Conference Call Transcript
4Q12 Results
March 26, 2013

Operator:

Good afternoon everyone and thank you for waiting. Welcome to Gol Linhas Aéreas Inteligentes 4th Quarter of 2012 results conference call.

With us here today we have **Mr. Paulo Sérgio Kakinoff, CEO** and **Mr. Edmar Lopes, CFO**.

This event is being recorded and all participants will be in a listen-only mode during the company's presentation. After Gol Linhas Aéreas Inteligentes remarks there will be a question-and-answer session. At that time further instructions will be given. Should any participant need assistance during this call please press star zero to reach the operator.

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

Before proceeding let me mention that forward-looking statements are based on the beliefs and assumptions of Gol Linhas Aéreas Inteligentes 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 macroeconomic conditions, industry conditions 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. Kakinoff you may begin your presentation.

Mr. Paulo Sérgio Kakinoff:

Hello everyone and thank you for joining us today in our earnings conference call for 4Q and full year of 2012. Let us begin on slide 4 where we show the main initiatives in 2012, a year that was marked by the company’s measures to strengthen its strategy, reinforce its focus on the clients through the development and enhancement of services and initiatives to maintain Gol's low-cost DNA.

On the cost side we decided to end up Webjet operation and consequently we moved off 737-300 aircraft from service due to the exceptionally high fuel costs and efficiency and maintenance costs.

We also had to adapt the company resulting in a 15% reduction in the workforce. These adjustments were absolutely necessary in order to ensure Gol's sustainable growth in the coming years and were done due to a challenging scenario faced by the domestic industry. An 18% fuel increase; the devaluation of the real against the US dollar in 17%; an increase of over 30% in airport fees year over year; and a growth below than expected for the Brazilian GDP were the main drivers in this tough year that we are leaving behind.

At the same time that a lot was on the cost side we also put focus on our clients and the improvement of our services. Gol was the country's most punctual airline and also managed to increase its remote check in ratio, showing that it was capable of generating highly efficient airport operations without reduced service quality. This performance is a result of one of the main synergies related to the integration of Webjet.

We also introduced several initiatives along the year to provide our clients with even more benefits, including the special seat; the expansion of the buy onboard service; the improvement of partnerships based in greater flexibility in regard to anticipating flights at the airports.

In terms of strategy Gol acted fast adapting its operating capacity to this new market reality having led the flights to reduce domestic supply since the beginning of 2012. For 2013 the company has already announced a cut of domestic supply (ASKs), of around 7%, even a reduction of more than 10% in two years, reinforcing the company's commitment to resuming operating margins.

The new international flights to Santo Domingo and the United States are also part this environment, in addition to exploring a high-growth market and offering our current clients more options, these operations allow us to reroute domestic operating capacity to the international market using the same model of aircraft.

The creation of the Brazilian Airline Association - ABEAR is a clear sign that the local airline industry is changing in terms of both organization and concern with sustainable growth in the years ahead. The Association will help ensure a more organized aviation sector that is sustainable in the long term. The Association has already achieved important victories for the industry and continues to work in material discussions for the development of commercial aviation in the country.

A new route network was designed at the end of 2012 and implemented at the beginning of 2013 resulting in more convenient flight times, routes and connections as well as an adjustment of the route network due to the discontinuation of Webjet operations at the end of 2012.

Gol also focuses on strengthening and developing its Smiles Loyalty Program, since January a fully-fledged company business units called Smiles S.A. which is currently preparing for its IPO. We believe in the potential of loyalty programs in the coming years and the benefits that are a combination of these businesses will add to the Gol Group.

In October 2012 we announced an additional order of 60 Boeing 737MAX aircraft for delivery as of 2018. This decision exemplifies Gol's low-cost DNA ensuring a competitive cost advantage in the long term given that this model is even more efficient than the current ones.

Moving on now to slide 6 here we can see an important supply rationalization tendency in the Brazilian market. Previously we experienced double-digit growth. On 4Q12, a quarter of strong supply growth, the industry recorded a decline in supply of 5% in 4Q, 7% in January and 11% in February 2013. In fact the current moment is unprecedented in the history of Brazilian aviation.

Slide 7 shows the new behavior of the leading market players who have begun to follow the supply reduction initiated by Gol in April 2012, an important sign that Brazil's airline industry is on the way to constructing a more sustainable environment.

On slide 8 we show that Gol was more aggressive than its peers in cutting supply in 4Q12 and also in 2012, with respective reductions of 15.5% and 5.4% showing the company's commitment to recover operating margins. It is also worth noticing the modest growth of the national industry in 2012, just 2.7% in supply and 6.8% in the domestic demand.

Moving on to slide 10 and still in the rationalization trend in which the company played a key role, Gol announced supply reduction targets of between 8% and 10% in the first half of 2013 and a reduction of around 7% for the year, both of which in 12-month terms. This reinforces the company’s aim of achieving a RASK growth of at least 10% this year and recover operating margins.

On slide 11 the company highlights its strategy of recurring yields and emphasizes a 17% growth year over year of this indicator for February 2013. This strategy, together with an improvement of the load factor is seen on slide number 12. It is Gol’s focus that a better combination of load factors and yields which can lead us to a passenger revenue per ASK increase.

On 4Q12 yields were up by 2.3% and the load factor was up by 5 p.p. The combined effect of these variables as shown on slide 13 resulted in a PRASK growth of 9.2% in 4Q12 and 14% in February 2013 year over year. This is the 11^{th} consecutive monthly upturn for this indicator. From March 2013 this growth trend should remain in line with the rationalization strategy and the commitment to resuming operating margins the company announced a minimum price growth target of 10% for 2013.

On slide 14 we can notice that Gol trimmed its workforce by around 15%, which was a fundamental factor in controlling costs. From December 2012 to March 2013 Gol reached a reduction of 7.4%. The company remains focused on strengthening its low-cost DNA.

On slide 15 you can see that Gol became the country's most reliable airline with an average punctuality ratio of 94% in 2012. Gol continues to remain focused on high levels of quality and dynamism in its services.

Another highlight as you can see on slide 16 was the continuous increase in the use of remote check-in facilities (smart phones, Internet and tokens) that after the implementation of the concept of fast travel reached about 20 million passengers who barely got lines at airports in 2012. Currently we are focused on implementing initiatives that make up this concept created by Gol with the objective of providing greater simplicity, agility and mobility for our passengers.

Slide 18 shows the results of our efforts in 2012 to offer our clients more options and increasing comfort, exemplified by the special seats on the Rio - São Paulo shuttle; the new flights to Miami, Orlando and Santo Domingo; the expansion of onboard sales, which are now present in 50% of our flights; and the sale of tickets via Facebook.

In 2012 Gol became more flexible in regards to anticipating flights in the airports, an important convenience for business clients. Also with its eye on the segment in February the company introduced a new network with more convenient times, routes and connections for business passengers. GOLLOG (Gol's cargo unit) also reached the important mark of more than 3.5 thousand cities covered and opened a new terminal in Guarulhos.

Moving on to slide 20 which deals with the loyalty program, in 2012 we achieved our aim of turning Smiles into an independent company (Smiles S.A.) ready for an IPO. In February 2013 Smiles S.A. filed an official request for registration as a publicly-held company and for authorization to hold an IPO with CVM (the Brazilian SEC). Today we wait on a positive sign from CVM to proceed with our plans. Gol believes that the separation of the business units will add more value to the group.

2012 was marked by measures to strengthen the program. As you can see on slide 21 several new products were launched, including Smiles Shopping; mileage purchases; the new ticket redemption platform of international airline partners; exclusive flight; the new pricing framework and new partnerships, among other changes. In addition Smiles recorded annual growth of 9% in its client base.

I will now hand you over to Edmar who will present our results for the period.

Mr. Edmar Lopes:

Good morning everyone in the US, good afternoon for those who are here in Brazil, thanks Kakinoff. I will move over to slide 23 and here we highlight the main factors that did affect our results in 2012. The first one is the growth in the fuel price over the year, 18% on average, and especially on 4Q we faced the highest price ever for a quarter in terms of jet fuel in Brazil, this was beyond R$ 2.4/litter and this level of price remains for 1Q13.

The second issue that we would like to highlight is the depreciation of the real, 17% against the US dollar and I remember you that in our cost structure we have 55% of our costs related to the FX. So these two items alone combined had an impact as for fuel alone of R$ 680 million in 2012, and remember that also we are reducing our ASK. I am talking only about prices.

As announced earlier in the year we saw also the airport fees going up by 30%. This is another R$ 154 million that were impacting our results in 2012 beyond 2011.

The fourth item we would like to raise is the Brazilian GDP growth. Everyone knows now that we started the year with a perspective of roughly 4% and the numbers were coming down along the year and at the end we saw - barely saw - a 0.9% increase and for sure it does affect our revenues, because still in Brazil demand is very sensitive to that. This factor alone emphasizes, reinforces our commitment to go deeper in the country.

Please be aware that when we announced the first guidance for the year we were still looking for maybe a shy growth in terms of ASKs, but the economic environment did not help us. So we had to move fast and change and therefore the number of -5.4% and the guidance that we have for 2013 are very much aligned with the view that we have of the macro side.

Also because of the items I just mentioned we have decided to anticipate Webjet grounding the planes. We had plans to ground them, to return them on a soft way throughout 2013 but because of the macro side, that is, the demand which was very weak and also on the cost side record jet fuel levels, we decided to ground all the planes in November.

Also at the end of the year we saw that there was an impairment of Varig's brand.

Now I will invite you to go over the next slide, slide 24, and there we see the main financial and operational indicators. I would like to highlight first RASK that went up 4.5% year-over-year and if you look at the number for 4Q you will see that it is a double digit growth in 4Q. It was exactly what happened in the year, that is, we had a very soft and mild first half and the improvements on the right side are coming after we decided to cut capacity. That is after April and especially during 4Q when we see our RASK growing by two digits.

Also going on the cost side I would like to highlight that our ex-fuel costs adjusted (and adjusted here means that I am taking off the R$ 196 million that were provisioned in additional costs incurred, one-off incurred in 4Q) our CASK would be R$ 9.78 cents and that is an increase of 4.3% against the previous year and even with the real being again depreciated by 17% the effect impacts roughly 20%, 25% of our ex-fuel costs as well as we had to deal with FX near cutting capacity at the same time.

At the bottom of the chart you can see that as I mentioned before we face the highest fuel price ever in Brazil and in 1Q I can anticipate we are dealing with the same numbers.

Moving on to page 25 we have a brief summary of all the results from 2010, and as I mentioned we came short on the revenue especially due to the weak demand. On the cost side we had an impact: fuel R$ 680 million as for price; airport fees of R$ 164 million; and we had another R$ 140 million for aircraft lease related to the FX alone. So the combination of those three items alone would grow roughly R$ 1 billion and it does explain what happened with the operating margin of the company in 2012.

Moving on to EBITDAR this is an item I will go back later in the presentation. We saw that we closed the year with R$ 250 million. If we do exclude the one-offs the EBITDAR would be R$ 455 million against R$ 656 million in the previous year. We saw in the last three quarters of the year an almost flat EBITDAR and in 2013 with the new guidance we just announced last night you see that there will be a fast recovery in terms of EBITDAR growing quarter over quarter, and this is exactly what has happened and what was affecting our leverage at the end of the year. The leverage reached its peak and now we are starting to change those quarters for better quarters and leverage will come down very fast during 2013.

Also to talk about the net income what we saw is that the results were affected by the depreciation of the real. This alone would add another R$ 300 million, roughly R$ 300 million in our expenses.

PIS, Cofins. A one-off EBIT margin would be -7.6% for 4Q and -8.7% for the full year. This is an issue which is very important, because if you bear in mind that we will post low single-digit margin on the positive side for 2013 no matter what quarter, you will see that our turnaround as for margin will be at least roughly 10 p.p. margin showing the amount of effort that we made with all the measures that Kakinoff just went through a few minutes ago.

Moving on to the next page talking about financial indicators, we are just going over everything that you have seen on the financial statements. You see that in 4Q12 we saw our revenues coming down by 5% compared to the previous year while our capacity decreased by 15%, that is why we are increasing revenues in terms of units and we have a better policy over there. This is very much reflected on our RASK going up to R$ 0.17.

On the right-hand side of the chart we see that our CASK reached a high level for 4Q and this I would like to make an observation. As for fuel I have already gone over that, fuel alone would add 1.2 cents of real terms of CASK year-over-year.

And on the ex-fuel side we have to deal again with the difference in timing, that is we ground the plane and the number of ASKs comes down immediately (and we did that during the month of November), while it takes a while for the costs to come down, that is we still have to pay the fee, the wages for a while before we at the end of the day we finish the full operations. So I am stressing here because then we go over to 1Q13 we will go back to the levels where we were before, that is we have adjusted the company to this new capacity.

On the bottom of the page we see the EBIT margin of -17% roughly and excluding our one-offs as mentioned before it would be -7.6%. And on the right-hand side to the bottom again I would like to highlight exactly what I mentioned before and that is the chart for the EBITDAR.

One can see that the EBITDAR for the year primarily was the EBITDAR we had from 1Q and from then on we were gaining with the resizing of the company and one-offs and additional costs while we were adjusting our capacity. From now on we will post positive numbers for EBITDAR, that is, the leverage will come down quarter over quarter to a much better level at the end of the year.

And I would like to highlight here that if you look at our financial statements as for financial debt it remained at the same level of 2011, that is there was no increase as for debt. The leverage reflects very much the lack of results that we saw in the last 12 months.

Moving on to the next page, page 27, this is the chart that we show every quarter related to our cost level, we compare ourselves with our peers. We saw a spike in 4Q and I think I have covered all the reasons now. But the message here is we will go back to the levels below R$ 0.05 from 2013 on related to the efforts we have made in spite of although we are still cutting capacity by another 7% this year.

Moving on to the cash position and debt profile and before I hand over to Kakinoff, which is this chart takes into account the waiver that we got with Banco do Brasil and Bradesco as for the debentures. So we are not coming due in the short term, they are at their original maturity.

And as for cash we are showing R$ 1.6 billion and that is 20% of our net revenue for the year. We issued a bond of US$ 200 million and this is to protect our liquidity for the quarters is to come and from now on this number that we see will not change much. And this is an important chart for us because this has been one of our pillars during this rough or tough cycle that we faced. Now that the company will recover the margins we will have some relief on that cost pressure on the margin side and on the cash position as well.

By saying that I will hand it over to Kakinoff again and he will talk about our guidance for 2013. Kakinoff please.

Mr. Kakinoff:

Talking a little about our path for the year, slide 30 shows us our financial estimates for 2013. The company remains fully focused on its strategy of internationalizing supply in the Brazilian market and we announced a reduction in the domestic supply between 8% and 10% in the first half and a decrease around 7% for the full year both in 12-month terms.

The macroeconomic environment remains uncertain. Most specifically the major risk that the company sees is the projection of GDP growth for the year 2013. If this is a lower level than expected surely this guidance might be revised, affecting demand for the whole period.

We are taking the measures in order to achieve RASK growth of at least 10% and recovery in operating margins as estimated by the company to be between 1% and 3%. We also estimate a positive operating result for 1Q13 higher than in the same period of last year. This improvement in the results will make all metrics of the company come to a much healthier level, especially those related to leverage.

Last but not least on slide 32 we are reinforcing our commitment to a transparent and constant communication to the market - something we value here - and more than that we are committed with the execution of the company's strategy through efficient initiatives maintaining our focus on adjusting domestic supply and recovering operating margins.

Smiles is a top priority. We are moving towards an IPO and independent management specialized in the business model. At this moment we are just waiting for CVM's response to move on. Expanding and enhancing our passenger services and keeping a solid debt profile and a strong cash position are drivers for the year. These initiatives aim nothing but to recover operating margins over this year and taking the company to a new positive cycle.

Thank you all for your attention and we will now begin the question and answer session.

Ms. Richa Talwar, Deutsche Bank:

Hi gentlemen this is actually Richa phoning for Mike. My first question is just on CADE's opposition to trimming the workforce at Webjet. I just wanted to know if you can comment on whatever became of that. Thanks.

Mr. Lopes:

Rachel this is Edmar here. There is no opposition from CADE as for trimming the workforce at Webjet. There is nothing as for Cade is related we have done everything that was under the APRO.

Mr. Kakinoff:

Actually that is some misunderstanding. It was during the approval process - that was the so-called APRO – which forcing the company not allowing to have any kind of workforce integration or even dismissals.

So after CADE approved the integration process it was approved without any kind of restriction and therefore this is a misunderstanding related to the time when CADE was just analyzing the process but not came to any conclusion at the moment.

Ms. Talwar:

Ok, so there is no risk that they are going to come back and say anything related to that, I mean, you have satisfied all the requirements on Webjet. Is that position correct?

Mr. Lopes:

Yes we did.

Ms. Talwar:

Ok and then the second question is I noticed your Capex plan declined quite significantly for the next few years, I believe it is a little under R$ 1 billion for 2013 and then almost R$ 2 billion for 2014 and I was just wondering what drove that decrease.

Mr. Lopes:

Rachel this is Edmar here. If you look at our Capex it is 95% related to aircraft, this is one; secondly, we we have the fees have been kept, he had changed just a slight change over 2014 and we are counting here that we will have more, by 2013 we will have more 737-800s flying than we have nowadays, that is we are receiving 737-800s and we are taking out from operations the 737-700s and that is we are adjusting our commitment for the future related to this fact, ok?

Ms. Talwar:

Ok great and then one more on ancillary revenue. Do you have any new idea for 2013 that we can expect? Any goals related to the ancillary revenue?

Mr. Kakinoff

It is going to improve surely, basically because we are increasing the buy onboard service to all the aircraft and also due to the Smiles natural growth. Once we are in the quite period for Smiles unfortunately we cannot give you guidance for 2013. I hope you can understand.

Mr. Lopes:

And just one word: please remember that here in Brazil we are not allowed to charge for bags, so it does limit the potential growth that we have. We are only allowed to charge for extra weight, ok?

Ms. Talwar:

Ok great thank you.

Mr. Duane Pfennigwerth, Evercore:

Ok just so on 4Q I think your yield as reported was up about 2% and your January traffic I believe you said it was going to be up 5%, your December traffic reported in January. So I was wondering what the difference it looks like your RASK was… total revenue was in line but your yield was lower; what drove that difference in reporting?

Mr. Lopes:

Duane this is Edmar here. Would you please repeat the question please?

Mr. Pfennigwerth:

Yes. I believe when you reported your December traffic in late January I believe you said yields for 4Q were going to be up 5% and as reported they were up 2% and yet your unit revenue was in line. I am just wondering what the difference was on the yield, if some revenue was transitioned from passenger revenue to other revenue.

Mr. Lopes:

Duane, this is very much related to total revenue (to RASK rather than PRASK). Consider this RASK rather than PRASK for the month of December.

Mr. Pfennigwerth:

Ok and then just Edmar could you comment on February? It looks like your yield increase indicated a bit of a trend change, a bit of acceleration in terms of the yield increase of 17%. Can you comment on what happened in February? Is there anything sort of one-time in nature that occurred in that month?

Mr. Lopes:

Duane, first that is a very good question and there are a few issues here that we would like to highlight. The first one if you look back in the past when it came to February and March the companies were putting the prices down because it was the end of the high season and this is not happening this year.

Secondly we saw that our competitor had changed its taking capacity out. Remember that by the end of the year TAM was taking capacity out by very shy numbers, low single-digit and they are announcing now double-digit. This is indeed in light of our strategy and it helps us because we have been there and the companies are coming to this.

Also to compare this year with the previous year we had Carnival earlier in the year, that is early February rather than late February or even March, and so this helps here in Brazil for the business customers to come back and when these business customers come back we have an opportunity to charge for more and we see better yield.

But the main trend here is at least for February, March and early April we are seeing that the news are indeed in a different level showing that all the efforts we have made as for cutting capacity and not giving away the load factor is really showing the results, ok?

Mr. Pfennigwerth:

Ok thanks for that and if I just could squeak one more in: can you give us any guidance in terms of total capacity growth - not just domestic but your system capacity growth expectations for this year? Thanks.

Mr. Kakinoff:

Unfortunately we cannot because we do not have yet established the new international network flying over Santo Domingo. As I have previously mentioned there is an intention to increase the routes flying over Santo Domingo and that is not already defined, once it depends on the Dominican Republic's government affair and therefore we are not able at the moment to give you any guidance on international offer for this year.

Mr. Pfennigwerth:

Ok thanks.

Mr. Kakinoff:

Thank you very much.

Operator: This concludes today's question-and-answer session. I would like to invite Mr. Paulo Kakinoff to proceed with his closing statements. Please go ahead sir.

Mr. Kakinoff:

I just would like to thank you all very much and remind you that we are fully available for any questions whenever you would like to get in contact with us. Have you all a very nice day, thank you very much.

Operator:

This concludes Gol Linhas Aéreas Inteligentes audio conference for today. Thank you very much for your participation, have a good day and thank you for using Chorus Call.