Call Transcript – 4Q07 Results

Operator:

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to GOL Intelligent Airline's 4Q07 results conference call. With us today we have Mr. Constantino de Oliveira Junior, President and CEO, and Mr. Richard Lark, Executive Vice-President and CFO.

We would like to inform you that this event is 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 session for industry analysts and then for press. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Today's live webcast, including both audio and slide show, may be accessed through GOL's website at www.voegol.com.br/ir.

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

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

Junior:

Good morning and welcome to GOL's fourth quarter 2007 results conference call.

2007 was a challenging year as the industry consolidated and adapted to changing conditions. We optimized operations and redefined our strategy to adjust to the new environment and despite difficult industry-wide conditions, continued to expand our fleet and invest in the future of air transportation in Brazil and South America.

Slide #1 in shows our long-term investments in 2007, which totaled R$2.2 billion and include the purchase of new aircraft, the acquisition of VRG, and investments in IT and the GOL and VARIG brands. While continuing to meet passengers' needs and popularizing air transportation, we grew our consolidated RPKs by 53%, nearly 3 times the domestic industry average. In 2007 we transported 24 million passengers, a 36% increase over 2006. 2007 total RPKs were 23 billion on ASKs of 34 billion compared to RPKs of 15 billion on ASKs of 20 billion in 2006. International ASKs represented 21% of total system ASKs in 2007 compared to 10% of system wide ASKs in 2006. Cargo volumes grew 55% year-over-year, while cargo and other revenues increased 68% to R$372 million, including the addition of the Smiles program in 2007, which has 5.8 million customers, and the issuance of almost 650 thousand payment cards through the Voe Facil Program, which allows customers to pay for tickets through monthly installments.

During the fourth quarter of 2007 we changed our strategy to adapt to the evolving industry and doubled our focus on competitive strengths by modifying our route networks and flight operations to efficiently segment markets and improve profitability. We are consolidating GOL's successful business model in Brazil and South America and restructuring medium-haul routes on the continent to improve service to business travelers. We are re-positioning our offerings in selected markets to stimulate demand with lower fares on short-haul, connecting flights and offer additional direct dual-class service to medium-haul destinations.

During the fourth quarter we also re-positioned VARIG's business strategy to optimize route networks and improve profitability, efficiency and quality of service. We redesigned the domestic network to provide business customers with more attractive schedules and frequencies, while connecting the most important business centers and tourist destinations in Brazil. Through connections at our European hubs and with partner airlines, VARIG's customers can now travel from Brazil to the most important destinations in Europe, Asia, Africa and the Middle East. We expect to see results for our strategy modifications in the second quarter of 2008.

Slide #2 shows the new VRG medium and long-haul network. In 4Q07 we re-launched the VARIG brand and introduced customers to a new premium service based on value-oriented, differentiated service without excess costs. We also re-activated the Smiles program, a powerful tool that will help increase customer loyalty with the program's almost 6 million members, while also increasing VRG's client base and revenues. In 4Q07 we invested approximately R$ 17mm in VRG marketing initiatives.

Please move to slide #3. During the fourth quarter, we continued to modernize our fleet with the net addition of 12 aircraft and ended the year with 106 operating aircraft (110 total aircraft), adding six winglet-equipped SFP 737-800s, five 737-800s, one 737-700 and three 767-300s to the consolidated fleet and returning three 737-300s. We plan to end 2008 with 111 aircraft in the combined fleet (representing an increase of 1 aircraft in the year), including ten 767-300s, three of which we received in January. During 2008, VRG will modernize its wide-body fleet, replacing three older 767-300s on short-term leases with newer models.

Please move to Slide #4. We are focused on increasing the profitability of our intercontinental routes to premium destinations and expanding interline and code-share agreements to access last mile distribution. Through the re-launch of the VARIG brand we are improving customer segmentation and better servicing premium/business travelers. Brand segmentation will also allow GOL to stimulate demand with additional lower-fare connecting flights. The GOL brand will continue to use the Voe Facil program to increase sales to lower income customers and will also continue to encourage corporate sales to small- and medium-sized companies through the GOL corporate card. VRG is employing GTA's succesful techniques to increase sales through the Internet and GDS channels for international flights. Our cargo business is expected to continue to grow at high rates in 2008.

Please move to slide #5, entitled "Highlights". Brazilian domestic passenger demand, as measured by RPKs in the fourth quarter grew at 3 times GDP. Domestic RPKs grew 16% year-over-year, demonstrating solid underlying demand supported by a strong Brazilian currency. Fourth quarter industry demand growth was in line with supply growth, but as the air passenger transportation market in Brazil remains largely under-penetrated, increasing available seats at low fares remains important for the continued development of the sector and the economy.

GOL's consolidated net loss of R$24 million in the fourth quarter was influenced by the inclusion of VRG's results, a higher CASK resulting from a lower aircraft utilization related to increased ground time, higher fuel prices, the re-launch of the VARIG brand, costs of launching new VRG bases. Excluding VRG's results, the Company had R$90 million of net income in 4Q07. If we exclude VRG´s losses as we are in the process of restructuring this business, GTA had an operating margin and net income margin of 9 and 7 percent, respectively.

Unforeseen industry events negatively affected revenues during the quarter. Regulatory restrictions placed on Congonhas airport created technical difficulties for the 737-300s operating at this airport and required us to make adjustments to VRG's network, which resulted in reduced aircraft utilization and load factors. In 2008, VRG will replace its 737-300s in its fleet with newer, more cost-efficient NG-700s and NG-800s. Also, seven 767 aircraft suffered delivery delays, which impacted results negatively.

Load factors averaged 72% and 53% at GTA and VRG, respectively, during 4Q07. Combined load factors were flat at 68%, a 7 percentage point increase over 3Q07. Consolidated average passenger yields decreased 11% when compared to the fourth quarter of last year. 4Q07 consolidated passenger volumes grew 59% year-over-year and increased 20% compared to 3Q07. Average fares were R$213 (US$119).

Operating costs per ASK reached R$15.8 cents of real in the fourth quarter, increasing 6% in comparison with the same period last year. GTA's CASK was flat at R$14.8 cents. Despite the cost increase related to VRG's results, the Company has maintained a strong cost advantage and will further reduce costs in 2008 with the rejuvenation of VRG's fleet and the addition of new aircraft into the GTA fleet.

During January 2008 and throughout Carnaval, we have experienced good load factors and improved yields. Year-to-date, yields have increased 4% over the fourth quarter of 2007, with stable load factors.

I will now turn the call over to our CFO, Richard Lark, who will discuss financial and operating performance for the quarter in more detail. Please, Richard.

Richard:

Thanks, Junior. Good morning, everyone. Please move to slide #6 in the presentation, which shows our capacity and network expansion in more detail. During the quarter, the consolidated company operated an average of 102 aircraft, an increase of 73% over 4Q06, and 12% over 3Q07.

GTA added 40 new daily flight frequencies in the fourth quarter and now serves 59 destinations, while VRG added 26 new daily flight frequencies, bringing its total destinations served to 22. Combined, GTA and VRG serve 66 destinations, the most of any Brazilian airline group.

When compared to the same quarter of the previous year, our capacity expanded 60% in terms of ASK volume to almost ten billion, and RPKs increased 59% to 6.6 billion: 5.5 billion at GTA and 1.1 billion at VRG. This capacity expansion permitted the consolidated company to reach 810 flights per day at the end of December 2007. When compared to 3Q07, ASKs increased 8.5%, while RPKs increased 20.1%.

Moving to slide #7, we can see that our consolidated net revenues in 4Q07 grew by 42% to approximately R$1.4 billion when compared to the same period last year. GTA's net revenues increased 24.7% to R$1.3 billion and VRG's revenue totaled R$180mm. Higher capacity and stable load factors were offset by sub-optimal yields and lower productivity. Although there was a reduction in aircraft utilization compared with the same period last year, we achieved high consolidated aircraft utilization of 13.3 block hours per day during the quarter. Consolidated RASK decreased 11%, mainly due to an 11% decrease in yields and an 8% increase in overall stage length. Breakeven load factor increased 11 percentage points year-over-year. Ancillary revenues also contributed to results, growing to R$85 million.

Slide #8 shows the year-over-year comparison of our operating results, including the incorporation of VRG figures. Flight network adjustments reduced aircraft utilization and load factors. Compared to 4Q06, RASK decreased by 11%, mainly due to an 8% increase in average stage length, and resulted in a 55% decrease in EBITDAR, which amounted to R$100.0 million in the quarter. EBITDAR is an indicator of operating results before accounting for aircraft ownership expenses, such as aircraft rent.

Total CASK, at 15.8 cents of real, including VRG's results and fuel costs, increased 0.93 cents of real per ASK, or 6% year-over-year, due to increased expenses, including salaries, wages and benefits, other operating expenses, maintenance, materials and repairs, depreciation, aircraft rent and fuel per ASK, and was partially offset by reduced sales and marketing costs as well as lower aircraft and traffic servicing expenses per ASK. CASK excluding VRG was R$14.9 cents.

Jet fuel expenses per ASK increased 3% over the same quarter last year due to increases in average fuel price per liter but was partially offset by a 16.7% appreciation of the Brazilian Real against the U.S. Dollar and an increase in international flights, which have lower fuel taxes.

Our consolidated non-fuel CASK, including VRG's results, increased 8% to 10.1 cents of real. Excluding VRG, non-fuel CASK was R$9.4 cents. During the fourth quarter we provisioned R$45 million for employee variable compensation.

Slide #9, emphasizes GOL's main cost initiatives. We are operating a standardized fleet of Boeing 737 and 767 short and long haul aircraft, reducing spare parts inventory and allowing us to effectively operate phased maintenance program, reducing ground time. In 2007, we began retiring older 737-300s and plan to return all -300s in the fleet by the end of 2008. During 2007 we continued to reduce the age of the fleet through the delivery of new, larger, and more fuel efficient SFP 737-800 NGs. In 2008, we will incorporate 13 more SFP 737-800 NGs into the combined fleet. We will also continue to lower distribution costs by increasing sales through the Internet. We re-launched the VRG website in October 2007 and plan to increase VRG's internet penetration by employing GTA's proven sales techniques. In 2007, we fully internalized aircraft maintenance for the 737 fleet at GOL's aircraft maintenance facility in Confins and have plans to double its capacity in 2008, internalizing the maintenance of our 767s.

The next slide, Slide #10, shows our net financial results. Financial income in the quarter increased R$23 million to R$67 million and we have invested approximately R$1.4 billion of cash earning on average 10% per annum in Reais. Our combined financial expenses increased R$26 million due to increased long-term debt financing during the year. We have approximately R$1.8 billion of long-term financing with an average maturity of six years at an average rate of 7% in U.S. Dollars. Our net financial results for the quarter were R$11.5 million.

Slide #11 shows a comparison of the effects on net income compared to 4Q06. Running through the main differences, net revenues increased R$430 million. Jet fuel costs increased by R$215 million, or 3.1% per ASK, due to an increase of 127 million more liters consumed and a 3% increase in fuel cost per liter due to a 51% increase in WTI and a 46% increase in Gulf Coast Jet Fuel. These fuel costs were partially offset by the results of our fuel hedging program and the 17% appreciation of the Brazilian Real.

Commercial expenses increased by R$21 million overall and decreased 22% per ASK, due to changes in the sales commission structure at the beginning of 2007, offset by increased marketing activities related to the launch of the new VRG brand. Ticket sales on GOL's website accounted for almost 79% of total sales during the quarter. Since the re-launch of its website on October 23rd, VARIG has sold 12% of total tickets over the web.

Labor expenses increased R$157 million overall and 38% per ASK, due to a R$45 million provision for employee annual variable compensation, a 5% cost of living increase on salaries; an increase of 78% in the number of full-time equivalent employees related to the preparation of new international bases, and 1Q08 expansion plans and the internalization of call center employees.

Other operating expenses increased by a total of R$235 million, principally due to a 6% increase per ASK in aircraft rent as a result of lower aircraft utilization, fleet modernization expenses and a 14% increase in maintenance, material and repairs due to the scheduled maintenance of 12 aircraft in the amount of R$ 38.2mm, the use of spare parts inventory in the amount of R$7.2mm and the repair of rotable materials in the amount of R$8.7mm, partially offset by an appreciation of the Brazilian Real. Net financial results decreased R$12 million in the quarter, year-over-year.

In 4Q07, reported consolidated losses were 0.12 cents of real per share, or US$0.07 per ADS, and reported net loss was R$24 million. Excluding VRG's results, earnings were R$0.45 cents of real per share, or US$0.25 per ADS, representing a net income margin of 7.1%.

A net quarterly interest on shareholders equity and dividend payment of R$76.5 million (R$0.35 per share and US$0.18 net per ADS) was approved at the December 11, 2007, Board Meeting, and paid on February 1, 2008, to shareholders of record as of December 24, 2007.

These were the main impacts on net income. A more comprehensive breakdown and explanation of our expenses can be found in our earnings release, available on our website at www.voegol.com.br/ir.

On slide #12 we show our cash flow for 4Q07. Cash balances at the end of the quarter were R$1.4 billion, a R$109.4 million decrease from the previous quarter.

Cash used in operating activities was R$176.9mm, mainly due to a decrease in accounts payable (R$132mm) an increase in accounts receivable (R$111mm), and an increase in deferred income taxes (R$110mm), partially offset by a decrease in deposits with lessors (R$132mm) and by an increase in air traffic liabilities (R$131mm).

Net cash used in investing activities was R$144.1mm, consisting primarily of an increase in aircraft pre-delivery deposits (R$134mm) increase in acquisition of property and equipment (R$121mm) partially offset by a decrease in other deposits (R$118mm).

Net cash provided by financing activities during 4Q07 was R$211.6mm, mainly due to an increase in long term debt (R$169mm) partially offset by the repurchase of the VRG convertible debentures (R$88mm), and increase in short-term borrowings (R$65mm) partially offset by dividends paid (R$25mm).

Please move to slide #13 which discusses our recently announced share buy-back program and 2008 dividend policy. Considering the current share price and free float, the Board of Directors recently authorized the Company to implement a share repurchase program of up to 5 million preferred shares at market price, representing 8.8% of the total preferred shares outstanding in the market. The Board of Directors also approved a fixed dividend of R$0.18 per common and preferred share of the company during 2008, with a guaranteed minimum of 25% of the corporate year's net profit.

Slide #14 shows GOL's relative performance in the U.S. and Brazilian stock markets. During 2007 our ADS' have outperformed the American Stock Exchange Airline Index by 50% and underperformed the Tier 1 LCCs by 19%. Our PN shares have underperformed the Bovespa Index by 52% in the same period. Our average daily trading volume in the fourth quarter of 2007 was approximately US$22 million on the NYSE and R$39 million on the Bovespa.

On slide # 15 we show the combined fleet plan required to meet projected growth over the next five years. The fleet is projected to be at 111 aircraft by the end of 2008, 116 by 2009, 126 by 2010, 133 by 2011 and 138 by 2012, representing a 6% compounded average growth rate in seats from 2008 to 2012.

Incorporating new 737-800s into the fleet is projected to produce substantial cost savings, as the new aircraft are equipped with fuel economizing winglets, which reduce fuel consumption by approximately 3%-4% per year, enable better flight performance and increase stage lengths on non-stop flights. The new 737-800s are also larger than our 737-700s and carry up to 30% more passengers. We estimate that the 737-800 will reduce direct operating costs per ASK by 20% compared to the older 737-300s.

On Slide #16 we show 2008 capacity plans. GTA is expected to grow ASKs by 9% and VRG by 74% in 2008 as compared to the fourth quarter of 2007 annualized. The flexibility of the GTA and VRG networks have allowed us to effectively redesign each network to efficiently segment markets and improve profitability. Total system ASKs are expected to grow 18% domestically and 33% internationally in 2008 as compared to 4Q07 annualized ASKs. Total system ASKs in 2008 are expected to grow 21% over 4Q07 annualized ASKs. We are projecting year-over-year domestic industry capacity growth of 18% and international Brazilian carrier growth of 40%.

On slide #17 we detail 2008 guidance. We expect to transport 32 million passengers, with system-wide ASK growth of 37% and RPK growth of 37% to 47 billion and 31 billion, respectively. International ASKs are expected to represent 25% of total system ASKs in

2008. Cargo and ancillary revenues are projected to grow to R$700 million, as cargo revenues increase proportionally to the number of wide body aircraft and long haul flights; we will continue to increase revenue derived from the Smiles and Voe Facil programs, among others.

We project our fuel cost per liter at R$1.62 for 2008. CASK ex-fuel is expected to decrease to R$8.4 cents, down from R$8.9 cents in 2007, largely due to fleet modernization and the retirement of 737-300s in the combined fleet. Pre-tax margin guidance is between 8-10% and capital expenditures are projected at R$1.1 billion in 2008.

We expect cash balances to increase to R$1.6 billion in 2008. Total net adjusted debt to total capitalization should be approximately 55% and we are projecting 3.0x total net adjusted debt to EBITDAR.

For the first quarter of 2008, we expect consolidated load factors in the range of 67 to 69%, or flat versus 4Q07, with consolidated passenger yields in the range of R$21 cents, also flat versus 4Q07. We expect consolidated non-fuel CASK to be in the range of R$8.5 cents with the incorporation of larger more fuel efficient aircraft offset by increase in fuel prices, a stable foreign exchange rate driven by good economic fundamentals in the Brazilian economy.

I will now turn the call back over to our CEO to conclude our presentation. Please, Junior.

Junior:

Thanks, Richard.
I will finish with slide #18, where we would like once more to reiterate our competitive strengths, which are essential to our successful business model. Our virtuous cycle allows GTA and VRG to benefit from synergies, operate with the lowest costs, effectively segment the market and ultimately drive profitability. We rely on our highly productive workforce and experienced management team to quickly adapt to changing market conditions, deliver safe and high-quality customer service, offer the lowest fares in the market, and maintain the lowest costs in the industry to ensure a strong brand and high profitability.

Thank you for your attention. Having now concluded this brief presentation, I would like to turn the floor over for Q&A, during which we will be happy to respond to any questions you may have.

Operator:

Thank you. The floor is now open for questions. If you have a question, please press *1 on your touchtone phone at this or any time. If, at any point, your question is answered, you may remove yourself from the queue by pressing the # key. Questions will be taken in the order 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.

Jim Parker, Raymond James:

Good morning. I have a question regarding your guidance that you presented on CASK on January 30th. The guidance was that CASK would be, for the 4Q, 14.6, and it turned out to be 15.7. So, within a period of two weeks, what did you learn or what did the auditors do? Why is there that difference there on the CASK?

Richard Lark:

A couple of things. One is that we made a decision regarding fleet modernization. So, in the 2007 period we provisioned some charges related to fleet modernization, related mainly the return of the 737-300s both at GTA and VRG. That was one issue.

We also in 2007 constituted provisions for inventory obsolescence on some of the older aircraft that we have in the fleet. Those were the main differences from an accounting perspective. I do not know if that answers your question.

Jim Parker:

I wanted to know what the difference was, can you quantify that? And also, just in the 4Q, how much was operating expenses and how much were non-operating? Did you have substantial and can you quantify them, non-operating items that maybe you wanted to show below the line?

Richard Lark:

There are rules about what classifies as above and below the line, but those were extra charges and were around R$40 million to R$50 million. We also had a R$45 million provision for variable employee compensation; , which works out to be around one salary per employee for the full year. If you sum both of those, it is close to R$100 million.

Jim Parker:

Thank you.

Mike Linenberg, Merrill Lynch:

Good morning. Maybe this is a clarification on Jim's question. When I think about the way the numbers were presented, the net income for the quarter excluding Varig was R$90 million and the consolidated loss was R$24 million, so, call it a R$114 million hit.

How much of that was Varig, how much of that was domestic operational? What was the impact of restrictions on domestic operations; because the way the press release reads, it looks like that R$114 million is split between two different pieces. Can you give us that split?

Richard Lark:

Let me see if I understand the question. In the quarter we had around, on the operating line, almost R$200 million of operating losses at VRG.
And the Company, excluding VRG, had around R$110 million of operating profit. If you look specifically at the domestic market, the restrictions and the adjustments that we had to make in the network reduced aircraft utilization and increased ground times, reduced

ASKs in the domestic market and increased cost per ASK in both businesses. But the majority of these non-recurring items that Jim was referring to are at the VRG side of the equation, because they relate to a restructuring of the company, which involves really two elements for us right now.

One is the fleet restructuring. When we bought the company it operated all classic aircraft; which were necessary to continue operating the slots. We are going to be returning those and the objective is to have, in VRG, primarily 700s by the end of this year. GOL also initiated the return of the 300s to become a primarily 800 fleet by the end of this year.

Part of that was motivated by the restrictions that were put on airports in Brazil and in Congonhas, which hampered the ability of the 737-300s to operate efficiently and to transport high-load factors, this is reflected in load factors.

The reason I am saying that this affects costs as they relate to low aircraft utilization because of some of these restrictions, but they also reflect on revenues because the restrictions that were put implimented hamper the ability to operate with higher load factor flights at certain airports in Brazil, in particular Congonhas, which is extremely important for the VRG domestic network.

So, these restrictions hit VRG twice, both on increased cost per ASK, and also on the revenue side. As I was saying, the majority of these effects, both recurring and non-recurring, were on the VRG side of the equation, but they also affected GOL, as GOL is also operating a fleet of 737-300s and also with a fair presence in Congonhas.

Now, on the international side, the effects are a little bit different. They are all related to VRG and represent a big chunk of the R$200 million of operating losses at VRG in the quarter, and relate to delays that we experienced in the delivery of the 767s related to the start-up of long haul flights to Europe, which resulted in the need to accommodate passengers, transport passengers on other airlines and also increased costs and reduced substantially aircraft utilization.

That was one issue. But the big effect on the international side of the equation was more in the revenue side, with very low load factors and very low yields. What we saw in the December period, was an increase in capacity in certain markets, not directly to the São Paulo market but to other markets such as Buenos Aires or Rio, were foreign carriers had previously used São Paulo as a connecting hub to service these locations, increasing capacity in the market. This combined with the operational difficulties that we had with rolling out the long haul business produced revenues, particularly in the month of December, which were much lower than our original forecast, and then that, combined with the increase in fuel cost, produced larger than expected operating losses at the VRG long haul business, particularly in the month of December.

Mike Linenberg:

Richard, I did hear you when you said that there were R$200 million of operating losses at Varig in the quarter. I realize that there is non-recurring and there is lots of other stuff, and then a ramp up etc.

Richard Lark:

Yes. If you want to look at what we made, we made R$100 million at GTA and lost R$200 million in VRG during the quarter on the operating line.

Mike Linenberg:

OK. Just with respect to the purchase of shares by insiders and then the recently announced share repurchase plan: as soon that is completed, what percentage of your stock is floating at that point?

Richard Lark:

Yes. The free float really has not changed. Keep in mind that we issued around 6 million shares as payment for about 2/3 of the Varig acquisition; we finished 2006 with a free float of 27.6%, and the free float at the end of 2007 is 27.8%. The controlling shareholders, post the VRG acquisition bought back around 4.4 million shares, we issued a little over 6 million shares for the VRG acquisition, so we actually had an increase in the free float. The share repurchase program we announced is for up to 8.8% of the shares. That would take the free float down, the objective of the program is to do that over the course of this year, that would take the free float down to around 26%.

Mike Linenberg:

OK. Because it seems like you would get right up against the 25% threshold, and do you run into… I mean, does that…

Richard Lark:

The 25% threshold is not a restriction. The 25% was defined by the Bovespa years ago to incentivize companies to have high liquidity, and there are rules regarding how much stock you can buy back. The minimum free float is related to good liquidity and we have around US$40 million daily trading volume already in GOL, with arguably a depressed market cap right now.

And the issue of the 25%, is a minimum requirement to maintain a new market classification on the Bovespa; we are Level 2 because we have non-voting shares trading in the market, and if we were to go below that, then you have a period of time by which you have to maintain the classification. You have to, within a two-year period, if I am correct, get your free float back up to 25%, which would mean you have to either issue more shares or do a secondary offering or something like that. The 25% number is not something that we would manage around in terms of buybacks, the issue of the buybacks relates more to the calculations we do on what we think a good cash balance is going forward, and that is how we came up with the 8.8% of shares.

But you are limited, in the share repurchase program, to a maximum of 10% of the class of stock in terms of a buyback. So, the maximum we could do currently would be 10%. We also did it because we wanted to create a treasury stock balance, we do not have a strict treasury stock balance today; so, every time an employee exercises stock options the Board has to approve the issuance of shares. So, those were also some operational reasons why we thought it would be interesting to have a small treasury stock balance, in addition to doing it now with a pretty attractive price.

Mike Linenberg:

I only brought it up, I mean, regardless of your daily volume, which, as you pointed out, is good. There are numerous institutions that, for their own charters, if the float is below a certain percentage; even if there is good liquidity, as you pointed out, they cannot buy your stock, and some of them look at that 25% threshold very closely.

Richard Lark:

Exactly. There are some funds that would only buy New Market companies where you have to have only voting stock issued. How much that affects our shareholder base is hard to quantify, but these are designed to motivate companies to have a large portion of their stock traded in the market as opposed to a smaller portion.

Mike Linenberg:

OK. And just lastly, on your capacity growth plans. Your growth plans for 2008 are sort of in sync with where the industry is, your 18 and 33% are not that far. Traffic was up domestically in 2007 11%, international was down a little bit, I think that was more of a function of just capacity, not big in the market. But the fact is that the United States economy slowing, and historically, as much as the decoupling investment pieces it can hold, the fact is that United States historically tends to lead the world into at least a global slowdown. When you think about all of that in a mix, and yet your growing capacity 18%, what is the inflection point; how quickly do you pull back? It just seems like that is somewhat aggressive based on where things grew in 2007 and it seems like, if anything, the risk is to the downside in 2008 because of what is going on globally.

Richard Lark:

First, all of our domestic capacity growth is coming out of seat growth from higher number of seats on the aircraft, basically returning 300s and replacing with 700s and 800s. You have zero fleet growth this year in terms of number of aircraft; it is actually a net one aircraft growth in the narrow-body fleet, zero growth from where we are right now in terms of wide-body fleet and a net one growth in terms of number of aircraft in the narrow-body fleet.

It's important to keep that in mind, because that has important quantification. In terms of the demand environment, we have been seeing passenger volumes grow at a rate around 3x GDP in Brazil. The projections we are working with are around 5% GDP growth in Brazil. Our business model is the preferred business model, if there is an economic downturn in terms of passengers becoming more price-sensitive; we saw this back in 2002 and 2003, relative to the competition - that is another point.

The third point is that, as you mentioned, the decoupling point, what kind of effect that would have on demand for domestic air travel in Brazil. We do not expect to see much of an impact in the consumption of domestic air travel in Brazil based on what the economic growth is in the United States. What we do see is the consumption of air travel in Brazil being highly dependent on low fares stimulating demand. We still have a fairly independent traded market here in Brazil, the travel market of 20 million people are at best 9 or 10 million today.

So, we still have a long way to go in terms of domestic stimulation here. It is quite clear that that could affect foreign travel to Brazil, which is being driven by economic activity and investments here in Brazil these days, it could potentially affect air travel from Brazil abroad also, but in terms of domestic results and also our South American network we do not expect to see a big impact on our passenger volumes with what is going on in the United States.

Mike Linenberg:

OK. Thanks, I appreciate it.

Steve Trent, Citi:

Good morning, guys. Just two or three quick ones for me. The 767s that came late, where were they originating from? Were they directly from Boeing or were they from a lessor, and if that is the case, or whichever case may be, do you guys expect any compensation for those planes arriving late?

And my second question regards to David Newman, founder of JetBlue. It looks like he wants to try to revive one of the currently defunct carriers in Brazil. Do you believe that air traffic control situation has been redressed to the degree that someone like that can now come into the system with respect to …

Constantino de Oliveira, Jr.:

Thank you for the question. Regarding the 767s, we acquired these aircraft with the lessors, that means they are on operational lease, and there is no compensation for delays; this can happen with used aircraft, old aircraft, they have to do a C-check to deliver these aircraft to a new operator, in this case, VRG, and during this maintenance, if they find some problems or they see that they need more time to recover all of the aircraft and make it ready for a new lessee, this causes delays.

Regarding David Newman, it is very difficult to comment on that, because it is unofficial information. We see the air control problems normalizing. At the same time, the government is announcing that they will invest in a third airport here in São Paulo and also investing in new systems for traffic control and acquiring new people to establish or to guarantee the industry growth and make things normal for the future.

So, I think that covers your point, but if you still have any questions, please.

Steve Trent:

No, that was pretty clear, thank you very much.

Frank Boroch, Bear Stearns:

The question is about sequential yield. Looks like things are improving in the 1Q, but then the rest of the guidance implies that sequential yield in the rest of the year does not hold on to the current quarter level, and I am just trying to understand why you see that happening, and maybe you could differentiate between the domestic and international yield environment at present.

Richard Lark:

We currently see a potential increase in yields, we saw a good yield increase in January, we are having record levels of sales volumes, so, there is a potential for yields to be better than expected. The international yields in the long haul business are very low, we are expecting it to continue to be very low for the first half of this year as we continue to develop and roll out those flights, but we have seasonality in the Brazilian market in the

2Q being a down quarter, the 3Q being a good quarter, but a lot of this is going to depend on competitive elements. We see the current environment tending towards a large increase in yields in January over December.

But in terms of the full year, it is possible we can see something in a 5% to 8% range in terms of the year-over-year yield increases.

Frank Boroch:

A question about the recent decision to discontinue GTA service on the São Paulo-Lima and the Santiago routes: does that suggest that we are seeing a ceiling for some of the GTA branded service within South America?

Richard Lark:

No, the decision there is really driven by a couple of factors. We now have a product which is a dual class product, which is more attractive on medium haul flights. These flights are 3.5 hour, 4 hour to 5 hour flights where the single class product is less competitive versus the dual class product for a certain segment of the traveling public.

So in those particular markets, we are not exiting those markets, we are still flying Santiago-Lima, for example, through GOL with connections. Lima is served from Santiago, Santiago served from Buenos Aires, so, we have good volumes on flights from São Paulo, Santiago, for example, to Buenos Aires. The operating model that we use on GOL favors that type of network.

With the direct flights – São Paulo-Lima, São Paulo-Santiago, etc. – we are adding dual class service. We are shifting some of that capacity to a dual class product, so that we can also get better performance from the aircraft on these long haul flights, down to the 767, and also on those medium haul flights, sort of the 4 to 9 hours.

Within VRG in the Bogotá and Caracas markets, which are currently being serviced with the 737-800s, we are going to be shifting this service to the 767s. So, it is really more aircraft type driven, or operating model driven, if you will, then, brand driven. These adequations that we are doing in the network are meant to maximize the synergies between the two different products that we have, the two different aircraft types that we have: one doing medium-long haul, one doing short haul. GOL´s model is based on highly integrated network connections and the Varig model is based on direct point-to-point flights.

Frank Boroch:

OK, that helps. And lastly, on the Frankfurt- and London-Rome routes, are you giving back those frequencies, are you going to hold on to them and potentially restart later in the year and for the United States? It looks like you have got one slot there, at JFK, is that sufficient for what you want to offer?

Richard Lark:

We have no plans to continue offering direct flights to those markets after the end of March. The way it works for Brazilian regulation is: once you stop operating an international route, you would lose that route right after a period of six months. In the case of JFK, the plans there are for the second half of the year towards the end of the year, to start daily service there, and we will do that with the re-adequation of the 767 fleet that we have, we would not need additional aircraft to do that. But we do not have a specific target day yet for the launch.

We are still in the launch phase of our international flights, and we decided to go a little bit more slowly with the plan given what we are seeing in the competitive environment also related to some of the fleet issues that we discussed. We have been studying how to reduce the operating costs of 767 before we become more aggressive. So, all those factors are formulated into the decisions.

Another important factor as well is the development of airline partnerships in the markets that we are operating in, and that is also a driving factor on where we are going to continue to invest and where we are not going to continue to invest. It is a big driver as relates to the distribution partnerships that we have both in the European and North American markets, as well as relationship with those airlines into Brazil.

Frank Boroch:

OK, thank you.

Daniela Bretthauer, Goldman Sachs:

Hi, good morning. I just wanted to ask a question on your guidance for estimated tax rate of 25% for 2008. I mean, you basically paid no taxes in 2007. How comfortable are you with this full tax record for 2008? That is the first question.

Richard Lark:

Yes, we're very comfortable with that, we have a fair amount of tax credits to be consumed, over R$350 million of tax credits especially at VRG related to the operating losses area. We also have them at GOL and GLAI, the holding company. The money is used to pay taxes and helps us reduce overall taxes. We manage that together with our cash management program.

So, that is a pretty comfortable number for us for 2009 given the operating losses and the tax benefits we created in 2008. As you saw, we ended up in 2007 in US GAAP with an effective tax rate of zero based on the 4Q results; on a positive side it ended up creating some tax benefits for us going forward.

We also have a potential tax benefit related to the goodwill on the acquisition of VRG which we have not yet started amortizing. So, we also have an additional tax benefit there.

Daniela Bretthauer:

Richard, is that why the 25 looks a bit aggressive, in my view.

Richard Lark:

Meaning high?

Daniela Bretthauer:

Yes.

Richard Lark:

It depends on the generation of revenues. You saw in the 4Q what was missing from profit generation with much lower revenues, so, a lot of that will depend on. The faster we generate revenues, the faster that tax rate would go down in the short term. As a medium term benefit, this tax benefit will be consumed over the next five to ten years, but that will provide a cash benefit for us going forward which could be quite substantial in 2008 and 2009. It will depend on the generation of profits, especially at the VRG, where the consumption with tax credit there depends on the generation of profits; right now it is just sitting and accumulating these tax benefits with the operating loss.

Daniela Bretthauer:

And the second question is: given that you sort of scaled back on the Varig routes and even shut down some of their routes, are you still working with the 3Q for breakeven for operations for Varig, or is that going to take a little bit longer? Any color on that?

Constantino de Oliveira, Jr.:

We are still expecting to reach a breakeven on the VRG company on the 3Q08. We have been making all of these challenging decisions of difficult execution; we started to recover the profitability of the company and be more focused on higher productivity and more efficient operations, that will allow us to reach breakeven on the 3Q08. We are maintaining our expectations related to that.

Richard Lark:

Many of the network changes that we made, because when they become effective, it should have positive impacts starting in April as relates to the domestic network, connections coming back to Congonhas and changes we are making in the VRG domestic network. The changes we are making in the international network also are effective as of April, but the international flights are still in maturity phase in terms of developing of the revenues, but we expect that both of these network changes will start to benefit on the cost side in the 2Q, on the revenue side of the domestic market in the 2Q.

We do not expect to see better level revenues in the long haul business until the 3Q. The long haul business will continue to drain on our overall consolidated figures until July.

Daniela Bretthauer:

So, if anything, the 2Q is definitely looking more positive.

Richard Lark:

Based on the changes that we are effecting in the domestic network versus what we have seen since the August period, yes, since the September period, yes.

Constantino de Oliveira, Jr.:

Also, we will reduce some losses on the international flights regarding this flight for London and Rome. Also, in the 3Q we expect to see between July and August all the code-share agreements and the feeder agreements in Europe working and in case of

Madrid, sooner than that. We will see all the efforts to have better revenues in place during the 3Q08. So, because of that we are keeping these targets.

Daniela Bretthauer:

OK. Thank you very much.

Operator:

This concludes the Q&A session. At this time I would to turn the floor back to Mr. Constantino de Oliveira, Jr. for any closing remarks.

Constantino de Oliveira, Jr.:

Once again, thank you very much for interest in GOL. We remain committed to making air travel a simpler, more convenient and accessible option for everyone, while creating value for our shareholders and employees. GOL is popularizing air travel in Brazil, South America and the world through the expansion of our business, innovation in our quality services, operating efficiency, cost management and competitive low prices. At GTA, our slogan is: “Here, everyone can fly”; and at VRG, “The pleasure is in flying”.

If you have any additional questions, please feel free to contact our IR department. You can also visit the IR section in our website at www.voegol.com.br/ir. Thank you very much, and have a nice day.

Operator:

Thank you. This thus concludes GOL – Intelligent Airlines’ 4Q07 conference call. You may disconnect your lines at this time.