Q3 2007 Earnings Call

Company Participants

- Constantino de Oliveira, President and CEO
- Richard Lark, EVP and CFO

Other Participants

- Daniela Bretthauer, Analyst
- Frank Boroch, Analyst
- Jamie Baker, Analyst
- Jim Parker, Analyst
- Michael Linenberg, Analyst
- Nick Sebrell, Analyst
- Ray Neidl, Analyst
- Steve Trent, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to the GOL Linhas Aereas Inteligentes Third Quarter 2007 Results Conference Call. Today with us we have Mr. Constantino De Oliveira Jr., President and CEO and Mr. Richard Lark, Executive Vice President and CFO.

(Operator Instructions)

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Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GOL's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GOL and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to the President and CEO, Mr. Constantino De Oliveira, who will begin the presentation. Mr. De Oliveira, you may begin your conference.

Constantino de Oliveira {BIO 3888521 <GO>}

Good morning. Welcome to GOL's Third Quarter 2007 Results Conference Call.

In the 3Quarter of 2007, we made significant progress in implementing GOL's best practices and improving low-cost strategies into VRG's operations. Our team is improving VRG's efficiencies, modernizing and standardizing VRG's fleet rejuvenating 80-year-old brand and improving revenue productivity.

During the quarter, we made changes to our route network and to accommodate recent measures enacted by the government and regulators to improve traffic flow in Sao Paolo air space and improve operations at Congonhas Airport.

We transferred connecting passengers from Congonhas to other airports, offered more direct flights from Congonhas and limited flights from Congonhas to 1000 kilometers range and reduced the number of takeoffs during peak hours. The flexibility of our hub network and the commonality of our all Boeing fleet allowed us to efficiently reroute connecting passengers to other hubs throughout Brazil without significant disruption to our daily operations, growing the company's capacity year-over-year by 46% on domestic routes and 212% on international routes. The government's recent initiatives to better coordinate the air transportation system and improving effective and daily aircraft control operations throughout Brazil have improved.

Please move to slide number two, slide of highlights. Consolidated net income in the 3Quarter was affected by an improving yield environment, lower load factors and reduction in cash and incorporation of VRG's results. Consolidated load factors, including VRG, decreased 18percentage points and consolidated average passenger yields decreased 12% when compared to the 3Quarter of last year. Consolidated RPKs grew 33% year-over-year in 3Quarter '07 and decreased 6% compared to the 2Quarter '07.

Average fares improved 31% over 2Q '07, at $220R compared to $160R in 2Q '06. GTA's load factor averaged 63% and VRG's load factor averaged 52% for 3Q '07. GTA and VRG's domestic passenger market shares were 38% and 3% respectively during the quarter. Both GTA's and VRG's international passenger market share were 13% during the same period.

Management reduced the company's consolidated costs per available seat kilometer to approximately $0R.142, a 13% reduction compared to the same period last year. Including VRG, the company has maintained a strong cost advantage. But we still have room to improve.

The slide number three shows recent additions to our fleet and base network. In 3Q '07, we added five ((NG) equipped 737-800s at GTA and one 767-300 at VRG, the fourth aircraft of this type in the fleet to end the quarter with a consolidated fleet of 93 aircraft. We plan to enter 4Q '07 with 103 aircraft comprised of 76 aircraft at GTA and 27 at VRG, including ten 767-300s.

During the 3rd quarter, VRG launched two new international destinations, Paris in France and Rome in Italy. At the end of October, VRG launched daily flights to London. In the Fourth Quarter, VRG will also launch flights, daily flights, to Mexico City in Mexico, Santiago in Chile, Montevideo in Uruguay and Madrid in Spain. To meet the capacity demands for these routes, VRG will add an additional six 767-300s ERs aircraft during the Fourth Quarter of 2007. Flights to New York and Miami are planned for the first half of 2008.

Slide number four presents Varig's new visual identity, which was launched last month. As part of the company's strategy to use brand segmentation to better target all customer segments, the Varig brand was officially landed on October 23. The new Varig brand introduced a rational, value-oriented differentiated service without excess costs. The new product rollout includes the renovation of VIP lounge in four major airports in Brazil, Sao Paulo, Rio de Janeiro, Curitiba and Porto Alegre, new uniforms and a new in-flight service offering.

For international routes the (paso vita) or well being concept was created for the business class, offering customers an enhanced flight experience through in-flight health and nutrition tips, alternative lighter, healthier meals options, jet lag reduction and more in-flight entertainment options.

The new in-flight service on domestic flights is based on the tastes of -- I'm sorry, the tastes and aromas of Brazil, offering traditional Brazilian cuisine.

Varig's aircraft offer more space between seats with a 32 inch pitch on coach class and will offer a new seat with a 60-inch pitch in business class, as part of the premium positioning of the VRG brand, Varig's new motto is the pleasure is in flying, while GOL's motto remains here everyone can fly.

Slide number five details the significant progress made to reduce costs and improve VRG's operating platform. Since the acquisition, we have adjusted VRG's fuel contracts to GOL's standard, resulting in a 4% reduction in fuel costs for VRG and a 1% reduction in fuel costs for GTA due to the higher overall volumes. We have renegotiated leasing contracts, resulting in a 35% decrease in maintenance reserves and 4% reduction in leasing expenses.

We made significant -- we made adjustments to the sales commission structure, restructuring sales contracts and reducing distribution expenses by 3%. We were also able to improve employee productivity, while increasing headcounting by redesigning the VRG's organizational structure.

Finally service outsourcing, including the Internet ticket sales and contract renegotiations resulted in a 9% decrease in IT costs. These initiatives reduced VRG's cost ex-fuel by 29% in 3Q '07 as compared to 2Q '07 and decreased its overall CASK by 21% during the same period.

Go to slide number 6, where we outlined our current revenue and cost initiatives. By end -- by the end of 2007, we will have added over 230 new daily flight frequencies, began reactivating clients of VRG Smiles program, increased sales to mid and low-income customers through GOL's Voe Facil Program. And included penetration of the small and medium corporate sales channel with the GOL corporate card in partnership with Banco de Brazil.

On the cost side, we will have rolled out 13 larger, more fuel efficient SFP aircraft, standardized the fleet with the short-haul Boeing 737 aircraft and the long-haul 767 aircraft. We will have reduced the age of the fleet, expanded our in-house aircraft maintenance service and reduced aircraft financing costs.

Slide number seven highlights our current and expanding network of interline agreements. These agreements will permit us to capture additional traffic and lower costs -- at lower costs.

In September of 2007, GTA was permitted by the authorities to enter into an important interline agreement with VRG allowing Varig to distribute international passengers throughout GTA's extensive network in Brazil and South America. During the quarter, GTA also finalized an interline agreement with Aerolineas Argentinas and in October, GTA signed another agreement with Air France.

Also in October, VRG finalized interline agreements with Air France and with an additional six airlines, including Hahn Air from Germany, Malev for Hungary, El Al from Israel, Air One from Italy, Mexicana and Qatar Airways who and Varig offer the most comprehensive world network in South America.

I will now turn the call over to our CFO, Richard Lark, who will discuss financial and operating performance for the quarter in more detail. Please, Richard.

Richard Lark {BIO 3484643 <GO>}

Thanks, Junior. Good morning, everyone. Please move to slide number eight in the presentation.

This slide presents our capacity and network expansion in more detail. During the quarter, the consolidated company operated an average of 91 aircraft, which was an increase of 77% over the 3rd quarter of 2006 and a 4% increase over the 2nd quarter of 2007. During the 3rd quarter, GTA added 14 new daily flight frequencies and now serves 58 destinations. VRG added four new daily flight frequencies to Paris and Rome, bringing its total destinations served to 16.

When compared to the same quarter of the previous year, our capacity expanded 72% in terms of ASK volume to almost 9 billion and RPK has increased 33% to 5.5 billion, 4.6 billion at GTA and 0.9 billion at VRG. This capacity expansion permitted the consolidated company to reach 770 flights per day at the end of September 2007. When compared to the 2Q of '07, ASKs increased 1.3% while RPKs decreased 5.7%.

Moving to slide number nine, we can see that our consolidated net revenues in 3Q '07 grew by 20% to approximate $1R.3 billion when compared to the same period in the previous year. GTA's net revenues increased 14.2% to $1R.1 billion. VRG's net revenues totaled $202R million.

Higher capacity and productivity were offset by sub-optimal yields and load factors, although there was a reduction in aircraft utilization comparing with the same period last year. GOL achieved high aircraft utilization of 13.4 block hours per day, consolidated during the quarter, while consolidated RAV speeds decreased 30% mainly due to the 12% decrease in yields and a 17.6percentage point decrease in load factors.

Breakeven load factor reduced 2percentage points year-over-year. Ancillary revenues also contributed to results, growing almost 60% to $115R million. Difficulties facing the Brazilian transportation industry, especially in the Sao Paulo area, suppressed yields and load factors in the quarter.

Please turn to slide number ten. The greater Sao Paulo region is responsible for between 20% and 25% of Brazil's total demand for air transportation. To improve passenger flow, regulators imposed changes to Congonhas Airport's operations in the beginning of October. These changes were limiting operations to direct flights with a maximum stage length of 1,000 kilometers, a reduction in slots per hour from 44 to 34 for regular flights, an operational reduction in runway length also.

The main impacts on this airport were a reduction in load factor and a 5% to 10% reduction in ASKs offered. By the end of the 3rd quarter, Congonhas represented 8.6% of total consolidated system revenue for us and this compares to 8.9% at the end of the 2nd quarter of 2007. And this ranked Congonhas fourth after the Sao Paulo Guarulhos Airport, the Rio de Janeiro Goiania Airport and the Brasilia Airport.

In August, GOL transferred connecting passenger traffic to five other airports while VRG suffered a substantial load factor reduction due to its higher concentration of flights operating out of Congonhas and that reflected in the lower consolidated load factor. The 3rd quarter ended with a load factor of 61% and in October, according to the information released yesterday, we achieved a 71% load factor, a figure that represents an improvement of ten percentage points over the 3rd quarter of '07.

Slide number 11 highlights the flexibility of our network model. GOL's network is a combination of a point-to-point network and multi-directional hubs. This permits subsantial flexibility to alter the network in the face of changing demand patterns. Additionally, as GOL has a high percentage of connecting passengers, this structure allows for added flexibility to move passengers through alternative hubs.

Slide number 12 shows the year-over-year comparison of our operating results, including incorporation of VRG's results. Load factors were significantly impacted by the events at the Congonhas Airport. Compared to the 3rd quarter of '06, RASK decreased by 30% due to a 19% increase in average stage length and an 18percentage point decrease in load factor and resulted in a 39% decrease in EBITDAR, which amounted to $193R.4

million in the quarter. EBITDAR is an indicator of operating results before accounting for aircraft ownership expenses, such as aircraft rent.

Total CASK at $0R.142, including VRG's results, decreased $0R.0208 per ASK or a 12.7% year-over-year reduction due to lower selling expenses, a reduction in fuel costs and lower landing fee expenses per ASK. This was partially offset by increased maintenance, materials and repairs expenses as well as increased aircraft rent. Jet fuel expenses per ASK grew -- decreased by 19% over the same quarter last year due to a decrease in average fuel price per liter, a proportionally more fuel efficient fleet and an 11.5% Brazilian real appreciation against the U.S. dollar as well as an increase in international flights that have a lower incidence of fuel taxes. Our consolidated non-fuel CASK, including VRG's results, decreased 8. -- 8% to $0R.0869.

On the next slide, slide number 13, we show our net financial results. Financial income in the quarter decreased from $43R million to $62R million. We have invested approximately -- sorry increased from $43R million to $62R million. We have invested approximately $1R.5 billion of cash earning an average 11. -- 11% per annum. Our financial expenses increased $9R million due to increased long-term debt financing during the year. We have approximately 1.6 billion of long-term financing with an average maturity of six years and an average rate of 7% in U.S. dollars. Our net financial results for the quarter were $31R.6 million.

Slide number 14 shows a comparison of the net effects on net compared to the 3rd quarter of '06. Running through the main differences, net revenues increased $221R million, jet fuel costs increased by $138R million due to an increase of 119 million more liters consumed, which is partially offset by a decrease in fuel costs per liter due to an increase in international long-haul flights and an appreciation of 11.5% in the Brazilian real versus the U.S. dollar while (bo TI) increased 6.8% and Gulf Coast jet fuel increased 5.6%. Jet fuel expenses per ASK decreased 19%.

Commercial expenses decreased by $27R million overall and 54% per ASK due to changes in the sales commission structure at the beginning of 2007 and a reduction in marketing activities during 3rd quarter of '07. Ticket sales on GOL's website accounted for almost 79% of total sales during the quarter. Since the relaunch of its website on October 23, Varig has sold 8% total tickets over the web.

Labor expenses increased $89R million overall and 5% per ASK due to a 5% cost of living increase on salaries, effective in December of '06 and an increase of 79% in the number of full-time equivalent employees, partially offset by higher productivity per ASK in the quarter.

Other operating expenses increased by a total of $224R million, principally due to a 20% increase per ASK in aircraft rent as a result of lower aircraft utilization. And a 79% increase in maintenance, material and repairs due to scheduled maintenance of 11 aircraft engines, the use of spare parts inventory and the repair of (inaudible) materials, offset principally by appreciation of the Brazilian real. Net financial results increased $10R million in the quarter year-over-year.

As previously highlighted, revenues in the quarter were impacted in an amount we estimate to be approximately $70R million and the net impact to costs due to flight delays, higher cancelled flight expenses and employee costs and increased fuel consumption was estimated to be approximately $40R million.

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On slide number 15, we show our cash flow for the 3rd quarter of '07. At the end of the quarter, our cash balance was approximately $1R.5 billion. During the quarter, cash balances decreased by $217R million, explained as follows. Cash generating and operating activities was $75R.4 million, mainly due to earnings from operations in the amount of $45R million. An increase in accounts payable of $54R.6 million, partially offset by an increase in inventories of $78R.1 million, accounts receivable increase of $52R million, a decrease in air traffic liability of $27R million.

Net cash used in investing activities was $268R.2 million, consisting primarily of an increase in property and equipment of $209R million and an increase in deposits for aircraft leasing contracts (Yanka) in the amount of $144R million. Net cash used in financing activities during the 3rd quarter of '07 was $24R.2 million mainly due to $76R.5 million in dividends paid, partially offset by an increase in short-term borrowings of $48R.9 million.

On slide number 16, we show the combined fleet plan to meet projected growth needs over the next six years. The fleet is projected to grow to 111 aircraft by the end of 2008, 118 by 2009, 126 by 2010, 132 by 2011 and 143 aircraft by 2012, which represents a 9% compound average growth rate in seats offered from 2007 to 2012.

Incorporating new 737-800s into the fleet is projected to produce substantial cost savings as the new aircraft are equipped with fuel economizing winglets, which reduce approximately 3% to 4% in fuel consumption per year, enable better flight performance and increased stage links on non-stop flights. The new 737-800s are also larger than our 737-700s and carry up to 37% more passengers. We estimate that the 737-800 will reduce direct operating costs per ASK by 15% compared to our 737-700s.

On slide number 17, we show GOL's relative performance in the U.S. and Brazilian stock markets. In 2007, through November 5th, our ADS has outperformed the ASC airline index by 21% and underperformed the Tier 1 LCCs by 20%. Our PN shares have underpeformed in the Bovespa index by 48% in the same period. Our average daily trading volume in the 3rd quarter has been approximately $4 million on the NYSE and $37R million per day on the Bovespa. GOL is one of the most liquid airline stocks in the world and one of the most liquid Brazilian stocks included on both the IVRX 50E and Ibovespa Indexes.

Slide number 18 shows GOL's financial guidance. All of the guidance figures are provided on a consolidated basis, which is how we report our earnings. In the 4th quarter of '07, the addition of ten new aircraft to our consolidated fleet will allow an 80% increase in available seat capacity over the same period of 2006. For the 4th quarter of '07, we expect a load factor in the range of 64% to 66%, representing a 3 to 5percentage point increase over the 3rd quarter of '07 with yields in the range of $0R.22 to $0R.24.

For the Fourth Quarter of '07, we expect non-fuel CASK to be in the range of $0R.084 and we expect that a stable foreign exchange rate environment in the near term will mitigate higher oil prices in the quarter.

Financial guidance for the full year of 2007. And based on GOL's planned capacity expansion. And the expected demand for passenger transportation services driven by strong Brazilian economic fundamentals and our demand-stimulating low fares. We expect to end 2007 with 103 aircraft and expand consolidated capacity by approximately 76%, that includes expected passenger demand adding to routes and markets in Brazil and abroad. Average load factors for the year are expected to be in the range of 64 to 66%.

Passenger yields are expected to decrease approximately 13% in the full year 2007 and RASK in the full year comparison is expected to decrease approximately 21%. Our projections are for a 2007 full-year EPS in the range of $1R.4 to $1R.8 per share, full year non-CASK is expected to be in the range of $0R.084, representing a 10% reduction over 2006. Fuel costs per ASK are expected to decrease approximately 10% year-over-year due to larger, more fuel efficient aircraft and lower fuel prices. We expect consolidated operating margins to be in the range of approximately 5% to 8%.

We plan to continue popularizing air travel in our markets through expansion, technological innovation, improved operating efficiencies, strict cost management and the lowest prices. Our cost leadership will permit us to offer the lowest fares, generating high load factors and high profitability so that we can continue to invest in additional seat capacity and further stimulate demand, what we call the GOL effect.

I'll now turn the call back over to our CEO to conclude the presentation. Please, Junior.

Constantino de Oliveira {BIO 3888521 <GO>}

Thanks Richard. I will finish with slide number 19 where we highlight our competitive strengths, which are essential for our successful business model. We count on our highly productive workforce and experienced management team to quickly adapt to new market conditions, deliver safe and quality customer service, offer the lowest fares in the market and maintain the lowest cost in the industry to ensure a strong brand and high profitability.

Even though the Brazilian aviation industry has faced challenging times recently, we strongly believe that Brazil presents a promising environment with an underserved market for low fare transportation. We are confident that the necessary measures are being taken and that the current change to and evolution of Brazil's airport and airway infrastructure will help us grow our business in the medium and long term.

Thank you for your attention and we now conclude this brief presentation. I would like to turn the floor over for Q&A, during which we will be happy to respond to any questions you may have.

Questions And Answers

Operator

(Operator Instructions) Your first question is coming from Jim Parker of Raymond James. Please go ahead.

Q - Jim Parker {BIO 1506864 <GO>}

Good morning, Junior and Rich. A couple of questions. One, Junior, you provided guidance on Varig's long haul, I believe, suggesting that in the 3rd quarter of '08, it would break even. What is your thinking regarding when Varig overall, VRG overall, will reach profitability?

A - Richard Lark {BIO 3484643 <GO>}

Hi. Good morning. Jim, in our projections, what we have -- currently we are in the relaunch of Varig's international operations, which will take us through the 2nd quarter of next year. So we'll have the investments and expenses related to that, both from a marketing as well as a base relaunch perspective. We also recently relaunched the Varig brand in the month of October, across the board.

But overall, as Junior was saying, Varig's international business we look at as the 3rd quarter of next year. Overall it's possible that basically in the December/January period, we start to see some positive contribution out of VRG. Then we have seasonality, post-Carnival through the end of the 2nd quarter. Then, a positive contribution starting in the May/June period.

But in terms of quarter overall, it's possible that that could happen between the first and the 2nd quarter next year.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. And second question, would you provide us with your assessment of the air traffic control system, about the problems that inherent there and are they getting resolved? Where is that currently?

And also just about Congonhas. Is it back to -- maybe not back to normal. But after all the changes and so forth, is it operating according to the regulatory plans?

A - Constantino de Oliveira {BIO 3888521 <GO>}

Okay, Jim. The point here is that we are seeing that the aircraft control is becoming to a normal situation. But at the same time, we have important airports with -- where the runways have been renewed. That means the (inaudible) Airport is one where the (imprael) people are working in the runway to fix that and probably will keep the -- this runway out of 100% of their capacity to the end of February. So we will still have some problems related to this specific airport.

When we talk about Congonhas, the alternatives submit or suggest a reduction in the airport utilization. That means we will reduce the operations to 33 slots per hour, what is I think is okay, that works very well in a good -- in normal conditions.

Related to restrictions on the runway, they implement the RASA and that means the runway and safety area in Congonhas Airport that means they reduce the runway approximately 300 meters. But our aircrafts, we had to manage our fleet to keep all the 737-700s and the SFPs flying to Congonhas Airport and with that, these restrictions really doesn't mean that we have -- we will have a big problem related to Congonhas Airport.

So we are seeing that the aircraft control is coming to a normal position. And we are faced -- we are still facing some problems related to some specific airports and now we are working to really -- to plan a new world network, even for the high season where we will be able to provide a very good service to our customers. And so if you see the aircraft utilization on the 3rd quarter, you can see that you have a slight reduction in the aircraft utilization.

That becomes from the normality of the ATC, of air traffic controls, that we are not flying more to the same flights. But we still have room to improve that and have a slight reduction in the aircraft utilization. But providing a better quality of service to our customers in terms of punctuality and or specifically in terms of punctuality. As we are -- we will still face some problems related to certain airports. So we are doing that to pass through this difficult environment, this challenging environment with a good perception from our customers.

So I think that we are passing through the storm. So we can see better conditions toward the near future and specifically talking about the vision and long-term. We are -- we can see that the government and the authorities are working hard to fix all the infrastructure problems related to the airport and also to bring new air traffic controllers and that will allow us to keep growing as we will be able to stimulate demand with lower fares.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. Thank you.

A - Constantino de Oliveira {BIO 3888521 <GO>}

You're welcome.

Operator

Thank you. Your next question is coming from Michael Linenberg of Merrill Lynch. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes. Good morning, Junior and Rich. I guess a couple of questions. First, can you comment on some of the press reports where there has been talk about potentially taking the company public -- excuse me, the company private? There was something that came out a couple of months ago. Then more recently, there were some press reports where GOL was in talk with private equity investors and when we think about it from our side, is that new money coming into the company. So by way of a primary share investment or is that, maybe Junior, your family selling shares to a private equity investor? I mean, what -- I mean, is there anything you can say on that? Because there's been a lot of confusion on that front.

A - Richard Lark {BIO 3484643 <GO>}

Yes. Good morning, Michael. Well on the news in the press regarding taking the company private, I mean other than what's been publicly disclosed that they are constantly analyzing possibilities. No decision has been made and they looked at a lot of different opportunities as we disclosed to increase their participation in the company. But that's really all we can comment on that point. In terms of why they're -- what they're analyzing, I mean, they are looking at purchase of shares in the market as well as a public tender offer for the entire float. This was disclosed on the 19th of September. And of course if any decision was made, the company would make the relevant communications. But our focus today is comment on the 3rd quarter results.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. That's -- then sort of as a second question, on a separate topic, it was reported in Aviation Daily, I think like within the last week, that the company was considering floating Varig shares, VRG shares. Is that -- is there any sense to that? That didn't seem right.

A - Richard Lark {BIO 3484643 <GO>}

No. We don't know anything about that.

A - Constantino de Oliveira {BIO 3888521 <GO>}

No, Michael, we are not thinking about that.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Then, yes, no, I was just -- I meant that one with a -- I was just confused as much as you were at that one.

Then I guess the last one, if I can just ask, on the A -- if we look at your fleet in 2008, it's gone from 103 to 111 airplanes. At this point, what should we be looking at on an ASK basis for 2008? And if you could, if you could split that out and consolidated is fine. If you could split that out, what your consolidated ASK growth is by domestic and international if you have that?

A - Richard Lark {BIO 3484643 <GO>}

I don't have that with me. We're currently not -- we have not yet provided any guidance, specific guidance, for 2008.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. All right. Thank you very much.

A - Constantino de Oliveira {BIO 3888521 <GO>}

Thank you, Michael.

Operator

Thank you. Your next question is coming from Ray Neidl of Calyon Securities. Please go ahead.

Q - Ray Neidl {BIO 14015874 <GO>}

Yes. Is there any positive effect at all with what happened yesterday with the number three airline in Brazil shutting down at least temporarily? I know they're not really in the big cities in Brazil. But what effect if any would that have on GOL going forward?

A - Constantino de Oliveira {BIO 3888521 <GO>}

Yes, Ray, thank you for the question. Good morning. Related to the third airline, as we are -- we know that the aviation sector is very challenging. And when you -- doesn't come with any new attributes, it's very difficult to establish one airline in the market. But as they were representing almost 4% to 5% market share, probably that will -- that means for us, unfortunately for them, it's a big crisis. For us it's a great opportunity to grow our business with the right products and keep our -- slightly better load factor than we would have expected going into the Fourth Quarter. But the point here is that we see that in terms of competition environment, probably it will not change a lot of things. Because even with a 4% to 5% market share, the BRA commercial policies doesn't affect us so much on the -- didn't affect us so much in the past. So we don't think there will be a major change on the competitive environment.

Q - Ray Neidl {BIO 14015874 <GO>}

Okay. Great. On the other side of the equation, it seems like Tam and Lan are doing more things together, more marketing, more co-chairing. I'm just wondering is that going to make them a tougher competitor with what GOL's trying to do in Brazil and South America?

A - Constantino de Oliveira {BIO 3888521 <GO>}

Yes. They're joining power, of course. But again we look for our world network, when we do a consolidated world network, GOL and Varig together, are often the better network in South America, or a better distribution network in South America that allows us to roughly negotiate a new interline agreement with the major carriers in Europe, for example. So we strongly believe that we're still a very strong competitor even with them and then doing something together.

Q - Ray Neidl {BIO 14015874 <GO>}

Okay. Great. And lastly with Varig, with the Boeing 767s, is that fleet pretty much all set now? Do you have all the aircraft identified that you're going to be operating and financed?

A - Richard Lark {BIO 3484643 <GO>}

No -- oh, yes, on the Varig fleet we have all the -- you're talking specifically about the wide bodies? Or --.

Q - Ray Neidl {BIO 14015874 <GO>}

Yes. Yes.

A - Richard Lark {BIO 3484643 <GO>}

Yes. We have all those -- all of our needs to basically the relaunch of VRG's international operations through Miami and New York, through the 2nd quarter of next year, we have all those 767s lined up and they arrive between now and June of next year.

Q - Ray Neidl {BIO 14015874 <GO>}

Great. Thank you, guys.

A - Richard Lark {BIO 3484643 <GO>}

We'll finish this year with ten 767s in the fleet versus --

A - Constantino de Oliveira {BIO 3888521 <GO>}

Three.

A - Richard Lark {BIO 3484643 <GO>}

Versus 3 to 4 today, we have one arriving.

A - Constantino de Oliveira {BIO 3888521 <GO>}

But today we have four. (inaudible). And going to five. And all of them are operational lease, Ray.

A - Richard Lark {BIO 3484643 <GO>}

Yes. All of them are operational lease (inaudible).

Operator

Thank you. Your next question is coming from Steve Trent of Citigroup. Please go ahead.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, gentlemen. Just a quick question from me. We noticed as well you guys looked like you had a very good load factor for October, the 69% figure. Yet for the Fourth Quarter itself, you're still only guiding to 64% to 66%. I was wondered if there's something involved there regarding a lower November/December load because of the airport repairs in some places? If you wouldn't mind just giving a little color on that, that would be great.

A - Richard Lark {BIO 3484643 <GO>}

Oh, yes, hi Steve. It is initially how much of suppressed demand there is, obviously in October, domestically we hold at a 72% load factor domestically, Varig did a 50% load factor domestically. Internationally, both companies were kind of in the 61% to 63%. As Junior mentioned, we're still in the transition phase, still recovering. But we think that 64% to 66% range reflects reasonable expectations for the quarter here.

Also, what we plan on doing to help the congestion that has been taking place due to weather and other effects that have created delays in the airports and in transporting passengers, we do plan to create a little bit more space in between flights in our network between now and January, December and January being the high season for summer vacation travel, end of the year travel, here in Brazil. Which will result in slightly lower aircraft utilization. But that also could produce slightly higher load factors versus what we're expecting. So it's important to keep that in mind. We plan on doing that to make sure that the holiday season goes smoothly and people get to where they need to go.

Q - Steve Trent {BIO 5581382 <GO>}

Okay. Got you. Thanks for that, Richard.

Operator

Thank you. Your next question is coming from Nick Sebrell of Morgan Stanley. Please go ahead.

Q - Nick Sebrell {BIO 7321622 <GO>}

Hi. Good morning, guys. A follow-on question for the BRA news, what do you think will happen with the slots that they have in Congonhas? Will it have -- will those likely, assuming that BRA stays out of the picture and those slots become available, are those likely to be reauctioned or apportioned to new players or existing players? That's my first question.

Then the second question is, although I know it's not the primary purpose of the call, does the right offering in the 2nd quarter set a minimum price for any potential tender? Thanks.

A - Constantino de Oliveira {BIO 3888521 <GO>}

Okay. I will answer the first part and transfer it to Richard to -- on the other one. Regarding the BRA operations in -- or slots in Congonhas Airport. My impression, that means my impression because there is a rule for the slots distribution in constrained airports and there is a specific rule for Congonhas Airport where the slots available will go to a kind of -- it's not a bid because you don't have to pay for that. But a kind, how to say in English --

A - Richard Lark {BIO 3484643 <GO>}

A lottery.

A - Constantino de Oliveira {BIO 3888521 <GO>}

A lottery or a --

A - Richard Lark {BIO 3484643 <GO>}

A lottery. It's a lottery on a rotational basis based on companies that would be requesting those slots then they would, just do a lottery on a rotational basis among the companies requesting them.

Q - Nick Sebrell {BIO 7321622 <GO>}

And I would assume that the companies are the usual. So it would be you, it would be Tam, it would be Ocean Air?

A - Constantino de Oliveira {BIO 3888521 <GO>}

Probably. And almost 20% or 25%, if I am now wrong, of these slots will be reserved to a newcomer. So a newcomer in the airport.

So -- but my impression is that the authorities will keep this slot as a slot reduction in Congonhas and give us more room for -- to improve the quality of service during this transition phase. That's my impression. But again, we are not talking about a huge number of slots in Congonhas. If I am not wrong, BRA were flying, were occupying almost 10 to 12 slots per day. So it's not something that's really impressive.

Q - Nick Sebrell {BIO 7321622 <GO>}

No. Okay.

A - Richard Lark {BIO 3484643 <GO>}

Nick, in sort of my understanding of tender offer rules in Brazil, the answer to your question would be, no, that would not be a minimum price based on the rules that apply to tender offers in -- under Brazilian law.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. And just a follow-on to the BRA. Given that that capacity is probably not coming back next year, what is your outlook for market growth domestically on the supply side? Do you have a view?

A - Richard Lark {BIO 3484643 <GO>}

For 2008?

Q - Nick Sebrell {BIO 7321622 <GO>}

Yes, 2008.

A - Richard Lark {BIO 3484643 <GO>}

Yes, I mean we expect basically, as we've said, we expect load factors for the industry for next year to be in the low-60s, reflecting the new environment with supply kind of growing in the low teens and demand growing in the high single-digits. So kind of on an 8% to 10% demand growth on top of supply growth of something in the range of 10% to 14%.

Q - Nick Sebrell {BIO 7321622 <GO>}

Perfect. Thanks.

A - Richard Lark {BIO 3484643 <GO>}

This would result in industry load factors next year being in the sort of 61% range for the Brazilian domestic industry versus what should probably turn out to be around 66, 67% for this year.

Operator

Thank you. Your next question question is coming from Frank Boroch of Bear Stearns. Please go ahead.

Q - Frank Boroch {BIO 5880495 <GO>}

Hi. Good morning. Richard, I was wondered if you could update us on what you guys are paying for jet fuel today and whether you're -- the fleet plan for '08 assumes oil prices and FX remaining at current levels?

A - Richard Lark {BIO 3484643 <GO>}

Well keep in mind, there's a couple of things going on in our business that's really suggested. Number one is the Brazilian formula for pricing jet fuel includes exchange rate effects. So we've had a mitigating effect on local -- on fuel prices in Brazil given what's been going on with the appreciating real.

The other effect we also have is that Brazilian domestic jet fuel has a very high incidence of (very high) taxes which can increase the cost of jet fuel by a little over one third and as we increase international flights, flights to international markets, we -- we lose the incidence of that tax. So that -- those are the factors that reduce our jet fuel per year costs versus what you might expect, what you might be seeing in other markets. But we're sort of operating with, for this year, jet fuel kind of around probably -- our expectation is around 180 per liter for the Fourth Quarter of this year, which is a peak, it's substantially up over -- about 15% over the per liter cost for last year. We've got approximately -- a little under 40% of our consumption hedged for the Fourth Quarter of this year at around $76 a barrel. We don't expect -- we expect decreasing jet fuel prices in our projections for next year, for 2008.

We've got small hedge positions in Q1 and Q2 next year, about 6% or 7% of our exposure for Q1, Q2 at prices of around $63. So we'll continue to apply our hedging strategy, which is a disciplined trigger program, setting price targets volumes and instruments. I think our 3rd quarter showed the effect of that disciplined strategy we had around $16R million of gains in our 3rd quarter results, about $10R million in operating results and $6R million in financial results and we were a little over 50% hedged in the quarter.

But our own view today is we're not doing a high level of hedging at these levels. We think there's more downside risk than upside risk. But what will mitigate that -- this for us is the strength of the Brazilian real as well as the increase in proportion of international flights without the incidence of the 35% jet fuel tax and also the increasing stage length with the international flights will also have a positive effect on mitigating and even reducing our fuel costs per ASK. What you saw in the 3rd quarter was a substantial reduction in fuel costs per ASK despite the current fuel price environment.

Q - Frank Boroch {BIO 5880495 <GO>}

And as a quick follow-up, do you expect to see stage length increases in '08 similar to '07 in the 19 -- 20% range and what do you think Varig will account for of consolidated ASKs at the end of '08? Are we talking 35% of consolidated ASKs?

A - Richard Lark {BIO 3484643 <GO>}

It shouldn't be, on a consolidated ASK basis, it shouldn't be more than 25% and the stage length increase next year will, overall, consolidated basis, will be lower than it was this year.

Q - Frank Boroch {BIO 5880495 <GO>}

Okay. Great. Thank you.

Operator

Thank you. Your next question is coming from Daniela Bretthauer of Goldman Sachs. Please go ahead.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hi. Good morning, everyone. Just want to go back to the BRA question and ask you the following. If the lessors decide to repossess the plane, which I think is what's going to happen anyway, would you be interested in some of those planes?

A - Constantino de Oliveira {BIO 3888521 <GO>}

Daniela, today we have all the planes we need for our initial plans in terms of long-haul for VRG. Related to the domestic markets, our plan is to grow and renew our fleet. So probably not. But any -- I'm talking about something preliminary because no one is talking with us regarding these aircraft. But I don't think so.

A - Richard Lark {BIO 3484643 <GO>}

But what you also saw, we're re-fleeting 300s with 700s and 800s, including putting some of our 800 SFPs off our purchase order at VRG. So we're actually in the process of returning the 300s aircraft, which is what the BRA domestic fleet is.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

What about their pilots? Do you think that could be useful for GOL? Because GOL flies Boeing and Tam does not. Like if they go ahead and lay off all those people?

A - Constantino de Oliveira {BIO 3888521 <GO>}

I think that they were a good technical people flying on BRA. And if they -- we will submit them to our selection process, our selective process and so we have considering that possibility for sure and it's a one source of work force. But remember that we still have a lot of people from old Varig available and we have an agreement or a kind of agreement with them to select -- in the priority -- to give priority to these old employees of Varig.

So -- but yes, we are considering this possibility from BRA. Specifically -- especially if they have something from Varig flying there.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Great. Then the second question is related to your new guidance, okay? Basically the way I see it. And correct me if I'm wrong. But I think GOL needs to do 13% operating margin in the Fourth Quarter or better to get the low end of your new guidance. So I mean the risk to the upside, I think the load factor, right? I mean, if the load factor -- because you've already provided guidance that you think yields are going to be between $0R.23 and $0R.24. But I think the risk to the outside, meaning this margin being even better than we expected this -- the load factor continues in this 70% range. So Rich, can you comment on that please?

A - Richard Lark {BIO 3484643 <GO>}

What was your question, Daniela?

Q - Daniela Bretthauer {BIO 13380169 <GO>}

The question is, to get to the guidance, it looks like you're going to have to do 13% operating margin or better in the 3rd quarter. In the 4th quarter, sorry.

A - Richard Lark {BIO 3484643 <GO>}

Okay. So is your question on load factor or --?

Q - Daniela Bretthauer {BIO 13380169 <GO>}

No. I mean that's the risk to the upside. I mean, because you need to do at least that to get to the low end of your guidance, to get to 5%, right? And if load factor turns out to be -- because you're guiding 64 to 65, right, for the Fourth Quarter? But if indeed it comes up to be high 68, high 60s or 70 even, then I think that's how you get there. So I just wanted some color on that.

A - Richard Lark {BIO 3484643 <GO>}

Oh you're -- you're probably more likely to see, if there's a change in that versus, I mean, those are our expectations, you can factor in your own views. But if there's a change in that, it will probably be more likely to have a little bit higher load factor and a little bit lower yields.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes.

A - Richard Lark {BIO 3484643 <GO>}

If there was a change versus that.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Right. But 13%, assuming that that's the number, right? 13% is better year-on-year and that's like a major improvement. And that puts you back to, I mean, to where you were basically in the 3Quarter of '06 and in a good start for '08. Am I -- is that like the trend?

A - Richard Lark {BIO 3484643 <GO>}

Well keep in mind, we're also in a transition period here. So that's still not necessarily a normalized level in terms of what our business model produces. So we're still, Q4's still in a transition phase from some of the events and elements and the acquisition we made in -- over the last -- the events over the last 12 months. And so we're still in a transition. That's kind of still weighing.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

But it looks like it's from -- that's your probably your new level given the recovery that you've seen on yields and people still want to fly, because you've got a pretty good growth. I mean, it's not the high teens that we've seen in the past. But it's around 10% and that's good enough, right?

A - Richard Lark {BIO 3484643 <GO>}

Well keep in mind, we're still -- we bought VRG in April. So we're still in the process of increasing the productivity at -- in VRG's operations. And we're in the relaunch of their -- it's a restart-up. It's a start-up of Varig's international flights, international market. And very, very few start-ups, at least that I know of, make very high margins on Day One of operations. And in the Fourth Quarter of this year, we're also, based on all the work we've done over the last six months to clean up operations, get the company poised for transporting passengers to Europe and North America, also the -- as Junior highlighted, the new products and the new image that we're launching, that's all launching now. That's also going to require investment in marketing and commercial activities to relaunch that, which is underway right now, starting in October.

Also, the relaunch of the basis. Only to the VRG -- to the relaunch of Varig's operations internationally, which has been a big focus of ours over the last six months. And so that is -- that's present and the restructuring activities have been present in Q2 and Q3 results and the relaunch activities are going to be present in Q4 and Q1 results when you're looking at accelerated results. Don't discount that when you're looking at our company versus historical levels. You should factor that into your analysis.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes. And you still think that Varig can do a CASK of $0R.12 on their long-haul flights in the future?

A - Richard Lark {BIO 3484643 <GO>}

Yes, once we get -- once we establish through the 2nd quarter of next year, we're still in the relaunch of these operations. But yes, it's possible that Varig, if you look at the international long-haul business, we'll be able to achieve a CASK of those levels.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. Thanks a lot.

Operator

Thank you. Your final question is coming from Jamie Baker of JP Morgan. Please go ahead.

Q - Jamie Baker {BIO 3406456 <GO>}

Hi. Good morning, everybody. Richard, I'm curious what your average length of haul change was in the month of October and what you think it might be in November and December given some of the new route adds? I'm just trying to reconcile RASK as the quarter progresses. I would normally assume November and December RASK would be better than October. But I'm not quite sure that that's what your yield and load factor guidance implies.

A - Richard Lark {BIO 3484643 <GO>}

Well October average stage length was just under 900 kilometers overall on a consolidated basis. So around 190.

Q - Jamie Baker {BIO 3406456 <GO>}

But how did that compare to last year?

A - Richard Lark {BIO 3484643 <GO>}

It's about a 7% --

Q - Jamie Baker {BIO 3406456 <GO>}

Okay.

A - Richard Lark {BIO 3484643 <GO>}

6% to 7% -- about a 7% increase.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. And would you think that 7% -- I guess that's going to rise by December given some of the new routes to 9% or--?

A - Richard Lark {BIO 3484643 <GO>}

For Q4, we should be doing around 920 kilometer stage lengths. So that will be up around 20, 30 kilometers versus, say, October. And that would be up around 3 to 4% over last year, Fourth Quarter.

Q - Jamie Baker {BIO 3406456 <GO>}

Oh. Okay. So Fourth Quarter length of haul only up 3 to 4%? Year-over-year?

A - Richard Lark {BIO 3484643 <GO>}

Yes. And that would be -- just to give you a frame of reference, I mean just to kind of bowl at an 850 kilometer stage length and then Varig's what's increasing. I mean, Varig in Q3 was, say, around 1,000 kilometer stage length and that will be like at 1,200 kilometers in Q4.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay.

A - Richard Lark {BIO 3484643 <GO>}

So the real change there is Varig.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. And secondly, you talked before in response to an earlier question about demand growth in the low teens and supply growth in the high teens. To my ear, that implies negative RASK in 2008. But perhaps your definition of demand that you were using was like a load factor measure or something like that? Would you care to comment on the potential for year-over-year RASK improvement for the industry? I think that's how you were framing your answer.

A - Richard Lark {BIO 3484643 <GO>}

We've -- we expect industry yields year-over-year to be up next year in excess of 10% in year-over-year comparison.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. That's very helpful. Thanks again for me. Bye.

A - Richard Lark {BIO 3484643 <GO>}

Okay.

Operator

Thank you. This concludes the question and answer session. At this time, I would like to the floor back to Mr. Constantino De Oliveira Junior for any closing remarks.

A - Constantino de Oliveira {BIO 3888521 <GO>}

Once again, thank you very much for your interest in GOL. We remain committed to making air travel a simple, more convenient and accessible option for everyone while creating value for our shareholders and employees, further popularizing air travel in Brazil, South America and the world through the expansion of our business, innovation in our point of service, operating efficiency, cost management and competitive low prices. At GOL, our slogan is here everyone can fly and at VRG, the pleasure is in flying.

. Thank you very much and have a nice day.

Operator

Thank you. This concludes today's GOL Intelligent Airlines Third Quarter 2007 Results Conference Call. You may disconnect your lines at this time.