FitchRatings

Fitch Downgrades GOL's IDR to 'B-'; Outlook Negative

Ratings Endorsement Policy

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Fitch Ratings-New York-03 April 2013: Fitch Ratings has downgraded the ratings of Gol Linhas Aereas Inteligentes S.A.'s (GOL) and its fully owned subsidiaries as follows:

Gol Linhas Aereas Inteligentes S.A. (GOL):
--Foreign and local currency long-term Issuer Default Ratings (IDRs) to 'B-' from 'B+';
--Long-term national rating to 'BBB-(bra)' from 'BBB(bra)';
--USD200 million perpetual bonds to 'B-/RR4' from 'B/RR5'.

VRG Linhas Aereas S.A. (VRG):
--Foreign and local currency long-term IDRs to 'B-' from 'B+';
--Long-term national rating to 'BBB-(bra)' from 'BBB(bra)';
--USD200 million of senior notes due 2023 to 'B-/RR4' from 'B/RR5'.

GOL Finance, a company incorporated with limited liability in the Cayman Islands:
--Foreign and local currency long-term IDRs to 'B-' from 'B+';
--USD225 million of senior notes due 2017 to 'B-/RR4' from 'B/RR5';
--USD300 million of senior notes due 2020 to 'B-/RR4' from 'B/RR5'.

In addition, Fitch has affirmed VRG's BRL500 million of senior notes due 2017 at 'BBB-(bra)'.

The Rating Outlook for GOL, VRG, and GOL Finance is Negative.

The rating downgrades reflect continued deterioration in GOL's credit profile driven by poor operational results and the expectation of limited recovery in the company's cash flow generation during 2013. GOL's EBITDAR margin fell to 3.2% in 2012, from 9% in 2011 and 22% in 2010. This weakening of GOL's EBITDAR margins over the last few years reflects the very challenging scenario faced by the company with its revenue per available seat kilometers (RASK) to cost per available cost kilometers (CASK) spread being under pressure due to increasing competition, fuel costs, and depreciation of the local currency.

High fuel prices, which represent approximately 40% of the company's operating costs, hurt the company's profitability, as did the depreciation of the Brazilian real relative to the U.S. dollar. Approximately 90% of the company's revenues are denominated in local currency, while around 60% of its total costs and 80% of its total debt are denominated in U.S. dollars.

The Negative Outlook reflects the concern regarding the company's ability to reverse its deteriorating operational performance and increased refinancing risk during 2013. Also factored into the Negative Outlook is the high degree of sensitivity of GOL's financial performance to several factors not controlled by the company such as competition, strength of the local currency versus the U.S. dollar, and fuel cost. These variables could offset positive actions taken by management to reduce capacity.

The ratings incorporate GOL's business position in the Brazilian domestic market with a market share of 40.5%, as measured by revenues per kilometers (RPK), at the end of February 2013. The company's business model, which is primarily oriented to the domestic passenger market and has limited product and geographic diversification, is also factored into the ratings. The 'B-/RR4' rating of the company's unsecured public debt reflects average recovery prospects in the event of a default.

KEY RATING DRIVERS:

Deteriorating Liquidity:
GOL's liquidity deteriorated during 2012, with cash and marketable securities declining to BRL1.4 billion in 2012 from BRL2.3 billion in 2011. This compares to short-term debt of BRL1.7 billion in 2012, which includes approximately BRL1.1 billion of debt associated with the company's fourth and fifth debenture issuance, resulting in a low cash to short-term debt coverage ratio of 0.8x.

GOL obtained waivers for covenant violations on Feb. 1, 2013 that will result in the company's debt maturing as originally scheduled between 2015 and 2017 if it is in compliance with restrictive leverage covenants as of Dec. 31, 2013. Excluding the fourth and fifth debenture issuance; GOL faces debt amortizations of approximately BRL370 million in 2013 and BRL132 million in 2014.

During February 2013, the company issued, through its fully owned subsidiary VRG Linhas Aereas S.A. (VRG), USD200 million unsecured notes to refinance debt; and it is currently planning several initiatives to boost its liquidity. One of these initiatives includes an IPO of its loyalty program Smiles S.A., which the company expects to complete during April 2013.

Operational Performance, Focus on RASK-CASK Spread:
GOL's cash flow generation deteriorated during the last three year period ending December 2012 with EBITDAR of BRL1.5 billion, BRL707 million, and BRL258 million during 2010, 2011, and 2012, respectively. This negative trend reflects the company's challenging operating environment during 2012 which limited GOL's capacity to maintain a balance between its revenue and cost structure. This resulted in the company's RASK-CASK spread (BRL cents) reaching levels of +1.52, -0.37; and -1.75 in 2010, 2011, and 2012, respectively.

GOL is planning to reduce its fleet capacity in the domestic market by 8% to 10% during first-half 2013 in an effort to improve its RASK levels. The effectiveness of GOL's business strategy will depend not only of its own efforts, but also of the macroeconomic business environment, as well as by actions taken by main competitors related to capacity management. Fitch expects Brazil's GDP to expand by about 3% during 2013, which compares with 0.9% during 2012.

GOL and TAM are the two main players by market share in the Brazilian airline industry. The management of these two major airlines publicly stated that they are both in favor of a more rational capacity-management environment and have guided for capacity reductions during 2013 to support cash flow generation recovery. However, the possibility of increasing competition leading to irrational pricing strategies cannot be discounted, as this irrational behavior has occurred in the past.

High Financial Leverage:
Leverage is expected to remain high notwithstanding the expectation of a slight recovery in GOL's cash flow generation during 2013 as the company reduces capacity. GOL had approximately BRL9.6 billion of total adjusted debt at the end of 2012. This debt consists primarily of BRL5.2 billion of on-balance-sheet debt and an estimated BRL4.5 billion of off-balance sheet debt associated with lease obligations.

The company's total adjusted debt/EBITDAR and total adjusted net debt/EBITDAR ratios reached 16.2x and 13.2x, respectively, by the end of June 2012. These metrics significantly deteriorated during the second half of 2012 to 38.0x and 32.0x, respectively.

RATING SENSITIVITIES:

Further liquidity deterioration during the next few quarters, driven by a continued negative trend in operational results resulting in a lower cash balance that drives incremental debt increases is the main credit concern. A rating downgrade could be triggered by any of the following factors: an inability to reverse negative trend in operational results during the next few quarters and a general weakening of industry conditions in the Brazilian market. Delays in the company's asset sales process related to the frequent-flier unit would also be viewed negatively.

Improved operational performance that would lower the company's net leverage to around 7.0x by the end of 2013 could lead to a revision of the Outlook to Stable.

Contact: