participates in the global commodity demand, a lot of our clients are clients that work for extraction, natural resource companies. So I think you should keep a lookout for that as well in terms of how that might affect the demand on our business. On the levered side, I mean, kind of going forward, what we've talked about there, you have a couple of ways to look at it. On an accounting basis, you guys can take our financial statements and calculate the heck out of it. So we're not going to help you with that. What we're trying to do on that is also give you different ways to think about the actual leverage given where GOL has been coming from over the last couple of years, with a very high amount of leverage due to the devaluation exchange rate back in 2015 and as well, the massive contraction in demand, 20% contraction in demand that happened end of 2015, 2016. The big effect on our leverage is not the balance sheet financials. But it's the aircraft leverage. That's the big chunk that's come out on the leverage. The second big chunk is the exchange rate appreciation. And the third big chunk, we're actually paying down our debt. We're not taking on new debt. And we're running our receivables better managed so that we don't increase interest expense. And so we're running our cash flow on a very, very tight basis to increase net income. And so you're going to start seeing that show up in our net income results. Having said that, the reason I give you a different view on the perpetual bonds, they don't have a fixed maturity. And so they were a very interesting financial instrument that we tapped into when there was a market window back in the day. And so you can look at it with or without the BRL 450 million of the perpetual bonds. What we're also doing there is trying to give you a view on how it looks once we've got all these aircraft out of the system. In terms of EBITDAR basis, yes, at the end of the year, we'll basically be including 12 months of our EBITDAR. You can do that calculation very easily. We provide you the last 12 months EBITDAR. You have the annual EBITDAR; you have the quarterly EBITDAR. What we did there is just to kind of make you think a little bit differently about how we are managing our business. We're not using -- we're not dealing -- we're not living in the Q1 of 2016. We're living today, Second Quarter. And our leverage is in that level of around 4.5x as we are right now, which is not an overlevered business. It's a slightly -- a little bit higher than we want. We're kind of looking for this number of around 4x as a policy. But we wouldn't go much lower than 4x because that's the number that kind of minimizes our weighted average cost of capital. And so again, we're just providing this to kind of give you guys some insights on how we're actually managing the business. And I think the receivables component is an important thing because I saw -- we saw a lot of questions about the cash. And you can look at it a lot of different ways. But in the Third Quarter of last year, we changed the management of our balance sheet to basically minimize the factoring of receivables, use our noninterest-bearing assets better to generate what we call kind of credit lines and credit facilities. And we're also back in the game on hedging, which also helps a little bit on these equations as well. As you know, as Kakinoff mentioned in his piece, in terms of fuel, we're already 35% hedged for our fuel exposure for the second half of 2017 at $47 a barrel and 10% hedged at an average price of $46 a barrel for 2018. So while that is not directly in the leverage account, it also frees up liquidity for us to do some other things such as reducing debt. So all these (calcs) kind of fit into our financial management. And we're trying to give you guys kind of some insights on how to do that so that you can better analyze our business. But -- so that's basically what I could say. But as well, if you want to give us a call on our people, we can kind of go through more detail as you want, as you look at the information. Also on the cash flow statement, we try to simplify that for you. But obviously, you can take Page 17 and 18 and spend all day trying to determine. What we try to do is, try to simplify for you guys. So you can see better how we're looking at the business and kind of give you guys more time to focus on what we're doing in terms of competitively and improving our competitive advantages, which is really what's going to create value for us over the long term. Anyway, let's -- with that, I'd like to maybe move to the next question. But thanks a lot for that question. It was a great question. Thank you.

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Operator

The next question comes from (Petra Groschenko) with Barclays.

Q - Unidentified Participant

This is (Peter Groschenko) from Barclays. First, I just wanted to clarify a little bit on your EBITDAR comparison year-over-year. How much did you say was attributable to the gain on sale leaseback in the First Quarter this year?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Well it's in our financial statements, right? But it's around -- last year, we had around -- at the end of the day, we got around BRL 220 million that we generated of cash back in the day. That's roughly that number, yes.

Q - Unidentified Participant

Yes, I know that. So last year, when you show BRL 876 million EBITDAR in the First Quarter last year, BRL 213 million was attributable to the leaseback, right? So I just want to confirm -- yes. So the number this year, BRL 801 million, does that include any gain on sale leaseback or not?

A - Richard Freeman Lark {BIO 3484643 <GO>}

No, no. We only -- at the beginning of last year, to finance our restructuring plan, we went into our aircraft portfolio and took the early vintage aircraft, which have a lot of equity value. And we monetized those to basically pay for the return of our aircraft generating cash. But we haven't been doing that since the First Quarter of last year.

Q - Unidentified Participant

Well precisely. So why didn't you show comparison kind of like apples to apples? I'm just curious because I think this year, it was BRL 801 million. And last year, your...

A - Richard Freeman Lark {BIO 3484643 <GO>}

If you want, you can give us a call later. We can kind of go through and kind of help you with that math. So you can kind of understand. But I think what you're probably trying to get is what the recurring costs would be, what the current profitability would be. We have both of those numbers in there. I mean, if you go to our release, you've got the CASK, if you will, with and without the recurring expenses, okay? And so you got both of those numbers in there. And you can look at those both different ways. We don't expect, like I

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said, as Michael said on his question, we're kind of at the tail end of our aircraft returns. We've got another 4. And then we're done with this program right now. That's on the aircraft that we restructured in the Second Quarter of last year. In addition to that, as any airline has to do, we're obligated to provision the costs to return your aircraft, which are not only airframes. But also the maintenance costs. And so we also have in our numbers a sizable amount of provisions that relate to future aircraft returns. But (inaudible) I don't know how else to kind of break it out for you because when you start to drill down certain other things, it's -- I think you kind of -- in terms of the recurring profits we got in our costs and our margins with and without. But same deal there. Just, if you want, we can spend as much time as you want. Just give us a buzz later and we can kind of go deep dive on that and kind of walk through. Maybe that's better, because we got to -- we (inaudible) and we're doing our disclosure. We do a call in English and then Portuguese. And we kind of match them together. So we're just kind of moving to try to get to our Portuguese call. But give us a call later or shoot us an e-mail.

Q - Unidentified Participant

Yes. There's another question that I had. It was, when I'm looking at the Slide 5, when you compare the cost per ASK rate, I just couldn't help but notice that clearly, LATAM and Avianca stand out here. And when I do the math, looking at the financials, their cost is actually lower. So I was just wondering how do you guys get...

A - Richard Freeman Lark {BIO 3484643 <GO>}

I'm sorry. I missed -- you're talking about another company. It broke up there. I didn't hear you.

Q - Unidentified Participant

I'm looking at the Slide 5. When you show low-cost units (inaudible). So GOL, I mean it's correct, it's 5.7. But I just quickly run the numbers just before the call and it's -- I mean, LATAM for example, their cost is 4.4 and Avianca is 5.4. So...

A - Richard Freeman Lark {BIO 3484643 <GO>}

Well Peter, those are stage-length adjusted. And so the way -- the right way to compare -- are you doing stage-length adjusted or?

Q - Unidentified Participant

No. I'm just looking at the (inaudible) .

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes, yes, you can't, you can't. You got to -- you should, you got to stage-length adjust -- that's another thing. So we do there is we did the work to kind of go through and adjust it by the stage length. And it's a pretty kind of simple rule of thumb formula there. We can help you with that. But the right way to do that is you have to adjust it by stage length because otherwise you can't compare the cost structures of the companies. The other data that we're trying to provide there is just kind of give you a look through to the fixed versus variable cost. When we say we have really high operating leverage, that means we

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have really low fixed costs. And so that's just another kind of piece of information that's in there. But the -- I don't want to spend the time now to kind of go through the formula on stage length adjusted. But if you want to give us a buzz, we can go through that. But absolutely no problem. It is a bit technical for people that don't look at airlines all the time, for sure.

Q - Unidentified Participant

Okay. And just last, super quick. The presentation also shows net leverage -- you mentioned also 4.6. I just want to confirm, you guys annualized First Quarter. Is that right?

A - Richard Freeman Lark {BIO 3484643 <GO>}

For that number, for that statistic, that's very simply it's annualized EBITDAR for the First Quarter of 2017. But you've got the other numbers in there. If you want to use last 12 months, or -- I mean, those numbers are also in there in the release and supplemental. That's just kind of reflective how we're managing the business. (inaudible) -- the company was restructured. The company's restructuring plan basically was completed end of May, beginning of June of last year. So it's really hard to do an apples to apples to comparison beyond that. Even Q2 is a little bit challenging because half the quarter was -- because the new network also basically added to our profitability about 2 to 3 points of additional operating margin because all we did there is, when we reduced the size of the company, we reorganized the network to focus on the more higher-yielding profitable flights. And -- so we exited some markets that were thinner and less profitable and so we maximized there. And that put about 2 to 3 points of operating margin or EBITDA or EBITDAR, however you want to look at it, in there. And so that's why today, we're kind of not using -- and I think through the Q2, we will continue to do that. Starting in July, we'll probably just use the more traditional, use the last 12 months. Because as of July 1, '16, we're pretty much apples to apples. Those are great questions. I appreciate those questions. Thanks a lot.

Operator

The next question comes from Stephen Trent with Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Just a few quick ones for me. The first is actually a follow-up on what the gentleman from Barclays just asked. When I look at your Slide 5. And then I look at the airlines you guys are including, any color what the comparison of what it would look like if we threw in Volaris, Spirit Airlines and Allegiant? As well as what this comparison might have looked like if those other airlines were also capitalizing some of their maintenance expense?

A - Richard Freeman Lark {BIO 3484643 <GO>}

I look forward to getting that analysis from you tomorrow, Steve. I mean, Volaris is not in our database. No specific reason. Obviously we wouldn't put 20 companies on there. I don't know. I don't look at Volaris specifically. I've heard a lot of good things about it. But frankly, I don't understand Volaris that much. So help me out with that later. In terms of capitalizing of -- did you say maintenance costs or...

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Q - Stephen Trent {BIO 5581382 <GO>}

Right. So you mentioned that I think you guys said of BRL 1 billion of investments this year, that BRL 700 million of that should be maintenance-related CapEx?

A - Richard Freeman Lark {BIO 3484643 <GO>}

In that number, we've got around BRL 600 million of maintenance on the engines. And that is in our program. There's a couple of effects there. One is that we -- given the age of our fleet, we're in the process of renewing the company because kind of once you go beyond five years in an airline, then you start to get into your heavy expenses. And you say, we're kind of between years 8 and 9 of our -- and so we're now between kind of years 5 and 10 is when you have the real heavy expenses. And what the company did a way back is, on the income statement, they capitalized those maintenance costs and they have a short depreciation of about five years, different from the airframes. But then the cash is really bunched up this year, this year. And part of it relates to the aircraft returns also, which is the second point because when you return an aircraft, generally, you got to zero out the maintenance and return a 0-kilometer engine. And so that's a kind of a secondary point with us which is very goal-specific. Unless you happen to be returning a lot of aircraft, you wouldn't necessarily have these extra expenses. But if you were, you would have them. Then the third effect for us specifically is, given the fact that we reduced our capacity, what we did in this period was kind of a pit-stopping effect, given that we were going to have excess capacity. We returned the 25 aircraft. We didn't want to return more than that. So what we're doing is we're taking advantage of the downturn in demand to top up on maintenance and also do the Wi-Fi upgrades. And so we've had some months here where we've had like 8 aircraft that are in our total feet that aren't producing. And so that was a point I was trying to highlight is that we've got that inefficiency. Obviously, the Wi-Fi is a program what you want to do -- we're the first company that had the Wi-Fi, et cetera. But the maintenance is, it's a structural obligation. And so yes, it's a big cash outflow. Having said that, the majority of it is financed with a combination of the maintenance providers as well. We have the Ex-Im guarantees as a buyer of Boeing and GE aircraft and engines. And so we also finance the actual maintenance expenses with that financing also. So at the end of the day, (inaudible) we end up with about 20% of that total CapEx cost that actually requires our own cash. And that's just some certain things that we can't finance specifically. But I was just thinking about -- I don't know if I answered your question. But that answer your question?

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Yes. I think I at least catch your drift. Richard, just one other and I'll let someone else ask a question. Also, just taking a peek here at Slide 6, where you look at operating revenue per aircraft. Any view what that might look like if you corrected for the fact that some of your competitors are using generally smaller-gauge aircraft versus you guys?

A - Richard Freeman Lark {BIO 3484643 <GO>}

Well that does affect for that I think, effectively, because the larger aircraft generally would generate the operating -- larger revenues per aircraft. Same thing happens if you look at it on a -- on other metrics as well. But I mean, that's what that graph pretty much shows is the -- it's a revenue production per aircraft which I think reflects a combination of -- if you take WestJet operates more 700s than 800s. Ryanair does very, very low fares. So this is

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the operating revenue component. But they have extremely low cost which gives them the margin. But I think that pretty much reflects the size of the aircraft. I don't...

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

And any kind of application would carry to us as much as the recurrence (absolutely as carry-on). So I guess that the gap could be slightly smaller than it is today. But it's not closing by updating the fleet at least as we have perceived our ticket based on the first movements from our competitors.

A - Richard Freeman Lark {BIO 3484643 <GO>}

Yes. And where with the MAX, we're kind of over the next, say, three years, we're going to be increasing the capacity of our existing fleet, as we've discussed. And as well, the other component here is really the utilization component. And so then you kind of got to look at what's the maximum utilization that you can squeeze out of the aircraft and so -- and we're pretty low today. I mean, we're operating at -- the 10 to 11 flight hours on the Boeing is 1 to 2 hours lower than we'll be getting, say, three years from now. So part of it relates to the utilization. Obviously there's other factors in here. It depends on how you do your network management, et cetera. But we're -- we are focused on increasing this number. But it comes out of a combination of utilization, plus our up-gauging as we migrate to the MAX and reconfigure our current NGs with the additional row of seats. Thanks, Steve. But shoot us an e-mail if you want and we can go in more detail. We just got to bump over to our Portuguese language call in about 8 minutes here.

Operator

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

A - Paulo SÃ©rgio Kakinoff {BIO 5160310 <GO>}

Okay, ladies and gentlemen, I hope you found our presentation and Q&A session helpful. Our Investor Relations and Corporate Communications teams are available to speak with you as needed. Thank you, all very much.

Operator

This concludes the GOL Airlines Conference Call for today. Thank you very much for your participation. And have a nice afternoon.

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