Q1 2009 Earnings Call

Company Participants

- Constantino de Oliveira Junior, President & CEO
- Leonardo Pereira, VP & CFO
- Rodrigo Alves, IR
- Unidentified Speaker

Other Participants

- Bob McAdoo, Analyst
- Dan McGoey, Analyst
- Duane Pfennigwerth, Analyst
- Jamie Baker, Analyst
- Jim Parker, Analyst
- Luiz Campos, Analyst
- Mike Linenberg, Analyst
- Nicolai Sebrell, Analyst
- Steve Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to GOL's First Quarter 2009 Results Conference Call. Today with us, we have Mr. Constantino de Oliveira Junior, President and CEO. And Mr. Leonardo Pereira, Vice President and Chief Financial Officer.

We would like to inform you that this even it recorded. And all participants will be in a listen-only mode during the Company's presentation. After GOL's remarks, there will be a question and answer sessions for industry analysts and then for press. At that time, further instructions will be given.

(Operator Instructions)

Today's live webcast, including both audio and slideshow may be accessed through GOL's website at www.voegol.com.br/ir.

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 management 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 effects 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 President and CEO Mr. Constantino Oliveira, who will begin the presentation. Mr. Oliveira, you may begin your conference.

Constantino de Oliveira Junior {BIO 16843720 <GO>}

Thank you. Good morning, everyone. Welcome to our conference call. I would like to begin by commenting on the last events that I consider important for GOL's strategic and financial positioning.

Yesterday, we announced a BRL400 million debentures issue, which combined with the capital increase carried out in March will represent a cash injection of more than BRL600 million. The debentures issue was yet another initiative by the Company to review its cash position. And soon we will have more news on this front, which will be disclosed as soon as we conclude the negotiations.

Another important development was the agreement we reached with Boeing to which we will postpone the deliver of 20 aircraft. This agreement will maintain our disciplinary offering while keeping our fleet modern and consequently more attractive to our customers and with lower maintenance cost. Later, I will comment in detail the impact of this negotiation with Boeing on our plan [ph].

Moving to slide number three of the presentation represents one of the competitive advantage brought about by the situation of the world [ph] networks of (inaudible), which includes both high-quality positioning in Brazil's main domestic airports, such as Congonhas, Confins, Galeao, Santos Dumont. And Curitiba. With this competitive advantage, we now have multiple hubs, which allow us greater frequency between destinations with higher traffic and connections, while integrating hubs with destinations that have lower traffic. But offer high profitability, such as (inaudible) and Santos Dumont.

In summary, the main message is shown on slide three. This slide shows our categories which allow us to offer the right product which (inaudible) of clients (inaudible) in terms of price, the advanced periods required for ticket purchase, the flexibility with scheduling flights without paying additional fees. And the accumulation of miles under the miles (inaudible) program.

As a result, we also continue to stimulate demand of low fares and more flexible packages combined with our dominant position in the main domestic airports, which has put us in a better position to explore the business segments more efficiently.

The new fare categories will help us to manage yields better since each client already buys flights based on the type of products they want to acquire, making GOL to be more flexible in its relationship with clients as well as (inaudible). This we enjoy better conditions for the (inaudible) our offerings.

On slide number four, it shows some actions we have implemented in order to better (inaudible) our route network, such as the bilateral code-share agreement with Air France-KLM, which confirms our aim of being a company that is attractive to major players in long-haul flights since we have opted to focus our operations on Brazil and South America.

The code-share agreement is being implemented in two phases with the first consisting in the integration of the mileage programs, the SMILES at GOL and Flying Blue at Air France-KLM, with the second phase consisting of the actual code-share agreement, which involves separating flights between the two companies under the same flight number as well as allowing clients from both carriers to use their miles to buy tickets for flights at both.

Another recent agreement aimed at strengthening our route network was the commercial agreement with the car rental company Unidas for the implementation of Fly & Drive, which allows customers who buy tickets on our website to rent cars at Unidas with a 50% discount. This (inaudible) concept is clearly in line with our business concept and also integrates two main links in the value chain in the travel and tourism industries. Meanwhile, for clients, it represents a much better, much more convenient and economical option since they can access the (inaudible) at extremely attractive price.

Let's move to slide number five, please. The slide five presents details of Gollog Express, which serves the fastest-growing segment in the tourist [ph] market, which is express rate service. To [ph] Gollog, we hope to gradually increase our payload, generating higher revenue on our low-cost (inaudible) while continuing to expand operating margins [ph] and offer low fares to our passengers.

On slide number six, because of our new fleet plan, we have (inaudible) to a new agreement with Boeing that I commented on this at the beginning of the call. As you can see, between 2009 and 2012, the number of seats will grow by 3%. And the average age of the fleet will remain at between 5.5 years and 7.5 years in line with the concept of maintaining a modern fleet in order to keep maintenance costs low.

With the new fleet plan, we will have better conditions for improving our aircraft utilization rate. In other words, we will fly more hours per day with the ideal number of aircraft in turn diluting [ph] operating cost and enabling GOL to move towards [ph] prior levels so that we can benefit from the positioning I emphasized before.

I'd like now to hand the call over to (inaudible) Leonardo, who will comment the quarterly results and bring you up to date on the plan to increase GOL's cash position. Leonardo, please?

Leonardo Pereira {BIO 1960081 <GO>}

Thank you, Junior. And good morning, everyone. Moving onto slide seven, I'd like to highlight a couple things. The first thing I'd like to highlight is that following several quarters of net loss, we are now back to profitability. And we present with net revenue of BRL61.4 million, which is equivalent to a net margin of 4%.

In (inaudible) current environment, it is no doubt that operations have become stronger. If we look at the last quarter of '08 and the First Quarter, EBIT is up by 94%. Another important development is that the Company still has room to implement significant improvement. Just to illustrate that fact [ph], I'd like to highlight that we closed this quarter with 120 aircraft in the fleet. But our operational fleet has only 107 planes.

As we taken these 13 planes out of the fleet, this will generate a positive impact of close to BRL100 million in our annualized EBIT. In other words, we record very positive operation and financial results in a (inaudible) market by lower volatility [ph] and with oil prices returned to historical levels while contain [ph] the cost of 13 aircraft that ended the quarter excluding (inaudible).

Of these 13 aircraft, we have subleased a Boeing 737-300 in February this year, leaving six more Boeing 737-300s in the maintenance stage, which we will be returning to the -- around the latest in the Third Quarter of this year. Of the seven Boeing 767-300s, we were able to return one aircraft in an exchange operation for a Boeing 737-800 at no additional cost. We have some more deals under negotiations in the pipeline. And we expect to conclude these deals over the next six months.

Just to give a rough idea of what will be the impact on the CASK [ph] (inaudible), from the moment that we resolve this issue, which we are firmly focusing on, our CASK will come down by (inaudible).

Another important highlight was the EBITDAR margin of 23.7% achieved in the quarter. This fact was particularly important since it shows that our business advanced well operationally. We have a strong operating value for shareholders. And this translates (inaudible) has mentioned, the integration of (inaudible) and growth in one single operation in terms of systems, in terms of delivering a very standard and good product for our passengers.

Moving to slide eight, we can see a comparison of our net income between the First Quarter of '09 and the First Quarter of '08. We have summarized the main effects on our results in relation to the First Quarter of '08 and showed the positive impact from the lower jet fuel cost, which was mainly driven by lower consumption since we stopped operating long-haul flights as of mid of 2008 and by the return of the (inaudible) to historical levels.

Another highlight of the reduction of selling expenses, which reflects the implementation of a new integrated sales system, which allows us to integrate the systems of (inaudible) while reducing operating cost and optimizing selling expense as we expect the addition of larger and more cost-effective aircraft to partially offset an increase in fuel price.

If we move to slide nine, we show the change in our cash position the quarter. And later, I will comment briefly on the evolution of our current (inaudible) cash levels. But if we look at that, we have ended -- despite the fact that we ended the quarter of March '09 with BRL200 million in cash, less than in December, as we anticipated (inaudible) low cash levels. There is a good explanation for that. We have generated strong EBITDA. But we have a payment of BRL8 million of nonprogrammed maintenance (inaudible) in the quarter.

Also, we have decided to unwind hedge operations that were coming due over the course of 2009, which resulted in a cash reduction of BRL129 million. (inaudible) alternatives, even though we were aware of the cash (inaudible) because now we have -- we still have a good hedge position in terms of leverage of our consumption for the next 12 months. On the other hand, we have a much more predictable cash flow scenario.

Also, investment in fixed assets that were (inaudible) schedule and are related mainly toward [ph] for the maintenance center in (inaudible) has demanded BRL25 million. In other words, that explains the reasons why our cash level has come down from BRL592 million to BRL396 million.

Since March 31st, our cash position has increased by roughly BRL100 million related to the Second Quarter capital increase. Also, as part of our (inaudible) cash level back to a level of BRL800 million by year end, we have, as Constantino mentioned, another positive development. We have raised BRL400 million with the issue of nonconvertible debentures. And this debenture will have a maturity in two years and an initial grace period of six months and an 18-month amortization schedule.

We also continue to access ways to monetize some of our assets. And although we cannot (inaudible), we have a very concrete -- we have taken very concrete steps that we expect that we'll be able to announce over the next quarter. In other words, we firmly believe that we are on the right path to reach our BRL800 million target in terms of cash flow level.

As we are talking about cash levels, I'd like to make some remarks about our capital structure. As of December 31st, if you look at our total debt, gross debt -- and that includes our working capital, financial needs. And operating needs -- and if you look at our annualized EBITDA at that time, our -- the ratio of our total gross debt to unrealized EBITDA would be 7.8 times. This number now has come down to 6.6 times.

And if we exclude the non-operational fleet of 13 planes, this ratio would then come to 6 times, which is already at the high end of what we would like. In other words, despite the fact that apparently we are over-leveraged, we have taken very concrete steps to bring down this leverage ratio.

On slide 11, we present our general guidance for 2009 (inaudible) forecasting our results. The main changes in relation to the previous guidance (inaudible) revision with new levels of exchange rate, fuel prices. And maintenance (inaudible) fleet. The Company has revised its market growth and are (inaudible) to reflect the recent change in our network concerning some of these flights -- our flights to other mass markets.

We expect (inaudible) 28 million passengers with 40.5 billion ASKs and 24.5 billion RPKs. And we expect to close the year with a fleet of 108 aircraft. We are projecting an average fuel cost per liter of BRL1.5 for 2009. And we are estimating a nonfuel CASK of BRL9.97, partially due to the maintenance cost of returned [ph] aircraft and the lower aircraft utilization rate.

I just should mention when we are saying that our CASK ex-fuel would be BRL9.97 this year, we have still not taken into account the effect that would happen if we sent back the 13 planes because we have been conservative. In other words, if we would annualize the effect when we sent back the 13 planes, the CASK ex-fuel would come down by another (inaudible). Okay. Those were my remarks. I thank you. We are now available to take questions.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions) Your first question comes from the line of Nicolai Sebrell of Morgan Stanley.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Morning. Good morning, guys. First, could you talk a little bit about the debenture issue that you announced yesterday? Is this going to be in reals? Is it going to be in dollars? What's the maturity? And roughly, if you can give an estimate, what do you think it might cost? That's the first question.

Second question, if you could talk a little bit about yield performance, what you're seeing right now. The load factors, obviously, we've seen were down considerably year over year. What are you seeing yield so we might figure out what that means for RASK in the Second Quarter? Thank you.

A - Leonardo Pereira {BIO 1960081 <GO>}

I'll answer the first part of the question. Then I'll pass onto Junior. What we are announcing is a local current debenture that has a two-year maturity, final maturity, has a six-month grace period. And then 18 equal installments of amortization. The price is 126.5% of CDI [ph]. But we can repay, prepay at any time if we want.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

And talking about the yields, Nicolai, for the Second Quarter, we expected to see a slightly lower yield than we had in the First Quarter because the Second Quarter was probably the worst quarter in terms of revenue considering the (inaudible) effect. So that's the situation for the Second Quarter.

Regarding our load factor, we are really working to achieve a good revenue and improve our margins and results and not just looking for load factor but looking for better RASK. And we are seeing that our load factor probably will maintain on the level of 60% this Second Quarter of '09.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. That's helpful. Thank you.

Operator

Your next question comes from the line of Duane Pfennigwerth of Raymond James.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hi. Good morning. Just following up on the previous question, can you give us a sense for unit revenue growth or decline that you expect in the Second Quarter all in here?

A - Unidentified Speaker

Regarding the growth --

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

RASK.

A - Unidentified Speaker

-- Second Quarter last year?

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

No, Second Quarter RASK year to year, do you expect that to be up?

A - Unidentified Speaker

The RASK? Yes, probably we'll see a better RASK during this quarter. Last year, we had a tough environment where we saw (inaudible) competing in some markets. Now we have a much more rational network. And we'll collect probably the benefits of this (inaudible) covering all of these flights and the concentration on the main markets, the main markets in Brazil, like Sao Paolo, Rio, Brasilia. And Belo Horizonte. So considering that we expect better RASK (inaudible) this year than on the Second Quarter of last year.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. And in terms of the First Quarter, can you provide us any detail on the yields in international versus domestic?

A - Unidentified Speaker

Sorry, Duane, we do not -- we don't have here the numbers separately. But I can tell you that the yield under the mark to market was higher or better than the yields on the international market in South America. But I cannot tell you right now exactly how much.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. And excluding this financing that you're pursuing, where would cash be just from operations? Where would you expect your cash balance to be at the end of the Second Quarter?

A - Unidentified Speaker

(inaudible) very much another key step that we are addressing inside the Company. What I can assure you that we are going to start seeing cash steadily going up.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

I'm sorry. I didn't quite understand that. So cash burn in the Second Quarter ex-this financing, or --?

A - Unidentified Speaker

Our cash at the end of the Second Quarter will be up compared to the First Quarter. But I would not like to give a range because depends very much on some steps that we are taking that may produce results either in the Second Quarter or in the Third Quarter. Okay?

But I can -- as this BRL400 million comes in, as we have another BRL100 million (inaudible) after March 31st from the capital increase. And as we continue to generate cash from operations, the results are probably [ph] different. So in other words, we are on the right track to reach the BRL800 million by year end.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. And just lastly, I think Jim might have a question. What was your share count at the end of the March quarter? And what is that expected to be after the closing of your first financing here?

A - Unidentified Speaker

I'm sorry?

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Your diluted share count in March and at the end of the Second Quarter.

A - Unidentified Speaker

Share price?

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Share count -- how many shares are outstanding?

A - Unidentified Speaker

How many shares were outstanding?

A - Rodrigo Alves {BIO 16461207 <GO>}

No. The shares were not issued yet. You -- this is Rodrigo speaking. The shares were not issued yet because the capital increase is not fully completed. There's only a small amount left. It's less than I think 200,000 shares or something like this. But as we don't have the full capital increase finished, we will only be able to disclose all the figures by the end of the operation.

A - Unidentified Speaker

But we know across more (inaudible) let me give you our number. We know that this capital increase will increase the number of shares by 26 million shares. So if we add to this current level, which is in the press release of 203 million shares, we will have approximately 229 million shares outstanding.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Thank you. Jim, do you have a question?

Q - Jim Parker {BIO 1506864 <GO>}

Yes, I have questions. Good morning, Junior and Leo. This is Jim Parker. I wanted to ask you about the 767s, which you did address partially. You're saying that you got rid of one of them. And in return, you got a 737-800 or what was that?

A - Unidentified Speaker

Good morning, Jim. In this case, we returned a 767 (inaudible) to ILSC [ph]. And on this deal, we set -- we arranged -- we changed the 767 to a 737-800. But we still have six aircraft 767-300s between 200s and 300s, which we are still paying the average of $450,000 to $500,000 monthly.

Q - Jim Parker {BIO 1506864 <GO>}

And Junior, you indicated that maybe you have some sort of verbal agreement or letter of intent to move some of those airplanes. But here, that's been going on for the last couple of quarters that there was some verbal agreement to sell the airplanes. And they're not moving. And the market, of course, is very soft. I mean, is it likely that you will end up placing some more of those airplanes in the near future?

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

We are not just talking about the verbal agreement. But we have some (inaudible). We have been working – start [ph] to replace these aircraft considering the possibilities of (inaudible) or even early return to the lessors. But I really -- I would like to give you better news. But I cannot assure that we will replace these aircraft in a certain period of time. But we have now four LOIs [ph] already signing with a confidential agreement. But we have four LOIs (inaudible) but not with a timeframe to finish this news [ph].

Q - Jim Parker {BIO 1506864 <GO>}

Okay. You may have addressed this. But your return cost on the fleet transition away from 300s has been substantial. Are you about through with that? How much more going forward in the Second Quarter and for the rest of the year are we going to see in terms of return cost?

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Okay. We returned -- we did a return -- we grounded six aircraft during the First Quarter to return six 737-300s. And we still have another nine during this year to return between second, third. And Fourth Quarter. And we are extending something around $1 million and $1.2 million in each to return these aircraft plus the grounded situation where we have had our (inaudible) because these aircraft are not producing during this period.

Q - Jim Parker {BIO 1506864 <GO>}

Yes. So, Junior, after those nine, what happens? What about next year returning aircraft? Are you through with the transition?

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Yes, next year, as our fleet plan shows, we will see another nine aircraft from Boeing. And we'll return six or seven aircraft from (inaudible). But we will be talking about a newer aircraft than this 300 and probably with a lower cost.

Q - Jim Parker {BIO 1506864 <GO>}

Yes. Okay. Thanks very much.

Operator

Your next question comes from the line of Mike Linenberg of Bank of America/Merrill Lynch.

Q - Mike Linenberg {BIO 1504009 <GO>}

Yes. Two questions -- first off, there was no earnings per share or earnings per ADF [ph]. And I guess presumably that's because we don't have a final share count since you're in the midst of the capital increase. Is that correct?

A - Unidentified Speaker

Yes, because although as we said, most of the money has already come in. We still have a very small number of shares that are being finalized this week. So that's the reason why we didn't (inaudible).

For accounting purposes, you must keep the same amount of shares that you had the previous quarter. Okay? That's (inaudible) the operation was not finished.

Q - Mike Linenberg {BIO 1504009 <GO>}

Perfect. That's helpful. Then just my second question, can you talk about the ramp up of new service out of Santos Dumont, what you're seeing on bookings? And I'm not sure if you're actually competing directly with Azul in any markets as of yet. But there may be some competition. What you're seeing in that regard, that'd be great. Thanks.

A - Unidentified Speaker

Mike, all flights from Santos Dumont goes to Belo Horizonte and Brasilia and has some flights to (inaudible). So we start these flights two weeks ago. Things are going okay. But our flights from Galeao are still better than the flights from Santos Dumont. But so we are really seeing the ramp up in terms of load factor is increasing now. But we have a very strong period of strategics [ph] to really understand better how the market will react with the transference from Galeao to Santos Dumont. What is important to say that until now this change is not affecting our flights at Galeao Airport.

Q - Mike Linenberg {BIO 1504009 <GO>}

Okay. Okay. That's what I was going to ask if you were actually seeing some loss of passengers on your Galeao flights. As a follow up, what is the fare differential between the service out of Galeao versus the fares out of Santos Dumont? And again, I realize that you have a new entrant in the Santos Dumont market. Are they significantly lower? Any color on that would be great.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

No. It's quite the same. We are talking about airports with a distance of less than 20 minutes one from the other. So they are very close. And they compete between there. That means we keep quite the same fares from Galeao as you have from Santos Dumont to this market, not only from Galeao to Sao Paolo or Santos Dumont to Sao Paolo, where we have a (inaudible) with different fares.

Q - Mike Linenberg {BIO 1504009 <GO>}

Okay. Okay. Very good. Thank you, Junior.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Welcome, Michael.

Operator

Your next question comes from the line of Jamie Baker of JPMorgan.

Q - Jamie Baker {BIO 3406456 <GO>}

Yes. Good morning. And I apologize. It's a somewhat bad connection. This may be the same question that Jim Parker asked. If you succeed in disposing the remaining 767s at some reasonable point this year, how much of an improvement to the BRL9.97 CASK would you anticipate?

A - Unidentified Speaker

We are anticipating from the moment that we have success in returning those planes, our CASK ex-fuel would improve by BRL0.01 [ph].

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. I understand. And secondly, could you give us consolidated capacity for the remaining three quarters year over year % change or in actual ASKs? Either way would be helpful, how the remaining three quarters tie to the guidance for 40.5 I guess that's billion ASKs.

A - Unidentified Speaker

Just a minute, Jim. You're asking how much will come from the next three quarters?

Q - Jamie Baker {BIO 3406456 <GO>}

Yes. So Second Quarter ASKs, Third Quarter ASKs. And Fourth Quarter. We know they have to add up to about 40.5 billion I believe the figure is.

A - Unidentified Speaker

(inaudible) I'm just trying to find the right number to give you.

Q - Jamie Baker {BIO 3406456 <GO>}

Thank you.

A - Unidentified Speaker

And (inaudible). Okay. Let's do the following. Let's expect that during the Second Quarter we repeat the same level of ASK, in other words approximately 9.5 million and then let's say 10.7 million for the Third Quarter and 10.8 million for the last quarter.

Q - Jamie Baker {BIO 3406456 <GO>}

Okay. That's very helpful. Thank you, gentlemen.

Operator

Your next question comes from the like of Dan McGoey of Deutsche Bank.

Q - Dan McGoey {BIO 1539496 <GO>}

Morning, gentlemen. Question about costs -- nonfuel costs were better than expected in the First Quarter. One of the areas you say it's on was sales and marketing expenses. Can you give a little bit of an outlook as to where that came from and how sustainable that is? Then on the revised guidance for slightly higher nonfuel CASK, I think you talk about 5%. Given no changes to the assumptions on the FX rate, can you talk a little bit about where that increased cost assumption comes from?

A - Unidentified Speaker

Okay. Let's go first to the first part of your question, which is mention about selling expenses coming down, right? The main reason is that we have a review how the relationship with our sales agents. So that's the main reason why sales expenses came down. And I think we did that without any harm in front of our -- the relationship we have with them.

In the terms of going forward in the -- why we're projecting a slight increase is that we basically -- the reflection is in terms of because it's maintenance expenses that we make, programming (inaudible) as we send the planes back and also fuel prices.

Q - Dan McGoey {BIO 1539496 <GO>}

Okay. So quarterly maintenance that you'll incur in the Second Quarter and not likely to recoup with the younger average fleet age later on in the year.

A - Unidentified Speaker

I'm sorry. I thought you question was ex-fuel. Yes. We are still taking a conservative stance in terms of the schedule of the delivery of the planes that are now operational [ph].

Q - Dan McGoey {BIO 1539496 <GO>}

Okay. One other follow up if I may -- the April traffic results from (inaudible) just published yesterday, the RPKs for GOL were considerably weaker than its competitors or peers. Can you speak a little bit about why the RPK performance for GOL was so much weaker than its peers in April?

A - Unidentified Speaker

We have been managing our revenues in terms of achieving a good RASK, as I said. And we are very focused on the quality of revenue in terms of maintaining our margins, our operating margins and results. For instance, before we think about growth and show better results in terms of RASK, we have been rational in terms of offering more seats. And also, we have been rational in terms of managing our revenues. Soon as we have the possibility to do that and also achieve a better RASK or better RPK growth, we will do that. But now our focus is much more on the quality of revenues.

Q - Dan McGoey {BIO 1539496 <GO>}

Okay. Would you say that the competitors turned considerably more aggressive then in the month of April in terms of RASKs or yields?

A - Unidentified Speaker

Exactly. Exactly.

Q - Dan McGoey {BIO 1539496 <GO>}

Okay. Thank you.

Operator

Your next question comes from the line of Steve Trent of Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, gentlemen. Just two or three from me -- the first question is looking at the interline [ph] agreements you have with Air France-KLM, Continental, et cetera, do you anticipate any adjustments to those agreements now that Continental and Copa have announced that they're leaving SkyTeam?

A - Unidentified Speaker

Regarding the interline agreement, we have been keeping contact and developing our relationship with the major airlines (inaudible) and also improving that code shares we did with Air France-KLM and have also working and talking with another long-haul airlines to really (inaudible) them here in Brazil and also (inaudible). So other than that, we have been talking with a large number of airlines in North American and Europe specifically [ph].

(inaudible) I think your question is about any impacts, right?

Q - Steve Trent {BIO 5581382 <GO>}

Yes. That's exactly.

A - Unidentified Speaker

Well I don't think there will be an impact on the current agreement we have with Air France-KLM because (inaudible). That was your question, right?

Q - Steve Trent {BIO 5581382 <GO>}

Yes. Yes. That's perfect. Thank you. Then just two others from me -- second, do you have any update as to what is occurring with Continental's slot with Congonhas and any thoughts as to how you might proceed going forward at Congonhas with the slots apparently in place?

A - Unidentified Speaker

I'm sorry. Can you repeat your question? I'm sorry. The connection's not that good.

Q - Steve Trent {BIO 5581382 <GO>}

Sure. I was curious about if you have any updates with respect to Continental's slots at Congonhas Airport and how you're thinking about that strategically going forward as the slots, if I'm not mistaken, are still in place?

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Continental is under bankruptcy process. We have been following this (inaudible). But regarding their slots in Congonhas, the companies who are looking for the slots also will have to buy the company (inaudible) the company. And we are not considering any kind of acquisition or merger at this time. So we have been following this process. I cannot assure you when this will be finalized. So I don't know if I answered your question.

Q - Steve Trent {BIO 5581382 <GO>}

Yes, Junior. Thank you. That was what I was looking for. My final question is with regards -- maybe a simple one -- just looking at the IFRS accounting. If we look back at the First Quarter of 2008, the restated EBITDAR you gave is significantly higher than the U.S. GAAP EBITDAR that was originally reported. It looks like a fair bit of that is coming from miscellaneous operating expenses. But if you could just refresh my memory as to what basic adjustments you may have made to that line.

A - Unidentified Speaker

What we can say, we can (inaudible) disclose that in the (inaudible). But I think it's going to be a bit confusing if we go into that right now. Okay? But I got your question, which is why we have a higher EBITDAR in the First Quarter of '08, right, in IFRS? And we will address that in our Q&A session.

Q - Steve Trent {BIO 5581382 <GO>}

Okay. Thanks very much, guys.

Operator

Your next question comes from the line of Luiz Campos of Credit Suisse.

Q - Luiz Campos {BIO 17409443 <GO>}

My question has been answered. Thank you.

Operator

Luiz Campos, Credit Suisse, please state your question.

Q - Luiz Campos {BIO 17409443 <GO>}

Hello. My question has been answered.

Operator

Your next question comes from the line of Victor Mizusaki of Itau.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good morning. I'd like to confirm if you had a (inaudible) replacement of BRL400 million. And (inaudible) confirm if you (inaudible) maintenance cost, you mentioned in your press release that you had BRL88 million of nonrecurring expense, that if you exclude this amount, the new maintenance expense should be BRL35 million, which seems very low. So I'd like to know what is (inaudible).

A - Unidentified Speaker

(inaudible) could you repeat the (inaudible)?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. My first question if you have a guarantee for the debentures placement. Okay? And my second question is in regards to the maintenance cost. You mentioned in the press release that you had BRL88 million of non-recurrent expense. If you make the adjustment, the new maintenance expense should be BRL35 million. This level seems to be very low if you compare to the historical average. So what can we expect going forward for these maintenance expense?

A - Unidentified Speaker

Victor, we (inaudible) your second question.

The first question I think I understood. You're asking about the guarantee for the local currency issues. That's correct?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Yes.

A - Unidentified Speaker

Yes. It's partially guaranteed by receivables, partially. Okay. The second question was related to maintenance, right?

Q - Victor Mizusaki {BIO 4087162 <GO>}

That's it.

A - Unidentified Speaker

And are you asking about the BRL88 million? And if we exclude this BRL88 million from the expense line, (inaudible) come down to a very low level. That's what you're saying?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Yes. You're right.

A - Unidentified Speaker

Victor, in the maintenance cost, on this BRL88 million, we have a higher concentration of shop visits, engine shop visits, during the First Quarter, larger than we would expect. During the 2009, we will see a very high number of engines that we will do maintenance. But we had during this First Quarter a higher concentration than we were previous receiving [ph]. That means we bring some engines from the Fourth Quarter to the First Quarter. And also, we had -- we lost two engines from the bird strike that we were not expected. And that creates a situation where we spend much more with engines and also the aircraft returnings [ph].

And considering that the residual cost, the cost out of this BRL88 million goes down. But that we are situation where we are considering the maintenance (inaudible) the return maintenance for the 737-300s and also considering that we will not have this kind of concentration of engine shop visits for the next quarter.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Bob McAdoo of Avondale Partners.

Q - Bob McAdoo {BIO 1881798 <GO>}

Hello. I have two or three questions relating to the other income and expense lines for the current quarter, from the First Quarter. First one is -- going from Fourth Quarter '08 until First Quarter '09, what you refer to as interest revenue, it jumps from negative BRL1,258 million to approximately BRL73 million. Can you explain what happened there?

A - Unidentified Speaker

Yes. The BRL73 million is related to the hedge gains. What we did to better explain this in the press release, we separated the hedge gains and losses in the financial expenses. Also, to see all the effects from the hedging operations, we opened [ph] a hedge section in the press release. I think this will explain. So the net result of BRL29 million negative effect. But however, you have gains and losses. The losses are booked on the other expenses and the gains in the interest revenue. Is that it?

Q - Bob McAdoo {BIO 1881798 <GO>}

And these hedge gains and losses are on currency hedges or fuel hedges?

A - Unidentified Speaker

It's currency, fuel. And interest.

If you go to the press release, on page (inaudible) and then we give a breakdown of what's fuel and what's currency and what's interest. If you go to the press release on page --

Page 10, I think, 10 and 11. You have net financial result. And you have --

Yes. It starts on page nine, income from hedge operations. Then you'll be able to see this breakdown of what comes from fuel, what comes from currency. And what comes from interest rates.

Q - Bob McAdoo {BIO 1881798 <GO>}

Okay. Let me study that. And if I have further questions, I'll just give you a call. Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Steve Trent of Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, guys. Just one more from me that I'd forgotten to ask before as a follow up, I noticed on page ten of your release you give some color on your fuel hedge position. I was wondering if you could tell us at approximately what strike prices you're hedged at.

A - Unidentified Speaker

It's around $64 per barrel.

Q - Steve Trent {BIO 5581382 <GO>}

Okay. Great. That's it for me.

A - Unidentified Speaker

Going forward.

Q - Steve Trent {BIO 5581382 <GO>}

Perfect. Thanks again, guys.

Operator

This concludes the question and answer section. At this time, I would like the turn back to Mr. Constantino de Oliveira Junior for any closing remarks.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Thank you. I would like to thank you very much for your attention and to be with us during this morning. Thank you.

Operator

Thank you. This concludes today's GOL conference call. You may now disconnect your lines.