Q2 2015 Earnings Call

Company Participants

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

Other Participants

- Bernardo Velez, Analyst
- Jeffrey Eisenberg, Analyst
- Kevin Kaznica, Analyst
- Michael John Linenberg, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone, and thank you for waiting. Welcome to GOL Airlines Second Quarter of 2015 Results Conference Call. With us here today, we have Mr. Paulo Kakinoff, CEO; Mr. Edmar Lopes, Chief Financial and IR Officer; and Mr. Eduardo Masson, Financial and Investor Relations Director. This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After GOL remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via website (sic) [webcast] (00:00:45) and may be accessed through 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 beliefs and assumptions of GOL management and on the 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.

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

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, everyone, and thank you for joining the forum second quarter of 2015 and earnings release conference call. Starting our presentation on slide number 3, the first half of the year was marked by this year's economic slowdown and by a challenging and a competitive environment. On the of the second line of the left-hand side, we highlighted the devaluation of the reais by 41% compared to June 2014. In the quarterly average, the U.S. dollar appreciated by 37.8%.

In the next item, we highlight the significant drop in the number corporate passengers due to the country's economic slowdown. Since the end of May, we observed that the volume of corporate passengers stabilized followed by a slight recovery in price. The rising demand in recent months is a result of airfare sales and promotion fares, with prices on an average about 20% lower than the same period of 2014.

In the quarter, the increase in industry supply was a reflection of capacity adjustment, which was reduced during the FIFA World Cup held in Brazil in June and July 2014. In the coming slides, we will see in more detail how GOL has been working its capacity since 2012 as well as our new supply projection for the second half of the year.

In the second quarter 2015, aircraft fuel amounted BRL 2.21 per liter, a decrease of 11.4% compared to 2014. The jet fuel price in reais partially benefit from the 40% drop in price in the international market, but it was impacted by the average depreciation of the Brazilian real by 38% in the same period, which is worth mentioning that the Brazil real was the currency that set the biggest depreciation against the U.S. dollar in recent months. On the same slide on the right, we roll out the quarter's operating performance achieved by the continuity of our strategy, which has been implemented with total focus and discipline.

On the first item, we show ancillary revenue increase of 14%, mainly from the sale of GOL+ Comfort seats and the cargo area. The increase in this revenue line has been mitigating the decline in passenger revenue. The ancillary revenue currently accounts for about 13.3% of total revenue.

Moving on to the next item, we expanded our lead corporate sales for another quarter, accounting for 32.4% of passengers flying for business purpose, according to the data published by the Brazilian Association of Corporate Travel Agencies, the ABRACORP. Another highlight in the period is our leadership in the number of passengers transported in the Brazilian domestic market, a new record for GOL. We will see in more detail throughout the presentation, which size-up our leadership position against other competitors.

I'll also highlight that we've recorded the great evolution in load factor among the four biggest airline companies in Brazil. I believe this is a result of our customer's preference for our services and products, making the flying experience even better and more attractive. Consolidating all the important achievements we have reached over the past years, on July 15th, we launched our new brand, reinforcing GOL's relative characteristics with the introduction of new products, services, technologies, and customer care standards, positioning itself at the forefront of the airline industry. In the past few months, we have launched, in addition to our new brand, the most comprehensive on-board entertainment platform in Latin America and Wi-Fi Internet access, as well as strengthening the partnership with Delta, which allowed the extension of the agreement between both companies. Following the presentation, I will explain each of this important launches in more detail.

Moving onto slide number 4, it showed that the financial results for the second quarter of this year were affected by the challenging environment for the Brazilian economy. In the second quarter 2015, net revenue retreated by 10.5%, reaching BRL 2.1 billion. Year-to-date, we had a reduction of 5% totaling BRL 4.6 billion. The operating loss for the period totaled BRL 251 million, a decline of BRL 290 million compared to the second quarter of 2014, bringing the EBIT margin to negative of 11.8%.

EBIT fell by BRL 279 million in the first half of this year compared to the same period of 2014, recording a negative BRL 98 million with also a negative margin of 2.1%. These results added to continuing evolution seen in the last nine quarters. EBITDAR recorded BRL 9.7 million in the quarter with a margin of 4.3% and BRL 560 million in the first half of 2015 with a margin of 12.1%, a decline of 5.7 percentage points versus the same period of last year.

Total cost has gone up 1.6% despite of the exchange rate effect, which was much bigger than this. Our commitment and persistence for low cost is key to our business model. Within this topic, I highlight that we have been working with renowned consulting firm since the end of last year in order to achieve an even more efficient procedure in supply and all the possible gains that can be achieved from the whole cost structure.

The reality is that in the quarter ended in June 30th, the company and the Brazilian airline industry had gone through one of the most adverse periods in their history. This is due to a combination of the country's economic situation and a significant decline in corporate demand.

On the operating side, on the fifth slide, we show that we have increased the domestic supply by 2.1% and demand rose by 4.8%. The supply increased only because of the comparison base. Last year, as we have already mentioned, we got the FIFA World Cup soccer event in Brazil, and therefore, at the time, the supply was already reduced. So, in comparison to June last year, there were no oversupply, which is not exactly in line with the current economic situation; therefore, we have already announced that for the following periods that the company will continuously reduce its offer. Compared to the competitors in the industry, GOL shows the most efficient results since it increased capacity and at the same time saw demand growth.

To clearly demonstrate leadership in capacity discipline, we will move to slide number 6. Over the past four years, we have reduced about 14% of our supply in the domestic market, which means a reduction of about 7 billion ASKs. Despite our main competitors had followed the same strategies, two among the four Brazilian most important airlines didn't follow, and therefore, we still do have an overcapacity in the market in comparison to the current demand. When compared to the three biggest companies in the sector, we saw that the Competitor 1 followed the same legitimate strategy and incurred about 10% in the same period, while Competitors 2 and 3 improved supply by 54% and 193%, respectively. The industry grew only 2% in the period. We know that, in a group, the expansion of capacity can bring excess supply and possible loss of profitability for the sector. Therefore, we are playing again the role of leading the market to further capacity decrease.

Following now to the slide 7, once again showing commitment to its strategy to offering adequate supply, we have reduced our projection in the domestic market for 2015 and we reduced supply to between 2% and 4% in the second half, which means that we will adjust out of capacity for 2015 to stable and minus 1%. We will monitor our development even further, and if necessary, we can review all projections, especially in such a challenging and volatile case the country's economy is going through.

On the next slide, number 8, we highlight that GOL have expanded its leadership in a number of passengers transported in the Brazilian market. According to the data from ANAC, we have transported more than 17.5 million customers in the first half of the year, up 2.5% compared to last year. The difference from the airline placed at second increased from 1.6 million to almost 2 million customers transported in the second quarter 2015.

As already mentioned, on slide number 9, we show that GOL increased its share of corporate sales by 1 percentage point versus the first half of 2014 according to data from ABRACORP. In addition to expanding the leadership when compared to last year's second quarter, GOL has increased the number of tickets sold by 16.6%, the highest growth among the airlines. Here, it's important to explain that ABRACORP stands for almost 80% of the total Brazilian corporate segment, the number of associates during last year, and that's the reason why you have shown an increase in a number of tickets issued to the corporate customers from the ABRACORP. Actually, the size of the cake has been reduced since last year, but the number of ABRACORP associates has increased. That's the only reason why we have the information that our participation grew and at the same time that the number of tickets issued, but the total corporate segment has decreased.

On slide number 10, we characterize the clear results of our team's efforts to consolidate the firm as the most on-time airline in Brazil. We expanded our leadership in on-time performance in the first half of this year; 95.31% or 95.32% of all their flights took off on time in the period according to the data from Infraero. For more than three years, GOL has been reaching figures above the industry averages and we have evolved since 2012 by 3.5 percentage points.

Slide number 11 shows GOL's evolution in efficiency and productivity compared to 2012. From the human resources perspective the net revenue per employee ratio moved downward 37% since that year. Seat demand per number of employees ratio grew 21% on the same comparison basis. On the operating side, GOL also presented constant evolution and pressure via (00:15:24) net revenue generation per flight by approximately 34% since 2012 and improved the fuel consumption at a (00:15:34) ratio by almost 14.5% in the last four years. And here we are talking about fuel consumption without any gain in fuel prices.

On slide 12, we show the strategic partnership between GOL and Delta. Aimed at further enhancing our agreement and our liquidity, we announced on July 10, 2015, a financial operation between GOL, it's controlling shareholder, and Delta. This operation when implemented provides for a capital increase of up to $90 million by the controlling shareholder and up to $56 million for Delta, as well a low enough up to $300 million fits Delta as our guarantor. Upon completion of these operations, our cash position will be even more reduced with an addition BRL 1.5 billion, ensuring the continuity and sustainability of our current project, as well as dedication of our strategic planning, especially in search of challenging and volatile phase the country's economy is going through. On top of the current BRL 2 billion, these additional BRL 1.5 billion will give us that highest level of cash and liquidity already achieved by the airlines since 2001, since the beginning of its operation, at the level of BRL 3 billion in absolute terms.

On the following slide, the number 13, aimed at an even better flying experience for our customers, we announced an industry leading solution connectivity and onboarding entertainment platform with Wi-Fi Internet access. This solution will also allow access to live TV channels and will include streaming of movies, cartoons, series and games, pay-per-view content, music and in-flight map. All this online and offline content can be easily accessed through a mobile device, such as cell phone, tablet or the customer's own notebook. I emphasize that GOL is the first airline in Brazil itself and Central America to offer this complete connectivity package to customers, including Internet.

Finally, on slide 14, we launched on July 15th our new brand that consolidates all the achievements reached over the past years, and pointing out that GOL will maintain its innovative characteristics with the introduction of new products, services, technologies and customer care standards, positioning itself at the forefront of the airline industry. The new logo was based on credibility, reliability and safety, representing the link that unites and brings people to destinations, whether it is a dream or reality. The new brand has a more robust and geometric outline, in order to become more modern, strong and contemporary, in line with the company's history. That same day, we also celebrated the delivery of the 100th aircraft received directly from Boeing, which is already flying across the Latin American sky, including our new brands.

Now, I would like give the floor to Edmar, who will present in more detail the financial results for the period. Edmar, please.

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Good morning, everyone. Thank you, Kakinoff. I will invite everyone to go to slide number 16, where we show the main numbers of the Company. As it has been already pointed out by Kakinoff, we are in a very challenging scenario here and the numbers show that. On the top line, we are seeing a decrease for the quarter, up roughly 10%; and for the first half of the year, 5% down; and this is primarily due to the scenario here in Brazil. On the cost side, we're running flat and we are suffering, on one side, the pressure from the devaluation of the real that affects our leases, maintenance and some of the expenses, but we are having some help here from the lower price for fuel.

In terms of EBIT, we are seeing that this is the first quarter that we show a downturn after nine positive quarters and the margin came down to minus 11.8%. In terms of the metrics, we are seeing yields coming down as previously announced by 17%. We have mitigated that by raising load factors, so PRASK and RASK decreased at lower rates, (00:20:53) but still affecting top line. And CASK, as I mentioned, very much in line, roughly at BRL 0.20 and there was – the mix has changed. The mix is softer on the fuel side and heavier on the ex-fuel side.

Moving on to slide 17, this is a chart that we have been showing frequently, just to highlight that in two years, load factors went up by 9 percentage points, yields are up on a two-year stand, but if you look at the numbers from second half of 2014, we can easily see the trends that we are suffering perhaps (00:21:42) on the demand side.

On the CASK, we have this chart at page 18, where we highlight the drivers. I would like to say that as of today, ex-fuel CASK is affected by the devaluation of the real at a 30% level. So it means that if the company was, let's say, in a stand-still mode, ex-fuel CASK would be close to BRL 0.14 just because of the effect. We're showing a number of 13.1%, and this is primarily related to the measures we are taking here. I would like to highlight a few of them in terms of what is happening here and we have more details on our press release. On labor side, we have the annual readjustments. This is at BRL 23 million roughly. We have insourced some of our labor as well to benefit from the lower burden on the actual regime that may not stand for next year. We have also increased personnel because of the opening of new stations, part of our strategy of increasing and having a wider network.

In terms of leasing, this is a line that the effects hurts. They're well now as part of the fleet management. We have four aircrafts less than we had last year by this time of the year, although we are producing the same number of ASKs. On the topic number (sic) [letter] (00:23:34) C, I would like to highlight that the main driver for an increase here is what's happening with Smiles. Smiles is growing and Smiles is buying more tickets for its partner's airlines and that's driven by programs and most of them are denominated in U.S. in our long haul business.

Maintenance and depreciation are down primarily because we are reviewing our schedule of events and trying to be let's say as smart as we can. And we'd like to highlight as well the commercial side. Fraud was an issue here, losses with the credit cards was an issue here last year. And this year just for the quarter, we are roughly BRL 20 million down and showing that indeed all the efforts done by the company has come to a success and that is helping us as well.

I would like to highlight that another pressure that we see here is also related to the number of passengers that we are carrying. You saw the numbers. We're carrying more people every quarter and then as well we are improving our services, not only we have added or we launch, if you will, the free services as of July, but we are also improving the services in our international flights.

Moving on to slide 19, this is very clear. I had mentioned that. This is just a pie chart of where our exposure to the FX stands nowadays, 50% of our costs are USD-related, and out of those, of 15% are on the ex-fuel side.

On page 20, this is a chart that we – it is a new chart and the main message here is the company's improving services, the company's growing diversity, and at the same time, it's improving our efficiency and addressing its cost. So we have a lot of initiatives as for procurement, for leanest structures and we are changing the network when needed. We have efficiency programs in airports, in crew. The message here is that we are simply attacking, aiming or reviewing every single piece, every single stone that we can do whatever in our reach as for the cost side.

Moving on to the next slide, it shows that we still are very competitive if you compare us with our peers not only in the region, but also companies that have the same business model, FX of course affects the number.

Moving on to the next slide, slide number 22, I would like to highlight the comparison between the fourth quarter of 2012 and the June quarter of this year. If you look at the total debt, you will see that the total debt is stable. What is happening with our leverage here is that the FX is affecting it, so we should expect some more volatility in the next month.

Slide 23 shows the amortization profile that we have by June 30th. We have paid BRL 352 million. We have another BRL 700 million coming this year with the level of cash that we have and the tools that we have in terms of liability management we think is a very comfortable scenario. In fact, Smiles has already paid the BRL 56 million shown in this chart, paid out early July. So, again, the target here is to have an amortization profile that will give us some comfort if the scenario stays challenging for a while.

Next page, this is 24, we show this chart as comparison of cash position with the remaining companies, especially here in the region. This is before the capitalization and the capital market assets that we are looking here.

Page 25, this have been already announced and touched by Kakinoff. We are reviewing the offer for the domestic market. The message here is that we will cut capacity primarily in the second half of this year up to 4%. It will, of course, change the outlook for the year. This is what I have for today.

I will give the floor back to Kakinoff. Please go ahead.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Thanks, Ed. Moving to the slide 26, we would like to end our presentation with this final message. We are still on track with the reduction of our capacity announced today due to the market conditions. We will keep the focus on ancillary revenues and continuous efficiency and cost control gains, despite the foreign exchange rate and inflationary pressures.

We are working incessantly on our network, which is consistently improved to better serve our customers and to be the most profitable among the airlines. We strive to improve the company's value proposition into the brand's launch in the past two years and those where you will be introduced soon.

We also start a partnership with Air France KLM this year, an agreement that we will have the same effect as the one we have with Delta and for the three years. We saw this through two-way culture. This is alongside the support given by Delta in this moment of volatility and economic weakness. And, finally, the maintenance of liquidity, with cash reinforcement of BRL 1.5 billion completes the presentation of the company's strategic pillars.

Now, I would like to thank you all, close this presentation, and move to the Q&A session.

Q&A

Operator

Thank you. The floor is now open for questions. And our first question comes from Mike Linenberg of Deutsche Bank. Please go ahead.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Hi. Yeah. Hey. Edmar, Kakinoff, good morning. I guess just a clarification here, so your operating margin guidance for the year, are you maintaining the 2% to 5%? I just - because I know the English press release on page 4, it looked like it was being revised down to a range of 2% to 3.5%, but on the slides, 2% to 5%. Can you just clarify that?

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

Hi, Mike. We're going to check that, but the guidance for the margin is not changed, okay?

Q - Michael John Linenberg {BIO 1504009 <GO>}

Okay. Good. Okay. Yeah. I see the - on page 14 of the English press release, it's 3.5% is the high end.

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

Yeah. We're going to check that. Thank you.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Perfect. And then my second question, and I guess this for you, Edmar as well. When you look at your fleet, how many aircraft do you have equity in where you could utilize a sale leaseback? How many Boeing 737s that you have where there's the opportunity to monetize for cash if you had them?

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

Hi, Mike. We have 40, 4-0, okay?

Q - Michael John Linenberg {BIO 1504009 <GO>}

Okay. Okay. Good.

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

We are not tackling off answer about our fleet strategy in Portuguese, so if you want to have a look and translate that, you have extracted all the tools that we may use and this is one of them.

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

Hi, Mike. This Kakinoff here. Our loan over the last two years we have built together with Boeing and our lessors some flexibility in the contracts to either to postpone or to pull ahead deliveries and we delivered. So that means those two flexibilities in combination with the possibilities to further send aircrafts to Europe through the subleasing alternative developed with Transavia and SunExpress, then quickly give us the opportunities to either increase or reduce the fleet size. Nowadays, we have outlook in capacity to reduce or enlarge the company size. It is 30%bigger than our main competitor. When you compare the company size in the number of ASKs, I mean our capacity in March 2014 in comparison to December, you see that the company can expand itself by 34%, and surely we can do the same in the other way. So, the company is prepared to further reduce its capacity whenever it seems to be the right choice.

Q - Michael John Linenberg {BIO 1504009 <GO>}

Okay. Thanks, Kakinoff. Very good. And thanks, Edmar. I appreciate it.

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

Thank you.

Operator

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

Q - Kevin Kaznica {BIO 17875244 <GO>}

Hi. Good morning, Edmar and Kakinoff. This is actually Kevin Kaznica filling in for Stephen. And I just wanted to make sure I heard it correctly. So we should be going off the operating margin guidance from the slide deck, so the 2% to 5%?

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

Yes, we are not changing the guidance for the margin for full year. It's between 2% and 5%. And I had a double-check over page 14, and just see - maybe I'm getting old, but I am just seeing 2% to 5%.

Despite of the high market volatility and surely we cannot change any kind of future perspective right now. It's mainly in the jet fuel side and the exchange rate like a rollercoaster. We are (00:35:13) just keeping our current guidance based on the following assumption. Last year second half of the year results of the company we're at 6% EBIT margin. We would need to achieve basically the same reserve in the second half of this year to say the bottom portion of the current valid debt. So, we for a while will be keeping the same guidance already informative, okay?

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. Thank you. Thank you. Very helpful. And then can you maybe comment on any implications from tax policy proposals like the payroll taxes, the PIS/COFINS, etcetera, and what you might think might happen and whether or not Jair (00:36:06) is playing any role in lobbying efforts on the airlines they have.

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

We don't think that we can say that the current Brazilian congress turmoil, probably it's unlike to vote in those matters this year. We do not see any impacts on those subjects for the period of 2015. So, I cannot even bet when the political turmoil in Brazil will come to an end. But meanwhile, it does not seem that even a decision taken this year will be affected whilst it's going to take some time between the decision and it becomes a lot. So, I do not foresee any major change on those items for this year.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Great. Great. Very helpful. And then kind of going back to the guidance question. Your guidance for maintaining your margins leads to unpleasant. The second half should be better than the first half. Was it explained by seasonality or are there other drivers that you're expecting? And also, how confident are you in the FX portion of your 2015 guidance?

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

This is seasonality. So the first, I would say, signs of the yield recovery, which has appeared by the beginning of this quarter. I mean, nowadays we are foreseeing a slight recovery in the yields. We also are working on the cost side in order to further mitigate the exchange rate effect. So, surely that guidance is under analysis on a daily basis and we will come back to you in case along the following weeks due to such volatile environment, it would be needed to revise or to revisit that that guidance. But, meanwhile, we are keeping it.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. And then on just sort of – this is my last one. Do you have any color on competitive pressures you're seeing from like Azul and Avianca Brasil? Do you see any indication that these guys will all follow your and LATAM's example in terms of capacity?

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

No, we do not have it.

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

Kevin, slide number – this is Edmar here. Slide number 6, we have the title. GOL is doing its part, okay? This is how we see that.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. I was just wondering it seem like I mean a couple of your competitors were advantageously grabbing market share at the expense of other players. So I just wanted to make – we were just wondering if you saw an indication that they're actually going to rationalize their capacity as well.

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

You should ask them. We do not know.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. Great. Thank you.

Operator

And our next question comes from Duane Pfennigwerth of Evercore ISI. Please go ahead.

Q - Jeffrey Eisenberg {BIO 18650544 <GO>}

Hi. Good morning. This is Jeff Eisenberg in for Dwayne. So just following up on that last topic. If the exchange rate that prevails in the second half of the year is well above BRL 3.15, do you see any jeopardy to your operating margin range of 2% to 5%?

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

Jeff, so far, the average FX for the years has been BRL 3.05. This is the closing data as of yesterday. This is one. On the other side, we have fuel coming down by more than 20% in the last month. So what I am trying to say here is that we have a lot of moving parts, but as you know, there is a slide where we show that the FX accounts for 50% of our expenses. So if the FX devaluates, yes, it should help us, and yes, we are challenging to go for the lower part of the guidance. We need to repeat the margin that we have on the second half of last year between 5% and 6%.

Q - Jeffrey Eisenberg {BIO 18650544 <GO>}

Okay. Thanks for that. And then, I guess can you talk some more about your domestic, which markets are you cutting, how bad were they and the environment, and how do you think they're going to help lose margins in the second half?

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

Actually, we are cutting frequencies instead of destinations, so there is no market change related to the destinations.

Q - Jeffrey Eisenberg {BIO 18650544 <GO>}

But are there any specific markets or areas that are particularly weak that you are looking at or is it more like you're saying it as kind of an across the board set of cuts?

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

[Technical Difficulty] (00:41:13) Did you listen to it? It's across the board, okay? Hello? Are you listening to me?

Q - Jeffrey Eisenberg {BIO 18650544 <GO>}

No, I don't think I'm hearing very well, but thank you for taking the questions and – yeah.

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

Thank you.

Operator

And our next question comes from Bernardo Velez of GBM. Please go ahead.

Q - Bernardo Velez {BIO 18662482 <GO>}

Hi. Good morning, everyone. I was wondering if you could give us some insights regarding your capacity cut for the second half of the year, and specifically I'm trying to match the reductions with the ones announced by TAM. Would you say that you might be expecting probably stronger environment than they are or does this have more to do with the flexibility to cancel or change some of the flights or in the case, sub-leasing or even grounding some of your fleet?

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

To better understand this figure, we need to look on the historical series. I mean we have – we started with capacity reduction already in April 2012 and we have cut since then 14%. What LATAM is doing now is somehow catching up the same capacity reduction cut that we have designed since then. So that's the reason I believe there is a gap between the capacity cuts and ours. So basically even with the announcement in long period of analysis, I mean since 2012, LATAM (00:43:01) less spend than GOL did. So that's probably the reason why there is a difference now in the announcement. Okay.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay. Perfect. And how does this capacity reduction mean in terms of cost and headcounts?

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

Bernardo, this Edmar here. First, we are not planning to ground any planes, going back to your first question. We are not planning layoff any number as of our people here because that's cutting off nation. We are taking out some frequencies. So we would be touching mostly the same places in Brazil. And what we think is we will have some savings on the extra hour side because of the law here in Brazil, hard to deal with that. So, overall, the company will remain primarily the same size. We have already scheduled some leasing with the leasers to happen in the second half of this year and we were supposed to take new aircrafts to replace those and we are not taking it or taking them whilst, as I have mentioned, we have some flexibility related to the Boeing contract and therefore we can take some planes out of our fleet to the other way. And the natural crew turnover has been not replaced since May and therefore we will be able also to have lower number of crew numbers matching this current capacity. So we are not giving any kind of forward disclosure on those items once it approaches product or strategic development along the following months.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay. Perfect. And Edmar, you were mentioning the flexibility of your fleet. Could you give us more color on how much incremental or decremental planes could you have by year and or probably on 2016?

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

Between 5 to 10 we can take out of our total fleet I would say easily considering the contract's flexibility and also the sub-leasing, the transfer of those aircrafts via sub-leasing to the European market being operated by Transavia and SunExpress. Those are airlines today operating seven of our aircrafts in the European high season. So, we could send them either more aircrafts or attempt another requests coming from different European airlines, mainly leisure travel. Those are pretty much interested in getting those sub-leases during the Brazilian low season.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay. And I mean if you continue sub-leasing these aircraft, would there be a loss associated from the spread between the price you pay for the lease and the ones you receive for the sub-lease?

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

Not at all. That's a profitable operation.

Q - Bernardo Velez {BIO 18662482 <GO>}

Okay. Thanks a lot and I'll let someone ask a question.

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

Thank you.

Operator

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

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

I just would like to thank you all very much for your attention and wish you a nice weekend. Thank you very much. Bye-bye.

Operator

That does concludes GOL Airlines Conference Call for today. Thank you very much for your participation. Have a nice day.