Q1 2015 Earnings Call

Company Participants

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

Other Participants

- Jeffrey Samuel Eisenberg, Analyst
- Pablo Zaldivar, Junior Analyst-Transportation
- Richa Talwar, Analyst
- Robert James McAdoo, Analyst
- Savanthi N. Syth, Analyst
- Stephen Trent, Analyst
- Tom Kim, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and thank you for waiting. Welcome to GOL Airlines First Quarter of 2015 Results Conference Call. With us here today, we have Mr. Paulo Kakinoff, CEO; Mr. Edmar Lopes, Chief Financial and IR Officer; and Mr. Eduardo Masson, Financial and Investor Relations Director. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GOL's remarks, there will be a question-and-answer session. At that time, further instructions will be given.

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

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

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

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, everyone, and thank you for participating in our conference call, with the results for the first quarter of 2015. Beginning our presentation with slide number two, the first months of the year were marked by the economic downturn and by a challenging and competitive environment. On the left table, we highlighted the 41.8% exchange rate devaluation of the real compared to March 2014. The quarterly average, the real devaluated by 21.4%.

Next item shows that the drop in the number of corporate travel is a result of Brazil's economic slowdown. In the first quarter of 2015, we continue to see the same scenario as we have seen since July 2014, basically after the Brazilian Soccer World Cup.

In Brazil, jet fuel prices were down 25.3% year-over-year. Oil prices in the international market dropped at 50.1% (03:10) in the same period. However, the above-mentioned devaluation of the real substantially offset this benefit in fuel costs.

The capacity increase in the domestic market is the last item in the table on the left. The high season in the first quarter characterized by the higher demand from leisure passengers resulted in a 4% increase in the industry's total capacity. However, our capacity estimates remain stable for the year, as we will discuss later. Based on the company's strategy to maintain high liquidity, we were able to continue expanding and diversifying our revenue lines to navigate this difficult period.

On the tight rent (03:58) - sorry, on the right-hand side of the same slide, we present the results achieved by continuing to invest in our strategy. GOL's highlight for the quarter include, the maintenance of the leading position in the number of passengers transported in the domestic market. As an interesting point, in January of this year, GOL transported 157,000 passengers on a single day and 4 four million customers in a month. These figures broke two records in the history of Brazilian aviation. The daily and monthly number of passenger serviced by a single airline.

Moving to the next item, for yet another quarter, we increased our lead in the number of tickets issued for the corporate segment with more than 31% of share, according to Abracorp, Brazilian Association of Corporate Travel Agencies.

The constant and steady revenue increase in foreign currency is also a key part of our strategy. We increased the connectivity and destinations of our network, announcing new flights to Tobago, in the Caribbean, and Mendoza in Argentina.

In addition to opening a new route between Natal in the northeast of Brazil and Buenos Aires, Argentina. Another important highlight of this quarter was the total revenue. When even with all challenges faced by the industry and the economy, we were able to maintain the same level as the prior year. The drop in passenger revenues was mitigated by the

32.8% increase in ancillary revenue, especially from the sale of GOL+ Conforto seats and from cargo transportation.

Although, the important achievements obtained on the revenue side were the results of our efforts over the last years, we're having the lowest cost industry – I'm sorry, having the lowest cost in the industry is the core pillar of GOL's business model. We're continually working every single day with a special focus on controlling costs and maximizing improving efficiencies and cost reduction opportunities despite of the pressure coming off the new exchange rate level.

Moving now to slide number three, we present the increase in our results for the quarter and for the last 12 months. In the first quarter of 2015, our net revenue rose 0.5% to R$2.5 billion. When compared to the last 12 months, we achieved a new historically high of R$10.1 billion. In the period, our operating income increased 6.5%, totaling R$154 million. As a result, EBIT margin was 6.1%, 0.3 percentage point up year-over-year. Over the last 12 months, EBIT rose by more than 66% from R$309 million to R$514 million. In the first quarter, EBITDAR amounted to R$469 million and over the last 12 months is totaled R$1.8 billion.

Regarding operations, as we can see on slide number four, the increase on the capacity (07:28) in the domestic market by 2.1%, while demand grew 4.9%. As a result, load factors increased 2.1 percentage points year-over-year reaching 79%.

This load factor gain is part of the strategy of mitigating the impact of both the weaker economy and yield pressure. As a reminder, GOL has been working to manage its capacity to meet seasonal requirements.

So, moving to slide number five, we show how we had used these two over a longer period, the last 12 months. On the supply side, we reduced capacity by 1.5%, the largest decrease in the domestic market.

In terms of RPK, on the demand side, we captured 40% (08:21) of the industry's growth. Our strategy has been clearly rewarded with our load factor up by 5.4 percentage points, the industry's largest expansion rate. Our related load factor shows our goal of capturing the maximum amount of demand in different market scenarios, always prioritizing the use (08:46). Over the period, our market share increased slightly.

As a result, on slide number six, we can see that GOL maintained its leading position in the Brazilian market, in terms of passengers transport. According to the National Civil Aviation Agency ANAC, we transported more than 9 million passengers in the quarter, equivalent to a 2.3% increase, compared to 2014. As we already mentioned, on slide number seven, we show that GOL expanded by 1 percentage point its relative share in the face of – for the corporate segment year-over-year according to Abracorp. In addition, GOL has the industry's largest expansion in terms of ticket issued, with an increase of 14.2%.

Moving to slide eight, the maintenance of GOL's revenue level was driven by the almost 33% increase in ancillary revenue compared to the first quarter of 2014. This outcome is a result of our strategy of diversifying our revenue lines and was primarily due to the sale of GOL+ Conforto seats, on-board sales, and the Gollog cargo transportation services. Our highlight was the opening of the new cargo terminal at Congonhas Airport, with 2.1 thousand square meters, it expands our network increasingly offering you (10:08) efficiency and confidence to our customers.

On slide number nine, we can see the increase from 9 countries to 24 countries that are ready to sell tickets through the GDS, the Global Distribution System. This initiative is in line with our goal of increasing international revenues. Year-over-year this line amounted to R$1.1 billion (10:32) equivalent to approximately 12% of total revenue.

On slide number 10, we show the results of our team effort in improving growth efficiency and productivity. Regarding personnel, last 12 months' net revenue per employee ratio has risen 57.6% since the first quarter of 2012. Year-over-year we were 3.3% up. Seats (11:01) demand per employee has increased 35.4% since the first quarter of 2012; while year-over-year, this indicator rose 3.5%.

From an operational standpoint, GOL also presented constant growth with net revenue generation per flight expanding almost 40% since 2012. And with the fuel consumption per RTK have improved by almost 15.6% over the last four years. Year-over-year, our revenue was 6.5% up and we optimized the consumption by 5.3%.

Now, I would like to give the floor to Edmar, who will present the financial results for the period. Edmar, would you please?

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Thank you, Kakinoff, and good morning, everyone. I will start with the fact that Kakinoff has already mentioned and this is level of the revenues. We kept the R$2.5 billion just a little bit over that in spite of the economic downturn hitting Brazil. EBIT was up by 6.5%, roughly R$10 million, which shows again the efforts that we have made in both the top and the bottom line.

As for net income, the net result was strongly affected by the currency. FX and variation came at almost R$800 million therefore, impacting our loss per share.

In terms of supply, we grew 4% in total capacity; as Kakinoff mentioned 2% in the domestic market, meaning that we grew more than that in percentage terms at foreign international markets, again very much correlated with our strategy.

Yields were down. We had already announced that back in our call, our traffic coverage (13:04) made a few days ago and that did not suffer as much because of the load factors going up, roughly 2 percentage points, as well as the ancillary revenues. Total cash was down, primarily because of fuel.

In the next slide, we will discuss about the actual size (13:31), and very important here in Brazil is the fact that we were affected by the FX by 41% in terms of the balance sheet and in terms of the expenses roughly 20% in terms of the average of the FX (13:49) for the quarter.

We also bring here the price for jet fuel in reais for the term, which was below R$2 per liter, but I highlighted in the Portuguese call and I'm doing that right now in English call is that we will see the price in reais moving up by at least 10% for the next quarter. And this is related for both the fuel going up, as well as for the FX moving against the company.

In the next slide, which is slide 13, this is familiar to you. It shows how the yields in load factors have been doing here in Brazil, and we show that we were below R$0.22 for the first quarter, which is below seasonal opportunity yields (14:43) as you can see. And the likelihood of us having an even lower yield in the second quarter is almost for sure now. We are halfway through the second quarter; and up to a few days ago, we saw nothing but the yields coming down on – let's say, since July, August last year.

Moving to slide 14, we highlight here the main topics. On the wages, there was an agreement on the collective pay of 7%, which hurt us in terms of reais. We also had a more (15:32) group compensation because we apply (15:35) more, as well as the opening of new stations also has increased our labor.

As for aircraft rent, I highlighted earlier today that this is the first quarter since (15:53) acquisition that the company has no aircraft but (15:57) 737-NGs. We delivered the last 767 from (16:04) only in December 2014. This is why we show earlier (16:09) increase. The line was almost flat on a year-over-year comparison because we have less seven operating aircrafts and there are leasing accounts.

Sales and marketing also down and this is primarily a result of the efforts that the company made in terms of fraud and losses in credit cards. I'm talking here roughly R$30 million that was the difference between one quarter and the other.

As for third-parties, the main item that affected this line is related to the number of tickets that we are purchasing from our partners. I'm quoting here – this is TAP. This is Air France, KLM. This is Alitalia. This is Delta. Those guys are in place now, and this is what we call a good expense because it will translate into revenues. And it is very much related to the work that Smiles has been doing in having a more international presence.

On the maintenance side, what differs from last year, we had a credit last year (17:32) adjustment. On the other line, the main difference here is the fact that we are doing this year (17:409) is back into the (17:41) last year. We are not only receiving less planes, but also doing lesser impacts (17:47) last year. We had a R$40 million credit, R$41 million to be compared to slide (17:53) in terms of credit in this line.

Exchange, the FX variation accounted for roughly 50% of the increase in the nominal terms of the CASK for us.

On the next page, we highlight what is a function – what expenses are a function of the FX and the number went down from 55% computing here aircraft fuel, maintenance and rent down to just 50%. Next quarter (18:38) as I have mentioned, we will see on relative terms the fuel moving up, so we should be beyond 50% of our total cost as a function of the FX.

On page 16, this is a well-known chart that we publish every quarter. This is to show that we are very competitive in terms of ex-fuel (19:02) when you compare to our peers here in the region in terms of having the same business model or flying in the same places.

In the next page and this is page 17. We do explain what happened to our results. If it were not for the FX variation, we would have a positive result. I want to repeat that FX variation has no cash effect in the short term.

Page 18, again, the cash level is very important for us, because it shows our strength in terms of the financials. But it also makes us very positive in terms of keeping the improvements and the enhancements that we have made in the last few years, not only for the products but also for the services here at GOL. So we are able to deliver (20:02) so we were able to open new stations, and this is part of the strategy that we have been following as mentioned before.

Leverage in – I'm here at page 19 now. Leverage went up, primarily as a function of the effects, the marginal decrease in EBITDAR, does not (20:24) explain all the variations.

And before I give the floor back to Kakinoff, I would like to mention that as for the debt profile, we are – for the next five years, we're on average of roughly R$400 million in terms of amortization, which we think is affordable for us even in this tough scenario that we're living in.

And more important than that is the fact that the debt is primarily in reais. Therefore, although (21:04) the real suffered a devaluation in the short term, it will affect us in terms of debt on a marginal basis.

Okay, this is it. And, Kakinoff, please have the floor back.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Edmar. Now moving to slide number 21. We maintain our commitment of not expanding (21:25) the supply in the domestic markets for the year. Actually, we do see even (21:30).

In the first quarter, we see a seasonal growth in supply to reach the high season (21:37) demand, but the yearly guidance remains flat.

Average foreign exchange rate closed the quarter at a R$2.87 in spite having reached the peak of R$3.30. In curiosity (21:50), this average was approximately $2.92 per U.S. dollar

(21:52). Average fuel price in the quarter was R$1.96 per liter. For the second quarter, we're already considering a higher value due to a higher devaluation of the real and the appreciation of oil price in the international market.

EBIT margin in the quarter was 6.1% and although higher than our top guidance, this is still in line with full-year expectations. The second quarter has been even more challenging than last year, primarily due to the corporate segment demand.

The final message on July 22 (22:30) shows that we will keep our price brand (22:34) according to our strategy, which has been carried out with full discipline and commitment as presented in this conference call.

Now I would like to thank you all, close this presentation, and move to the Q&A session.

Q&A

Operator

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

Q - Richa Talwar {BIO 17123496 <GO>}

Hello, everyone. It's actually Richa Talwar filling in for Mike. So just a couple of questions from us. First, looking forward, the June quarter is a seasonally difficult one for you. So we found it encouraging that you were able to maintain your 2015 margin guidance in the context of the current trends you're seeing. And I know, Edmar, you commented on this, but I was hoping that you could elaborate on those trends.

Should we expect PRASK (23:49) to be down in the June quarter year-over-year as much as it was in the March quarter? Or are you seeing anything encouraging in terms of forward bookings or pricing, or you're growing market share in the corporate segment that may lead to better PRASK (24:02) performance?

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

(24:07)

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

Hi, Richa. This is Edmar here. I will start with some of the topics, then I will hand over to Kakinoff, okay.

So generally speaking, what we have seen in 2015 was that the trend of the price (24:23) is going down stays until a few days ago, okay. So, starting back in the second half of 2014, we saw (24:36) nothing, but the prices (24:37) coming down and fuel as I mentioned in a few days ago.

There is – the yields, the pricing on the early June quarter was down in a comparison basis, with what we had in the first quarter, okay. The news and this is very recent and still to be consolidated is that the drop is not happening anymore, okay. Still to be seen if there will be a recovery or if there will be, let's say, a second wave of the prices really moving down again. So, this is overall what we have seen. Kakinoff will go over a little bit over the corporate side so you have a sense of what is happening here in detail (25:31).

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

Hi, Richa, just giving you more colors on this corporate traveler's behavior since the end of Brazilian soccer games, the World Cup basically in August last year. Since then and due to the economic slowdown, the sales in the corporate levels has come down. And you know in Brazil we have specific crisis related to the building companies, oil and gas segment under this (26:03) umbrella.

Those segments were pretty important. They are very important among the corporate travelers (26:11). And they have dropped the purchase of tickets by the level (26:18) of 30%, in some cases 40% in comparison to the same period last year. This second quarter, the second quarter of this year must be even worse than normally the second quarters are. As you probably know, the second quarter is the weakest for the Brazilian airlines. And last year we had a positive result mainly due to the World Cup sales.

On top of that, I mean, this one (26:51) is even more challenging because we have the economic scenario much worse than it was predicted to be when we have discussed the (27:05) 2015 budget by the end of last year.

The positive side is that as Edmar said, this week and the last were the first two when this trend stopped, and we do not see further price reduction in the corporate sales. I cannot say – we cannot say this is the turning point, but it might be and this is what we are looking for, okay.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. That was very helpful. Thank you. And then switching gears a little bit, the strong 33% growth in cargo and other revenue, do you think that kind of growth rate is sustainable through the year? I would think so given the Gollog terminal at Congonhas Airport, which I would suspect will produce an additional boost to cargo, but wanted to hear your thoughts on that, too.

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

This result is primarily driven by the additional sales of the GOL+ Comfort seats. You probably remember, only after November last year, we have been able to offer this new seat configurations in every aircraft.

So we took almost a year to redesign, to configurate the 140 aircraft (28:30) we have in our fleet. And therefore this year, it's going to be the first one, the full year being sold with this – through (28:42) of this new aircraft configuration. Therefore, this new ancillary revenue level is more than sustainable. It's likely to even increase due to the investments in the cargo side and the full year effect (29:00) of GOL+ Comfort seats.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay, great. Thanks. Are you able to parse out maybe what that GOL Comfort seats' revenue was versus cargo and other?

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

This is (29:15) information, which I therefore I wouldn't (29:18) like to give any disclosure in that.

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

Richa, we saw there were – there's a lot of people from our competitors in the call (29:23). They would be eager to have this answered. I'm sorry, we cannot do that.

Q - Richa Talwar {BIO 17123496 <GO>}

No problem, I understand. Thank you for everything today.

A - Operator

Thank you.

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

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

Hey, good morning. Just on the corporate sales declines that you mentioned, Paulo, there are (29:52) declines last year as well if I recall correctly, at least corporate sales was sluggish. So do we get to a point that where we start to lag (30:01) some of the declines, or is this kind of a new kind of leg down (30:05), and if it stabilizes, you'll still see year-over-year declines?

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

Hi, Savi. We do not believe that is going to be stabilized at this level. It usually (30:17) low, I mean, most of those companies I had just mentioned and the reason the (30:24) government, they cannot run their business at so low level of passenger – I'm sorry, the airline tickets purchased.

I mean, they are going to a clear crisis period, which might last longer than everyone expected, but this low level is not sustainable over the following period. So I do believe that this stabilization will be followed by some low recover over the following months. I do not know – I cannot tell you when we will be the back at the prior levels, but I personally believe we cannot go worse than we're now, and it might be – it's probably the (31:30) beginning of the turning point.

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

That makes sense, got it. And then just on the liquidity side, you definitely have a good cash reserve there to kind of withstand headwinds. I was wondering if you can talk about some of the other liquidity avenue that you have, if you need to raise funds (31:53).

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

Savi, this is Edmar here.

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

Hey, Edmar.

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

We have been very conservative in terms of our liquidity levels. We have pointed out that this year, we will be floating around 20% and 25%. This is primarily part of the plan. But down the road, if needed, we will see, what can be done; but at this point, there's nothing on our radar, okay. So, we think we have enough cash, but then again it depends also on the market. Right now, the markets are close for Brazilian corporate (32:35).

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

Understood. Okay. And then just - if I can ask a maintenance question, just on the hedging, I know you provided what percentages of hedges - fuel hedges there are kind of over here (32:51) in the next three months and six months. I wonder if you could provide kind of a level - what those hedges or the fixed contracts are at.

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

Okay. So, first remember that we took a hit in the fourth quarter, okay. The positions we had by the end of last year, the positions were out of the money, okay. So, the position that we have nowadays they were built primarily during the first quarter, okay. So they are at market levels nowadays. We have no, let's say, sound position completely out of the money, okay. And we have some coverage with derivatives, which is roughly 5% for the next few months, next six months, which are primarily zero cost hours (33:51). And also, we have some positions with the ticket price with Petrobras, okay. I would say almost - it's a double-digit number for the next three months.

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

And is it possible, Edmar, to give kind of what the average level of that pricing is, just to make sure we have an idea?

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

No. Savi, to be very honest, the message is we don't have a major gain or loss here (34:22). As I mentioned, the positions were built during the first quarter, because we have decided to get our way to dismantle the positions that we had that were out of this (34:35). So do not expect any big number for our FX or IO (34:43) positions from now on. Okay?

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

Got it. All right. Thank you.

Operator

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

Q - Jeffrey Samuel Eisenberg {BIO 18650544 <GO>}

Hey, good morning. This is Jeff Eisenberg in for Duane. I was wondering if you could help us think about the shape of margins going forward. I think guidance suggest that the margins are going to decline year-on-year and that you called out 2Q as a particularly weak spot, but do you expect to achieve the level of (35:13) margin recovery sometime in the year in the second half, third quarter or fourth quarter, or is that more like a 2016 type timeframe? If you could just sort of comment on how you view that?

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

Hi, Jeff. We do not give the guidance for quarters to (35:28) margin, margins, okay. What happens here in Brazil is that regularly (35:34), most of the times, we have a negative margin in the second quarter, last year was an exception, and the margin build up for third quarter and fourth quarter. Okay. We do expect the same kind of behavior from now on. This is what we can say about quarter margins.

Q - Jeffrey Samuel Eisenberg {BIO 18650544 <GO>}

Okay. Thanks for that. And then, I guess, as you're thinking towards, I'd say an (36:05) outlook for specific guidance. But how are you – how is your bias in planning (36:10)? I mean, I know you're good on one unit, one show (36:13) relative to 2015, but are you – is your bias to whole domestic capacity flat going into 2016 (36:19) to grow a little bit or to shrink there? How are you thinking around that, and what kind of the fuel prices in FX assumptions go into that thinking?

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

Hi. It's Kakinoff here. Actually considering any kind of growth, it's completely out of question right now. We sustain our stable process (36:41). But I'd say, I could give you today an outlook even for the debt (36:47), there is no decision (36:51), but considering that the economic scenario, we will either continue (36:57), being kept at this low level, we could decide to even cut further capacity.

Q - Jeffrey Samuel Eisenberg {BIO 18650544 <GO>}

Okay.

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

And for the main macro drivers, the FX and fuel, still very early very, very early to say anything about, important to mention how...

Q - Jeffrey Samuel Eisenberg {BIO 18650544 <GO>}

(37:19) to adjust around that rate (37:21)?

A - Operator

Sure. Yeah, yeah. It is as important to mention how we could still give carrying (37:28) capacity. As you can observe last year, we flew in December 34% more, I mean, the number of ASKs than we flew in March. So I mean, the company has been able to either increase or reduce its size by one-third from month to month. We can do that through the subleasing alternative with Transaero (38:01), the European low-cost carrier – fleet carrier actually – freight carrier, sorry. And we can also reduce the aircraft utilization per day. So I mean, the company would be able to cut capacity without increasing cost to redeliver you something (38:21).

Q - Jeffrey Samuel Eisenberg {BIO 18650544 <GO>}

Got it. And then I think one more if I can throw in there. Your Venezuela cash increased by about $51 million. I think you called out some FX variation as a driver. But can you confirm that you're selling tickets all in USD or how much are in USD and bolívar?

A - Operator

We're not selling in Venezuela anymore, okay. This was the decision taken last year in second half. We're not selling any tickets out there. And what is happening now is that we do have some FX variation in the money we have out there. And because we have less expenses, the amount grew last quarter. As mentioned, we are working on a way as the other airlines to have the cash out of (39:13) Venezuela.

Q - Jeffrey Samuel Eisenberg {BIO 18650544 <GO>}

Okay. Thank you for taking the questions.

A - Operator

Thank you.

The next question comes from Tom Kim with Goldman Sachs. Please go ahead.

Q - Tom Kim {BIO 6741640 <GO>}

Hi, good morning. I wanted to just ask on the international side. Can you just tell us – give us a little bit of color in terms of how your growth is shaping up relative to expectations, and to what extent can you comment on the mix of corporate versus business versus leisure? Thank you.

A - Operator

Hi, good morning. Again, I cannot give you too much disclosure on our future strategy related to specific routes, but you probably remember that you have announced (39:54) by the beginning of the last year that we aim to achieve an international revenue at the level of 17% and 18% by the end of 2016. So we have built this growth, starting from the 2012, 8% in foreign currency revenue trying to achieve this 17%. And we have built that through three different pillars, extension of our own international network, building new code-share agreements, and it's important to mention that the two-way (40:40) code-share with Air France, KLM is fully operated since April this year. So it's going to the – the first – next quarter is going to be the first one getting the advantages of those two-way (40:56) code-share. And (40:58) through the new sales channels like the GDS.

And we have improved our own network, and getting all available opportunities to operate with the 727s (41:13), a new destination which perfectly fits our domestic (41:19) network to have this – take the benefit of this (41:23) FX.

The northeast region of the country (41:24) has shown that a lot of interesting opportunities, and it has captured them after local negotiations with the authorities, airport, structure and so on and so forth. We do believe that we will continue to announce new international destinations over the following quarters. This is the maximum disclosure we can give you on our international strategy. I hope you kind of understand.

Q - Tom Kim {BIO 6741640 <GO>}

No, no, that's great. Thank you very much. Can you give us some sense of the pricing breakdown if you strip out the currency impact? And then to what extent does your CASK benefits or not from FX translation as well?

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

Tom, this is Edmar here. Roughly 50% of the increase in reais terms of the ex-fuel CASK is related to the FX. We're talking about maintenance and rent year (42:31), okay. This is the first number that I can give you. And the other had question was, I'm sorry?

Q - Tom Kim {BIO 6741640 <GO>}

How much does your PRASK get sort of skewed by currency at all,. which go to the international side?

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

On the revenue side, we do not give any color on that, okay. Please forgive us.

Q - Tom Kim {BIO 6741640 <GO>}

All right. Okay. All right. Well, thank you.

A - Operator

Thank you.

Thank you.

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

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning, guys. Two questions for me. The first is, I'm just wondering if you could just give us a little color on what's going on in Brazil from an aviation regulatory standpoint. It seems like, this regional (43:20) aviation stimulus was pushed and then stopped and now there seem to be hints that they want to modify it. And can you just maybe share with us your latest view?

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

Hi, Stephen. Good morning. Following the current deterioration in the Brazilian economic scenario, the official treasurer has worked on any kind of possible contingency (43:47) and cash conservation. So, from a government point of view, I do believe that the willingness to develop and deliver the regional plan as it was designed by the end of 2012 has changed. We do not know exactly how much, but we got last week, the Brazilian Civil Aviation Minister saying that a certain amount of contingency (44:25) is unavoidable. So, it's likely that the regional plan will be smaller to tell you (44:34) than it was traditionally.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful, Kakinoff. And just one other - second question with respect to the current competitive environment in Brazil, what you can say with respect to whether you're seeing any of your local competitors gripping more on to the trunk (45:03) routes and maybe what could you tell us there, will be great?

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

Clearly at the moment there is an overcapacity, as you know because the demand - some of our competitors have increased their capacity over the last period, while the demand came down, mainly the corporate demand. I believe that this behavior (45:33) is about to change, when we look at the future sales and the inventory, which has been further available to the market.

I'd say all the competitors have changed the number of seats being put available for sale, along the following months and this is a quite good signal that this capacity discipline will be over - not over, will be considered more seriously by everyone else. I take it as a quite good news.

Q - Stephen Trent {BIO 5581382 <GO>}

Great. Thanks very much, Kakinoff. I'll let ask someone else ask a question.

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

Thank you.

Operator

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

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

Hi, guys. A couple of questions. In this one paragraph – one statement that you make in your description of cost, it says the increase in number of tickets for just your (46:50) airlines that will be reversed in revenue in the future. What kind of tickets are those – what kinds of passengers are those? (46:58). I don't understand what that could be.

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

Bob, this is Edmar here. These are the purchase of tickets made through Smiles, okay. So we understand this is a good "CASK" (47:10), because it shows that our loyalty program is increasingly reaching international markets.

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

So, this is a customer who bought something on a credit card, use those miles to buy a ticket that is partially on GOL, partially on someone else?

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

Well, please remember that...

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

Buy the ticket on someone else?

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

Okay. Please remember that we do consolidate Smiles in our numbers. So, it means that we are buying tickets from those airlines, two ways: one through the redemption of points, we do exchange cash between the airlines, because there is a value – by using the points. And also, if we do have, for instance, code-shares then also it happens (48:12), primarily the expense is related to Smiles, Smiles customers buy ticket through redemption inform (48:24) the airlines.

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

Okay. I guess maybe I've forgotten, the financial statements of Smiles, is it accounted for on an equity basis or is it consolidated so that all of their expenses are folded in with your expenses?

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

Bob, it's 100% consolidated.

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

It is consolidated, okay, so that's what – that's...

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

Yes, and we do...

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

...is equity. Okay, that's (48:52).

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

Sorry. And we do report the segments that is Smiles and the airline itself on a separate basis, looking at our financial statements, the fixed rate (49:03) you have in the U.S., you look to that, okay?

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

I understand. Thank you. One of the things – you obviously, if you're going to have capacity flat for the year, you're going to have to reduce capacity somewhere soon, can you give us a color as to when you expect to pull (49:22) capacity down for the balance of the year so that you're flat for the full year?

A - Operator

Actually second quarter is normally smaller than the other ones, and therefore the second quarter already, we – I can't see this (49:37). And we are taking capacity out to the subleasing format, sending (49:44) some of our FX to Europe, where they're going to be operated by (49:50), the low-cost freight carrier, which have been our partner already for five years to six years.

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

Okay, fine. And then what is your estimate or could give us any clue as to what's your fuel prices now or what you think it will be for the second quarter?

A - Operator

Bob, the fuel pricing will depend on the FX as well. What we are seeing for the second quarter is that the fuel price should be at least 10% up, that is somewhere beyond R$2 in 2015, $0.20 (50:33) beyond that, but we are still 40 days before the end of June quarter. So, there should be some change. There has been a lot of volatility not only on the oil side but also on the FX side which affects us, okay. But the price is definitely up by at least 10%.

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

Up versus first quarter?

A - Operator

Up versus first quarter.

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

Okay. Very good. Thank you very much.

A - Operator

You're welcome.

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

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Hello, good morning. I have a couple of questions. The first one, we saw some important cost increases during the quarter in payroll, maintenance and other operating expenses. Do you think this trend will continue throughout the year like important (51:34) increases on those segments or in other cost segments?

A - Operator

There won't be increases, if you're talking about for the following year, the remaining part of the year. But for certain lines as I mentioned, there were one-offs that affected the behavior of the line in a year-over-year comparison, okay. This should be more stable now, looking for the next two (52:02) quarters.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay, thank you very much. And the next one, I don't know if you could give us some color, are you planning on giving any other additional ancillary revenue options I don't know (52:15) any in your products or there's nothing yet planned?

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

Yes, but we can add - this is something we would like to announce to the market, probably rightly by the beginning of the third quarter. And I wouldn't like to give any color on that prior to the right date.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Thank you very much.

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

Thank you.

Operator

The next question comes from Ignacio Torillo (52:48) with Larrain Vial. Please go ahead.

Hello, Edmar and Kakinoff. So, a couple of questions, the first one is regarding your debt maturity schedule, I understand that about R$781 million will have to be paid in this year.

And there's also the fleet (53:10) plan. So I was wondering if you could tell us a little bit about how you plan to fund that since you won't have a good liquidity position.

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

Hi, Ignacio (53:23). this is Edmar here. So, from – on the debt side, what we have is as of the end of the quarter as this is R$200 million due by Smiles, which is very much on the plan, no issues about it, okay. So, right now the number is more because Smiles pays that on a monthly basis, okay.

On the FX side, which is the gray part on the chart. This is table – this is slide number 20. We have some revolving facilities on the local Brazilian banks. This is (54:11), okay. We think we won't have an issue here. And we also have Ex-Im Bank bonds that were reissued because of the facility we have for maintenance. We should – this is more revolving – we don't see any problem over that as well.

As for the real debt with the orange part, we are very comfortable with what we have.

As for the CapEx, we do not – we cannot disclose all the, let's say, cash arrangements that we have with (54:51), okay, but it's very good for us and we have a lower number of planes coming not only this year, but also next year. So, what we have been telling the market is that CapEx for the year (55:06) should be just over R$200 million, R$250 million on a net basis, okay.

Therefore, the liquidity that we have for us at this point seems more than enough, especially because – although I have mentioned that some of the markets are closed, the bond market in the U.S. going to – some of the markets are closed for our Brazilian (55:32) corporates, we still have assets to credit here (55:34) in Brazil because of our profile and because of us being very conservative in terms of financing the last few years. So we think of the current profile as, let's say, this is what we have planned for.

Q - Operator

Great, great, understood. Thank you for that.

And my second question is regarding debentures four and five (56:01). I understand that you have about two covenants, one of them is the coverage of debt, which has to be about more than one (56:10). The next (56:12) will be in June. And – so due to the devaluation that real is going through, I was wondering what would happen if those covenants or the coverage of that covenant would be – were reached (56:34) and what options would you have?

Ignacio (56:38), this is a very good question. The leverage ratio depends very much on the FX. So, it's very hard to tell now, which level we will have by the end of the quarter.

And from the past, I can tell you that if there is any, let's say, issue over debt (56:59) as before, we don't see a big (57:05) question here, because we've got waivers in the past.

We had to pay for that, but Banco do Brasil and Bradesco would be odd (57:12), the holders after that was very much reported of us, and we have reasons to believe that they would be along us (57:21) if needed. Okay?

Great. Great. And in the past, could you tell us how much did they charge because of that waiver?

Yeah, sure. It was between R$15 million and R$20 million for the two years, okay. So, this is a very specific situation when you compare to the markets abroad. There was a lot of noise about it two years ago, but what happened is at the end of the day, the companies here, the banks are with us, very supportive. So it's a situation that if needed, we would be willing to tackle. Okay?

Okay. Great. Thank you very much, and thanks for the call.

The next question is a follow-up from Savi Syth with Raymond James. Please go ahead.

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

Hey, guys. Just that's the slide that you had the load factors and shown good improvement there. It shows that you guys are still below your competitors on load factors. And is that a function of – I know some of your aircraft have middle seat opens (58:38), but is there kind of a structural impact there or do you expect to get load factors up to kind of 80% type level over the next year or two?

A - Operator

Savi, this is the effect (58:52) of our strategy (58:55) and its continuation since we presented to the market in September 2012. At that time we said that our first idea (59:04) would be yields, and we think that we already have them.

So, since then the company has (59:11) the load factor rather at a lower level than our competitors because we are always optimizing the yields affecting more corporate players and the passenger. They were to buy tickers in short advance prior to the departure (59:35).

And we would keep the load factor too to be utilized, whenever the market would present itself more challenging in terms of yields than we predicted and then we could increase the load factors in order to achieve the highest possible factor that we could get, and we are happy what (01:00:06) we done since the yields came down (01:00:12), we have increased our load factor and (01:00:16) we have avoided the craft to grow sound (01:00:19) as it should (01:00:27).

So we will not prioritize load factors. I know it is a part of the strategy of some of our competitors (01:00:42) it prior competencies (01:00:47), maximize yields and slicing load factors (01:00:51), we came (01:00:53) the desired good level.

Okay. That make sense. This is (01:01:00) my last question was on – just on the corporate share, I know there was a lot of kind of improvements to the product, improvement to the on-client (01:01:08) performance and that really drove a lot of the corporate share gains the last couple of years. So what I'm wondering is what drives those gains going forward, outside of pricing, is that – what else can be done to – could you increase corporate share or have you kind of reached a level that's kind of a normalized breakout of kind of corporate share?

Additionally to those items already mentioned to you and we would like to candidly invite you to (01:01:38). I mean, the power (01:01:40) of being the most punctual alliance (01:01:43) offering the GOL+ configuration for – in every aircraft here we are operating (01:01:51) naturally attractive to corporate (01:01:55) network.

We have the international contracts with Delta and Air France. Those contracts are established directly with the company to be offered to their executives (01:02:13) connecting them to more than 500 destinations in the world, being operated (01:02:19) by GOL and its partners like Air France and Delta.

It's a product like this coverage drove (01:02:25) – some of those contracts are global contracts, and we have approached the customers, the three companies together, Delta, Air France, KLM, and GOL. So there's another important opportunity to further increase our corporate share among the Virgin Airline (01:02:48).

Okay. Got it. All right. And thank you.

Thank you all.

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

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

I just would like to thank you guys and wish you a very good day and a very good investment week (01:03:12). Thank you very much. Bye-bye.

Operator

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