Q3 2011 Earnings Call

Company Participants

- Constantino de Oliveira, CEO
- Leonardo Pereira, CFO

Other Participants

- Jim Parker, Analyst
- Luiz Campos, Analyst
- Nick Sebrell, Analyst
- Richa Talwar, Analyst
- Stephen Trent, Analyst
- Thais Aleluia, Analyst
- Thais Cohera, Analyst
- Unidentified Participant, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to GOL Airlines 3Q '11 results conference call. Today with us we have Mr. Constantino de Oliveira, Jr., CEO; Mr. Leonardo Pereira, CFO; and Mr. Edmar Lopes, Finance and IR Officer.

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

We would like to inform that questions can only be asked by telephone. So if you are connected through the webcast you should email your questions directly to the IR team at ri@golnaweb.com.br. Today's live webcast, including both audio and slideshow, may be accessed through GOL's website at www.voegol.com.br/ir. And the presentation is available for download at the website.

Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of GOL management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events. And therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GOL. And could cause results to differ materially from those expressed in such forward-looking statements. Now I will turn the conference over to the CEO and founder, Mr. Constantino Oliveira, who will begin the presentation. Mr. Oliveira, you may begin your conference.

Constantino de Oliveira {BIO 3888521 <GO>}

Thank you, very much. Good morning, everyone. And thank you for joining our Third Quarter 2011 results conference call. Let's begin with slide number 5, which shows the efficiency of the country's leading airlines based upon Third Quarter '11. Once again GOL did very well being the only Company in the sector to increase its market share and reduce its seat share in the year-on-year comparison and present a higher quarterly ratio.

This was the result of the Company's disciplinated capacity addition strategy aiming to maximizing its operating results. We believe this result is extremely important because it clearly shows that our strategic positioning has generated consistent results.

Moving on to slide number 6, we can see that following a period of fierce competition, the industry is showing signs of greater rationality going forward which is totally in line with GOL's conservative approach to increase capacity.

This quarter, domestic supply moved up by 14.2%. But GOL itself recorded an upturn of only 10.2%, the lowest figure of all. This increase is due to the increase in fleet productivity to 13.8 block hours per day per aircraft on the Third Quarter '11. The strategy of maximizing aircraft load factor, which increased by 3.1percentage points and the Company higher number of destinations and more frequent flights between the Qs.

We can observe that demand in GOL's (inaudible) network climbed by 13.5% over third Q '10 mainly due to the fare discounts that lasted all the way through August period.

GOL definitely continued to concentrate on dynamic fare management. And as a result passengers who booked their seats ahead of time received and will continue to receive more attractive fares. Still looking at the slide number 6, yields fell by 7.6% over third Q '10 mainly due to the competitive scenario in the first six months of the year which led to an increase in advanced bookings. In the final months however, you should record a recover over their levels along the last of the year.

Moving to slide number 8, you can see that GOL achieved one more important step in the strategic plan in regard to the acquisition of Webjet. In around 60 days only, the MOU was signed, the required decisions were carried out, the ANAC approvals was obtained, the agreement for the purchase of 100% of Webjet was signed and the preservation of transaction with a reversibility agreement was executed with Webjet and CADE, the Brazilian antitrust authority.

Moving on to slide number 9 where we show that the APRO, this reversibility agreement that's regulating future relations between the parties will preserve the managerial independence of both airlines. The agreement will also permit the optimization of the route network without implying any reduction in Webjet's capacity, whereby increasing the options available to clients. Webjet's results will be included in GOL's results as of 4Q '11. At the moment the Company is waiting CADE's final examination of the transaction.

Now, moving to slide 11, you can see that our fleet plan is under review and that we'll continue adopting a conservative approach to adding market capacity in 2012 with an estimate increase in domestic supply of not more than 4% including Webjet numbers.

Moving to slide 13, here we show our analysis of 2011 and its development. The first semester reflect a competitive environment, a self competitive environment. With the industry capacity growing 14.1%, as a consequence yields under pressure while GOL grew 7%. In the second semester we observed a slowdown in growth showing that the industry had adopted a prudent manner to added capacity resulting in a new set of yields at higher levels than the previous.

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

Leonardo Pereira {BIO 1960081 <GO>}

Thank you, Junior. Good morning, everyone. So on slide 15, we basically summarize our operational highlights where we can see again confirming how prudent we have been in managing our capacity. Capacity has grown 5.7% year-on-year while demand has grown 10.4% year-on-year. As a result, load factors have increased by 3.1%.

Our CASK ex-fuel in the Third Quarter of '11 is still above what we want. And as we have been discussing, we are committed and we have very clear initiatives inside the Company to bring this number to below 9 in 2012. We know it's not an easy task because we have also the US dollar/real rate working against us. But we understand that this is a key success factor in our long-term strategy to have a sustainable and attractive business.

Going on to the next slide as we see the results, I would like to highlight again the ancillary revenues percentage vis-a-vis net operating revenues. Ancillary revenues is a key stone in our strategy. We have been including ancillary revenues.

We understand that in this business it's important to have ancillary revenues at least as a 15% component of our business. And we are committed to have that by 2014 because as we -- so we can have more flexibility in the passenger revenue line. Ancillary revenues (inaudible) uses our infrastructure. So it leaves a much stronger margins to the bottom line.

On the EBIT, as we mentioned, we're still not where we want to be. But there's a clear positive trend. And this will continue. And as we said, in 2012, we are going to be back in line which will be acceptable to everyone.

In terms of the net income, out of the BRL517 million over 90% of that number is non-cash and is a result of the real depreciation in the quarter compared to the Second Quarter of 2011. We should be concerned if we had pressure in our debt in terms of amortization for the next 12 months. As we have done a good work in terms of stretching out the metrics, this FX impact is pure an accounting impact and doesn't have -- it doesn't jeopardize the operations.

Moving on to the next slide, we make a quick comparison in terms of CASK ex-fuel vis-a-vis some of the other players which are respectable players in the industry. And we have adjusted for stage length and we can see that GOL's CASK ex-fuel despite being is still above where we want it to be, remains competitive.

Moving to the next slide where we compare the CASK ex-fuel of the Third Quarter vis-a-vis the CASK ex-fuel of the Third Quarter 2010. And we show the lines that we have to work and pay attention to as we go over and discuss the budget for 2012. Again, just to remind everyone, we have a cost initiative program inside the Company and by now we have out of the BRL650 million that we have said that we would deliver, we have already -- we can already say that we have BRL500 million in the basket.

On the next slide on quarter overview, it's a slide to compare the first, second and Third Quarter. And more discuss the seasonality than anything else. If you look at the first part of the slide, we see that we had -- the First Quarter is a strong quarter where we had an increase in revenues of 9.6%, a decrease in yields, a substantial decrease in yields. And an increase in load factor.

In the Second Quarter, which was a very weak quarter, this decrease in yields even deteriorated further. And as a consequence you had an increase in -- a higher increase in load factor. The Third Quarter is a quarter which clearly shows a transition to a more balanced results where we had a lower decrease in yields, a better result in terms of load factor and a better result in terms of revenues. So -- and if you look at what happened in October as we have released the draft numbers last night, you'll see that we had a higher yield and lower load factor. But most likely, we'll have a more consistent RASK, which is that what we should be aiming.

On the next slide, it's something that I've already discussed. It demonstrates that our financial results, which clearly impact the net -- which was the main reason of our net loss, has a substantial non-cash effect. So out of the BRL573 million of the financial expense line, we have BRL476 million that relates to the FX variation.

Moving on to the next slide is a summary of our main financial indicators. Clearly it demonstrates there is a positive trend in terms of RASK, which we had already discussed, a positive trend in terms of EBIT and in the EBITDA.

Moving on to the page -- to the next slide on page 22, we have the cash position of the Company. We have a very strong -- we have managed to keep a very strong cash position in the Third Quarter. We have closed 30% of our last 12 months' revenues in cash and we remain committed to keep high cash levels because we understand that this is a very important component of our strategy.

Moving on to the next page, when we're showing you adjusted gross debt to EBITDAR which is because we have had two week in terms of EBITDAR. It has triggered a much higher level of debt ratio. We are also indicating that by the end of 2012 we would like this number total of adjusted gross debt to EBITDAR to be again below five times.

Moving on to the next slide, we have the hedge strategy. And as a Company which has had no change we have 40% of the fuel consumption for the next 12 months covered. And the fuel hedge underline is 75% now linked to the Brent price, 10% to the WTI and 15% the heating oil.

Moving on to page 25, we confirm again that we have no pressure in terms of debt repay. We have no refinancing risk going forward. The 2012 debt amortization is already being renegotiated and being stretched out. So we are -- although it's not shown yet, this should not be a major problem and is within the framework that we have of always work to eliminate any refinancing risk within the next three-year period.

Moving to page 27, we -- it's just a summary of our view for 2012. Despite the fact that we have -- we are working, it's a global economy slowdown where jet fuel price should remain at current levels and have a low interest rate scenario, we also have in Brazil an economic slower growth and we are projecting domestic demand increase of 2.5% to 3% GDP growth. As we have announced. And we are committed to limit our ASK growth to a maximum of 4%. We should have and we should see a recovery in yields going forward.

So that's what we are discussing on slide -- page 28. So we have -- we're announcing and committed to have a slower supply growth, a combined growth and Webjet capacity growth of between 0% to 4%, continue to have a focus on efficiency and so we will have a scenario of better yields and focus on profitability.

And lastly, as a confirmation of our strategy, we understand that we have to have a permanent focus on cost management and so we can continue to stimulate demand in Brazil where this industry plays a major role in the country that had a very insufficient and (inaudible) structure. And so the airline industry plays a major role in the development of the country.

If we stimulate demand under a framework of having a strong balance sheet and consequently of having profitable operations, we will have a very sustainable and attractive business in the long run. So those were our remarks. And now we are open to Q and A. Thank you.

Questions And Answers

Operator

(Operator Instructions) Jim Parker, Raymond James.

Q - Jim Parker {BIO 1506864 <GO>}

A couple of questions. One is you have incurred losses in the Third Quarter and it appears to be the case for the 2011 year. Is there any problem with your debt covenant of incurring losses? Is there any problem with violating debt covenant?

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

Jim, we had one specific case but we have already discussed with the lender and the bank has already -- is in the process of formalizing the waiver. So we are not having -- anticipating any problem in this field.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. And my second question has to do with your making the Smiles loyalty program a separate business entity. And I'm concerned about your longer-term game plan there. Obviously, breaking up Multiplus from TAM has been extremely successful. Are you thinking of doing something similar with your Smiles program?

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

Look Jim, as we announced, we have segregated internally, Smiles. We are, from a management and from a monitoring point of view in 2012, we'll be monitoring the business separately and independently. And as I said we are committed to start giving as we do this process giving more information about the performance of Smiles.

Smiles has tremendous potential, has over 8 million subscribers today. So it has a great value. And we have to convey this value to the market and the market should also start making calculations of the amount that we have here, the value that we have here.

Q - Jim Parker {BIO 1506864 <GO>}

All right, thank you.

Operator

Luiz Campos, Credit Suisse.

Q - Luiz Campos {BIO 17409443 <GO>}

I have two questions. First on the yield side, if you could provide us with some indication on whether the yields achieved in October of BRL0.20 should be sustained even in December when you could have generally more people who bought in advance. And if you could also provide some idea of yields for 2012.

And on the CASK side, I mean, as you had already indicated in the Second Quarter, 3Q hasn't presented yet much improvement in CASK. So just wanted to understand if towards the Fourth Quarter we should have more or less the same level of CASK or we should already start seeing some of the improvements related to the BRL500 million that you are implementing of cost reduction?

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

Okay, on the yields first. We believe that the yields that we showed in October, they are sustainable throughout the quarter, okay. So we should see yields in the Fourth Quarter as a matter of fact even possibly higher than in the yields that we had in the Fourth Quarter of last year.

On the CASK ex-fuel side, as we've said, we are working, have clear initiatives in the Company. We -- out of the BRL650 million of the program we have already implemented BRL500 million. But they will only be fully visible -- because they are -- some of them are dependent on contracts that will be in place. So they would be only fully visible on January the 1st. So you probably will still see in the Fourth Quarter CASK ex-fuel that is above what we want and above the CASK ex-fuel of 2012.

Q - Luiz Campos {BIO 17409443 <GO>}

Okay, thank you.

Operator

Nick Sebrell, Morgan Stanley.

Q - Nick Sebrell {BIO 7321622 <GO>}

Two quick questions. First, if you could talk a little bit about Webjet, how it affects your outlook including a discussion of the cost structure and the synergies that you might expect. And when you combine that with cost savings that you already mentioned, the BRL500 million or more, how low do you think CASK ex-fuel can go in 2012? What do you think is feasible? So that's the first question.

And then the second. Your October traffic release, if I'm correct, indicated that RASK did improve year-over-year. I think that was net slightly in any case. If you could confirm that and then talk about how you see RASK playing out through year end, because from what you are saying it seems like it's continued to be on an upward trend on a year-over-year basis. And those are my two questions.

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

Okay, Nick, there are two things on Webjet. Webjet certainly has a positive impact as we will start reporting consolidated numbers. However, you have to see that the size of Webjet compared to the size of GOL is relatively small. So although we are talking about an efficient com that's being efficiently and will bring tremendous synergies going forward, the impact is not -- is going to be accreditive.

But we should not expect a miracle here, right, because if we had a commendable -- at the end of our operation, yes. But Webjet is probably one-fifth to one-sixth of our size. So but the result impact is certainly positive. On the RASK, you are right, there is a positive trend and it will; and we see it as sustainable throughout the Fourth Quarter.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. And regarding the CASK trend for next year, is there anything you can say quantitatively with respect to improvements versus this year?

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

No. Yes, let me tell you what we would like. We would like to have a CASK ex-fuel considering the inflationary pressure. But the evaluation, FX evaluation, that's not higher than 9. We are working on that. We have the cost initiatives program. But I'm still a bit hesitant to give you a number because we really, we still have a very volatile FX scenario.

If I would ask anyone here today what's going to be the FX rate of the Fourth Quarter, I'm sure that we would not have a consensus around the table. And that's one of the reasons why we didn't review our guidance because depending the FX is 1.68 or is 1.75, it makes a big difference for us and it has nothing to do with our ability to (inaudible) quarter.

If the situation persists, then we'll have to be even more aggressive in pursuing the cost reduction. But as we have this volatility day after day, it becomes harder. So I hope that we have a slight more stable scenario over the next few weeks. So we feel more comfortable in talking about the FX scenario and what's going to be the guidance for 2012.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay, that makes sense, thank you.

Operator

Thais Cohera, Goldman Sachs.

Q - Thais Cohera

I have some follow up questions on the CASK matter. We notice that you have maintained your guidance. And you just confirmed that. According to our calculation, this would require GOL to report margins around 10% to 12% in the Fourth Quarter. Do you expect to achieve this number from like from a cost perspective and also from a revenues perspective? How are your forward bookings looking so far, if you could give us some color on that, thank you.

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

Well, let me first (technical difficulty) what the guidance was. The guidance was -- of between 1% and 4%, right. If you look at the low end of the guidance, if you had the FX, if we had the FX rate of the Second Quarter, which at the end of the quarter was 1.56, we would get there. But of course if we have an FX rate of close to 1.8, we would miss. So again it depends very much on what's going to happen with the FX rate at the end of the quarter.

And regarding the forward booking, I can tell you that we have a positive growth. As we have said and what has impacted the Third Quarter was that we had a full booking that was being built since May and June. But the forward booking curve of November and December has been built already under a scenario of a more healthy yields in the market. So the forward curve now is totally different than the forward curve that we had in the Third Quarter.

Q - Thais Cohera

Okay. And --

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

But I want to emphasize again and again that the issue here now that we are dealing with is the uncertainty regarding the FX because I don't know if you agree. But having an FX that can go from 1.65 to 1.85 in a quarter is a big difference.

Q - Thais Cohera

Sure, it makes a lot of difference.

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

Makes a big difference for us.

Q - Thais Cohera

Sure. And do you have any alternatives if this volatility persists aside from the matters that you have already announced last quarter?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, if the FX remains at this level, then we'll have to be even much more conservative in how we manage the business, how we manage the supply, how we manage the cost structure. And again, that we would just remind everyone that this is an industry that the decisions are not made just for the next quarter. We have to make decisions here that are short-term, medium-term and long-term, right.

But, of course, if we have a situation, a scenario that the FX rate remains at 1.8, for example, we'll have to be even more aggressive in how me manage our ASKs next year, how we managed our fixed costs because then it starts becoming a situation for diluting fixed cost. So it becomes -- but I think the good point here is it looks like is that we're ready to do it. And we have an internal plan that we can implement if necessary.

What I think we should be careful because as I said the moment that we start unleashing this type of plan, then we there will be touching investments in terms of going forward. It's very easy to make decisions in terms of planes. But very hard as we have always said to send planes back. So as we have to make decisions about fleet for the long-term, we have to be very comfortable about the market scenario.

Q - Thais Cohera

Still on the fleet matter as you touched this point, do you have some news on prospects for Webjet fleet?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. As we said we are starting changing the fleet of Webjet. And on a combined basis we are not growing the fleet, the ASKs, by more than 4% next year. As a matter of fact, we have given a range which is between 0% and 4% and which at this moment we are very much in -- more to the middle of the range then to the upper part of the range. So that's how --

Q - Thais Cohera

And if you're returning their planes?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. As you can see, also the planes can be returned because they are short-term -- now they became short-term leases, short, one, two years. And a substantial number of them are due to be returning in the next 12 months. So we can return the planes without a substantial additional cost and we can add planes, GOL planes, going to our Webjet which are -- will be even a more efficient plane from our fuel perspective and from a network plan point of view.

Q - Thais Cohera

Okay, thank you, Leo.

Operator

Michael Linenberg, Deutsche Bank.

Q - Richa Talwar {BIO 17123496 <GO>}

Hi, everyone, this is actually Richa Talwar in for Mike. Good morning. I wanted to hear more about your views that the market will be more rational going forward. You know after the immense yield pressure we saw in the June quarter, what are you seeing or how can we get comfortable with the idea that something like that might not surprise us or yield again in coming quarters?

A - Leonardo Pereira {BIO 1960081 <GO>}

Well, I think there is a very positive in -- from what I can recall as it never happened. All the major players are indicating for different reasons that they are going to be very realistic in terms of how they will be managing capacity in 2012. So I think this isn't something that is news. And there is news that another something that has occurred in the past is occurring again. And people isn't committed -- it's a firm commitment -- our view is a very commitment a strong commitment from the major players in the industry.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay, thanks. And with regards to BRL650 million cost -- cost giving initiative, congrats on achieving that BRL500 million quickly. And I wanted to know if you could comment on whether you think now that that's going to be a conservative estimate now that things have progressed pretty quickly. In other words have you noted any other increase in the process of costs outside of that BRL650 million you initially identified?

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay, look. Paying attention to quarter and the CapEx fuel line has always to be in the plan. Whether we accelerate or not, it of course, depends on how we need grow the business, right. We -- but we are very committed to again continue to work because we know that this is a cornerstone of our strategy.

So we -- I will say that the BRL500 million we have already been working on as I said because we need some comfort to support this BRL500 million. Some of them. And most of them, there will be in business document January 1st in the First Quarter of next year. But we are working on kind of -- and this is always a discussion inside the conference. It's not because we are worth the BRL500 million that we are not going to be -- continue to work in improving some key processes in the Company.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. Great. And maybe just one more. Can you tell us more about your thoughts behind partnerships in light of the TAM and LAN merger looking like it will likely close within the next few months? Do you know any changes (inaudible) and how do you think about that to further strengthening your position in the domestic merger?

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, for us it's hard to comment on someone else plans. We rather -- we respect them very much, great operations, great management. But we have to comment on and we have to be accountable for our decisions. So what I can assure you that in the (inaudible) of what they are doing we are very much working on doing our homework. We are committed to bring CapEx fuel down.

Despite inflationary pressures, we are totally committed to manage capacity within acceptable -- not an acceptable range, the range that we have indicated. We are committed to increase the ancillary revenues, which is a key issue in the start of business that we have. We are committed and the continued developing our partnerships with our long haul players because this is important. We have -- we are committed to coordinate with Webjet so we can bring the benefits of Webjet to the GOL and Webjet umbrella.

So we have a lot of things in our plate. And we have to be accountable for those things. And I'm sure that if we manage to do everything that we have on our plate, we will have a healthy industry in Brazil where all players will have space to grow and to be profitable.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay, thank you.

Operator

Thais Aleluia, Credit Suisse.

Q - Thais Aleluia {BIO 17540373 <GO>}

If you could just clarify if I heard correctly that your target leverage is below five times adjusted gross debt to EBITDAR and you did not give a specific timeframe for that given that your performances is so dependent on external factors. That will be the first question?

And the second question, if you could remind me how much the industry is going to grow this year and the next year? You mentioned three times GDP growth. So we're looking at probably maybe 9%, 10% demand growth. I'm talking about demand. So would that change in demand be a function of the GDP only or do you last market demand stimulation if you could elaborate on that that would be great? Thank you.

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, okay. The first question, maybe I was not clear. We have a plan. But we want that by the end of next year to have that ratio of total growth adjusted EBITDAR to be a maximum of five times, ideally below five times.

And secondly, I think you're right, what we are indicating is that we expect the demand to grow two-and-half times GDP. As GDP -- two-and-a-half, three times. As GDP is going to be lower next year, this year we should have a demand growth of 7%, 8%. That's my calculation. Okay.

Q - Thais Aleluia {BIO 17540373 <GO>}

It's for this year given that for --

A - Leonardo Pereira {BIO 1960081 <GO>}

For this year we have to work with a 17% to 18% demand growth. So it is extraordinary. If we are talking about still a demand growth of 7% to 8%, it is still a very healthy growth.

Q - Thais Aleluia {BIO 17540373 <GO>}

Thanks. And do you -- and given that you expect the yields to improve next year, is that less of -- like demand stimulation happening next year?

A - Leonardo Pereira {BIO 1960081 <GO>}

I don't necessarily would say that because we continue to be very active in how we manage our yield management system. So for people who buy in advance, we always will have fares that are competitive with the bus. So what we cannot have because you don't have anywhere in the world is that if -- in a company like -- with our structure and in a market that works like ours is that you have a situation that if you don't buy in advance, you have a huge discount.

Q - Thais Aleluia {BIO 17540373 <GO>}

Thank you. So much.

Operator

Stephen Trent, Citi.

Q - Stephen Trent {BIO 5581382 <GO>}

I'm curious. Could you give us some color as to where you are with your unions with respect to ways negotiations in 2012? And then after that one, I have maybe one or two more follow-ups.

A - Leonardo Pereira {BIO 1960081 <GO>}

Look Stephen, I'm going to say -- and Junior has a different view, you may add -- so what happened this year is exactly what happened every year. We always -- we have the industry renegotiates its contracts in December. So people will always say the same things. Since I remember, since I recall, it's the same story. It's a negotiation. It's a negotiation that is a tough negotiation.

We have to respect. Both sides have to respect each other. But we all have always been very successful. The track record has been very successful in terms of reaching agreements. So I don't see anything different happening this year than what we had last year. The only thing different is that the outlook for the economy is not as nice as we had last year.

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

And the negotiation just starts to be -- it's Junior speaking -- the negotiation just start to have our first meeting where two sides present their proposal. We are far from something that could mean the perspective in terms of how far we'll go. But we understand that the companies are showing the negative numbers. And even with the economy growing, we understand that we will have a tough negotiation due to the financial situation that the companies are passing through. But we also -- we are fortunate that we will be able to deal with the unions to avoid the strike and to keep providing the right service to our customers and do negotiation in a friendly manner.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, thank you for that, Junior. My next question actually pertains to the airports. Do you believe that there's some difference in capacity growth between you guys and some of the other players in Brazil largely because you service the bigger airports where there is a lot less space to grow? And how are you thinking about Brazil trying to expand airport capacity over the next few years?

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

Well, related to the expansion, I think that the for sure the big airports the most important ones are constrained in terms of capacities. So we are very well positioned in most of them. We still have room to improve our growing market. We understand that we have room to grow RPKs to a higher load factor. We see that, Steve, we still have some very important markets like Rio with Galeao airport where there's room for growth. That means we still have room for growth outside of Sao Paulo, specifically from Sao Paulo and Brasilia.

The other conservative growth related to the next year is not exactly linkage to the airport restrictions. It's much more due to our capacities to keep the demand simulation once we are looking for better yields so (inaudible) on the yield side.

So we understand that it would be more rationale and well for the industry to reduce our base growth to this level of 2.5 and 3 times GDP growth which is still great and -- but in a much more healthier yield so on their revenue side. That's a key point for us. The second questions were related to the airport privatization process. Sorry?

Q - Stephen Trent {BIO 5581382 <GO>}

Yes, exactly. Just kind of wanted to get your idea when you think about long-term growth, what is your base case scenario for how Brazil proceeds in increasing its airport capacity or privatizing some of the airports?

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

Yes, I think that there is a plan in place from the government to invest in the airports and also to privatize the three of the most important ones like Congonhas, Guarulhos and Brasillia. We are expecting to see the final document from the government to provide the privatization.

And probably we'll see this coming to the market in December to (inaudible) on January or at least February. So we'll have news soon. And we understand that the government is putting in place their investments in many other airports around Brazil to improve parking areas, to improve terminal and others. And expand the capacity of them as planned.

We understand that the investments are on track. Things are getting -- or is starting to work really. We see that there is more movements on the airport due to the new investments in constructions.

Q - Stephen Trent {BIO 5581382 <GO>}

Great, very thorough. Thanks Junior. Just one, last one from me and I'll let somebody else ask. Any idea or have you heard anything from the government with respect to any plan to train and hire more air traffic controllers which seems to have been a big bottleneck in the past?

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

Stephen, I don't have specific numbers. But I can assure you that quiet the government has been working. They added air traffic controllers during this year. We don't see that is a problem. We are not seeing any type of crisis. That's not affecting our productivity or our ability to provide a high level of service in terms of punctuality and others.

So we understand that -- we don't see that as an issue today for sure. We -- I can say that because -- I can tell you that because we see there is a movement from the government in terms of providing the right number of people and also a lot of investments and procedures, approach procedures, to even improve the productivity on the main terminal areas.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, probably -- well, I'll let somebody else ask a question then. Thanks, gentlemen.

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

Thank you.

Operator

Raphael Intra, UBS.

Q - Unidentified Participant

Actually, this is Victor. Just a quick question. In your personal (inaudible) can see the other operating costs like I said expansion of BRL50 million with government subsidiary streams and the depreciation of Passaredo's network. I don't know if you can give more details about this batch and in terms of how it can affect your performance in the near future?

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay, yes, regarding the Passaredo, I think it's a good expense because it is -- it will allow us to have even a better coordination between our network and the network of Passaredo. And as you know, we are -- it's important for us to have a strong alliance with a regional player. And Passaredo will then feed us and we'll feed them much more efficient. But that has good slots in Guarulhos and in Santimo. So I think these are very -- these are positive. Although it's an additional expense that we had in the quarter, it's positive.

And the second component, that's about half of this BRL25 million. And the other large component is a provision against an insurance payment that we were expecting to have, a reimbursement related to the crash back in 2006, flight 1907 and which we're still under a discussion but we decided to make a provision.

Q - Unidentified Participant

Okay. And another -- can we expect anything else in the Fourth Quarter or it's all done in the Third Quarter?

A - Leonardo Pereira {BIO 1960081 <GO>}

As we said, we still have some contracts that we are reviewing. The commitment of the Company is to have this work fully done by the end of the Fourth Quarter. As I said, we have -- it will be fully done -- at least this process for this specific plan by December 31st.

As we are reviewing processes, reviewing systems, we may have some additional one-offs. And this is not something new. I think we were very clear. And I'm emphasizing again, that this plan that we are undergoing, the company, is only going to be fully visible starting on January 1st. We definitely expect this thing to be over at the start of January 1st.

Q - Unidentified Participant

Okay, thank you.

A - Leonardo Pereira {BIO 1960081 <GO>}

But for example, this provision that we just made is an example of the type of things that we are being very conservative and trying to identify all processes in the Company that needs adjustment and we want to do them now.

Operator

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

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

So once again I'd like to thank you for joining us during this quarter presentation results, the Third Quarter 2011. And we hope to see you on the next quarter results presentation. And once again thank you very much and have a nice weekend.

Operator

Thank you.