Q2 2011 Earnings Call

Company Participants

- Constantino de Oliveira, CEO
- Leonardo Pereira, CFO

Other Participants

- Caio Dias, Analyst
- Eduardo Couto, Analyst
- Jim Parker, Analyst
- Luciano Campos, Analyst
- Michael Linenberg, Analyst
- Nicolai Sebrell, Analyst
- Rodrigo Goes, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to GOL Airlines 2Q11 results conference call. Today with us we have Mr. Constantino de Oliveira, Jr., CEO; Mr. Leonardo Pereira; 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)

We would like to inform that questions can only be asked by telephone. So if you are connected through the webcast you should email your questions directly to the IR team at ri@golnaweb.com.br. 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. 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.

Constantino de Oliveira {BIO 3888521 <GO>}

Thank you. Good morning, everyone, and thank you for joining our Second Quarter 2011 results conference call. Thanks to the increasing participation of Brazil's middle class in air travel, together with country's economic growth, demand has been moving up strongly, as you can see on slide 5.

According to IATA, the International Air Transport Association, Brazil has recorded higher domestic market demand growth than any other leading country in the last few months, including China and India. Figures like these point again an enormous growth potential for GOL in a market where around 130 million people can acquire air tickets, but where only 20 million do so with any frequency.

This healthy increase in the number of passengers carried is closely related to a big slump in domestic price. We will be talking about these and its effects on the industry in more detail later on.

Going to slide 6, which shows quarterly supply growth in Brazil and the consolidated position in the first half of 2011. Total market supply grew by 14.4% in terms of available seat kilometers, ASK, and GOL has certainly been the most cautious of the airlines in this respect. As you can see, GOL's domestic market supply increased by only 4.2% year over year in the Second Quarter 2011 versus 21.6% for the others.

In the first half, the Company recorded domestic market ASK growth of 4.7%, maintaining its prudent approach to adding capacity, in stark contrast to the other airlines, who's capacity moved up by 22 -- sorry, 21.2% over the first-half 2010. As result, GOL's first half yields fell by 7.1%.

Moving to slide 7, here you can see that domestic market demand growth has outpaced the increase in supply. GOL, maintaining its responsible approach to capacity additions, as I have already mentioned, recorded a 14.2% upturn in demand over Second Quarter 2010, chiefly due to fierce competition in the domestic market leading to a 13.8% decline in yields, in turn pushing up the load factor, as we show on slide 8.

The load factor on GOL's route network comes to 66.5% in second Q 2011, 6.1percentage points more than the 60.4% recorded in the Second Quarter '10. In comparison with the First Quarter '11, yields fell by 8.2%, also due to the tighter competition in the domestic market as amplified by the zero growth or the 0.5% increase in supply by the other airlines, excluding GOL, in a quarter seasonally weaker than the first three months of the year.

RASK fell by 4.3% year on year, from BRL0.1438 in the Second Quarter '10 to BRL0.1376 in the second Q '11, due to the 2.3% decline in passenger revenue as a result of the period drop in use I just mentioned and the conservative increase of 2.9% in supply on the Company's total route network.

The RASK performance was partially offset by two things. First, the 6.2percentage point upturn in the load factor, and second, the 4.2% increase in ancillary revenues. Given this competitive scenario together with oversupply in the Brazilian market, as we saw in the opening slides, and the resulting reduction in fares and increased pressure on cost, on July 28th GOL announced a revision of its 2011 guidance, which Leonardo will talk more about later.

The Company values its strategic position in the Brazilian market and believes its business model to be the most appropriate for economical and social inclusion, breaking the acute barriers that still exist in the Brazilian air transport and exploring the market reach, given its low penetration, has enormous growth potential in the coming years.

GOL remains committed to its low cost and low price strategy and will continue to do everything possible to maintain its position as the best airline to fly with, work for and investing in. Thank you very much and I will now hand over to Leonardo, who will comment our results and strategy in more detail. Please, Leonardo.

Leonardo Pereira {BIO 1960081 <GO>}

Thank you, Constantino. Good morning, everyone. I'll start my remarks from page 11, where we show the factors -- the main factors that impact the Second Quarter '11 results vis-a-vis the Second Quarter '10 results.

The first one, passenger revenue, that's again well below not only when you compare to the First Quarter of last year, but also below Q1 of (inaudible).

Then in terms of operating cost, ex-fuel, we increased them by 15%. And we have a chart here that shows the main impacts on the CASK, ex-fuel. We've had -- if you look at the chart, we have a 9.72 CASK, ex-fuel. If you take away the BRL43 million related to the return of the three 767s but which was the specific -- related to one 767; then you have BRL10 million of terminations, early terminations of contract with suppliers, which will gave us savings going forward; then BRL5 million related to the Chilean volcano, which then goes to a 9.21 adjusted ex-fuel expenses.

On page 12, you will see our net revenue compared to the last few quarters. We will not extend much on that because, as we have explained, there was over capacity in the market in our view and this is mainly what has impacted the net revenue.

As a consequence of having our revenues below what we were expecting and a high CASK ex-fuel and higher fuel prices, our EBIT was negative at 17.3% and we also posted a negative EBITDA. Although we had these issues on the operational side, it's important to highlight that the Company keeps a very strong cash position. And we had close to BRL2 billion in cash, which was equivalent, as of June 30th, of close to 30% of our last 12 months revenue.

Our adjusted gross debt to EBITDAR went up to 6.3%. I think it was positive that we were making efforts to deleverage the Company in the last few quarters. We continue to have this objective going forward, although we anticipate there will be an increase before we can bring it down.

But importantly is that if you look at the profile of our debt and also our total cash to short-term debt, we have plenty of liquidity, so there is no liquidity crisis in the Company. Just to remind everyone, our first big amortization is only in 2015, and we continue to have that objective of having no refinancing risk within the next three years.

On page 16, it's just -- we are just putting the guidance that I'll talk on the Q-and-A. But most important is that if you look, we are expecting a higher domestic demand growth, but we have kept ASKs for the year. So in other words, we will continue managing our capacity on a prudent basis.

We are not expecting an increase in yields, and we are working with a scenario that yields will remain at that level. But if they don't -- if they increase, it will be a positive thing. But based on that, we have put forward a very serious plan, if you look on page 18, of reduction initiatives. These are reduction initiatives we're planning in the next few months. We just anticipate them. We have created taskforces specifically to make sure that they are implemented, and we have the commitment to have them fully implemented by January 1st. In other words, the benefits of these initiatives will be fully visible in 2012.

And we are basically indicating that our CASK, ex-fuel, in 2012 should be not higher than BRL0.85. If you look at our plan, it's basically a result of our efforts to continue optimizing our maintenance, and this will become very much because of the Delta agreement that we signed in the year and that's now coming to stream.

We'll have expenses related to the 767s that will not be recurring in 2012. We have other expenses of consulting fees, contracts that we are renegotiating that should generate at least BRL135 million starting in January 1st. And we expect to have a higher fleet productivity already in the last quarter of this year, which should bring results of at least BRL8 million in 2012.

In terms of other strategic initiatives, on page 19, we -- in order to maintain our low cost strategy, we are focusing on efficiency and profitability. We continue giving special attention to our international partnerships. We believe that Brazil is an important -- is becoming an important hub from a global perspective, so more people will be flying into Brazil and from Brazil, and we want to be part of that and our partners will play a major role here.

In terms of aircraft utilization, we have created a buffer of copilots, which will ensure that we'll not take this risk. So we will be able to be flying more hours. We continue to have a very active management of our route network, of this continuing route that are profitable, and we'll be increasing low cost distribution channels.

On page 20, we are just highlighting again our strong balance sheet that supports this plan and, of course, protect us more as we go to this temporary bad result. Our strategy continues to prioritize higher-return projects, continues stretching our debt profile, maintaining high liquidity and having a very active but conservative and non-speculative hedging policy.

If you look on the right hand side of the slide 20, you'll see that our average ratio for the next six months is 44% and we have triggers that if they are (inaudible), it will go up to 47%.

Now going to talk about GOL and Webjet, on page 22. We have announced on July 8th the execution of a memorandum of understanding with the controlling shareholders of Webjet for the acquisition of 100% of Webjet's capital stock by VRG. The price was BRL96 million, subject to certain adjustments prior to the closing date.

Webjet was appraised by the stock at BRL310.7 million. And what we have right now is a situation that we'll be able to have the largest route network in Latin America with high frequencies in major cities. The position of Webjet can be clearly complementary to ours and will give us a unique position in the major airports of Brazil.

Now moving to page 23, we are highlighting again the synergies that we expect to create between the companies in the next 12 to 24 months. The BRL60 million coming from -- in the corporate side, sales, general expenses, and BRL40 million coming from the complementation of our airport operations, implementation of adjoined phased maintenance process, optimization of spare part stocks and additional synergies that will come from higher utilization of our Confins maintenance center and handling.

On page 24, you see the debt schedule on a pro forma basis of GOL and Webjet. Webjet brings some short-term pressure to our debt profile. But the creditors of Webjet are also our creditors. Although we have not finalized the process, we have already formed the discussion dates, and we feel very confident that this will not put pressure on our cash flows.

Then on page 25, we want just to highlight the next step of the operation. The next steps that we're expecting to have ANAC approval in the next few weeks. And as we have the ANAC approval, we have the payment and the share transfer and we'll finalize the acquisition. And the only standing will be CADE's approval. The companies are operating separately. Of course, we can create synergies from the moment that ANAC approves, and we will do that. And we'll just make a final structure decision following the CADE's. So the companies will be working under a full cooperation strategy following the ANAC approval, but in terms of structure, it's early for us to make a decision.

And finally, I would like to highlight our announcement last night doing a buyback of up to 10% of the shares that are floating in the market. We believe that this is an opportunity to create value for the shareholders and is a clear demonstration that we are very confident that we will implementing our plan to put the results back on the levels that we have always indicated to the market; in other words, of EBIT margins that are above 10%. And this is an action that we have announced, doesn't necessarily mean that we'll be using our cash. There are structures, as everyone knows, that don't require cash. We are assessing them, and we'll be informing the market accordingly as we make the decision. So that finalizes my remarks and we will open for Q-and-A. Thank you very much.

Questions And Answers

Operator

(Operator Instructions)

Eduardo Couto, Goldman Sachs.

Q - Eduardo Couto {BIO 15918458 <GO>}

I have a question for Constantino. Today the Company has more than BRL2 billion in cash, which is more than, I would say, two times the free float of the Company today in the market. So my question is, considering this big cash position, have you considered to delist the Company during the Board meeting yesterday that defined the 10% share buyback? Because looking at the cash position of the Company today and the share price, I think GOL could delist the preferred shares and still have more BRL1 billion in cash for the Company. Have you considered that?

And the second question is, can you do more than 10% announced buyback if the stock price does not react, considering that the Company has the cash for that? Those are the two questions. Thank you.

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

Eduardo, thank you for the question. The move or the reason for us to maintain that level of liquidity, that level of cash in our balance sheet to guarantee the Company even during the tough period like we are passing through at this time. So we are not considering -- and, as Leo emphasized, that we did the announcement of the buyback. We are also analyzing, making the analysis for -- with the possibility to use some derivatives not used, expect for the cash from the Company. We are protecting this cash position. We understand that it is important for the Company for a long term, long period of time. And we understand that we will put our focus, our energy on cost reduction, on higher productivity and returning our cash to a level that we understand that has allowed us put GOL on a competitive advantage in the market.

We are working to -- on the long term to deleverage the Company and even with a stronger balance sheet. So we are not thinking anything --- about anything different than that related to our cash position and our balance sheet.

Q - Eduardo Couto {BIO 15918458 <GO>}

But --

A - Leonardo Pereira {BIO 1960081 <GO>}

I'm sorry, Eduardo, just to comment related to the 10%, we are doing the maximum that the regulation allows. So we cannot buy more than 10% of the float.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. So you cannot do more than the 10%. Okay. And is there any time for this buyback? I know you said that it's a one year buyback, but if the stock does not react, can you accelerate that or do maybe ---?

A - Leonardo Pereira {BIO 1960081 <GO>}

We can. It's up -- yes, it's up to one year. But we can execute the buyback as we feel appropriate.

Q - Eduardo Couto {BIO 15918458 <GO>}

And once you get the 10%, can you announce another one or not? Well I'm sorry that.

A - Leonardo Pereira {BIO 1960081 <GO>}

No. We cannot. No. We cannot.

Q - Eduardo Couto {BIO 15918458 <GO>}

Thank you.

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

Welcome.

Operator

Michael Linenberg, Deutsche Bank.

Q - Michael Linenberg {BIO 1504009 <GO>}

Two questions here. When we look at the demand growth in the marketplace -- and I believe for the June quarter for the industry it was up 26%. And we look at where GDP is currently running in Brazil, which is somewhere in the 4% range, it would suggest that the elasticity that we've used historically of maybe two or three times it would seem that it's a lot more than that. Or, maybe another way to think about it is that a lot of the demand is being stimulated rather than organically grown.

What's your thoughts on that and how much of it do you actually think is stimulated? And I think what's important about that is that, at the price points at which these fares are being stimulated, my sense is that no one's making money in the domestic market, so that true demand is probably a bit less than the headline numbers that we're seeing.

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

Michael, yes, we agree in terms of the view or the sense that we are seeing that this demand growth is really stimulated by low fares. They are talking about a very price sensitive demand. In this sense, we understand that looking forward, at least (GOL) and others are looking for what our competitors announce probably. We will see a different scenario in the future where the supply will not grow that much, and probably we will see a scenario for a more rationale environment even in terms of yields and a better balanced growth between GDP and air travel demand.

That's my view also. And in this scenario, I will turn a little bit to the Webjet acquisition, because we understand that the Webjet acquisition will allow us to grow or even to grow with a rationale planning in the future with a high quality of growth, as we will be able to explore flights from the largest market or the largest destinations in Brazil. So we're talking about quality of growth when we talk about the Webjet acquisition. And we understand that we will do that in a very rationale way.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay, good. Thanks Junior. That's helpful. Then my second question to Leo. With respect to your cost pressures in the quarter -- and I thought page or slide 11 was very helpful -- it gives us a sense of various items that one could view as non-recurring, and so maybe the real CASK was BRL0.92. When I make the adjustment for that in the model, I still get -- the operating margin goes from minus 17% to around minus 10%, which, as you know, is still not --- it's certainly not what you did a year ago. It's still a --- it's not a great result.

How much of that is --- are there other structural cost issues? I know you're going to address them through this cost reduction program over the next year. That's the plan. But are there other things that we need to be aware of like maybe the ageing of aircraft, the employees becoming more mature? Are there any structural issues out there or is the minus 10% operating margin really a function of just the huge amount of fare discounting that we're seeing in the marketplace?

A - Leonardo Pereira {BIO 1960081 <GO>}

Michael, that's a very good question. There are other issues. I don't think there are structural. There is, for example, the fact that we have decided from a strategic point of view to make a decision to hire and train close to 400 co-pilots this year.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

A - Leonardo Pereira {BIO 1960081 <GO>}

As we all know that this could be a strategic threat going forward, so we decided to anticipate ourselves and to create a buffer -- efficiencies and productivity. It is important for us to be able to fly over 13 hours on an ongoing basis. So that was an example of our decision.

We also had started selling, optimizing our inventory. And this -- for example, we have put that as an overall initiative to be over by 2011. So I think we -- we understand that we have higher fuel prices and this can be maybe, you never know, more permanent, and we have to at least work with this assumption. And we have a reality of the market that we expect, and we would like not to be like that.

We have been conservative in how we add capacity. We believe that this can be a healthy industry, but we have to be ready for tough times. And so what we're basically saying is that we are going to have a very focused plan in terms of reducing CASK, ex-fuel. We are giving a number of 8.5 margin for 2012. We'll continue working to be even lower, right, and we have different areas -- things that we had started already doing, and we'll making sure that they are well implemented.

For example, the Delta TechOps agreement that we signed in the beginning of the year that is coming into stream. It's going to bring a positive result from the First Quarter on and then next year. So we expect to have a BRL100 million positive impact. We have revised very thoroughly the consulting line, right? So I'm confident -- we are comfortable that we can save BRL130 million on an ongoing basis starting on January 1st. So those are just two examples of things that we can do, and we'll do them faster. And again, this is -- and we have talked about this before. You always have to be on top of that. So this situation has just put us more on top of things, and we have shown in the past that we have the management team in place and the willingness to do this type of thing.

So I don't think there is any structural thing. There are external things that maybe more difficult to control, so we have to do maybe a tougher homework internally.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Very good. Thank you. Thank you, Leo.

A - Leonardo Pereira {BIO 1960081 <GO>}

Thank you, Michael.

Operator

Nicolai Sebrell, Morgan Stanley.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

I was wondering if you could talk a little bit more about the capacity increase, particularly on the part of some of the competitors. Like you said, you guys had been pretty disciplined with respect to capacity growth. What do you chalk up the competitive behavior that we've seen so far that maybe is what has led to the yield environment?

Then the follow-on to that is, do you see this improving next year, the 8.5 CASK, ex-fuel number that you mentioned? Does that require significant growth on your part or do you think you can get there without growing it, and in the context of a more disciplined market, if that would happen?

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, Nicolai -- it's Leonardo speaking and then I'll pass on to Constantino. We very much believe again on a disciplined market. We believe that we can offer a good product and the industry can offer good product to the consumer, can stimulate demand and can make money. We don't need -- and we have said that before in other potential situations like this, that we need to increase capacity more than what's necessary.

If you look at what we have done, we increased capacity by close to 5% and the industry, ex-GOL, increased capacity by 21%. And the question is, is everyone making money? And the answer we all know. So we are sending a very clear message. We believe that we don't have to increase capacity. We can fly more hours. We can be more efficient. But we can, as a whole, the industry can be very consumer-oriented, very product oriented and still make money. So the answer is we are not going to change our strategy in terms of adding capacity.

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

I think Leo covered all the points. But Nick, if you would like something specific, I'm here.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. And the --

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

Another question?

Q - Nicolai Sebrell {BIO 7321622 <GO>}

No, just the next question, meaning 8.5 for next year. What kind of assumptions are behind that? Just wondering if there would be double-digit growth next year in terms of capacity or more like what we've seen this year? Because reducing from a 9-ish level to an 8.5 level on CASK, ex-fuel, that's pretty impressive I think.

A - Leonardo Pereira {BIO 1960081 <GO>}

It's pretty impressive, but, as you say, -- as we have demonstrated here, it's not impossible. We are not inventing. And if you look at that plan, we are not inventing anything new. We're just saying, look, those are the lines that we need work, and that we work more focused maybe. And probably the economy will grow maybe at 3% or 4% next year. Capacity will increase by 10% ASK -- 10%, 12%. And I feel that we will be able to deliver.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

All right. That does make sense. Just a quick question.

A - Leonardo Pereira {BIO 1960081 <GO>}

Although (Technical difficulty) talk about GDP. So I'm just -- because I want to highlight this, so I can make it very clear. I think what we can address today and what we are addressing today is on the CASK ex-fuel side, which we can control. What is going to happen with the world? I think I would like to know, but I don't. Right? But we want to have a scenario that we can deliver a much better results independent of what's going to happen, because also being able to offer better results will give us more internal flexibility and agility to react.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Clearly, clearly. Then on the Webjet acquisition, is there shareholder vote required?

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

Yes. There is.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. Cool. Thank you very much.

Operator

Jim Parker, Raymond James.

Q - Jim Parker {BIO 1506864 <GO>}

I want to follow-up on Nick's question about capacity. Your capacity growth, would you tell us specifically what your game plan is for the third and Fourth Quarters of this year and for next year?

A - Leonardo Pereira {BIO 1960081 <GO>}

Well Jim, as you said, as you could see in the guidance, we have not changed our projections in terms of ASKs. It's natural that as we go into the high season, that we fly more and that we have more ASKs. But we continue working under the same range that we had under the previous guidance scenario, which was between 48 billion and 50 billion ASKs.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. And did you say that you think the industry capacity will grow in 2012 10% to 12%?

A - Leonardo Pereira {BIO 1960081 <GO>}

No. I didn't say that. I said that we believe -- we continue to believe that there is a function between GDP growth and demand. So assuming that the GDP will grow -- although it is a bit premature to say -- we would have that type of growth.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. Leo, I'm looking at your guidance. I'm interested in your capacity growth in 2012. What do you think it will be?

A - Leonardo Pereira {BIO 1960081 <GO>}

It is still premature to say. We are not giving that guidance. But again, we will continue -- I can assure you -- to be on the conservative side, on the prudent side.

Q - Jim Parker {BIO 1506864 <GO>}

And you have four aircrafts coming in 2012, is that correct?

A - Leonardo Pereira {BIO 1960081 <GO>}

Net four. Yes, you are right. That's net.

Q - Jim Parker {BIO 1506864 <GO>}

And is there any likelihood that that can change?

A - Leonardo Pereira {BIO 1960081 <GO>}

I don't see it changing, Jim, at this stage.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. All right. Regarding the 767s, you talked about that but would you give us your outlook there? Are you going to be able to get rid of all of them, and those that you remove, are there still lease payments that you are required to pay on those aircraft?

A - Leonardo Pereira {BIO 1960081 <GO>}

There are still lease payments. What we'll make sure is that we have -- is strengthening the provisions; that if we have to keep them on our balance sheet in case we can be more proactive in the delivery negotiations.

The intention is to send them back -- as you know, the lease -- we are coming to 2013, 2014, when the leases expire. We had one of the seven -- the remaining six, seven that is subleased to Ryan International. And so, we only have -- we are working on another one for a sublease. So we either will have the two of them subleased or we will have to return.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. So how many do you have? You've got one with Ryan International. How many do you have left?

A - Leonardo Pereira {BIO 1960081 <GO>}

Two -- we have three left. Out of the three, one with Ryan International.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. All right. Thank you.

Operator

Luciano Campos, HSBC.

Q - Luciano Campos {BIO 16181710 <GO>}

My question is about your pricing strategy. Again, it's kind of clear already that the competitive environment is pretty intensive here in the domestic market. But I wonder if you could share a little bit your experience about what gives you confidence that the kind of response to those competitive pressures are the appropriate? One, like just, for example, if you have any like market (price), what would have been your passenger revenues if you had decreased your price a little bit less or a little bit more? Would you have a better result than you really had with the numbers that we have seen? That's the first part of the question.

Second part would be in the operationalization of your pricing strategy. If you still see room for improvements in the way -- I mean, you give like lower prices for passengers buying with anticipation like two, three months ahead of the trip, if you have room for improving the way you implement those pricing strategies? Thank you.

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

Well in terms of the pricing strategy, I think that one way to improve our revenues of our revenues, our RASK is the way we manage the inventory. That means how you manage the capacity on each fare.

With that we'll be able to continuously stimulate the demand, as we see our demand grew in the last quarter much more than our capacity grew or our supply grew. And even with that low fares, we understand that there is -- there is room for yield improvement. But that's our impression, that's our view.

On a very competitive environment it's difficult for us to assume that, because that we understand the management will put the focus on the cost side on the Company to preserve our competitive advantage and to give us more flexibility in terms of the way we manage the fare inventory and the yields.

But also if you see or if you compare the industry yields during the Second Quarter or our yields or our RASK with our main competitors, you're going to see that we have been responsible even on the yield side, on the revenue side. We achieved a higher yield and much higher RASK or passengers' revenue per seat kilometer than any other competitor. That shows how cautious we are managing our capacity growth and revenue at the same time. That's it.

Q - Luciano Campos {BIO 16181710 <GO>}

Okay. Thank you.

Operator

Caio Dias, Santander.

Q - Caio Dias {BIO 21849043 <GO>}

This is another follow-up question on the competitive environment and yields. I imagine that TAM is the company that is putting more pressure over the market, because they are the largest airline and they are putting a lot of capacity. However, TAM was able to report weak results but much better than GOL this quarter.

So my question is the following -- and I am assuming that TAM is -- all the results from TAM are coming from the international market, because the domestic market competitive scenario is leading to very low profitability for everyone.

So given that, my question is the following. In a scenario where TAM keeps subsidizing the domestic market with international market, and given the very favorable forecast for the international market in the coming quarters, does GOL have a plan B? And by that I mean besides focusing on reducing cost, is there any more radical plan to face this sort of competition from TAM? For instance, shutting down some specific routes, instead of reducing capacity, instead of increasing capacity, or focus on different markets, launching international routes to compete against TAM?

Is there a plan B that the management has in case that the competitive scenario does not improve because TAM will continue to subsidize -- in case, TAM continues to subsidize the domestic market with their international revenues?

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, Caio, I will just talk and then I'll pass it on to Constantino. Look -- of course, there is a plan, right? I don't know if it's the plan A or a plan B. We have been demonstrating that we will be -- we will not hesitate to discontinue routes that are not profitable. We have with the acquisition of Webjet demonstrated that we believe that being able to integrate networks we'll be able to offer a more complete network for operations in Brazil.

We are assessing new destinations that can be profitable. We have been strengthening the partnerships with the international carriers. And let's not forget that three years ago we did not have any of those partnerships. So we believe that Brazil will be a major player in the global market. So I think there is a plan, yes.

Of course, we have a franchise. We have to -- of course, to keep the franchise. We have been working within a range of market share. We had also said very clear that if we have to opt between market share and profitability, we'll go for profitability. There might be some cases that we had this quarter of a mismatch, which we are also not happy. All right.

But I think there is clearly a plan. Yes. We believe that we have built our operation that is strong. That we should demonstrate more clearly that we have the capacity to have a lower cost ex-fuel, which we can control. We have to access the company from a balance sheet point of view. We have no refinancing risks. We have high cash balances. So I -- yes, I think that's what I would like to highlight.

Well are we going to be flying international? Probably not. Because -- that's why we have to strengthen our partnerships in the short-medium run.

Are we going to be expanding in Brazil rationally? Yes. And that's why we have made the acquisition of Webjet. Also, we have been strengthening our partnerships with the regional players. Last year we announced -- a few months ago, the partnership with Qatar Air, which is an important regional player. So we have been working on integrating and building a more complete operation without, in our view, adding complexity to our business model. Now Constantino will complement.

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

I don't know if you have another question, Caio?

Q - Caio Dias {BIO 21849043 <GO>}

Yes, I have one more question. Okay. I understood that obviously the main reason for the reduction in yields came from the competition and this excess capacity in domestic market. But was there any marketing campaign that was somehow stronger than what you were forecasting in the beginning that also had some impact over yields? For instance, the BRL10 campaign celebrating the 10 years old -- the 10 years age of the Company. I remember it was a huge success among the clients of the Company. Did this campaign, for instance, had some impact over yields or it was completely under control of the Company and the results were exactly in line what we were expecting before?

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

In terms of the impact of the campaign, it was line with our expectation but we missed the yields. At the end, we cannot say that was because of the campaign but related to a very competitive environment at this time.

So I don't think there is any kind of campaign affects much more than we were expecting the yields. What happens that, on the average, if we see -- that comes from lower fares, that comes from how the Company has managed the inventory or the number of seats on each (plane), and that affected the whole yield or the yield average. But nothing specifically.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. Thank you very much.

Operator

Daniel Epstein, BTG.

Mr. Epstein, are you there?

Q - Rodrigo Goes {BIO 6232382 <GO>}

Yes. Sorry. Actually, this is Rodrigo Goes. Just a couple of questions regarding Webjet. When we look at your CASK --- your ex-fuel CASK guidance, it doesn't include Webjet, right? I'm assuming that's for GOL standalone. Is that correct?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. That's correct.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay. When does -- when do you expect approval for that transaction and when do you think you'll start your integration, your actual integration efforts?

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, it's very hard for us to say a date. The next step is approval from ANAC. The moment that we have the approval from ANAC, we can already start creating the synergies that we plan. For example, we can have the same fuel contracts to both companies. We can have the maintenance contract extended to Webjet. We can start integrating our networks. So that -- those measures in themselves will translate into a significant change in Webjet and most likely without jeopardizing the competitive advantage that Webjet has, that they have a very low CASK ex-fuel.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Lower than the 8 -- lower than your guidance for GOL standalone?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. They have a lower CASK ex-fuel than the GOL side.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay. And in the meantime, before the transaction gets approved, where does their fleet go? Does it stay put, the 20 change aircraft? Do they not grow that fleet? Do they just wait until the transaction is concluded, or do they have any expansion plans that are going to be carried out anyways?

A - Leonardo Pereira {BIO 1960081 <GO>}

No. They don't have -- my understanding is that they are not going to expand. I think as we start -- as we acquire Webjet in the next few weeks, then we'll have to sit down and discuss the fleet plans and the capacity plan on a jointly basis.

And again, as we have emphasized, we have a very prudent policy towards (capacity) addition, and this is going to be extended to all units under the GOL umbrella.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Perfect. Okay. Thank you very much, guys.

Operator

Nicolai Sebrell, Morgan Stanley

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Just one quick question on slide 18, where you mentioned aircraft density as a cost reduction initiative. What exactly does that refer to? Are you thinking about changing the seat density?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, you are right. We are reviewing that.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. So you would look at maybe increasing the seat density on the planes or reducing?

A - Leonardo Pereira {BIO 1960081 <GO>}

No. Increasing.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay. Thank you.

Operator

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

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

Once again, thank you very much. I hope to see you in the next conference call results with a much better results at that time. Thank you very much. Bye, bye.

Operator

Thank you. This concludes today's GOL 2Q11 results conference call. You may now disconnect your lines at this time.

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