Q2 2007 Earnings Call

Company Participants

- Constantino Oliveira Junior, CEO
- David Barioni, EVP
- Richard Lark, CFO
- Unidentified Speaker, Company Representative

Other Participants

- Daniela Bretthauer, Analyst
- Frank Boroch, Analyst
- Jamie Nicholson, Analyst
- Jim Parker, Analyst
- Michael Linenberg, Analyst
- Nic Sebrell, Analyst
- Raymond Neidl, Analyst
- Rodrigo Goes, Analyst
- Steve Trent, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to GOL Intelligent Airlines Second Quarter 2007 results conference call. Today with us we have Constantino de Oliveira Junior, President and CEO; Richard Lark, Executive Vice President, CFO and Investor Relations Director; and David Barioni, Executive Vice President, Technical.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After GOL's remarks there will be a question and answer session for industry analysts. At that time further instructions will be given. (Operator Instructions)

Today's live webcast, including both audio and slide show, may be accessed through GOL's website at voegol.com.br/ir. This slide show, presented by management today, is available on the website in the investor relations section.

Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GOL management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GOL and could cause results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to the President and CEO, Mr. Constantino Oliveira, who will begin the presentation. Mr. Oliveira, you may begin your conference.

Constantino Oliveira Junior {BIO 16843720 <GO>}

Thank you. Good morning. Welcome to GOL's Second Quarter 2007 results conference call. The Second Quarter of 2007 presented many opportunities and challenges, which we expected will result in positive changes to the infrastructure of Brazil's air transportation industry. This quarter also presented GOL with accelerated growth opportunities principally through the acquisition of VRG, the company that operates the VARIG brand.

Our team is working to implement GOL's best management practices, to improving low cost strategies, including VRG's efficiency, modernizing and standardizing VRG's fleet, rejuvenating an 80 years old brand and improving revenue productivity.

Temporary problems with the coordination of Brazil's air transportation system, combined with inclement weather, generated unacceptable flight delays and cancellation of our customers. The Congonhas Airport, GOL's third busiest airport, was the most affected. As runways were temporarily closed for maintenance work during the quarter, the flexibility of our point to point and multidirectional hub network and the commonality of our all-Boeing fleet allowed us to adjust our operations and maintain our class leadership.

In light of these challenges, we were able to grow the company capacity, year-over-year, by 45% on domestic routes and 185% on South America routes. And the beginning of intercontinental operations with VRG.

In June '07, GOL finalized agreements with two of North America's most important airlines, Delta and Continental Airlines. Passengers flying with the two airlines are now able to purchase tickets on all routes served by GOL for connections in Brazil and South America.

Looking beyond the short term, we believe that the current focus on the Brazilian airline industry will bring much needed change and investment to the sector. GOL, with the lowest cost operating platform in the industry, is best positioned to grow both its South America and intercontinental networks in the coming years.

Now please to slide number two, entitled highlights. Consolidated losses in the Second Quarter were driven by the incorporation of VRG as of April 9, combined with sub-optimal yields in the domestic market and demand suppressing cancellations and intensive news coverage, which contributed to suppress those factors. Including VRG and the usual seasonal patterns, consolidated load factor decreased 4percentage points to 66%, compared to the First Quarter of the year, down 9percentage points compared to the Second Quarter of last year.

Consolidated RPKs grew 65% year-over-year in second Q '07 and 19% compared to the first Q '07. GTA's load factor averaged 69% and VRG's load factor averaged 52% for our second Q '07. VRG's domestic load factor in April was 60% and improved 5.5percentage points to over 65% at the end of the quarter. GTA and VRG domestic passenger market share was 40% and 4% respectively in the second Q '07. GTA and VRG international passenger market share was 14% and 11% respectively during the same periods.

We reduced our low [ph] consolidated cost per available seat kilometer to approximately BRL0.141 cents, a 6% reduction compared to the same period last year. Costs were negatively affected by an increase in the amount of light hours required to complete scheduled flights and increased salary and fuel costs associated with abnormal delays and cancellations. The additional costs were approximately BRL5 million and BRL20 million respectively. Including VRG, the company has maintained a very strong cost advantage. But we also have room to improve.

Our slide number three shows the recent additions to our fleet and base network. In second Q '07 we added two winglet-equipped 737-800s at GTA and one 767-300 at VRG, the third aircraft of this type in the fleet, to end the quarter with a consolidated fleet of 88 aircraft. We plan to end the third Q '07 with 97 aircraft in the fleet and finish the year with a fleet of 79 aircraft at GTA and 24 aircraft at VRG, including ten 767-300s.

During the Second Quarter, GTA launched two new domestic destinations, Maraba in the state of Para and Cruzeiro do Sul in the state of Acre. This year we plan to add more frequencies in existing markets and expand our network with newly served markets in Brazil, South America, North America and Europe.

Moving to slide number four, it shows some of the effects of the VRG acquisition. We assumed management of VRG on 9 April. The total acquisition cost was BRL558 million consisting of BRL149 million in cash and BRL357 million in newly issued non-voting shares. We acquired VARIG brand, important space in airports, maintenance areas, the Smiles miles program and its almost 6 million clients, over 2000 weekly slots in Brazil's major airports and operating roles and route rights that will allow us to serve already existing destinations in Brazil and South America, as well as grow intercontinental operations to Europe and North America. The acquisition will help facilitate our brand segmentation strategy to better serve the air transportation market.

The GOL brand will continue to popularize our travel in Brazil and South America with a highly integrated network, low [ph], fast, reliable and simplified service and a young, modern fleet of Boeing aircraft. GOL continues to be compelling value proposition with

10% of its passengers flying for the first time, while VARIG brand is targeting premier customers who value differentiated service in the domestic market. And price sensitive intercontinental customers through innovative dual-class service and the loyalty program.

The acquisition of VRG is exceeding expectations. We are -- with a focused team working to gain efficiencies and empower of the VARIG brand we expect it to break even in the Third Quarter.

On slide number five highlights initiatives taken to improve VRG's operating platform over the several months after the acquisition. VRG sourced 12 aircraft as 737 and 767s for deliveries this year and in August began maintenance of all of VRG's 737s in GOL's hangars. We renegotiated VRG contracts, including fuel and leasing agreements to match GOL's cost standards.

The IT cost reductions include increasing international [ph] sales, outsourcing services, renegotiating contracts and updating key systems. VRG has reduced sales and marketing costs, adjusting sales commissions to GOL's standards.

GOL is also developing its culture and cost ethics within VRG's operations, an integral part of the VRG's acquisition success. Due to the implementation of these initiatives, inter quarter, between April and June, VRG reduced costs by 17%.

In the next few months, we will re-launch the VARIG brand and begin operations to several international destinations. In September, we plan to launch daily flights to Paris and Rome. In October we will launch daily flights to Mexico City. By November, we will launch daily flights to London, Madrid, Santiago and Montevideo. To meet the capacity needs of these routes, VRG has sourced an additional seven 767-300s aircraft to be delivered in the second half of 2007. Flights to New York and Miami are planned for the First Quarter of 2008.

I will now turn the call over to our CFO, Richard Lark, who will discuss financial and operating performance for the quarter in the (inaudible). Please, Richard?

Richard Lark {BIO 3484643 <GO>}

Thanks Junior. Good morning, everyone. Please move to slide number six in the webcast presentation.

This slide presents our capacity and network expansion in more detail. During the quarter, the consolidated company operated an average of 87 aircraft, an increase of 85% over the Second Quarter of '06 and 33% over the First Quarter of '07. During the Second Quarter, GTA added 32 new daily flight, frequencies expanding GTA's total destinations served to 58. VRG added 16 new daily flight frequencies, including one daily flight from Rio de Janeiro to Frankfurt; it shows a total of 16 destinations.

When compared to the same quarter of the previous year, our capacity expanded 86% in terms of ASK volume to almost BRL9 billion and RPK has increased 65% to BRL5.8 billion, BRL5 billion at GTA and BRL0.8 billion at VRG. This capacity expansion permitted the consolidated company to reach 750 flights per day at the end of the quarter. When compared to the First Quarter of '07, ASK has increased 26% while RPK has increased 19%.

Moving to slide number seven, we can see that our consolidated net revenues in the Second Quarter of '07 grew by 37% to approximately BRL1.2 billion, when compared to the same period in the previous year. GTA's net revenues increased 14.2% to BRL1 billion, that's GTA. And VRG's revenue totaled BRL191.5 million. Higher capacity and productivity were offset by suboptimal yields and load factors due to delays and cancellations in Brazil's main airports.

GOL achieved a consolidated aircraft utilization of 14.1 block hours per day during the quarter. Consolidated RASK decreased 27%, mainly due to a 19% decrease in yields and 8.6percentage point decrease in load factors. Ancillary revenues also contributed growing almost 85% to BRL106 million representing an ancillary contribution margin of over 80%. In addition to seasonality the decrease in yields and load factors were due to the difficulties and challenges affecting Brazil's Altea [ph] transportation industry especially in the Sao Paulo area.

The next few slides will try to provide an overview regarding Sao Paulo's airport infrastructure. To better explain the available alternatives and solutions for improving passenger flows in Brazil, I would like to turn the presentation over to Captain David Barioni, GOL's Executive Vice President, Technical who is responsible for our flight operations, maintenance operations and flight safety. Please David.

David Barioni {BIO 6522413 <GO>}

Thanks Richard. Please turn everybody to slide number eight. First a few comments on the concentration and density of demand in the greater Sao Paulo area and its airport infrastructure. With a population of over 11 million people, the city of Sao Paulo is the largest city in South America and the business capital of Brazil. With a GDP per capita of BRL15,000 per year, the city of Sao Paulo has a population of over 40 million and an economy equivalent to that of Argentina. The greater Sao Paulo region is responsible for between 20% and 25% of Brazil's total demand for air transportation and, therefore, the region has the heaviest air traffic in the country.

We can see on slide number nine, we highlight the nine airports that comprise the Sao Paulo air terminal. The city of Sao Paulo has several airports that could more efficiently distribute air traffic in the Sao Paulo region. For example, the Viracopos airport in Campinas could serve as an alternative destination for cargo transportation which would free up slots at the Guarulhos airport for passenger traffic. The San Jose Dos Campos airport has available capacity to absorb part of the traffic from both Congonhas and Guarulhos while Jundiai and Sorocaba airport have the capacity to absorb additional traffic from Congonhas.

There are 11 runway options within 50 kilometers on average from downtown Sao Paulo. While the length of these runways range from 1,370 meters to 3,500 meters, technical data proves that there is no correlation between an increase in runway length and reduction in number of accidents or incidents. Since the Boeing 737 began operations at Santos Dumont in 1989, there has been no accidents at Santos Dumont despite having the shortest operational commercial runway in the world with 1,300 meters.

On shorter runways such as Santos Dumont, GOL operates with standards that exceed international safety standards. And all GOL pilots receive specialized training that includes customized approach techniques to ensure rare operational safety on short runways. While the final decision to land is always left to each captain's discretion, GOL company policy states that during heavy rain, with no exception, pilots should land at an alternate airport.

On slide number ten, it highlights current and planned improvements to flight networks in Sao Paulo's air terminal space to better use the existing airport infrastructure. The Brazilian authorities have reduced daily operations and traffic at Congonhas and announced that only flights to major cities in Brazil within a two hour flight time from Sao Paulo will be able to operate from Congonhas. Guarulhos and Campinas will absorb excess traffic from Congonhas which should help to improve on-time arrivals. Plans for a third runway and new terminal space in Guarulhos are already underway.

Moving to slide 11 we show that recent change in Sao Paulo terminal area are similar to those implemented in 2004 and 2005 in both Rio and Belo Horizonte. In 2004, all non-stop -- all non-short haul traffic was redirected from the city airport of Santos Dumont to the international airport to Galeao. And in 2005 connecting traffic in Belo Horizonte was redirected from the city airport of Pampulha to the international airport of Confins. Both changes were the result of capacity limitations at city airport. The net result of this structural shift was a huge increase in the capacity constraint in the city airport and the gradual shift in importance of overall revenues to the international airport.

At the end of the first half of 2007, 25% of Congonhas passengers were connecting or passing through the airport. This traffic can be relocated to nearby hub airport. Guarulhos and Congonhas have already converted [ph] in importance for GOL each representing approximately 9% of GOL's total revenues in the first half of 2007.

Slide 12 highlights the flexibility of GOL's network model. GOL's network is designed as a combination of point-to-point network and multidirectional hubs. This permits substantial flexibility to alter the network to meet changing demands faster [ph]. Additionally as GOL has a high percentage of connecting passengers this allows for added flexibility to move passengers through alternative hubs. This operational agility is proving to be a competitive advantage as GOL is able to quickly adapt to the changing landscape.

On slide 13 we discuss what the implications of announced charge are for GOL. As previously mentioned, the flexibility of GOL's (inaudible) network enable us to effectively work with the authorities to resolve industry wide problems and quickly return the Brazilian air transportation industry to regular and efficient (inaudible) of operation with minimal impact to GOL's operations. In August, authorities announced reduction in landings and take offs at Congonhas airport. GOL quickly responded permanently shifting 11 flights to Guarulhos and temporarily suspending 12 additional flights in an effort to alleviate the delays and cancellations at Congonhas and ensure safe passengers transportation.

GOL is working with authorities on a 60 day plan to alter its route network and shifting all connecting passengers from Congonhas and a portion of connecting passengers from Guarulhos to other airports with available capacity such as the Galeao, Confins and Brasilia airports. We do not expect this change to have a significant impact on revenues in medium term as all airlines will be affected by the same changes.

I will now turn the presentation back over to Richard. Please Richard.

Richard Lark {BIO 3484643 <GO>}

Thanks for that review on some of the relevant aspects of the Brazilian air transportation systems, Barioni.

We estimate the impact of external factors in the Second Quarter to be approximately BRL185 million of lost revenues and BRL25 million in increased employee and fuel cost expenses.

Moving on to slide 14 it shows the year-over-year comparison of our operating results including the incorporation of VRG's results as of April 9. Use and load factors were significantly impacted by demand suppressing delays, cancellations and wide media exposure. Compared to the Second Quarter of '06, RASK decreased by 26% incorporating a 19% in average (inaudible) and resulted in a 67% in EBITDAR which amounted to BRL72 million in the quarter. EBITDAR as an indicator of operating results before accounting for aircraft ownership expenses such as aircraft rent.

Total CASK at BRL0.141 including VRG's results, decreased BRL0.93 [ph] per ASK or 6% year-over-year reduction due to lower sales and marketing expenses, a reduction in fuel costs, lower aircraft rent expenses and a 9.6% appreciation of the Brazilian real against the US dollar. This was partially offset by increased aircraft and traffic servicing expenses, maintenance materials and repairs and depreciation as well as increased fuel consumption and employee costs due to flight delays. Jet fuel expenses per ASK decreased 6% over the same quarter last year due to a decrease in fuel prices deriving from an 8% decrease in international crude oil prices as measured by WTI, a 2% decrease in Gulf Coast jet fuel prices and an increase in international flights combined with a proportionally more fuel efficient fleet which incorporated larger winglet-equipped aircraft.

Our consolidated net non-fuel CASK including VRG's results decreased 6% to BRL0.848. The strength of the Brazilian real helped reduce other US dollar denominated expenses such as aircraft rent and insurance as well as US dollar denominated disbursements such as aircraft pre-delivery payments [ph].

On the next slide, slide 15, we show our net financial results. Financial income in the quarter increased BRL37 million to BRL73 million principally due to higher investment income on our cash balances. We've invested approximately BRL1.8 billion of cash earning on average 12% per annum in reais. Our financial expenses increased BRL17 million due to increased long-term debt financing during the year. We have approximately BRL1.4 billion of long term financing with an average maturity of 6.3 years and an average rate of 7.3% in US dollars. Our net financial results for the quarter were BRL45 million.

Slide number 16 shows a comparison of the effects on net income compared to the Second Quarter of '06. Running through the main differences; net revenues increased BRL380 million, jet fuel costs increased by BRL212 million due to an increase of 135 million more liters consumed partially offset by a reduction in the fuel cost per liter, WTI decreased 8% and Gulf Coast jet fuel decreased 2%. And an appreciation of 10% in the Brazilian real. Jet fuel expenses decreased 6% per ASK.

Commercial expenses decreased by BRL18 million and 56% per ASK due to changes in the sales commission structure at the beginning of the First Quarter of this year and efficient marketing activities during the quarter. Ticket sales on GOL's website accounted for 80% of total sales during the quarter. Labor expenses increased BRL88 million overall and 6% per ASK due to a 5% cost of living increase on salaries, an increase of 84% in the number of full time equivalent employees and additional employee expenses related to flight delays in the quarter.

Other operating expenses increased by a total of BRL265 million principally due to a 31% increase per ASK in air traffic servicing due to higher ground handling servicing expenses and a 19% increase in landing fees per ASK based on increases in landing tariff effected in June 2006. Also contributing to the increase in other operating expenses were maintenance expenses which increased 21% per ASK due to the scheduled maintenance of nine aircrafts engines and the use of spare parts inventory, offset principally by an appreciation of the Brazilian real. Net financial results increased BRL16 million in the quarter year-over-year.

As previously highlighted, revenues in the quarter were impacted by the demand suppressing environment faced by the entire industry in an amount that we estimate to be approximately BRL185 million. The net impact to the cost due to flight delays, higher flight expenses due to cancellations and employee costs and increased fuel consumption was estimated to be at approximately BRL25 million in the quarter. In the Second Quarter of '07, reported consolidated losses were BRL0.18 per share or $0.09 per ADS and reported net loss was BRL35 million on a consolidated basis, representing a net loss margin on a consolidated basis of 3%.

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On slide number 17 we show our cash flow for the Second Quarter '07. At the end of the Second Quarter '07 our cash balance was approximately BRL1.8 billion. During the quarter cash balances decreased by BRL203 million mainly due to the cash used for the acquisition of VRG. Cash used in operating activities was BRL23 million mainly due to an increase in accounts receivable of BRL70.5 million, an increase in deposits with lessors of BRL59.5 million partially offset by an increase in air traffic liability of BRL86.5 million and an increase in accounts payable of BRL76.6 million.

Net cash use in investing activities was BRL253 million consisting primarily of BRL194.1 million used in the VRG acquisition, net of cash acquired. And BRL118.5 million in the acquisition of property and equipment partially offset by returns of pre-delivery deposits in the amount of BRL80 million. Net cash provided by financing activities during the quarter was BRL72.8 million mainly due to an increase in short-term borrowings of BRL206.6 million partially offset by BRL76.2 million in gross dividends paid.

Moving on to slide number 18, we show the combined fleet plan to meet the projected growth needs over the next six years. The fleet is projected to grow to 112 aircraft by the end of 2008 on a consolidated basis, 118 by 2009, 126 by 2010, 132 by 2011 and 143 in 2012 representing a 9% compound annual average growth rate of seats from 2007 to 2012. Incorporation of new 737-800s into the fleet is projected to produced substantial cost savings. The new aircraft are equipped with fuel economizing winglets which reduce approximately 3% to 4% in fuel consumption per year, enable better flight performance and increased stage links on non (inaudible) flights. The new 737-800s are larger than the 737-700s and carry up to 30% more passengers. We estimate that the 737-800s will reduce direct operating costs per ASK by 15% compared to our 737-700s.

On slide number 19, we show GOL's relative performance in the US and Brazilian stock markets. In 2007 through August 6, our ADSs have outperformed the American Stock Exchange Airline Index by 13% and underperformed in the Tier I low cost carriers by 13%. Our PN shares have underperformed the Bovespa Index by 38% in the same period. Our average daily trading line in the first half of 2007 has been approximately $27 million on the NYSE and BRL36 million on the Bovespa. GOL is one of the most liquid airline stocks in the world and one of the most liquid Brazilian stocks included on both the IBrX50 and the Bovespa indices.

On the next slide, slide number 20, we highlight that even though GOL has one of the lowest cost structures in the world, a strong balance sheet, the highest liquidity in the sector. And some of the most attractive growth prospects in the airline industry worldwide, GOL's P/E is not only trading at a discount to other leading LCCs. But there is divergence between GOL's P/E multiple and the average P/E multiple of the Tier I LCC comps and the Brazilian infrastructure and the consumer sectors. GOL is trading at a large discount to both its LCC comps and the market in Brazil.

Slide number 21 shows GOL's financial guidance which is one of the key elements of GOL's disclosure process. All the guidance figures provided are on a consolidated basis, which is how we report our earnings. In the Third Quarter of '07, the addition of nine new aircraft to our consolidated fleet post-acquisition will allow an 85% increase in the available seat capacity over the same period of 2006. For the Third Quarter of 2007 we expect a load factor in the range of 67% to 69% representing a 2 to 3 point increase over 2Q '07 with yield in the range of BRL0.21 to BRL0.22 representing a 19% increase over Second Quarter '07.

For the Third Quarter '07, we expect non-fuel CASK to be in the range of BRL0.08. We expect that a stable foreign exchange rate environment in the near term. And lower oil prices will benefit our fuel costs in the quarter. We expect that the incorporation of larger, more fuel efficient aircraft and reductions in jet fuel prices will reduce our fuel costs per ASK by over 15% in the Third Quarter of '07.

Financial guidance for the full year 2007 is based on GOL's planned capacity expansion and the expected high demand for our passenger transportation services driven by the strong Brazilian economic fundamentals and our demand stimulating low fares. We expect to end 2007 with 103 aircraft in the fleet and expand our consolidated capacity by approximately 80% to adequately serve expected passenger demand, adding new routes and markets in Brazil, South America, Europe and North America. Average load factors for the year are expected to be in the 68% to 70% range. Passenger yields are expected to decrease approximately 12% in the full year 2007 primarily due to an increased stage links and RASK in the full year comparison is expected to decrease approximately 18%.

Our projections are for a full year EPS in the range of BRL3 to BRL3.5 per share. Full year non-fuel CASK is expected to be in the range of BRL0.08 representing 13% reduction over 2006. Fuel costs per ASK are expected to be reduced by approximately 12% year-over-year due to larger, more fuel efficient aircraft and lower fuel prices. We expect consolidated operating margins to be approximately in the range of 12% to 15%.

We plan to continue popularizing air travel in South America. And in Europe and North America as well as through expansion, technological innovation and improved operating efficiency, strict cost management and the lowest fares. Our cost leadership will permit us to offer the lower fares generating high load factors and high profitability so that we can invest in more seat capacity and further stimulate demand, what we call the GOL effect.

I'll now turn the call back over to our CEO to conclude our presentation. Please Junior

Constantino Oliveira Junior {BIO 16843720 <GO>}

Thank you, Richard. I will finish with slide number 22 where we highlight our competitive strengths which are essential to our successful business model. We count on our highly productive workforce and experienced management team to quickly adapt to new market conditions to deliver safe and quality customer service, offer the lowest fares in the market and maintain the lowest costs in the industry to ensure a strong brand and high profitability.

Although the Brazilian aviation industry has faced challenging times recently, we strongly that Brazil presents a promising environment with under served [ph] market for low fare air transportation. We are confident that the necessary measures are being taken and that the current change to an evaluation of Brazil's airport and airways infrastructure will help us grow our business in the medium and long term. We believe in the fundamentals of Brazilian air transportation industry.

Thank you for your attention. Having now concluded this brief presentation, I would now like to turn the floor over for Q&A during which we will be happy to respond to any question you may have.

Questions And Answers

Operator

(Operator Instructions) Our first question is coming from Mike Linenberg of Merrill Lynch.

Q - Michael Linenberg {BIO 1504009 <GO>}

Yes. Good morning gentlemen. I guess two questions, first when looking through the operating statistics I was curious why the completion factor was so low for VARIG during the quarter; I think it was 91% completion factor. I understand why GOL's completion factor came in, I think, at 97% given some of the cancellations. Why was that so low and how is that completion factor trending into July and August?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Okay Mike, thank you for your question. In terms of VRG you have to see that as Congonhas airport runway was under construction, VARIG's operations most part of that is based in Congonhas airport. So considering that, the number of flights in Congonhas were reduced. And that affect our regularity. And that's the major issue that makes VARIG offer lower number of flights during this period.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Then just how that looks, Junior, is that number looking a little bit better as you have reallocated capacity throughout the domestic market?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Yes, yes that's true. And other thing that we have to consider that, VARIG starts, we transfer some flights from Guarulhos airport to -- where we were flying in the domestic market, to start or restart flights to Buenos Aires. So that means the range between Sao Paolo and Buenos Aires is higher than the domestic flights we were doing. That means we had to cancel some flights some domestic flights, indeed some international flights, that affect the domestic regularity. But just to answer your question, yes, we are looking for better numbers now.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay, good. Then just my second question. And I don't know if it's Junior or Rich. But when I look at your delivery schedule. And you've definitely slowed down growth over the past couple of months, the number of airplanes that you were taking delivery of, how much flexibility do you have over the next couple of years to turn back some of those 737-300s early? I mean is that swing capacity? And if you had the chance or, as you incorporate this new schedule that you're putting in place over the next 60 days or so, do you have the option to turn this back much sooner?

A - Richard Lark {BIO 3484643 <GO>}

Yes Michael we have a lot of flexibility both at GOL as well as VARIG. At GOL all the operating leases are on very short terms. These are the leases that are, if you look at our current portfolio of 300s have remaining terms of anywhere from a couple of months to two years, both GOL and VARIG. So we have a lot of flexibility to restructure fleet to the extent we wanted to accelerate the return on the 300s.

What we have been doing in recent years, back in 2004 when we put in the 300s in the fleet, it was put in as a bridging strategy for capacity needs to the arrival of the 800s off of our purchase order. And we're starting to get these aircraft off of our purchase order now. So we've basically completed the bridge. And recent -- last year, we had gone out and extended terms on some of the 300s at GOL. But we have flexibility to accelerate returns of those if we choose. And also at VARIG level we're in the process of re-fleeting VARIG, transitioning from 300s principally to 800s. So we have flexibility there also to, with a couple of months' notice, to return 300s at VARIG also which are all under maximum 24 month operating leases.

Q - Michael Linenberg {BIO 1504009 <GO>}

Very good. Okay. Thanks. I appreciate that.

A - Richard Lark {BIO 3484643 <GO>}

Sure.

Operator

Thank you. Our next question is coming from Jim Parker of Raymond James.

Q - Jim Parker {BIO 1506864 <GO>}

Good morning, Junior, Rich and David. Just on page 13 of your slides you show the impacts in the Second Quarter of costs due to delays and then also the lost revenue. What would you estimate that these impacts be in the Third Quarter?

A - Richard Lark {BIO 3484643 <GO>}

We don't see any big impacts in the Third Quarter. One of the big impacts is that, with the delays. And to some extent this went into July also, the amount of flight time required to complete flights, in other words the amount of flight times to produce the same amount of ASK has increased. So that resulted in increased costs, the variable costs related to the operation of the aircraft, be it fuel and to some extent employee costs also. So that did extend a little bit into June so there could be -- into July. So there could be a small impact of that in July. But things have been pretty normal during the month of August, it's been very normal. So.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. With regard to the TAM accident that took place in July, just, has -- are you able to utilize all of the VARIG slots at Congonhas? Would you be able to utilize all of them that you acquired?

A - David Barioni {BIO 6522413 <GO>}

Hello Jim, this is David. Good morning.

Q - Jim Parker {BIO 1506864 <GO>}

Good morning.

A - David Barioni {BIO 6522413 <GO>}

We are able to utilize all the slots designated for VARIG. There is no constraint in VARIG slot due to the accident, okay.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. And Rich are you suggesting that things have returned to normal after the accident, that the traveling public is --

A - David Barioni {BIO 6522413 <GO>}

Hello?

Q - Jim Parker {BIO 1506864 <GO>}

Air travel is not negatively impacted?

A - David Barioni {BIO 6522413 <GO>}

Hello Jim?

Q - Jim Parker {BIO 1506864 <GO>}

Yes.

A - David Barioni {BIO 6522413 <GO>}

We have a problem (technical difficulty)

A - Unidentified Speaker

Hi, we need to transfer this line to the main speaker.

Operator

Thank you.

A - Unidentified Speaker

Yes. Transfer this line to (inaudible) please, the speakers' line for both [ph].

Operator

Thank you. Our next question is coming from Ray Neidl of Calyon Securities.

Q - Raymond Neidl {BIO 14015874 <GO>}

Yes, just a more general type of question of developments done in Brazil for the aviation sector. There's a government study going on that's supposed to be completed over a 60 to 90 day period from July; I'm assuming that study will be done sometime in September, October. And I'm just wondering if that's a correct assumption, if you think that the government will stay on schedule for this study and exactly what do you think will come out of this study.

I know we're getting a lot of talk of the changes that you mentioned on your conference call and TAM's been talking about. But do you think there will be any further major changes given what we're hearing, possibly even a further downsizing of CGH or some other rules and regulations that they may impose upon the industry?

A - Richard Lark {BIO 3484643 <GO>}

Hello, Jim. All right guys, I guess we're back on the call now. For some reason we got cut off.

Q - Raymond Neidl {BIO 14015874 <GO>}

Great. Can you hear me?

A - Richard Lark {BIO 3484643 <GO>}

Yes. Just I'm not sure if -- did we -- I guess we finished the last question we had from Jim Parker which was regarding if VARIG's fully operating its slot and the answer is yes, VARIG is fully operating its slots. Sorry. It looks like -- we wouldn't have gotten your question Ray, we cut off. So you might want to repeat your question for us.

Q - Raymond Neidl {BIO 14015874 <GO>}

Okay fine. It's just a very general type of question concerning the aviation industry in Brazil and what's going on. It's my understanding that the government is doing a study that they said they'll release the results after 60 or 90 days, which will be I guess sometime in September, October. I'm just wondering if you think the government can -- if that's correct, if the government can stay on schedule? What do you think may come out of the study? Will there be any further changes than what we're hearing now from you and from TAM regarding CGH and other changes in the Brazil aviation industry? And I guess there's some lawsuits going on now about the closing of CGH. So I was just wondering if you could give some general comments on the macro environment down there.

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Thanks Ray. (technical difficulty) CGH as we said the government establish (technical difficulty) days for the companies and (technical difficulty) to develop a fleet that were trying to avoid the connections at that airport. That means we will have to transfer the connections to Guarulhos airport, for example, or Galeao, Rio de Janeiro or other airports in Brazil like Brazilia and Belo Horizonte Confins airport. We are now developing our plans or our network in this sense. But we are not expected to see negative impact in medium term regarding these change.

Q - Raymond Neidl {BIO 14015874 <GO>}

Okay. So you're pretty confident that you know what will come out of this government study and you're starting to take actions already to address that. Is that a good assumption to make?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Yes. We have 60 days to work together and develop in a better sense what will attend the customers' necessity. That means, in terms of how that will impact in the demand, we don't think that will have a negative impact and on the end we will have probably better operations as we go from Congonhas airport to a larger airport like Guarulhos or Congonhas [ph].

Q - Raymond Neidl {BIO 14015874 <GO>}

Okay. So you're very much a part of the study then. That's what I just wanted to make sure. Also aircraft utilization will probably go down going forward, not only because of the changes in the airports. But from what I understand you're looking at maybe cutting back on your night flying because it's so low yielding. Is that something that you're looking at?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

We have to be attend to all of these change always. And we have to get then, or we have to be very looking close for the demand reaction as we had a kind of perfect storm in the last 10 months. But if the demands react in the negative way, we have this option to reduce the flight times or the aircraft utilization, as we still have one of the highest aircraft utilization in the world with 14 block hours per day per aircraft. And yes, we have these options and we have to look for this change that happens. We have this flexibility.

Q - Raymond Neidl {BIO 14015874 <GO>}

Okay. And starting up the new VARIG routes this Fall, will there be a gap or a lag after you start up the routes to building up load factor? How do you intend to compete in these markets? Are you going to offer large scale discounts to get people to fly right away, or will you be willing to live with lower load factors as you ramp up the service?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Regarding the international flights we are working hard to develop interline agreements with the major airlines in Europe that to help us to establish faster our load factor in a good sense. One example is that out of the interline agreements we established a route between Galeao and Frankfurt on June, or beginning of July. And we -- sorry, beginning of

June. And we are looking now for load factors on the 65% level. That means we are really, in less than two months we can say that we are becoming, or this route is becoming mature, that we filed [ph] an interline agreement we are developing now. So with that. And regarding that we are negotiating various schedule in terms of arriving in that market. And also in terms of the time flight, we believe, we strongly believe that we offer a good product and we expect also to be able to offer a lower fare than the market is working right now.

Q - Raymond Neidl {BIO 14015874 <GO>}

Okay. And finally, in the future at some point will you break down VARIG and GOL separately, financials or operational statistics?

A - Richard Lark {BIO 3484643 <GO>}

No. On a monthly basis you will see traffic statistics reported for GOL and VARIG domestic, international. And so on a revenue basis you will have some of that revenue data broken out. But for the rest of it [ph] we don't present separate results; we present our results on a consolidated basis.

Q - Raymond Neidl {BIO 14015874 <GO>}

Okay great. Thank you, guys.

Operator

Thank you. Our next question is coming from Steve Trent of Citigroup.

Q - Steve Trent {BIO 5581382 <GO>}

Good morning, guys. Most of my questions have been answered; just one or two follow ups from me. Looking at the Cargo and Ancillary revenue, that did look like it provided a boost from a margin standpoint and I was wondering, what are your broad expectations for growing that business going forward and will the Continental and other co-shares give you some help on that?

Then my second question is, you mentioned international routes that VARIG is going to launch over the medium term, are you now in a position that you are fully capable of using those routes without any challenge from a regularity stand point? Thanks a lot.

A - Richard Lark {BIO 3484643 <GO>}

In terms of the answer on revenues, obviously the effects of the interlines and co-shares that we have are on a -- or increased passenger revenues; they're not in the ancillaries [ph]. What we do have in ancillary revenues is the cargo business which is, which continues to grow and accompany the growth of our passenger business, that's non-priority cargo traffic.

We also have sales on installment payments where we generate interest revenues, through the Voe Facil which has also grown, we have over -- almost 800,000 customers that are registered for purchases using our Voe Facil which you can pay in installments up to 36 months. Then we also have today in the portfolio of ancillary revenues, on the VARIG side, the Smiles program which has the largest database of any loyalty program for an airline in Latin America which, in addition to helping generate passenger revenues, also will help us generate other types of revenues such as fees from partnerships as well as use of airport lounges. So we do expect those to continue to grow and contribute going forward.

I'm sorry. And your second question, could you repeat it please?

Q - Steve Trent {BIO 5581382 <GO>}

Sure Richard. I was just curious about the international destinations that you're planning to launch through VARIG. Are you guys now in the clear in terms of being able to utilize those international slots without any challenge from a regulatory standpoint?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Steve, yes [ph] we at this time we have nothing that -- at this time we have confidence that our plans will go forward. We have nothing that makes us change anything in our plans. And also, just to complete the first answer, also in the cargo business we have developed a system to start to work with -- Hora Certa [ph] is the trademark of VARIG that means as very well know -- very well known brand in Brazil for express cargo. And we expect to start that at the beginning of next year, as we have developed systems to do that.

A - Richard Lark {BIO 3484643 <GO>}

Yes, because what we have the GOL side is really non-priority, very low yielding cargo traffic. We don't have in the GOL business model, we don't prioritize cargo traffic over -- it basically takes advantage of the excess space in the cargo hold of the aircraft. And so the VARIG side will have more of an express product, which will be high yielding.

Q - Steve Trent {BIO 5581382 <GO>}

Okay, very clear. Thanks guys.

Operator

Thank you. Our next question is coming from Frank Boroch of Bear Stearns.

Q - Frank Boroch {BIO 5880495 <GO>}

Hi good morning. I just wanted to do a reality check. Looking at the full year guidance for '07, if my math is correct, it implies an operating margin in the Fourth Quarter that looks to be the highest of any quarter over the last nine quarters. And I'm just trying to figure out if I'm missing something, or what sort of synergy impact is kicking in, in a big way in the Fourth Quarter, implied in your guidance?

A - Richard Lark {BIO 3484643 <GO>}

Sorry, could you be a little more specific Frank [ph]?

Q - Frank Boroch {BIO 5880495 <GO>}

Well it seems as though you're back into -- you're getting about a -- to get to about 12% to 15% operating margin for '07 suggests about a 27% operating margin in the Fourth Quarter. And I guess it's trying figure out is that more cost or revenue driven and with the utilization impact likely to be negative, yet the improvement in the VARIG at cost run rate? I'm just try to think through. I guess is that operating margin in the Fourth Quarter, is my math right or is there something wrong with our model?

A - Richard Lark {BIO 3484643 <GO>}

We don't have that math. I guess you'd also have to look at what you're assuming for Third Quarter. But in terms of the rest of the year, we do see yields improving. We are also expecting see the VRG business, which was a big drain in the Second Quarter, be at the breakeven level in the Third Quarter and potentially have a positive contribution in the Fourth Quarter.

Perhaps the difference in your model is costs. I don't know what you're assuming on costs. But we're looking non-fuel CASK in the -- pretty much near the BRL0.08 range both Q3 -- in Q3 and perhaps a little bit lower than that in Q4. We're also seeing a reduction in the fuel CASK. So perhaps the answer there is on your --

Q - Frank Boroch {BIO 5880495 <GO>}

Okay.

A - Richard Lark {BIO 3484643 <GO>}

Is on the cost side of the equation.

Q - Frank Boroch {BIO 5880495 <GO>}

I know with the tax credits you had a big benefit in Brazilian GAAP. Is that something that you expect to kick in on the US GAAP side?

A - Richard Lark {BIO 3484643 <GO>}

We don't -- there's accounting differences there. We have, in the acquisition NOLs, if you will, that we benefit from in the transaction, are in excess of BRL200 million, which we can use against future -- as a net operating less carry forward which more than pays for the cash we used on the transaction. We also highlighted this in the call when we announced the VARIG acquisition.

Then we have goodwill benefits there, which can be amortized, potentially used against future profits at VARIG. But the use of these credits depends on the earnings generated in the VARIG operations. The NOL is part of net assets in US GAAP and in Brazilian GAAP it was actually recognized in Brazilian GAAP earnings in the quarter. Second quarter earnings in Brazilian GAAP were BRL157 million positive. Then we also registered a net goodwill of almost BRL800 million in Brazilian GAAP and that's deductible against future earnings.

But when they actually start affecting on a significant cash flow basis is really 2009 and beyond in terms of the major impacts. These are basically credits if you will, credits that we can use to deduct against future tax. But they're quite large and they more than pay for the value that we traded in the acquisition.

Q - Frank Boroch {BIO 5880495 <GO>}

All right and lastly, does the potential have to start international, new international flights outside of Sao Paulo? How does that negatively impact your, or does it, your thinking about those routes and whether you want to continue introducing them?

A - Richard Lark {BIO 3484643 <GO>}

What do you mean launching international flights outside of Sao Paulo?

Q - Frank Boroch {BIO 5880495 <GO>}

You know the new VRG flights. It's my understanding that the movement is to encourage those flights to have to be launched outside of Sao Paulo.

A - Richard Lark {BIO 3484643 <GO>}

The plans we're launching with VARIG, the international flights we're launching, those plans really haven't changed. They're a combination of Guarulhos in Sao Paolo and Galeao in Rio. With Frankfurt, for example, we have flights in both those markets so it's a combination of the use of both of those airports. So our plans don't change vis-a-vis any potential shift in where new international flights can be launched from. That would really depend on demand for those flights. If we were to see an international service being launched to markets outside of Brazil from places like Belo Horitzonte, which there have been in the past, or perhaps the north east of Brazil, from our perspective that would depend on our own supply/demand management. We don't have any plans to launch international flights from airports from outside Guarulhos or Galeao.

And as you know, also we were allowed to transfer passengers from VARIG flights arriving internationally in both Galeao and Guarulhos on to GOL flights in the domestic market; if you will a co-share between the two companies. So that's something we're going to explore as we launch these flights over the next six to nine months, the flights that we highlighted in Europe, North America and South America.

Q - Frank Boroch {BIO 5880495 <GO>}

Great. Thanks.

Operator

Thank you. Our next question is coming from Travis Anderson [ph] of Gilder Gagnon Howe & Company.

Q - Unidentified Participant

Good morning. I was wondering if it's possible to pull out a little bit what VARIG's loss was for the quarter? I know it's probably not entirely possible to give an exact number. But would it be correct to guess that it accounted for more than half of the loss for the quarter, perhaps BRL70 million to BRL90 million of the quarter's loss?

A - Richard Lark {BIO 3484643 <GO>}

Yes. That's actually a good guess Travis. Actually it's not hard [ph]. We put -- VRG went through, basically, a full blown audit process. During the quarter we integrated the company on an accounting basis. We also, as you'll see in the US GAAP financial statements, did the goodwill and intangible calculations and then allocated the values in the purchase price to specific intangibles. And we also adopted a modern accounting treatment for the Smiles mileage program in our US GAAP accounting. And the -- if you take VARIG -- VRG on a -- in the Second Quarter, from April 9 until June 30, it had an operating loss of BRL94 million. And then it did a net income in the period of BRL141 million.

The numbers I'm telling you there are in the Brazilian GAAP; those are numbers that are in Brazilian GAAP. Also there's a footnote in our Brazilian GAAP financial statements where those values are disclosed. Because when you do an acquisition, you have to report -- in Brazilian GAAP, you have to report the balance sheet and the income statement during the periods you require. So the numbers I'm telling you there are public information in Brazilian GAAP financial statements. We will not be reporting those on a going forward basis. On an annual basis, we already do this, with our GTA subsidiary, we would produce a full year balance sheet. VRG would have to publish a full year balance sheet, published for the full year.

But it won't be relevant for investors because that balance sheet would basically have to reflect 12 months of operations for 2007 and it really won't be that relevant. And what will go in there from January until March, probably most likely also be unaudited. It's just an obligation to provide those statutory financial statements.

So what's really relevant for us and I think for our investors, is April 9 going forward. I hope that's helpful.

Q - Unidentified Participant

Yes thank you. Then, pardon me, the assumption in your guidances that VRG in the Fourth Quarter is nicely positive.

A - Richard Lark {BIO 3484643 <GO>}

Yes. As Junior mentioned, we have the international routes, which are launching, which will take a while to build load factors in those markets. But we expect at VRG on an operating, or if you want a pretax income basis, we actually expect it to be slightly positive in the Fourth Quarter of this year on a pretax income basis. And on a net income basis it would be positive. So it'll be, in terms of bottom line earnings, in the Fourth Quarter we expect it to be making a positive contribution. And this is based on our assumptions, our realistic assumptions for the launch of the international routes, which are really launching here in a heavy basis in November. So they're really not going to have a big impact, they'll have an impact in December basically.

Q - Unidentified Participant

Okay.

A - Richard Lark {BIO 3484643 <GO>}

So we may have marketing costs in the Fourth Quarter as relates to the re-launch of these markets and also a re-launch of the VARIG brand, the look and feel of the VARIG brand.

Q - Unidentified Participant

Okay. Then partly to cover Jim's question that you missed. It sounds like business has returned pretty much to normal and the price increases that you put through are so far, at least, sticking?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Yes. In terms of the use, we are confident the business [ph] is recovering this time and sure we are suffering some impact from the negative news we faced in the past, especially in the past month, in the last month, sorry. But we are confident that the market is going to a normal way and the system is working right now and we are working with a better use [ph] today than on the last quarter for sure.

Q - Unidentified Participant

Thank you.

Operator

Thank you. Our next question is coming from Nic Sebrell of Morgan Stanley.

Q - Nic Sebrell

Morning guys, a few questions. First, if you could discuss how things are going on your short haul international operations within South America? How are you seeing load factors change? How do you expect it to change over the next quarter? And how are you facing competition with (inaudible) and others? First question.

Then second is a follow-up on flexibility in your fleet plan. Apparently you have a lot of flexibility with the -300s. But I was wondering whether that extends to the wide bodies and your -700s and -800s?

Then the last question, just more of an accounting clean-up question, interest on capital that you announced, what impact do you think that will have to your tax rate in the second half of the year?

A - Richard Lark {BIO 3484643 <GO>}

Yes, I'm going to just kill that question first. We're still working with an effective tax rate in our tax planning for this year of 27%, in US GAAP. There's a potential with utilization of the tax credits realized and so on that that could be lower. But right now we're still working with the 27% estimated tax rate for 2007.

And in terms of the improvements in the South American network, Junior (inaudible).

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Thank you, Richard. In terms of the South American Network, it's important to say that we've suffered in terms of load factor in the last quarter. Principally regarding some flights, some new flights that we start on the end of last year and for some of these routes, like Lima in Peru, we were not offering the right product for that route because we planned flights during the night. These flights were -- the punctuality of these flights were really very -- were bad because we were suffering the consequence of the issues that we were facing on the system. Now we redefined this fleet plan for South America, especially for Lima, for example. And for Santiago. As well we develop marketing attitudes that help us in terms of sales, we developed new systems to facilitate, make things easy, in terms of Internet sales for travel agents and for customer, direct customers.

In Chile, in Paraguay and in Peru that is helping us to really recover our load factor. We taste [ph] a good load factor during the month of July and as we are still confident that, with these new time flights, or with this new schedule plus the solutions we develop in terms of systems for sales, we are very confident that we will place our load factor in the right -- on the right position for the near future.

In terms of flexibility structures [ph], the 767 fleet up or down, it is important to say that we are just bringing the number of aircraft that will allow us to serve the markets that we expect to do. And we are talking about the five principal destinations in Europe, plus the principal destinations in US, like New York and Miami and also to Mexico City, we do there perhaps. So we don't have excess of aircraft now for these routes and I said, we are talking about the most important routes or the most important destinations in these continents. So we are really confident that we will be able to explore the number of aircraft that we are bringing to VRG and that will be enough to attend these flights on a minimal level.

Q - Nic Sebrell

Excellent. And with respect to the load factor on the international side, just for GOL for your GTA division, do you think that we'll be able to see a continuation of low 70s load factor that we saw in July or do you think we'll have some seasonality and then we'll see it fall? What do you think the dominant effect might be?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

We probably will see some seasonal effects in these routes. But as I said, we are changing the schedule, we've developed some new software systems to support sales. And so we are confident that in these routes, as the routes become mature and the facilities is in place, we expect to see the load factors in a very good set, in a very good level, probably lower than July because July is the high season for these routes. But much better than what we saw on the Second Quarter.

Q - Nic Sebrell

Great, thank you.

Operator

Thank you. Our next question is coming from Jamie Nicholson of Credit Suisse.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Thanks, thanks for the call. Richard, I was just wondering if you could give a brief update on your financing strategy, specifically whether you plan to maintain your high cash balance in liquidity as you expand the fleet?

Then secondly, I'm wondering if you've had any recent conversations with your rating agencies and whether they're expressing any concern about the challenges in the airline industry or whether they're comfortable or even favorable about your outlook? Thanks.

A - Richard Lark {BIO 3484643 <GO>}

Yes. We do plan to maintain our current cash balances. The current core finance policy of the company is to maintain investment grade credit ratios subject to minimizing the cost of capital within investment grade credit ratios. We're a BB rated company on a foreign currency basis, because we have a cap, due to the sovereign [ph] ceiling.

Yes we have had conversations, many conversations in recent periods with our -- with the rating agencies that rates GOL and they have also published some reports. And they've spent a lot of time taking with us about the impacts of the crisis on our current and future results. We did show a deterioration in credit ratios that involved margins because of the margin erosion and in terms of activity from the ratings Fitch recently, which I think was last week if I'm not mistaken, reaffirmed their credit rating on GOL.

Q - Jamie Nicholson {BIO 1540918 <GO>}

Thanks very much. Thanks for the color.

Operator

Thank you. Our next question is coming from Daniela Bretthauer of Goldman Sachs.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Hello everyone. Three quick questions on your cost breakdown. You mentioned that you've put in hedges in place of the Second Quarter of 2008, can you tell us at what price are you hedged?

A - Richard Lark {BIO 3484643 <GO>}

Yes well generally we have -- we manage our hedging program with very defined price targets, instruments as well as volumes and we have in, our current hedging program defines targets all the way out until the end of '08 based on our own particular view. For, if you're asking specifically on the Second Quarter of 2008 it's around $62 to $63 a barrel [ph].

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Did you make money or lose money this quarter, in the Second Quarter of '07?

A - Richard Lark {BIO 3484643 <GO>}

On hedges?

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes

A - Richard Lark {BIO 3484643 <GO>}

Well in terms of fuel hedges we recognized, or there was a small portion of gains recognized in financial income. Then we have around BRL70 million or so of unrealized gains that's based on the mark to market of the portfolio at the end of the quarter. All this shows up in the financial statements; we have a lot of disclosure in, I think it's footnote 11 of the financial statements. And where you see the unrealized gains and losses is in the other comprehensive income which kind of shows on an after tax basis the -- what we have if you were locked up in the hedging portfolio. Those are the hedges that had -- that were accrued in the quarter in terms of what is passed, it was around BRL2 million gains on the hedges in financial income. Then on the dollar exchange rate hedges we had around BRL8 million of losses recognized in operating, in operating expenses.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. So, okay. And for aircraft rent you mentioned that you are amortizing the gains on eight sale and leaseback for aircraft. How many more are you planning to do going forward and how much exactly are we talking about this amortization that was put at the aircraft rent level?

A - Richard Lark {BIO 3484643 <GO>}

It's not significant, going forward we have defined policy to lease approximately, sorry sale leaseback around 20% of our order with Boeing. (inaudible) this out until the end of 2008 we have about another nine sale leasebacks that we will do. These are positive for us because they generate some nice cash back to us. We generally generate around $9 million of cash based on the -- $7 million to $9 million of cash based on the sale leasebacks we're doing.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Per plane?

A - Richard Lark {BIO 3484643 <GO>}

Yes per sale leaseback based on the pre-delivery deposit mechanism. So it's a financing source for us. We just -- we have a policy, an internal policy based on our own risk analysis to do up to 20% of the order in sale leaseback.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

So another nine in addition to the eight?

A - Richard Lark {BIO 3484643 <GO>}

Between now and the end of '08, yes.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Oh, end of '08.

A - Richard Lark {BIO 3484643 <GO>}

Yes.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

And final question on the cost breakdown then I want to change to the scheduling. Your sales and marketing it was a pretty impressive decline in the Second Quarter. Is that like this new level meaning 7.5 of net sales? The new level that we should work going forward for sales and marketing?

A - Richard Lark {BIO 3484643 <GO>}

Well there's a couple of points. In terms of -- the quick answer is no, it should be higher going forward. The big reduction in that line item, about half that line item is commissions that we paid to travel agents to sell our tickets. And they went through about one third reduction in January this year. So on the year-over-year comparison to that's the biggest impact in the data.

The other impact is since October of last year we've been in a very low burn rate on marketing expenses for a lot of reasons. We have not been doing marketing in this environment. And we've spent -- there is a very strong correlation between marketing spend and good sale of tickets. And there is a very strong correlation between marketing spend and revenues and yields. And so going forward in a more stable environment that number should increase. On the non, if you will, about half of that being commissions and the other half being other types of marketing activities, the other types of marketing activities should go back to a more normal level. Plus we also have starting in pretty much September through March of next year we're going to be launching new routes in international markets. And so we'll have marketing spend related to the launch of varied routes in Europe, North America, Mexico, Santiago and so we'll have marketing spend related to that. So those will -- but the numbers we're giving you on cost guidance for this year include what we're expecting to spend in marketing through the rest of '07.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Yes I know I was just thinking longer term if I should adjust for like a lower level. But you just mentioned the other component which --

A - Richard Lark {BIO 3484643 <GO>}

Yes half of that should go back to the seasonality. But have of that between now and I would say the Second Quarter of next year should start to go back to historical levels. It really depends. If you're looking at it on a ASK basis also so on an ASK basis those marketing dollars are being amortized over a much larger ASK production i.e. the international flights. So it's not going to have a huge impact. But it will creep up a little bit, from a -- on a percentage of revenues and on an ASK basis.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay. And moving to the question on your new scheduling and changes, can you comment anything on future bookings? I mean you already said that you think things are back to normal. But what sort of future bookings are you seeing, let's say, the month of August or looking forward to September for example?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Daniela, it's Junior. We feel some reduction on the end of July and the beginning of August that's normal considering the seasonality. But we look for a slightly higher reduction or lower level of sales during this last two weeks. But looking for the sales during this week specific from Monday to yesterday, I can tell you that the things are becoming normal as the people or the customers become more confident that the things are working and the normality is coming back. So we are confident that we'll have a good August and for the near future we will cover the level of sales and load factor.

A - Richard Lark {BIO 3484643 <GO>}

Hey through this period we saw was pretty much future bookings continued good in the excess of 1 million ticket level, the difference being with the events that happened. We lost -- you lose a lot of the last minute travelers and also people postponing their spending because of what was happening. So the a base in terms of future bookings for us always continues to be pretty normal. We lost the -- the expectation is that the last minute travelers particular business and so on comes back; we see that happening. Then also the repressed demand i.e. the money that was not spent in recent times, those budgets are going to spent on air travel at some point in the near term.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay and last question perhaps for Barioni. The government already revisit and is allowing the private jets to fly out of Congonhas although they only have three slots per hour down from six. The question is the new schedule for the whole GOL network, exactly what sort of changes did you have to do? Because you obviously used Congonhas for a lot of your connectivity and you were kind enough to show those very interesting charts what happened in the other airports. But we all know that those other airports they had very low utilization anyway and both Guarulhos and Congonhas are fairly congested. So what sort of adaptations did GOL have to do in it's schedule to rework and fit the government new rules?

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Daniela, this is Junior. I will answer the questions. And from the beginning I have to tell you that we are, right now discussing that and developing this network; it's too early to predict exactly what's going on. But looking forward with the connections at Congonhas airport that represents almost 4% of the connections at GOL operations. For VARIG you would have no connections at Congonhas; we are offering direct flights for all the principal destinations in Brazil, the major destinations in Brazil.

So considering that, I don't think that you have major problems to transfer these connections to Guarulhos. We are already doing something like that for some of the nations that we serve at GOL because as we have -- we are offering -- we have a lot of flights also from Guarulhos airport when we are talking about San Paulo terminal. So right now people who, or passengers who usually make connections at Congonhas already doing connections at Guarulhos right now.

And also we have the expectations to transfer something to Galeao because sometimes people from the south who come to Sao Paulo. But we still have options from Galeao airport. I have to tell you that, we grow out of Congonhas during the last two or three years and we implement a lot of flights at Guarulhos airport. And GOL is the largest airline or, a number of embarkments -- enplanements at Galeao airport for example. So we have a very strong network in this airport also in Brasilia airport. So considering that, I don't think that we can expect a big change in terms of passenger trends and that will not affect the monthly our projections or our plans.

Q - Daniela Bretthauer {BIO 13380169 <GO>}

Okay very good, thank you.

Operator

Thank you. Our final question is coming from Rodrigo Goes of UBS.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Thank you very much guys actually all my questions have been answered, thank you very much.

A - Richard Lark {BIO 3484643 <GO>}

Okay thanks Rodrigo.

Operator

Thank you, I would now like to turn the floor back over to management for any final considerations.

A - Constantino Oliveira Junior {BIO 16843720 <GO>}

Once again thank you very much for your interest in GOL. We remain committed to making air travel a simpler, more convenient and accessible option for everyone while creating value for our shareholders and employees. GOL is popular rising currently in Brazil, South America and the world through the expansion of our business, innovation in our quality services, operating efficiency, cost management and competitive low prices. At GOL our slogan is, here everyone can fly.

If you have any additional questions feel free to contact our investor relations department. You also can visit the investor relation sector -- section, in our website at voegol.com.br/ir. Thank you very much and have a nice day.

Operator

Thank you. This does conclude today's GOL Intelligent Airlines Second Quarter 2007 results conference call. You may disconnect your lines at this time and have a wonderful day.