

Q1 2010 Earnings Call

Company Participants

- Constantino De Oliveira Jr., President & CEO
- Leonardo Porciuncula Gomes Pereira, CFO
- Rodrigo de Macedo Alves, Head of IR

Other Participants

- Caio Dias, Analyst
- Jim Parker, Analyst
- Natalia Laclava, Analyst
- Nicolai 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's 1Q 2010 Results Conference Call. Today with us, we have Mr. Constantino De Oliveira Jr., CEO, 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 the 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 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 Jr. {BIO 3888521 <GO>}

Thank you. Hello everyone, thank you for joining our First Quarter 2010 results conference call. Before discussing the presentation, I would like to recall that 2010 is GOL's 10th year of operations. We completed nine years back on January 15, 2010 with a continuing mission of popularizing air transportation in Brazil, providing low fares in stimulating an addressable market of around 19 million (up) at the time. And today with more than 130 million passengers.

I believe that although we have transported almost 140 million passengers during this period, many of whom first time fliers, extending the aviation market in Brazil and Latin America, we are still operating in the most promising market worldwide.

We still have a lot of clients to add to our industry, new products to launch to the current and future customers. And a market position that drives growth beyond the low cost and low fare concept in terms of customer service, innovation and quality of service to reach our main objective, that is to close the profitability gap versus the top airlines worldwide. And continue to be one of the fastest growing airlines. In terms of quality results in the next years, at least until we reach the target position.

Moving to slide number four on the presentation, we give some color on our recent developments and what investors can expect from the company in the short and medium terms. Our focus on our competitive strength and in our strategy of improving the RASK and CASK spread. This slide shows that our low cost structure has been improving, driving the cost to transport each passenger to decline over 23.2% versus 2008.

Moreover, the majority of the key drivers for the total cost reductions are still to be concluded, such as the return of all 737-300s, benefits from operating our young and standardized next generation 737 fleet. The expansion of our maintenance center occurred in March 2010. It will allow us to increase in-house maintenance. And therefore to reduce costs, industries' agreement to cease commissioning of travel operators in domestic flights. This is particularly important for GOL as more than 90% of our sales are made through the internet, what is huge advantage of compared to the store and global distribution systems based sales model.

The First Quarter was the first to show such encouraging benefits. Other point is the better productivity, higher fleet utilization and few additions are expected with the rollout of several initiatives. And of course such as our average (fleet) age to achieve (inaudible; technical difficulty) 5.8 years. And the installation of GPS landing system, electrostatic painting and other initiative projects that together will help the company to become more and more fuel efficient.

The good news on the slide number five is that revenues are behaving on the opposite side of costs. Our revenues per kilometer (flown) or RASK improved compared to 2009. And dropped very slowly compared to 2008. Considering that our ancillary revenues are still to mature. And 2010 is the year to deploy a vast portfolio of new products. We can

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conclude that we will be able to develop our simple strategy including RASK, while decreasing CASK during the next quarters.

The latest developments on the revenue sides were the new destinations we started during this quarter. Punta Cana and Santo Domingo is now regular flights after almost 12 months of charter flights between Brazil and that place. And Bauru at the domestic market, a medium sized city in the interior of Sao Paulo in order to get (greater) more passengers from this region and have them distributed in our route network.

Our efforts in the cargo business were also intensified. This month, we hired a new (off-truck) to manage Gollog, our cargo service. And in addition, we will be able to come up with new airport facilities in Guarulhos and Congonhas in this year of 2010. They will help us to increase sales volume besides bobbing our ground distribution capabilities to more than 2000 cities by the end of this year.

SMILES is still growing fast and strongly contributing to our ability to attract business clients. And the most recent events to contribute, which such plans are described on the next slide, number six, where we show more details on the current side of what we call the GOL Alliance. With our recent agreement with Delta Airlines, our clients have more flight options in and out of Brazil when compared with any other airlines in the world.

Our partner airline (Marco) is funded to 67% of all passengers transported in and out of Brazil to the USA, which corresponds to 41% of the total international passengers. And 35% of the ones transported between Brazil and worldwide. GOL holds the largest route network in the region. And the SMILES cardholders now we will also enjoy the largest distribution systems available to any Brazilian (inaudible) program. And we are still going to announce at least two additional partnerships in 2010.

There is no doubt that this is very attractive to business clients, however we are still to enjoy significant feed from these partnerships, as we still need to conclude IT integration with these partners. And what is expected to accrue by the end of 2010. As a result, GOL will finally benefit from this strong international sales channel. And become the main distributor of these airlines in Latin American region.

On slide number seven, we show the strong development on our operations and customer service. We really believe that our task to generate higher margins, to increase RASK, while decrease CASK, has a key driver, high quality of service. We spend a lot of efforts to improve our operations, since we could finally benefit from GOL and VRG merger back on Fourth Quarter 2008. And these figures are very positive. And are the main reason for our better recently performance.

However, we believe that we can do much more. And this will be done through innovation and simplicity. Under the innovation side, based on the final rollout of our new projects that we add comfort and quality to our service. The introduction of Buy on Board service in Brazil last year, we reached close to 50% of our daily flights by the end of this year. This will provide flexible on-board service to our clients without adding a penny into our cost structure.

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The wireless on-board entertainment system would finally (inaudible) and especially for the industry, how to add on-board entertainment without burdening cost structure with hideaway cables, screens, additional maintenance costs and et cetera. Adding simplicity to the airline business is also something that made GOL very well recognized by its clients. And is something that we really focused our efforts.

One-stop-Shop through the web looks much more like an innovation. But before reaching the flight time, close to a 100% of our interactions with our clients are made through the internet or in special case through our call center. From booking to checking, cancellations, rebooking, miles redemption, et cetera, GOL was the only airline in Brazil to offer such simplicity to customers. And of course it has been building a lot of value since our start-up.

Punctuality and regularity is also part of the simple package of service that makes all the difference to the client. And needs very strong logistics and coordination to reach and maintain the operations in high levels, as we have reported in 2009. A good example were the strong rainfalls occurred during this last summer. And impacted almost a 100% of the 1Q 2010. Airports closed, clients were delayed to reach the airports on time and many other issues really tested of the resilience and quality of our operations. I believe that we passed the test. And of course we then find ways to further improve in the system.

To conclude, I would like to say that in this quarter, we finally reached our double digit operating margins again. And this was driving by the work we made in the past 18 months, that are also reflecting in the expansion of our competitive advantage, such as lower operating costs, strong portfolio of products and high quality of operations, combined with our high frequency network, young and standardized fleet, maturation of the new products and partnerships. And focus on profitability, we would, sorry, we would be able to reach much more.

Thank you. And now I'd like to open the floor to Leonardo, who will comment on our result and strategy in more details. Please, Leonardo.

Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Thank you, Junior. Good morning everyone. It's a pleasure to be here to discuss the First Quarter results. I will start highlighting a couple of things. So we can move quick to the Q&A. On slide nine, we would like to highlight how we dealt with the capacity and demand issue. If you look on the left hand side, you can see that GOL has increased its capacity by 21.4% in the last 12 months. And the industry also out did its capacity by close to that.

On the other hand, based on what we have done in terms of improving the customer service, improving our efficiency, our demand has grown by 38.4% in the last 12 months. And the industry's demand has grown by 32.7%. So thanks to a very favorable scenario in the country. But also due to our internal efforts, we have managed to improve demand better in the end.

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Moving to slide 10, I would like to highlight a couple of things. First of all our yields, as we have said, they are moving up gradually. But this is not the most important thing for us. The important thing that we are highlighting is the (strike) between the RASK and the CASK, which has allowed us to deliver what we have been saying all along in the last 18 months.

We want the company to grow its EBIT margins to operating results. And last year we have a target of 6%, this year we have a target of reaching between 10% and 13%. And we want to increase it on in 2011. So our objective is that most likely we will be the company again in 2010 that will be growing EBIT margin on relative terms, by far the number one in the industry. In terms of -- I'm assuming that this is very important in terms of (aircraft) utilization. In the Fourth Quarter, we flew 13 hours versus 11.3 hours a year ago.

Moving on to slide 11, just in the formula of the results, very focused on revenues growing, we are also focused on ancillary revenues. We have, just as Junior mentioned, restructured our cargo business. And we are very much obsessed, continue to be obsessed with our cost control. Our EBIT margin consequently is at 11.1%. And our EBITDAR margin is above 23%.

We had, as we have mentioned, effects impact in the quarter. And this also impacted the net income. However, we are doing a lot of other things -- is that expense in the balance sheet in order to deal with the volatility that you have in the FX and the oil markets.

Then moving onto the next page, we see a little bit of what I've been saying. We have been -- our cash levels to net revenues are up to 24%. And I'm glad to also to announce that we have made a decision internally that we want it not to be above 20% anymore. But we are raising the bar and we want to have cash levels by the end of the year, which would be above 25% of our net revenues. In other words, we want to make sure that the company has a very strong cushion to deal with the external factors that sometimes are not controllable.

We will continue to deleverage the company, our total adjusted debt to EBITDA is lower than in the Fourth Quarter. And we continue our efforts to bring it down to around 4.5 times. Our (perverse) income of -- I'm sorry, our net debt to EBITDA is down to 1.4 times.

Moving onto the next slide, I'm talking about the focus on RASK and CASK, which this is the main thing we would like to again just amplify, is if you look at the yields. And there is a -- clear correlation between yields and low factor. We have demonstrated that we can work with lower yields. The important thing is that we manage well the RASK and the CASK. So the spread RASK and CASK is going up. And most likely will continue to go up. And what we will be doing, we will have a higher -- continue also to have a higher aircraft utilization rate, because that's how we can dilute our fixed cost on an ongoing basis. Those were my comments; we are now open for Q&A. Thank you.

Questions And Answers

Operator

Thank you, the floor is now opened for questions. (Operator Instructions) Our first question comes from Nick Sebrell from Morgan Stanley. Please go ahead.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Good morning, gentlemen. I was wondering if you could talk a little bit more about the FX situation, any possibility of -- or if you could explain your FX hedging policy, if you might institute a policy to hedge for FX swings? That's the first question.

The second question, if you could talk a little bit more about the SMILES program. I think it's very interesting the partnerships that you're doing. And I was wondering if there might be an opportunity to realize value from the SMILES program, vis-a-vis what other companies have done in the market with spinning off part of their frequent flier business. Then if you could also talk just a little bit about what does IT integration require with some of your partners. So that you can realize greater benefits from those international partnerships?

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Okay, the first question was about FX. We have a policy, a very consistent policy of hedging FX in the short-term. As you know, that we have oil exposure to FX of between 50% and 60% of our cost, however we also have noted historically that there is correlation between -- an inverse correlation between FX and oil. So we hedge our oil exposure for the next 12 months on an ongoing basis at a minimum of 20%. We have triggers to improve -- to increase this level to 30% if the oil reaches a certain level. And the FX we are now covering for the next 120 days. So it's a mix of oil hedge and FX hedge.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay.

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

One thing that I also would like to highlight, although you didn't mention. But it came to mind, is the interest rate hedge. Most of our leases now are in (inaudible) ones that we made in the last 12 months, are fixed rate for 12 years. So we had a very attractive rate slot for 12 years. Your second question was about SMILES, right?

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Yes.

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

We -- I don't think there is a right or wrong solution here. I would have different models. And what we see today. And what we are doing, we have been (inaudible) SMILES in a very consistent way. We have over a 150 partners that we have revamped since we

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acquired SMILES. The number of active subscribers is going up. We have notes that SMILES helps to push the traffic. So we have today, in my view, a very strong brand, a very -- I did accept a lot of potential.

How we are going to evolve in the future? I think it's a bit premature. We have been discussing this internally. We still have a couple of questions that need to be answered, because as I said, there is no right or wrong. We have to see what's better for us. And what's going to ultimately generate more value for the existing GOL's shareholders? But this is the most important thing that we are concerned.

We want to make sure that SMILES generates and supports those growths. We are not making decisions here for the next quarter. We are asking ourselves how we can make great value for GOL's shareholders in five years from now. Because as we believe that this is such a market, such a huge potential. And we have -- we want to be in this market to stay. We have to be very cautious how we make those decisions.

We are not shy of discussing this. We have to -- I'm happy that you asked -- we have to give one more information about SMILES. It's growing fast and we understand it's an important component of shareholder value for our investors.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Sorry to interrupt. But how many active numbers you have now in SMILES, as opposed to just total numbers?

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

It's about 2.2 million or so, okay?

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Okay.

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

On the last question about the integration of systems, the investment that needs to be done is not material. What we have been doing, as you know, we use Navitaire, then we have upgraded consistently Navitaire, the Navitaire versions. We understand that the next version that will come in the next few months. And we still are not disclosing the final date -- we will have many features that will allow us to be much more efficient in that area that we just mentioned, which is the integration with our partners. Okay?

So I'm sure that in a year from now, we will be much better positioned in that regard; having said that, I would like to emphasize that we are already getting very good results from those partners. We are seeing, for example, that in with one of our partners, last month there were 6000 SMILES holders that exchanged miles to fly international routes. So this is thing is working and we are happy. And we feel that in our case, again what's good for us is to continue to strengthen these partnerships with different airlines.

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Q - Nicolai Sebrell {BIO 7321622 <GO>}

Excellent. Thank you very much.

Operator

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

Q - Jim Parker {BIO 1506864 <GO>}

Good morning, Junior and Leo. I know it's a long ways out, meaning 2011. But I'm curious, your thoughts on potential capacity growth for GOL. And how you might achieve this. And in particular, number of aircraft coming, which would be a portion of that, the increase in the fleet. Then secondly, your utilization is at 13 hours, which is pretty high. How much more can you increase utilization? So in that context, just some thoughts about how you might grow capacity in 2011. And what the magnitude of that capacity growth could be?

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Jim, hi, it's Leo starting. And then Junior may complement it. Look, as it is right now, as last year we showed the fleet plan, right. And with the (outlook), the conditions for this fleet plan is that Brazil would grow at 3% to 4% a year in the next few years, right? Remember when we made this announcement, the economy was still starting to recover. There was a lot of uncertainty. So the first thing that we say, okay, if demand grows, good space for more efficiency, more productivity, that's what we are doing. On the other hand, you cannot ignore that apparently the economy is not growing at 3% to 4%. The economy is growing at 6%. Sometimes, at some cheaper or even say that we may grow at a higher rate.

So we have to continue reassessing this. And that's exactly what we are doing, because if we have a situation that the economy grows by 6% in the next three, four years. And then you have the World Cup, the Olympics, it seems that we'll support this type of growth. We will have maybe to review this fleet plan. What I can assure you that if we do, we'll do in a very cautious way, okay, because we understand that one of the key success factors in this industry is to manage capacity.

I also would like to highlight that last year was very positive for us, because one of the things that we learned how to do was to send planes back. I don't know if you remember. I think we discussed that at the beginning of the year when the economy was not doing well. And the outlook was very unclear. We managed to structure deals where we sent three planes back.

So I think the most important thing is two things. First, our capacity to analyze and be cautious when we make those decisions, second is our ability also to bring planes in and it's necessary, not to be shy in sending planes back. We have an asset that had a very good value, which is the 737-800. And the 737-800 Short Field performance, I will be speaking to alter this asset. So the majority of our planes are going to be 737-800 and 737-800 SFP.

You know that we buy those planes at a very good price. So I think if we continue doing what we have been doing, I think we will have a very competitive position in the market, we'll not lose our competitive position. And at the same time we will be less prone to make mistakes in how we manage our capacity.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. But what I'd like to know, is there's some range of capacity growth that you are looking at, what is the range? And you can bring in, say, additional aircrafts. So how many aircraft do you have access to in 2011? And your utilization is 13 hours per day, can you increase that to 14, or I'm just trying to get some idea of the magnitude of capacity growth that you could achieve if the economy is strong. So what's the range there?

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

Yes, Jim, here is Junior speaking. As I said, in terms of aircraft utilization, probably we can add one hour more, no more than that. And in terms of fleet, we announced our fleet plan for 2011 is to finish the year with 115 aircrafts. What's the flexibility, how much is the flexibility or how is the flexibility we have?

In 2011, we have plans to return something like -- and I can be more precise later. But we have plans to return to the ledgers, something like nine aircrafts. So we have the flexibility to keep these aircrafts in our fleet if that's the case or even to go to the operational lease market or to the lease market and ask for new aircrafts. When I talk about or I said about nine aircrafts that we have already in our fleet. And we have plans to return this aircraft. And we can keep our aircraft age young, something near to five years on the average.

But again, the flexibility for us or probably the cheaper choice is to take these aircrafts in our fleet. But just to reinforce what Leo said, we are very (disseminated) in terms of acquiring new aircrafts or even add capacity to the market without the correspondent growth on the demand.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. Thank you.

Operator

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

Q - Natalia Laclava

Okay, well, I have three questions. The first one is, we saw an important reduction in the (oil) expenses, I was wondering if this is the new level going forward. And if the reduction in doubtful accounts is really something that you think is going to last for longer? My second question relates to salaries. You mentioned in the release that one of the reasons for the sequential increase was the lack of -- sequential decrease, sorry, was the lack of provisions for profit sharing. Does that mean that we are likely to see this number increasing in the Second Quarter when you're going to do the profit sharing provision?

And my last question is on the Second Quarter. I wonder if you could explore how are things outlined for the Second Quarter. Your strategy was to keep you somewhat flat or slightly up and stimulating demand and reducing your cost. I was wondering what is the strategy for the Second Quarter, anything you could comment on your expectation for demand, prices and cost would be helpful. My idea is just to have some color on, to what extent margins could go down and your strategy? That's it.

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A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Okay, the first question about sales expense, I don't see any major things that will influence in relative terms. We have become, as a matter of fact, even more efficient in creating new distribution channels. I would say that some of our new distribution channels are even more efficient that we initially anticipated.

Second, about the salaries, maybe it was not clear in the press release. But that has been traditionally our policy. We are not -- we don't make provisions for profit sharing in the second half. We only make provisions for the profit sharing from July on. So because as we all know, the second half of the year tends to be stronger. And that's when we can feel very comfortable that we will be achieving our results.

And the last question was about the Second Quarter, right, which is a quarter that is traditionally weak. We will be releasing our traffic figures for April tomorrow. So that will give then a better flavor of where we are. But we continue our strategy, which is to create demand. Of course, the type of demand that you have in the Second Quarter is different than in the First Quarter, because the latter, business tends to come down.

Q - Natalia Laclava

Okay. Thank you.

Operator

Our next question comes from Caio Dias from Santander, please go ahead.

Q - Caio Dias {BIO 21849043 <GO>}

Good morning, Constantino. Good morning Leonardo. My first question is specifically regarding the depreciation expense. In the press release, I noted that you have changed the accounting for the depreciation of the engines, which resulted in a much higher depreciation expense in this quarter. So depreciation per aircraft going forward should remain at this level. And is it right to think that if you had not changed the accounting, your operating margin could be around 13% in the First Quarter? And my second question is regarding the status of the return of the 767. So what is the current status of the negotiations to return some of these aircraft?

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Okay, let's start with the depreciation. You are right, there was a change in how we accounted the depreciation, if we didn't have that change, the margin would have been

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higher. So you can expect, from now on, a higher depreciation, okay, because as we explained, we have now to depreciate the maintenance of the engines in a different way.

The second question was about the 767. And I just want to remind you that the effort that the company did in bringing the 767s from 14, then to 11, then to seven, now to six, what -- we could eventually continue to negotiate with lessors and have an early return situation for the remaining 767s. Or we could do, as we have done with two of them, do a sub-lease or a wet-lease as we had discussed last year.

However, because there was a change in the economic situation, a positive change, we've spotted an opportunity to develop the charter business, the long-haul charter business without impacting the domestic capacity, okay? So we are deploying the 767s in long-haul chartered flights from Sao Paulo to Cancun, from Sao Paulo to Florida, from Sao Paulo, now in the World Cup, to South Africa. And from Argentina to other places.

So we are basically taking the opportunity of having a temporary business. And having a higher return for the 767 than what we would have if we had kept them grounded, or if we still had to sub-lease them or negotiate an early return with the lessors, okay?

Q - Caio Dias {BIO 21849043 <GO>}

GOL intends to operate these long-haul routes directly or the aircraft will be sub-leased to other airlines to operate them?

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

No, charter, how you operate charter? You kind of sell, quote-unquote, the plane to a travel agent. So the risk is taken by the travel agent.

Q - Caio Dias {BIO 21849043 <GO>}

Okay, excellent. Thank you.

Operator

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

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning gentlemen. Just two or three questions for me; the first is, when I think about the year-on-year reduction in non-fuel CASK for the First Quarter of 2010. Can you possibly isolate what percentage of that came from foreign exchange movements alone, as opposed to particular initiatives you might have undertaken?

Also, looking at your frequent flier program, maybe a follow up on Nicolai's question earlier, as opposed to selling a stake in your frequent flier program, you guys have, from time to time, sold frequent flier points at probably high margins. And I'm just getting a sense as to your thoughts as to selling points going forward to Bradesco or other entities

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out there, that might want to buy them. And whether we could expect this to be a somewhat recurring event in your ancillary revenue stream?

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

Hi Steve, this is Junior. I'll talk about the SMILES then I'll pass onto Rodrigo. So he can talk about the CASK (inaudible). The SMILES, I think you are right, this is a recurring business, because the moment that you have a 160 partners. And they all are successful companies, being banks or being hotels or being car rental companies, they will have to buy miles from you in advance. So they stock the miles. So they can give the miles to their clients.

So the moment that we sold, for example, as you've said, the miles in advance to Bradesco and Banco do Brasil last year, they will be using those miles, right through a period of time. And eventually they will need to buy miles again, the moment that you have a very high number of partners. And so that's why it's so important to have a very good portfolio of clients.

This business becomes recurring, because it's like it's almost every month you have someone coming and buying miles from you. Of course, the transactions may not be as big every month as we had with the banks, because you know the credit card component is very important in this business. But you created another annuity in terms of revenues, okay?

Q - Stephen Trent {BIO 5581382 <GO>}

Great. And with respect to the margin on that, if I compare the margin of the sales of mileage points, obviously there is no associated cost as you have with core passenger business. You're not having to cover pilot salaries or jet fuel when you sell mileage points. So if I compare and contrast the margin on those versus the true underlying margin of your passenger business, is it fair to say then that the points of SMILES sales are occurring at maturely higher margins than your core airline business?

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

Hi Steve, this is Rodrigo. You are right, however not under this rationale. The rationale that improves the margin is the fact that you sell additional seats when the client actually redeems the miles. This happens because you don't have the miles that you sell in advance, directly recognized as revenues. They are actually a liability in one hand. And cash on the other hand --

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

In the first moment.

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

In the first moment. And only when the client really redeems the miles, is the time that you recognize the revenue. So in order to reach the higher margin, it would only be feasible if you're working above breakeven load factor. Then you have the marginal cost

way below, of course, than the revenue that you get, that of course is not as high as the business sale. But the number of miles we charge from the client in order to have them redeemed miles, provide you a significantly good yield, I would say, that it's higher than the lower yields we get.

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Yes, because conceptions revenue, Steve, you are right, because the cost that's associated with the SMILES is different, right, because what you're using is you're using a seat that otherwise would be empty, right? So you have to take that into account. So the type of margin that when you recognize the revenue, is potentially -- more is incremental and positive for the company.

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

Oaky, you have two stages. The first stage is when you sell it in advance. And then you don't recognize its revenue. And when the clients really fly and you are able to expand the load factor, then when you get the additional margin.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great. And if I could maybe get some color on my non-fuel CASK question. And then I'll let somebody else ask a question. Thanks guys.

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

Right, Steve, our ex-fuel cost is roughly 40% dollar denominated.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. So I can assume in that case roughly 40% of the delta versus year ago is pure FX, movement?

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

That's right.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Great.

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

And the other part, we consider to be the high utilization rate.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, I'll let somebody else ask a question. Thanks guys.

A - Rodrigo de Macedo Alves {BIO 16461207 <GO>}

Thanks.

Operator

Our next question comes from Thiago Macruz from BTG Pactual. Please go ahead.

Q - Rodrigo Goes {BIO 6232382 <GO>}

Hi guys, this is actually Rodrigo Goes, just a quick question to see if you could get some color on operating performance during the month of April or quarter-to-date? We know it's a sort of a challenging quarter from the standpoint of seasonality. I'm wondering how RASKs are holding up, how margins are holding up during the quarter, if you could give us some color on that regard, it'd be great.

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Rodrigo, we are releasing our traffic figures tomorrow before the market opens. I saw what you wrote this morning. So it's -- you right the Second Quarter is seasonally weaker. But we are expecting to have, in the context of the quarter, to have a positive quarter. And you'll see that when we release our traffic figures tomorrow, okay? So there's nothing much different than what you stated this morning in your write-up.

Q - Rodrigo Goes {BIO 6232382 <GO>}

In terms of my projections for profitability during the quarter, is that --?

A - Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Yes, from an operating margin point of view. We know that First Quarter is good, Second Quarter tends to be weaker, then the second half of the year is usually better. You have the (inaudible; multiple speakers). And then you have the last quarter. Okay?

Q - Rodrigo Goes {BIO 6232382 <GO>}

All right, thank you Leo.

Operator

Any further questions, sir? (Operator Instructions) Our next question is a follow-up from Nick Sebrell from Morgan Stanley. Please go ahead.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Thanks for taking my follow-up. Could you talk a little bit more about the programs that you're launching to help attract business travelers? You mentioned during the presentation, I thought it was interesting, that on-board purchase food, that seemed to be something that maybe business travelers find attractive. Then also, when you're looking at expansion, what percentage of your new traffic, as you look forward, maybe thinking about next year, do you expect to come from new destinations versus existing destinations?

And what percentage of your travelers, your passengers make connections through your hubs? So when thinking about, for example, expanding to cities and interior of Sao Paulo like Bauru, is that a move where people are primarily going from that city to Sao Paulo? Or is it primarily that all those people are going to other places and just connecting?

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

Okay, Nick, it's Junior speaking. Regarding the initiatives to stimulate the business travelers, a lot of them are related to the number of frequency on the important markets for this type of traveler that goes Sao Paulo, Rio (inaudible) and part of the country. The relative utilization of the SMILES program, the SMILES program. And the (installation) of that with our partners, international partners like Flying Blue from Air France. And Air Advantage from American Airlines. That helps a lot, because we are providing to our customers the possibility to use their miles to travel international. And there is a lot of operational things related to that.

Other point is related to our lower cost structure that allows us to provide to a large corporations or sensitive price or cost-by-cost sensitive corporations, the lowest fare in the industry. And also, the initiatives related to keep our operations on a high quality basis related to punctuality and regularity also helps GOL to recover or to build the confidence with this sector. And with that, we have been able to grow or to stimulate the business travelers. You asked about another question related to next year in terms of connections and new destinations. We are not expected -- sorry?

Q - Nicolai Sebrell {BIO 7321622 <GO>}

No, yes, I was just saying growth generally in terms of new destinations versus connections -- not connections, excuse me, existing destinations and new frequencies?

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

We're not expected to launch large number of new destinations for this and next year, probably one or two new destinations in each year, most of them domestic. And we are talking about markets in the interior of the country. But the large portion of our growth will come from the established flights or destinations with new flights and large aircraft flying to the same destinations.

In terms of connections, we still have, in our network, in our planes, almost 40% of our passengers are doing connections or passing through some destination. With that, we do a kind of multiple hub and ports or directional hubs in Brazil. We do that in many of our destinations where we allowed our passengers to really have large options, large number of options of connections.

So this number is relatively stable since we start our operations. But we are always following the passenger need. That means when we see that there is demand for the next flight, for some destinations we do that, where we try to reduce that. And that helped us to reduce cost and to provide a better service to our customers.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Thank you, Junior.

Operator

Our next question is a follow-up from Stephen Trent from Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Morning again, gentlemen. just one other question for me, if I may. As I think about your medium-term development and your passenger mix now, let's say business versus leisure, can you give us some broad color as to what you think might be this mix, let's say, three years from now, if it can be the same percentage of business versus leisure, if it's going to be more leisure? And if it is more leisure, are you counting on this sort of picket payment by installment to boost leisure travel? And I'm wondering how you're thinking about this in a rising interest rate environment? Thank you.

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

Stephen, it's Junior again. Related to the balance between business and leisure, today we have to do a new survey. But we see that is still 60%-40% and something like a little bit more than 60% for the business travelers. And 40% for leisure. The tendency for that balance is to see the leisure growing, the leisure pleasure portion growing in the next few years. But we have to pay attention on the economic growth, which stimulates also the business travelers. In this sense, probably we will not see a dramatic change on the next few years in this balance. But the possibility to see the leisure side growing faster than business is very real, I can say. But again, nothing dramatic.

Related to the way that we will stimulate demand from the new middle class or newcomers for the actual (portion) (inaudible) will have a plenty of number of initiatives in different areas. When I say different areas, I'm talking about immigrants, people that move from one city to another, to people who studied in university or even have a lot of contact with the internet, who (loan) house or something like that.

A large portion of these initiatives is related to the way we would make easier for these people the access to the tickets. But we are not talking about taking more risk on the installment program, we are talking much more about giving them more flexibility to even say a little bit more in (inaudible), reduce the risk for GOL and travel and use the benefits on their travel after they have paid already a large portion of their tickets. So with that we will give to these clients much more flexibility in terms of installments and we will be able to stimulate demand. At the same time, we will reduce the risk for GOL on this kind of finance provider.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Thanks Junior.

Operator

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

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

Once again, thank you very much for joining us during this presentation, hope to see you next time to show you that GOL is still one of the best airlines to invest. And to travel with. Thank you very much.

Operator

Thank you. This concludes today's GOL 1Q-10 Results Conference Call. You may disconnect your lines at this time. And have a great day.

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