Q1 2011 Earnings Call

Company Participants

- Constantino de Oliveira Junior, CEO
- Leonardo Pereira, CFO
- Rodrigo Alves, Planning Officer
- Unidentified Speaker, Unknown

Other Participants

- Augusto Ensiki, Analyst
- Caio Dias, Analyst
- Eduardo Couto, Analyst
- Jim Parker, Analyst
- Luciano Campos, Analyst
- Pedro Mizusaki, Analyst
- Ray Nigel, Analyst
- Richa Talwar, Analyst
- Steve Trent, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to GOL Airlines First Quarter 2011 results conference call. Today with us we have Mr. Constantino de Oliveira Junior, CEO; Mr. Leonardo Pereira, CFO; Mr. Rodrigo Alves, Planning Officer; and Mr. Edmar Lopes, Capital Markets Officer.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the Company's presentation. After GOL's remarks, there will be a question-and-answer session for analysts. 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 and the presentation is available for download at the website. Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996.

FINAL
Bloomberg Transcript

Forward-looking statements are based on the beliefs and assumptions of GOL 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 will turn the conference over to the CEO and founder, Mr. Constantino Oliveira, who will begin the presentation. Mr. Oliveira, you may begin your conference, sir.

Constantino de Oliveira Junior {BIO 16843720 <GO>}

Thank you. Good morning, everyone. And thank you for joining our First Quarter 2011 results conference call.

Let's begin with slide five, which lists GOL's competitive advantages. Once again underlining the Company's strategy of focusing on the domestic market, where it has a dominant position in the leading airports, including Congonhas in Sao Paulo, the biggest in the country.

Given that air traffic and GDP are still concentrated in the southeast this factor has played a crucial role in the Company's success. Thanks to its low-cost DNA and the fact that 96% of GOL's flights last less than three hours plus its outstanding punctuality, regularity, frequency and safety indicators, as well as its innovative nature. So it's going to prepare than anyone or any other airline to receive the growing middle class, as well as the sections of the population that have never flown before, or who do so infrequently.

In slide seven is to give more details of the Company's potential scenario. As you can see, the middle class has grown by 33% in the last seven years incorporating nearly 5 million people in the new consumption habits [ph]. Together with the creation of more registered jobs this has led to a big increase in consumer confidence over the last few years. It is this cycle in the Company's growth has included Brazilians' consumption contributing to the strong surge in demand for air transport, which is now in third place in the list of middle-class (inaudible) intentions.

Speaking of increasing demand in the aviation sector, on slide number 8 we compare those with -- those in Brazil with other regions around the world. As you can see in recent years Brazil has recorded the second biggest upscale in demand behind China despite our infrastructure problems. And GOL has made a major contribution to this growth trajectory with its low-cost and low-fare model. And you have to pay attention that we still have one of the lowest aircraft embankment in the market, in the world.

This scenario in the last year you can see that demand and the Company's load factor has recorded strong growth both year-on-year and quarter-over-quarter terms. The point you have to pay attention here is oil prices, which have been moving up since February. GOL (inaudible) mechanism for dealing with such issues, the financial and risk-policy

FINAL
Bloomberg Transcript

FINAL

committees constantly monitor and assess the retention [ph] of hedge policies and their impact on the Company's cash position. And have been working together with management to anticipate the necessary measures should the growing scenario remain.

On slide 10, moving to slide 10, shows the "GOL Effect" in -- on the sector, where you can see that demand has grown substantially since GOL's inception, thanks to its revolutionary impact on Brazil's aviation market by offering competitive fare, pioneering the use of paperless tickets, selling tickets online -- currently, 94% of GOL's tickets are sold through its website, giving countless numbers of Brazilians the chance to fly for the first time.

To date we have transported more than 160 million passengers and we have a potential market of further 140 million. As a result, for the first time ever air traffic will have surpassed interstate bus as you can see on slide 11. And the Company has been doing everything possible to facilitate access to tickets.

This quarter, we inaugurated a new sales channel as part of our strategy encouraging the use of air travel by the Brazil's emerging middle class. By opening three kiosks called VOE GOL -- that means fly GOL -- in Itaquera, Se and Luz subway stations and new stall in the shopping malls in (inaudible), all of which instead of Sao Paulo.

Strategically located, the new points, say, are run by GOL employees who have been specially trained to meet the profile of people who pass through these locations. Members of the public cannot only buy tickets but they can also change or confirm a reservation and clear up any doubts about how can they buy a ticket or understand their travel industry.

Bloomberg Transcript

The result of this demand increase in the industry can be seen on slide 12, where we observe the strong demand and load factor growth year over year. GOL was the Company that showed the greatest increase in load factor in the industry while resulted in a 9% increase in demand.

On slide 13, you can monitor the efficiency of the main airlines in the country in the First Quarter 2010 compared with the First Quarter of this year. GOL again stood out as the only company in the industry to increase its market share reducing its seat share between the comparison on an annual and quarterly basis. This is a result of the Company's disciplinary strategy of adding capacity to maximize its operating results.

Moving on now to slide 15, where you can get an idea of GOL's plans for 2011. As a low-cost company with -- whose track record in market -- by various pioneering market initiatives. It will be moving ahead with its strategy of focusing on efficiency, profitability, cost reductions and the development of ancillary revenues maintaining its growth plan. Aircraft productivity moving up from 13 to 13.3 clocked hours per day this quarter and in March the Company disclosed a new phase of its operating cost reductions -- (inaudible) and operational synergy gains which should result in savings of BRL45 million by year-end.

Our cargo division GOLLOG also did extremely well, recording growth of 17.5% over first Q 2010 and making an increasing contribution to ancillary revenues.

FINAL

On slide 16, we have another view of the Company's initiatives to pursue its strategy to be a low-cost company focusing on efficiencies and profitability. We have dedicated and skilled professionals for planning, monitoring and implementing the day-to-day operations of GOL.

The Company works with constant monitoring of the (inaudible) market. But also in cost reduction, innovation. And strengthening its balance sheet, which GOL believes to be a part of initiatives for a complex industry with its risks.

The Company focus is to strengthen its DNA and its competitive advantages. And finally, before giving the floor to Leonardo, I would just like to emphasize or re-emphasize GOL's determination to gain further recognition and become even more competitive.

In other words, to be the best airlines to travel with, work and invest in. I firmly believe that with the help of our more than 18,000 employees, the team of eagles, who are doing everything possible to ensure that we continue as one of the most profitable and rapidly growing airlines in the world. GOL will continue to generate positive and increasing results.

Once again, I would like to thank them all for their dedication through all of this time. Thank you, very much and I now hand over the floor to Leonardo, who will comment on our results and strategy in more details. Please, Leonardo.

Leonardo Pereira {BIO 1960081 <GO>}

Thank you, very much, Constantino. Good morning, everyone. It's a pleasure to be here. Before I start discussing the results of the quarter, I would just like to make a note on the one-off adjustment that we made in the quarter.

As we have disclosed earlier, this one-off (inaudible) substantially due to the implementation of our new revenue accounting system with (inaudible) operations in the balance of the Company advance ticket sales as well as the expense related to new system and deactivation of the previous one.

This adjustment in my view, just demonstrate our constant efforts to (inaudible) information consistence and with a -- much more strength to continue growing, mainly (inaudible) that we had in the last few years developed -- start developing a GOL alliance company and this will certainly make this move much easier and much more efficient for us.

Given of course the nonrecurring nature of these expenses, we as managers have recommended to the Board that this should not be considered when calculating dividends for the fiscal year of 2011.

Now, going to slide 18, where we summarize the results of the quarter. I just would like to say a couple of things. First, the Company once again reduced the CASK ex-fuel which stands at BRL8.7, 1.6% down and the BRL8.85 reported in the First Quarter '10.

Bloomberg Transcript

The decline was due to a 2% increase in the flight utilization rate 13.3 plus hours which contribute to a 6.4% up in capacity, diluting (inaudible) cost. And the 35.6 reduction in CASK for maintenance and 19.6 reduction in CASK from aircraft leasing [ph].

Moving to slide 19, our highlights here, again I would like to -- I would like to point to our RASK, on CASK, Spread continues to be (inaudible) positive. We obtain as a consequence of revenue EBIT margin of 10.2%, although it's down from the First Quarter of '10 and it reflects very strong fundamentals.

Just to give you a quick number and most of you probably have already done this calculation. But if we compare what we had budgeted for fuel expenses in the last quarter of last year and had this fuel increase not occurred, our EBIT margin in this quarter, will have been close to 14%, between 14% and 15%.

So, that demonstrates that we have this fuel factor but -- that we have to work on. And we have started already working on being more efficient but the fundamentals of the Company remain extremely solid.

EBITDAR has totaled BRL411 million (inaudible) with an EBITDAR margin of close to 23%. And now the CASK increased by 4% over the First Quarter of '10 mainly as a result of a higher cost from wages, salaries and benefits in fuel and negotiation.

However, again, some valuation of unit costs when compared to the normal [ph] evaluations due to the Company's increased productivity, which I had mentioned before, due to higher aircraft utilization rates.

Moving to slide 10 (sic), I just would like to highlight again this will continue (inaudible) committed to further leverage our balance sheet, because that is what we believe. And we continue to have the no re-financing risks 2015 we have very high cash balances.

We continue working to extend the profile of our debts. And so in other words, we are extremely resilient in terms of the quality of our balance sheet.

If you look at our short-term debt. And how this cash covers the short-term debt, we have a 5.9 times coverage and also if you look at our EBITDAR interest expense, it is over four times.

On slide 21, this is just a summary of our amortization schedule, which as I have mentioned, is very clearly a low-risk one, with only -- with a little more amortization in 2015.

One slide 22, we have made some changes in our hedge strategy mainly related to the fuel hedge. We have decided that because of the reality of the market, we should be more active here.

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

So, we have -- we are extending this coverage of the fuel hedge up to 36 months and today as of the date, we have close to 40% of the consumption for the next 12 months covered and close to 20% of the next 24 months covered and 12% of the coverage for the next 36 months.

So, we have a very clear (inaudible) that we will take opportunity of in order to increase this hedge ratio and we can go up to 60% for the consumption for the next 12 months.

In other words, we believe that the real has changed and we have to adequate our OpEx [ph]. In terms of the FX hedge, we have 30% of our expenses in foreign currency for the next 12 months covered. We also have triggers in place.

In other words, if the real goes down to 1.65, 1.55 and 1.45 we will increase this position and lastly but not least important, we have close to 90% of our airlines finance lease under fixed rates for the next 12 months and those interest rates are below 4%.

So from -- so if you look from at least management point of view, we have been very observant and very responsive vis-a-vis what is happening in the marketplace.

Looking at the future, we have some recent developments that I feel that are very important. We have a joint MRO operation with Delta Airlines which we provide Delta -- we also provide consulting services in regard to maintenance we have (inaudible) optimization and (inaudible) supports.

We are sending 46% of the engines to Delta TechOps and there will be a transfer of know how between ourselves and Delta TechOps which we expect that will give us FAA parts specification in the next 18 months to 24 months. And this will have a very positive impact in our re-delivery costs.

On another note, we continue taking measures in terms of costs. We have discontinued 1,100 positions in this First Quarter which will generate an economy of $30 million on an annualized basis. We have decided to stop flying the 767s. We have sent back already two 767s with a savings of $12 million a year.

And we continue being very uptick in how we manage our net worth. In other words, we are focusing on profitability and we will be less tolerant to routes that are not generating the returns that are necessary.

If you can turn to slide 25, we just reaffirm what as mentioned our strategy is very clear and as I have seen some analyst mention this morning, it's been latent demand with a very strong balance sheet and very much focus on profitability in the future. We have a young fleet, affiliate fleet and this certainly is the first additional benefit mainly if we have an environment that's generating some external stress.

We have committed to keep our cash balance high and be very active and proactive in how we are going to be managing costs going forward.

FINAL

Bloomberg Transcript

So those were my comments and now we are open for questions.

I'm sorry, I have one last comment that I missed and which we can just collectively go on, which we will make. We have reviewed our guidance for this year as a result of our new level of fuel price. We believe that the units will be adjusting itself.

We don't know how long it will take so we rather be cautious at this stage, as Constantino has mentioned, we have been very prudent in how we are managing our capacity. Just because we want -- we believe that even under stress the airline can still make money but we have to be very careful on how we manage capacity.

We had space to have higher load factors in this year but we have to be careful in how we add more seats. Under this scenario we have reviewed the guidance, we are working much higher oil prices and because we don't know how long we'll take for the new projects. But I think we can talk more about this in the Q-and-A part, thank you.

Questions And Answers

Operator

(Operator Instruction). Jim Parker, Raymond James.

Q - Jim Parker {BIO 1506864 <GO>}

I want to ask about the 767s in a little more detail. Your least expense is $36 million per year on those six aircraft. Leo, would you clarify that you said something about saving $12 million, what is the status of those aircraft?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, because we have -- Jim, as you have all read that two of the six what is on the table at this stage is $12 million. Which is one-third of the $36 million that we mentioned. We continue on having negotiations with them on the remaining four back but at this stage is the $12 million that are on the table.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. So you have four that you have yet to place?

A - Leonardo Pereira {BIO 1960081 <GO>}

Exactly.

Q - Jim Parker {BIO 1506864 <GO>}

What are the prospects for placing those four?

A - Leonardo Pereira {BIO 1960081 <GO>}

FINAL

Bloomberg Transcript

For placing these four?

Q - Jim Parker {BIO 1506864 <GO>}

The prospects, the likelihood that you will be able to do that?

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, Jim, I am an optimist but you know me, I am not going to give up these (inaudible) it takes some time normally than we believe. So what I can say that we are very committed internally and we have very clear objectives, here in the fleet department to send them back. So we have another negotiations at the moment that we give up this they have -- we'll be under unnecessary pressure in the negotiations. So the important thing is that we have made the decision that we are not using the 767s for charter operations like we did last year because of the new fuel price level. And we have been working and this is a complete air fleet.

Q - Jim Parker {BIO 1506864 <GO>}

Okay, I have a question for Junior. You raised your guidance regarding fuel prices considerably. But you did not increase your guidance on yield and of course we're seeing around the world, particularly in the US and Europe, that airlines are moving fares up considerably to offset oil but it doesn't appear to be the case in the domestic market in Brazil. My question to you Junior is why are you not leading to raise fares?

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

Usually, Jim, I agree with you once you have a pressure like oil price rise and FX that create a structural damage in the cost. The natural is to assume -- the natural hedge is to assume that we will be able to pass these over the fares but what we are looking now in the markets and even with GOL with 38% market share we assume that there is a lot of competitors with disposal to -- or even burn cash to buy market share, to maintain market share.

And we have been working to achieve a better market efficiency to date. And looking for the opportunity to even increase fare. I agree with you its tough for us. I cannot tell you that we are able to lead this movement. If you see the numbers for the previous quarter probably you can see on the historical terms that growth has been leading that, our yield has been higher than our industry competitors.

We have been able even to achieve better RASK in some quarters but if you look our yields we have been very conservative in this trend. And we will keep our (inaudible) on profitability. But I cannot assume that on a guidance that the competitors will change their mind or will change the way they are looking or buying the market. So we are, I agree with you, I think that we have been conservative and I think that this adjustment sooner or later will come but we didn't put that on our guidance because as Leonardo said about the 767s its difficult for us to put a date and be prepare to over deliver them (inaudible).

Q - Jim Parker {BIO 1506864 <GO>}

FINAL

All right that's fine thank you.

A - Leonardo Pereira {BIO 1960081 <GO>}

Jim, just to complete, you can see the numbers on the presentation on slide 12, you can see that we have been very conservative also in terms of adding demand or adding capacity to the market. And the industry grew added capacity on a level of 14.4% we did just 5.1% that's one measure of how conservative we've been about the possibility to generate better revenues and even be more positive during these tough years.

Operator

Augusto Ensiki, Morgan Stanley,

Q - Augusto Ensiki {BIO 15988025 <GO>}

Just a couple more questions following on the guidance. In your new operating guidance of 6.5% to 10%, for the First Quarter, are you considering your -- the adjusted 10% or the reported 4%? And then second to that, in the CASK ex-fuel guidance, which also came down, how much of that is due to FX and how much of that is from other cost savings? Thanks.

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

Okay. Mainly regarding your first question, it's definitely 10%. As we mentioned, our -- as Leo has mentioned, had recommend the Board because those were not -- were non-cash and very specific that we have -- this should not -- they should not count for dividend payment for the Fiscal Year 2011. So when we are giving our guidance and all our numbers going forward, it is considering the adjusted EBIT margin.

On the CASK ex-fuel, there is a small component that comes from the fact that most of this is because of review of profits that we considered in general -- and --

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. So FX is minimal.

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

Okay.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay, FX is minimal then in the CASK ex-fuel?

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

And the results that make -- I think that we have mentioned, for example, they didn't deliver us the 767s the fact that we discontinued 1,100 positions in markets that we had discontinued routes that are not profitable. We have been very active in how we manage

Bloomberg Transcript

FINAL

our network and been -- and fly more because they monitored -- instead of flying 13 hours, we fly 14 hours. We are diluting our fixed cost in a much more efficient way. So the number of flight hours, it will go up.

Q - Augusto Ensiki {BIO 15988025 <GO>}

That's great. Thank you, very much.

Operator

Michael Linenberg, Deutsche Bank.

Q - Richa Talwar {BIO 17123496 <GO>}

This is actually Richa Talwar filling in for Mike. My first question is it looks like from your schedule that you are actually pulling out of the Bogota, Colombia to Sao Paulo route. And we were wondering what might be driving that decision as we would expect that to be a successful route for you. If you could just give us a little bit more color like does it have to do with too much aggressive competition for maybe (inaudible) or TAM or any elaboration on this point would be helpful. Thanks.

A - Leonardo Pereira {BIO 1960081 <GO>}

This is very much an example for what we have discussed recently. We are very competitive in flights under three hours. That should be our focus. And if the C-12, for a reason or another, is not giving us the return that we need, we have to -- we should not be shy in making difficult decisions.

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

Adding to that, that Bogota, due to the altitude, offers a lot of restrictions, of operational restriction to the 737-800s. And with this (inaudible) as Leo said and with these restrictions, we decide that it's a better choice for us to replace this aircraft on the domestic market at this time.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. Thanks, that's all I have. Thank you.

Operator

Eduardo Couto, Goldman Sachs.

Q - Eduardo Couto {BIO 15918458 <GO>}

I have a more strategic question. You know when we look our -- your numbers it's clear that demand is surpassing your capacity additions. So my question is basically looking for the next one or two years, do you see room for additional load factor gains or there is a maximum load factor that you have on the top of your mind?

Bloomberg Transcript

FINAL

And based on that is the Company considering any revision on the fleet plan, an upward revision or maybe high yields [ph] to try to take advantage of these higher load factor. So if you could talk a little bit about that it's basically this is stronger demand growth versus your capacity addition, how this is going to impact the Company in the coming quarters?

A - Leonardo Pereira {BIO 1960081 <GO>}

Well, I will start on (inaudible). Eduardo, I believe that the demographic of Brazil are changing and will continue to change. We do have stake for high load (inaudible). We have to be very cautious in how we add capacity because we have to -- we are taking a very clear point that we believe the effect -- has to make money, we are focusing on profitability.

So we have replaced our smaller planes by bigger planes. But before adding new planes, we have to make sure that we -- our planes are efficient that are flying the hours that we can fly. If we can fly more hours per day, we can be more efficient in how we manage the network. So -- and this is a very clear example what we had shown in the quarter.

We have to invest, add 15% of capacity and we added 5%. So in the cumulative -- the difference in the load factor between the First Quarter of 2011 and the First Quarter of '10 we have grown more than anyone on a percentage basis among classes. And so we believe there is space and we believe that we should all manage capacity accordingly.

We don't want necessarily to have higher fares. We are committed to make air traffic popular in Brazil. This is clear -- a very important, major portfolio as a Brazilian corporation because of the distances and the geography of Brazil plus before making a decision of bringing more planes, which we can easily make, we have to work on how we manage more clients.

Q - Eduardo Couto {BIO 15918458 <GO>}

So Leo, if you don't think that you are in the point that your load factor is so high that it's starting to impact your operations or in a certain way that you are losing clients or market share because of this high load factor? Do you still think that you can still raise load factor and based on that you don't need to revise your fleet plan at this point? Is that your view?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes that is actually the point. And I am again -- I see our self in two years, I'd probably say that you are right. Let's say because you remember the swing factor that exists in the demographics of Brazil. You have much more thrust South-North and North-South. But this is also changed.

You have an emerging middle-class in the northern parts of Brazil, you have more people start flying East-West. And so this is exactly the changes that Brazil is going through. So the demographic will change. So the -- an explanation that was valid three years ago is now -- probably is not as valid as it used to be. We cannot work with a load factor of 80% of the sales. But we can -- I think we will probably work with load factors of between 70% and 75%. This was not the case of three or four years ago.

Bloomberg Transcript

FINAL

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay.

Operator

Ray Nigel, Maxim Group.

Q - Ray Nigel

Just some general things, some things you touched in your presentation. I was looking at your page 27, your guidance. And I might have missed it. But I don't see any estimate in there for what the Brazil inflation might be, going forward.

And from what I understand, inflation is picking up which is probably causing some of your cost problems. And the central bank there seems to be tightening and is that why that you are thinking that the economy -- economic growth might be a little bit slower than previously thought?

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

Yes, that's a very good point that you are raising. That's one of the reasons when -- that when we gave the guidance in terms of the (inaudible) growth at the end of last -- or beginning of this year we were talking about 4%-5%. And the economy was still growing at 7.5%. So you are totally right. There is a tighter control from the central bank. There is a high inflation this year and that we may have -- we will certainly have a scale down in the economic activities.

Q - Ray Nigel

Okay. Great. Another thing, talking to some people down there is they are saying that some of the airlines in Brazil -- I know you mentioned in your slides here. But the yield management systems aren't up to par to what they should be as far as differentiating the different classes of pricing. Now that you are doing some work with Delta, is there a chance that you might upgrade your yield management system by working with some of the big airlines of North America, in this case, Delta in particular?

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

Look, we have been (inaudible) mentioned this is not only against Delta. But against other low cost airlines. I believe that we are becoming more and more efficient and very proactive of how we do this. We all know that yield management is a difficult factor for any airline and mainly for a low-cost airline like ourselves. So, I agree with you and might continue doing this type of benchmarking aside and enhance how we do this.

Q - Ray Nigel

Okay, good. So a lot of progress can be made in that area, you think?

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

Bloomberg Transcript

Look, if I go in the (inaudible) talk more about the strategies (inaudible) how we do the management. But what I think it's very clear, if you look today and if you look two years back that we have been very consistent and very rapid in reacting to change in the marketplace and how we position our tariffs, for example for people who plan this in advance vis-a-vis people who make last-minute decisions.

Q - Ray Nigel

Okay, great, kind of connecting with that, have you felt much pressure from the rapid expansion of the (inaudible) yet?

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

Look, I believe that this market is a big market. It has space for everyone. What we definitely believe is that all companies should be very cautious about how they manage capacity and all companies, all big companies, this market should be public because we should all be able to share information and compare notes and giving directors a very clear transparent scenario.

A - Unidentified Speaker

(inaudible) I would add that the competition keeps the (inaudible) stimulation and bring newcomers or new passengers to the market, what is good, the benefit of competition.

Q - Ray Nigel

Okay, great, yes that makes sense. The last thing is, I did see in some news reports, I don't know if you talked about it before on the conference call that you're going to acquire TAP [ph]. I mean, is there anything to that and where do those reports come from?

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

Look, there is no reason for this report. I can assure you that there is no benefit at all that I know.

Q - Ray Nigel

Okay, great, thanks a lot.

Operator

Steve Trent, Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

I would just like to follow up with a previous question on the revised 2011 guidance that includes this quarter's nonrecurring charges. If that's the case, what would be the contribution to the EBIT margin from that event from the BRL120 million charge, would it be like a 1%, 1.5%, etc?

FINAL
Bloomberg Transcript

FINAL

A - Rodrigo Alves {BIO 16461207 <GO>}

This is Rodrigo speaking. I'm not sure about the question but first we are considering the 10% margin for the quarter to be included in the guidance. What was the second part?

Q - Steve Trent {BIO 5581382 <GO>}

Yes. So the -- how much did the nonrecurring charge have effect on that margin? Was it significant for the margin revision -- guidance revision?

A - Rodrigo Alves {BIO 16461207 <GO>}

No, it's not part of the guidance revision and, in fact, you can see in the last page -- I think at page 20 of the revision, we have a reconciliation.

A - Unidentified Speaker

(inaudible) the cost.

A - Rodrigo Alves {BIO 16461207 <GO>}

Yes, the cost initiative is right. That's what you are mentioning. I think that those costs initiatives, they will be fully visible in 2012. So, for this year, our guidance is taking into account. But it has a very small impact the initiatives (inaudible) due to the cost reduction of a more efficient and general process and the reason is we have the 767 they will be fully (inaudible) next year.

Q - Steve Trent {BIO 5581382 <GO>}

Okay, thank you and just another quick question, would you have any color on how advanced bookings are trending now versus six months ago now with how high your fuel will -- etc?

A - Leonardo Pereira {BIO 1960081 <GO>}

We usually don't disclose that. But what I can -(inaudible) I don't know if you had a chance to see the 8 o'clock numbers that we just issued this morning, it's still demand, I think is very strong. In April, the demand was 14% increase year-on-year and both in the system and in the domestic market.

So, still we are seeing a market that is strong, even if we consider -- and this is just one thing that is coming to my mind now, if we consider -- even if we consider a slower economy and some people may (inaudible) we still are seeing an economy that is growing at 4% and an economy that people when they move to the plane, they will hardly go back to the bus.

Q - Steve Trent {BIO 5581382 <GO>}

Okay, great, thank you.

Operator

Bloomberg Transcript

Caio Dias, Santander.

Q - Caio Dias {BIO 21849043 <GO>}

My first question is related to the hedging strategy. I had connection problem so I couldn't hear your discussion on slide 22. So I actually have two questions on the hedging. First is, we were forgetting a hedging gain during the quarter and we reported a hedging loss at the financial level. I couldn't find in the release the disclosure on these losses. Could you please give us an explanation for the hedging loss?

And the second question is how do we conciliate this 38% you show in the table within the box with the 23% of the next 12 months? So I admit I didn't understand the difference between these two exposure levels.

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, let me just answer this question quickly and then I will pass to Rodrigo. The 23% is the provision that we had at the beginning of the quarter in 2011. And I am sorry, that was not clear. And the 38% depreciation that we have is up-to-date, okay?

Q - Caio Dias {BIO 21849043 <GO>}

Okay.

A - Leonardo Pereira {BIO 1960081 <GO>}

And the more (inaudible) because we have increased our positions, the shift from 23% to 38% happened -- occur in March and that's in order to be increase the exposure, we have to spend -- unfortunately, we have to spend some money.

A - Rodrigo Alves {BIO 16461207 <GO>}

Caio, let me give you some help on the hedging accounting, because if it is, as a matter of fact, continued -- more difficult to understand, we both as of now in our OCI -- so it is not in our First Quarter results, BRL33 million of positives income in our (inaudible).

So, it is a result to be recognized over the next quarter and we lost, typically, for this quarter, BRL4.4 million. And we reconcile that in our press release. And then the expense that appears on the P&L is what -- is exactly what Leo said. You spend money during this specific quarter in addition to the hedge loss, because our policy is to buy options and we don't use more sophisticated derivates such as a zero-cost (inaudible). And so you have the expense now and you don't worry about it in the future.

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. And just to complement the (inaudible) it is BRL4.4 million in expense in the WTI car because of what they did (inaudible) and there is a loss in their effect of (inaudible) because this is going to ensure the result but the real continuity is strengthened in the quarter. So as a consequence our MT -- market-to-market was negative.

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

A - Unidentified Speaker

Positive.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. So, in general, for the fuel hedging, we could say that the loss is related to the fact that you changed your exposure, right?

A - Leonardo Pereira {BIO 1960081 <GO>}

Exactly so --

Q - Caio Dias {BIO 21849043 <GO>}

So you had to pay that --

A - Leonardo Pereira {BIO 1960081 <GO>}

But if you look at -- and if you look at the market-to-market, the OCI in a way reflects that. This is highly positive because it has a positive impact on the market of the end of the quarter of over BRL30 million in the WTI.

If you look on page 12 of the press release, we see that the loss incurred in the quarter was mostly because of the FX position.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. And I have one more question on the -- again on the guidance -- on the operating margin guidance. You guys already boasted a 10% operating margin in a quarter that we had very high oil -- jet fuel price. And you are guiding that this is the top of your range.

And you also mentioned during the conference call that there is a chance price will go up in order to compensate for the jet fuel though you are guiding the same yields you had in the previous guidance. But anyway. So can we say that the 6.5% is too conservative and 10% is a more likely scenario?

A - Rodrigo Alves {BIO 16461207 <GO>}

Let's put it this way. First of all, it is important to remind that our results usually look like as a tick mark, right? So you have the best -- second best quarter is usually the first, the best quarter as a whole -- of the whole year is the fourth, the second is the low season and the third is in between the two.

So in this sense, we don't think that we are being too conservative because if you don't have certain -- something there with capacity in the whole industry, you will have to work on our yields expected which is from 19.5% up to 21%. This is what we are guiding as what we expect will be clear with market situation, with the clearance capacity being added in the market as a whole.

If you consider that we are in a range that I (inaudible). If you want to consider that the market will best pricing through or yields will stretch above 21%, then I think you can move to the top of the guidance or even view it backwards [ph]. But you cannot consider that the industry will take out capacity without any announcement from the industry.

A - Leonardo Pereira {BIO 1960081 <GO>}

And price, just to complement what Rodrigo is saying, let's not forget again reminding everyone that the Second Quarter is traditionally historically a weak quarter. So if you have this threshold from that fuel and the oil extremes at the -- the industry is still adjusting itself we have to be cautious here, right?

And again. And let's just remind that we have been working on the capacity that it needs to have increased capacity in the First Quarter by close to 15% and we have only increased capacity by 5%, then you want to be more efficient we will be flying more hours. So the fundamentals of the Company [ph] are here and will continue here. But we have a quarter that is as tradition a very soft quarter.

Again, I don't know if you heard my comments. But in the First Quarter, if you had used the fuel levels that we had budgeted at the end of last year, our EBIT margin would have been close to -- between 14% and 15%. And this is the new calculation that even if you don't -- not know what we have guided, you can make this calculation. So we had a very good First Quarter. But we are probably going to have a Second Quarter which is going to be a quarter that we will not like, despite the fact that our assets (inaudible) of managing capacity, also of reducing cost.

A - Rodrigo Alves {BIO 16461207 <GO>}

To complete what Leo said, if you consider EBIT margin, right -- but I think that it is important to look to EPS. Last year, we saw a lot of reports commenting about our EPS being below market expectation based on an FX suspension. Probably this year, you have the opposite situation because the FX is putting a lot of benefit on our liability. So on the other hand you have a fleet (inaudible) I think is not -- should not be ignored.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. Very clear, thank you very much.

Operator

Luciano Campos, HSBC.

Q - Luciano Campos {BIO 16181710 <GO>}

Most of my questions were already answered. Just last one, I believe, for Leonardo. In light of what you just described about potential incremental capacity coming to the industry and the potential risks of this -- the view that you put in the guidance this year and the new guidance for EBIT, I wanted to ask you what kind of return on invested capital or return on equity that you are preparing to accept for 2011 specifically. Thank you.

FINAL
Bloomberg Transcript

FINAL

Bloomberg Transcript

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, we have always said that we have to look in a -- if you take it -- affiliate a group of four or five years, we have to deliver (inaudible) as a whole our return on asset (inaudible) a minimum of 20%. We may not reach this level one year. But you have to compensate on the following year, right?

So if we have in our five years what we have planned, this is the hurdle that we have. So and that's why we are so concerned about how we manage the capacity because we all know that in this industry managing capacity as managing yield, are key success practice. So we are working on this. That's the reason why, for example, we have been careful how we managed specific routes, as we have been more cautious in discontinuing some routes.

So that's why we are concerned about how we are going to be more efficient in the rest of the year in flying more clock hours mainly in the second half of the year. So although it seems -- make a combination, right, of a successful operation. So there is not a specific. But it is a combination of small points.

Q - Luciano Campos {BIO 16181710 <GO>}

And compared to this 20% target that you mentioned, can you tell any number that you are preparing for 2011 specifically? What kind of number you are going to see at the end of the year?

A - Leonardo Pereira {BIO 1960081 <GO>}

Now at this stage it's very hard and that's what Rodrigo mentioned. We don't give earnings guidance because we understand that there are certain changes that we don't control such as FX. So we rather talk on the operation side because we also believe that the moment that we do well and work well and (inaudible) the rest becomes a consequence. Because if you work on the EBIT and if you -- and you manage the EBIT, you create the necessary cushion to deal with the things that you don't control as much like FX.

Q - Luciano Campos {BIO 16181710 <GO>}

Okay, then thank you.

Operator

Diego Melcruz [ph], Itau.

Q - Unidentified Participant

My question is related to fuel costs. I just want to understand how long it takes for international fluctuations in jet fuel prices to effectively hit your operations. And in other words, how long does it take to Petrobras to start charging international prices in Brazil whenever there is a material change in international prices.

FINAL

Bloomberg Transcript

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

Usually there is a 30 day lag between one movement and the other. So that's how -- that we need to have some kind of (inaudible) harder to follow. But let's assume that there is a stable leverage of fuel price, that is we will see that in 30 days. You can use it either ways.

Q - Unidentified Participant

I get it. And so it makes sense to believe then in second Q we will see higher fuel costs for you guys in spite of pretty stable fuel prices, high but stable fuel prices.

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

You are right.

Q - Unidentified Participant

And just another question here. You guys consider the possibility of start hedging against jet fuel itself instead of the WTI given pretty volatility in crack spread?

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

That's a good point that we forget to mention. We had already done starting -- we used to hedge 100% on the WTI. We have moved and we had diversified and we have a basket, we are hedging against the WTI, against the Brent and against heating Oil. So I thank you for reminding us of this point.

Q - Unidentified Participant

Thank you.

Operator

Pedro Mizusaki, UBS.

Q - Pedro Mizusaki

Just a question on ancillary revenues. On your guidance, you did not -- you are basically assuming a flat yields but I would like to know if you could double potentially the revenues and how this could affect your EBIT margin for 2011.

And the second question about your agreement with Delta TechOps. What do you expect in terms of maintenance cost reduction and if you can expect something for 2011 or just more for 2012?

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

I don't want to say -- I always -- was your first question potentially on revenues?

Q - Pedro Mizusaki

Yes, because in your updated guidance you basically are maintaining yields flat right.

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

Yes.

Q - Pedro Mizusaki

But now if you could talk a little bit about ancillary revenues.

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

Okay.

Q - Pedro Mizusaki

Yes, because in the First Quarter we can see that ancillary revenues grew 18% year-over-year. So I'd like to know (inaudible) kind of growth?

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

Well, I think that you are raising a very good point. As you have stated, ancillary revenues play a key role in our business plan. So we -- and if you look at how the cargo business has evolved in the last 12 months. How the Smiles [ph] have evolved in the last 12 months. The (inaudible) is that we'll be doing (inaudible) the buy on board and not only of selling food but there are other things that we can use the planes as a means of generating revenues.

All these things combined makes us very comfortable that despite the fact that we've been flat, as you mentioned, will definitely contribute positively to the markets, okay. So we continue very much seeing ancillary revenues as a key component in our business. And I think we didn't mention this but this is a very important cornerstone of the strategy.

The second point was about Delta TechOps. I don't -- although we cannot give specific numbers, I'll just give you one number, one rate [ph] issue. We have to send planes back. Every time that we send a plane back the last check has to be FAA certified. If we don't have an FAA certification in house we have to send it outside. The moment that we have an FAA certification in the next 18 to 24 months we will be able to do this last check in-house. This check alone may lower our redelivery cost by 40% to 50%. So just to -- then if you look at the number of planes that you have to redeliver in the next few years you will see that there is a very significant impact alone in that airline.

Q - Pedro Mizusaki

Okay, thank you.

Operator

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

FINAL
Bloomberg Transcript

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

Once again thank you very much for your kind attention in being with us during this First Quarter results conference call. And hope to see you on the next quarter. Once again thank you very much, bye.

Operator

And we thank you sir and to the rest of the management for your time, we thank you. This concludes today's GOL Linhas Aereas Inteligentes First Quarter 2011 results conference call. At this time you may disconnect your lines thank you.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.