FINAL

Bloomberg Transcript

Q2 2016 Earnings Call

Company Participants

- Paulo Sergio Kakinoff
- Richard Freeman Lark Junior

Other Participants

- Bruno Amorim
- Michael Linenberg
- Pablo Zaldivar
- Stephen Trent

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and thank you for waiting. Welcome to GOL Airlines' Second Quarter of 2016 Results Conference Call. With us here today we have Paulo Kakinoff, CEO; Richard Lark, CFO and IR Officer.

This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GOL 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 maybe accessed through GOL 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, uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and the 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'll turn the conference over to Mr. Paulo Kakinoff. Mr. Paulo, you may begin your presentation.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, everyone. Paulo Kakinoff here. Thank you for joining us via teleconference to GOL's corporate headquarters at São Paulo Congonhas Airport. Today, we will discuss the company's 2016 second quarter results.

Please turn to page three of today's presentation. GOL Airlines is Brazil's largest air transportation group with annual revenues in excess of R$10 billion, allocated among the three primary businesses: passenger transportation, cargo transportation and our coalition loyalty program.

GOL is Brazil's largest airline in terms of passengers transport and is Latin America's largest low-class carrier operating over 860 daily flights to 65 destinations, including 13 international destinations in South America and the Caribbean. GOL currently sells tickets for its flight in over 40 countries around the world. With R$4.4 billion in gross passenger revenues in the first half of 2016, GOL is the third largest seller on the Brazilian Internet.

Gollog is our cargo transportation business serving more than 3,000 Brazilian municipalities and, through partners, 90 international destinations in 47 countries. In the first half of 2016, this business provided around R$154 or 3% of our total gross revenues in the period.

Smiles is one of the largest coalition loyalty programs in Latin America with over 11 million members, allowing clients to accumulate miles and redeem tickets for more than 700 locations worldwide. Smiles earned R$772 million of gross revenues in the first half of 2016.

As you can see in the table, in addition to these businesses, other ancillary revenues contributed R$453 million in gross revenues or 9% of total in the period. Combined with Gollog and Smiles, our total non-passenger transportation gross revenues in the first half of 2016 were R$1.4 billion or 27% of the total.

Our 2016 first half consolidated net income was around R$1 billion and the company's total consolidated cash balance was approximately R$1.4 billion at June 30.

Moving now to the next slide, I will provide you a brief update on our comprehensive restructuring plan. As shown on slide four, in mid-2015 we initiated specific actions to happily right size our operations to match Brazil's shrinking economy and combat the negative impact on the airline industry caused by significantly devalued Brazilian currency. Such actions were proactively designed to adjust our capacity and leverage the current environment - actually leverage to the current environment, which has been pretty challenged.

In May, during our first quarter 2016 teleconference, we updated you on the restructuring plan initiatives in progress at that point in time. We reported that during 2015, we completed approximately R$1.8 billion of new liquidity initiatives, primarily from shareholders or with shareholder support.

During 2016 to date, GOL has; one, completed an agreement with its partner, Boeing, to reschedule aircraft deliveries and return of redelivered deposits; two, freed up Smiles shares pledged in collateral for the term loan guaranteed by Delta Air Lines; three, receive the second installment of R$600 million from Smiles related to advance payments for future ticket sales, with the outstanding balance of R$400 million expected to be received in the fourth quarter of this year; fourth, concluded an exchange of GOL's U.S. dollar unsecured debt achieving a reduction of $102 million or R$327 million and generating annual interest savings of $9.3 million; and number five, obtained covenant waivers from the debenture holders for the first half of 2016, as well as extending the maturity of R$225 million from 2016 and 2017 to 2019.

Also during 2016, GOL renegotiated 10 aircraft under finance leases and successfully reduced fleet size from 144 Boeing 737 aircraft by the year end of 2015 to the 137 aircraft currently in our fleet. An additional 5 Boeing 737s will be returned by yearend, rightsizing our fleets to a total of 122 aircraft.

GOL's adjusted net debt has been reduced from a peak of 11 times of EBITDAR at the end of 2015 to 7.6 times at June 30, 2016. We have more work to do to reduce leverage; and on slide 14, we will review this in a more detailed way.

We also continue improving the allocation of our talent and recently announced some changes at the board of directors and the senior management team. Richard stepped out of his board seat to contribute more decisively to our value creation efforts, recapitalization process and profitable growth, and Edmar is fully closely with Richard during his transition.

Our fleet reduction has been the key to permit the matching of our seat offer to current demand, as is demonstrated on the next slide, slide number five. Here you can see how GOL has driven the capacity rationalization in the Brazilian airline industry. Having said that, although GOL has provided leadership in reducing capacity, industry profitability has been negatively impacted by the capacity growth of two players, one of which has not reduced its capacity and the other has even added capacity during the downturn in the market.

In the left block in this slide, you see the 10.6% reduction in GOL's number of seats available in the domestic market since January 2015. This represents a 2.3 percentage point reduction in excess of the second player and a 5.1 percentage point reduction in excess of the industry average. GOL's capacity reduction will continue in the second half of 2016 within the range of a 15% to 18% reduction in the volume of seats.

We are fully committed to resize GOL and prioritize our profitability. By getting capacity at that level and reducing the fleet from the yearend, 144 Boeing 737s to next December, 122 Boeing 737s, we likely have implemented the strongest and fastest restructuring in an airline of that size.

Our domestic RPKs reduced by 8.4% in this semester and 1.8 percentage point below the industry's reduction in demand. Until June this year, GOL's total load factor fell by 1.6 percentage points, reaching 75.2%. In the domestic market, the reduction was 1.8

percentage points to 76.7%; and the load factor in the international market was 69.3%, an increase of 1.1 percentage points compared to the same period in 2015.

Please move to the next slide. On slide six, we highlight some of our additional achievements in the second quarter of this year. Our brand new flight network was launched on May 1, bringing much more convenience to GOL's customers. Right here, at São Paulo Congonhas domestic airport, serving customers in Brazil's largest market, we are now the leader in number of destination served at 33, have the largest seat availability to North and Northeast Brazil, and have an improved schedule through Brazil's key business markets.

At the Guarulhos International Airport, Brazil's main international gateway, GOL has now its highest diversity of destinations, serving 32 domestic and 8 international destinations. In Rio de Janeiro, the second largest Brazilian market, we are now the most comprehensive flight network for the domestic and international passengers. Through our partners, Air France/KLM and Delta, GOL offers the largest number of destinations departing from Rio, with 8 international and 25 domestic. Our Rio hub connections now provide better options to both the South and North of Brazil.

Moving to the center of the slide, according to ABRACORP, GOL maintains its leadership of corporate sales in number of tickets issued in the first half of 2016. And finally, on the right of the slide, we are happy to share that in recognition of our internal process and commitment to high-quality standards, we have received the certification of the US Federal Aviation Administration, the FAA, to perform a C-Check at GOL's Aircraft Maintenance Center in Confins. This means that we will be able to provide lease return checks and maintenance and services to our fleets, generating cost savings. In the future, we will be able to provide maintenance services to other operators.

I will now turn the presentation over to Richard, who will review our second quarter results.

Richard Freeman Lark Junior

Thanks, Kaki, and good morning to you all. In the next few slides, I'll go over the second quarter 2016 results, highlighting the main characteristics and drivers for the period.

Please flip to slide number eight. The 2Q 2016 macro environment in Brazil was dominated by high levels of risk and uncertainty, as the market awaited the resolution of the current political crisis and the Brazilian real on average ended up worth 14.1% less versus 2Q 2015.

Demand for air travel, as measured by revenue passenger kilometers or RPKs, decreased for the 11th consecutive month and demand from corporate customers decreased. To cope, the Brazilian domestic airline market reduced ASK supply by 8.4% during the period. That all was negative in the macro environment, as jet fuel in reais reached its lowest level in five years, as evidenced by the 17.3% decrease versus 2Q 2015.

In the second quarter of 2016, GOL's airline operations reduced capacity by 9.3% to 10.8 billion ASKs, achieved a load factor of 75.2% and increased passenger revenues per seat kilometer or PRASK by 6.9%, permitting a total RASK improvement of 8.1% in the quarter.

The 21% reduction in takeoff volumes and the 21% reduction in available seats were made possible by the fleet rightsizing that Kaki reviewed in the first part of our presentation. The 11.7 percentage point reduction in available seats, above the 6.9% ASK reduction, is primarily due to the increase in stage length which is part of the new route network fully implemented in May of 2016. GOL's constant focus on improving revenue management helped drive a yield increase of 9.2% over the second quarter of 2015.

In the six-month period ending June 30, 2016, yield was up 13.8% and PRASK increased 12.3%. At R$0.21, total operating cost per seat kilometer or CASK increased 4.7% over the same quarter of 2015. The CASK, excluding fuel, decreased 18% in the quarter-over-quarter - sorry, increased 18% in the quarter-over-quarter comparison. Despite the increase in operating costs per seat kilometer, the increase in RASK permitted a reduction in the losses from operations to R$0.016, representing an improvement of 24% when compared for the same period in 2015.

Please turn to slide number nine. In the quarter, consolidated CASK ex-fuel was R$0.155, an increase of 18% in the quarter-over-quarter comparison. The increase in CASK was primarily driven by the following, a) a R$0.006 or 29.3% increase in aircraft lease expenses per ASK, driven by the 14.1% devaluation in the Brazilian real and the increase in the number of aircraft under operating lease contracts from 97 aircraft in 2Q 2015 to 102 aircraft in 2Q 2016; b) a R$0.005 or 25.4% increase in servicing expenses related to the growth in Smiles products and tickets acquired from peer airlines, which will generate future revenues for GOL; c) a $0.004 or 36.9% increase in maintenance expenses due to the Brazilian real devaluation and higher number of engines repaired during the quarter; and d) a R$0.002 or 7.1% increase in salaries expenses due to 11% increase in wages from the collective bargaining agreement.

Fuel in the quarter was R$1.83 per liter, representing a 17.3% decline when compared to the second quarter of 2015, and was the lowest level since the first quarter of 2011. However, the reduction in Brazilian fuel prices was significantly lower than international fuel prices, as jet fuel prices in Brazil are impacted to the U.S. dollar. It's worth noting that GOL decreased by 10% the number the liters consumed per RPK comparing the LTM period ending 2Q 2016 versus the LTM period ending 2Q 2013, as a result of initiatives to improve operating efficiencies.

To review non-passenger transportation revenues, please flip to slide number 10. GOL Smiles subsidiary closed the second quarter of 2016 with net revenues of R$349.8 million, an increase of 27% over 2Q 2015. Operating income was R$128.1 million, representing an operating margin of 36.6%, 2.9 percentage points higher than the same period in 2015. Net income in the second quarter of 2016 was R$123.6 million, representing a net margin of 35.3%.

The quarter's result of Smiles reflect 10.2 billion of redeem miles, a 7.9% increase over 2Q 2015; 11.6 billion miles accrued excluding GOL, a 3.6% increase over 2Q 2015, and 316 million of billings excluding GOL, which was a 10.3% increase over 2Q 2015.

In 2Q 2016, cargo revenues were R$59 million and other revenues were R$239 million. Cargo revenues increased in the semester by 2.1% and remained stable at R$330 million in the last 12-month period despite the reduction in ASKs. GOL recently initiated operations in a new cargo terminal in Manaus.

In other revenues we highlighted today, 100% of our fleet is configured with the GOL plus comfort seats which are producing additional revenues. And in 2Q 2016, GOL surpassed 20,000 on board products sold per day.

Moving to slide 11, we showed the period comparisons for the summary income statement items. Net revenue in the quarter decreased R$42.3 million to R$2.1 billion, primarily due to the 14% decrease in seat availability. Total net revenue increased to R$165.6 million in the first half of 2016 compared to the same period in 2015. Year-to-date revenues reached R$4.8 billion, representing an improvement of 3.6% compared to the first semester of 2015. 2Q 2016 operating loss was R$171.4 million, an improvement of 31.7% in comparison with the second quarter of 2015.

First half 2016 EBIT reached R$265.8 million representing a margin of 5.5%, an evolution of 7.6 percentage points over the same periods of the previous year. In the recent quarter, GOL incurred R$21.8 million of expenses related to the return of aircraft under finance leases. The operating loss before interest and taxes, excluding the R$21.8 million of non-recurring items, was R$149.6 million representing a negative 7.2% margin and representing a 5.1 percentage point increase over the second quarter of 2015.

Year-to-date recurring EBIT margin excluding the non-recurring effects was 1.6% versus the negative 2.5% in first half 2015. Recurring EBITDAR was R$247 million in the quarter representing an 11.8% EBITDAR margin. In terms of cash flow generated from our business operations before financing flows, GOL generated approximately R$466 million of cash flow in the quarter excluding the R$307 million increase in accounts receivable and the release of R$374 million in restricted cash. You can find detail on these cash flow numbers in the cash flow statement in the audited financial statements.

Moving now to slide number 12. Second quarter results were positively impacted by R$779 million net exchange rate variation due to the Brazilian real appreciation over the U.S. dollar during the quarter. The exchange rate variation was the key factor determining the R$309.5 million net income in the quarter. Exchange rate variation was R$1.5 billion year-to-date, driving the net income of R$1.1 billion in the first half of 2016.

Moving now to slide 13. Pro forma for the conclusion of the exchange offer, total debt decreased by approximately R$1.2 billion in the second quarter. The U.S. dollar unsecured debt exchange achieved a $102 million reduction representing R$327 million, of which $28 million or R$90 million reduced amounts due in 2017. Also, GOL effected R$248 million in bank amortizations and finance leasing amortizations and derived an additional R$667 million from exchange rate variation on U.S. dollar denominated obligations.

Additionally, R$225 million of debentures maturities were rescheduled from 2016/2017 to 2019. On the left side of the page, you can see that the consolidated cash balance of R$1.4 billion was composed of R$595 million of free cash, R$409 million of cash from the balance sheet of our Smiles subsidiary, and R$361 million of restricted cash.

In addition to this total cash balance, GOL finished the quarter with R$763 million in accounts receivable, which was an increase of R$300 million when compared to December 2015. Adding this amount to the R$1.4 billion in cash balance, GOL finished the quarter with approximately R$2.2 billion of total liquidity.

To conclude our review, please move to slide 14. On slide 14, we present a comparison of the last four quarters' leverage statistics. As you can see on the chart, GOL's total debt in reais at June 30, 2016, decreased by R$1.3 billion when compared to the end of 2015. When all the initiatives in the restructuring plan are completed, the total debt reduction is expected to reach approximately R$3.8 billion deriving mainly from the following: A, a R$327 million reduction in U.S. dollar unsecured debt; B, a R$1.2 billion reduction in aircraft operating leases; C, R$600 million in reduction in aircraft finance leases on aircraft still to be returned; D, R$400 million in bank debt amortizations and amortizations on finance leased aircraft already returned; and E, a R$1.3 billion reduction in U.S. dollar denominated debt obligations deriving from the exchange rate effects I previously described. Company projections for the next 12 months to 24 months indicate gross adjusted leverage of between 6 times to 6.5 times.

Now, I will turn our presentation back to Kaki, who'll present our guidance for the full year.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Rich. Please turn to slide 16. GOL is reaffirming its capacity projection for 2016, which includes the total supply reduction of 5% to 8%, and a total seat and volume of departures reduction between 15% to 18%. Although we still had a high level of uncertainty regarding the time required to solve the current political and economic crisis, we are resuming guidance for operating income and we are expecting an operating margin between 4% to 6% for the full year 2016.

The EBIT margin guidance considers the full year average Brazilian real to U.S. dollar exchange rate of between R$3.50 and R$3.90, and average Brazilian jet fuel prices in reais between R$1.90 and R$2.30.

I will now take your questions.

Q&A

Operator

Thank you. The floor is now open for questions. The first question is from Michael Linenberg at Deutsche Bank.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hey, good morning everybody, and welcome back, Rich. You talked about what the operating cash flow was before financing – you threw out some numbers on cash flow for the quarter. Can you just tell us what the daily burn rate was in the June quarter and how that is trending into the September quarter? And I realize that your June quarter seasonally is your most challenging quarter, so we shouldn't – I would anticipate that that number has improved. So if you could give us some color on that, that'd be great. Thank you.

A - Richard Freeman Lark Junior

Okay, Mike. Hi, Mike. Sorry, we're having some trouble pressing the button here on the thing. We're not providing...

Q - Michael Linenberg {BIO 1504009 <GO>}

No problem.

A - Richard Freeman Lark Junior

Yeah, sorry. Hi. We're not providing information on the daily company cash burn rate per se, either second quarter or third quarter. But what I can say is that and one of the points I was trying to make there is that, we saw some comments on the cash flow. In Q2, the cash flow was positive. One of the big differences I think from the past is that, in the last quarter GOL stopped factoring receivables which effectively took – consumed R$300 million in the cash flow.

So you kind of need to add that back and then as well need to make some other adjustments there for the restricted cash. And so the cash for the Q2, if you will, (28:57) operating cash from operations was around R$500 million, which is not necessarily indicative obviously of the cash flow just generated at the EBIT line.

So, I would kind of provide that as an indication of what the number is. Having said that, the company is more or less operating on average at a breakeven level in terms of cash flows at this point on the operating side.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay, helpful. And then just the second question and this is either to you or Kaki, just how things are trending? I mean we know that the June quarter seasonally is the most challenging quarter for GOL, as we've moved into the third quarter, one, how do trends look and I realize there is an Olympic effect which can be good and it can also be bad, since we typically see a falloff in business travel.

So, I know it would be quite difficult to actually try to isolate the Olympic impact, but maybe sort of trends current and maybe how bookings look beyond Olympics, as we move into sort of the latter part of the year? Any color on that would be great. Thank you very much.

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

Hi Michael, Kakinoff here.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hi, Kakinoff.

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

Actually, how hard it is to tell - to give you any color on July's or August figures because then I would necessarily tell you what's going on for the quarter and that would be a kind of guidance. But what I can tell is that the Olympic Games doesn't affect basically the Rio de Janeiro destination. It's not a systemic impact on the network like the World Cup was.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay.

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

So independently of the Olympic Games, I can remind you all that the second half of the year used to be quite stronger than the first half regarding revenues and consequently the profits and margins. So we have built our guidance considering that for the second half of this year we would have a normal seasonality in comparison to the past years. This is the maximum output I can give you from your question, without harming our commitment to not give any kind of unofficial guidance. I hope you can understand it.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yeah. I appreciate that. That's helpful. Thanks, Kaki. Thanks, everyone.

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

Thank you, Mike.

A - Richard Freeman Lark Junior

Thank you.

Operator

The next question is from Savi Syth at Raymond James.

Hey, good morning. This is Matt (31:59) on for Savi, actually. Our first question is for Richard. So Richard, this is a little bit of a different environment when you were previously with GOL, so what attracted you to really take this position at this time and what would be your biggest focus in the next 6 months to 12 months?

A - Richard Freeman Lark Junior

Sure, but later (32:22) you can explain me what's different. But when you look at the key variables affecting GOL exchange rate or fuel, it's a very – it's been a very similar environment to 2003 for example. But going right to the point, I mean a couple of issues, obviously, I've been with GOL since 2003 in a variety of capacities plus I worked for five years as CFO, and then since then I've been working in the board, heavily evolved in a variety of committees and in many projects also with Edmar and Kaki, and so on and so. But thanks for your comments.

Those are specifically – we have – as Kaki mentioned, we have a lot of work on capital structure, which is going to take a period of time over this year and next year. Part of it is reacting to what has happened in the downdraft which has affected not only Brazil but the entire world, but specifically in Brazil, given the volatility here over the last 12 months with exchange rate and other factors competitively.

So, one major area obviously which is where I'll be spending most of my time now and in the near future is on capital structure and so on. But in addition to that, working with Kaki and the team on core profitability across the board and a variety of initiatives that we are – that many are already in progress and some of which yet will be implemented next year.

But I would say, over the next couple of quarters, I hope that that will become more evident, as we kind of make this shift from this major restructuring plan that has been happening over – the company has been doing since the middle of last year and is in its final steps to kind of the next phase, which is kind of a rebuild – final rebuilding of capital structure and profitability, and ultimately other issues which would help GOL competitively in the region. And so that's what I have to comment on that at this point.

I think it's a little bit too early for me to be more specific on that, and I think part of that also will be evident as we – third quarter, fourth quarter get into more details of our projects at the company for next year.

Operator

The next question comes from Pablo Zaldivar at GBM.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Hello, good morning. Thank you for taking my question. I have a couple, the first one, how much should we expect in savings from the in-house e-checks that were recently approved by the FAA?

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

Hi, Pablo. It's Kakinoff here. Unfortunately, we cannot give you anything in advance, but you know that those checks are quite expensive. And the transit, I mean to move the airlines out – the aircraft, sorry, outside Brazil is also equally expensive. So we believe that could be significant, but we cannot tell you any figure in advance.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. And the second one is regarding your fleet. In the press release, you mentioned that you're in the final stage of returning 15 aircraft, so we should expect that to happen in the following quarter? And the other one, are you expecting to sell any aircraft under financial leases during the year?

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

We have – so, the remaining movement is supposed to happen during the third quarter and fourth quarter. And we have two aircraft among these 15, those will be sold. So this is 13 operating leases and 2 aircrafts to be sold.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Perfect. Thank you very much.

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

Thank you.

Operator

The next question is from Stephen Trent at Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, gentleman, and thanks for taking my questions. And I'll echo Mike Linenberg. Welcome back, Richard. It's been a long time. Just a couple of questions from me, if I may. The first is, I appreciate your comments about the competitive situation, as you see one of those two kind of smaller competitors about to add Airbus narrow bodies into the system. What are you seeing in terms of the potential for tighter fares coming from those players? That's my first question?

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

Hi Stephen, it's Kakinoff. Actually, the market – the competitive environment is still tough. We also believe that the reductions in the industry's capacity will benefit us all. Bottom line, if you consider the reduction already announced by some of our competitors and add it to GOL's, the total offer in Brazil should be down 8% to 10% in comparison to last year. That is quite important movement.

GOL itself is cutting between 15% to 18% of our seats available. I do not know whether – maybe you can tell us whether such strong reduction happened before in an airline without going through a Chapter 11. That's a quite important achievement, which I believe will play in favor of the whole system combined with rather competitors' capacity reduction

A - Richard Freeman Lark Junior

Yeah. This 20% reduction in metal (39:01) aircraft, it's happened over the last year or so, which is in its final phases, I mean those aircraft are already negotiated and some are grounded and they're going out at the end of the year. So that's kind of - without parallel in the airline sector and that's in excess of - compared to what other competitors have done here in Brazil.

So GOL is very, very well prepared to meet this massive reduction in demand for air travel. I mean we're kind of a little bit ahead of the curve, one step ahead of everybody else in terms of the work that had to be done to get to this point and that's already done. So we're in a pretty good position to deal with whatever competitive pressures may come beginning of next year.

Obviously, we're going right now into the stronger part of the year in terms of the demand, third quarter, fourth quarter. But to the extent that there's pressure there, we feel kind of we're in the driver's seat in terms of - we've already done our reduction and as you see - if you've seen in the data, GOL's kind of led the market in its rightsizing and readjusting.

So we feel pretty good about that we've taken the defensive measures to deal with the question of balancing capacity with demand, especially in this environment of negative GDP growth and negative industry growth, which is also unparalleled in many markets around the world, but we think we're in a pretty good position to deal with that.

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

Before handing it all back to you, I will kindly request our teleconference operator to not drop the line after the first answered question. Do not change to another person because I just got the impression that some of our colleagues would have more than one question to be asked. I do not know whether this is your case, Stephen, but please tell us.

Q - Stephen Trent {BIO 5581382 <GO>}

No. Thank you very much, Kaki. I appreciate that. And thank you, Richard. I did have some other quick ones, if I may. The second is, if you could refresh my memory, I didn't totally catch all of the numbers, but you said 13 operating leases and 2 financial leases to go back by the end of this year. And those are already confirmed or are there still some aircraft in final negotiations and just one more question after that.

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

Okay. So I will try to help us all to understand the figures on the same page. December 2015, we had 144 aircrafts, now we have 137, and by the end of this year we will be 122. So the gap between the current 137 and the future 122 is 15, and among this 15, 2 of these aircrafts are to be sold and the remaining 13 will be early – their contracts will be earlier terminated. So it means that, by announcing these 122, we are at the final phase of having this paper signed, their contract terminated and so far. So that's, let's say, for sure despite of the fact that the paperwork – some of the paperwork is still to be done.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, great. Sorry, Richard.

A - Richard Freeman Lark Junior

Do you have another question? Sorry. Do you have another question, Steve?

Q - Stephen Trent {BIO 5581382 <GO>}

Yeah. Yeah. I'm sorry. Just really quickly and I'll let someone else ask a question. Just a follow-up on Mike Linenberg's question. I think you guys said you did receivables factoring in the past and you're no longer doing that. What's the idea behind discontinuing that, just out of curiosity?

A - Richard Freeman Lark Junior

Well, part of it was done in the past as a necessity for a variety of reasons, operationally as well as in terms of issues related to rating and so on. And operationally, there's been less of a need to do that because that has a cost of roughly – an annual rate of roughly 16% a year. There's interest discount that goes in there. And so, in the recent quarter, the company stopped doing that.

But I think the right way to look at those receivables, when the company had access to those accounts receivables, if the company wanted to put R$250 million on the balance sheet tomorrow, it could do that, but there's a financial cost to do that. And for interest expense reduction and cash flow improvement, we're using that more sparingly going forward. So keep an eye on the receivable account as well when you look at liquidity because that's really a near to cash asset.

Q - Stephen Trent {BIO 5581382 <GO>}

I got it. I'll let someone else ask a question. Thanks again, guys.

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

Thank you.

Operator

The next question comes from Matt (44:10) at Savi Syth's location at Raymond James.

Hey guys, thanks for the follow-ups as well as the other remarks earlier. Just quick one here. Can you provide your gross CapEx for 2017 and 2018? And also, given your cash flow levels, do you have the ability to take that aircraft count lower? That's it. Thank you all.

A - Richard Freeman Lark Junior

In terms of the CapEx amounts for the next year, it's really de minimis amount because keep in mind, the main CapEx relates to the PDPs and we're getting returns of that.

So there's really no aircraft CapEx to – coming up here 2016, 2017, that's all been eliminated from the cash flow needs, keep buying those, one of the key components of the restructuring component that was done especially with the help of Boeing. So until 2018, we don't have any significant CapEx needs. Sorry, the second quarter of your question was what?

Q - Operator

Given your cash flow levels, do you have the ability to take that aircraft count lower or the desire to at all?

A - Richard Freeman Lark Junior

The objective on the aircraft was not – was designed to match supply with demand. We've already done that, so there is no need to do anymore.

Q - Operator

Great. Thank you all.

The next question is from Bruno Amorim at Santander.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hi. Good morning, all. So I have two questions, the first one on RASK. I like for you if possible to tell us what was the impact from implantation of the new network on RASK, and also how does it compare to the potential negative impact on CASK, as a result of a lower fixed cost dilution? And second, it's a follow-up question on CapEx. You had a negative CapEx in the first half of the year. Is it fair to say that in the second half the trend is for CapEx to remain negative? Thank you very much.

A - Richard Freeman Lark Junior

Let me just take the CapEx question first, as we were just talking about that, just to explain it again. The reason for the negative CapEx was the return of the PDP deposits because the main CapEx which the company has is the PDP component of the aircraft deliveries, new aircraft from Boeing. Two points, the aircraft deliveries were rescheduled and it was the return of those PDPs, that's already done. So there's no significant positive or negative CapEx going forward for the next couple of quarters. On RASK, I'll let Kaki answer your RASK question.

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

Certainly this (47:08) network has worked in favor of a better RASK, because we are offering more destinations from Congonhas, which is a business traveler airport mainly. So in order to also compensate the CASK dilution, we have already a longer stage length mainly due to the new network from Congonhas. So, this effect in the medium and long term should be more than enough to overcompensate the movement once Congonhas can be considered a sort of premium airport and this is basically the most important movement that we have implemented through the new network.

A - Richard Freeman Lark Junior

As the new network came in on the beginning of May, you've seen a quarter-over-quarter comparison the 14% increase in stage length. So that's really reflective on what Kaki was saying, I mean 40% increase in stage length which has the impact both on the revenues as well as the costs.

Q - Bruno Amorim {BIO 17243832 <GO>}

Yeah. Please correct me if I'm wrong, but these higher stage lengths should also have a positive impact on CASK, right? So in other words, maybe – change a little bit my question, was the cutting in capacity EBIT positive? Should we see, of course on top of seasonality, better margin third quarter vis-à-vis first quarter and second quarter?

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

Yes.

A - Richard Freeman Lark Junior

Yeah, apples-to-apples because the stage length increase is in excess of the overall capacity reduction. So there is a structural benefit there which we expect will – assuming yields and load factors behave positively, will have positive impact on operating margin.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Thank you.

Operator

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>}

Sorry, please turn to slide number 18. We are confident that the initiatives and execution we delivered require cash flow savings and debt reductions, and consequently stronger balance sheet. Our Team of Eagles is working hard to improve the network and complete the fleet restructuring in order to reduce costs and capture efficient gains even further.

This concludes today's presentation regarding the second quarter 2016 results, and we will like to remember that we are fully available to answer any further questions that could appear along the day. So have you all a very nice day. Thank you very much.

Operator

That concludes GOL Airlines' conference call for today. Thank you very much for participation, and have a nice day.