Q4 2010 Earnings Call

Company Participants

- Constantino de Oliveira Junior, CEO
- Leonardo Porciuncula Gomes Pereira, EVP, CFO
- Rodrigo Alves, Capital Markets Officer

Other Participants

- Alexandre Amson, Analyst
- Eduardo Couto, Analyst
- Isabela Bacchi, Analyst
- Jim Parker, Analyst
- Nicolai Sebrell, Analyst
- Ray Nigel, Analyst
- Richa Talwar, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to GOL Airlines 4Q '10 results conference call. Today with us we have Mr. Constantino de Oliveira Junior, CEO, Mr. Leonardo Pereira, CFO. And Mr. Rodrigo Alves, Capital Markets Officer. We would like to inform you that this event is recorded and all participants will be in a listen only mode during the Company's presentation. After GOL's remarks, there will be a question and answer session for analysts. At that time, further instructions will be given.

(Operator Instructions)

Today's live webcast including both audio and slideshow may be accessed through GOL's website at www. voegol.com.br/ir and the presentation is available for download at the website. 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 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 will turn the conference over to the CEO and founder, Mr. Constantino de Oliveira, who will begin the presentation. Mr. Oliveira, you may now begin your conference.

Constantino de Oliveira Junior {BIO 16843720 <GO>}

Thank you. Good morning, everyone. And thank you for joining our Fourth Quarter 2010 results conference call. Let's begin with slide five, which shows our first ten years of operations completed on January 15, 2011. Where it surpassed at over 160 million passengers, being more than two million passengers transported in the first year of the Company in 2001 and approximately 4.9 million passengers in its second year. During this period, GOL offered a series of new services and entered into several partnerships, expanding relations with customers and assuring their satisfaction so that we will become the first airline of choice.

In an exceptionally healthy environment, market by year on year domestic aviation demand growth of 23.5%, an improvement economic scenario in Brazil and South America as a whole, especially from the consumer confidence point of view. And the expansion of the newest emerging class, leading a greater number of people to opt for air transport, GOL played a crucial role, offering the Brazilian population greater access to air transport on business or leisure trips, more frequent flights between the country's main airports, a greater range of service and benefits, innovation, safety, punctuality, regularity, with its low-cost structure. These factors are absolutely essential for our consistent growth plan.

Going to slide number seven, which shows the Fourth Quarter and full year highlights, GOL also strives to constantly improve its profitability and indebtedness indicators, focusing on great cost reductions, the continuous growth of revenues, customer satisfaction. And a strong cash balance. The Company closed the Fourth Quarter with a cash position equivalent to 28.3% of net revenue in the last 12 months, more than achieving its initial 2010 target of at least 25% of last of month net revenues.

The Buy on Board service was expended from 42 to 84 flights a day, thanks to excellent customer acceptance. And we entered into several new partnerships including interline agreements with Passaredo and Noar, adding new regional flights to GOL network, a co-share agreement with Delta and Qatar, both major global players . And our long-term strategic maintenance partnership MRO with Delta TechOps, Delta Airlines' maintenance division. In recent years, the sector has experienced a number of changes with a series of new entrants, mergers. And new inter-account agreements.

In 2010, the main highlights were the bilateral agreements and the Open Skies movement. These changes have led to a more competitive environment in the international market by opening up Brazil aviation markets to major foreign airlines. But these have ended up favoring the domestic market because the companies feed the local world network, bringing new passengers and increasing flight frequencies.

In this contest, GOL is exceptionally well positioned, thanks to its code share agreements with internationally renewed airlines that operate frequent flights in Brazil and (seats) abroad such as American Airlines, Delta Airlines, Air France KLM, AeroMexico, Iberia. And Qatar as you can see on slide number nine. These agreements together with GOL's competitive advantages, such as the highest flight frequency between Brazil main airports and its low-cost and low-fare model. Focus on the domestic markets have resulted in a strong alliance, what we call GOL alliance, which is fully prepared to face the challenge of the new aviation scenario.

On slide ten, we show the evolution of demand and the Company's capacity management versus the industry as a whole. GOL adds capacity in a responsible manner and at the same time as it increases the aircraft utilization rate. So that the upturn in supply end of the diluting fixed costs. We are committed to maintain the (complete) plan that is compatible with demand and do not intend to add more aircraft than the scheduled additions until 2012, at least.

The main factor that lead us increased capacity in this; -in the quarter, was the aircraft utilization rate, which increased from 12.1 to 12.9 block hours per day between Fourth Quarter '09 and Fourth Quarter '10. The expected -- we expect the nominal average yields to remain stable over to 2010, with a load factor of around 70%. Together with demand growth and the expansion of the aviation industry, our breaking performance plays a better role in the Company's day-to-day business.

On slide 11, you can see the punctuality and regularity index. The Company is always striving for the best industries in the market, aware of satisfaction of its customers and the need to continually improve its numbers. You can also see a comparison between our passenger complaints ratio versus the industry. And once again, the biggest low-cost airline in Latin America is scored better than its leading competitor.

On slide 13, you can see the Company's pillars, which forms the foundation for the continuation of its consistency investment story. GOL will remain focused on sustainable growth, exploring a potential market of 128 million who are capable of using air transport. But have not yet done so, thereby achieving even greater market penetration and ensuring that a larger number of people can fly for the first time. In order to do so, however, we must maintain our strong cash position and continue as the sector's most profitable airline.

Moving onto slide 14, where you can see the behavior of our margins up to our 2010 guidance. 2010 was the third consecutive year of delivering positive results with consistent results, operating profits, innovation. And great achievements. The Company also closed 2010, achieving all of its annual finance guidance announced at the beginning of the year. Since the conclusion of the GOL VRG merger at the end of 2008, the Company has followed a strategic plan focused on seeking positive results, with a consistent investment story.

GOL believes in the fact of continuous development, (followed) by three important events -- the Confederations Cup in 2013, the World Cup in 2014. And the Olympic

Games in 2016. This will lead to greater investments in Brazil airport infrastructure due to increasing demand. In fact, since Brazil's selection as the host country, new investments have been announced and the Company foresees an extremely promising future for the industry, in which it aims to become even more recognized and competitive and be the best airline to fly with, work for. And invest in.

However, as oil prices become more volatile, GOL clearly becomes more concerned about this performance. In this contest, it is worth noting that the Company project results for 2011 already emphasized just such an upturn in volatility. However, we remain confident that our results will continue to improve and we see no grounds for altering the scenario. GOL started as a low-cost and low-fare airline because it believed that such a model was particularly attractive in the Brazilian contest. Nowadays, with an emerging middle class and a booming economy, there is a great opportunity for the Company to attract even more passengers on business or leisure trips.

Finally, before giving the floor to Leonardo, I would like to thank our more than 18,000 employees, the (team of eagles), who are determined to ensure that we continue as one of the most profitable and rapidly growing airlines in the world and the country airline of choice. Our results in 2010 and the years ahead were only achieved and will only be achieved thanks to their dedication and I would like to thank this opportunity to thank each and every one of them for their commitment. Once again, thank you very much and I will now hand you over to Leonardo, who will comment our results and the strategy in more detail. Please, Leonardo?

Leonardo Porciuncula Gomes Pereira {BIO 1960081 <GO>}

Thank you, Junior. Good morning, everyone. It's clear that we had a very solid Fourth Quarter, certainly at 14% and at 25.4%, the best EBIT and EBTDAR margins respectively in the last few years of our history and definitely put us in a very different position vis-a-vis our peers. I just would like to highlight a few numbers that support this result on slide 16. If you look at the net operating revenues, they were up by 15.6% and total costs were up by just 7.3%. Although we have some increase in costs, most of them were associated with (cargo) costs or to events that they are not necessarily recurring, such as consultants for to introduce the SMILES system, the onboard service, the remote check-in. And the zero-based budget.

We have also higher salaries and wages. But due to the expansion of the workforce and mostly associated with people that are related to the operations. In other words, the administrative part of the Company is totally under control. So we -- as a consequence, our costs (of fuel) were reduced year on year and that is also important to highlight that we are -- our (capital) utilization rate closed in the Fourth Quarter at 12.9 block hours per day. That's 12.7 in the Third Quarter of 2010. So we have done what we said we would be doing, focus on costs, focus on productivity of the planes. And so it should be no surprise that we are delivering an EBITDAR margin of 25.4% in the quarter.

Going to slide 17, we kind of highlight here the main indicators. So if we start on the left-hand side, we are showing the EBITDAR and EBITDAR margin in the last five quarters. And we see how we've evolved to the 25.4% level. And if we compare to the Fourth Quarter of '09, there has been here a progress. And I was reading one of the analyst reports this morning. There is no doubt that this Company today is totally different than this Company a few years' back.

We managed to cope with the growth. We managed to cope with the challenge that we had with the integration of VARIG. And today we are -- we have a very efficient fleet. We continue to have an obsession with costs. We continue to have an obsession with productivity. And we continue being very cautious and prudent on how we expand capacity. And this is very important, even -- mostly now as we may be facing an event risk coming up in our direction. So looking at the CASK on the right-hand side and the CASK ex-fuel, you can see that we committed to continue addressing this. In the lower part of the slide 17, we show the evolution on the EBIT, which was 7.4% in the Fourth Quarter of '09 and now is 14% in the Fourth Quarter of '10. Then how we have, on the right-hand side, in the lower part, how we have evolved the revenues.

As a consequence of this stronger operation, we have the financial indicators on slide 18 and not only as a consequence. But as also, as the base to support this operation, we have a very strong and better financial indicators. If you remember two years ago, there was doubts about the liquidity of the Company and how liquid the Company could have and whether the Company was facing a liquidity risk. Today we have BRL2 billion in cash and are 28%, which corresponds to 28% of our last 12 months' revenues and covers close to six times our operations in the next -- our obligations in the next 12 months.

Also, our EBITDAR over interest expense is now 4.5 times. We continue to deleverage the Company. Just over a year ago, this ratio was close to seven times. Now it's at five times and we continue to have the objective of bringing it down to 4.5 times. And as I last mentioned, we have our short-term debt is very small compared to our cash levels. So I am -- I think we should be very proud in the Company to have a balance sheet that supports an operation that is growing consistently and prudently and focusing on efficiency.

On -- moving to slide 19, is also a summary that we have reached our all our financial goals in 2010. And one of these goals was -- the goals were three. One was to have higher cash balances. Second, to continue deleveraging the Company. And third was to eliminate any amortization within the next three years. And we have, basically, now only eliminate the amortization risk and the refinancing risk through 2015. Our big amortization now is starting in 2015.

Moving to slide 20, I just would like to highlight our hedge strategy because I think this has become a very important issue in the last few weeks. And I would like to say the following. What we have said in the last few years was that we were going to build a company that we would really improve the risks that we could control. And that's why we have built a strong balance sheet where today we have high cash balances, a Company that's more deleveraged than it was. We have a hedge that covers 20% of our fuel consumption for the next 12 months and there is a higher concentration in the first few months.

And we continue to have a very high obsession focus. So it's a combination, if our Company wants to be successful in this possible scenario of higher oil prices, of not only to have the fuel hedge. But you need to have a very high cash balances. You should have an adequate hedge that doesn't impact and cannot -- should not have an impact on your cash position. And you should have an obsession to keep costs, ex-fuel, very low because that's what gives flexibility to deal with an adverse scenario.

So I -- as a summary. And as I could summarize in a nutshell what the message that we want to deliver is the following. We had a very solid quarter. We -- and this is very good because this is a result of a strategy that we had that we knew that an event risk could happen and we wanted to be ready for it. And we feel very comfortable that we are well positioned to deal with an event risk in the next few months. So now just to finalize, I want to go to page 23, where it shows that our EBITDAR margin evolution vis-a-vis our main peers in Latin America, has been much better in -- comparing the Fourth Quarter of 2010 with the Fourth Quarter of 2009. GOL's EBITDAR raised by 7.5percentage points. So -- which is higher than LAN and Copa. And our EBITDAR evolution in the year was also up by two percentage points, which is also higher than these two players.

On slide 24, we are also demonstrating our EBIT evolution, which it went from 7.4% to 14%, up 6.6percentage points, which is also much higher than our -- the other main players in the region. So we feel that we have done and we will continue to do our homework. We are not comfortable with the results because we want to continue -- we need to continue working on the cost side. We need to be prudent on how we deliver in (our capacity). We are sticking to our fleet plan. We are sticking to be a very efficient company. And that's the only way that we see that we will be, as Constantino said, an attractive company to invest, to work. And to travel. So those were my comments and now we are open for Q&A. Thank you.

Questions And Answers

Operator

Thank you.

(Operator Instructions)

Our first question comes from Eduardo Couto of Goldman Sachs. Please go ahead.

Q - Eduardo Couto {BIO 15918458 <GO>}

Hi. Hi. Good morning, everyone. A couple of questions. The first one, in relation to the yields. The yields, they grew a lot in the Fourth Quarter on a year-on-year basis. So based on that and also based on the higher fuel prices, what can we expect in terms of yields expansion in 2011? So this is the first question I have.

The second one is in relation to competition. Basically, Leonardo and Constantino, when we look at the traffic numbers in January, I would say that grew passengers, the passengers for GOL, they grew around 6% year on year versus 15% expansion of the market. Can you comment about this difference and what is the strategy of GOL and how much, I would say, additional market share you think the competitors can still gain with this more aggressive, I would say, probably a fair strategy? Can you comment about the competition environment? Those are the two questions. Thank you.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Well I will answer the yields and then we can share the discussion when we talk about competition. Look, Eduardo, I think we have to be conservative here and we should not assume an increase in yields in 2011, in real terms, okay? So -- and I said, we need to be really continue to focus on efficiency, on fly more hours. We have a very efficient fleet from a fuel point of view. And we should really focus on the cost ex-fuel. Because those are the two things that, combined, will give us the flexibility to sail through whatever comes ahead of us, okay?

Q - Eduardo Couto {BIO 15918458 <GO>}

And even though a scenario of higher fuel prices (are low).

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Look, we have to put the worst, right? If this is going to affect the entire industry and we don't know how it's going to be affect the economies in general. But at this stage, I rather continue to talk about cost ex-fuel, about flying more hours, about being more efficient than talking about raising fares.

A - Rodrigo Alves {BIO 16461207 <GO>}

And besides, we have raised fares from October, November. And December. So maybe the question is if we need to continue to increase or just stop. It's almost now the low season. So on the other hand, it don't necessarily mean to continue to do that just because oil is in a higher fare because we have already done that in advance and maybe a good explanation of this quarter's reserve was our ability to raise fares on the right time. Taking advantage of the higher demand. We don't necessarily need to gain market share to be successful. I think we need to be the most trustable company in Brazil. And probably this explains the strategy of the Company now.

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

Yes. And just -- and before I -- and I think that's the combination of your questions. Look, what's the point of having a 15% market share or a 60% market share if you don't -- if you're not profitable, right? And if you don't give returns to your shareholders. So my answer is that we need to focus on costs, costs in efficient, efficient. And efficient. And of course, if we have the best position in the main airports on Brazil. If you have the best coverage in terms of your network, those things will fall into place. I think it's interesting because come people feel too weird. Those people are, oh, how are you going to be sending planes back? Then people start asking how are you going to bring planes? And how -- people will start saying how -- probably, what are you going to be doing in terms of capacity?

And I think we have done the right thing. We have been very prudent. I remember, Constantino mentioned -- maybe it was in the last call -- we don't bring planes and fuel. We are very certain about -- that there will be demand, that the economic scenario is going to be there. So it's nice to say, okay, I'm going to bring X new planes and people get excited. But the bottom line is we have to be profitable.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. So the idea is basically probably to continue to grow less than the average of the market because of the focus on profitability and yields. Is that correct?

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Exactly. I am not measured -- and the key managers here -- we are measured by the market share. We are basically measured by the return. And the return on the capital employed, the CASK ex-fuel. So those are things that people are asking us. So the question is do we want to have an airline for the next quarter or an airline for the next ten years?

A - Rodrigo Alves {BIO 16461207 <GO>}

Maybe the question is who has the best value seat in the region. And a crisis or a test balance sheet -- and I think this is important. The moment you see a market concerned about oil prices, maybe it's time to start picking the best balance sheet as well.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Eduardo, this is Constantino. To be consistent, what we are expected to deliver is that we are expected to reduce our cost ex-fuel. We are expected to improved our margins due to the kind of stable market or even including certain volatility. We are expected to deliver one of the better quality of service for customers related to punctuality, regularity. And better treatments. And we are expected to be the leader in terms of margins, in terms of balance sheet, in terms of cash position. And to take advantage of -- even from the tough moments to survive and maintain GOL with this focus as the lowest cost provider in the industry with high quality of service.

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

And just to --

Q - Eduardo Couto {BIO 15918458 <GO>}

Very, very --

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

Eduardo, we need to have consistency. And I think we have been showing consistency in many, many quarters now.

Q - Eduardo Couto {BIO 15918458 <GO>}

Okay. Thank you, guys.

Operator

Our next question comes from Jim Parker of Raymond James.

Q - Jim Parker {BIO 1506864 <GO>}

Good morning, gentlemen.

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

Good morning, Jim.

Q - Jim Parker {BIO 1506864 <GO>}

Leo, I really appreciate your focus on profitability and -- all right. Regarding the six 767s that you continue to operate, that are carryovers from VARIG, would you discuss the profitability, the net profitability of those aircraft? You have put them back to work, done some charters and subleases, I think. But it appears that the annual lease expense there is $36 million. What is the net of the revenue that is being generated against those costs? So what's the loss current run rate and then what's the outlook for further deployment and reduction of a potential loss there?

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

Jim, I think you have a very good point. I'm going to be very candid to you on that. We are basically, if you look at all what we have done with the 767s and the money that we invested to come back to fly, we have a breakeven operation here. Okay? And this is not a profitable (technical difficulty). We would like to, of course, it was more attractive for us to have them back and flying, considering the opportunity that we had vis-a-vis what we would have to pay to send the planes back. Because you know very much what's the price of (free) delivery of those planes.

I think we did a tremendous job in bringing the number of 767s first from 14 to 11 and then from 11 to six at practically no cost. But from the moment that we then got stuck and being also very candid to you, we had them grounded. So -- and the question was, was it cheaper to invest, to put them back to fly, or it was cheaper to send them back and in Third Quarter. So the bottom line is this. As part of our operation that a lot of hours (inaudible). It -- I think, at least, it's not draining money now. But of course. And we will continue assessing opportunities. Okay? And the good thing is that it's not regular and we don't have a dream of bringing them back to our regular operation. And we know that it's good as soon as we have this -- that there is this boom in international (draw) in Brazil.

Q - Jim Parker {BIO 1506864 <GO>}

So Leo, are you saying -- when you say breakeven, is that after the lease expense charge of $36 million?

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

No. That's the variable cost. That's what I mean in terms of breaking even.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. So the cost -- you're still incurring the $36 million per year in lease expense.

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

Yes. Yes. We're still incurring that. We're still incurring that.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. And just one other item here. I noticed that your ancillary revenue is down on a year-to-year. Can you discuss -- I mean, you mentioned that you have a decrease in no-show fees and ticketing rescheduling. Why is that down year to year?

A - Rodrigo Alves {BIO 16461207 <GO>}

Hi, Jim. This is Rodrigo. It's down year on year, basically on two facts. We has less sales of cancellation and rebooking fees. And we also had, last year, sales of 737-300 parts of about, if I recall, BRL17 million. And obviously, we had our yield raise that made the base to be diluted. So --

Q - Jim Parker {BIO 1506864 <GO>}

But why are your cancels and rebooking fees down?

A - Rodrigo Alves {BIO 16461207 <GO>}

Because yields were up year over year.

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

And also because we were more efficient in how we managed the network.

A - Rodrigo Alves {BIO 16461207 <GO>}

Yes. It's important to note that, in the last month, we have been very strong in terms of customer satisfaction. Comparing to peers, GOL is far ahead. So it's also one of the reasons why we didn't have so many of those fees.

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

Not because we continue to charge them. It's because our operation was more efficient.

Q - Jim Parker {BIO 1506864 <GO>}

Okay. Thank you.

A - Rodrigo Alves {BIO 16461207 <GO>}

Thanks.

Operator

Our next question comes from Michael Linenberg of Deutsche Bank.

Q - Richa Talwar {BIO 17123496 <GO>}

Hi. everyone. This is actually Richa Talwar filling in for Mike. Just a few questions. So I was first off just curious to hear more on your recently enhanced partnership with Delta. Since enhancing your relationship from a reciprocal frequent flyer program to a coaching agreement earlier in the month, I was hoping you could talk about the benefits you're finding from the enhanced relationship. And after establishing this closer tie, can you reflect on your view about potentially getting closer to Delta or other partners via an alliance? I know you touched upon this. But if you can expand a little bit, that would be helpful.

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

Okay. The Delta partnership is very important for us. As we have announced about two years back we would build a portfolio of bilateral alliances. And Delta has been very constructive in dealing with us. We have announced also the partnership on the MRO side. And we believe that as Delta become more involved with the region, that we want to be close to them and I'm sure they want to be close to us.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. And just -- I know you talked about this in preparing for, like, a political event and given everything that's going on, just a question there. As you look at your growth forecast and the fact that they're based on the rise of the middle class and tourism in South America, if the unrest in the Middle East persists and oil prices continue to rise, do you think you will be able to pass on the rise in cost of fuel to more leisure passengers whose demand in air travel is fairly more elastic than your current primary business passenger?

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

Look, I think that it's a bit premature to say what we are going to be doing. But I think the important thing that is to say is that I think we are very well prepared to deal with this event risk. We have worked on deleveraging the Company. We have no major amortization in our -- that schedule for 2011, 2012. And 2013 and 2014. We have very high cash balances. We aren't -- we have a very fuel efficient fleet. And most of all, we have -- we continue working on the CASK ex-fuel. So all these things combined will give us more flexibility to sail through this initial (inaudible) that may be ahead of us.

Q - Richa Talwar {BIO 17123496 <GO>}

Got it. And we -- go ahead.

A - Rodrigo Alves {BIO 16461207 <GO>}

So it's important to notice, on the demand side, Brazil is different than the other countries. We have no training networks in Brazil. So the alternative would be bus or cars, which would be cheaper, however, it's a way longer trip. In addition, what drives demand in Brazil is much more related to real wage growth and this is the explanation on why demand grows so strongly in Brazil. It's not driven by oil, necessarily. We know the impacts of oil. However, it's clearly important to us that the impact of demand, driven by other features that are much more related to the Brazilian economics rather than the global economics. We also think that the impact are important on the cost side. But also the demand side should not drop as strong as at least the market is pricing the stock today.

Q - Richa Talwar {BIO 17123496 <GO>}

Okay. Got it. Very helpful. Thanks.

Operator

Our next question comes from Nick Sebrell of Morgan Stanley.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Hello, Junior, Leo. And Rodrigo.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Hi.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

I'd like to ask a bit about the operating environment right now in Brazil. Specifically, you've got airports that are, arguably, very congested, at least for the more important cities, a lack of airport investment, yet continued strong currency, economic growth, et cetera. And it seems like this problem is only going to get more intense. Could you talk a bit about how that affects the competitive dynamics, what that means for your profitability. And whether there might be a break on growth opportunity, not for you guys specifically. But for the market in general. How long can we expect to see the kind of market growth that we're seeing overall now and might it, in the future, be in a different direction? In other words, somehow over hubbing and maybe if you could talk about that subject as well. That's the first question.

Then the second one has to do with your improved credit statistics. As your leverage improves and your credit rating improves, does it make sense to own more planes? Is there something in the tax structure or Brazilian accounting rules that makes it more attractive to lease planes or might it be that you'll own more of your fleet in the future?

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

Yes, Nick. Just starting with the second question, which is easier. You're right. And that's why we are indicating that we want to rebalance the number of financial vis-a-vis operating risk. Okay? Just to give you a number, in the last year, we managed to close financial leases -- at the less than 4% fixed rates for 12 years. So it becomes very attractive the moment that you have the right financing in place to have a financial lease.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Thanks.

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

Okay. On the competitive environment, okay? Let me just start staying this is not a surprise for us. And that's one of the reasons why we started about two, three years back in kind of becoming less dependent on any specific airport. And we have built what we call here a belt of effort in the middle part of Brazil. If you look today, Rio International has become a very important airport for us for our operation. (Convens in Barra) has become very important. Brasilia, Salvador. So we have a situation where we don't depend specifically on the Sao Paulo airports. So this kind of takes off the stress that we all know that exists in peak hours in some of these airports and mostly in Sao Paulo. Okay?

So I would say that, at this stage, we are dealing with it. We believe that there will be investments coming. Let's not forget the big events. So we believe -- and the government has announced -- the government is taking measures. The government has announced very clear where they are going to be investing, the BRL6 billion in the next few months. So it should come to a point that these investments will fall into place.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

And just to complete, as said, we understand that Sao Paulo is very important. It's the largest market in Brazil or South America. And we still have room to transfer connections from Sao Paulo to other hubs on this kind of belt, what Leo said. So view the multiple hub and spoke network. With that we can transfer connections and offer more seats for a specific demand from Sao Paulo. Just to give a number, today we still have something between 35% and 40% of our passengers doing connections in Guarulhos and Congonhas airport in the Sao Paulo terminal area. And we can -- and we would like to transfer this connection to other airports as the network is still growing on that hubs.

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

And specifically, if you look at what we have done in Rio, today you can fly out of Rio to most capital cities in Brazil. So Rio International has become an important connecting hub for us.

Q - Nicolai Sebrell {BIO 7321622 <GO>}

Excellent. Thank you.

Operator

Our next question comes from Victor Mizusaki of UBS.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good morning. Just a follow-up question on the ancillary revenues. If you exclude the negative impact from consolidation revenues, consolidation fees and rebooking, what happened with cargo and the frequent flyer program? I mean, if you are selling -- or if -- what happened with the revenue that was (sale) of mileage due to the financial institutions? And the second question about the other operational expense, the Company reports a very good reduction in this expense line. And I'd like to know if -- what we can expect as a recurring level. And if you could give us some examples on how the Company reduced this other operational expense. Thank you.

A - Rodrigo Alves {BIO 16461207 <GO>}

Okay. Ancillary revenues are excluding the items that are not core. Cargo, which is core to us has grown about 50% year over year. The pace of growth has been very strong. I think we are very excited about cargo in the Company. We still need to finalize our terminals for cargo in the international airport in Sao Paulo. We also have other services, insurance (service to the board) and others, which are growing. I would say that these products are growing in a lower pace. But we are doing a strong operation that when it's built, it's going to keep growing on fast pace.

On the cost side, I would say that our costs were very clean and on the order expenses side. Usually, we are supposed to have one-off expenses and I would say that with this quarter they came in the leading line with BRL10 million additional expenses we had related to aircraft returns -- 737s were the last piece that we have recognized related to (737-300). So if we put the two lines in a nutshell, the BRL10 million additional expenses that came in the lease line was supposed to come in a normal basis on the other expenses line.

Overall, the quarter itself was very clean in terms of cost. And I think we have said that many times in the conference calls of 2010, we spent a lot of money related to the return of the idle aircrafts, what, in our view, was key to build the reserves for 2011. And it was important, as well, to do the services related to have the zero-based budget implementing the share service centers. All those were not expenses we had during the first, second. And Third Quarters. They didn't happen in the Fourth Quarter. And this is the other side of the explanation. So if you look to the results of the Fourth Quarter, we had successful strategy, taking advantage of the growing demand and better using the aircraft and using the aircraft or supplying the aircraft with a better use. And on the other hand, a clean quarter in terms of cost structure.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And if you don't mind, on the last question about your hedge position, when we take a look at the press release and we can see what you have in terms of hedge for the Third Quarter. For the next 12 months, we can see that -- or if you compare with what -- (it's) doing in the last quarters, basically, for the next three months, in terms of percentage that you hedge for Q1, basically, I've seen that it is (risen) a little bit. So I'd like to know if the companies are doing the best route because, in general, the company increased yields by 10% year over year. So I'd like to, if you don't mind, to go a little bit more in detail about your hedge strategy for the next three or six months.

A - Rodrigo Alves {BIO 16461207 <GO>}

Well I think the strategy is to have, on average, 20% of the estimated fuel consumption hedge. We are also -- what is important to note, when you break down into quarters, is that the position is weighted on the next 90 days. So the way we are hedged today -- and actually, if you look in the past quarters, that the strategy is basically the same. We have a short-term wait on the hedging position that reaches over 50% of our estimated fuel consumption in a quarterly basis for the next 90 months -- 90 days, sorry.

Then it decreases sharply when we reach the end of the next 12 months. And this is how we are tracing that. We also hedge -- we buy options out of the (money). The out of the money today is very aggressive. So in a way, the market is already priced in a crisis. So there is no, in my view, at least, no reason to continue to buy aggressively options with what is what we do if the market continues to be so volatile.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

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

And just complement. We view that in order to protect the Company, the hedge is important. But you have to have a combination of three things -- adequate hedge strategy that doesn't put your balance sheet at risk, high cash levels, which we have now. And continued work on the CASK ex-fuel because that's what will give you flexibility to compensate or partially compensate what may happen on the fuel.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Our next question comes from (Ray Nigel) of Maxim Group.

Q - Ray Nigel

Well congratulations on your tenth year anniversary.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Thank you.

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

Thank you.

Q - Ray Nigel

And basically, to get back to your fleet financing here and your fleet strategy, I was talking with a couple consultants yesterday and they are talking about developments in the domestic Brazilian market. And they were making the argument that many of the new markets that are developing in Brazil, the 737 is too big of an aircraft. That maybe Azul, with 100 seats, 110 seats, was more appropriate for a lot of these new markets, to keep the growth going. I'm just wondering if, at some point, you might consider going to a second equipment type.

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

Okay. Look. We feel that the market is big enough to have different players in different areas of (terminal). We are -- we -- also that the high density locations, we will continue expand. And for those high density places, we believe that we have a very solid, very efficient plane, which is the 737. So at this stage, we don't have plan to change. So we have the partnerships with the original airlines that we -- I think we have made some good progress in the last 12 months. We expect to continue working on this. So it -- we want to speak what we know how to do well.

Q - Ray Nigel

Okay. Great. That's the argument I made on your behalf to them. I just wanted to check to see what your thinking was. The other thing, as far as financing aircraft, from what I understand, the export-import bank, the rules are going to be changing in the next couple of years and it's going to be more difficult to get financing for US aircraft out of it. I'm just wondering, do you use the export-import bank and will the changes in rules affect your fleet planning? I know you want to get away from the lease financing, which is expensive. But would this hamper your ability to do that?

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

Yes. That's a very good point and I think one -- there are two important things that I would like to highlight. First, the credit rating is going to be very important from 2012 -- 2013 on. So I think that's -- and that's why I think the work that we have been doing and we will continue to do on the credit ratios will be more important. Second, Brazil has proved, in the lower half, the cape zone agreement. Then this -- and now it's going to the upper half, which we expect to be voted soon this year. And this will also be of help in these changes with the (exiting) bank rules. Okay? So I don't expect, if you have solid credit ratios, this will disrupt as much as if we were in a weaker position as in the past.

Q - Ray Nigel

Okay. Great. And I'm just wondering, with the 767 aircraft, you're finding use for them in the charter. Is that because you can't sell them? There's no market for those aircraft? I guess they're kind of older aircraft and the next move would be to the scrap heap. So you're making the best use of them that you can by putting them in charter work?

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

Yes. That is clear because that -- and to be more (specific) because this was raised before; it covers what we have today, the variable course of the operation and if you look at the lease, it doesn't cover 100%. It covers part of it. So we have an operation that's not ideal. But it's better than to have them 100% to ground. Of course, we will continue to look at opportunities to send them back. But we don't want to send them back with -- at a higher cost than the ones that we have today.

Q - Ray Nigel

Okay. Great. Thank you very much.

Operator

Our next question comes from Alexandre Amson of Santander.

Q - Alexandre Amson {BIO 4119036 <GO>}

Hi. Good afternoon, to all. Just a very quick question. I would like to stress a bit more on the oil prices. Just -- I know it's a bit premature to talk about it at the moment. But I would like to get from you your expectations regarding the oil prices outlook in the short term, given the situation in the Middle East. If you have a positive outlook for the outcome of this situation. And second point, what would be the price -- the oil price level that could jeopardize your target for profitability levels in 2011? Thank you.

A - Rodrigo Alves {BIO 16461207 <GO>}

All right. We are working, if you look to our guidance, for (TI) at $93 per barrel. Would that still be the right pass to have still with a minimum EBIT margin growing to 11.5%? What is, at least in our view, something that we feel comfortable. To work with an even worse scenario than that, we still think it's premature. But I think a good reason to the sensibility scenarios on our P&L would be -- if you could see on our hedging section in our press release, we are showing a sensitivity analysis of the impacts of oil in our reserves.

Q - Alexandre Amson {BIO 4119036 <GO>}

Okay. Thank you very much.

A - Rodrigo Alves {BIO 16461207 <GO>}

You're welcome.

Operator

(Operator Instructions)

Our next question comes from Steve Trent of Citigroup.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning, guys.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Hi, Steve.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning. Most of my questions have been answered, actually. Just a follow-up -- actually, kind of a follow-up on Nick's question. When I think about the main routes, the main domestic routes in Brazil and the notion that you guys have significant capacity on these main routes. And when I layer over that the constraints in terms of airport capacity, maybe we don't see the constraints getting lifted soon. Also considering on top of these two factors the notion that probably there's significant business travel on the domestic trunk routes, is it fair to assume that there's some room to pass on some higher fares to business passengers on these high-demand routes, considering that real wages indeed continue to rise in Brazil? I'm not sure if I'm thinking about that properly.

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

Steve, I think you have a fair assumption, to sum up. What you are saying, it's a possibility.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. Okay. That's definitely what I wanted to clear with you. I'll leave it at that as my other questions were answered. Thank you, Leo.

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

No. Thank you, Steve.

Operator

Our next question comes from Isabela Bacchi of JPMorgan.

Q - Isabela Bacchi {BIO 15086595 <GO>}

Hi, guys. Good morning. I have just a quick question on your operating fleet plan. When I look at 2011, you indicated a 40 737-700 and 75 737-800, which is just up five more than what you have today. But when I look at the payment forecast, you've given me using the list price, something like nine for 2011 and another six for 2012. So I'm just wondering what I'm missing here.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Well the difference is (renew). That means we will change, we will replace old aircrafts with new ones.

Q - Isabela Bacchi {BIO 15086595 <GO>}

All right. Okay. That's mostly on the 737-800?

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

Yes, exactly.

Q - Isabela Bacchi {BIO 15086595 <GO>}

Okay. So you're actually adding more like nine in 2011 and six, 2012.

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

And in 2011, we will return four aircrafts. The net addition is five aircrafts.

Q - Isabela Bacchi {BIO 15086595 <GO>}

All right. Okay. Perfect. All right.

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

And that (slide) depends -- sometimes you have -- you slide for a month. So instead of redelivering in December, you deliver in January or vise versa. So -- but basically, what Constantino is saying is that's what happened. The net addition to the fleet is much lower than the actual number of aircraft being delivered.

Q - Isabela Bacchi {BIO 15086595 <GO>}

Okay. And for 2013, I see a huge disbursement. That indicates like 20 new aircrafts. Is that correct?

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

Yes. It is. Because also there is a -- in 2013, 2014, we also start sending back a substantial number of aircraft. As Constantino was saying, renewing the fleet.

Q - Isabela Bacchi {BIO 15086595 <GO>}

Okay. All right. Thank you.

Operator

(Operator Instructions)

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

A - Constantino de Oliveira Junior {BIO 16843720 <GO>}

It was that to have been working to achieve our vision to be the best airline to work for investing and fly with. And we are very focused on the leadership in terms of cost, in terms of strong balance sheet, in terms of strong profitable margins and results. And with this commitment, we expected to deliver better results to our investors. Thank you very much for your attention and hope to see you on the next quarter results.

Operator

Thank you. This concludes today's GOL Linhas Aereasinteligentes 4Q '10 results conference call. You may now disconnect your lines at this time.