



Linhas aéreas inteligentes

**Conference Call Transcript  
Second Quarter 2004 Earnings Results  
August 11, 2004**

**Operator:** Good morning ladies and gentlemen. At this time we would like to welcome everyone to GOL's second quarter 2004 results conference call. Today with us we have: Constantino de Oliveira Jr., President & CEO; and Richard F. Lark Jr., Vice President – Finance, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After GOL's remarks, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator.

We have a simultaneous webcast that may be accessed through GOL's website at [www.voegol.com.br](http://www.voegol.com.br), in English and Portuguese. The slide show, which will be presented by management today, is in the platform available in the website, investor relations section.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of GOL management and on information currently available to the Company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GOL and could cause results to differ materially from those expressed in such forward looking statements.

Now, I'll turn the conference over to President and CEO Mr. Oliveira, who will begin the presentation. Mr. Oliveira, you may begin your conference.



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**Constantino:** Thank you, first of all good morning to everybody, I'd like to welcome you to GOL's first ever quarterly results conference call. Let's begin by turning to slide 2 of our presentation available in the web.

As you all know we had a successful dual listing on the Bovespa and the NYSE in June. GOL was the first Brazilian Company in five years, and only the second Brazilian Company ever to complete a dual-listed IPO, registering both with the SEC and the CVM. Our IPO was almost seven times oversubscribed and a great success, and we'd like to thank you, and to thank our new shareholders for their investment and confidence in our Company.

Our stock was priced at R\$26.57 per share, or US\$17 per ADS, at a valuation at a discount to the leading low-cost carriers in North America and Europe.

Our marketing targeted several investor bases, and international investors were allocated 72% of our offering and the remaining 28% was allocated to Brazilian investors in our home market. Around 20% of the US offering was subscribed by retail investors, with retail investors representing more than 40% of the Brazilian offering. Overall, retail in the U.S and Brazil accounted for a quarter of the total offering. The GOL IPO had the highest retail demand ever registered in a Brazilian IPO, generating almost R\$400 million of demand from Brazilian retail investors.

We are extremely pleased by the high demand of retail investors, particularly in Brazil, which was beyond our expectations in a country without a tradition of investing in equity markets, especially in the still difficult macroeconomic environment. We believe that many of these investors are actually GOL customers, and for this reason they placed a high value in the Company and believe in our business model.

In the IPO we raised US\$281 million through an offering of 30,050,000 preferred shares, with 18,750,000 representing newly issued shares and the remaining representing secondary shares.

Since our IPO, our peer group such as JetBlue and Southwest has been down almost 20%, while GOL is up around 3%. So we have significantly outperformed our peers.

We are highly committed to our relationship with the capital markets and, therefore, we chose to adhere to stricter corporate governance rules than those required by Brazilian law. We are providing 100% tag-along rights to our preferred shareholders and, as we are restricted to a maximum 20% foreign ownership of our voting shares, are listed as a Bovespa Level 2 Company, demonstrating our commitment to best practices in corporate governance.

We are also committed to having a world-class investor relations program, and we highlight our IR website and this conference call as part of these efforts. We would be pleased to receive your feedback on how we may improve, and you can make suggestions to us.

Moving to Slide 3, we will talk about the GOL Value Proposition, and I would like to point that GOL is one of the most profitable and fastest growing airlines in the world, and it has



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one of the lowest operating costs in the industry. Our fleet is one of the youngest and most modern in the industry, keeping our maintenance costs low. Since we offer a single-model fleet and single-class of service we simplify our operations and ensure that aircraft utilization and efficiency ratios remain high.

We believe we have tapped into an underserved market here in Brazil, and in fact created a new market of first-time fliers, which explains why, in just over three years, we have achieved 22% of the market share in the second quarter of this year.

Our philosophy is very simple: We operate in a “virtuous circle” where lower operating costs permit us to offer lower fares, which encourage higher load factors and therefore strong profitability.

I will now turn the call over to our CFO and Investor Relations Officer, Richard Lark, who will discuss financial and operating highlights for the quarter.

**Richard Lark:** We are going to move to slide 4 on the presentation if you’re following along on the platform. We believe our offering responds to a strong untapped demand for low cost air travel in Brazil, and during the quarter, and for this reason we continued to see revenue growth of 21% compared with the same quarter of the previous year.

Our net revenues grew over 20% to R\$385 million in the second quarter, while revenue passenger kilometers jumped 23% to 1.4 billion.

We attribute this primarily to a 14% increase in departures, 29 new flight frequencies, and increasing demand for our night flights, which we started offering in December of 2003. At the same time our load factor, which represents the percentage of aircraft capacity that is actually utilized, increased to a high of 69% during the quarter.

Meanwhile, yield, a proxy of our average pricing, remained stable at 26 cents in Reais, as fare increases were compensated by some discount flights, making clear our commitment to our low fare strategy and our revenue management initiatives, which seek to optimally balance load factor and pricing.

On slide number 5 you will see that, while revenues per available seat kilometer, or RASK, grew 8.0%, our operating costs per available seat kilometer, or CASK, increased by just 6.3%.

Most of the increase in CASK was due to higher fuel prices, following the 24.3% increase in oil prices over the period. However, we have the most fuel efficient fleet in Brazil and use short-term hedging contracts to avoid oil price volatility in our results.

To a lesser extent, our CASK was also impacted by a 15% higher level of payroll expenses and an 8% increase in sales and marketing expenses, primarily related to intensified marketing campaigns and a higher level of credit card expenses due to higher revenues.

These effects of cost increases were partially offset by cost reductions in maintenance and other expenses. A more comprehensive breakdown and explanation of our costs you will find in our earnings release that you probably have already received by e-mail and you can also access in our website.



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Our EBITDAR, which is equivalent to EBITDA before aircraft rent expense, was positively affected by the increase in total revenues and operating capacity. EBITDAR increased almost 22% to R\$147 million, representing a EBITDAR margin of 38%.

Interest expense decreased a little over R\$5million and financial income increased to R\$61 million, due primarily to the sum of net gains on hedging activities and higher cash balances during the period.

Moving on to slide 6, during the second quarter net income saw an increase of R\$51 million compared with the previous year, representing a 19% net income margin for 2004.

Apart from our operating performance, on which I commented previously, our net income was positively impacted by a net R\$66 million increase in financial income, as I said, due to higher cash balances and the effects of our hedging program in mitigating the effects of fuel price increases as well as the dollar volatility in our results, and I think the results of that are evident in these results.

These gains in net income were partially offset by higher taxes, following the increase in tax income or taxable income.

Commenting on the balance sheet, our cash position on June 30, 2004 was almost R\$700 million, representing an increase of R\$550 million compared with the previous period. This was primarily due to the new equity capital raised as a result of our successful initial public offering.

GOL's debt level for the second quarter remains low with a total debt to capitalization ratio of 11.5%.

As you can see in the next slide, which will be slide seven, our results are a benchmark for the industry. We managed to post the highest net income and EBITDAR margins in the second quarter in the industry globally, outperforming even Ryanair which usually outshines the rest.

Despite this and the fact that our growth rate is one of the highest, both our P/E and EV/EBITDAR multiples are much lower than the other leading companies, which highlights the potential upside in GOL's shares.

Just to comment, the information on the slide referring to our comparables financial statements was obtained through the Companies' websites, and when appropriate, was translated into US Dollars at the exchange rate on June 30<sup>th</sup>, 2004.

Earnings and EBITDAR numbers are either IBES or Wall Street estimates, meaning they are from well-known and reliable third party source for financial estimates, and refer to the calendar year 2004.

I would also like to comment that we have six analysts who have initiated coverage of GOL and they are all optimistic about the growth potential of our shares. On our website you can find a list of those analysts that are currently covering GOL.



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Moving now to slide 8, and commenting on our outlook, during the second quarter we signed an agreement with Boeing for the purchase of fifteen 737-800 Next Generation aircrafts and this agreement also included options to purchase an additional 28 aircraft. Two of these options were exercised in July and are scheduled for delivery in the middle of 2006.

In terms of some basic guidance for the rest of 2004, we plan to increase capacity by 15% with the addition of up to five new aircraft in the second half of this year.

In the third quarter, we will also be adding four new domestic destinations. We have also received designation from the CERNAI, which is the regulatory body that regulates international air traffic in Brazil, to start regular flight operations to Buenos Aires, and plan to have two international flights on this route per day by the end of the year.

Our 2004 revenue outlook is plus or minus R\$1.9 billion, and our EPS guidance is between R\$1.90 and R\$2.20 per share. Outlook for EBITDAR margins is approximately 39%-41%, and for operating income we expect margins in the range of 26%-28%. We look forward to a successful second half.

Having now concluded this short presentation, I would like to thank you for your attention and would like to open up the floor to the Q&A session, during which we will be more than happy to respond any of your questions.

**Operator:** Thank you. The floor is now open for questions. If you have a question please press \*1 on your touchtone phone at this time. If at any point your question has been answered, you may remove yourself from the queue by pressing the pound key. Questions will be taken in the order that they are received. We do ask that when you pose your question that you pick up your handset to provide optimum sound quality. Please hold while we pole for questions. Our first question is coming from William Green, of Morgan Stanley. Please go ahead.

**William:** Yes, hi. Richard, I was wondering if you could comment on the competitive environment, in particular if one of your competitors were to cease operations, can you handicap either the risk of a new entrant and then can you also talk to, do you actually want that to happen, I mean, does it create any challenges if someone stops operating, or is this a big positive no matter how you slice it for both?

**Richard:** OK, Bill, I am going to turn that question over to Jr.

**William:** OK.

**Constantino:** Thank you very much, Bill, that is a very interesting question. The possibility of one of our competitors stopping operations could mean a lot of benefits on one hand, and on the other could be a part of a problem to achieve new aircraft and to acquire people to work, but that is a kind of high-level problem, a good problem to have, lots of passengers to transport. In any case, we have been doing our plan with no stop from any major competitors but, if that happens, we will have to create a plan B to replace their airplanes and also to capture more passengers.



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**William:** But what do you think the likelihood is that a new entrant would be allowed to come into the market?

**Constantino:** For a new entry we have been hearing that there are some people doing a business plan, but nothing official. I have been talking with the Brazilian authorities about if there is any process going forward to create a new company and the answer is no, not in terms of a major airline, or in terms of a national airline, or an airline that will cover the major market.

**William:** OK, thanks, and Rich or Jr, can you comment on your adding four new markets domestically, how many more markets are there in Brazil, just sort of a big picture kind of question in terms of how many markets you think you might go into that you do not currently serve?

**Richard:** Overall in Brazil we are adding four new markets already in the second half, and there are 20 markets to be added in our expansion for the next three years, that we can roll our services to, these are within Brazil, middle-sized markets which generally have characteristics of being over-priced, meaning highly profitable, or under-served markets, where we think there is a demand for the type of service that GOL would provide. It's important to mention as well that service to these markets is a part of our connecting the dots strategy, which is the build-out of our network, adding the destinations, on the back of new aircraft which are not only integrated with the network that we have today but also would be serving new flight frequencies and increased volumes on top of the destinations we already serve in Brazil. Outside of Brazil our strategy is basically South America and we will have several departures to the principal capital cities, and Argentina is a good example of that, where we will do at least two landings a day, but the connections will be integrated with the overall network, in other words, the planes will be operating in a similar style, not point-to-point but integrated with our network and along their daily routes we will be doing at least two landings per day in Buenos Aires, but maximizing the connections into the network. I don't know if you recall, but we pointed out in the past that almost 50% of our passengers are either connecting passengers or through passengers. Building out the network, building load factors, will take place as we add these destinations to Brazil and to South America.

**William:** OK, thank you for your help.

**Operator:** Thank you, our next question is coming from Jim Parker, of Raymond James. Please go ahead.

**Jim:** Good morning, Jr. and Rich. Just a question that has been in the news maybe some point about how BNDES and the Brazilian government might provide some sort of assistance to Varig and I wonder if it is likely that something in that regard could happen which would be detrimental to GOL. Can you give us your assessment of what the government will do with Varig?

**Constantino:** Jim, this is Jr., thank you for the question. It is not clear yet for us what will go forward. The clear thing is that the government really would like to help Varig, and what I read in the newspaper is that they would like to help Varig and they are not talking about



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helping the Rubem Berta Foundation. It's too early to talk more in details because I think that both us and also the government doesn't know what will happen, so it is difficult to assume a position in this case.

**Jim:** Ok, and another question, would you update us perhaps with some numbers for the second quarter regarding your red-eye night flights, how the load factors are running, average fare, and what the utilization for the fleet overall was in the second quarter?

**Constantino:** In terms of the night flights, we increased the number of flights during July. This is a vacation month here in Brazil. We had around five new flights per night, daily, and that helped us to increase our aircraft utilization specifically in July. In the second quarter of this year, our average night load factor and revenues keep the same as we had in the first quarter when the load factor was around 92%-94%. The yield increased a little bit in the sense that we did a fine tune on the yield management, and also the revenue increased too, so, we kept the same performance we had previously in the night flights.

**Richard:** In terms of aircraft utilization, we did in the quarter around 13.3 block hours, which is at world record levels but, the ability to increase that really depends on, squeezing more out of the night flights, and we expect these level of aircraft utilization to continue until the end of the year.

**Jim:** Ok, thank you very much.

**Operator:** Thank you, our next question is coming from Michael Linenberg, of Merrill Lynch. Please go ahead.

**Michael:** Hi, good morning Jr. and Rich. I have a couple of questions. My first one is to Jr. I know there was some news, it seems like in the last week where TAM announced they were ordering some A-320s, I think ten for delivery next year. Should we read into that the government may be relaxing some of its restrictions and how it controls capacity, and maybe this is a function of just overall economic improvement in Latin America?

**Constantino:** It's both. In the case of TAM they grounded a lot of Fokker100 and they have a plan to substitute or to change these aircrafts into a new Airbus A-320, and also this order of ten aircrafts was already firm in the past, but the delivery was delayed, for the reason that I think everybody knows, for some financial troubles and also operational problems in the last two years, they delayed these aircraft deliveries. In this case I think the government did make an opinion because it is too early and they can do something in the future but, and on the other side, the macroeconomic statistics show that we have been a good economic growth or GDP growth in Brazil and also that this is stimulating demand, which grew 12% in the first 6 months of this year, and TAM is planning to capture adequate proportions of this market share, of this growth of market share.

**Michael:** Jr., if we look at the planes, at the Fokkers that are being grounded, and we look at the ten A-320s that are coming in, you know, bottom line, is a lot more capacity or is it more for a placement rather than meaningful growth?

**Constantino:** Michael, it is difficult for me to understand exactly what is their plan but they still have 16 Fokker 100 flying and another 11 Fokker 100 grounded to re-deliver to a less



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source. So, in this sense, these ten A-320 could replace the offer that they have right now with the Fokker 100.

**Michael:** My next question to Richard, actually, just two quick accounting questions. Other rents, I see the line item for aircraft rents, where do other rentals show up? I know it is a small number, is that other operating expenses?

**Richard:** Other rentals meaning equipment, and IT, and so on?

**Michael:** Yea, and facilities....

**Richard:** Yes, those are on the G&A and other operating expenses. Those are not dollarized expenses, those would be Real-denominated expenses.

**Michael:** OK, now just one last on the income statement. I saw that, you know, your salary and your labor expense were up 30% and looks like half of that was due to the addition of more employees. What's driving the other half, I mean, you indicated that productivity actually improved in the quarter as well. Is that just standard salary wage increase?

**Richard:** Exactly, the easiest way to explain is that the cost of living adjustments year over year, when we look back year over year it will be approximately 12%. There's a timing issue on when those adjustments are actually made, but the approximate increase year over year based on 2003 inflation was 12%. So it's exactly like you said, it's the combination of the increase in headcount, plus the cost of living adjustment.

**Richard:** Very good, thank you.

**Operator:** Thank you, our next question is coming from Daniela Bretthauer, of Santander Investment. Please go ahead.

**Daniela:** Good afternoon gentlemen, congratulations on a strong result on a seasonally weak quarter. Two questions - the first question is also to follow up on the TAM story. I was surprised to find out last night as I was watching TV that TAM just launched a new campaign during prime time, emphasizing their service proposal. On that front I was wondering what is the plan for GOL's marketing and promotional initiative value, planning to use the TV as well, or for your impact campaign? Are you planning to come back with the R\$50 campaign sometime in the 2<sup>nd</sup> half? That is my first question.

**Constantino:** Thank you, Daniela, I will start with the TAM campaign. Our experience shows that the market is much more sensitive near the high season. So, at this time, August, is not the best time to make a marketing campaign in terms of the result in the sales. With our marketing planning it's best to do a campaign much closer to the high season and, in our case, we had been showing in our campaign that everybody could fly or "aqui todo mundo pode voar" and, in this case, we are trying to show to people that the airline is available or the airline trip is available and the people could pay, and it's not so expensive as the people would think. And your second question was....

**Daniela:** No, no, is just to elaborate more if you are considering coming back with the R\$50 promotion sometime in the near future?



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**Constantino:** OK, in terms of the promotions now we are out of the high season and also we have been doing an effort with the government authorities to restart with the promotions and we are doing that on diplomatic basis. My guess is that we will be able to restart with the promotions in the next month, in September for example. So we have plans to do that, and our plans show that we can stimulate demand with this kind of promotion and we will do that.

**Daniela:** OK, thank you. And the second question would be with regard to your salary and wages. You mentioned earlier in the Portuguese conference call that there was roughly a 12% increase for the Company as part of the collective wage negotiation, the “dissídio coletivo”, and I was wondering, since we are in mid-August, if you have any indication of what level of wage increase are you going to grant to the employees that we have into 2005?

**Richard:** Well, in general it is based in the inflation for the year so generally you can expect that going forward it will be highly correlated with what the inflation is. They are negotiated off the amount of the dissídio as well as the timing of the dissídio, for example, the '03 dissídio was paid 8% increase in December and then the remaining 4% was in March and, in the previous year, the amounts were paid in December and May, so it depends on how it gets broken down, how it gets paid, but I think we should expect it should be in line with inflation which would be in the order of 7% or 8%.

**Daniela:** And when will we know that, more towards the beginning of December?

**Richard:** Yea, we should know that in December.

**Constantino:** Or in the end of December, sometimes they delay the negotiation a little bit. This year we closed in January.

**Daniela:** OK, thanks.

**Operator:** Once again, to ask a question please press \*1 on your touchtone phone at this time. Our next question is coming from Rodrigo Goes of UBS. Please go ahead.

**Rodrigo:** Hi guys. Two questions, the first one I was wondering, I don't know if you break this out, but I was wondering if you could give us the average yields for night flights, that's one. Two, in regards to the new market share your tapping into Uberlândia, Joinville, Rio Branco and Porto Velho, I'm not a specialist, but I think that these are likely to have pattern traffic as much lower relative to your current average. I am wondering if you can provide us some kind of guidance or at least a feel for what you think your load factors will be in these new routes?

**Richard:** In general, they are a little more than half of our day flight yields, in the order of 18 cents. In terms of the Rio Branco and Porto Velho flights we do not expect the loads or the profitability of those flights being any different than what we experience today with cities of similar characteristics. The important thing is the way we build out the network and so on, for example, the plane that is going to be serving these two new destinations, is going to be covering six cities, two cities in the Northeast of Brazil, then São Paulo, Brasília and then out to Porto Velho and Rio Branco, and so there are a lot of city pair



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combinations coming out of the addition of the Rio Branco - Porto Velho destinations that for us will maintain good load factors on the Rio Branco – Porto Velho route itself and to those destinations. So it is really relates to how we do the route expansion and the fleet management. So it's not about Rio Branco – Porto Velho in itself, it's about how they interconnect with the overall network. But these markets have characteristics of being underserved and overpriced, in other words, they are profitable markets in themselves today.

**Rodrigo:** OK, thank you very much.

**Operator:** Once again, to ask a question please press \*1 on your touchtone phone at this time. As a final reminder, that is \*1 on your touchtone phone at this time to ask a question. That concludes the Q&A session. Now I will turn the floor over to Mr. Oliveira for closing remarks.

**Constantino:** Once again, thank you very much for your interest in GOL. We believe this is a time of real opportunities for the Company and that we have strong growth potential going forward.

If you have any questions please feel free to contact our investor relations department. You can also visit the investor relations section in our website at [www.voegol.com.br](http://www.voegol.com.br). Thank you very much and have a nice day.

**Operator:** Thank you. That does conclude this teleconference. You may disconnect your line at this time and have a wonderful day.