

Q4 2009 Earnings Call

Company Participants

- Constantino de Oliveira, President & CEO
- Leonardo Pereira, EVP, CFO, IR Officer
- Rodrigo Alves, Head of IR

Other Participants

- Alexander Losan, Merrill Lynch
- Augusto Ensiki, Analyst
- Caio Dias, Analyst
- Duane Pfennigwerth, Analyst
- Marcello Gunther, Analyst
- Natalia Laclava, Analyst
- Sara Delfim, Merrill Lynch
- Virginia Costa, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Gol's 4Q '09 and 2009 Results Conference Call. Today with us we have Mr. Constantino de Oliveira, Junior; CEO, Mr. Leonardo Pereira, Chief Financial Officer and IR Director; 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 slide show, may be accessed through Gol's website at www.voegol.com.br/ir. Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996.

Forward-looking statements are based on the beliefs and assumptions of Gol management and on information currently available to the Company. They involve risks, uncertainties. And assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future.

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

Constantino de Oliveira {BIO 3888521 <GO>}

Thank you. Good afternoon, everyone. Welcome to Gol's Fourth Quarter 2009 results conference call. Let's begin by going straight to the slide number four, which shows certain key points that contributed to our excellent performance in 2009.

The year was one of the great achievements for the Company with positive and growing operating results. Fourth quarter '09 was our sixth consecutive quarter with positive operating results. 2009 also marked the beginning of the Company's new growth cycle.

After the successful integration of Gol and Varig, it set out on its new path with the same core values that marked up this initiative -- to popularize the use of air transport and focus on the provision of exemplary customer service.

The recovery of Brazil's economy along the year helped the strong growth of Brazil's emerging middle class and instilled an increase in consumer confidence. As a result, consumption (modeled) up continuously with a major contribution from this income group which has a large population with sufficient disposable income to fly and where there is enormous growth potential, given that Brazil's per capita flight penetration is still the second lowest in the world.

Focusing on the client, the Company invested in the Voe Facil Program through which people can acquire their air tickets in up to 36 installments, thereby competing with interstate bus trips, allowing Brazil's middle class to fly and helping push up demand.

In December, we opened the first Voe Facil store in Largo 13 de Maio, one of Sao Paulo's main middle income shopping regions, which also has one of the biggest bus and subway terminals through which more than a million people pass every day.

Smiles, Latin America's biggest miles program, with more than 6.6 million participants is another important asset of the Company. Thanks to its revitalization (technical difficulty) which have now (technical difficulty) and increased the attractiveness of the code-share agreements with American Airlines, Air France-KLM, AeroMexico. And Iberia entered into in 2009, encouraging traffic for both Gol and its partners.

Gol's commitment to innovation was underlined by important developments that will improve ancillary revenues or will help us to improve ancillary revenues. Implementation of Buy on Board, which Gol pioneered in Latin America, offers passengers a wider range of options.

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Currently present on 42 flights a day, together with the Company normal service, Gol plans to expand it to 400 flights a day by the end of 2010. Thanks to its successful implementation, once again, Gol has introduced something absolutely new to the market, to the Brazilian market.

In the cargo division, we launched Gollog Express, which after only eight months accounted for 10% of Gollog's net revenue. In addition, the expansion program for 2010 will bring new service options, expanding the list of fragile items for delivery which can be door-to-door and expanding the number of cities covered by Gollog from 1,200 to more than 2,000 cities.

Voegol.com, one of Latin America's largest e-commerce platforms was responsible for more than 90% of the Company's ticket sales in 2009 or something around BRL5.7 billion during the year. We also began operating with our first strategic partners in order to make the site a complete client portal, helping boost ancillary revenues.

Now let's go to slide number six, where we would like to say a little about the Company's strategy for 2010 and the main focal points for ensuring our continuing development and success.

Innovation is the secret of Gol's success. Its low-cost structure and high growth rates are the result of its continuous process of reinvention and the pursuit of higher productivity, quality, safety. And intelligence in all of its processes and operational areas.

In 2010, Gol is the best positioned airline in one of the world's most promising markets or promising markets and will be offering greater flight frequencies between Brazil main airports; a renewed and standardized fleet of Boeing 737 aircrafts; increased aircraft utilization; hugely advantageous operating costs; productivity, regularity. And safety; exemplary customer service; new national and international routes; an expanded South America route network; new code-share agreements to feed our network; and new products and services.

These are just ten reasons underlying why Gol is experiencing the best moment in its history since it's ready to continue on its accelerated growth trajectory, while expanding its operating margins.

The Company's 2010 focus will be on popularizing air travel in Brazil, strengthening the pillars that sustain the low-cost, low-fare concept. After nine years of operations, Gol has carried more than 130 million passengers.

There is no reason not to stimulate demand, given the healthy growth of Brazil's economy in the last three quarters and the strong upturn in demand in the high season. With consistent results, our strengthened cash position. And the focus on cost reductions, the Company is more prepared than ever for greater optimization and increased operational intelligence, ensuring a gradual increase in productivity, quality -- and customer service quality. And the continuous introduction of new technology and market innovation, as Gol has always done since its foundation.

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And these are the Company's strategies -- to be the consumer airline of choice; to maintain its low-cost DNA; to explore multiple opportunities for generating revenue; to continue innovating; to be number one; and to strengthen the balance sheet.

Gol is the best airline to fly with, to work for. And invest in, bringing people together with safety, punctuality, operational regularity. And intelligence. That brings me to the end of my initial comments and now I will hand you over to Leonardo Pereira, our CFO, to comment something about our statement in numbers. Please, Leonardo.

Leonardo Pereira {BIO 1960081 <GO>}

Thank you, Constantino. Good morning, everyone. I would like to make a couple of comments. My first comment is on slide number eight, about capacity and demand. If we look at 2009, I think we stick to our commitment to be very prudent in how we are adding capacity.

If you look, our ASKs have grown by 7% and our RPKs have grown by close to 15%. If you look at the industry, the ASKs grew by 22% and we grew by 7%. So again, our commitment that we said at the beginning of the year was exactly what drove our decisions.

For 2010, we are also emphasizing again that we will be prudent. Of course, we are expecting a much better scenario on the economic side. We are very comfortable that this new middle class is coming to the market.

But we'll again be very prudent in our decisions and we have shown that we can have flexibility in how we manage the fleet. I'm going to the next slide and I just would like to highlight a couple things.

The EBIT line, for a couple of quarters now we have been delivering an EBIT margin of over 6%, which is in line with what we have been indicating and giving guidance to the market. And if we exclude the nonrecurring events that happened in the Fourth Quarter, we have reached the EBIT margin of over 10%, which is very much in line with the guidance that we gave for 2010. In other words, the Company has done its homework and we are right on track to continue increasing our margins as we go forward.

Our income tax line, which is largely responsible for our positive result in the quarter, is also, in my view, very positive because we can only recognize this type of tax credit if we are performing and if everyone is comfortable to be generating profits in the years to come.

Although this is a non-cash component, as we move forward this becomes a cash component as we pay less taxes in the future. So I think that what we have seen in the income statement, is a company that is delivering, generating cash from operating point of view and is also paying a lot of attention in terms of strengthening its balance sheet.

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If we go to the next slide, that will summarize what we just said about balance sheet. We had, in the beginning of the year, a goal that some people thought was too aggressive, which was to reach for at least 20% of our net revenues in cash.

Which was, we indicated would be BRL800 million at the beginning, then with the follow on, we added the BRL600 million and we had a new goal of having BRL1.4 billion in cash, which we have reached.

This has also translated in net debt to EBITDAR of 1.4 times, which is much lower than what we had in 2008, which was over 4 times. And a total -- adjusted gross debt EBITDAR plus financial revenues of 5.6 times, which is in line with what we have been indicating, that we want to continue deleveraging the Company and have a ratio by year end of around 4.5 times.

Moving to our guidance on the following slide, it's reflecting everything that we have been saying. If the Brazilian GDP grows, as some people are expecting, we are expecting demand to grow by 2.5, 3 times. And we are going to be there to meet our mission, which is to make sure that all the new middle class that already can afford to travel, will be able to fly. But we will be doing this in a way that will continue to create value to our shareholders. So at the same time we're giving guidance to an EBIT margin of over 10% in 2010.

And lastly, I'd like to comment about the fact that the board approved a dividend payment and simultaneously we are doing a capital increase for the same amount. And why we are doing this transaction? Because we believe that we have to give the shareholders the right to receive the dividends.

But on the other hand, this dividend is coming from a profit that is largely, at this stage, coming from non-cash components. And at the same time, we believe that it's very important continue strengthening the balance sheet.

So without creating an event that triggers a high dilution, we are paying the dividends and at the same time are asking the shareholders to come and continue supporting our business plan. It's important to highlight that the controlling shareholder that has close to 65% has already indicated that they are supporting this transaction.

So those were my comments. Now we are open for Q&A. Thank you.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Duane Pfennigwerth from Raymond James. Please go ahead.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Hi. Thanks. Good morning. Wondering if you could give us some information in terms of your yields in January and February, how much they are tracking down year-to-year. It looks like about 20% on our math.

A - Rodrigo Alves {BIO 16461207 <GO>}

Hi, Duane. This is Rodrigo. The yields on the First Quarter of 2009 were of BRL0.23 against the yield that we are indicating of BRL0.19. So I think your math is right.

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

But Duane, here is Junior speaking. Good morning. When we talk about yield, I just would like to emphasize that we have been working to optimize our results and manage that in the sense of RASK and CASK. When we see just yield probably you will not see the full picture of the revenues and the results of the Company.

When you see that yields declined for sure in comparison with January and February, less that year. But we have been managing that on the sense of continuous increase of results through the difference between RASK and CASK.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Appreciate that color. In your guidance, I think, it indicates that you think you'll have flat yields in 2010 year-to-year. So no change. So when would we expect yields to sort of turn the corner and begin to be positive again as we look into 2010?

A - Leonardo Pereira {BIO 1960081 <GO>}

You will see that over the year again. I think what we have to be very clear is that we have been very, very consistent in delivering what we have been indicating in the last 18 months.

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

And what I can -- sorry (inaudible).

A - Leonardo Pereira {BIO 1960081 <GO>}

No, no.

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

What I can tell you is that, Duane, is that the yields from January and February are completely in line with our expectations when we decide to announce our guidance and perspectives for 2010.

A - Leonardo Pereira {BIO 1960081 <GO>}

Yes. And if there would be any change, Duane, you can rest assured that we would change the guidance. We just gave the guidance now at the end of February and we were very comfortable based on the results of January and February, with the guidance.

And as I said, we have been very concerned about being consistent with the guidance and with the message that we convey to the markets.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Understood. Is there a specific quarter this year? Is it more of a second half yield recovery?

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

Again, we are not giving projections for each quarter. For sure we have seasonalities. We have natural seasonality during the year, in the Second Quarter, in the Third Quarter for certain period. But we are, as I said and Leo said, we are following that.

And once we provide the guidance and we understand that the numbers from January and February and March, beginning of March, is in line with our expectation, we are confident that we will be able to achieve the guidance that we announced.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. Thank you. And I'll just sneak one more in quickly. The 5% reduction in commissions, which I think is contributing to the year-to-year declines in the yield, at least in the Fourth Quarter, when did that commission structure change go through?

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

With -- on the Gol accounts that start on -- let me -- on First Quarter 2009 or something like March or April. And now we are reducing that that even more from April -- sorry, from February 2010.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Okay. Thanks very much.

A - Rodrigo Alves {BIO 16461207 <GO>}

Just to give you a color. The numbers have declined around 2% in total commissions paid and then to zero as of (central) as Constantino said. Just to color how it magnifies over the year.

Q - Duane Pfennigwerth {BIO 7329167 <GO>}

Thank you.

Operator

Our next question comes from Sara Delfim from Bank of America. Please go ahead.

Q - Sara Delfim {BIO 1759641 <GO>}

Good morning. Still on yields, why you were guiding for a small increase in yields in 2010, given high demand and capacity constraints in terms of airports capacity and mainly terminals?

Don't you think at some point during the year you would be, let's say, forced to contain demand by increasing yields? So basically, my question is -- is there any upside risk for your yields guidance for the year?

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

Look Sara, for sure we are looking -- we are always work to find the better opportunities even to increase this RASK and CASK result -- the difference between them. If we'll be able to do that through higher yields or even better yields in terms of fares and more intelligent or more flexible yield management, we will do that.

We are following the situation where we will have the opportunity to work in this way, in this sense. So we will work on that an opportunistic way.

Q - Sara Delfim {BIO 1759641 <GO>}

Okay. Thank you.

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 on the capital raise. I understand that you are carrying out this offer in order to compensate for the payment of dividends which is coming from, mostly as you mentioned, from non-cash items that positively impact your bottom line.

Well my question is the following, according to my estimates, the cash generation in 2010 would improve significantly. And although Second Quarter is a weak quarter in terms of demand and profitability, it's a good quarter in terms of cash generation. So the question is, was this capital raise really necessary or this is a very conservative strategy of the Company to keep the balance sheet secure?

A - Leonardo Pereira {BIO 1960081 <GO>}

Caio. Good morning. It's Leo. I think it's a prudent strategy. Okay? We still have -- we have targets to strengthen further our cash position. We feel that all the winners in this industry are strengthening their cash positions and their covery ratio of their obligations for the next 12 to 18 months.

So we felt that it's prudent, as we still would like to have more cash, to do this transaction. And we thought that would be neutral for the shareholders.

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Q - Caio Dias {BIO 21849043 <GO>}

Okay. So can I assume that this kind of strategy can result in a reduction in your cost of debt, for instance, given the fact you are strengthening your balance sheet?

A - Leonardo Pereira {BIO 1960081 <GO>}

Eventually, yes, is what we are indicating. We are indicating that we are deleveraging the Company to a situation that we want to have total gross adjusted debt to EBITDAR at around 4.5 times, down from 6, close to 6 now.

Q - Caio Dias {BIO 21849043 <GO>}

And given that you are forecasting us favorable results for the year. And probably cash generation should also improve significantly compared to the previous year, is there a possibility that, for the later in 2010 or maybe 2011, you increase a little bit your payout? Or the Company will keep the strategy of paying dividends as it's paying now in the medium term?

A - Leonardo Pereira {BIO 1960081 <GO>}

Look, I believe the following. To increase the payout, you would have to be a more mature business. We are very excited with the tremendous opportunity that we have for the next years in Brazil as we have this stronger middle class.

So I would not live with that type of expectation. I would live with the expectation that the Company is going to be generating more cash, will have a stronger balance sheet and will be delivering its mission of bringing more people, more Brazilians to fly.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. Excellent. Thank you very much.

Operator

Our next question comes from Natalia Laclava from Credit Suisse. Please go ahead.

Q - Natalia Laclava

Hi, everybody. My question relates to competition. I was wondering if you can give me a view on how are your main competitors behaving. If you are seeing any sign of irrational pricing.

If there's promotions that you don't agree happening and how are you seeing both your two competitors, mainly -- the new one, Azul and TAM. How are they behaving in terms of prices?

A - Leonardo Pereira {BIO 1960081 <GO>}

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Okay. I'll start, I'll say. And then Junior and Rodrigo can complement me. I think we have a market where there is a tremendous opportunity for growth. I think we have companies that have very high corporate governance standard and have to deliver results to shareholders.

So what we expect is they are companies that deliver their missions -- they probably have different missions, different goals. But they continue to be committed in delivering a shareholder return.

We don't see a scenario for price disagreements or price war, as the market is saying. And there are some people who are indicating that might -- this might happen. But we want to make, this very clear that Gol does not support that. Gol supports our mission to be able to have low costs and be able to deliver low fares.

We -- let's not forget our original DNA and the reasons why this Company was set up back in 2000. It was to have a low-cost company in Brazil and that could offer low fares. We might have had some distractions along the way. But all this turnaround that we have made was with these objectives and I think we are sticking to that.

So the main thing that I would like to deliver in terms of talking about the industry is that the fact that we are having these type of deals, it's not because there is any price disagreement or price war. We are just sticking to our mission.

Q - Natalia Laclava

Okay.

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

Yes, I have nothing to add to what Leo said that. But only that we have been really managing our yield in an intelligent way, stimulating demand with low fares, creating value for the customers.

And -- but also taking the benefits from our competitive advantage like high frequencies between the most important airports, the Smiles program and beyond. So with that we have been able to work in both way -- with a very healthy revenues on one side. But at the same time we have stimulating demand through lower fares as Leo said -- as our mission says for us to do.

Q - Natalia Laclava

Okay.

A - Leonardo Pereira {BIO 1960081 <GO>}

And just to complement one thing that I would like to highlight again to the market, just to remind everyone. More and more, our compensation is linked to the share price.

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So we have -- the management is very aligned with the shareholders, both the majority shareholders, the controlling shareholders. And the minority shareholders that if we don't deliver an increase in share price, it (seems that) are very clear, that are creating value, will not get our benefits.

Q - Natalia Laclava

Okay. So basically up to now, no -- any signs of pricing war, right.

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

Right. No sign.

Q - Natalia Laclava

And just a second question. We have seen low yields in January and February at BRLO.19 and I think it's worth to remember that January and February are months where vacation season is really high.

So am I right to assume that during the business periods in March, a little bit of April and the other months, there might be an increase in yields just because you have more business passengers?

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

Probably. We will see something like -- as we will do shorter flights out of high season, probably the yields could be higher. But at the same time, Natalia, we have been working to increase our productivity.

That means we are doing more charter flights, long flights to the north, the northeast of the country, maintaining our philosophy to be increasing our productivity and efficiency through high aircraft utilization and even doing long haul flights -- not long haul flights, sorry -- longer flights than we used to do.

So our average stage length could be a little bit higher even during the low season in comparison with the low season last year. So that would affect also the yields.

But again, the results, the difference between RASK and CASK is where we are much more focused today. So we are generating more revenue, increasing our productivity, reducing our costs and increasing our results, providing us to guide a better result.

Q - Natalia Laclava

Okay. Thanks.

A - Rodrigo Alves {BIO 16461207 <GO>}

Hi. Just to complement, right? The average stage length also is increasing as you see year-over-year. Increase is about 4%. I think that Junior comment is perfect because it also

impacts yields. The higher, the average stage length, the yield trend is to go down as well, right?

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

And costs.

A - Rodrigo Alves {BIO 16461207 <GO>}

And costs, yes.

Q - Natalia Laclava

Okay. Thank you.

Operator

Our next question comes from Marcello Gunther from Safra Bank. Please go ahead.

Q - Marcello Gunther {BIO 16528001 <GO>}

Hi, everyone. My question is regarding market share dynamics in February 2010. We can see in the statements of traffic released by Gol and TAM that yields, basically, in January and February stayed flat.

But at the same time, we can see that Gol gained 60 basis points market share in February on a month-over-month basis, while TAM lost 40 bps market share. And I would like to get some color on that. Why Gol, you managed to gain market share even though your yield behavior -- your yield were flat as TAM's? Thank you.

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

Marcello, I guess here is the key points that we are providing. We are improving our quality of service. We are -- we have much more focus now on the customer side.

We have been successful in our implementation of the integrated network, revitalization of the Smiles program. All of these competitive advantage we are always talking about. And the market is accepting all of these initiatives in a very good sense.

So we have been able to grow even that the demand have been growing much more than our capacity that we added to the market; that shows how (synchronized) Gol has been in terms of additional capacity.

And so that's the key. For us, who have been maintaining market shares, as you said, probably growing a little bit. But we cannot talk about our competitors in terms of how they are trending.

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But the point here is that the market, the consumers, the customer is really accepting very well all the initiatives and the products that Gol put in place since we merged the Company with Varig.

Q - Marcello Gunther {BIO 16528001 <GO>}

Okay, Junior. Many thanks.

Operator

Our next question comes from (Alexander Losan) from Bank of America-Merrill Lynch. Please go ahead.

Q - Alexander Losan

Hi. Good morning, everyone. I just had a quick question regarding your cash balance and kind of the sources and uses as we think about 2010 and 2011. You guys provided the debt schedule for 2010 and beyond. What is the CapEx looking like for those years?

A - Rodrigo Alves {BIO 16461207 <GO>}

Hi, Alex. This is Rodrigo speaking. Around BRL400 million, BRL250 million out of this is related to payments for aircraft which are going to be delivered. It's important to highlight that half of these BRL250 million are financed by the PDP facility.

And the balance is related to expanding of bases, expansions and constructions, IT. And other. So it's not a big CapEx. As we don't have yet the maintenance CapEx we treat it still, our CapEx, in terms of maintenance in our P&L straightforward.

A - Leonardo Pereira {BIO 1960081 <GO>}

Just to complement, Alex. We will continue working on eliminating most of the refinancing risk over the next three years on an ongoing basis. In 2010 and 2011 and then on beyond. We would not like to have any major refinancing risk within a three-year period.

Q - Alexander Losan

Okay. Thanks, Rodrigo and thanks, Leo. And what is that number looking like for 2011?

A - Rodrigo Alves {BIO 16461207 <GO>}

It's roughly the same as the figures. I think the heaviest portion of our CapEx is related to the payments for the new aircraft.

Q - Alexander Losan

Okay. Thanks. And just one last question. In your 2010 guidance you've kind of given a range for fuel prices in between BRL1.58 and BRL1.70. How is that shaping up so far on a year-to-date basis, essentially for the First Quarter?

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A - Rodrigo Alves {BIO 16461207 <GO>}

The fuel price has been having a positive impact in the results. If you see year-over-year it's very clear. The behavior of the market as of now, whereas the volatility itself has not been very strong.

And we have the hedge positions -- we have 20% of the estimated fuel consumption hedged. But when you consider the 20% in average, it was important to keep in mind that the first half has a little bit of a higher hedge position compared to the second half of the 12 rolling months. Rolling basis hedge. We go up because the second half is when we are beginning to buy the options.

Q - Alexander Losan

Okay. So we should kind of expect a higher number than we saw in the First Quarter -- in the Fourth Quarter for the First Quarter. Does that sound about right?

A - Rodrigo Alves {BIO 16461207 <GO>}

For -- if you consider the WTI price now, versus the hedge positions, we should have small gains in hedge for the next quarters -- a couple of quarters at least. You're right.

Q - Alexander Losan

Okay. Thanks very much.

A - Rodrigo Alves {BIO 16461207 <GO>}

Thanks.

Operator

Our next question comes from (Virginia Costa) from Citigroup. Please go ahead.

Q - Virginia Costa {BIO 16772079 <GO>}

Hi. Thank you. Good morning, everyone. On your release, you mentioned that you had some sales of spare parts that included in the ancillary revenue. Can you give us any color on the amount of those sales?

A - Rodrigo Alves {BIO 16461207 <GO>}

Hi, Virginia. The amount is not large. It's BRL12 million. We felt it was important to disclose that, as we are taking out the 737-300 from the operating fleet.

I think it's recurring revenue. Because if you consider the last two years when we were taking out the 767s from the fleet, we also sold spare parts, although we didn't open the figures, they didn't have an impact.

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I would say that our concern in terms of disclosure for this quarter was to explain the main drivers for the growth of our ancillary revenues. I think that we can also highlight that the cargo business almost doubled revenues quarter-over-quarter.

Mainly because the Fourth Quarter of '09 had a very strong demand and the Fourth Quarter of '08 was a very strong crisis all around the world. Our cargo business is a lot related to the business segment as the belly of the 737 is better suited for wider cargo.

The other big portion that played a lot of value in generating ancillary revenues in the quarter was also the large amount of excess baggage, of changes on reservations. And also the no-shows.

So we had a strong quarter, in our view, in terms of ancillary revenues into the Fourth Quarter, very related to the operations and the larger volume of passengers we have been transporting recently.

Q - Virginia Costa {BIO 16772079 <GO>}

Perfect. Thank you. And if I may ask another question. You guys mentioned a lot about the future growth. So where do you expect that future growth coming from, given that a lot of the domestic routes, they are already saturated and the airport constraints as far as capacity?

A - Rodrigo Alves {BIO 16461207 <GO>}

Future growth is a lot related to the expansion of frequencies in the airports. It's important to notice that although the airports, they have constraints -- especially during the business time, especially in terms of the peak hours for the business passengers -- as you see at the majority of the airports in Brazil, even Congonhas, during the lunch time or a period that are not very strong -- Friday night or Sunday night or even Monday afternoon -- the other periods, they are not that constrained as many people think.

You have a space to grow, stimulate the demand to fly during these hours. Better use of those slots.

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

That's it. And related to the airport constraints, we still have room to transfer connections, for example from Sao Paulo area like Guarulhos and Congonhas to other airports, to other hubs like Galeao in Rio or Confins and Brasilia in this case.

And we have been doing that. We still have, in our airplanes, almost 40% of our passengers doing connections or passing through (inaudible). They have been making these connections.

In Sao Paulo we are just starting that for the hubs and offering the possibility of (boarding) the people from Sao Paulo to occupy these cities. So that's one case where we still have room to grow.

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Q - Virginia Costa {BIO 16772079 <GO>}

That's great. Thank you. And just, if I may ask the last one. And how do you think the entrance of the new airlines on the Congonhas Airport is going to affect you -- the NHT and Webjet and Azul -- if that's going to affect you guys at all?

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

No. We don't think that will have a significant impact. Something that will not affect our numbers or results.

Q - Virginia Costa {BIO 16772079 <GO>}

That's great. Thank you very much.

Operator

Thank you. Our next question comes from Augusto Ensiki from Morgan Stanley. Please go ahead.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi. Good morning, gentlemen. Just a question -- couple questions. Firstly, could you tell us how much of that ancillary revenue is from Smiles? Has that been a large contributor at all?

A - Leonardo Pereira {BIO 1960081 <GO>}

No, not yet. We -- the cargo business is increasing its share as Rodrigo mentioned. And no trouble related to -- like cancellation fees, luggage. But the Smiles is still coming up. We expect that, going forward, the Smiles will be a higher contributor.

Q - Augusto Ensiki {BIO 15988025 <GO>}

So right now is it somewhere like below 10% of that or do you have an estimate for that?

A - Leonardo Pereira {BIO 1960081 <GO>}

That could be -- that could be at the range.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay.

A - Rodrigo Alves {BIO 16461207 <GO>}

Augusto, the results from Smiles, they go to the passenger revenue, not on the ancillary.

A - Leonardo Pereira {BIO 1960081 <GO>}

Just a small -- yes, just a small part.

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A - Rodrigo Alves {BIO 16461207 <GO>}

And a small portion. We are still revamping the program and we feel that it's not that right time to fully disclose everything related to Smiles. We think the Smiles -- Junior can comment further on this -- belongs as an integrated portion of Gol.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. Then my second question is regarding the deferred tax credits, you say that you have another -- you listed out -- they have another BRL50 million to be recognized this year. Do you know what quarter that's going to be recognized or is that still to be decided?

A - Rodrigo Alves {BIO 16461207 <GO>}

This is probably the Fourth Quarter when you have to update the business plans and so on. Unless you have a high volatility in the market that changes all the scenario.

A - Leonardo Pereira {BIO 1960081 <GO>}

And that's -- I think the BRL50 million that you are referring is our indication of how we are going to be enjoying the benefits right this year. So we expect that, based on our projections in terms of generating income in 2010, that's the amount that we would be able to use as our cash savings, let's put this way.

Q - Augusto Ensiki {BIO 15988025 <GO>}

Okay. Got it. And I'm sorry, just one last question if I may. Could you give us an update on the non-operating fleet that you still hold?

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

The non-operating fleet we still have some 737-300s that we are sending back. We expect by the end of the Second Quarter most likely all the 737-300s should be out.

Then we have the 767s, which they are now -- we had six. We have two that we have either subleased or are in the process with subleasing. So they will be down to four. And out of those four, we are using three for charter flights.

So basically, I think that it is a positive thing because without interfering in the domestic supply and demand we are using the 767s for long-haul charter and consequently we are generating -- we'll be generating revenues from this asset, which was not generating revenues last year.

Q - Augusto Ensiki {BIO 15988025 <GO>}

That's perfect. Thank you very much.

Operator

(Operator Instructions) Our next question comes as a follow-up from Caio Dias from Santander. Please go ahead.

Q - Caio Dias {BIO 21849043 <GO>}

Hi. A couple more questions. You mentioned the 767s, the three that will remain in your fleet after you return a few of them now in the beginning of the year -- will be used for long-haul routes. Are you talking about new routes to the Caribbean?

And how are the routes to Caribbean performing so far? Do you believe it was a good strategy to start to fly to this region?

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

Yes Caio, it's Junior speaking. Related to the 767, we expected to do some charter flights, not regular flights with them. We are arranging the seats -- or the aircraft with 250 seats to work specifically for charter flights.

We have been dealing with the two operators in Brazil to do that and we are expecting to do flights between Brazil-US, Brazil and Europe. And also during the World Cup we'll do some charters to South Africa. So that is the expectation now for these three aircrafts.

And also, we have possibility to continue the charters between Sao Paulo and Cancun that we launched in December 26. And also charters between Buenos Aires and Porto Alegre, working with two operators from Argentina as we did also during January and part of February that we were working very well.

Related to the Caribbean new destinations, all of them are performing like we were expected in terms of increasing our revenues, productivity. A large portion of them are charter weekly flights. And it's allowing us to increase our load factor and revenues on certain routes like Caracas. And also to increase our (inaudible) during the weekends.

But all of them have been very successful and the two operations who will charter these flights are very excited with the results. And confirming that, they have interest to continue this kind of partnership.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. And regarding infrastructure, again, there's a very intense news flow on the potential new construction works to expand the airport in order to attend to the demand we are forecasting for the World Cup and Olympic Games. However, it looks like the process is delayed.

What's the latest status of the investment in infrastructure in order to solve the bottlenecks for the World Cup and the Olympic Games? What is feasible to -- what can we assume will be done until the World Cup, for instance, which will happen in four years?

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

Yes, look, Caio, I will try to give you an update. But we are following that. INFRAERO and the government has a lot of initiatives related to that. We see that there's a new group linked directly to the central government in Brasilia, to develop studies and solutions for the airport infrastructure for 2014.

We knew that the bid for the project, for the third terminal in Guarulhos were approved. So soon probably we'll have -- we'll see the project already. And probably the government will decide how to work and build this terminal soon.

The terminal and the airplane packing area in Guarulhos Airport, what is an important improvement or important movement from the government. So the news are related to the third terminal in Guarulhos Airport.

Out of that, we are just seeing that a lot of ideas, a lot of possibilities but not defining yet how to do it, how to improve our airport infrastructure until the World Cup.

Q - Caio Dias {BIO 21849043 <GO>}

Okay. Thank you.

Operator

We have another follow-up from Natalia Laclava from Credit Suisse. Please go ahead.

Q - Natalia Laclava

Yes, I was wondering if we assume that the cost of the six 767s you had is like BRL100 million, what would be the cash savings you would have by doing the sublease of two and the charter with three? Like what would be the saving you have doing this?

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

With the charter aircrafts, we are working to pay this rates and other costs related to the aircraft. When we talk about the subleased aircrafts, we have some cost difference in that. I don't have conditions to tell exactly what is the different right now.

But there is a real difference. That means we sublease the aircrafts at lower rates than we are paying our lease rates. But that -- there is an incentive to help us to really reduce our expenses and our cash out related to the 767s.

Q - Natalia Laclava

Okay. I remember last year you mentioned that all the 767s -- at the time, it was seven -- I remember mentioning to you that if you get rid of all the seven you would save 1 cent per ASK in your CASK.

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Can I assume that, given the fact you still have one -- the charter is not the same cost saving you have in the subleasing. So can I assume that BRL0.50 is reasonable to -- as a cost saving?

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

I prefer to say that we -- I will ask Rodrigo to make all the comments and tell you something more precise.

Q - Natalia Laclava

Okay.

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

It's interesting that for sure we will have some reduction in our cost as we will dilute these lease rates through high aircraft utilization. And we will see the numbers in both way, that means we will fly more; we will dilute the fixed costs; and even we will be able to increase our revenues and make some money.

We have to observe that the charter flights probably will not see the same productivity every month. We are not talking about regular flights. But we are confident that we have -- the market is increasing or the market is demanding for new aircrafts or new flights and we are confident that we will be able to maintain a good level of productivity. But we will see some variation from one month to another.

A - Rodrigo Alves {BIO 16461207 <GO>}

Natalia, just a comment on the -- one of the points is that these contracts, they are not for the whole year. They have periods from four to six months. The good side is that, as Junior said, is that the demands for the charter flights are positive; and this is a good way out to reduce the costs or even to take them out in the year.

But it's important to highlight that it's not the final solution because the contract does not cover the full lease contracts. So we are working towards to have more and more of these chartered flights because we understand it is a way to reduce cost. But it's tough to say that we are taking out all of the \$500,000 per month that they cost in terms of lease. It is clear for you?

Q - Natalia Laclava

Yes, yes. It's clear. It's clear. But is there still a sign that you could reduce your costs, right?

A - Rodrigo Alves {BIO 16461207 <GO>}

It's a good sign. But we don't want to mislead the market and say that everything is solved, right?

Q - Natalia Laclava

Okay. Thank you.

Operator

Ladies and gentlemen, there are no further questions. This concludes the question-and-answer session for today. At this time, I would like to turn the floor back over to Mr. Constantino de Oliveira, Junior, for any closing remarks.

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

Thank you very much for your audience. We have been working hard to make Gol a better company for flights, for to work and to invest. So once again, thank you for your audience. Have a nice day.

Operator

Thank you. This concludes today's Gol 4Q '09 and 2009 Results Conference Call. You may disconnect your lines at this time and have a good day.

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