

Q3 2014 Earnings Call

Company Participants

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

Other Participants

- Bob McAdoo, Analyst
- Duane Pfennigwerth, Analyst
- James D. Parker, Analyst
- Michael Linenberg, Analyst
- Stephen Trent, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and welcome to GOL Airlines Third 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 GOL'S website at www.voegol.com.br/ir where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of GOL management and on information currently available to the company. They involve risks and uncertainties because they may relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand the 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 call conference over to Mr. Paulo Kakinoff. Mr. Paulo, you may begin your presentation.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thank you. Hello, everyone, and thank you for being with us in GOL Airlines earnings conference call for the third quarter of 2014. Let's begin our presentation on slide number two where we have the period highlights regarding the macroeconomic scenario, which showed a high exchange rate volatility and a dollar appreciation. The scenario indicated a reduction in the corporate passenger traffic, reflecting a slowdown in economy activity.

We have also observed a decline in oil barrel prices, which was not yet reflected on this result. In light of this scenario, GOL reinforced its commitment to rationality in terms of fixed supply. The company has also maintained its focus on improving its products and services. With this in mind, we expanded our GOL+ comfort to our entire domestic route network, consolidating our position as the leading airline in ANAC category A seating, which means the most comfortable seats possible. We also launched our exclusive express bag drop service to make check in easier and faster.

The measures taken by the company to improve its products and services have enabled it to reach the first place in number of transported passengers in the market. Also, for the first time, GOL was the airline company leader in tickets issued for the corporate segment year-to-date according to Abracorp - Brazilian Travel Agents' Association. New international flights to Chile, Miami and Punta Cana are part of GOL's strategy of strengthening the share of revenue in other currencies. The new domestic destinations are also the result of the efforts to identify market opportunities. As a result, the company has announced flights to regional destinations in the domestic market, to Carajás and Altamira in Pará state, cities that have been rapidly growing, creating demand for our services. With these measures, GOL remains focused on improving its results.

Moving on to slide number three, we can see our main numbers in the quarter and in the last 12 months. Net revenue grew by more than 10% to around R\$2.5 billion, bringing the last 12-month figure to a record R\$10 billion. Operating income, EBIT reached R\$152 million in the third quarter 2014, R\$115 million up on third quarter 2013, the EBIT margin widened by 4.5 percentage point to 6.2%, increasing for the seventh consecutive quarter. EBITDAR totaled R\$463 million in the period and R\$1.9 billion in the last 12 months. The constant increase in this indicator allowed the company to reach record levels.

On the operational side, as you can see on slide four, we reduced domestic supply by 3% year-to-date while managing to capture 53% of the industry's 5.4% upturn in demand. The load factor increased by eight percentage points to 77% reducing our GAAP in relation to the industry's average of 79.4%.

As a result of this operational improvement on slide five, we point out that GOL maintained its industry leadership in terms of number of passengers carried. According to ANAC the record mark of 26 million passengers transported in the first nine months of the year, an increase of 11% over the previous year, which represents 2.6 million more passengers transported than our main competitor. This advantage is equivalent to approximately the volume of passengers transported by GOL in one single bus.

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Moving on to slide six, we can see GOL's continuous focus on RASK growth and its strategy to reach these results. In the fourth quarter 2014, we had a favorable quarter in terms of load factor and a bigger challenge in terms of yield, which decreased by 2% year-over-year. The eight percentage point growth in the load factor more than offset this decline, fueling PRASK which moved up by 9% in the period. Passenger revenue combined with the 47% increase in ancillary revenue led to a 13% upturn in RASK.

On slide seven, we can see that efficiency and productivity indicators are improving every quarter. Net revenue per employee increased by 68% over 2011. The same trend can be seen in seat demand per employee which was 37% higher in the same comparison basis. From the operation standpoint, GOL also showed continued progress boosting revenue generation per flight and improving fuel consumption per RPK.

Moving to the next slide, number eight, you can note the results of the strategy of international expansion further strengthening our revenues in dollar, which creates an important natural protection for GOL. In this quarter we implemented a two-way codeshare partnership with Aerolíneas Argentinas, allowing us to sell their ticket on our website and we will shortly be offering the same facility for Air France-KLM flight. The increase in international flights with new routes to Chile, Miami and Punta Cana are boosting revenue in other currencies, which already surpassed the max of R\$1.1 billion in the last 12 months.

The amount represents 11% of total revenue, an increase of more than four percentage points in two years. In the quarter, the share came to an even higher level, 13%.

On slide number nine, we present an illustration of the client's entire experience from the ticket purchase to the flight and the final customer assessment. GOL closely follows the changes in passenger need in order to improve its products and services and make the client experience even better. The new site with improved search tools helps clients to have an easy access to information, flights, and make purchases. When arriving at the airport, GOL's new visual identity helps clients notice it with clear and multi-language signs, streamlining the entire process.

Count on Me is an important point of contact that they can use in departure lounge. In order to provide even more convenience to our customers, passengers can check-in using their computers and smartphones or our self-service totem. This quarter, we began offering an exclusive express baggage service at Congonhas airport through which customers can complete one more check-in stage at the self-service totems, labeling their own baggage as well as paying for any excess. This is one more simple and intelligent innovation to make our clients' airport experience fast and convenient.

Regarding the flying experience, in order to meet the clients' need for more comfort, GOL's fleet has GOL+ comfort seating with an even greater angle of recline and even more distance between seats. We have also extended our GOL+ comfort seating to our entire domestic route network. The seats are located in the seven first rows of our aircraft and have more distance between the seats.

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By the end of the year, 100% of the fleet will be configured for GOL+ comfort. Our in-flight service has also been redesigned with improvements to buy onboard service with the new menu, with lighter and more nutritious options for our guests. In the shuttle service, the service is free and has options especially developed for the different times of the day. Upon arrival, clients will receive a satisfaction survey by SMS in which we kindly ask them to rate their experience from zero to 10. These new facilities have strengthened our capacity to ensure an even better flying experience for leisure passengers and attract more corporate fliers.

Moving on to the next slide, number 10, where we can see the highlights for Smiles which closed the third quarter 2014 with an operating income of R\$69 million and an operating margin six percentage points higher than in the third quarter 2013. The results of Smiles operations reflect a 20% increase in the number of accrued ex-GOL miles and health direct redemption margins. The company launched an innovative campaign in which it's intended (12:45) to offer 365 daily reasons in addition to establish a new accrual partnerships with FastShop and Clube Magazine Luiza, one of the largest retailers in Brazil.

I will now turn the presentation to Edmar who will present Q3 results. Please go ahead.

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Thank you, Kakinoff, and good morning, everyone. I would like to invite you to page 12. And before going over the numbers, I would like to highlight that from our point of view here, we are executing the plan, and we also say that it is a multi-year plan. It doesn't finish at the end of 2014. We still have a lot to improve and that's how we see - we face the future.

Going back to the numbers, Kakinoff had mentioned revenues are up 10% on a quarter basis and 20% up on last the 12 months comparison. It shows that all the efforts, all the improvements that we have done in the services of the company over the restructuring time are indeed showing the results.

EBIT came at R\$152 million. This is 4.5 percentage points above last year and it shows that we have been able to maneuver, even in a very challenging scenario. As for the scenario, we highlight that the FX has moved 10% against us. All of us, we know that we have mismatch here. And even with that, we have been able to increase and to improve the company's results. Yields came down by 2%, but we understand that our strategy was flexible enough in order to accommodate that, and to have higher load factors, so working more on the leisure side and show PRASK increase of close to 13% while CASK grew by just over 7%, and I'm including fuel here.

Moving on to the next page. We can see our - the numbers for the last quarters, and we have come from an EBIT of minus 3% over last 12 months, and third quarter last year to almost R\$500 million for this year, mainly 4.9%, almost 5% EBIT margin for the last 12 months. On the EBITDAR side, this is the right part of the chart, 19% of margin and R\$1.9 billion for EBITDAR. This is a reference for the company and I would like to remind you that just nine months ago, by the end of 2013, we were at R\$1.5 billion. That is, we are not only

improving margins, but we are also growing the company in terms of revenues, in spite of ASKs being down.

On the next page, this is page 14, please. We show a chart with the highlights of CASK. So the first one is the growth over last year has come down to 10%. And on a quarterly basis, CASK is down by almost 9%.

The highlights are; first, pressure on the wages side labor and this is primarily related to the loss. We have an annual adjustment here in Brazil. And also, for union agreement, we had a charge of R\$5 million in the quarter related to risk premium. Also, different from last year, we have been provisioning our profit sharing from the first quarter. It was R\$15 million this quarter.

Aircraft rents, it does suffer from the FX. All of it is in USD, and I remember that the FX moved by 10%. Sales and marketing, this is an issue for 2014, and we recognize another R\$23 million in losses. The trend here is down. And we do expect to go back to the previous levels by 2015 as a result of all the efforts that we have made in the last few months. So the numbers should be the keep - we should keep the trend of the losses going down.

On the other, the comparison here doesn't favor us, because at the September quarter last year, we had a gain related to six aircraft exchange of R\$49 million, we didn't have any this quarter. So this does explain the change in this line alone.

Moving on to the next slide. Although we haven't got out the data from the other companies here, there're still some companies to show the result. We do like to emphasize that although the number of total ASKs are down, and although we have seen inflation in Brazil and although we have seen the effect moving a lot, the company remains very, very competitive in terms of actual CASK. Just compare us with airlines that have the same aircraft as we have, like Southwest, and have more or less the same mission, Alaska I would say is not so different than the model that we have been developing recently, meaning that we understand that we have been able to improve the margins not only with the growth on the revenue side, but also with the cost being tackled and being managed on a quarterly basis.

This is exactly what we show on the next page. This is page 16. We're talking about the spread, RASK and CASK, and although we recognize because of the many reasons I have mentioned, the CASK is up. More important is that the RASK is growing faster. That is we have come from a negative margin of R\$1.54 to a positive number of R\$1.26, which is a 200% improvement in this spread.

Moving on to the next page, this is a common usual slide for us. It talks about liquidity, 27%. We have a target of 25%, meaning that we could use some of the excess cash to prepay some of the debt. It depends on conditions. And also, EBITDAR is helping to deleverage the company. And in this quarter, because of the volatility, because of the devaluation that we have, we were not able to improve as expected but we show indeed that the trend is under control.

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Moving to the next page and this is page 18, please. We show you the amortization schedule. And this is a result of all the measures that the company took in the last quarter. That is, we tapped the market. We buy back some of the bonds that we had and then we issue a new bond with maturity in 2022. The main message here is that the company paid, in terms of amortization from 2011 to 2013, just over R\$1.2 billion in terms of debt. And we did it at a very, let's say, challenging time when the margins were shrinking and we had our turnaround being built.

If you look at what we have from 2015 until 2020, you can see that for the next five years, the average amortization that we have in nominal terms is even - is more than the one that we have previously. Meaning that, yes we have, let's say, prepared the company to continue its recovery. And if there is a downturn, we would still have room to maneuver and again to improve.

By saying that, I pass the floor back to Kakinoff for his final remarks, as well as comments over the guidance.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Ed. The results make us confident that we are on the right track to deliver the margin projected in our guidance for 2014. We are, therefore, reiterating our projection for this year. I would like to close this conference call with a final message on slide 20, reinforcing the company's consistency in delivering results and executing its strategy, always seeking the best value proposition for its stakeholders.

Thank you for participating in our conference call. Now, I will begin the question-and-answer session.

Q&A

Operator

Thank you. The floor is now open for questions. Please hold while we poll for questions. First question is Mike Linenberg, Deutsche Bank. Please go ahead, sir.

Q - Michael Linenberg {BIO 1504009 <GO>}

Oh, yeah. Hey, Edmar, Kakinoff. Good morning. I guess two questions here. One, in regards to the new regional aviation plan, I know that what's been proposed, I know it's in the bill, it has to go to Congress. Based on the opportunity to fly these regional flights with up to 60 seats, I believe 100% of up to 60 seats would be subsidized. How does that drive your thinking as it relates to future fleet decisions? Would you be considering maybe smaller jets like the Embraer or would you be looking at maybe some of the smaller Boeing 737s? How should we think about those opportunities for GOL?

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

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Hi, Michael. Actually, what was approved yesterday, and it's yet to be submitted to the Congress is basically what was presented to us at the beginning of this year related to the time (24:10). There were no news despite of the new possibility to have foreign investors having a higher stake in the Brazilian airlines. That was, I would say, the only news.

Therefore, we have developed (24:27) already considering this scenario since the beginning of this year. And we are improving our regional route, operating with our current fleet, the 737s, 700s and 800s. These subsidiaries can also boost our results once GOL is today the largest airline carrying people to these so-called regional airports, basically, due to our bigger airplanes. That said, I think this new plan seems to be an opportunity to even expand or expand even more our regional routes and we could do that with our current planes being very, very competitive.

So there is no reason to, at the moment, to consider additional jets or to change our extended fleet. It would be very, very important to say that we need to replace from 2018 on our 737s, 700s. We have just purchased 60 MAX 8, so the bigger the plane, bigger than the 737 family, which is supposed to replace the current 737-800. Therefore, there is a need in the market, request for purchase, involving Embraer and Boeing. Those companies are competing to have - to win actually, the opportunity to serve and to supply GOL with the 737-700 replacement from 2018 on. There is nothing related to the regional plans in this competition. So it's just to keep our fleet as young as it is today.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. That's helpful. And then, just - you mentioned the changes in foreign ownership. Is that - I know this had been kicked around in the past, but that would be to change the voting of foreigner - the restrictions that would lift the cap from, I believe, 20%. Is that to lift it from 20% to 49%, or is it something different?

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

As it was presented, there will be no barrier anymore. I mean, it could be virtually 100% foreign ownership.

Q - Michael Linenberg {BIO 1504009 <GO>}
(27:07).

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

As it is presented. As it is presented.

Q - Michael Linenberg {BIO 1504009 <GO>}
(27:09).

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

So on the issue on the assessment and validation process, it could be 100%.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Well, and then this is my second question and this is completely a separate topic, but I saw recently that - what I call your scissors hub in the Dominican Republic, the planes were basically connecting in Santo Domingo, and I saw that it looked like it was going to get moved to Punta Cana. And when I think about the Dominican Republic, one market is much more business oriented, the other is much more leisure oriented. Is that what's going on? You're switching airports? Was there an airport issue, or was it just that many of the passengers would rather go to the vacation city rather than the business city?

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

You have already answered the question. This is basically following the leisure high season. Therefore, it makes more sense to move it to Punta Cana.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Perfect. Thank you.

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

Thank you. You're welcome.

Operator

Our next question is Duane Pfennigwerth, Evercore ISI. Please go ahead.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hi. Good morning. Just wanted to follow-up on your comment about a slowdown in corporate travel or corporate bookings. Can you talk a little bit more amount what specifically you're referring to? When did that start and are you seeing any recovery in that trend?

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

Hi, Duane. You know that I cannot give any guidance to the next year, but I can tell you that this movement or this effect started just right after the Brazilian World Cup, the soccer games, when the low -the purchase prior to departure - from zero up to three days prior to departure went down by 20%. As far as we learnt, the same effect happened in South Africa and in Germany, the last two prior soccer games. And month after month, this flux is supposed to recover, and it is exactly what has happened. So while we show the quarter results, we cannot see the month-after-month evolution, but it's happening. And I think that until the end of this year, when we will meet the leisure high season, we will have the corporate sales back on track. So there is nothing which makes us believe that in the next two years, the corporate sales will not be back at the same level that it was in the beginning of this year.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. So, the recovery following the slowdown during the period of the World Cup, has that been consistent with what you expected or has the recovery post-World Cup been slower from a corporate perspective?

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

It slightly is lower than we expected. But fortunately, we were sharp enough to compensate it including our load factors, as you can see. So it was – the final output – I mean, the EBIT margin is even higher than it was expected in our plan because we were able to compensate this yield reduction with higher load factor.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. That's great. And then, I wonder if you could give us any thoughts, maybe preliminarily on capacity growth next year. It looks like the schedules are indicating maybe mid-single digits or 5% to 7% growth over the next couple of quarters. And typically, when we look at the scheduling data, it's higher than what you actually end up flying. So is 5% to 7% kind of the right way we should be thinking about it, or it's something less than that? Thanks for taking the questions.

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

Hi, Duane. This is Edmar here. It's very preliminary, but I would like to remind you that one of the main drivers here is being flexible within the year, meaning that this is – you are talking about high season, so we do expect to have a higher number of ASKs here.

But at the same time, during low season, we have been very, very conservative. So it's too early to give a guidance, but the main concept here is, yes, we will still be very, very rational in terms of capacity in Brazil. The strategy has been working for us, and we have no reason to change that at this moment.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. Thank you.

Operator

Next question is Jim Parker, Raymond James. Please go ahead.

Q - James D. Parker {BIO 1506864 <GO>}

Yes. Good morning, Kaki and Edmar. I have a couple questions here. One, following up on Mike Linenberg's questions regarding the regional airline package. As currently proposed, what would be the annual revenue benefit for GOL?

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

Our previous calculation showed that, just in case it would be implemented exactly as presented yesterday. On the current GOL network, it might represent something around US\$20 million in subsidies.

Q - James D. Parker {BIO 1506864 <GO>}

US\$20 million, not reais? US\$20 million?

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

USD, yeah. But let me really (33:29), Jim. What has been voted and it's about - it should be validated by the Congress, is the allowance to the government to invest in regional aviation. The formula behind that has been unofficially shown to the airlines. So what I have - to everyone, at the same time, so it can be considered now, but the formula will be exclusive only after the Congress approval.

And only after that, we can say, okay, these are the real figures. What I am telling you in advance is based on the previous discussions hold by the government with the airlines, showing their intention, how to build this subsidies formula. Okay? So based on that, which is not rolled down, it is not officially announced yet, we can calculate US\$20 million additional repurchase to GOL only.

Q - James D. Parker {BIO 1506864 <GO>}

Okay. And what proportion of your revenue is currently either in USD or tied to USD? So when you sell international tickets connecting flight on delta to, say, the U.S., like what percentage of your total revenue is in USD or tied to USD?

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

Jim, this is Edmar here. We have a chart. This is last 12 months, it's 11% and last quarter, it's 13% and it's moving up, okay? It's either USD or related to USD.

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

Correct.

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

Jim, I'd say, from revenue perspective, it means USD because it's tied to US dollar. Okay?

Q - James D. Parker {BIO 1506864 <GO>}

Right. Okay. Edmar, did you answer Duane's question specifically about capacity growth next year? You said you could vary it. What is your best guess currently regarding capacity growth in 2015?

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

Jim, look, even if I knew, I wouldn't be able to tell you because we normally deliver that with the guidance, okay? This is how CVM has been - this is how we have been dealing with CVM. But the main message here is that we don't know. We haven't approved the budget at this point. This is the very, very true, try to avoid that we do not have the answer as close as possible to what you need to be - to know, Jim, and the colleagues, too. Personally, we do not see any environment to additional capacity. It is, I'd say, the

closest we can get to what you would like you to know. Rational supply might be in 2015, too, okay?

Q - James D. Parker {BIO 1506864 <GO>}

Yeah. All right. All right. Thank you.

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

Thanks.

Operator

Our next question is Stephen Trent, Citigroup. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning, Kakinoff and Edmar. Thanks for taking the question. I guess, my first question would be how much of your all-in debt, and that's excluding operating leases, is dollar denominated?

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

The operational leases are 100% in USD, Steve.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Yeah, that's a quick answer. And secondly, I guess how is your rollout with Air France going? Are you seeing an acceleration there or...?

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

No. Look, Kakinoff had mentioned we will fully implement the codeshare two-way by the end of this year. And this is exactly when the results pickup. So, so far the trend is up, but we understand that there is still a lot of room to improve here, but overall, going over what has been done from the decision of the agreement until today, we are very, very satisfied with the outcome. The annual effects of having Air France and Aerolíneas Argentinas both in the two-way codeshare situation will be only effective, or will only be felt next year because we have just implemented it. So, just those two actions are enabling us to tell that the uptrend is in and must continue till next year.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great. And then I guess, just circling back to the regional aviation plan, and the new news about the foreign ownership. Would that require, like, an amendment to the constitution to allow for an ownership like, let's say, up to 100% over the current 49% limit or would that be more of a regulatory issue?

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

This is Edmar here. If the bill is voted and approved, we understand that it's done. There is no constitutional amendment here being required. This is the understanding that we have at this point.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. So there wouldn't be any additional vote needed, like, if this is approved, then foreign ownership can go beyond the 49%?

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

Yeah.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay.

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

Yeah, that's really it (39:45).

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. And then, I guess, finally then just to kind of follow-up on that. To what extent are you seeing potential from other airlines buying GOL stakes? I mean, I know Delta has a small stake, or Air France does. Could you see like maybe LatAm coming in and buying stake in the others?

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

No. There is nothing of this kind being discussed, or any plan or any whatever over foreign ownership at GOL. Of course, if the law is approved, it does open new opportunities and possibilities for us, but at this point, there is absolutely nothing here to be said.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great. Thank you very much for the questions.

Operator

Our next question is Bob McAdoo, Imperial Capital. Please go ahead.

Q - Bob McAdoo {BIO 1881798 <GO>}

Yeah, a couple things. First thing, a few years ago, when the currency weakened pretty severely, it seems like you made an announcement in June of a schedule change, rescheduled - reduced supply that was affecting you like in August with a relatively short notice. Are we anywhere near with the currency? What's happened to the currency since the election? Are we anywhere near a situation where you would take a similar action, or like maybe you wouldn't do that during the holiday period that's coming up, but certainly

after the holiday period, are we anywhere near feeling a need to do a relatively short notice, pull down of capacity?

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

No. It's a completely different situation environment. The company had a negative operating margin at that time. At the moment, we are expanding our EBIT margin so we do not foresee any major changes related to scale or something like that.

Q - Bob McAdoo {BIO 1881798 <GO>}

Okay. And then secondly on this issue of the Dominican Republic and when - two things there. When would the shift take place out of Santo Domingo or to Punta Cana? And I remember when you started that whole process, you seem to always describe it as a way to get Brazilian citizens to United States and really never talked about the fact that maybe some of the people might actually get off of the stay in the Dominican Republic. In today's world or thinking forward, what do you envision or what is the actual situation in terms of percent of the travelers who are on those flights, who actually stay in the Dominican Republic and don't go on to the United States.

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

Since the beginning of these flights, we have improved load factor and also the capacity to the United States via Dominican Republic. We have just launched an additional flight from Campinas-Viracopos through the same route. Now, we found out an additional opportunity after noticing that Punta Cana might be a leisure destination to not only to Brazilians, but also to Americans. Therefore, over the leisure high season, we could improve even more our load factor and yield by offering Punta Cana as a final destination exactly due to the fact that you properly mentioned, that Punta Cana is also a final destination not only in the stopover to United States. We are taking these opportunities to test Punta Cana as an additional route, which could play in combination with Santo Domingo together. So, this is something that makes sense to be delivered at the moment.

Q - Bob McAdoo {BIO 1881798 <GO>}

So you would actually go to both cities, when does the Punta Cana thing anticipated to start?

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

Punta Cana will start now in December for the high season. And I mentioned that we can have both operations, but not for the leisure high season. The leisure high season we are moving the operations to Punta Cana once the demand is much higher there than in Santo Domingo. But later on, we can come back to Santo Domingo with those flights and keep an additional one in Punta Cana in case that it will make sense.

Q - Bob McAdoo {BIO 1881798 <GO>}

Okay, but over the last several quarters, the Dominican Republic, has there been any meaningful amount of traffic that really saw Dominican Republic as their ultimate

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destination, or is it virtually all going through?

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

In every flight we have, some five to 10 seats of Dominican - occupied by Dominicans in both directions. And it's growing. It's improving. When we implemented the project we considered up to five seats occupied by Dominicans. So (44:55) fundamental part of the strategy but it helps to improve our RASK and our yields. Moving these flights to Punta Cana give us the opportunity to improve even more the yields basically due to the higher demand in this period.

Q - Bob McAdoo {BIO 1881798 <GO>}

Okay. And one final thing. Did I understand you to say that the treaties do allow you to have the local traffic rights between the U.S. and Punta Cana that you could carry U.S. citizens down if you wanted to during the high season there?

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

Yes.

Q - Bob McAdoo {BIO 1881798 <GO>}

Okay. Right. Very good. Thank you.

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

Okay. Thank you.

Operator

Having no questions, this concludes today's question-and-answer session. I would like to invite Mr. Paulo Kakinoff to proceed with his closing remarks. Please go ahead, sir.

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

I just would like to thank you for your attention. We wish you a very good day to everyone. Thank you very much.

Operator

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

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