

Q1 2016 Earnings Call

Company Participants

- Edmar Prado Lopes Neto
- Paulo Sergio Kakinoff

Other Participants

- Bruno Amorim
- Joshua Milberg
- Michael Linenberg
- Pablo Zaldivar
- Ravi Jain
- Renato Salomone
- Rogério Araújo
- Savanthi N. Syth
- Victor Mizusaki

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, everyone and thank you for waiting. Welcome to the GOL Airlines' First Quarter of 2016 Results Conference Call. With us here today we have Mr. Paulo Kakinoff, CEO; Mr. Edmar Lopes, Chief Financial and IR Officer; and Mr. Eduardo Masson, Financial and Investor Relations Director.

This event is being recorded and all participants will be in a listen-only mode, during the company's presentation. After GOL remarks, there will be a question-and-answer session. At that time, further instructions will be given.

This event is also being broadcast live via webcast and maybe accessed through the GOL website at www.voegol.com.br/ir where the presentation is also available. Participants may view the slides in any order they wish. The replay will be available shortly after the event is concluded. Those following the presentation via the webcast may post their questions on our website, they will be answered by the IR team after the conference is finished.

Before proceeding, let me mention that forward statements are based on the beliefs and assumptions of GOL management and on information currently available to the company they involve risks and uncertainties because they relate to future events and therefore depend on circumstances that may or may not occur. Investors and analysts should understand that conditions related to macroeconomic conditions industry and other

factors could also cause results to differ materially from those expressed in such forward-looking statements.

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

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

Good morning, everyone, and thank you for joining our webcast presentation. It is teleconference, so we will present information regarding the company's restructuring plan, which is currently in its final phase. This information is important, as we unexpected - affected by macroeconomic wave which struck Brazil at the beginning of last year. And required our management team here at GOL to develop and execute a solid but complex set of initiatives.

I and our team of Voe GOL's (2:33), are committed to delivering lasting and long-term results from these initiatives. And this is the first quarter that we are showing results from our restructuring plan. After providing this update on the company's restructuring, we will present GOL's results for the first quarter of 2016, so please turn to page two of the presentation.

GOL is the largest low-cost airline in Latin America. The company has standardized fleet of 143 Boeing 737-700s and 800s next-generation aircraft. We serve 65 destinations in Brazil, South America and the Caribbean. We transport 39 million passengers per year. GOL is the leader in on-time service, with an average of 860 flights per day. Our Smiles mileage program has over 11 million members. Our cargo operation is present in over 3,000 cities. We have approximately R\$10 billion in revenues per year.

You haven't seen what our team has done in the past, as we took GOL from a negative 12% operating margin in 2012, to a positive 5% operating margin in 2014. And management is committed to delivering GOL from the current crisis.

Moving to slide number three now. While we are most proud of our accomplishments becoming the largest low-cost airline in Latin America, this could not have been achieved without best-in-class corporate governance. We are proud of our track record as one of the best governed corporate in the market.

Investors who have been with us from our beginning recall that GOL was one of the first foreign private issuers to provide its Sarbanes-Oxley 404 certification, one year ahead of the international deadline. First, GOL was one of the first non-U.S. companies to demonstrate its commitment to the principles of transparency, full access to information and equal treatment of investors.

Please turn to the next page, slide four. First in our agenda today is to provide an update on the company's restructuring plan. Last week we announced the final phase of this comprehensive restructuring plan that was begun in May 2015. All pieces of this plan are critical, work together, and should allow us to achieve our target. The final and most

important piece is the exchange offers, we recently announced. The need to restructure derived from several thoughts, which I review on the next slide is slide number five.

After years of healthy growth, Brazil's economy began to weaken in 2012, you haven't seen that. The deterioration has accelerated since 2015 when the recession began, is stronger than ever, fueled by significant uncertainty caused by the Petrobras related scandals, growing lack of confidence in the economic and political outlook and the recent proceedings to impeach the President of Brazil.

Credit default swaps on Brazilian bonds increased by over 100% in 2015 reflecting the weak and contracting economy. The same period saw the Brazilian aviation sector as a whole being adversely affected principally by a shrinking economy, climbing inflation and a steep decline of the Brazilian real versus the U.S. dollar.

The political instability has been caused by the ongoing Lava Jato investigations, revolving around Petrobras, that we have - that have implicated Rousseff's (6:40) officials. The Brazilian House of Representatives has just voted on the impeachment to the Brazilian President, causing expectations that's for sure, but also further and increased instability and uncertainty.

Brazil's GDP contracted 3.8% in 2015, after averaging only 1.3% growth in the period between 2012 and 2014. The market analyst consensus compiled by the Brazilian Central Bank in April, shows an expected GDP decline in 2016 of another 3.9%. According to estimate published by the IMF, the Brazilian economy is expected to shrink more or grow only marginally into 2018. Unemployment rose from 7% in January 2015 to 11% in March this year.

A significant part of our operating and capital expenditures, as well as a significant part of our debt is in U.S. dollar based. The real devaluated 47% versus the dollar in 2015, ending the year at R\$3.90 per dollar. Also the oil prices in 2015 decreased 48% considering the WTI barrel, but in Brazil our fuel expenses dropped only 14% again because of the real devaluation.

The inflation, as measured by the IPCA index increased from an average of 5% between 2012 and 2014 to 11% in 2015. The market consensus compiled by the Brazilian Central Bank in April showed an expected inflation rate for 2016 up 7% and inflation in the first quarter of this year was already almost 3%. In part, to combat the inflation, the Brazilian Central Bank has reacted by successfully raising the base interest rate.

At year-end 2014, the SELIC rate was 11.75%, rose to 14.25% by the end of 2015 and has remained unchanged since, which has depressed air travel and substantial increased borrowing costs.

We and the Brazilian airline industry in general saw a marked decrease in certain segments, and especially in corporate air travel, which fell to 58% of our total passenger revenue in 2015 from a historical average of approximately 70%.

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As the business travel segment has a significantly higher yield than other segments, our revenues were negatively affected as a consequence. Being the market leader in Rio de Janeiro as measured by the (9:59), we were particularly affected by the crisis in the oil and gas industry caused by the government investigations and the collapse of international oil prices.

The largest airlines in Brazil led by GOL have taken steps to rationalize capacity but these were offset by increased competition in major airports and rapid growth of smaller competitors. As a result, the industry had suffered huge declines.

The labor unions representing our employees who want new industry wide contracts that raised monthly salaries by 7% in 2015 and 11% in 2016. As a result and also as a consequence of inflation, our personnel costs increased by 15% in 2015.

The economic crisis has resulted in a constricted and expansive credit environment in Brazil. Lenders, lessors, and fuel providers either increased their cash collateral requirement or reduced payment flexibility, sometimes both, negatively affecting our available cash as shown by our restricted cash which more than doubled from the end of 2014 to the end of 2015.

Our credit ratings of B-, B3, B from Fitch, Moody's, and S&P, respectively, from July of 2015 have declined at an average of four notches to C, Caa3, and CC, which has significantly reduced our access to and increased our cost of capital. At the same time use (11:51) - and high margin revenue decreased, operating costs increased, principally as a function of the exchange rate variation, inflationary pressures, increase in sales incentives and service improvements.

Our ex-fuel cost - ASK increased by 16% in 2015, thus compressing our operating margins - sorry 2016.

The effect of (12:19) have caused our financial expenses to climb significantly. Our interest expenses increased by 50% from R\$593 million in 2014 to R\$886 million in 2015. Our capacity reductions, the shrinking Brazilian economy, the real devaluation, pricing pressure and increased competition have reduced significantly our cash flow and consequently the payment capacity.

You can see graphically the evolution of some of these developments on page six. 2016 is expected to be very challenging with an expected exchange rate of R\$3.70 per U.S. dollar. The inflation around 7% and GDP growth at a negative 4%, while the interest rate at 14%. This year is expected to be the second consecutive year in a row of 4% negative growth in GDP in Brazil, as Brazilian airline demand growth has an historical elasticity (13:36) of two times GDP growth, the sector is expected to suffer a significant reduction.

As you can see on slide seven. Overcapacity in Brazil has added pressure on GOL. While the company has been very disciplined, others have not. While we have since 2012 successfully worked to rationalize our route network and fleet size, the confluence of

adverse effect in 2015 offset much of the actual and expected operational improvements that our team worked very hard to achieve.

Most observers and we believe that a turnaround in the Brazilian economy is two years or more years away. As a consequence, we embarked in the past year on a series of initiatives to comprehensively address our liquidity and capital restructure concerns.

Moving now to slide number eight, in mid-2015, GOL began its comprehensive restructuring plan as I said earlier, addressing over R\$17 billion of that and other obligation. We have executed several important initiatives in the second half of 2015 and first month of this year. These initiatives show (15:00) and concessions are well-balanced.

In September 2015, Volluto, our controlling shareholder made a net investment in GOL of R\$284 million. Concurrently Delta purchased additional capital stock for R\$177 million. Working closely with Delta, we obtained a new unsecured term loan of \$300 million, fully guaranteed by Delta. Being able to offer this guarantee allows us to secure this financing on amounts and on terms that most likely would have not been available to us otherwise. Our obligation to Delta is secured by a pledge of our shares in Smiles or a cash.

Early this year, we returned five aircrafts under financial leases, two of them authorized and the other three under sale and leaseback agreements, generating a net cash inflow of R\$212 million in February. And sold our rights (16:08) to three aircraft deliveries from Boeing in 2016, which originally would have replaced outgoing fleet aircraft.

Also in 2016, we implemented various operating cost saving initiatives including overhead reductions, introduction of part-time employees to offset reduced demand during low seasons, and renegotiation with suppliers.

In February, VRG entered into our Ticket Purchase Agreement with Smiles, totaling up to R\$1 billion providing for advance ticket sales to Smiles in various tranches through June 2017. The first tranche of R\$376 million was disbursed by Smiles in February 2016, and the remaining tranches are conditioned upon certain other additional cost savings and liquidity initiatives, including the completion of the exchange offers.

On May 1, we implemented a change to our route network to focus on more profitable routes, suspended flights to eight destinations and expect to reduce our fleet by approximately 15% by the year-end. We estimate that these changes will reduce year-over-year the number of take offs and seats by 15% to 18%, and the number of ASKs by 5% to 8%, due to the longer stage life.

Key suppliers are helping us to reduce our cost and adjust to the new network and fleet profiles. For example, in the first quarter of 2016, we revised our delivery schedule with Boeing, so that, we will not receive any new aircraft until mid-2018.

The concluding phase of our initiatives includes a renegotiation of the vast majority of our debt and lease obligations. Specifically, the exchange offers, renegotiation of the leases

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and amendments to the terms of the debentures. We are in a diverse discussions with all our lessors to renegotiate certain conventional terms of lease agreements, including returning aircraft, the deferring and reducing aircraft cost obligations, and reducing monthly lease rates and deferring payments on a substantial number of remaining aircraft.

The key initiative with lessors is reducing the GOL fleet by 21 aircrafts, which we expect should have a net present value savings of approximately R\$220 million. And is available (18:55) for rapidly adjusting GOL's operations to current demand conditions.

We are in discussions, also with our local credit providers and debenture holders regarding concessions, including a deferral of 90% of principal during 2016 and 2017 to 2018 and 2019. A new two-year credit facility of R\$300 million is also under discussion and a waiver for one year of compliance with the debt, service and leverage covenants.

We expect that the concessions we have asked from our debenture holders, we could reduce our principal payments in Q2 2018, by R\$225 million. Delta has agreed on an interim basis to reduce the overcollateralization ratio, we're required to maintain under our agreements related to Delta's guarantee of \$300 million, the term loan. Delta has agreed to make the reductions permanent, subject to the successful completion of the exchange offers.

At December 31, 2015, we had R\$550 million in future commitments with Boeing. Boeing supported the rationalization of our network fleet plan, and the future deliveries of aircraft. This agreement will give us material relief in terms of cash flow. Part of this cash flow relief is intended to fund the Exchange Offers.

Our agreement with Smiles provides that, if we achieve the expected cash savings from a series of initiatives, including the exchange offers and lease renegotiations, we will receive from Smiles advance payment for future ticket sales of up to R\$1 billion including the R\$376 million already disbursed by Smiles in February 2016.

There is a great deal of uncertainty, political and economic in Brazil and also globally, and significant challenges in the airline sector. But we believe that our plan including the exchange offers, renegotiation of other commitments and achievement of the recent initiatives should permit us to address our current situation.

On the next page in this webcast presentation, the slide number nine, you can graphically see that our short-term liabilities increased dramatically during 2015, primarily due to the macro effects described.

At year-end 2015, our current assets and current liabilities were R\$2.5 billion and R\$5 billion (21:48) respectively, representing a shortfall of R\$3 billion. In the first quarter this year, we received over R\$900 million of planned cash inflows from initiatives in the restructuring plan that more than offset planned cash outflows, reducing the current ratio shortfall to R\$2.6 billion.

Major cash inflows contributors from our plan were the R\$214 million from sale leaseback transactions, the R\$126 million of projection in collateral related to the (22:30) and R\$376 million first tranche of the Smiles agreement.

I will now turn the presentation to our CFO, Edmar Lopes who will provide details on the exchange offers of our restructuring plan and how this fits into the company's financial restructuring plan necessities through that (22:50).

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Thank you, Kaki. Good morning, everyone. I would invite you to turn to slide number 11. On May this year just a week ago, we began the final component of this restructuring plan. This component, which is restructuring of up to US\$780 million of its outstanding dollar unsecured bonds issued in international capital markets is a critically important transaction for the company as it is for the bondholders and also the most important component of our restructuring plan.

GOL dollar unsecured bondholders now have the opportunity to exchange their securities for cash and the new secured bonds at a premium to their current market value. The dollar unsecured bonds are the last major group to be approached in GOL's comprehensive financial restructuring.

Those offer to exchange all of its outstanding unsecured dollar bonds for new secured bonds with collateral covering more than 100% of the new bonds in addition to a cash component and with the premium to current market value is a great opportunity for GOL's bond holders to voluntarily participate in its restructuring and receive again a premium for their bond. We strongly believe that this is a good and fair (24:14) offer and we expect that bondholders will understand that it is in their best interest to exchange their notes. Existing note-holders who do not exchange will become strictly subordinated to the new secured notes as a result of the pledge of collateral.

In addition, holders of perpetual notes, will receive new note that have a set maturity date of 2028. The 95 threshold for completing the exchange offer is set by the company and we can change it if circumstances call for it.

On the slide in front of you, you can see a summary of the offers. As you can see, the GOL offer to the bondholders represents a 20% to 50% premium over current market prices. A significant component of our offer to unsecured creditors is providing collateral that is crucial to the operation of the airline. The new notes are secured by a first priority secured interest in spare parts. We hired MDA to conduct an appraisal of this collateral and the appraised value came at \$223 million.

Furthermore, it's important to recognize that the value to go of this collateral is beyond measure, given the importance of this to our operation. I would like to report the main advantages to the holders of the new secured note, which are the following; first, we are providing cash to existing note holders. Also in addition (26:01), the holders of the new notes becomes the permanent owners of the collateral, and are entitled to sell the

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collateral to third parties. Additionally, payment obligations secured by the collateral under the fiduciary CEO agreement are not subject to judicial recovery proceeding up to the amount secured by the collateral.

Next, the holders of the new notes may enforce their right in the collateral during a judicial recovery. Fifth, the collateral will not be part of a liquidation proceeding. And finally obligations secured by the collateral are not subordinated to claims that have a statutory preference on the Brazilian bankruptcy law in the liquidation proceeding. I would like also to report the main disadvantages to long-tenured holders of old notes. First, the old note will not get the benefit of the collateral securing the new note, and it will be effectively subordinated to that. Second, (27:10) obligations under the old notes will be subject to the automatic fee of restructuring plan in a judiciary recovery.

Last, but not least, in a liquidation proceeding, obligations under the old notes are subordinated to claims that had a statutory preference under Brazilian bankruptcy law, including labor claims, secure creditors, and tax claims. On the next page, page 12, I summarize the important days for holders of the notes. Next Tuesday, just a few days from today, May 17 is a deadline to qualify for the early participation premium that is the early bird of 5% to 10% or withdraw tenders of old notes. The offer expires on June 1, the deadline to validate tender old notes and qualify (28:07). Holders or all those who do like to tender to old notes in exchange for new notes should be sure to allow enough time for the necessary documents to be timely received by the exchange agency.

I also would like to tell you that it's very easy to access that. You can access the link on our website to register to receive the premium for exchanging your bonds by next Tuesday. The address of our website is www.voegol.com.br/ri. Through today, many bondholders have already registered on the site. In summary, I would like to say that the exchange offers are a very critical component to our restructuring plan, and are required to close certain other liquidity initiative described earlier. I will now invite you to go to slide number 13, which has a title of exchange offer consideration. Despite significant operating improvements as we have shown in this quarter, GOL still needs to continue to address its capital structure challenges.

Our ability to serve our capital structure has been impacted by the industry over capacity, political market economic conditions in Brazil, and the significant devaluation of the Real, affecting our lease expenses, interest expenses and fuel costs, and as Kaki mentioned early, our capacity payment. Our shareholders have contributed significantly to improve the company liquidity. All of our important stakeholders and partners are expected to provide substantial support to improving our capital structure. The exchange offers are a crucial aspect of our overall restructuring. It allows unsecured bondholders to receive cash, plus new secured notes. Also, the completion of the exchange offers will facilitate completion of contributions from stakeholders and partners as we described.

I will now turn the presentation back to Kaki, who will review the results of the first quarter of 2016.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

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The next part of today's presentation, we will review the results of our first quarter of 2016. Please move to slide number 15 in the webcast presentation. In the first quarter of 2016, we saw an improvement of 17.3% in yield and 16.4% in PRASK, when compared to the first quarter of 2015. We decreased the ASK in the domestic market by 4% and 18% in international market. Combine it, the total ASK was 6% lower than the same period of 2015. The takeoff volume and the number of seats reduced by 8.2% in the quarter. The 2.3 percentage point reduction above the ASK reduction is due to the increase in (31:38) which is part of the new route network, which has fully implemented on May 1.

The net revenues expanded 8.3%, reaching R\$2.7 billion in the quarter. Recurring operating income was R\$225 million, and operating margin was 8.3% in first quarter this year. We generated R\$213 million related to the sale leaseback transactions of six aircraft. CASK was R\$0.203, representing an increase of 12% in the period when compared to the first quarter of 2015. On slide 16, we show the total net revenue growth of 8.3% in the quarter. Excluding the non-recurring earnings from sale leaseback transactions, the operating results EBIT was R\$224.6 million in the period with a margin of 8.3%. These recurring operating results reflect the realignment of our flight network and operations, CapEx reductions and downsize. This is the first quarter that we have seen some results from our initiatives.

Our last 12-month figures are indicative of the new macroeconomic environment. In the last 12 months, as a reflection of the Brazilian economic collapse, EBIT reached a negative R\$113 million with a margin of negative 1.1%. Recurring EBITDA reached at R\$663.2 million with margin of 24.4%. In the last 12 months, this indicative accounted for R\$1.5 billion and a margin of 15.3%, a decline of 2.5 percentage points versus the same period 2015.

In the next slide, the number 17, we break down the first quarter results, which were strongly impacted by two events; the sale leaseback of aircraft R\$213 million; and R\$654 million in net exchange rate valuation due to the Real appreciation of the U.S. dollar on our total debt at December 31, 2015 and March 31, 2016. This exchange rate valuation has no immediate cash impact. Excluding the non-recurring effect that I mentioned earlier, GOL's EBT or earnings before taxes were a negative R\$109 million.

Please move now to slide 18. GOL has been reducing capacity since 2012. However, this smaller player has been adding capacity (34:40) negatively affecting cycle results. As shown in the first graph, you can see that GOL reduced the domestic ASK by 4% in the first quarter of 2016. For 2016, we reiterate (34:58) our capacity reductions of 5% to 8%. You can see on slide 19 now, as summary of our efforts to reduce capacity mainly in Brazil, which includes a 15% to 18% decrease in available seats, a suspension of eight destinations, Miami, Orlando, Aruba, Caracas, and Ribeirão Preto Bauru, Altamira and Imperatriz, and a reduction of 20 aircrafts.

Please turn to slide 20. I want to reaffirm the capacity projection for 2016, which includes the total supply reduction of 5% to 8%, and a total seat and volume of departures reduction between 15% to 18%. Giving the higher level of uncertainty, we are currently unable to provide any kind of additional guidance for all the (36:00) metrics.

I will now return the presentation to Edmar. Please, Ed.

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Okay. Thank you, Kaki. In this session, I will review our recent financial results highlighting the main aspects and drivers of this quarter. Please move to the next slide, this is slide 22. Yield increased 17% over the first quarter of last year, and was up 4% over December quarter 2015. The increase in PRASK was 16% quarter-over-quarter, and 7% quarter-to-quarter. The improvement in RASK came at 15%. A R\$0.20 CASK, total CASK increased 12% over the same quarter last year. Ex-fuel CASK, and I will go over that a little bit further in the presentation, increased 17%. RASK minus CASK was R\$0.0187, an improvement of 66%, when compared to the same period last year.

Please turn to the next slide, page 23. Here we can see that CASK ex-fuel increased by 17%, or R\$0.141. The increase was driven primarily by a 60% increase, that is R\$0.01 in aircraft lease expenses. It happened due to the higher number of aircraft in operation and a 36% appreciation of the Brazilian Real versus the U.S. dollar. A 24% increase in servicing expenses, also related to the FX, a 7% increase in salary expenses as mentioned by Kaki earlier, due to the general agreement, and they were partially offset by a 7% increase in maintenance expenses. We're highlighting here that aircraft lease expenses were affected in a very significant manner by the FX rate, doubling the participation of this line item to around 14% of total expenses against just 6% one year ago.

Now, please move to the next slide. Here on this slide, we show our March quarter results for this year on a recurring basis, comparing to last year. First quarter this year, earnings before non-recurring items, exchange rate variation and taxes were negative R\$48 million compared to a negative R\$46 million last year at the same quarter. So although, we have improved our margins, it haven't changed much in terms of cash flow. These results reflect the new macroeconomic environment placing us in the airline sector. Total net income was positively affected by sale leaseback, generating R\$230 million, and as aforementioned by Kaki, the exchange rate gains which have no cash impact from the recent appreciation of the Real came at R\$654 million.

Please turn to the next slide. Turning to our balance sheet. We see that at the end of the first quarter, our total adjusted debt including capitalized operating leases was approximately R\$15 billion. Our total on balance sheet debt as the chart shows totaled almost R\$8 billion, an increase of R\$2.3 billion against year-end 2013 and a decrease of R\$1.4 billion versus the end of 2015 primarily due to the FX. Including, capitalized operating leases, our total debt to EBITDA ratio at the end of this quarter was 9.4 times. At March 31, 2016, our total cash balance was at \$R1.8 billion.

On the next slide, on the left side of the page, you can see that the cash balance of R\$1.8 billion was composed primarily by three tranches; the first one is free cash, R\$658 million, the second one R\$744 million of cash on the balance sheet of our Smiles subsidiary, which we consolidate on our balance sheet, and which the airline does not have an direct effect. And also the last tranche would be the R\$413 million of restricted cash. Out of the almost R\$8 billion of on balance sheet debt approximately R\$840 million is due in the next 12

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months, as you can see in this graph. A significant tax reduction from current levels is required. Our plan balances overall operating growth and long-term credit improvement.

It is expected to deliver approximately R\$300 million of annual cash flow improvement, when fully implemented. All of the initiatives are important to grow in order to be able to match its cash outflows with expected cash inflows. As we have mentioned before, the exchange offers are critical components of this plan. We are confident that the initiatives in execution will deliver the required cash flow savings with the result being a stronger balance sheet. We are targeting B credit metrics post restructuring, with a goal opportunity (42:26) BB metrics longer term, that's exactly where we were before the turmoil started here in Brazil, just a few years ago.

With that we would have our adjusted net debt below R\$13 billion post restructuring. We do expect that the results of our restructuring will be long lasting.

Again, thank you for your attention. And I will give the floor back to Kaki.

Paulo Sergio Kakinoff {BIO 5160310 <GO>}

I would like to end here by thanking you for joining us during this presentation. GOL is the largest low cost airline in Latin America and is committed to best practice corporate governance and transparency. I hope our review of the impacts generated by an expected market economic ways that hit us last year, and the restructuring plan we are executing, help you to understand where we are taking the company. First quarter 2016, was our first quarter of results generated from the initiatives we began in mid-2015. Our team will continue to deliver solid execution of initiatives, so that GOL weather the crises and then mergers as an evenly stronger company.

We will now move to the Q&A session, please.

Edmar Prado Lopes Neto {BIO 15245559 <GO>}

Actually, before we open the line for your questions, guys, I think I should address several questions that we have received from investors and the market since last week when we launched the exchange offer. We have received the mails, website calls, but I think it's important we have a summary here. So the first question was, what GOL expects from these exchange offers. We think that the goal of these exchange offers primarily is to ensure that GOL emerges from this current crisis in the best competitive position.

Another question that was mailed is whether creditors were being treated in an equal manner. Certainly, yes. GOL secure creditors, its lessors and lenders secured by aircraft by providing concession and support. And the terms of the offer are based on current market prices. GOL's local credit providers and partners are also providing concessions and support, and the terms are surely based upon credit relationship. Again the exchange offers are critical components of both restructuring plan, and the terms that we are offering are based on market prices for the bonds.

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There was a guy that also asked me about the Brazilian banks, Banco do Brasil in Bradesco, which have long supported the company are key credit providers to GOL, and we are discussing with them (45:47) maturities and additional lines of credit of up to R\$300 million, also letters of credit, discussions as Kaki mentioned before are underway, so at this point there is no final conclusion.

How much we can expect from those initiatives? Just reinforcing what we have said before, we do expect R\$300 million of annual cash flow savings, when and if all the initiatives are executed.

There was a question also about equity, why we wouldn't be offering a equity at this point. There was a lot of discussions with the several of our bondholders and PDCE (46:45) has advised us that unsecured creditors would rather have new loans (46:55) secured by collateral and received cash rather than having an equity at this point.

Now, we'll go again, earlier today Kaki was asked in our journalist call whether we would review the terms of the offer. We have no intention to change that or to amend anything in the offer. Of course, we will obviously assess the status of the exchange offer following the early bird-day (47:29) that is next week. So it's very clear for us that at this point we will not change.

Another question that was made, that this one I remember, came directly to me, is what we think that will happen if the exchange offer does not proceed. If we're not successful, we'll not be able to compete several of the liquidity initiatives described previously because they are related. As you can see from the presentation here, our liquidity which has been shrinking will suffer, and we will not be able to include, neither our cash acquisition our cash flow status in our credit profile.

And with that, this is a final comment because of the rating agencies having downgraded us, and some of them put on a special categories (48:34). We were asked whether this is a default or not. No, this is not a default. We are conducting an exchange offer or exchange offers because of the number of the bonds, and we are offering a premium price cash in a collateral. Full maturity and security bondholders can exchange for secured bonds.

I will now turn to the operator and please open the line for questions.

Q&A

Operator

Thank you. And our first question comes from Michael Linenberg of Deutsche Bank. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hey. Good morning, everybody. I have a couple here, and it's either Edmar or Kakinoff, whoever would like to answer them. If we can just talk about - to start off what your cash burn looks like right now, it does look like that your unrestricted cash at the end of the year was over R\$900 million, and it looks like at the end of the March quarter it was R\$650 million, something on the order of about R\$3 million plus a day. Where are you now, what is it look like as we move through the June quarter, which I know seasonally is one of your weakest quarters?

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

Hi, Michael.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hi, Ed.

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

Good morning in the U.S. Michael, we are pointing out that the cash available is shrinking, and that's why we are being very clear about all the initiatives. I don't know, if you saw the presentation, Kaki mentioned that in this quarter we were able to raise at least R\$900 million of additional cash in order to meet our financial obligation and expenses as well. To say, how much cash we will burn next quarter, it's a tough moment because, as Kaki mentioned, the uncertainty here in Brazil, it's very high at this point, it's unclear, but we know that we will burn cash because this is for sure the worst quarter, this is analysis speaking as for Brazil. We don't have much visibility, but we're counting on the initiatives to move on, that's what we can say at this point.

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

Michael, good morning, here is Kakinoff.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hi, Kakinoff.

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

This is just to, (51:36) have just said, this is a comprehensive restructuring plan made of several parts. We are fully committed to deliver all of that, but the truth is we cannot miss none of these parts, otherwise we will have the company been exposed to a quite risky situation. So the second quarter is pretty challenge one. All the initiatives are linked to restricted time plan, to be executed and delivered. So at the moment, the only thing that we can tell is, we are a 100% focused, fortunately the initiatives have been delivered on time. The second quarter is really challenged, and currently, we are in a cash burn rate. So having the plan being executed, we will be able to go through the stronger weather, but we need to have all of those initiatives delivered.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Great. And then, just with respect to sale leasebacks, you did three in the last quarter, you raised R\$212 million, at least that was the gain. Do you have other aircraft available that you could pursue additional sale leasebacks on, and if you do are you currently contemplating those additional sale leasebacks, and will they impact this quarter?

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

Michael, we could have another aircraft to be either sold plus sale leaseback, but it's pretty much unlikely that we would get the same amount. Those were six aircraft with a lot of equity (53:27) and we were somehow lucky, because we could get a quite favorable exchange rate when those aircrafts were sold, the exchange rate was R\$4.15. So we wouldn't have the same amount of earnings, not even close to that by selling more aircrafts, considering the current market values and the exchange rate. Certainly, those are variables, they could change. But that would be a more opportunistic approach of the company, and not a part of our cash inflow plan or something like that.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Great. And then just on the exchange offer, I know in the documents you're targeting 95%. Is there a minimum that you need to achieve in order to affect all of the other agreements that you had in principle with other creditors like some sort of minimum threshold? Number one A. And I guess, sort of number one B, does each class of security have to achieve that minimum? Say, you have to get to a majority percent in order to affect - to succeed with the exchange offering?

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

The answer is no, but it's also pretty much related to the penetration of acceptance in each of the notes, plus the (55:05) I mean, it's going to - we're going to analyze and make the assessment for each note, and then come to an individual conclusion, by individual, I mean for each note whether it will make sense or not to go for the deal. So there is no minimum preset amount, but certainly we are going to analyze whether it makes sense or not.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Then just quickly, lastly and this is technical when we get to May 17 or May 18, will you put out a press release with an update on the percents of noteholders who have tendered, will that be available or will you just remain quiet until we get to June?

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

Mike, well, this is Edmar here. We will decide on the eve at the night during 2017 and 2018 (55:59) depending on what comes out. It's too early to say. But let me go back to one of your questions that is about how much cash taken because of seasonality and the size of our operations. No, we're shrinking operations here, ballparked numbers for cash burn should be at the same levels of this quarter, okay?

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. So what we saw on the March quarter and that was around R\$3 million a day or so.

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

Yes.

Q - Michael Linenberg {BIO 1504009 <GO>}

Okay. Thank you.

Operator

Our next question comes from Renato Salomone of Itaú. Please go ahead.

Q - Renato Salomone {BIO 17292431 <GO>}

Good morning Kaki, Edmar. First of all, congratulations on the network reshuffle and the capacity discipline that we saw, especially in the latter part of the quarter. My first question is regarding the fleet. Could you please give us a ballpark for the number of aircrafts that are currently parked, if possible, with the mix of 700s and 800s? And also how advanced are the negotiations with lessors that are being led by SkyWorks?

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

This is - Renato, thank you very much for the comment and also for the participation. At the moment we have 16 aircrafts grounded, and the mix of those aircrafts are related to the company's mix. So I mean, 40% of them are 737-700s. The negotiations with the lessors are progressing quite well. We are also treating all of them equally, but knowing that they have different exposure to the company, and different number of aircraft leases they will also participate proportionally to the (57:53). For each of the vessels, the negotiations are in a different point of development, but they are progressing well. I believe that over the following weeks, we expect to deliver some news on this progress.

Q - Renato Salomone {BIO 17292431 <GO>}

Okay. Thank you. And...

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

Thank you.

Q - Renato Salomone {BIO 17292431 <GO>}

on the second question, I was impressed with the 80% yearly jump in international revenues, even with the 18% ASK reduction in the international market. Can you give us some insight on this growth, so we can properly project international revenues going forward?

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

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Hi, Renato. This is Edmar here. Thank you for the question. As we have been telling the market, we are expanding our channels of distribution offshore Brazil. This is one. So now, we have GDF (58:58) in a lot of places that we did not. We're talking about 50 countries that were not served by our distribution channels, so this is one. We should expect still some growth (59:15) but also in terms of on a relative basis, we were benefited by the FX, because the Real was evaluated, meaning that we should see some of our revenues coming down.

The next point is related to accounting, which is important because we got a few questions whether people would be able to do the math, to see our RASK and PRASK in international and domestic revenue. No, you can't, because what we book here, what we account is the point of sale, while for doing the right math for RASK, domestic and international, you need to see the the slides (01:00:05) by themselves. So you cannot do the math, and we do not disclose information, but we see here in our financial statements are the point of sale. But again, it's growing, but we should see some downturn (01:00:22) in the next close future because of the FX.

Q - Renato Salomone {BIO 17292431 <GO>}

Okay. Thank you, guys.

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

Thank you.

Operator

Our next question comes from Brad Armstrong of the GAA Hedge Fund (01:00:38). Please go ahead.

Hi, good morning. Thank you for taking my call. My question relates to the exchange offering. I was hoping you guys could explain in more detail just how the liquidity initiatives are linked to the completion of the exchange offer.

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

I will take this, Kaki. Hi, Brad (01:01:01). Here at GOL, we cannot go into more specific details of the negotiations because they are not public. What we have told the market is exactly where we are at this point. But one should understand that most of them have credit conditions, that if we cannot meet, there will be - that will jeopardize the exchange offer, meaning that there is some correlation among the negotiations, some (01:01:39) conditionality, but at this point, we cannot disclose much besides that we have told the market so far.

Q - Operator

Okay. I understand. Thank you very much.

Our next question comes from Savi Syth from Raymond James. Please go ahead.

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Q - Savanthi N. Syth {BIO 17476219 <GO>}

Hey. Hello guys. Thanks so much for the questions. Just a few follow ups. One on the domestic and international, could you kind of give roughly like what you're seeing from a domestic proxy improvement standpoint in 1Q, and maybe what the trend is for the rest - is that what you've seen so far in 2Q?

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

Good morning. This is actually one of the positive aspects of credit capacity, which we started to implement. But the second quarter, as I mentioned before, is not only challenging, but the first output of the advance in sales shows that this quarter will be not different regarding the demand reduction than we had last year, or even lower. The whole industry is getting capacity (01:03:03) but the demand seems to be really weak. We could not take the first quarter yields as a parameter for the remaining quarters, mainly the next one. So there is a lot of uncertainty, and we cannot foresee the press quoted figure (01:03:25). Sorry for this.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

No, I appreciate that, Kaki. So you're taking a lot of capacity out, and most of that start coming out in March. So are you at least seeing then the yields improving, or as you get into the weak quarter, is that a struggle as well?

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

Again, the yields were improved in the first quarter. Now, for the second, the yields could improve. In case that the corporate demand, the business travelers would be at the expected level, which is not happening. Considering that expected level, was already at a lower level than last year. So that's probably the main concern. We do not know how the market will react, and how the economy in the short-term will react to the today's news, I mean the change of the President. But it would be maybe too optimistic to assume that next week the companies and the businessmen will be back to their traditional level frequency of business travels. Therefore, again, we cannot give you any kind of optimistic, not even a more accurate view on the (01:04:50).

Q - Savanthi N. Syth {BIO 17476219 <GO>}

Understood. And then just on the capacity guidance for the year, I was wondering if you could kind of break it out between domestic, international, but also so that the 20 leased aircraft that you're hoping to return, does the guidance reflect all 20 being returned, or if you're successful there, could we see maybe that updated, if demand calls for it?

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

No. This number of aircraft is a 100% linked to the guidance already delivered. So our task is now to get rid of those airplanes.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

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Okay. And my last kind of quick question on the fuel hedging, it doesn't seem like (01:05:38) fuel hedges. I was wondering if you could - and I appreciate the color that 6% is hedged over the next 12 months. But is more of that hedged in the next quarter or two quarters, or how should we think about and kind of what levels have been locked in?

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

Hi Savi, this is Edmar, we have been carrying (01:05:56) of hedging here. And we have been using primarily Petrobras fixed price because of the credit crunch that we are facing here. And therefore we are carrying the minimum levels that our policy has established, there is 20% to 25% for the short-term.

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

Hedging became even tougher, I mean, hedging for the company, because there is a lack of quality, and the company does not have cash availability to purchase a new position. So it is relied (01:06:36) at the moment not just because of our view on the oil future prices but also because the company is facing several constraint to get credit in case there we will go for higher position.

Q - Savanthi N. Syth {BIO 17476219 <GO>}

All right. Thank you very much.

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

Thank you.

Operator

Our next question comes from Ravi Jain of HSBC. Please go ahead.

Q - Ravi Jain {BIO 16135293 <GO>}

Hi. Good morning. So just a two couple of quick questions. First is on the restructuring. So at the end of the restructuring, assuming that the exchange offer and the negotiation with the aircraft lessors are successful, we're still probably looking at a leverage which is relatively slightly high. And wanted to just get your thoughts on, is it just going to be deleveraging from the business there on, do you have some other initiatives in mind? That's the first question. And the second one was on the CASK ex-fuel, now that assuming as of more stable FX going forward, are there efficiencies or changes that we should expect? Thank you so much.

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

Hi, Ravi. Starting from the last question, most of cost cuttings initiatives were either already implemented or announced. We do expect to have additional efficiency gains along this year, but the total amount to be favored would not really be as meaningful as necessary to really be considered as a game changer regarding our cost structure. We have been under pressure on several items like navigation fees, tax, airport fees, and

labor costs, just to name some of our costs, those are under pressure and increasing at the moment. So we do not expect really sizable cuts to be delivered when we compare to our total cost structure. Could you please repeat again, your first question, because I'm not sure that we clearly understood what you said.

Q - Ravi Jain {BIO 16135293 <GO>}

Sure. So the first question was, I mean, assuming a successful exchange offer and negotiation with the aircraft lessors, we're probably still looking at a debt level, or a leverage that is relatively high. Do you have any other initiatives in mind after that, or do you think, it's going to be the deleveraging from the business thereon?

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

Considering that our leverage is pretty much linked to the exchange rate, and that's extremely volatile at the moment, it's really hard to predict how it's going to be our leverage to follow (01:09:52) after these initiatives. But I'm pretty sure that being successful in delivering those two fronts the company will be not only sustainable, but able to assume it's business continuation in much healthy way than we have today. Actually this is necessary to have the company out of this transition period being at least at the same size, that the company became now, and be in again back on the growth track. We are pretty much confident on that, but we do need to deliver those two fronts results.

Q - Operator

All right. Thank you, that's helpful.

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

Thank you.

Operator

Our next question comes from Pablo Zaldivar of GBM. Please go ahead.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Hello. Good morning. Thank you for taking my question. I just have a couple. The first one, could you give us a little bit more insight, regarding the current competition and pricing dynamics that you are seeing in the market for the following quarter?

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

Pickup initially has been tough. I mean, I guess that, as I mentioned before, the capacity reduction has not been followed by all the competitors. So, it means that, in some months of the year, we are predicting to face is still an overcapacity, in comparison to demand. So, I would summarize like the following. The discipline regarding capacity is much more rationale than before, but I wouldn't say that it has achieved its balance, in comparison to

the demand, when we are talking of the whole system. It's improving, but real is still not close to the optimum point.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Thank you. And another question regarding cargo and ancillary revenues, during the quarter we saw a slight decrease, could you give us a little bit more color on the reasons that this happened? Because in terms of gross revenue, you were - you showed a 13% increase and when you move to net revenue, it is 1% decrease?

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

Hi, Pablo. This is Edmar here. Some of our targets (01:12:36) have decreased, in terms of revenue. It's seasonality and also, related to the lack of demand because we are charging more for summer products. And also if you look at our earnings, you see that net revenues came down, but gross revenues were up. This is also related for - related to taxes, but overall this is a reflection of the lower demand level that we see in Brazil because a lot of our ancillary revenues are up-selling products that we have and also the cargo, which is very much related to GDP in Brazil like back (01:13:16) demand. We are seeing the numbers are coming down every single month, and we are keeping our market share through pricing.

Q - Pablo Zaldivar {BIO 20206792 <GO>}

Okay. Thank you very much.

Operator

The next question comes from Victor Mizusaki of Bradesco BBI. Please go ahead.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, good morning. I have two questions. The first one is actually a follow-up on the CASK for the second quarter and going forward. If you take a look on what do you report in the first quarter and on the average FX rate, can we assume that maybe we'll likely see another decline of maybe 3% to 5% in the second quarter?

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

Hi Victor, this is Edmar here. We should not assume a gain on the CASK at this point because, as Kaki mentioned before. We have at least 16 planes grounded at this moment, so they will be less efficient during this quarter. This is one of the reasons why we're discussing with lessors we need to get these planes out of Brazil, so still early to say that. Fuel is up, fuel went from \$30 bucks a barrel in the first quarter that is January-February to \$45, so we should see fuel moving up as well.

Again, total CASK will be up and ex-fuel CASK, will see the pressure of the planes being grounded and a reduction in capacity as well. Because you saw that the number of ASKs in the first quarter decreased significantly after March. So at this point I would say that it's a concern.

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

Victor, just to add an important information. Considering the beginning of this year's forecast, regarding jet fuel price and the exchange rate dollar/real for this year, the full year effect, the jet fuel price in reais is 7.6% higher than it was supposed to be because of the 50% price increase on the WTI price since the beginning of this year.

So that's probably the best forecast we can give you on the key - on the jet fuel price for the year, at the moment, okay?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. And just one last question. When we take a look on your average stage length, we can see an increase of 3%? What can we assume going for the remainder of the year?

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

It varies between high season and low season but it is something around 1050 kilometers with the new average stage length.

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

I mean price-wise -

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

The buckets for the year after the new network. You should remember that the new network was implemented in May 1. So it should add 70 - 60 kilometers to 70 kilometers on top of the average length you saw in the first quarter of 2016, but as I said it varies between high and low season because during their high leisure season, we naturally have longer stage length.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

Our next question comes from Bruno Amorim of Santander. Please go ahead.

Q - Bruno Amorim {BIO 17243832 <GO>}

Hi. Good morning, all. So I have one question related to maintenance expenses, which came down by 13% year-on-year in this first quarter. I'd like you to better understand why this happened given that the effect has depreciated by over 30% in the same period? And also to what extent is the current level of maintenance expense recurring going forward? Thank you.

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

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Hi, Bruno. This is Edmar. It's just calendar, we see it this is - sometimes it's varies - the number of engines from one quarter one to the other, okay (01:17:58).

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. So should we expect a decrease in the upcoming quarters?

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

Yes. I would say yes. But it will depend on the physical fleet itself. Okay.

Q - Bruno Amorim {BIO 17243832 <GO>}

Okay. Thank you very much.

Operator

Our next question comes from Rogério Araújo of USB (sic) [UBS] (01:18:18). Please go ahead.

Q - Rogério Araújo

Hey, gentlemen, good morning. Thanks for the opportunity. I have two questions. First if you allow me, I would like to do a follow-up on the international revenues. I think this is an important point to understand as it's similar to represent most of the user expansion in the first Q. I know you mentioned that we cannot do the year calculation breakdown, but I imagine that this can be that - it is the best approximation you have - we have. You mentioned that we should see the international revenue going down as of second Q due to the BRL (01:18:54) appreciation, but my question is regarding the magnitude of this reduction because when you do the approximation for international yields, we have 90.21% (01:19:05) increase in international yields, 65% explained by a point of sales basis and only 36% explained by the FX depreciation. So what's the magnitude of this reduction that you could see as of second Q? This is my first question. Thank you.

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

Rogério, I will go back. Please do not take this as a good proxy, what we have in the financial statement as a proxy for calculating the yield for domestic and international flight. You will go into mistakes, okay, because what you see in the financial statements are the point of sale, this is not what we fly, okay. So this is - there is a difference. But for the trends, as Kaki mentioned before, we are seeing the yields going down both in the domestic market as well as in international market. In international market, I would add as factors that that would make the number go down is lower demand, seasonality, and also because of the FX. Again, we should not see the same growth in the next quarters, okay, rather we should see a decrease from one quarter to the other.

Q - Rogério Araújo

Okay. Got it. My second question is regarding the initiatives you're taking, you mentioned, if I'm not mistaken, R\$300 million of annual cash flow savings. My question is regarding is

this number right and does it include that interest savings as well or it's mostly lessors and other cost cutting? Thank you.

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

Rojero, as I mentioned, it includes everything and the number will only appear if we do as acute and complete all the initiatives, which at this point, we are still discussing with lessors, we are still discussing with the Brazilian banks, the exchange offers are on the street. So there is still a lot of uncertainty here, but for sure we need all of them to be done and completed.

Q - Rogério Araújo

Okay. Very clear. Thank you very much.

Operator

The next question comes from Josh Milberg of Morgan Stanley. Please go ahead.

Q - Joshua Milberg

Good morning, everyone, and thanks for the questions. Just a few doubts on your CapEx, it looks like excluding the effects of the PDP inflows that you had about a R\$170 million of investment in the quarter, can you just comment of what's behind that amount? And also, I think, you've said in the past that you expect to keep the maintenance CapEx to as little as R\$200 million on an annual basis. So just wanted to know if that's what you're still targeting?

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

Yes. That's what we're still targeting, but it depends on the fuel movements, it's still unclear for us. The first one is where the FX will stabilize, that affects our CapEx on a direct basis. And also as we have told the market, we have come to an agreement with Boeing that gives us flexibility in terms of cash flow. But there are some more conditionalities here. And we cannot disclose them, but the number you're looking for could be higher depending on FX, but that's the ballpark now.

Q - Joshua Milberg

Even if it's a bit higher, how sustainable would that level be taking into account that your depreciation is well above that R\$400 million plus?

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

Again, depreciation also take into account the engines, so it is the different line. It does not depend upon only the CapEx of aircraft on a standalone basis. And again, as Kaki mentioned before, at this point, we need to do everything, all the initiatives should be completed in order to take the company to out of this crisis. That's where we are now. We cannot say that we will keep all the CapEx levels exactly the same way that we were in the last few years.

Q - Joshua Milberg

Okay. Thank you.

Operator

Our next question comes from Julia Bretz (01:23:46) of BCP Securities. Please go ahead.

Hi, good morning, thank you for the call. So I just wanted to double check on CapEx, does that include the prepayments and the sale leasebacks – the prepayments for Boeing the R\$200 million net investments?

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

Yes, this is – Julia, it goes on a different line. The sale leaseback, it's a – it comes above EBIT line, so whenever we have a transaction like this, we book it a different way. And everything that we're talking about, every time we're talking about CapEx, we are talking both PDPs and engines that are overhauled in a (01:24:35) manner, okay. So that's how I would split the two lines here.

Q - Operator

Okay. So for CapEx, you're including the R\$322 million and R\$369 million for buying aircrafts?

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

Sorry, would you repeat the question please?

Q - Operator

Sure. For CapEx, are you including or excluding the advances for acquisitions of Boeing's aircrafts, which is about R\$700 million?

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

I'm including that. That's part of our CapEx.

Q - Operator

Okay. Perfect. Thank you.

The next question is a follow-up from Michael Linenberg. Please go ahead.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hey, thanks, everyone. I'd just – one quick here. Earlier, I think, Edmar, you had talked about the collateral, backing the new loans, R\$223 million that MDA did an appraisal on. Can you just give us any color on what that collateral is? Is that gates or slots or engines or is it just all spare parts, what does the collateral consist of?

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

Hi, Michael.

Q - Michael Linenberg {BIO 1504009 <GO>}

Hey.

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

Yeah. No, I will take this one. This is a question, it's an opportunity that we have to clarify there. Okay. We hired MDA, an MDA is a well-known company, that has done a lot of work to the market, as for appraisals, aircraft appraisals, spare part appraisal. They came with the number of \$223 million for our spare parts, which are rotatables and expendables, whoever is familiar with the aircraft business will know what it is. One of our most valuable asset, that's our spare parts. First, the values linked to the value of Boeing 737, Boeing 700s and Boeing 800s, because they are all parts that we need to fly.

We cannot operate without them, that's the point. We will - we need to keep them in order to fly. So, that's a very important issue, so we will take care of the spare parts. And because they have a very good liquidity in the marketplace, I can assure that as for bond holders, this is a very good, security that we can offer, okay.

So, R\$223 million, appraisal from an external agent, we cover the 100% of the principle, they has - it's - the value linked to Boeing aircraft and we cannot - absolutely, we cannot operate without them. So, that's where we are now for the collateral.

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

Michael, this is really important to emphasize, once those parts, as Tripoli (01:27:44) said, they have high liquidity, their value is automatically adjusted by the Boeing 737, Boeing 800 market price, which has only ground since the aircraft was market introduced. And what Edmar said is the most important thing. We do need those rotatables to operate the airline. So, that security is pretty much aligned with the bond holders, you know the expectation was the company. We'll make everything, but not honor those notes, because we cannot operate without these parts. So, that's a very, very robust and a strong collateral that has been offered through New Notes.

Q - Michael Linenberg {BIO 1504009 <GO>}

Great. Thanks, Kaki. Thanks, Edmar.

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

Thanks.

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

Thank you.

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Operator

There are no further questions at this time. This concludes today's question-and-answer session. I would like to invite Mr. Paulo Kakinoff to proceed with his closing remarks. Please go ahead, sir.

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

Just I'd like to thank you all for the attention. That's a very I'd say important conference call once we had the opportunity to explain the most important information on our restructuring plan, and the exchange offers and maybe on the challenging scenario ahead. I would like to kindly invite you to clarify further questions in case they will exist along this day. Our team is fully available. Thank you very much. Have you all a very nice day.

Operator

That concludes today's GOL Airlines conference call. Thank you very much for participation, and have a nice day.

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