

Q2 2014 Earnings Call

Company Participants

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

Other Participants

- Bernardo Vélez, Analyst
- Duane Pfennigwerth, Analyst
- Michael J. Linenberg, Analyst
- Savanthi N. Syth, Analyst
- Stephen Trent, Analyst
- Thomas Kim, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and thank you for waiting. Welcome to GOL Airlines' Second Quarter of 2014 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 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 the 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 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>}

Thank you very much. Hello, everyone and thank you for being with us in our earnings conference call for the results of second quarter 2014.

Let's begin our presentation on the slide number 2, where I would like to highlight that GOL improved its operating result for the sixth consecutive quarter. This is the first time since 2010 that the company registered a positive operating margin on a second quarter, reaching 1.6%.

As a result, GOL's EBIT reached BRL 38 million, an increase of BRL 73 million compared to the second quarter of 2013. Net revenue reached BRL 2.4 billion in the same period, 24% higher than second quarter 2013. Also, net revenue in the last 12 months came to BRL 9.8 billion, while EBITDAR in the last 12 months stood at BRL 1.8 billion, an increase of BRL 1.1 billion when compared to the same period last year. In the quarter, EBITDAR totaled BRL 375 million.

On slide 3, we showed the main operating and financial highlights. On the liquidity side, we maintained a strong cash position of BRL 2.8 billion, equivalent 29% of the net revenue in the last 12 months. On the left side, the company ended the second quarter with a leverage ratio of 4.6 times versus 11.3 times in second quarter last year.

In order to further strengthen our balance sheet, we implemented a liability management program, consisting of several measures to reduce our financial expenses and extend the amortization schedules. The company renegotiated its fourth issue debentures and held a tender offer for its bonds, reducing its debt by \$187 million.

On the operational side, the results obtained by GOL showed its commitment to ensure service excellence for all its clients, based on quality and smart simplicity. The domestic load factor stood at 76% in second quarter 2014 and 76.4% in the first half of the year, the highest ever levels for the periods.

The quarter was also marked by the results achieved during the FIFA World Cup 2014 in Brazil. The company prepared a whole team to execute more than 28,000 commercial flights, 8,000 on top of the second largest company in Brazil. Of the total of 4,500 employees in the ground staff, 3,000 were temporarily reallocated to the host cities in order to provide full support to the operation. Additionally, crew members were selected based on their language skills in order to better serve foreign passengers.

During the World Cup, GOL was the leader in number of customers, carrying 3.4 million passengers, reaching a load factor of 81.2% and leading the punctuality rankings with 96% of flights on time. We are proud to say that the success of our operation was recognized by our customers. In our SMS customer satisfaction survey, we received a rating of 8.16 on a scale of 0 to 10, an all-time high for the company.

Moving to slide number 4, we present the continuous increase in the EBIT and EBITDAR in the last 12 months, reaching BRL 382 million and BRL 1.8 billion respectively, new historical records. On slide 5, we present GOL's strategy focusing on PRASK growth, combined with the new load factor level which reached 76% in the domestic market during the quarter. Also, it's important highlight our 17% yield growth versus second quarter in 2013 and ongoing reduction in the seat supply with an 11.6% decrease compared to the second quarter of 2012, when the company started reducing supply .

On slide number 6, we present efficiency and productivity gains which are increasing every quarter. Net revenue per employee was 64% higher than in 2011. The same trend can be seen in seat demand per employee which was 35% higher than in 2011. From the operational standpoint, GOL also showed continued progress, boosting revenue generation per flight and improving fuel consumption per RPK.

Moving to the next slide, the number 7, we can note the results of our strategy, by reducing capacity, adjusting supply based on demand in order to take advantage of market opportunities. This strategy could be clearly seen during the FIFA World Cup, when we redesigned the network to serve the public of the event and capture gains, as well as offset the impacts of lower than expected demand in certain markets. As a result, we obtained the highest growth in the industry with a 62% increase in the number of passengers in the first half of the year and representing 50% of the industry demand growth.

On slide 8, we can see the results of the strategy of improving our connectivity through a virtual network, which now has two new partners; Etihad and Aeroméxico. Due to this focus, our revenue in foreign currencies has already surpassed the mark (08:18) of BRL 1 billion in the last 12 months, representing 11% of total revenue.

Moving to the next slide, the number 9. We can see the results of the FIFA World Cup operation in detail. GOL performed the largest commercial operation among Brazilian airlines in the period from June 12 to the July 14.

On slide 10, I would like to briefly comment on our new product and services, which we have developed to better serve our customers. To improve comfort onboard, GOL offers the largest number of seats in ANAC's best category, with more leg room between the seats, increased reclining angle and blocked middle seats in the first seven rows for the São Paulo and Rio de Janeiro shuttle services. For the other destinations, we are offering a new menu with more options in order to please everyone.

In order to provide more convenience to our customer, GOL's customers can now easily anticipate their flights through GOL's application for smartphones, mobile, on-site and electronic kiosks. They can anticipate the flight by six hours on the same day and the Smiles Diamond customers can anticipate their flights to anytime. All this was developed to provide even more benefits and make GOL more attractive to high value customers.

Moving to slide 11, Smiles results prove the success of the complementary strategy between the two companies. During the quarter, Smiles posted a net profit of BRL 64

million with a 42% margin. Also in the period, Smiles issued BRL 600 million in debentures and completed its capital reduction for the distribution of BRL 1 billion, which reiterate management's commitment to the shareholders during the IPO.

Now, I will hand over to Edmar, which he will present the results for the period.

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Thank you, Kakinoff. Good morning, everyone. I'm at slide number 13, but before moving forward, I would like to say a few words. This is an important quarter for us, because it's the first positive margin in the second quarter since 2010 and we are confident here that we have built this result not yesterday, not in the previous quarter, but we have been building this for over two years now, with the capacity discipline that we have showed and also with all the efforts from the team, from the commercial guys, operational guys, and in giving and working on a very, very tight schedule over the period for the World Cup.

Now, going back to the numbers, as Kakinoff mentioned, our PRASK is moving up at a steady pace beyond 20%. This is a pace which will be higher to keep looking forward, but this is part of the game, the baseline has moved up. On the CASK side, we have a slide here that shows what are the impacts over the total number. As for the EBIT margin, the progress that we have made in the last year is very important. We have moved to 3.4 percentage points which is very important and the year-to-date as of June was at 3.7%, this is 2 percentage points better than last year.

As for leverage, I would like to highlight the EBITDAR and this is important because we are not only spending margins, but we are also growing the company. Again, revenues have moved up by 24% on a quarter-over-quarter - on a year-over-year comparison. Although, as you see at the bottom of the page, the FX has moved against us, as well as the jet fuel.

Moving to the next slide, we have the aggregated numbers for revenue and operating costs. You see that the margin expansion is indeed coming from the top line, revenue up on a last 12 months basis by more than 20% while the cost have grown by 10%.

In terms of EBIT and EBITDAR, we are talking big numbers here. The improvement over last the 12 months on a quarter-over-quarter comparison is almost BRL 900 million. As well as for EBITDAR, EBITDAR has moved up 10 percentage points, which is more than BRL 1.1 billion, therefore bringing our leverage to a much lower - to a much, much lower level than one year ago. And in terms of margin, we are very close to 16% now.

I would like to ask you to move to page 15. And this is a chart that we like here and this shows what we have in mind here. First, if you look at the right part of the chart, you see that our margins not only have moved up, but they have been more predictable. And we have increased the company's results in spite of the FX moving against us, the FX is the green line. The BRL 2.21 million against the BRL 1.63 million is a 36% increase over the period.

At the same time, jet fuel raised by more than 40%, 43% is the right number, because it has moved from BRL 1.75 to BRL 2.50, which shows that we have improved margins in spite of the scenario being adverse and working as, I would say, headwinds for us.

Moving to the next page, this is page 16, please. This is CASK on a more detailed basis, we're talking about unitary basis here. On the last 12 months, almost 20%, while in the quarter, 26% for total CASK. And on the ex-fuel side, for the last 12 months, it has been an increase of 14% and quarter-over-quarter basis, almost 33%.

And now, we'll move to the slide 17, where we give details over what's happening here. First and foremost, it's important to understand that besides fuel, which has impacted our costs by almost BRL 100 million, we have a schedule of predelivering planes for the year, which total 10 planes by the end of 2014. Two of those will be returned over the last quarter.

Probably, you know that before returning the aircraft, we have to do a lot of work over them (16:04) and then we have to ground them a few months in advance. So in the first half of the year, we have seen a lot pressure on the maintenance in the aircraft - in aircraft line, because we have the planes sitting at the MRO and being under the work in order to be redelivered. So there were three redeliveries in the first quarter. There was one in the second, but we plan four redeliveries in the third quarter. We have incurred most of the cost for those that I have just mentioned.

And going over sales and marketing, we see an increase of roughly BRL 50 million. Half of that is related to the new revenue level of the company. This is related to sales incentives and it adds advertising expenses. And we have losses, we have had that in the last two quarters. Related to losses in direct channels, this is fraud over sales. Total this quarter was BRL 26 million, it was down on a quarter-over-quarter comparison basis. The number is going down, it will go down in the third quarter and when it comes to the end of the year, we will be back to the regular level that we had before 2014.

On services that we contracted, we hired from an outsource, we have seen again an increase related to sales. Distribution channels are one of those, like GDS that we do use now, that we didn't use before, especially in foreign countries. We have seen charges for employees, outsourced employees related to dangerousness, which we didn't have before and this only accounts for roughly BRL 20 million. And we had another BRL 15 million related to the extension of our Smiles program in our connectivity, when we sell tickets from our codeshare partners. So this is - we are detailing that in order to show you that some of the cost that we have incurred on an additional basis are related to the new level of sales and operation of the company.

Now, moving to the next page, we go to 18 and I'll be very candid here. Some of the guys were not expecting another loss on the Venezuela cash and we have been very pragmatic as for this subject here. And we have been discussing with the government on a daily basis. We have received up to now BRL 4 million, we have a deal that we'll receive another BRL 38 million in the next quarters, and we are expecting some money to come in very soon and when we have it we will announce. But the main message here is that the

bottom line is suffering from this FX variation, as well as some other derivatives related to the quarter.

Moving to page 19 and this is my last slide. This is a very familiar chart that we have here. This is our debt amortization profile. On the second quarter, we have expense and liability management as Kakinoff mentioned. And on the right side you see on a pro forma basis, how it looks after we have the Smiles, both Smiles transaction, that is the debenture being issued, as well as the capital reduction, together with the tender offer that we made for the 2017 and 2023 bonds that were outstanding. And for the moment, we are working in other alternatives and other opportunities that we have. And if we do succeed in any of them, of course, we will come to the market.

By saying that, I'll give the floor back to Kakinoff for his final comment over the guidance.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I just would like to complement the presentation by reinforcing that the results of the first half of the year make us confident that even with a scenario of uncertainty and pressure on cost, we are fully committed to deliver the margin projected in our guidance for 2014. I would like to thank everyone for participating and begin the question and answer session.

Q&A

Operator

Thank you. The first question comes from Mike Linenberg with Deutsche Bank. Please go ahead.

Q - Michael J. Linenberg {BIO 1504009 <GO>}

Hey, good morning, everybody. I want to go back to the debt reduction. What was the total debt reduction? I didn't get the number. And then I guess to Edmar, are there more opportunities to reduce debt over the next 12 months? Like what's coming due or what are some of the securities that you can potentially address?

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

Hi, Michael, this is Edmar here. Total for the 2017 and the 2023 was BRL 188 million, that's what we took out from the market. And as for opportunities, it depends a lot on market conditions. At this time, you are on vacation, most of the guys in the U.S., September after Labor Day is when the market reopens. But as you saw in the last few weeks we will be ready, if there is an opportunity to move. At this time nothing to announce, okay.

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

Hi, Michael. It's Kakinoff. I'd just like to complement by saying that, we are monitoring the market, seeking for good opportunities to reduce our work (23:19). And basically we are

not only foreseeing future opportunities, but trying to discuss those opportunities with the banks in advance to be ready to implement them when that is the case.

Q - Michael J. Linenberg {BIO 1504009 <GO>}

Great. And then just a second question and, Kakinoff, this is to you. When we look at the World Cup, you obviously had a lot of preparation. As you said, you had to relocate, I think you said thousands of employees to the key cities. There was obviously some cost there. And it does also appear to be a bit of a negative revenue, at least as it related to business travel. Have you at all estimated what the impact of the World Cup was? Is that a 0.5 point of margin? Is that 1 point of margin? And if we didn't have the World Cup, would GOL have actually been able to do maybe a 2% or 3% operating margin in the June quarter?

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

Please go ahead. Sorry.

Q - Michael J. Linenberg {BIO 1504009 <GO>}

No, I was just going to say any color on that would be great.

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

Actually, we had prepared our labor cost much earlier in that sense. We established the vacation schedule and the overtime expenses in order to avoid that reallocation would dramatically impact our costs. So I would say that we achieved marginal impact by doing that. This is a period which has been prepared for 12 months or 15 months in advance. I wouldn't say that the cost to perform the World Cup would really deserve any specific mention.

Q - Michael J. Linenberg {BIO 1504009 <GO>}

Okay. And then just one last one and this again is for you, based on some of the government initiatives; one, maybe incentivizing airlines to fly to regional airports. We know that TAM is looking at potentially doing a regional operation and again they said they're studying it and they won't have an announcement until year-end. Is that something that GOL would be looking at, maybe flying smaller airplanes to some of the smaller airports?

And then along those lines, when we have talk about government initiatives, the slots at Congonhas, the way it's been reported, it looks like that GOL and TAM could potentially lose slots. I think that the case is that you're not going to lose slot, they're just going to add more positions for new incumbents. Can you clarify the slot rules or the changes to slots that are going to occur at Congonhas?

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

Yes. The slot rules, the new rules say that the company would lose the slots just in case they wouldn't perform, the company wouldn't perform the minimum level of punctuality

and regularity. Those new parameters established, actually they are below our current performance. So I'd say it's extremely unlikely that GOL will lose any single slot in Congonhas Airport. And therefore, the Congonhas movement is not supposed to affect our performance. And talking on the regional incentives, we would like to wait in order to have them officially announce it and only then we could pronounce (27:08) on possibilities regarding regional investment.

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Q - Michael J. Linenberg {BIO 1504009 <GO>}

Great. Very good. Thanks, Kakinoff.

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

Thank you.

Operator

The next question come from Bernardo Velez with GBM. Please go ahead.

Q - Bernardo Vélez

Hi, good morning, guys. Thanks for taking my call. I was wondering what is GOL looking at in Venezuela since it's probably the only airline that hasn't announced capacity reductions in the country and probably the only one with a higher number of flights when compared to a year ago? Thank you.

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

Hi. We have worked together with Venezuela's government in order to address the same subject that has been discussed by every airline. I would say that we are progressing on that matter. And we have controlled all the risks related to the Venezuelan operation. I mean, we have re-dimensioned (28:12) our offer to that corridor and we have also redistributed the sales between Brazil and Venezuela. So we are selling more here in order to reduce our exposure to the market. I would say that we do not expect any additional bad news on the subject, on top of those we have already built into our balance sheet.

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

And, Bernardo, this is Edmar here. Just to remind you that a quarter ago, Steve Trent from Citi was in the call as well asked us, because we were the first airline to show this MTM adjustment over the cash in Venezuela. So again, we have been very pragmatic. A few other airlines have followed us as far as the MTM of the cash, but not all of them. So again, as Kakinoff mentioned, we have been very pragmatic on the supply side, on the business side as well on the accounting side.

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

We have got - just for the record, we have got already 36% of our offer in comparison to last year's GOL's operations.

Q - Bernardo Vélez

Okay. Perfect. Thanks so much, guys. And if I may another question, you have been increasing your codesharing agreements with the international airlines. So could we think about GOL joining into an airline alliance in the future as a next step?

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

No. No. Simply, no. This is not - that wouldn't make any sense. GOL has, up to that period, GOL has somehow created a sort of a sub-alliance. We are perfectly satisfied with our partners, both sides quite happy with this partnership, and we have each one feeding the other's network. So there is, I would say, in the medium and long-term, not even a chance to join the traditional alliance.

Q - Bernardo Vélez

Okay. Perfect. And - okay, that's all. Thank you so much for the call.

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

Thank you very much.

Operator

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

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hey. Thanks. From a high level, your unit revenue growth has been very impressive, but your unit cost growth has been surprisingly high as well. Can you just talk about structurally what is driving that? How much of higher unit revenue and higher unit cost would you attribute to reducing to seat density on your aircraft, for example?

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

Hi, Duane. This is Edmar here. Going backwards from your questions, the seating density accounts for roughly 2% of our capacity. And we had an additional 8% because of the effect over those lines which are affected by that. Just to give you a sense, a color of how the new level of revenues affect the cost, I would like to go over first sales and marketing. As I mentioned before, we have seen an increase of roughly BRL 50 million (31:45). Half of that is primarily commissions, incentives in advertising expenses. So this is a new level of cost, yes.

And we also had seen an additional BRL 26 million over fraud in sales. The level was higher last quarter, it was beyond BRL 35 million. The number that we see here on a daily basis is going down. So we should see a decrease in the next quarter. And again, looking for the end of the year, we should go back to the previous levels, which is very, very low. At least I would say 40% or 50% lower than the total for this year.

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When you look at services, we have seen some infrastructure, let's say some changes in the rules that affects everyone here in Brazil and I'm going over them (32:51) specifically, now that we have now a dangerous charge for all the employees, no matter whether they are outsourced or they are in-sourced.

In the quarter, we had a hit of BRL 20 million roughly. This is here to stay, so this is we have to comply with, this is law. And on the services as well, we have seen another BRL 17 million which are related to indirectly sales efforts like GDS outside Brazil, new IT platforms; again, this is here to stay, again related to sales. And we have seen also an additional BRL 15 million, which is purchasing tickets from other airlines.

This is a "good expense" because this is our proof that our connectivity is working. You have seen the number for revenues from abroad, they have totaled roughly BRL 1 billion in the last 12 months. And this is also, the BRL 15 million increase is also a part of the Smiles growth in redeeming miles to international ticket. Over maintenance in aircraft, which are the main changes, I think that the schedule of redelivery being tougher on the first nine months of the year explain a big part of the change.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay, that's helpful. So when we think about your guidance and your reaffirmation of that, is it fair to say that you're indicating more the EBIT level operating margin guidance and not necessarily how we get to that, because I'm struggling here with your ex-fuel unit cost of almost 30% and you're saying it's going to be up about 10%. That would imply pretty material declines in the second half of the year. So are you intending that CASM-ex will be down or is it just that we're sort of arriving to the same margin guidance in a different way?

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

Going backwards, we are working on that here. We, as you probably know, the scenario here in Brazil has been very, very volatile, specifically with the recent news of yesterday, we think there will be more volatility in the short term. And that's one of the reasons we decided to postpone any guidance with you here. But you're right, we are looking at the levels of both CASK and RASK. But as last year, I would be very, very confident that the main target remains the margin and we are confident, cautiously confident and optimistic that as last year, we will deliver.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. That's great. And I'll sneak one last and I appreciate your time. Why do you pay taxes when you have losses? And I guess more importantly, how should we be thinking about the tax rate in a profitable scenario for GOL? What is the pro forma tax rate we should be thinking about? Thanks for your time.

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

Okay. Okay. This a very important question, Duane. First, we're paying taxes at Smiles. And please remember that we consolidate Smiles at whole level (36:39), okay. So Smiles is a profitable company, so we're paying taxes there. So this is the first.

Looking forward, we will have to - I don't have the effective tax rate for the combined, but going on a separate basis, I would say that Smiles will pay full, as it's a brand new company. And here because of the tax loss carryforward (37:03), we will have an effective rate of 24% moving forward. (37:12)

Q - Duane Pfennigwerth {BIO 7329167 <GO>}
(37:13)

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}
(37:14) level, I don't have the combined effective tax rate here. It depends on the balance between where the profit is, you see.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}
Okay. Will follow-up with you maybe later today. Thanks very much.

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}
Yeah, yeah. Okay. Thank you.

Operator

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

Q - Savanthi N. Syth {BIO 17476219 <GO>}
Hey, good morning. Just going back to the question on cost. I just wanted to understand what some of the headwinds that were happening in the first half that won't be happening in the second half? I'm guessing some of that would be, the connection fee will be, you'd be lacking that (38:01). Obviously, the reals pressure might be abating here. Anything else in the second half that would not be recurring that we've seen in the first half?

A - Edmar Prado Lopes Neto {BIO 15245559 <GO>}
I would say that as I mentioned before the fraud is going down in the second half of this year, for sure. So we will not see the same levels. We should see some less pressure on the maintenance and rent as well because the schedule of redelivering planes is softer on the second half of the year. And also, some of the efforts related to services, sorry - which were, let's say, tough - let's say, looking for the word in English here, sorry, tougher or heavier on the first half because of the World Cup, should be less in the second half. But overall, we would say, we see a better scenario on the cost side.

Q - Savanthi N. Syth {BIO 17476219 <GO>}
Got it. And then just on the international side. The load factors there have been improving really well. They are lower than the domestic load factors. I was wondering, is that because of - just as you ramp those markets up or is there structurally where the international load factors will remain below domestic load factors?

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

Savi, this is Edmar again. Please remember that last year, we changed the whole network and the main change, I would say, was in the international routes and they are maturing. So they have been ramping up, not only because of the U.S. flights, but also because of the other destinations and we still see room to improve. So that's why we have announced flights from Campinas and we have announced the new destination of Santiago. So, again, yes, we do expect them to improve over the course of the next quarters.

If you go back to the presentation, you see that our revenues on international front have been growing at a CAGR of 8%, so it's a BRL 1 billion, it's almost 11% of the revenues now. And we have this projection of them moving forward in the next two years to three years. So, we are working on that.

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

Got it.

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

And load factor is one of the drivers.

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

All right. And maybe one last question for you, Edmar. On the fuel hedging side, is there a change in strategy there? I haven't necessarily noticed a reduction in fuel hedges in the past.

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

No. We have been working a lot on a fixed price basis with our main supplier. So, we have less derivatives. But no, we have been keeping roughly between 35% and 40% for the next six months on average. We have some longer positions, but primarily, we're here for the next six months.

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

All right. Thank you very much.

Operator

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

Q - Stephen Trent {BIO 5581382 <GO>}

Hello, Kakinoff. Hello, Edmar. And good afternoon, guys and thanks for taking my questions. Just two from me, if I may. In terms of the levers and the potential or should I say not just potential, but the ongoing unit revenue growth that you guys are getting, coming from the international side, to what extent would you say that the increased feed

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into your domestic network off of international flights could grow in terms of contributing to that growth versus what's the case today?

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

Steve, this is Edmar here.

Q - Stephen Trent {BIO 5581382 <GO>}

Hey, Edmar.

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

Hi. We understand we have a very positive outlook here and we always quote the Delta flights in Brazil where we have rates of connection beyond 25%, sometimes even beyond 30%. So with recent announcement of Air France-KLM, we are getting closer and we expect that further down the road, we will reach the same levels. I don't know if you know, but a few weeks ago, just before the World Cup, Air France-KLM announced a Brasilia flight exactly as Delta has, but in this case to Paris, with a big bird.

So we have also announced that codeshares with Aeroméxico and Etihad, again, connection rates may be not as high as Delta, but it will bring more passengers to us. And down the road, and this is primarily an IT issue, we will also have what we call a two-way codeshare. That is exactly the same way we have with Delta. Not only the guys will be able to sell us, but we will also be able to sell them, enhancing our virtual network.

So the outlook seems very positive in our view, it's one brick after the other (43:46). And we have this target of 16, 17% in the next two years to three years as part of total revenue. We think we're on track.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Very helpful, Edmar. Thank you. And just one other question, I know in terms of the last two years or three years that you guys, through ABEAR, have been successfully negotiated some things with Brazil, the fuel tax cut on the Federal District of Brasilia, the payroll tax cut, this kind of thing. I'm wondering if there's anything recent in terms of your discussion on fuel tax relief and certainly we're in an election period, we had simply awful tragedy yesterday and I understand some turmoil at the moment. But if you could just maybe give us broad color, broadly where these discussions are in terms of potential fuel tax relief nationwide?

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

Hi, Stephen. Here it's Kakinoff, good afternoon.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi, Kakinoff.

FINAL

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

Actually, you're right, you used the right word, turmoil, that yesterday's events somehow shocked the country and there are a lot of speculations at the moment. But nothing that has really changed the, I'd say, the daily main indicators. So I think that the elections process, we will now be somehow affected, but we and the economy is not performing that well, as you probably know. So we have prepared ourselves for even stronger or more severe winters.

We assume that the exchange rate can change into the end of this year, that's part of our guidance and we believe that even the fuel prices could be higher. In both cases, we - at the moment, we are confirming our guidance because we strongly believe that we have been able to deal with such type of negative effects.

At the same time that we have acquired very important benefits from the macroeconomic side, working together or alongside with our association, the so-called ABEAR; before elections, we don't believe that new conquests would be possible in that way because the whole country and the government mainly has been focused in the election period. So those aspects, in combination, wouldn't bring us significant changes in the macroeconomic environment, on top of those I have already mentioned. Maybe exchange rate and additional appreciation in the fuel prices.

So the turmoil is caused by yesterday's accident, but I believe that in a few days, the economy will come to the current or to the past the economy was going to before the accident, very, very slow, but without any major changes. That would be unlikely before elections and probably before the end of this year.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very helpful. I really appreciate the time, guys. And I'll let somebody else ask a question.

Operator

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

Q - Thomas Kim {BIO 15135202 <GO>}

Hi, good morning. Just wanted to ask on pricing, you had alluded to pricing growth likely to slow, obviously, to the high base here. We have been pleasantly surprised by the ongoing pricing discipline. But we know that you can do what you can do. But there's only so much wherewithal. I wanted to get your sense in terms of how the economy is actually impacting the pricing environment for you. As you look forward for your forward bookings, can you give us some kind of indication, maybe a little more color around your comment that you anticipate pricing growth to slow?

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

FINAL

Hi. It's quite hard to share this type of forecast, being a listed company without giving higher disclosure on strategic items. But one positive thing I think that could help to answer this question is that the industry is still moving towards a very, very strict control on capacity. So I think that there's still room for further improvements related to price. It's hard to say for how long we could take this advantage, but I think there is still some room for that. The signs or the indications we got from the market related to the competitors and to the industry as a whole, doesn't show us any important movement in order to add capacity. Therefore, I think this discipline will continuously offer us a healthier environment to recover margins.

Q - Thomas Kim {BIO 15135202 <GO>}

Okay. And then on the World Cup impact and obviously you had a lot of leisure travelers and that really should be right up your alley. And I'm wondering, to what extent the World Cup actually may have positively impacted your pricing? Is that something that you have seen and is that something that we should anticipate benefiting in the July quarter?

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

In this case I'd say, the biggest benefit coming from the World Cup is that we could manage to avoid the same effect happened in Germany and South Africa to the airlines. The World Cup period was dramatically bad for their results. So the company, GOL was quite successful by handling, by managing this period. Avoiding the World Cup period would negatively affect our results. So we performed a lot of freight services to the customers, those are very, very interesting to the company from an economic perspective. And we performed 8,000 flights on top of the second largest Brazilian company during the World Cup.

We took all the opportunities to avoid those 30 days would cut our results by not having corporate travelers, business travelers. Actually, we mitigated - not mitigated, but neutralized the negative effect of losing business travelers by taking all the opportunities to operate flights and special services mainly to the World Cup's organization and stakeholders.

Q - Thomas Kim {BIO 15135202 <GO>}

Okay. Great. Thank you very much.

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

Thank you.

Operator

The next question is a - pardon me, the next questioner dropped from the queue. As there are no further questioners in the queue, this concludes today's question-and-answer session. I'd like to invite Mr. Paulo Kakinoff to proceed with his closing remarks. Please go ahead, sir.

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

So on behalf of the whole team, I would like to thank you very much for the attention, mainly for the questions, those are always productive. And we keep ourselves fully available to attend further questions through the traditional channels. Thank you very much. Have a nice day, everyone.

Operator

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

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