

Q2 2010 Earnings Call

Company Participants

- Constantino De Oliveira Jr., Founder and CEO
- Leonardo Pereira, EVP, CFO and IR Director
- Unidentified Speaker, Analyst

Other Participants

- Arthur Burns, Analyst
- Caio Dias, Analyst
- Jim Parker, Analyst
- Luiz Campos, Analyst
- Nick Sebrell, Analyst
- Rodrigo Goes, Analyst
- Stephen Trent, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to GOL Airlines 2Q '10 results conference call. Today with us, we have Mr. Constantino De Oliveira Jr., CEO and Founder; Mr. Leonardo Pereira, Chief Financial Officer and IR Director; and Mr. Rodrigo Alves, head of IR.

We would like to inform you that this event is being 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)

Today's live webcast, including both audio and slideshow may be accessed through GOL's website at www.voegol.com.br/ir. 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's 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 operation 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 founder and CEO, Mr. Constantino Oliveira, who will begin the presentation. Mr. Oliveira, you may begin your conference.

Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Hello everyone. And thank you for joining our Second Quarter 2010 results conference call. Let us begin the presentation by going to slide number five, which shows the quarter's highlights.

Looking at the various operating financial figures on this slide we can say from a general point of view that we are recording progress each quarter with our five year strategic plan, making GOL more efficient and operating profitability with every year that passes. We are fully confident that this plan will bring us the desired results each year, making the Company increasingly competitive in the market.

Revenues continued to record healthy growth and even though our -- the fleet renovation process was literally complete our CASK ex-fuel continued to fall as we had planned. Revenues continued to record healthy growth, as I said. And in short, the main highlight of the quarter is that we are on target in regards to achieve our objectives.

Moving to slide number seven. We would like to state a few words about capacity management, which is such an important issue in our industry. We are managing our capacity in a responsible manner through -- and are gradually succeeding in finding a balance between operating efficiency, dilution of fixed costs and increasing supply.

This improved supply, utilizing the seat demand in our route network in June and July, this synergy [ph] is highly unlikely to continue for five reasons. One, we are not committed to maintaining a fleet plan that is -- we are committed to maintaining a fleet plan that is in line with demand and we do not intend to add any more planes beyond those scheduled through 2012 at least.

The main -- second, the main factor that leads us to increase capacity this quarter and in the first half as a whole, was the aircraft utilization rates, which moved up from 11 to 13 block hours per day. In the Second Quarter of last year, we had already begun to rise this indicator in response to higher demand.

Number three, another important point was our strategic decision to maintain our high season route network, which has longer average stage length than the low season. Aiming to ensure a more efficient transition to the second half, especially in July.

Fourth point, we intend to increase average capacity at the rate of two-thirds of demand growth, aiming to push up our load factor to around 70%.

Point five, we are able to fine tune our seat supply by reducing the aircraft utilization rate if necessary. In fact, we did this in the first half of 2009 when our utilization rate fell to its lowest level ever.

FINAL

Bloomberg Transcript

FINAL

Now, moving to slide number nine, you can see the final impact of the fleet consolidation program that we began in December last year and which we are currently concluding. Since the beginning of the year, we had reduced our non-operational fleet by 15 aircraft, with 11 737-300s have already been returned or are in the final stage of being returned. As a result, we will cut our factory [ph] operational lease expenses by around \$4.5 [ph] million from now on.

We also took advantage of the recovery of the international software [ph] market to reactivate our four 767s, which had been grounded, thereby generating revenues and reducing the cost that we currently have with this previous line of operational aircraft.

As a result, GOL will achieve a new growth level, in line with our determination to improve productivity and operating results this year.

To conclude my initial comments, let's go to slide number 11. I would just like to say that we expect yields to remain stable in the second half in relation to what we saw in June and July this year. That means between BRL0.20 and BRL0.21 accompanied by an increase in capacity in line with demand which should move up by -- between 8% and 13% over the second half of last year.

As a result, we have righted [ph] our annual demand growth estimate to between 14% and 21%.

Thank you. And I would like to open the floor to Leonardo, our CFO, who will comment on our results and strategy in more detail.

Leonardo, please.

Leonardo Pereira {BIO 1960081 <GO>}

Thank you. Good morning, everyone. I have a few remarks. I would like to start with slide 13. If we, on slide 13, what we would like to show is -- to talk about is the EBIT margin. Even considering that the Second Quarter, as we had always said, is seasonally weak, from an operating point of view, I would say that we had a consistent result.

Our EBIT margin was 3.6%. However, we had BRL38 million of non-recurring expenses that fell in different lines, the BRL11 million under the maintenance line, which related to sending back five to six 737-300s. And bringing back to the fleet the 767s, which we have mentioned earlier, last quarter.

So those expenses are -- they have happened once this year. We are sending -- we are returning more planes than we usually do. And also we will not have the same expense on the 767s going forward. So that's why we are saying that those expenses are non-recurring.

Bloomberg Transcript

So if we add those expenses back, the results, we would have EBIT margin of 5.9%, which is very close to the EBIT margin that we had in the Second Quarter of last year, okay. The same line of thought applies to the CASK ex-fuel and to the EBITDAR margin.

As I said, we can adjust those figures and if -- and looking first at the CASK ex-fuel, it came to BRL0.087 in the Second Quarter, which is consistent with the limits established in our financial projection. This is down from BRL0.0907 in the Second Quarter of '09. Excluding these non-recurring expenses, CASK ex-fuel would go down to BRL0.0837 in the Second Quarter of 2010, which is the lowest ratio since the acquisition of VRG in 2007.

Finally, the EBITDAR margin amounted to 17.2% in the Second Quarter of '10, which is 1.3percentage points down on the Second Quarter '09 figure of 18.6%. Also, if we exclude these non-recurring expenses, the EBITDAR margin will go up to 19.5% in this quarter, which is almost 1percentage point above the Second Quarter of '09. So as I said in my initial remarks, those results are fairly consistent with what we had expected.

Moving on to slide 14, I just would like to highlight a few points. On the passenger revenue, there was an increase of 13.2% over the Second Quarter of '09. And this improvement was mainly due to our very dynamic fare management system, which has strengthened our yields in a seasonally weak quarter. Our focus on short-haul flights. And 95% of our flights are three hours or less, in a quarter where there is a higher concentration of business flyers, an increase in frequencies between Brazil's leading airports and a favorable macro economic scenario.

On the ancillary revenue, I would like to highlight that this number is also increasing as a percentage of total revenues. And the cargo revenues are climbing, by 58% over the Second Quarter of '09 and 57% over the First Quarter of '10, thanks to strategic initiatives such as the launch of new products for business travelers and an expansion in the number of cities covered.

So in summary, ancillary revenues accounted for 11.2% sic; see presentation [ph] of net revenue in the Second Quarter, which is in line with our strategic objectives of having this number, as we go on, moving up close to 15%.

On the cost side, I already mentioned the non-recurring expenses related to the fleet's renewal. We had some provisions for employee profit sharing, stock option plan in the amount of BRL11 million in the Second Quarter. And we had higher depreciation and amortization expenses with the changes in accounting practice that we announced in the First Quarter of '10.

So still we -- if we look at the costs overall, we see that the costs are under control. And we continue to be very committed to keep them like that.

Moving on to slide 15, I would like to highlight a few comments. As we had said consistently, one of the objectives of the Company is to have a very strong balance sheet. We believe that GOL today is one of the world's most capitalized airlines with sufficient capacity to confront any type of economic crisis in the foreign exchange, oil price. And

market volatility. Having a strong balance sheet also will help us sustaining our growth strategy.

And what have we done? We have now a very robust cash position. In the Second Quarter, we achieved our aim of reaching a cash position equivalent to 25% of net revenues in the last 12 months. And we will continue building cash as we go on to the end of the year. We expect to end the year with at least BRL1.8 billion in cash.

We also continued to reduce our indebtedness. We are one of the few players in the industry which is properly underleveraged. In the Second Quarter of '10, our total adjusted debt was 5.5 times EBITDAR. And we intend to reduce this ratio to 4.5 times in the next 18 months through cash generation. Just to remind everyone in the Second Quarter of '09, this ratio stood at 6.6 times.

At the same time that we are reducing indebtedness, we are also seeking means of reducing our short-term debt and funding costs. And if we look at our -- at debt amortizations to date, if we exclude the leases that very much part of the day-to-day operation, we will see that we would have very low refinancing risks over the last three years. And this has been achieved mainly through the issuance of these recent 10-year bonds that we just concluded a few weeks ago.

So in summary, we have accomplished all the main strategic targets that we wanted that would be necessary in order to make GOL a very strong Company from a capital structure point of view.

So those were my comments. We are now open for Q&A. Thank you very much.

Questions And Answers

Operator

Ladies and gentlemen we'll begin the question-and-answer session. The floor is open for questions. (Operator Instructions) Please hold while we poll for questions.

Our first question comes from Nick Sebrell from Morgan Stanley. Please go ahead.

Q - Nick Sebrell {BIO 7321622 <GO>}

Good morning, gentlemen. I thought the comments that you made regarding the second-half yields and your outlook for keeping your fleet plan as is was interesting because it seems like with BRLO.21 yields, there might be room to maybe raise capacity given the competitive environment. That's my first question whether that might be an option later on depending on what you see.

The second question has to do with the 767s. What is the utilization rate on those in a charter format? And might there be a possibility of returning to some sort of select long

distance -- not chartered but scheduled flights to maybe niche places where you see no competition and an opportunity to serve, say, the Brazilian tourists?

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Well Nick, I guess I can, here is Junior, I can answer that question regarding the fleet plan growth and I will ask Leonardo [ph] to complete the answer. But in some point of view if the highest level of growth would be achieved that means 21% for the market. I guess, we will still have conditions to improve our load factor even though if that level of yields that we predict and achieve, that results then add more aircraft to our fleet at this time.

And once that the market really confirms that this is -- this strong growth is something that will keep growing. That means, give us more comfort to even increase the number of aircraft that we have. But before we decide something in this way, we expected to see better load factors and high aircraft utilization.

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay, regarding the 767, Nick, I think you have a good point. From the moment that we had the interest in the 767s and put them back into charter operations, we are -- we acknowledge that there is an opportunity here for us to use the 767s in routes that they can be profitable.

So we could have -- and we will have probably a scenario in the second half of the year, where in average, the 767s, we will fly six hours a day. Okay. But mostly for destinations like Sao Paulo, Barbados, Sao Paulo-Caracas and then on to Punta Cana. So in other words, mostly to destinations that we know that the -- the variable cost of the 767 will be even -- be equivalent to the 737-800 or slightly better, okay.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay, understood. And -- sorry, go ahead.

A - Leonardo Pereira {BIO 1960081 <GO>}

I'm sorry.

Q - Nick Sebrell {BIO 7321622 <GO>}

No. I just wanted to follow up with -- in the situation of adding capacity, let's say we get to 17%, 18% RPK growth this year, maybe short of the 21%. It sounds as if you are in a general, GOL I mean, focusing on profitability and better load factors rather than say competitive -- beating out the competition as it were. Is that accurate, or -- okay.

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. That's totally accurate.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay.

A - Leonardo Pereira {BIO 1960081 <GO>}

And that's why Constantino mentioned that until 2012 at least we are sticking to the plan. We believe very much that if there is demand we'll be able to meet that demand. And we rather have higher load factors than have more planes in the fleet.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay, okay.

A - Leonardo Pereira {BIO 1960081 <GO>}

So this is very consistent with what we have been saying in the last two years.

Q - Nick Sebrell {BIO 7321622 <GO>}

Excellent, thank you very much.

Operator

Our next question comes from Jim Parker from Raymond James. Please go ahead.

Q - Jim Parker {BIO 1506864 <GO>}

Yes. Good morning, Junior and Leo. My first question is I want you to clarify the losses that you incurred in marking to market your fuel hedges -- I believe you indicated it's BRL19 million. I'd like to know how much of those losses were realized in the Second Quarter and then how much are mark-to-market for future quarters?

A - Leonardo Pereira {BIO 1960081 <GO>}

Jim, in this quarter, the real loss were -- close to BRL19 million, although what's showing here is equivalent to the cash loss that we had. As you know, we use instruments that are basically buy caps.

So we -- so we have a cash disbursement. And independent of the hedging accounts that we have, in this quarter, these two numbers are the same.

Q - Jim Parker {BIO 1506864 <GO>}

Now I want to know how much in the quarter were realized as opposed to mark-to-market of future hedges or of future quarters. How much were realized of the BRL19 million in the Second Quarter and how much is for fuel hedges in future quarters?

A - Leonardo Pereira {BIO 1960081 <GO>}

By 25%, Jim.

Q - Jim Parker {BIO 1506864 <GO>}

25% was in the current quarter.

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, 25%, yes.

Q - Jim Parker {BIO 1506864 <GO>}

25%, okay. And would you clarify what you said about -- I think Junior said capacity growth. I wasn't sure on that range, was it 18% to -- 8% to 17%, what was in the second half of this year? What is this range of capacity growth that you are suggesting?

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

In terms of capacity increase, we are planning to increase capacity on the range between 8% and 13% during this second half of the year.

Q - Jim Parker {BIO 1506864 <GO>}

Okay, that's great. Thank you.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Welcome.

Operator

Our next question comes from Luiz Campos from Credit Suisse, please go ahead.

Q - Luiz Campos {BIO 17409443 <GO>}

Hi. Good morning, everyone. My question is on the 767s. Just wanted to understand better what are -- what were all of the costs related to reactivating the fleet if it was just refurbishment of the interior whatever.

And also if you could give us an estimate of how much additional revenue those airplanes could bring on a per quarter or a per month basis. Thank you.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Okay, let -- these expenses were mostly related to putting to the 767s ready [ph] to operate. Plus [ph] we have maintenance checks, plus we're to have pilots that are dedicated to the 767s and they are still not flying them.

To give you what was the calculation that we made, what would be the expense that we would have if we would keep them grounded or waiting for negotiations with the lessors to send them back. Just to remind everyone, the Company had 14 767s after the Varig acquisition, brought them down to 11, then brought them down to six. And now we have

five. We have subleased one and we have five. We are subleasing one and then we still had four.

Those four, we made the decision to invest -- make very small refurbishments and put them back to flight. What was our estimation of return? We want the EBIT margin of this operation to be slightly higher than the EBIT margin, the current EBIT margin projection that we had for the year, which is between 10% and 13%.

Q - Luiz Campos {BIO 17409443 <GO>}

Okay. Thank you.

Operator

Our next question comes from Tiaga Macruz [ph] from BTG Pactual. Please go ahead.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Hi, guys, it's actually Rodrigo Goes. Just a few questions. The first one on the systems-related issue that you guys recently experienced which ended up causing some delays across the network. I was wondering if that wasn't -- well, what the potential impact of that would be?

I'm assuming that it's not relevant enough because it wasn't -- it didn't impact your guidance for the year at all. And you didn't really mention it in the press release. I was wondering if you could make some comments on that, whether those issues have been fully solved and what we could expect in terms of an impact from you transitioning some of those 767s from charter operations to regular scheduled operations as you've suggested you would in your comments or your statements to the regulator.

That's the first question. The second one, I was wondering if you could comment a little bit on the yield outlook for the Third Quarter. How things are trending, how big the trend in July; you did make some comments in your July traffic figures but I was wondering if you could elaborate on that a little bit and what you expect for the coming months.

And finally -- sorry for dragging on -- if you could comment on the regional market, what the Company's plans are for the regional market if it intends to expand into that niche or any comments on that front would be appreciated. Thanks.

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay, I'll hit a slow [ph] start. And then Constantino will complement me. What we had a few days ago was something that we believe it's not going to impact the quarter, because it was quickly solved.

As we mentioned, we had the issue of configuration in the system, that's the timetable for our group. And we have -- we are in the process of fixing it. But that's -- and we

acknowledge that we had to make some improvements internally and which we have already done.

But we are working very hard and we feel confident that this will not occur again, okay. So

--

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

And I'll just complement what Leo said is that (inaudible) that due to this problem on the configuration. And the implementation of the system that we have in July, we are not expected to see any kind of this issue again in the near future.

We have -- the alert is very high, the alert system is very high. But again, we have been following the operations day by day. And I think that if things become to the normal in terms of expenses really is not something relevant to make us change any kind of projections.

In terms of revenues, the impact also is not so high as we were able to fix the problem and to recover the operations, the punctuality and the reliability of the flights in less than two days. And that helped us to maintain our revenues in a good shape. So we cannot assume any big impact in our accounts related to this issue. And -- yes.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Sorry about that. I was just going to ask is the plan really to transition those 67s to regular scheduled flights as opposed to charter operations and what would those flights be -- what regular flights accommodate wide bodies in your view?

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay. Yes. This we -- as we had that situation we spot as an opportunity to have the 767s in addition to the charter flights operating some medium-haul international routes.

As we all know, the best thing for the 767 is to have flights of over six or seven hours. So -- and we have during the flights to Caracas, Bogota. And Barbados. We may exceptionally have them fly to Axeza [ph]. But this is going to be only a temporary thing as we make sure that all the issues are resolved, okay.

So -- and as I mentioned, Rodrigo, the moment that we spend the money to have the 767s back as we have already done, now what we have to look at is what the variable cost of operating them. So as long as we have routes that can be profitable, if there is a question of how we manage our routes we seize [ph] them.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay. Great.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Then you had a question on yields, is that correct?

Q - Rodrigo Goes {BIO 6232382 <GO>}

That's right.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Okay. I don't think -- I think yields, as we had said, they should be in line with last year. And I don't see them overall in the year showing any dramatic change.

We have seen a very small trend -- a positive trend but I would not say that this is going to change substantially in the next few months.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay. And the last question was with regards to your -- the regional market. Do you see any opportunities in that space?

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Related to the regional market, Rodrigo, we go -- is apparently [ph] in terms of implementing flights through regional markets like we do in the [ph] Brazilian material [ph] and also as we do in South America sometimes as we have flights, for example, between Campo Grande and Mato Grosso from Brazil to Viru Viru, in Santa Cruz de la Sierra. And as we have flights to all of the most important markets on the regional markets in Brazil like in Maringa, Londrina, Foz do Iguacu.

That means, in our 60 destinations, something like 30 of them come from the interior of the continent, that means from the regional markets where with our interconnected network we have been able to build a good load factor -- a load factor enough to implement flights with the 737 aircraft. And so we have enabled that.

We have no plans to invest in other types of fleet; we will maintain our strategy to fly a standard fleet of 737 aircrafts and the operational capability of this aircraft will be the limit for us for our growth.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay, perfect, very clear, thank you very much.

A - Leonardo Pereira {BIO 1960081 <GO>}

Just to finalize, Rodrigo, we also believe that as Brazil grows instead of having 60 airports that will be good for the 737s there will be more airports that will be able -- where we will be able to serve with the 737s.

So I'm not growing specifically down in the regional market. We believe that this type of market that we serve today will increase as Brazil continues to grow over the next five

FINAL

Bloomberg Transcript

years.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Okay. Thank you, Leo.

Operator

Our next question comes from Caio Dias from Santander. Please go ahead.

Q - Caio Dias {BIO 21849043 <GO>}

Good morning, everyone. My question is actually a follow-up questions on the problems you experienced in the past few days. There were some articles yesterday in the newspaper saying that you couldn't enter into an agreement with the unions and mentioned that unions would be still pressuring the Company to somehow compensate the employees for the excess working hours during the days we experienced these problems.

Could you give us more information on the status of the negotiation with the unions? Is that through, or even the agreement with the employees and the unions are also solved?

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Okay Caio, let's first try to understand what happened yesterday. Yesterday, when you study (inaudible) which I don't know how to say it in English, (inaudible) or the attorney decided to mediate talks between the Company and the unions. Okay.

However, there were no specific points where -- that we could discuss. Because in order to have a negotiation, you have to bring something in concrete to the table. So the Company has always, in this last 10 years, kept an open dialog with the unions and we are still open to have this type of dialog.

But we can only have the dialog if we have a concrete proposition on the table. And yesterday, what happened was that was supposed to be a small meeting but was -- the press was there. So there is nothing to hide. So the interpretation of people who look at the meeting was that there was no agreement between the parties.

But there was -- (technical difficulty) --

A - Unidentified Speaker

-- see any risk of kind of strike or something like that as sometimes there is on the media. And also, GOL follows the -- all of the requirements from the law, from the regulators and everything. So we are always open to any kind of expansion or even certification, all of these points.

We achieved the IATA certification last year. We are renewing that during this quarter and we are very proud of our safety standards and we follow that. And we follow the legislation. So that's as required.

A - Leonardo Pereira {BIO 1960081 <GO>}

And just to finalize, this point that Junior mentioned is very important. We have been following the legislation and what we may have is some people who disagree on the legislation. But we have been following the legislation. So we have to sit there and sometimes the press needs enough separating this and making a distinction between those two things.

One thing is to have the legislation, the second thing is whether people agree or not with the legislation. But the Company is speaking for the legislation.

Operator

Our next question comes from Stephen Trent from Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Good morning, gentlemen. Thanks very much for your clarifications on being cautious about fleet growth. I'm curious about the airports.

Several different sources, several reputable sources are raising concerns with respect to Brazil's airport capacity adequately keeping pace with traffic growth over the next couple of years; and I'm wondering what is your base case assumption with respect to airport expansion occurring in a timely manner?

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

This is Junior. That is, as we know [ph] that, we have a lack of investments in infrastructure related to the airports in Brazil. And the government announced recently that they have a budget of BRL6 million to invest in the airports' improvement and expansion. And they understand that we'll be able to accommodate all the growth of the market from now until the World Cup in 2014, 2015 and we are talking about the major airports that means, Brasilia and Guarulhos and others that will be expanded.

So we understand that will be helpful, probably will be able to really accommodate the demand growth for the next few years. But that's not enough when we see a long term projection. So we need more investment and the discussion is follow on -- is going forward related to that.

The government and all the authorities understand that the popularization of the aircraft is going forward in a very quick pace. And they are giving much more attention and focus for this issue.

FINAL

In this between, we still have that kind of alternative which is separate from many connections that the Company does in Guarulhos airport, for example, the hub which we can transfer that to other airports like Galeao, like Confins and Belo Horizonte. And with that we'll be -- we'll make available more seats for the specific demands which we would like to fly to or from Sao Paulo area, for example.

So doing that. And I can tell you a number that we still have some things between 30% and 35% of our passengers which take off from Guarulhos airport, for example, do the connection in that destination. So we still have room to improve in this area.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great. Thanks, Junior. And just one other question for the meantime. And I'll let somebody else ask. Looking at the competition side, we look back in the past like the old Varig, we look at guys like BRA airlines and it didn't seem to be much doubt that they were on their way out.

You've recently had elements of the market suggesting that Azul is losing a lot of money and yet that carrier turned around last month and ordered a lot of planes. So how are you seeing today's competition let's say versus competitors you faced prior to 2008? Thank you.

A - Leonardo Pereira {BIO 1960081 <GO>}

I'll start and then Junior will complement me. As I've always said, Steve, that this market is always going to be competitive. We had competition before 2008 which was a different competition than it is today. But at the end of the day competition is competition.

If we would even [ph] travel Azul, as I've always said, we would have a different color. There is a tremendous potential in the Brazilian market. And there will always be newcomers trying to come in. Some will succeed, some will not.

What we are working here is that we want this Company to be a long-term player. And that's why we are making some decisions and trying to be careful in making those decisions. So in order that we don't look only at the next few months. But on the next few years.

We -- so, we follow what the completion is doing. But -- and we continue believing that if we have a strong company, from our balance sheet point of view. And we can focus on our operations, we will be one of the leading players in the next few years.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Just to complement that, considering that the competition that we will have, always, a good competitor, a good player, is the one that's business oriented that will have, in some days, to provide return for the investors and even grow the Company in a responsible way.

Said that, I consider personally our competitive scenario today, our competitive landscape today very healthy in terms of the professionals and the focus of the companies to provide return to the investors with responsibility.

If this strategy of one or another is that they were buying market share, because they are newcomers in the market. Probably, they are doing that with conscience. And sooner or later, they will have to adjust their business model. They have to adjust their strategies to provide a good return to the investors. And so, I consider that we are facing a very, if I can say that, a very healthy competition.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, Junior and Leonardo, thanks for the time. I'll let somebody else ask questions.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question is a follow-up from Nick Sebrell from Morgan Stanley, please go ahead.

Q - Nick Sebrell {BIO 7321622 <GO>}

Thanks for taking my follow-up question. I wanted to follow up on what Steve was asking regarding the competition. If you talk to one of your new competitors, they would make the arguments that they are not really competing directly against you or the other incumbent, that in fact what they are doing is aiming at a market that's really slightly different and therefore not really overlapping with you, they use a smaller plane, potentially smaller airports, one would imagine, although if you look at their network right now, it's not quite clear.

Is that something you would agree with? Do you see that in the market, do you see that when you look at yields and what not that really they are different markets, however you divide that out, being addressed? That is the first question.

Then following up also on the labor issue. We saw in the news that apparently the unions are unhappy about the number of hours, is that correct? Or did the article get it wrong? Then -- that they were due for a vote whether to take action or not. And I just wondered if you could add anything to that.

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay, I'll start with the second question and then we go back to the competition. Look, regarding the number of hours, I'll go back to what I mentioned a few minutes ago. We have -- there is a legislation in Brazil that says that the technical people can fly up to 85 hours per month and 230 hours per quarter. We have been very concerned about this and speaking to the rules.

FINAL

You -- what you have is people who may be disagreeing with those rules. But this is a full -
- so we have to separate these two things. The law that exists, we are concerned and we
are -- and we have to comply with that. We don't disagree on that.

But as -- we have also understand -- we also understand that there are some people who
are disagreeing with the law, not with what we have been doing, okay. On the labor
disputes, I don't think there is a labor dispute here. And we don't see a risk at this stage
of any strike or potential slowdown in the operations on Friday, okay?

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay, that's quite clear and now I understand what you were talking about the regulation
and the maximum hours. And we have those laws all round the world. Also we have
companies that limit the numbers of hours that -- not limit but the standard number of
hours that the average pilot will fly is usually lower than whatever the maximum is,
whether it is 85 or otherwise.

And so do you see a possibility that the union might push to reduce that, be maybe more
similar to what we see in other parts of the world?

A - Leonardo Pereira {BIO 1960081 <GO>}

Well I don't see in the other parts of the world because in the other parts of the world
there isn't -- I know that some people spend more hours, in the U.S., for example. The law
says that pilots can fly up to 100 hours, which is even higher than in Brazil. So I would have
to check what -- where are the countries that people fly less and make --

Q - Nick Sebrell {BIO 7321622 <GO>}

Right, well, right. Right, no, actually, I didn't make myself clear that the -- like for an airline
in the U.S. often a number 72 hours, 75 hours a month is normal. And so what I was trying
to understand I guess is do pilots on average fly near the maximum or are they flying
less?

And is there disagreement with the maximum number of hours or is there disagreement
with the number of hours that they fly on the average month? Are they asking to fly fewer
hours on average?

A - Leonardo Pereira {BIO 1960081 <GO>}

The point here probably is much more related to the timetable and how we manage that
in some sense -- it's not a consensus from the workers, from even the people that -- who
works in the Company that the time flying is too high.

The problem sometimes is related to how we manage their flight schedule. And
sometimes due to some disruptions, that's normal in the industry we -- our system, our
older system, we're not able to react in an agile manner. That means that took a few
times or days to adjust all the time schedule for the flight attendant. And with that there
was a lot of intervention in their time schedule, which means, for them, more

Bloomberg Transcript

FINAL

unpredictable their scheduling some terms. But again, following the law all the time. But due to that, we are improving while we were implementing these new schedule, letting for this month that created this problem was exactly to improve our manner, our way to do that flight schedule of the crews and to reduce the interference on that schedule.

That means improving the quality of their journey in terms of giving them more time for the family and even to have more holidays, where [ph] programmed. And giving them more of a quality of environment and obviously schedule too.

So we are talking about the better communication, we are talking about better a scheduled timetable. And due to this implementation, we suffered a little bit last month -- at the end of the month, beginning of this month, beginning of August. So it was a punctual [ph] thing.

From now, we are expected to see this improvement coming forward. And probably we'll see a different position for many of these employees that are talking about the quality of their schedule and all of these points.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. That makes a lot of sense. Thanks. Then a question regarding smaller competitors aiming at a potentially different market, whether you agree with that or not?

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes, look, it is very hard for us to answer on someone else's strategy, right? What I see -- as I think -- as I said, we have to assume that this is a competitive market, this is an open market. And we have to be strong to deal with any type of competition, right.

We will continue to focus on profitability. We will continue on not to focus on market share, we want to be a company that flies to all the important airports in Brazil, whether they are the main airports or if they are airports that are becoming important, as Junior mentioned. And we will meet those players either in the big airports or in the smaller airports.

So I think I'd rather speak to our strategy and comment on our strategy, which we feel comfortable with than -- and then discuss someone else's strategy.

Q - Nick Sebrell {BIO 7321622 <GO>}

Okay. Understood. Thank you.

Operator

Our next question comes from Arthur Burns from Deltec Asset Management. Please go ahead.

Q - Arthur Burns {BIO 1916737 <GO>}

Bloomberg Transcript

FINAL

Gentlemen, as a non-airline-specific investor, it is important for me to see companies making a profit. You operate in -- and this is a general question, you operate in a country that's growing, you've got a duopoly, you've got fuel prices that are relatively stable, yet your -- you've got positive EBITDA, which we appreciate. But the bottom line is -- certainly in this last quarter, which you claim is not a good quarter seasonally, you're not making money.

What does it take for your five-year plan to get to the point where quarter after quarter you're steadily producing a bottom line positive number? What is missing and how long will it take to get there?

A - Leonardo Pereira {BIO 1960081 <GO>}

Okay. Look, that's why we are -- have been emphasizing that over the next few years we have to continue increasing and improving our EBIT margin, because that's the margin that we have under control.

If you look below the EBITDAR margin and if you look -- increase the EBIT margin, you'll increase the EBITDAR margin. And if you look below the EBITDAR margin what is the big impact that we have? We have the FX impact because there we have foreign debt, which is part of the business. So we have FX exposure that is considerably high.

In order to compensate that you have to have a higher EBIT than we have today. And that's why we have to always indicate that if we look year-on-year in our five-year plan, we want to have EBIT margins that are above 15%. Okay. Because that will make us less vulnerable to the FX swings.

So if you look last year, why did we make a profit in the second half? What -- we most likely had a very -- a relatively similar EBIT margin after you make the adjustments and -- but you had a strong appreciation of the local currency, of the real. And then we posted a very strong profit.

In order to decrease this volatility, the only alternative is that if we continue working on that operation and post a consistently higher EBIT and EBITDAR margins.

Q - Arthur Burns {BIO 1916737 <GO>}

What does it take to do that?

A - Leonardo Pereira {BIO 1960081 <GO>}

As we have integrated Virig, we are growing -- if you look at our numbers, two years ago, last year and this year, what we are consistently increasing these margins. And what we have indicated to the investors is that if you look in the next few years, investors will see a continuous improvement in EBIT margins.

As we streamline our operations, as we become more efficient in deploying our fleet, as there is a very stable market economic environment. And that -- those are things that will

Bloomberg Transcript

allow us to continue increasing our margins.

Q - Arthur Burns {BIO 1916737 <GO>}

Very good, Leo. Thank you.

A - Leonardo Pereira {BIO 1960081 <GO>}

Thank you.

Operator

Thank you. Ladies and gentlemen, this concludes the question and answer session for today's conference. I would like to turn the floor back over to Mr. Constantino De Oliveira, Jr., for any closing remarks.

A - Constantino De Oliveira Jr. {BIO 3888521 <GO>}

I'd just like to thank you for your attention today and hope to see you on the next conference. Thank you very much.

Operator

Thank you. This concludes today's GOL Linhas Aereas Inteligentes 2Q '10 results conference call. You may disconnect your lines at this time and have a great day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript