Operator:

Good day, and welcome to the GOL Airlines 1Q19 results conference call.

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

This event is also being broadcast live via webcast and may be accessed through the GOL website at www.voegol.com.br/ir, and the MZiQ platform at www.mziq.com. Those following the presentation via the webcast may post their questions on the platform and their questions will either be answered by the management during this call, or by the GOL Investor Relations team after the conference is finished.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of GOL's 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 events related to macroeconomic conditions, industry and other factors could also cause results to differ materially from those expressed in such forward-looking statements.

At this time, I would like to hand the call over to Mr. Paulo Kakinoff, please begin.

Paulo Kakinoff:

Good morning, ladies and gentlemen, and welcome to GOL Airlines conference call. I am Paulo Kakinoff, Chief Executive Officer; and I am joined by Richard Lark, our Chief Financial Officer.

Richard Lark:

Good morning. Good to be with you today.

Paulo Kakinoff:

This morning, we released our 1Q figures. Also, we made available on GOL's Investors Relations website three videos with the results presentation, financial review and brief Q&A.

We improved our operating indicators. In the quarter, GOL's RPKs increased by 6.4%, from R$10 billion in 2018 to R$10.6 billion this quarter, driven by a 7% increase in the number of transported passengers.

Increased demand allowed GOL to optimize yields through dynamic revenue management. Average yield per passenger increased by 1.9% quarter-over-quarter, reaching R$28.6. Supply increased 5%, driven by 3.2% increase in seats and increase in average stage length. This indicator includes the impact of the grounding of seven MAX-8 on March 11.

The average load factor was 81.5%, an increase of 1.1 p.p. compared to the same period in 2018. We continue to drive strong revenue growth. The combination of higher demand and optimized pricing resulted in net revenue of R$3.2 billion, an increase of 8.3%.

Net RASK was R$24.6, an increase of 3.2%. Net PRASK increased 3.3%, reaching R$23.3. Average fare increased by 1.3%, from R$335 to R$339. GOL's 2019 guidance is for net revenues of approximately R$13 billion.

GOL's current network serves higher yield routes and is the leader in the domestic market, with a market share of 36%. The Company is also a leader in the corporate customer segment, with the largest market share of business traffic in Brazil.

Regarding the temporary grounding of MAX-8 aircraft, we emphasize that, since the beginning of the operations with the MAX-8 in June 2018, we have operated nearly 3,000 flights, totaling over 12,700 hours, offering absolute safety for our customers.

Boeing is executing a comprehensive and multidisciplinary strategy for the MAX-8 update, and soon, our customers will be able to benefit again from all the technology and comfort offered by this modern aircraft.

Since March 11, the Company is operating flights from our international hubs in Brasília and Fortaleza to the United States with 77 NG aircrafts.

With that, I am going to hand you over to Rich, who is going to take us through some additional highlights.

Richard Lark:

Thanks, Kakinoff. First, we would like to comment about GOL's cost environment. Total CASK ex-non-recurring in the 1Q was R$20.4, 4.7% higher. CASK ex-fuel, excluding non-recurring, increased 3.2%, mainly due to the 16.2% appreciation of the USD against the Brazilian Real, the end of the payroll tax relief program, higher depreciation due to higher capitalized maintenance on aircraft components including engines, and a fleet increase of seven new aircraft for net, in addition to higher passenger expenses resulted from the grounding of the MAX-8 fleet.

GOL remains the cost leader in South America for the 18th consecutive year. Our margins remain solid. The combination of better pricing, higher demand and execution of the fleet renewal plan permitted GOL's recurring operating income to reach R$546 million, with recurring EBIT margin of 17% in the 1Q19.

Recurring EBITDA was R$952 million, and recurring EBITDA margin reached nearly 30%. GOL's 2019 guidance is for an EBITDA margin of approximately 28%.

The second point to highlight is our cash flow management. Combination of our operating cash flow generation of R$254 million in the period and higher cash liquidity improved the Company's financial flexibility. Total liquidity including cash financial investments, restricted cash and accounts receivable, was R$3.5 billion at March 31, 2019.

Lastly, we would like to share the continued success of GOL's liability management. The net debt excluding perpetual bonds to last 12 months EBITDA ratio was 3.3x at the end of March 2019.

We continue to be focused on the improvement of our capital structure, including the amortization of R$148 million of the Company's seventh issuance of debentures, and the tender offer for 15% of the 2022 senior notes.

We also carried out an innovated issuance of exchangeable senior notes totaling US$300 million in the quarter, convertible into GOL share at 85% premium over the stock price on the date of issuance. This issuance bears an interest rate of 3.75% per year, reducing GOL's average cost of debt by 50 bps.

These transactions represented additional deleveraging of the balance sheet and even better matching of operating cash flow generation with amortization of liabilities. The liability management reduce the Company's cost of debt and improved its credit metrics. Currently, the average interest rate is 7.7% for local currency debt. And for USD denominated debt, the average interest rate is now at 6.3%, compared to 6.8% in the 4Q18.

GOL's maintained its commitment to financial discipline, managing the effects of Brazilian currency, through its efficient capacity management and dynamic yield management. For 2019, we expect GOL's domestic capacity growth to be between 3% to 4%, and international to be between 35% to 40%. Non-fuel CASK is expected to be around R$0.14.

We have projected EBITDA and EBIT margins in 2019 at around 28% and 18% respectively. Leverage, measured as net debt excluding perpetual debt over EBITDA for 2019, should be 2.9x, reflecting our commitment to reduce leverage on the Company's balance sheet.

Now, I would like to return to Kakinoff.

Paulo Kakinoff:

Thanks, Rich. In summary, we are working hard to maximize our results this quarter. Our commitment to continuous improvement in results has proven the strategy assertiveness of offering a differentiated and high-quality product, while relentlessly focusing on cost efficiency.

We remain focused in offering the best experience in air transportation, with exclusive services to customers on new and modern aircraft that connect our main market with the most convenient schedules.

We are committed to a highly disciplined capacity management and prudent management of the balance sheet and liquidity, maintaining cost leadership and continuing as the preferred airline for customers, while driving sustainable margins and returns for shareholders.

To conclude, we are optimistic for 2019 with the continuous improvement of the Brazilian economy and the aviation sector in the country.

Now, I would like to initiate the Q&A session.

Duane Pfennigwerth, Evercore:

Thanks. Can you update us on the auction process for Avianca Brazil? What that looks like as of today? Is May 7 still a good date? Any thoughts on what you are actually going to be bidding on?

Paulo Kakinoff:

Duane, good morning. Actually, what we know is pretty much the official figures. The auction is scheduled to happen by Tuesday next week. We are now noticing that Avianca has performed flights at four different airports, and they have been able to actually keep the Company operating with the current five to six planes that they have available.

GOL is committed to this auction, as previously informed, so we are supposed to offer a minimum US$70 million offer for at least one of the UPIs. This is what we got so far.

Duane Pfennigwerth:

Thank you. And may be more details than you are willing to get into, but can you speak to what the UPI that you are interested in covers? Is it a specific part of their network or is it sort of a blind allotment divided by six?

Paulo Kakinoff:

Duane, you are right, we would not like to give any kind of disclosure at this moment, because that is part of our strategy to the auction. This is an auction for real, and nothing artificially built to determine one single winner. Therefore, we are participating in this auction as we would in any other normal auction, and we cannot, due to the situation, give you any kind of disclosure which could jeopardize our strategy to that day.

Duane Pfennigwerth:

Thanks. And then, just for my follow-up, maybe, Rich, as you think about the June quarter, what you are seeing in demand and bookings trends, and as we think about comping the truckers' strike last year, any color you could provide into the June quarter on revenue environment would be appreciated.

Richard Lark:

You are right. Remembering, last year in mid-May, we had a collapse of the demand curve, because of a nation-wide truckers' strike, which hurts the year-over-year comps. The way I would characterize that, we are seeing very strong bookings, and that is also reflecting in yields, and we expect to see something on the order of 15% year-over-year increase in the revenues for the 2Q.

Obviously, there is both the volume effect and the yield effect in there. A big chunk of that is coming out of the yield side of the equation, because load factors are at peak levels.

So that is what we are kind of seeing at this point, and that is also what motivated us to upgrade our guidance for the year for about R$100 million, from the R$12.9 billion to the R$13 billion.

Duane Pfennigwerth:

OK. Thank you.

Daniel McKenzie, Buckingham Research:

Thanks. Good morning. A couple of questions here on the revised outlook, just a couple of clarifying questions. Does the revenue growth outlook include upside from Avianca Brazil's assets at this point, and/or the structural reorganization of Smiles?

Richard Lark:

Nothing from a potential acquisition, specifically meaning, nothing from us increasing our assets. But overall, in terms of the market, we are now with the more definitive nature of that situation. The company has basically significantly wound down over the past couple of weeks. So that component where Avianca Brazil had the largest overlap with GOL's operations, that component is in our forecast for sure. Part of that is in the forecast, and then other component really relates to the sourcing and overall demand.

In terms of the Smiles incorporation, no. As you saw on our guidance, the budget for the minority interest is still outstanding in our 2019 guidance. It is still being excluded from bottom line net income.

Daniel McKenzie:

Understood. And then, I guess, just a couple of more questions here. First, just on the MAX grounding, how are you thinking about the impact to the full year cost, just given the revised CASK ex-fuel forecast?

And then, tied to the last question here, your comment about Avianca, I am just curious to what extent there was revenue pressure in the 1Q tied to Avianca, perhaps pricing for cash?

Richard Lark:

Right now, based on what we know now with the MAX, there would be an impact of around R$40 million in our forecast for this year. That is up to today, meaning with what we have done currently with the grounding, and assuming that Boeing's forecasts bear fruit, which is during the month of May, there would be the un-grounding and then MAXs will be flying again in the 2H19. In our 1Q numbers, we had around R$10 million of costs related to the MAX grounding specifically.

And your second question as well, I think it is relevant. What we did see in the month of March was some very intense price discounting coming out of Avianca as they were in that specific mode. That impacted yields negatively in the quarter because of the March effect.

January and February were actually pretty solid, and then in March we saw that effect. And also, remembering that, that Company operates in the main share markets, with a big overlap with us, so we were seeing a bit of that, especially in the last 15 days of March and the first 15 days of April.

Daniel McKenzie:

Perfect. Thanks.

Savi Syth, Raymond James:

Good afternoon. Just a follow-up on the MAX grounding, just wondering if this does last into the winter holiday season, what optionality you have? If you look at the U.S. airlines, they seem to kind of imply it is during peak season having a bigger percentage impact than their fleets would imply. I am just kind of wondering if maybe GOL has some more flexibility to limit that impact if this does go into the peak demand period.

Paulo Kakinoff:

Savi, yes, we could have an additional impact, but that is, in comparison to any other major airline in the world suffering by the 737 MAX grounding, much lower. This is because we were operating only one route that was exclusively operated by 737 MAX, that was the United States.

Now, we are performing the same route with the NG, with one stop over Dominican Republic for refueling. And that would be the single route, basically affected by not having the 737 available in July, which is the Brazilian high season.

We can redesign our network in July to further reduce lower profitable routes and reallocate some of our NGs to compensate the lack of 737 MAX towards more demanding/profitable routes than we would normally do.

So, basically, we could re-accommodate it, possibly have any additional impact than we are perceiving today, but nothing that would dramatically change the July's result.

Savi Syth:

Understood. That is helpful.

Richard Lark:

Savi, I would just add to that, in terms of the fleet plan, in terms of the flexibility that you are asking about, the eight MAXs that we had in the fleet plan, seven from last year that we grounded, and then the additional one we would have already received this year, those are fully covered by NGs. There are four NGs that we are not returning, so they are not going out of the fleet this year based on that. And then, also four NGs, where we re-calendarize the maintenance schedule.

So, within the existing fleet, we are able to source capacity from eight NGs that are not going out, they are not going to be grounded for maintenance, to cover those eight MAXs that are currently not flying.

And then, as of July, we start to receive roughly one to two aircrafts per month of the MAX order. So, in the plan A, we are receiving those aircrafts. As Kakinoff was saying, to the extent that we are not receiving those aircraft as of July, we would then have to make some further adjustments in the fleet plan.

So think about it in those two parts. So first part, which is the current MAXs that we have, they have already been covered by the flexibility we have with the NGs. And then, the second part would be the future MAXs to be delivered, which start in July. We would then have to cover those with alternative measures.

Paulo Kakinoff:

Savi, just to add another topic, in parallel, we could also get access to temporary leasing contracts in order to fulfill an expected high demand to be present in the market over the following two to three months.

We are also restructuring ourselves to get access to some temporary leasing contracts, not necessarily to compensated the MAX effect, but if we continue to see the current demand, which is pretty high, we could also afford to get four, five or six additional planes for temporary contracts, such as one year or one year and a half, which would also make us able to absorb a more benign market than we had forecasted before. It is pretty much comparable to what we are seeing exactly today. Our demand is pretty high, and we can have that additional resource in place.

Richard Lark:

We are preparing for this excess in that scenario. Coincidentally, simultaneously with all this, we have the situation of Jet in India, and that has resulted in the availability of NGs, which are the exact aircraft that we fly. So we have that as a potential source of some short-term leases for NGs, if we need them to cover any delays in MAX deliveries in the 2H19, which is possible.

Paulo Kakinoff:

And even if the MAX is back, and the market we will continue to be as strong as it is today, on top of the MAX begin back to the game by the end of May, beginning of June, we could also decide on upon bringing some additional planes to compensate this additional demand.

Savi Syth:

I think that answers my follow-up, but just to clarify, if you do get this kind of Avianca Brazil route, is that kind of how you would plan to address that additional flying that you will have? Is that reflected in the guidance or not?

Paulo Kakinoff:

At the moment, we have too many moving parts. The good answer, the positive side is that all those moving parts are positively supposed to deliver additional demand, additional results.

And from the current landscape, I think that the alternatives are only positive to the scenario that you had previously built. Avianca might be another positive layer on top of everything that we had discussed it right now, but we are not considering all those things, and definitely they are not reflected completely into our current guidance.

Savi Syth:

All right. Very helpful. Thank you.

Stephen Trent, Citi:

Good morning, gentlemen, and thanks very much for taking my questions. I actually just had one or two follow-ups to what Savi and some of the other guys have asked. First off, when we think about the Avianca Brazil slots, have you guys heard any credible interest from any foreign carrier even looking at those slots? It may be naively, but seems to me it is too small of a footprint to that be encircled by three big domestic airlines, but any credible foreign interest that you have heard of by chance?

Paulo Kakinoff:

Good morning. Actually, we have heard some curious things, hanging from Uber, who would to be interest, up to a new entrepreneur from…

Richard Lark:

We heard a couple of days ago that Uber would be...

Paulo Kakinoff:

Yes, Uber. It is just to tell you, Trent, that there are several speculations, but up to now nothing material, nothing concrete.

Stephen Trent:

That is very helpful. That is pretty amazing. I was also just wondering, when we think about this recent announcements with regulations, one kind of reducing the state taxation on jet fuel kerosene, and two, this issue about checked bags. Any color with respect to where else you might be able to expand with this jet fuel kerosene tax reduce? I think you mentioned São Paulo, but I am not sure if you are able to give us any further detail.

And on this checked bags, assuming it gets rolled back, is not that just going to go into higher fares anyway?

Paulo Kakinoff:

Actually, it is really hard to believe that the government would start that on the baggage shifting, because that would be at least a kind of contradiction in comparison to what the Brazilian civil authorities have put in place so far in order to open up the Brazilian market to have a regulatory structure quite comparable to the most developed markets in the world. And this government is publically pretty liberal.

So, that movement coming from a quite punctual situation in the Congress, I do not think that will be accepted by the government. Honestly, I do not believe that the baggage fees will change, mainly because, as you know, the same government is pushing the same congress very strongly to get the foreign capital lift being approved.

Those are two opposite decisions, to have the market open for foreign capital and, at the same time, stepping back with the baggage fee.

Richard would like to add to that.

Richard Lark:

The state of São Paulo was pioneer in reducing the fuel tax in exchange for the airlines adding additional development, bringing passengers from other parts of Brazil into São Paulo and generating tourism and additional tax revenues for the state.

The expectation is that other states will follow. There is nothing specific that we see happening in the in the near-term, but the expectation is that there are conversations about some other states pursuing some similar development objectives with lowering of fuel taxes.

But São Paulo was the big notch, obviously, for the country and for us. It is about 30% of our revenues, the flights in and out of the state of São Paulo. Previous to this initiative, São Paulo had the highest jet fuel taxes. So we are actually doing tinkering and other measures that are reducing our actual fuel consumption on the overall network down to about 23% of the total.

So, for us, the São Paulo piece was significant on its own merits. There are discussions that we could potentially see some other states follow with that type of initiative, but nothing specific at this point.

Stephen Trent:

OK. Let me leave it there. Very helpful. Thanks.

Matt, Deutsche Bank:

A few questions on the warrant offering. What drove the decision to bring warrants to market? Could you give us a rundown on the mechanics of the transaction, and how would you characterize the balance sheet benefit?

Richard Lark:

Matt, I think you are referring to the warrants offering that is being done this week. Is that correct?

Matt:

Yes.

Richard Lark:

In the month of March, we issued a convertible bond. In Brazil, preemptive rights are an obligation, so we are doing that offering of warrants to basically satisfy the preemptive rights obligation. How it works in the context of the convert is that the offshore company that issued the convertible bond is basically subscribing those warrants such that, in the future, if those investors who hold that bond want to convert into the underlying equity, going through ADRs all the way down to the local PN shares, those shares will already be effectively issue through this warrant structure.

Concurrent with that, we are also offering that warrants to any investor in our current shareholder base that would want to take up those preemptive rights on that warrant. But the motivation for that of the warrants specifically is not a capital raising. The capital raising was already done. With the combination of the original issue and the green shoe, we raise US$345 million on the convertible bond, which is convertible into GOL ADRs.

And then, those ADRs through the warrant issue will also be fungible with an equivalent amount of shares in the local PN share. So the reason for that warrant offering is just kind of the last leg of the complex convertible bond offering that we did in March.

Matt:

Thanks. Just as a quick follow-up, have you seen a share shift in Brazilian loyalty market? I know some of your competitors in the past have called out, taking a bigger shot slice of the pie in the loyalty market.

Richard Lark:

There is a couple factors there. We have two competitors currently that have had a reduced focus. LATAM did finish a couple of weeks ago their take in of Multiplus, and obviously, Avianca, with its restructuring, has been unfocused.

That has provided an opportunity in the current market. There has been some market share shift currently from those airline companies into our loyalty program. We have also seen Azul being more aggressive with their program, and also the banks, because in addition to the airline programs, they also could be directly with many of the commercial banks here in Brazil.

So on the volume side that, is what kind of what we are seeing. On the margin side, we are seeing more competition on pricing across the board, especially as the airlines are starting to use the loyalty program more as a marketing tool as opposed to having an isolated business focused on maximizing the profitability standalone.

It feels a bit like we are on a bit of an inflection point now. Also, generally what we see is the two businesses, the airline passenger business and the loyalty program business tend to be countercyclical, when you talk about margins.

We are kind of on year three or so now of our growth phase, where the demand from paying passengers is increasing, and kind of the opposite of that, the one minus portion of that is the cost of goods sold of the loyalty program.

So we are in a bit of an inflection point right now, kind of transitioning from what the market has looked like over the last five or six years to what it will look like over the next five or six years. And we do expect that to be a frontier of increased competition, especially as the industry structure in Brazil consolidates and reformulates. The airlines are strategically reformulating how they are using their loyalty businesses to drive loyalty and growth, and compete and so on.

Matt:

Thanks for taking my questions.

Barbara Halberstadt, Bank of America:

Thanks for taking the question. I jumped in a little bit later, so I am not sure if you are already answered it, so my apologies. I just wanted to have an update on the Smiles corporate organization, if there is any deadline in the short-term to come up with a final structure. Just if you could give us some color on that, would be great. Thank you.

Richard Lark:

As we disclosed in December, we are in discussions with this special independent committee that was constituted by the Smiles board, and as soon as we have any news from that negotiation, we both, us as well as Smiles would be disclosing that to the market. But we do not have any news at this particular moment.

Barbara Halberstadt:

No deadline? No target at the end of the year, or the next quarters?

Richard Lark:

There is no pressure on the independent committee in terms of the amount of time that they have to analyze the transaction. We are currently in the middle of those discussions.

Barbara Halberstadt:

OK. Great. Thank you.

Josh Milberg, Morgan Stanley:

Thank you for the call. My first question relates to the big drop-off in your maintenance costs seen in the period. I was just hoping you could comment on what drove the change in the capitalization level, and also what we could expect for this line going forward.

Richard Lark:

Part of that just relates to the shift in the fleet, Josh. There is no big drop-off per se. I am trying to think specifically of what you are referring to there.

Josh Milberg:

Sorry, Richard, I am referring to the near 60% decline in year-over-year in your maintenance, materials and repairs line.

Richard Lark:

Nothing specific, I can maybe get back to you offline on that, and you will see that there is nothing specific. As you know, 2016, 2017 and 2018 were kind of peaking maintenance expenses for us as it relates to the engine overhauls. This year, we go into a transition towards a more normalized level where, in two years, we hope to be back down to around R$350 million to R$400 million a year run rate, from this roughly R$600 million to R$650 million run rate that we have been at, as we have kind of peaked on the engine overhauls. Every time we do these engine overhauls, we basically get seven years of useful life to the next maintenance event.

Also, on quarterly basis, there can be variances based on what we are doing specifically as early as the seasonality and so on. So, in the quarter over quarter comparison we did have some lower maintenance events in the 1Q related to higher utilization and higher seasonality having less maintenance.

But nothing specific that would be kind of a structural change. This year we are shifting down to a lower level. But, I will take a look at that and see if there is anything else, and I will get back to you offline on that.

Josh Milberg:

OK. Fair enough. One think you highlighted in the release was a higher capitalization of rotables and components repairs.

Richard Lark:

We do capitalize a portion of the maintenance there, and then it is basically depreciated over five to seven year period. It was a slight increase in that in the 1Q19, based on the nature of the of the maintenance costs, maybe about R$30 million to R$40 million of additional capitalization there; perhaps it was in the previous quarter. I will just have to look into the micro detail on that, and I will tell you if there is a better way to look at the apples to apples comparison.

Josh Milberg:

OK. Got it. Thanks for that. And then, you already covered a lot of ground, obviously, on the MAX, but I was hoping if you could just touch on the issue of potential compensation from Boeing for the grounding. If there is something, or if you can say anything at this stage.

Paulo Kakinoff:

We have this kind of situation predicted in our contract. We cannot give you the disclosure on how specifically this will evolve, but I can tell you that we have no major concerns regarding the necessity of having some kind of compensation being provided by Boeing.

Josh Milberg:

OK. Thanks to both of you.

Petr Grishchenko, Barclays:

Good afternoon, and thanks for taking my questions. Some of those were already answered. I guess I want to switch gears to your outlook for 2019 and 2020. I have seen your guidance on fuel prices takes into account the fact that about 60% of your fuel consumption is hedged at, I think, US$60. So, first, it is Brent or WTI? I am just curious. And then, looking into 2020, it seems like your cost is only marginally higher, and there are no hedges. I am just wondering how to think about that.

Richard Lark:

That is not the case. We are about 30% hedged for 2020, also in the low US$60s. Those are WTI prices. We generally go out two to three years and work on hedging. We just provided for reference there how much we have hedged for 2018, but if you look in our financial statement you can also see what we have for 2020. We also have about 10% hedged in 2021.

Basically, how we do specifically at GOL hedging is taking advantage of the forward curve, backwardation and credit capacity to create value in putting on hedging well in advance. For example, these hedges that we have now for this year 2018, we basically put them on in the middle of last year, and then topped up a little bit in December, when prices came down.

Having said that, that fuel price per liter guidance we are giving is not a hedge price. That is indicative of what we expect our price to be. From the suppliers here in Brazil, we are not forecasting gains or losses on hedges, because that will depend on how that rolls forward on a quarterly basis.

For example, the mark to market to day to day on our hedge positions is about R$100 million. If we would unwind all of those hedges and put the cash in the bank, we would have about R$100 million. But we do not do that. We will manage the positions if the volatility gets too far, off course, up or down, and we will also take advantage of the market as well to manage our downside positions and buyback the puts in the cost of this coverage.

But basically that hedge position that is there, for example, if they where they are from now to the end of the year, over the next three quarters, to the end of December we would realize around R$100 million of gain, if things stayed where they are, stable. That would be a slight reduction to our overall fuel expenses.

But that fuel price guidance in there, which was revised up a bit, is based on our forecasts here for oil prices and what we think the Petrobras price to us here locally is. That guidance we give there, which is probably some of the more detailed guidance you get out of any company maybe anywhere, is really just to help those who are projecting to develop their own projections.

That guidance is developed by a lot of questions that we get asked repeatedly, and all the data we are providing there is pretty much everything that the market would need to estimate our results. It also allows us to be able to talk about results, because if we would not be providing this level of guidance, we would be providing selective disclosure in individual conversations.

So, there is a lot of reasons why we give that level of detail. It is not so that people can speculate against or bet against our internal estimates on oil prices or exchange rates, we do not want to get into that. So we are providing there how much we think we are going to be consuming, and how much we think we are going to be paying in terms of the price on average. Obviously, there is a lot of volatility there, we have a specific view on oil as well, but that is also so that analysts and investors can also put in your own assumptions there on the fuel price, if you want to do some simulations.

I think that gives you a lot of information that can help you think about that in terms of how we are managing.

Petr Grishchenko:

That is very helpful. Thank you, Richard. I wanted to follow up on your comments on the fleet commitments. Given IFRS 16 implementation, I am just curious of your thought process on evaluating operating versus financial leases going forward. Do you think it changes the math a little bit for you or not?

Richard Lark:

Changing the math meaning what? The situation of the MAX?

Petr Grishchenko:

Your evaluation whether you are going to answer operating or financial leases for the new aircraft, given the changes in accounting.

Richard Lark:

Given the IFRS, the new accounting. Our decision of how we finance the fleet is an economic decision and a risk management decision. In our first order with Boeing we did 80 aircraft out of the factory. We did half and half. Half the mortgage finance leases, and half sale-leasebacks, the philosophy there being, if you need to adjust your capacity, it is a little bit easier to adjust your operating lease capacity than your finance lease capacity, if you need to adjust up or down quicker.

Having said that, in our next cycle, which is now our second order with Boeing, our plan is to do 60% mortgage finance leases and 40% sale-leaseback over the next eight years or so. Our economics are better as a Company on the finance leasing mechanism, because the costs there are lower, but that is traded off against the flexibility component with having operating leases, which allows us to kind of upsize or downsize quicker than the finance lease.

Going forward, our 2018, 2019 and most of our 2020 deliveries have already been done in a sale-leaseback format. Starting in 2021, 2022, 2023, we will be focusing more on a finance lease format, which will be divided among a variety of export credit facilities and other things, which are working on now, and I expect that at end of this year, beginning of next year we will be announcing, giving some more visibility and we are doing on the finance lease component.

But it is not driven by the accounting. All the aircraft today are treating as a finance lease, whether it is an operating lease or a finance lease. They effectively go in there with the real economic cost of those leases. That is what you are seeing on the balance sheet today in terms of debt, as well as the interest expense. That is a more accurate representation of what our actual leverage is and our actual financing costs.

I do expect, though, over the next couple of quarters, it is going to be interesting for us, interesting for me to see how the market reevaluates benchmarking and companies, and GOL as well, because it does change a little bit how the operating leverage and the financial leverage is presented.

It is going to be interesting to me to see how that evolves and how the market looks at that. If you have not already, if you have some time later, in the third video that we have posted on the site this morning, the Q&A video, in the first part of that we put two benchmarking slides in there, which are looking at the 2018 data. We put two benchmarking slides in there of GOL versus the global peers and the Latin peers.

That gap, that is going to magnify going forward meaning, given GOLs high efficiency airline with a high value product, that will start to show a little bit more clearly in the accounting now, which is a separate issue than what you were asking.

But obviously, given that our biggest asset is the fleet, and our primary liability, if not our only liability, is secured and unsecured financing related to the aircraft acquisition that we do at the holding company level, it has various interesting implications for how you look at asset turnover profitability as well as leverage. And some people, to look at airlines, like to look at the two parts, things like that.

The new accounting tends to make us look a little bit more attractive on a return on capital and return on equity perspective than the old accounting. Because airline nerds who like to look at this stuff, it is going to be more interesting over the next couple of quarters to see how we kind of dialogue about this.

Petr Grishchenko:

Great. Thanks a lot. It is very helpful. Best of luck to you guys.

Savi Syth, Raymond James:

Actually, I have a three-part question on nonrecurring expenses. First, what was that in 1Q? Two, were there any kind of gains on sales, and can we assume not much for the rest of the year given the MAX situation?

And then the third one, I am guessing you might not be able to answer too well, but with Avianca Brazil, if you do get any of those assets, should we think of some nonrecurring expenses related to tickets sold that you might be taking responsibility for? And how should we think about that impact? Thanks.

Richard Lark:

That is a future question. On your first question, we have just been providing information on the nonrecurring. You guys can use whatever data you want. We are just giving the data, so you can get a good estimate of what the underlying operating profitability is and what the other costs are, as we have been doing this major fleet renewal.

In the 1Q, we had around R$40 million of nonrecurring expenses. About R$20 million, about half of that amount was related to one aircraft return. We basically returned one aircraft in the quarter and had some other expenses related to a second aircraft that is almost ready to be returned, an NG aircraft. We had around R$10 million of expenses related to re-accommodation, food and some other costs related to the grounding of the MAX aircraft we did. And there is about R$10 million of other expenses there. We did an offering in the 1Q, a fund raising, where we had some additional expenses.

That is pretty granular detail. It is not a big number. It is just R$40 million that we just pulled out of that to give you a better visibility on that.

There is no significant NG sales planned currently. That was our plan starting this year. We accelerated many of our 2019 expectations on NG sales into those 13 aircrafts that we sold in the 4Q18. So we started this year not planning to have any major NG sales program, unless we were to get an opportunity. This was before the MAX grounding.

Obviously, having said that, currently, where we are right now, we are delaying the re-deliveries of four NGs, and we have recalendarized the maintenance of four NGs this year. That is actually going to have an economic positive effect for us, because we generally can spend as much as US$2 million for every NG that we have to return out of the fleet. So we are not going to be having those expenses this year, and we are also going to see potentially some slightly lower maintenance expenses in the 2H as we recalendarize the maintenance on those NGs, those eight NGs that we are going to have flying as opposed to either going out of the fleet or in maintenance.

On the MAX deliveries this year, those were done in the sale-leaseback format. So, those aircrafts, any time we do those kind of sale-leasebacks, they have a small gain. So we have not really received one MAX this year, and so we have no sale-leaseback gains on the received MAXs. To the extent we have the schedule normalized in the 2H19 of the year, and we are receiving those MAXs off of our

Boeing order under sale-leasebacks, we would recognize some gains related to that, but that is not in our forecast at this point in time.

And then, on your final question, the way that the restructuring plan was approved for Avianca Brazil, in the *edital,* the document that the creditors approved, if we acquire one of the UPIs, we would assume a commitment for up to US$20 million of air traffic liability, which would be our maximum assumption of any type of liability there, because these are isolated productive units, which means their bankruptcy is remote.

But, as you know, the way that the air traffic liability works, it can be absorbed into your existing operations, on your existing capacity with a small marginal cost. And currently, Avianca Brazil's operations are significantly reduced and have wound down substantially.

And we have already been over the last four weeks or so, together with the other airlines in Brazil as part of what we normally do, transporting Avianca passengers. I think today we probably transport about 13,000, 14,000 passengers of Avianca. So we are already kind of shifting away into the air traffic liability that they have there.

But the answer would be, a maximum liability of US$20 million, if we were to acquire a company in the auction process.

Savi Syth:

That is all very helpful. Thank you.

Operator

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

Paulo Kakinoff:

Ladies and gentlemen, I hope you found our presentation and Q&A session helpful. Our Investor Relations team is available to speak with you as needed. Thank you very much, and have a nice day.

Operator

This concludes the GOL Airlines conference call for today. Thank you very much for your participation and have a nice day.