Q4 2013 Earnings Call

Company Participants

- Edmar Lopes, CFO and IR Officer
- Paulo Kakinoff, CEO

Other Participants

- Bernardo Velez, Analyst
- Duane Pfennigwerth, Analyst
- Mike Linenberg, Analyst
- Renato Salomone, Analyst
- Stephen Trent, Analyst
- Thomas Kim, Analyst
- Xavi Sift, Analyst

Presentation

Operator

Good morning, everyone, and thank you for waiting. Welcome to GOL Airlines Fourth Quarter in year of 2013 results conference call. With us today we have Mr. Paulo Kakinoff, CEO; Mr. Edmar Lopes, Chief Financial and IR Officer; and Mr. Eduardo Masson, Financial and Investor Relations Director.

This event is being recorded, (Operator Instructions) After GOL remarks, there will be a question-and-answer session. (Operator Instructions)

This event is also being broadcast live via webcast, and may be accessed through the GOL website at www.voegol.com.br/ir, where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded.

Those following the presentation via the webcast may post their questions on our website. They will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the belief and assumptions of GOL management, and on information currently available to the Company. They involve risks and uncertainties because they relate to future events and, therefore, depend on circumstances that may or may not occur.

Investors and analysts should understand that conditions related to macroeconomic conditions, industry, and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Paulo Kakinoff. Mr. Paulo, you may begin your presentation.

Paulo Kakinoff {BIO 5160310 <GO>}

Hello, everyone, and thank you for being (involved) in our conference call on the 2013 results.

Let's begin our presentation with slide number 4, where we highlight those major achievements in 2013. In Fourth Quarter 2013, net revenue grew by 29% and reached BRL2.7 billion; an increase of BRL609 million compared to the same period in 2012.

In 2013, revenue reached approximately BRL9 billion; an increase of over 10% in relation to 2012, representing the Company's highest level of revenue ever recorded.

In annual operating costs, we presented a reduction of BRL320 million in the year, reflecting the constant monitoring of our cost structure.

As a result of these actions, our EBIT margin reached 6% in Fourth Quarter last year; our highest operational profitability level in the last 10 quarters.

In this way, in 2013, we reached the upper limit of our annual guidance with an average margin of 3%; an evolution of 14.2percentage points.

We see on slide number 4, it's important to emphasize that on the balance sheet side we maintained a high level of liquidity. Our cash reached better levels at BRL3 billion, reflecting (continuous) improvement in our leverage situation.

Net financial debt totaled BRL348 million; a 78% decrease compared to Fourth Quarter 2012.

On slide number 5, we present in more detail the significant developments on the revenue side. In EBIT and EBITDAR, we reached BRL1.5 billion; once again, the highest ever reported by the Company, with a margin of 17%.

We also note that this was possible due to the maintenance of a (competitive) level of costs, despite the deterioration of the macroeconomic scenario, together with our strategy of flexibility and CapEx management.

Turning to slide number 6, you can see the highlights that allowed us to achieve these operational (efficiencies). PRASK grew by 18%, as a result of deposits, and particularly the combination of corporate and leisure customers. Through (access, we delivered a) (inaudible) (acquired) experience at attractive rates for both clients.

Good management also drove these results, leading to a double-digit increase in RASK of 15% in 2013.

On slide number 7, we present the evolution in CASK, and the major variables that impact these indicators; we have (scale), exchange rate, and fuel price.

Last year, we reduced the total supply by 4.3%, and domestic supply by 7.4%, in an environment marked by low economic growth with the devaluation of the real against dollar by 11%; and increasing fuel price of 6% year over year. Even in this scenario, we were able to keep our CASK stable compared to 2012, as a result of the constant disciplined, (cost discipline).

Moving onto the next slide, we analyze the airline industry and compare our performance with our international peers.

On slide number 9, we present this comparison from the perspective of the evolution in RASK and CASK, including fuel costs. And of the companies that disclosed their results, we were the leader in the terms of RASK growth with a 15.5% increase in this indicator, while CASK ex-fuel remained stable.

The evolution of these two indicators is really a strong operating margin improvement compared to the peers, as we can see on slide number 10. Among the companies analyzed, we presented the highest increase in EBIT margin for the year; 14.2percentage points (as previously) (inaudible).

On the following slides, we will look at GOL's strategy. On slide number 12, we present our strategic alliance. The expansion of the code share with Delta allow us to serve more broadly all customers as we (conclude) approximately 400 destinations in more than 62 countries.

The agreement also promotes collaboration between the two companies, allowing for the exchange of knowledge and improvement of products and services.

Continuing with this strategy of forming international partnerships, in February this year we further strengthened our alliances to a partnership with Air France-KLM, as we have already announced. It includes commercial cooperation; extended flight sharing; joint sales activities; and more benefits for customers through both airlines, through our presence in the Brazilian and European markets.

As part of its total investment of $100 million, Air France-KLM will hold a stake of approximately 1.5% of GOL capital in preference share. The agreement is awaiting approval by CADE, the antitrust authority.

On slide number 14, we present the expansion of our exclusive GOL+ product, following its initial success on the Rio-Sao Paulo shuttle service. (That) (inaudible) identify as GOL+, ensure greater passenger comfort and an even better flying experience. By May, we will consider 80% of our fleet, for a total of 116 aircraft, catering 100% of our flights in the domestic market.

By the end of 2014, we will have the highest number of category A seats, as classified by ANAC, the National Civil Aviation Agency in Brazil, in the domestic market. This strategy is part of a process involving standardization, operational efficiency gains, and revenue generation.

With this said, moving onto slide number 14, you can see that we maintained our leadership in on-time flights in the Brazilian market for the second consecutive year; its a rate of 94% of flights with no delays.

In order to achieve this level of operating performance, we implemented the Fast Travel concept, which reduces boarding time and adopts these values measured in order to increase our efficiency, including the (streamline testing), and allowing our customers to anticipate or cancel their boarding via our website, by electronic kiosks, or through smartphones.

Remote check-in ratio of approximately 60% of services in Fourth Quarter 2013 is one of the indicators which reflects the result of these actions.

Additionally, we launched a new visual identity in airports, with more functional and practical bilingual communication; as well as a new website, which makes the (purchasing) process faster and easier.

As a result of these initiatives, we carried more corporate passengers than any other Brazilian airline in 2013, according to the results from ABRACORP, the Brazilian Travel Agents' Association. Meanwhile, we (probably) (inaudible) and focus on this segment.

As you well know, that Brazil will host the World Cup in 2014. And as you can see on slide number 15, we have a special role in this process, being the proud official carrier of the Brazilian team.

We have adopted measures to (certainly develop) and serve with excellence during this event; including supplies and demand management with the request for 974 extra flights, or with schedule alterations; competitive rates for flight tickets, 75% below BRL300, more or less $130; specific staff training programs and the placement of professionals who are fluent in more than one language at the host cities' airports, among others.

Turning to slide 17, we highlight our Smiles loyalty program. 2013 was an important year for the Company, based on our solid revenue strategy.

In April, we completed the initial public offering, IPO, of Smiles' assets. The total funds raised, BRL1.1 billion, was used to purchase advanced tickets. This transaction reflects our confidence in the growth of this market in the coming years, and contributes to the strengthening of our liquidity. And Smiles' (number 2), that is where the (inaudible).

At the end of 2013, Smiles presented a net margin of 36.3%.

I will now pass over to Edmar, to present the results of the period.

Edmar Lopes

Thank you, Kakinoff. Good morning, everyone. Before going to the numbers, I would like to report what we have been telling all over. And the fact is that in the Fourth Quarter of 2013 we have seen the results of the efforts that we have developed over the last couple of years.

Our strategy of rationalizing supply is in place, is one of the main drivers that is causing our revenue to really move up; and, at the same time, that we keep the costs at the same level that we saw before (unit price) of the move against us of the macro environment.

So over the main numbers, that's slide 19, I would like first to say that there are -- sorry, the number of ASK (inaudible) for the Fourth Quarter was, in the domestic market, flat year over year. And at the end of the year, we posted a minus 7.4%; slightly below our target, which was close to 9%. We did that because we saw an opportunity in the last quarter, especially in the month of December, and the numbers reflect that.

As for the macro environment, what we saw is that (IFRS) moved against the Company by almost 11%; as well as average price, full year, close to 6%. In spite of that, we were able to increase the margin, as we have said, from minus 11.2% to 3% at the full year; and in the quarter, from minus 17% to 6%. This is a real turnaround that is going on here, and the numbers, again, allow us to show -- to say that.

As for the first two years -- two months of 2014, it's important to say that we are entering the year at a new level. The Company is, indeed, seeing a different structure as for revenue, and as for load factors. So just to compare, at the end of the Fourth Quarter 2013, load factor was close to 75%, while one year ago, was just barely below 70%; therefore, an increase of 5.1percentage point in terms of load factor.

At the same time, we were able to increase PRASK, or (RASK) by almost (30%). The number was 27.5% for the quarter; and for the year, beyond (BRL16), that is 18.5%; a little bit more than we have announced earlier in the year.

EBITDAR for the quarter posted a number of beyond BRL550 million, bringing full year to BRL1.5 billion; this is the highest level ever, and it shows the recovery.

As for debt, on the debt side, we have less debt in reais. We have paid altogether BRL432 million (sic; see press release, "BRL438 million") last year. Out of those, BRL250 million was prepayments of the (revenue).

So our leverage has come down a lot. And as our results move ahead, we will see that leverage will be, again, at lower levels when it comes to the end of this year.

As for fuel and FX, our view is that if there were no big changes, or no stress volatility that we saw last year, we could even have shown better numbers on the bottom line, because those two factors alone account for BRL800 million alone in terms of additional costs that we had to face last year.

Moving onto page 20, again, it's a graph that, that's right, we have been using for a while, and it shows how the Company has evolved. Average PRASK for 2013 was close to BRL0.1636 last year. And we took, once we have the average with what we had in the first half, close to BRL0.15, and the average in the second half, close to BRL0.18, we will see that, indeed, the Company is moving up in terms of revenue.

Moving onto page 21, this is, in a nutshell, what we saw in the main drivers here. This first one is on the revenue side. Revenues are up 11%. Most of that came in the second half of the year; roughly, BRL200 million in the third First Quarter, and then beyond BRL600 million in the Fourth Quarter.

On the costs side, we saw that we were able to have BRL319 million less on this side, in spite of a gain of US (dollar) moving by almost 11%, and the fuel moving at 6%.

On the costs side, I would like to highlight that we had some additional costs in the Fourth Quarter. The main one, close to BRL51 million, is related to (gain) bonuses for employees, the first time after three years of none of that. And this is a commitment that the Company has to its personnel, that has been -- we have been very committed to making this turnaround.

We also saw some additional costs on the sales and expenses line. This is related to the fact that in the Fourth Quarter we had a record, highest level ever, in terms of sales; not only in terms of revenue, but also of sales. Therefore, we incurred an additional cost as for commissions, as for credit card fees, as well as for products in the Fourth Quarter.

Moving onto the next one, this is a -- this slide shows our position of fuel and dollar hedges. Our view remains primarily the same in the last few months; that is we still believe that fuel construction -- constructively should be a lower level at midterm. We have seen a lot of volatility in the short term, but in the longer part of the curve shows prices that are more affected than in the short term.

On the dollar side, on the FX side, remember that at the end of Third Quarter we had a $700 million position, and its primarily on the short term. We did not renew those positions. Then, we have been carrying, more or less, the same amount since then. And as recent days, brought us from a constant (hedge) position that we had a while ago (inaudible) (that).

Moving onto page 23, this is a graph which is familiar to all of us, and it is our cash position. Again, highest level ever at the end of Third Quarter, BRL3 billion; 34% up (net debt) in the last 12 months.

Below, you see that we have no refinancing pressure on the short term. In 2014, we have less than $100 million debt coming due. Therefore, we have a lot of time to work on stretching, or pre-paying some of the debt coming due in 2015.

And we also, in this chart, bring the position that we have of our cash in Brazil, and outside Brazil. And when I mean outside Brazil, I'm going over all the countries that we have cash, which is the US; Argentina; and it does include Venezuela. All of those together, in terms of cash, account for 8%.

Venezuela is a major part. But we are bringing this new information to show you that we are -- our exposure to Venezuela is different than other peers of ours. In numbers of ASK, Venezuela accounts for roughly 2% of our total ASK.

By saying that, I finish my short presentation, and I give the floor back to Kakinoff, who will talk about the guidance and the outlook for 2014. Kakinoff?

Paulo Kakinoff {BIO 5160310 <GO>}

Thank you, Ed. On slide number 25, we present our flight plan for 2014. Since 2012, we introduced measures to adapt our strategic scenario that (the fuel increase will be a challenge). These actions allowed us to achieve positive operating margins in 2013.

2014 will be the year of consolidation of our strategy; maintaining discipline, and improving our products. Our goal is to increase the ability to generate revenue, combined with the continued process on planning and cost control, critical to executing our short; and long-term strategy.

For 2014, (as note, identified) (inaudible), we project a valuation in our supply in the domestic market from minus 3% to minus 1%; and an increase of up to 8% in international markets.

In RASK, we expect a growth of equal to, or above, 10%; and an increase of equal to, or less than, 10% in CASK, ex-fuel.

In terms of exchange rate, we estimate that the average dollar for the year is between BRL2.4 and BRL2.5.

And the average fuel price will lie between BRL2.70 and BRL2.85.

With this, we estimate an EBIT margin of between 3% and 6% for 2014.

(Good tax) and new margin evolution for this year, as a continuation of the work we are developing in our (industry) day to day, our commitment in the market to fulfill our projections is one of our main priorities, (coupled) with our efforts and maximum dedication.

I would like to thank you, everyone, for participating, and initiate the session of question and answers.

Questions And Answers

Operator

(Operator Instructions) Bernardo Velez, GBM.

Q - Bernardo Velez {BIO 18662482 <GO>}

Just a couple questions. First off, if you expecting a more challenging scenario in terms of FX and fuel, would it be -- or what line of that are you following in order to reduce your hedge positions?

A - Edmar Lopes

Bernardo, one has to understand that our policy here is very conservative. So the hedge position that we have, they are put in place in order to mitigate volatility, because we look upon the operational front.

So we have our budget; we try to protect it, and we try to bring less volatility to (inaudible). Primarily, what we see is that we build up our positions in order to give time on the operational side to respond to the challenges of the macro environment.

Again, structurally speaking, on the real side, it's very, very difficult to say. Everyone is wrong. We have seen the real starting the year at BRL2.35, then moving up to BRL2.45, and people saying that it would go even further. Now, we saw that Brazil was downgraded, and the reaction of the market was to appreciate the real. Now, yesterday, trading (closed) very different than people would think a few weeks ago, so very tough situation (here, to critic any outstanding areas).

On the fuel side, I repeat, we have this structural view that in the midterm we -- jet fuel should be at lower prices, and we try to participate in the market at prices that make sense for us.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay, you've got it, and thank you. Could you give us a little bit more color about the write-off of VARIG, and the software licenses? How much was it, and how much is it remaining on your balance?

A - Edmar Lopes

Bernardo, you've seen the financial statements. VARIG brand was a write-down, write-off; the remaining that we held was BRL6 million. And as for software that we will not use any longer, was roughly BRL10 million. It's also in the financial statements, in the impairment section.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay, so there's nothing remaining in VARIG, right?

A - Edmar Lopes

No. No. It's done.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay, perfect. Just one question, if I may. What would you say your EBIT margin, or EBITDAR would have extended if you take out the extraordinary effects that you mentioned earlier?

A - Edmar Lopes

We have a (proxy) here that on the border line it would be BRL490 million, which is a FX variation. And on the operating side, it would be close to BRL400 million, between BRL300 million and BRL400 million, primarily on the fuel side. Okay?

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay, (multiple speakers).

A - Edmar Lopes

That is just an explanation.

Bernardo Velez Okay, got it. Thank you.

Operator

Thomas Kim, Goldman Sachs.

Q - Thomas Kim {BIO 15135202 <GO>}

You've done a tremendous job pushing up pricing, and I'm wondering to what extent there is still capacity to push up pricing to compensate for the higher -- or the weaker FX. Are you seeing any signs, at this stage, that suggest that there is demand deterioration because of higher prices?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Tom, thank you very much for your comment. Actually, we can still further manage the capacity in order to continuously improve our FX.

The Company will keep its strategy of prioritizing price increases instead of load factor. Ideally, we will grow both of them, but the priority is going to be still to increase the price at the (level of) (inaudible). So that strategy has been quite successful, and it has also helped that the market to drive forward better capacity discipline. So as we have already announced, we can further manage that by reducing capacity up to 3%.

We could re-price that guidance, whether it would be necessary, considering further macroeconomic deterioration, or even project yield, price increases. The Company has been quite transparent in order to face the seasonality, seasonality (and volume), and also the macroeconomic variation. So this is, at the moment, our view on capacity, but it could go further.

Q - Thomas Kim {BIO 15135202 <GO>}

Okay. Can I ask a follow-up question with regard to pricing? The fleet reconfiguration is clearly progressing, and I'm wondering to what extent does your forward booking show or reflect that in your pricing?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Yes.

Q - Thomas Kim {BIO 15135202 <GO>}

You can give us an idea in terms of the range, just to give us a little bit more context in terms of the impact on your pricing capability, pricing power?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Unfortunately, I can't, Tom, because that would configure a further guidance, and for (instance); and secondly, this is one of the most important strategic information we are holding today. It's basically related to the (point of activity). By changing that offer, that layout, we are offering today in Brazil a very interesting combination; the lowest fare, at the highest content.

So this is something that we would like to (achieve), being our (even) process for a long period of time. That's why we wouldn't like to disclose any kind of information related to revenues (at this point) on the (asset class).

Q - Thomas Kim {BIO 15135202 <GO>}

May I ask, can you provide -- in terms of forward bookings, how does your March forward booking and April forward booking look relative to where it might have been last year, just as a rough gauge?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Unfortunately, not; I can't tell that. No. I'm sorry.

Q - Thomas Kim {BIO 15135202 <GO>}

Okay, understood. Thanks a lot.

Operator

Mike Linenberg, Deutsche Bank.

Q - Mike Linenberg {BIO 1504009 <GO>}

I want to go back and just talk about the revenue increase, which very impressive, up 27%, 28%, and only a modest increase in supply overall. How much of the increase do you think is being driven by going after a better mix, so picking up more corporate customers?

Can you talk about how that's trended over the last year? And maybe it's your relationship with Delta, and now you have a stronger relationship with Air France-KLM. How much more is this traffic exactly putting on, on GOL's airplanes?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Typically, the view we have, the split, 60/40; 60% corporate passengers, and 40% for leisure. At the moment ago, we are running at a level of 65% (international) for the corporate customers.

And we have invested along the last 14 months also a lot in the repair and maintenance area. We brought more than 60% additional headcount to (inaudible) (corporate), at the same time that we are continuously reducing the total Company's headcount. So we have invested in developing the best-in-class repair and maintenance group in the country, and we are now getting the fruit coming out (inaudible).

We are not only increasing the number of corporate passengers traveling with us, but also better managing the revenue for the leisure customers. This is 100% related to capacity discipline. But we have also reallocated our frequencies and designed a brand new network, which was implemented in May last year.

So the combination of those things have boosted our -- GOL's effectiveness towards the corporate customers. And as a result of these (structures), last year was the first time ever when GOL was been able to achieve the market leadership in number of passengers, based on the other ABRACORP figures, the Brazilian Association of Corporate Travel Agencies. So I think the combination of revenue management, (fuel punctuality), better products at the lowest possible cost, and also the capacity (inaudible).

Q - Mike Linenberg {BIO 1504009 <GO>}

Okay. Great. Thanks, Kakinoff. And just a question for Edmar. I know you have a couple of flights a day to Venezuela, you fly out to Caracas. Every carrier is telling us how much cash they have trapped up there. Do you have -- is it anything meaningful? Do you have any cash that maybe you're not able to repatriate, or haven't been able to repatriate, from Venezuela?

A - Edmar Lopes

Michael, I just -- very important, our total cash at the end of December, 8% was in -- all of our ventures, including Venezuela, Argentina, Uruguay, all of them together they had 8%. Venezuela was the major part. Venezuela accounts for 2% of ASK, of our total ASK, and we have now a day, roughly, 15 flights per week. Okay? (inaudible).

And as everyone else, we are evaluating Venezuela's situation on a daily basis. Just (for instance) most of our funds there were set at the old FX rate, at the old (3.3). So for the time being, we understand this is enough -- this is more than enough information for the market to understand our exposure there.

Q - Mike Linenberg {BIO 1504009 <GO>}

Okay, that's very helpful. That is small. Then just one last one, and this is maybe more for Kakinoff. As we look out to the World Cup, it's still maybe early, but anything that you're seeing with booking trends.

And I will tell you, when we have -- we typically have these big events, like the Olympics, we usually see a fall off in business travel, but see a healthy amount of leisure travel. So I don't know, maybe it's still too early to tell, but anything that you can tell us about, maybe, how bookings look out around World Cup. Or maybe it's too early.

A - Paulo Kakinoff {BIO 5160310 <GO>}

It's still -- it's really too early, but I just give you a flavor.

We are (foreseen), at this point of time, the same load factor level that we would have without the World Cup. And that might mean a slight (increase in the expectation). This is because we do not see a concentration on the routes served by -- or to serve the World Cup cities. We do not see, at this point of time, a strong deterioration in the corporate travel side for that period of time. That was something that we were worried about.

I believe that it is still too early to be more precise in (terms of our) projections, but there is no, I'd say, strong movement related to the World Cup, at least not at this moment.

Q - Mike Linenberg {BIO 1504009 <GO>}

Okay. Okay, very good. Thank you; appreciate it.

Operator

Duane Pfennigwerth, Evercore.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

On your unit cost guidance, on that 10%, or I guess less than 10%, increase, can you say how much of that is being driven by taking seats off the plane for this, basically, economy comfort?

A - Paulo Kakinoff {BIO 5160310 <GO>}

The economy comfort's going to increase, in the annual comparison, something like 1.5% of cost increase. That is exactly how much we are reducing in ASK in comparison to last year, and that's the annual effect. So basically, this CASK excludes expenses, that projection of growth for the year. It's pretty much related to dollar-denominated expenses in comparison to the last year. So that is the main driver (for such type) ASK increase projection that we are showing right now.

From those (mutual), (inaudible), the change of Lopar would account just for (1.5%) now.

A - Edmar Lopes

Duane, please bear in mind that 2014 will be the third year in a row that we'll take a (inaudible) from the market.

So altogether, just for the domestic market, and if we go to the minus 1% or minus 2%, the total capacity that we will have taken out of the Brazilian market, in our case, would be close to 15%. And this, of course, gives (great) pressure on our (cash), because the dilution will be 15% lower.

A - Paulo Kakinoff {BIO 5160310 <GO>}

This is a 15% reduction in a 36-month period of time, which means an average price 5% -- 5percentage points per year of capacity reduction in the (Mexican) market. That's enough.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. And that's a fair point. Then can you just comment, it looks like, based on the sum of the months, so for 4Q, we get to actually different PRASK number than what you reported. I think on January 21, you said it was going to be up 24%, and here we are up 27%. Can you just explain what the difference is between the sum of your months, and the quarter that you've just reported?

A - Edmar Lopes

Yes, our breakage, breakage was a little bit different, so that's what's bringing us the revenue. When you compare to the previews (year) that we (give) on a monthly base. And we only have breakage after we have (linear) growth in the other (inaudible) (round here).

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay, so breakage as it relates to miles that you -- miles that effectively expired?

A - Edmar Lopes

Not only miles. Not only miles; tickets that expire.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. Okay, that is helpful. Then just lastly, can you remind us how many deliveries, not necessarily -- we see the net fleet plan in your press release, but the new deliveries you have coming, the number, in 2014 and 2015; and then just help us understand what financing is in place? How do you plan to finance those? Thanks for taking the questions.

A - Edmar Lopes

Okay, sure. We have six planes coming this year, and we will take out primarily the same number. And the six planes will come in the first half of this year; maybe one will come in July. But this is movement for the first half. For those six, we have already agreements put in place, so there is no need of funding here.

For 2015, we -- the final number for deliveries in the year should be close to six, as well. And the number of planes that will be returned will be maybe one or two less. So at the end of the day, we will -- we foresee our fleet at stable level from now on.

What is important to mention, that we are bringing in 800, while we are returning 700; therefore, the number of (ASK) is (diluted) (inaudible).

For the planes which will come in 2015 and 2016, we are looking upon pulling out an (RSV) until this year. And as we did a couple of years ago, we do not foresee any trouble in finding networks, or who would like to (have) planes with us; as well as our relationship with the (inaudible), which has been very good so far.

So there isn't a decision at this point of time which kind of funding we will use for 2015, and on. But for 2014, we have everything (covered).

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

And sorry, and 2014, those are leases? Or how are you financing the 2014 (multiple speakers)?

A - Edmar Lopes

Sale is (done with Nefron). Sale is there.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. Thank you.

Operator

Stephen Trent, Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Thanks for taking my questions. If I may ask, on the fleet side, could you refresh my memory about the sub-leasing you sometimes do? I recall, if I'm not mistaken, that perhaps 2Q, or 3Q, you were sub-leasing some of your aircraft to, I believe, a carrier in Europe. And what's the idea, going forward? Would you, maybe, look into opportunities to do that again?

A - Edmar Lopes

Yes, Steve, thanks for the question. Yes. We will do the same. And the number of the carrier, you were trying to remember, is transavia. transavia is the low cost operator from Air France-KLM.

And this year, we will also have a new carrier, which is SunExpress, which is a sub -- a joint venture between a Turkish (air operator).

So altogether, at different times in the year, we will have eight planes sub-leased during the low season here in Brazil.

A - Paulo Kakinoff {BIO 5160310 <GO>}

Stephen, (with these products) one of our main (difference) related to companies' abilities to pay different (amounts around the year). So that type of opportunity has represented an important cost reduction in the low -- along the low season; at the same time that it can have the (operators) that should (pay) the higher demand along the (inaudible) high season.

So this is the reason why we are increasing the number of aircraft to be, we believe it, this year, from five, which we have -- those were (the planes to Europe) last year, up to eight this year.

Q - Stephen Trent {BIO 5581382 <GO>}

Great, very helpful, guys. And just one last question, and then I'll let somebody else ask. The one remaining Boeing 767 that's non-operational, could you also just give me some color on what's the plan with that plane? I know it's small, but just want (multiple speakers).

A - Paulo Kakinoff {BIO 5160310 <GO>}

Steve, the lease of this 0767 will finish this year, so some time during this year we will return the aircraft. But please remember that this one is grounded, okay?

Q - Stephen Trent {BIO 5581382 <GO>}

That's perfect. I appreciate that, Kakinoff, and Edmar. Thanks a lot.

A - Edmar Lopes

The aircraft is available, if you'd like to have it for a (inaudible). (Call it). Okay? It's available (for sure).

Q - Stephen Trent {BIO 5581382 <GO>}

I'll give you a call later . Thanks, Edmar.

Operator

Xavi Sift, Raymond James.

Q - Xavi Sift

Just on the -- a simple question on the ASKs. I'm guessing because the aircraft are coming in, in the first half your first half ASK (growth rate) will be more flattish, and with the back half lower year over year. How does that progressed throughout the year?

A - Edmar Lopes

Xavi, yes, the trend is very much like this, so on the first half we should go flat, and then we should see some increase in the second half. But primarily, as Kakinoff mentioned before, we will try to be as practical as possible. During low season, we have less planes here in Brazil; and during high season, yes, we will see what can be done in terms of capacity. Okay?

Q - Xavi Sift

Got it. Then, it looks like other revenue was very strong this quarter, and I know that it said cargo revenue was strong. Is that just more belly space dedicated to its cargo? Or was it pricing increases? Or what drove the other revenue stream?

A - Edmar Lopes

Xavi, as in the passenger market, we are doing the same kind of work in the cargo market. That is we are looking, we're aiming, cargo that pays more. So this is light cargo. And we have on our side as well seasonality. Fourth quarter is a strong quarter for cargo here in Brazil.

A - Paulo Kakinoff {BIO 5160310 <GO>}

(Maybe comment), (for equipment) become very, very strong at that time of the year. So once we have pretty much the (deteriance) in high value, low volume packages, rather that in the cargo side it has been also (beaten by sector) demand.

Q - Xavi Sift

That would make sense. So I'm guessing then, maybe, that's more a three or Fourth Quarter strength, and then as we you go into the rest of the year it look more normal?

A - Paulo Kakinoff {BIO 5160310 <GO>}

Yes, yes, you are right. But the number for full year should grow, grow to what our passenger will grow; that is, we're looking for a double-digit growth as well.

Q - Xavi Sift

Okay, understood. Then just on the privatization of the airport, is that having an impact on costs at all? I know, based on your guidance, it implies that there doesn't seem to be any inflation in any of the other cost items, that it's just a matter of the US dollar-denominated costs going up. I was curious as to what you're seeing in terms of the other line item.

A - Paulo Kakinoff {BIO 5160310 <GO>}

Are you saying (inaudible), we are at the time discussing the new contracts, so we are in the middle of that negotiation. Really, we cannot give you a clear view on that, the amount.

Q - Xavi Sift

Okay, understood. I appreciate it. Thanks, Kakinoff. Thanks, Edmar.

Operator

Renato Salomone, Ital BBA.

Q - Renato Salomone {BIO 17292431 <GO>}

Thanks for taking my question. Looking at the medium term, I would like to have a sense of your view for when the domestic industry could start seeing capacity growth, again.

And the same question; considering that the rebound in profitability for the industry as a whole has been driven, in great part, by yields, and that fare have jumped to a very high level, how sustainable are such high fares once the industry starts growing again? Thank you very much.

A - Paulo Kakinoff {BIO 5160310 <GO>}

Starting by (inaudible), actually, those (revenues) they are -- they have increased more for Siberian customers. Those are purchasing their tickets shorter in advance to the (deposit base).

So we are now increasing the revenue at the same -- for the same time of purchases in advance, which means that we are (value qualifying) the customers; therefore, their the (inaudible) became stronger, which means that we believe it's pretty much sustainable, and it wouldn't be deteriorated over the following months.

We do not see in the horizon the time when the Brazilian domestic market will be able to accept additional capacity again. So that is completely out of our minds at this moment, and we do not foresee that to happen at least over the following three, four months.

Q - Renato Salomone {BIO 17292431 <GO>}

Very clear. Thank you very much.

Operator

Thomas Kim, Goldman Sachs.

Q - Thomas Kim {BIO 15135202 <GO>}

I just want to go through some of the opportunities of further rationalization. You've, obviously, done a lot with regard to headcount. To what extent do you think there are further levers to pull with regard to rationalizing operations to improve, or enhance, the margin profile, just given the ongoing uncertainty and challenges possibly with the demand side?

A - Paulo Kakinoff {BIO 5160310 <GO>}

There is still room for improvement. We are pursuing those opportunities on a daily basis. We have been able to further reduce the headcount, while we are increasing self-check-in process, and stuff like that.

And as we have (delivered) in our guidance, we (have) that the costs would increase up to 10%. But surely, the (inaudible) has been good to (find the currencies), to minimize that possible increase. So we do see (inaudible) further room for improvement related to cost (expenses).

A - Edmar Lopes

And Tom, just moving forward, we don't have any silver bullet. The re-pricing was primarily done early, done a couple of years ago.

And for us, it's very important that you look upon the output per employee. So in about two years, revenue has moved by more than 20%, 25%; and at the same time, the number of employees is down by another 20%. So the output per employee has been a really strong driver for us.

Q - Thomas Kim {BIO 15135202 <GO>}

Absolutely. And that's why I'm wondering if there were further opportunities there, just given how much you've already done.

I guess, it sounds like you still have some incremental room, perhaps, with more self-check-in, but would you say that headcount is pretty much -- do you anticipate -- or, actually, let me (be clear). Do you anticipate headcount being relatively flat this year, or do you think that there might be room, or do you think you might be looking to reduce it?

A - Paulo Kakinoff {BIO 5160310 <GO>}

There is. The self-check-in level at the moment is at a level of 60%. We have increased in some airports up to 70%, and a few that's done 75%. So we are considering to further develop that (process), but it's pretty much dependent on customers' education, and the (amount of revenue that we are going to get).

As soon as we can get new customers to fly in place, we will be able also to raise further synergies by reducing the number of headcount in those locations.

But at the same time, as Edmar (totally) said, we are also looking after additional (opportunities) to improve the revenues per employee, by reallocating them to -- relocating the headcount to other functions, like revenue management. We are not -- surely, you're not talking about the same person that the operating (inaudible) (place) the headcount to be reallocated for (such part of) revenue (detail) position, like (they're going to) management.

So (at the moment), at (GOL) there is no silver bullet, but there are room for improvements in some minor areas. Those combined, can sure represent another year of cost reduction.

Q - Thomas Kim {BIO 15135202 <GO>}

Thanks very much. I appreciate you guys have done quite a lot already.

Operator

This concludes today's question-and-answer session. I would like to invite Mr. Paulo Kakinoff to proceed with his closing remarks. Please go ahead, sir.

A - Paulo Kakinoff {BIO 5160310 <GO>}

I just would like to thank you very much for your attention, and (no surprise) that we are available for further questions off line. So the whole team is here waiting for your call. Thank you very much.

Operator

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