

OFFERING MEMORANDUM

**U.S.\$200,000,000**

**Gol Finance**

*(an exempted company incorporated with limited liability in the Cayman Islands)*



**8.75% PERPETUAL NOTES**

**Unconditionally Guaranteed By Gol Linhas Aéreas Inteligentes S.A. and Gol Transportes Aéreos S.A.**

---

**Interest payable on January 5, April 5, July 5 and October 5**

---

*Gol Finance, or the Issuer, is offering U.S.\$200,000,000 aggregate principal amount of 8.75% guaranteed perpetual notes. Interest on the notes will accrue from April 5, 2006 at a rate of 8.75% per year and will be payable quarterly in arrears on January 5, April 5, July 5 and October 5 of each year, commencing on July 5, 2006.*

*The notes will be perpetual notes with no fixed final maturity date and will be repaid only in the event that the Issuer redeems the notes or upon acceleration due to an event of default. The notes may, at the Issuer's option, be redeemed, in whole or in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, on any interest payment date on or after April 5, 2011, provided that if the notes are redeemed in part, at least U.S.\$150 million aggregate principal amount of the notes must remain outstanding following any partial redemption. The notes may also be redeemed by the Issuer, in whole but not in part, at any time upon the occurrence of specified events relating to the applicable tax law, as described under "Description of the Notes—Redemption—Tax Redemption."*

*The notes will be unsecured and will rank equally with the other unsecured unsubordinated indebtedness the Issuer may incur. Gol Linhas Aéreas Inteligentes S.A. and Gol Transportes Aéreos S.A., to which we refer to together as the Guarantors, will unconditionally guarantee, jointly and severally, on an unsecured basis, all of the Issuer's obligations pursuant to the notes. The guarantees will rank equally in right of payment with the other unsecured unsubordinated indebtedness and guarantees of the Guarantors. The notes will be effectively junior to the Issuer's and the Guarantors' secured indebtedness.*

*For a more detailed description of the notes, see "Description of Notes" beginning on page 22.*

*Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and admission to trading has been made on the Euro MTF market of the Luxembourg Stock Exchange. See "Listing and General Information." Notes that are sold to qualified institutional buyers are expected to be designated as being eligible for trading in the Private Offerings, Resales and Trading through Automatic Linkages (PORTAL) market.*

*Investing in the notes involves risks. See "Risk Factors" beginning on page 18.*

---

**PRICE 100% AND ACCRUED INTEREST, IF ANY**

---

*The notes (and the guarantees) have not been registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, and are being offered only to (1) qualified institutional buyers under Rule 144A and (2) non-U.S. persons outside the United States in compliance with Regulation S. For more information about restrictions on transfer of the notes, see "Transfer Restrictions" beginning on page 52. To the extent that the offering of the notes is made to persons within the European Economic Area, it shall exclusively be made to "qualified investors" within the meaning of EU Directive 2003/71/EC, or the Prospectus Directive, and shall therefore be exempt from the requirement to publish a compliant prospectus under the Prospectus Directive.*

*Morgan Stanley & Co. Incorporated expects to deliver the notes to purchasers in book-entry form through The Depository Trust Company, or DTC, and its direct and indirect participants, including Clearstream Banking, S.A. Luxembourg, or Clearstream, and Euroclear Bank S.A./N.V., as operator of the Euroclear System, or Euroclear, on or about April 5, 2006.*

---

**Joint Bookrunners and Joint Lead Managers**

**MORGAN STANLEY**  
July 20, 2006

**JPMORGAN**

## TABLE OF CONTENTS

	Page
Where You Can Find More Information.....	iv
Forward-Looking Statements.....	v
Summary.....	1
Risk Factors .....	19
Use of Proceeds .....	21
Capitalization.....	22
Description of Notes.....	23
Form of Notes.....	38
Taxation.....	41
Plan of Distribution.....	47
Transfer Restrictions.....	52
Enforcement of Civil Liabilities.....	54
Validity of the Notes .....	56
Independent Auditors .....	56
Listing and General Information .....	57
Annex A—Annual Report on Form 20-F for the Year Ended December 31, 2005 .....	A-1
Annex B—Audited Financial Statements of Gol.....	B-1

---

In this offering memorandum, we use the terms “GLAI” to refer to “Gol Linhas Aéreas Inteligentes S.A.,” “Gol” to refer to Gol Transportes Aéreos S.A., “Issuer” to refer to Gol Finance and the “Gol Group,” “we,” “us” and “our” to refer to GLAI and its consolidated subsidiaries, including “Gol” and the “Issuer,” except where the context requires otherwise. All references to “Guarantors” refer to GLAI and Gol, collectively.

You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with different information. Neither we nor the initial purchasers are making an offer of the notes in any jurisdiction where the offer is not permitted.

We, having made all reasonable inquiries, confirm that the information contained in this offering memorandum with regards to us is true and accurate in all material respects, that the opinions and intentions we express in this offering memorandum are honestly held, and that there are no other facts the omission of which would make this offering memorandum as a whole or any of such information or the expression of any such opinions or intentions misleading in any material respect. We accept responsibility accordingly.

---

**This offering memorandum does not constitute an offer to sell, or a solicitation of an offer to buy, any notes offered hereby by any person in any jurisdiction in which it is unlawful for such person to make an offer or solicitation. Neither the delivery of this offering memorandum nor any sale made hereunder shall under any circumstances imply that there has been no change in our affairs or that the information set forth in this offering memorandum is correct as of any date subsequent to the date of this offering memorandum.**

---

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes. We reserve the right to reject any offer to purchase, in whole or in part, for any reason, or to sell less than all of the notes offered by this offering memorandum. Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc. will act as initial purchasers with respect to the offering of the notes. This offering memorandum is personal to you and does not constitute an offer to any other person or to the public in general to subscribe for or otherwise acquire the notes. Distribution of this offering memorandum by you to any person other than those persons retained to advise you is unauthorized, and any disclosure of any of the contents of this offering memorandum without our prior written consent is prohibited. By accepting delivery of this offering memorandum, you agree to the foregoing and to make no photocopies of this offering memorandum, and, if you do not purchase the notes or the offering is terminated for any reason, to return this offering memorandum to Morgan Stanley & Co. Incorporated, 1585 Broadway, New York, NY 10036, Attention to Global Capital Markets or J.P. Morgan Securities Inc., 270 Park Avenue, New York, NY 10017, Attention to EM Debt Capital Markets.

You must (1) comply with all applicable laws and regulations in force in any jurisdiction in connection with the possession or distribution of this offering memorandum and the purchase, offer or sale of the notes, and (2) obtain any required consent, approval or permission for the purchase, offer or sale by you of the notes under the laws and regulations applicable to you in force in any jurisdiction to which you are subject or in which you make

such purchases, offers or sales, and neither we nor the initial purchasers or their agents have any responsibility therefor. See “Transfer Restrictions” for information concerning some of the transfer restrictions applicable to the notes.

You acknowledge that:

- you have been afforded an opportunity to request from us, and to review, all additional information considered by you to be necessary to verify the accuracy of, or to supplement, the information contained in this offering memorandum;
- you have not relied on the initial purchasers or their agents or any person affiliated with the initial purchasers or their agents in connection with your investigation of the accuracy of such information or your investment decision; and
- no person has been authorized to give any information or to make any representation concerning us or the notes other than those as set forth in this offering memorandum. If given or made, any such other information or representation should not be relied upon as having been authorized by us, the initial purchasers or their agents.

**In making an investment decision, you must rely on your own examination of our business and the terms of this offering, including the merits and risks involved. The notes have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, these authorities have not confirmed the accuracy or determined the adequacy of this offering memorandum. Any representation to the contrary is a criminal offense.**

**This offering memorandum may only be used for the purpose for which it has been published. Neither the initial purchasers nor their agents are making any representation or warranty as to the accuracy or completeness of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation, whether as to the past or the future. Neither the initial purchasers nor their agents have independently verified any of such information and assume no responsibility for the accuracy or completeness of the information contained in this offering memorandum.**

We and the initial purchasers reserve the right to reject any offer to purchase, in whole or in part, and for any reason, the notes offered hereby. We and the initial purchasers also reserve the right to sell or place less than all of the notes offered hereby.

Neither the U.S. Securities and Exchange Commission, or SEC, nor any state securities commission has approved or disapproved the offering of these securities or determined if this offering memorandum is truthful or complete. Any representation to the contrary is a criminal offense.

---

See “Risk Factors” beginning on page 18 of this offering memorandum as well as the risk factors set forth in our Annual Report on Form 20-F for the year ended December 31, 2005 (which is included as Annex A to this offering memorandum and forms an integral part thereof) for a description of certain factors relating to an investment in the notes, including information about our business. None of us, the initial purchasers nor any of our or their representatives is making any representation to you regarding the legality of an investment by you under applicable legal investment or similar laws. You should consult with your own advisors as to legal, tax, business, financial and related aspects of a purchase of the notes.

## NOTICE TO NEW HAMPSHIRE RESIDENTS

**NEITHER THE FACT THAT A REGISTRATION STATEMENT, OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.**

---

**WE HEREBY INFORM YOU THAT THE DESCRIPTION SET FORTH HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN TO SUPPORT THE MARKETING OF THE NOTES. THIS DESCRIPTION IS LIMITED TO THE U.S. FEDERAL TAX ISSUES DESCRIBED HEREIN. IT IS POSSIBLE THAT ADDITIONAL ISSUES MAY EXIST THAT COULD AFFECT THE U.S. FEDERAL TAX TREATMENT OF THE NOTES, OR THE MATTER THAT IS THE SUBJECT OF THE DESCRIPTION NOTED HEREIN, AND THIS DESCRIPTION DOES NOT CONSIDER OR PROVIDE ANY CONCLUSIONS WITH RESPECT TO ANY SUCH ADDITIONAL ISSUES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.**

---

The notes will be available initially only in book-entry form. We expect that the notes will be issued in the form of one or more registered global notes. The global notes will be deposited with, or on behalf of, DTC, and registered in its name or in the name of Cede & Co., its nominee. Beneficial interests in the global notes will be shown on, and transfers of beneficial interests in the global notes will be effected through, records maintained by DTC and its participants. We expect the Regulation S global notes, if any, to be deposited with the trustee as custodian for DTC, and beneficial interests in them may be held through the Euroclear, Clearstream or other participants. After the initial issuance of the global notes, certificated notes may be issued in registered form, which shall be in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000.

## WHERE YOU CAN FIND MORE INFORMATION

We are a reporting company under Section 13 or Section 15(d) of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, and file periodic reports with the SEC. However, if at any time we cease to be a reporting company under Section 13 or Section 15(d) of the Exchange Act, or are not exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act, we will be required to furnish to any holder of a note which is a “restricted security” (within the meaning of Rule 144 under the Securities Act), or to any prospective purchaser thereof designated by such a holder, upon the request of such holder or prospective purchaser, in connection with a transfer or proposed transfer of any such note pursuant to Rule 144A under the Securities Act or otherwise, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

We are subject to the informational requirements of the Exchange Act and, in accordance therewith, file reports and other information with the SEC. As a foreign private issuer, we are exempt from the Exchange Act rules regarding the provision and control of proxy statement and regarding short-swing profit reporting and liability. Such reports and other information can be inspected and copied at the public references facilities of the SEC at Room 1580, 100 F Street N.E., Washington, D.C. 20549. Copies of such material can also be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street N.E., Washington, D.C. 20549. We file materials with, and furnish material to, the SEC electronically using the EDGAR System. The SEC maintains an Internet site that contains these materials at [www.sec.gov](http://www.sec.gov). In addition, such reports, proxy statements and other information concerning us can be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005, on which our equity securities are listed.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We file quarterly financial statements with the SEC within two months of the end of the first three quarters of our fiscal year, and we file annual reports on Form 20-F within the time period required by the SEC, which is currently six months from December 31, the end of our fiscal year.

Our annual report on Form 20-F for the year ended December 31, 2005, filed with the SEC on March 20, 2006 is incorporated by reference herein and is included in Annex A to this offering memorandum. We will incorporate by reference in this offering memorandum all subsequent annual reports filed with the SEC on Form 20-F under the Securities Exchange Act of 1934 and those of our reports submitted to the SEC on Form 6-K that we specifically identify in such form as being incorporated by reference after the date of this offering memorandum until this offering has been terminated. We also incorporate our report submitted to the SEC on Form 6-K on April 25, 2006 (U.S.GAAP financial statements) into this offering memorandum. This report including the U.S. GAAP financial statements for the first quarter of 2006 is available free of charge at the office of the Luxembourg paying agent.

You may request a copy of our SEC filings, at no cost, by contacting us at the number or address specified below.

Investor Relations Department  
Tel.: 55 11 5033-4393  
[www.voegol.com.br](http://www.voegol.com.br)  
Rua Tamoios 246, Jardim Aeroporto,  
04630-000 São Paulo, SP, Brazil

Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this offering memorandum.

## FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements, principally under the captions “Summary,” “Summary Financial and Other Information,” “Risk Factors,” and “Capitalization.” We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this offering memorandum, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- general economic, political and business conditions in Brazil and in other South American markets we serve;
- management’s expectations and estimates concerning our future financial performance and financing plans and programs;
- our limited operating history;
- our level of fixed obligations;
- our capital expenditure plans;
- inflation and fluctuations in the exchange rate of the *real*;
- existing and future governmental regulations, including air traffic capacity controls;
- increases in fuel costs, maintenance costs and insurance premiums;
- changes in market prices, customer demand and preferences and competitive conditions;
- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy; and
- the risk factors discussed under “Risk Factors.”

The words “believe,” “may,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this offering memorandum because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this offering memorandum might not occur and are not guarantees of future performance.

We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

## SUMMARY

*This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum before investing, including “Risk Factors” and our Annual Report on Form 20-F for the year ended December 31, 2005, which is attached as Annex A to this offering memorandum and which includes our consolidated financial statements and related notes. See “Presentation of Financial and Other Information” in our Annual Report on Form 20-F for the year ended December 31, 2005 for information regarding our consolidated financial statements, exchange rates, definitions of technical terms and other introductory matters.*

### Our Business

#### Overview

We are one of the most profitable low-cost airlines in the world and had net revenues of R\$2.7 billion and net income of R\$513.2 million for the year ended December 31, 2005. We are the only low-fare, low-cost airline operating in Brazil providing frequent service on routes connecting all of Brazil’s major cities. We focus on increasing the growth and profits of our business by popularizing air travel and stimulating and meeting demand for safe, affordable, convenient air travel in Brazil and between Brazil and other South American destinations for both business and leisure passengers. We do this by offering simple, safe and efficient service while having one of the lowest operating costs in the airline industry worldwide. Our long-term business objective is to become the largest Brazilian airline and to bring affordable air travel to all significant destinations in South America.

We have flown over 36 million passengers since beginning operations in 2001 and, according to the DAC, Brazil’s civil aviation authority, our share of the domestic market, based on revenue passenger kilometers, grew from 4.7% in 2001 to 11.8% in 2002, 19.4% in 2003, 22.3% in 2004 and 27.3% in 2005. Our strategy involves not only capturing market share, but increasing the size of the market by attracting new passengers through our low fares and through a variety of payment mechanisms designed to make the purchase of our tickets easier for customers belonging to a much broader income class.

We began our operations in January 2001 with six single-class Boeing 737-700 Next Generation aircraft serving five cities in Brazil. As of the end of 2005, we operated 42 single-class Boeing 737 aircraft. Currently, we provide frequent service on routes between all of Brazil’s major cities and to international destinations in Argentina, Bolivia, Paraguay and Uruguay. We placed firm purchase orders with The Boeing Company for 67 737-800 Next Generation aircraft and we have options to purchase an additional 34 737-800 Next Generation aircraft. Currently, we have 11 firm purchase orders for aircraft deliveries scheduled in 2006, 13 in 2007, 10 in 2008, 11 in 2009, 8 in 2010 and 14 after 2010. In 2005, we took delivery, under two- and three-year operating leases, of seven Boeing 737-300 aircraft, which we are using to help meet our short-term capacity needs while we await the delivery of the new 737-800 Next Generation aircraft.

Our strategy is to offer travelers in Brazil and other South American countries a low-fare transportation alternative that we believe is cost-competitive compared to conventional airline and bus transportation. We have a diversified revenue base, with customers ranging from business passengers traveling between densely populated cities in Brazil, such as São Paulo, Rio de Janeiro and Belo Horizonte, to leisure passengers traveling to destinations throughout Brazil and to our international destinations in Argentina, Bolivia, Paraguay and Uruguay. We carefully evaluate opportunities to continue the growth of our business through increasing the frequency of flights to our existing high-demand markets and adding new routes to overpriced routes in Brazil and to other South American destinations. In 2005, we inaugurated nine new destinations, increasing the number of destinations served to 45 (43 in Brazil, one in Argentina and one in Bolivia). In January 2006 we commenced scheduled services to Asunción, Paraguay, and Montevideo, Uruguay and two additional destinations in Argentina: Rosario and Cordoba. We intend to further expand our service to international destinations in South America.

Our affordable, reliable and simple service and our focus on markets that were either underserved or did not have a lower-fare alternative has led to a strong awareness of our brand and a rapid increase in our market share. We offer a simplified product to our customers with single-class seating and a light snack and beverage service. Generally, our low operating costs allow us to set our fares at levels significantly lower than the average fares of our primary competitors. This approach has helped us win customer loyalty and in certain markets to stimulate demand by attracting new customers who previously used other means of travel or traveled less often due to price sensitivity. We have kept our operating costs low principally by maintaining a simplified aircraft fleet that is one of the newest in South America, which reduces maintenance and fuel costs.

We deploy aircraft in a highly efficient manner to maintain industry leading aircraft utilization, and concentrate heavily upon internet-based distribution channels and sales. The strong promotion of internet-based distribution channels and sales is an integral element of our low cost structure and efficiency and has made us one of the largest and leading e-commerce businesses in Brazil with total sales of passenger tickets of R\$2.6 billion over the internet in 2005. We believe we effectively employ technology to make our operations more efficient, using real time sales and operating information, internet based sales and ticketless travel, advanced yield management systems and intelligent outsourcing.

We have developed an innovative company culture that is supported by a highly motivated and streamlined workforce. Members of our senior management team have an average of approximately 20 years of experience in the domestic and international passenger transportation industries, and we have been able to draw upon this extensive experience to develop and strengthen our low-cost operating structure.

Our emphasis on controlling costs and yield management has given us flexibility in setting our fares to achieve a balance between our load factors and yields that we believe will generate the highest profitability for us. During 2005, when the airline industry globally was suffering from historically high fuel prices, we generated net income of R\$513.2 million. Our profitable results in 2005 were due largely to the economies of scale from the growth of our business and having a cost per available seat kilometer that was approximately 22% lower than that of our closest competitor in the domestic market, based upon our analysis of publicly available data. By acquiring 53 Boeing 737-800 Next Generation with increased seat capacity through 2010, we believe that we will be able to more efficiently use the airport slots available to us and to further reduce our costs per seat kilometer.

Our operating model is a highly integrated, multiple-stop route network that is a variation on the point-to-point model used by other successful low-cost carriers worldwide. The high-level of integration of flights at selected airports permits us to offer frequent, non-stop flights at low fares between Brazil's most important economic centers and ample interconnections through our network linking city pairs through a combination of two or more flights with little connecting or stop-over time. Our network also allows us to increase our load factors on our strongest city pair routes by using the airports in those cities to connect our customers to their final destinations. This strategy increases our load factor by attracting customers traveling to secondary markets who prefer to pay lower fares even if this means making one or more stops before reaching their final destination. Finally, our operating model allows us to build our flight routes to add destinations to cities that would not, individually, be feasible to serve in the traditional point-to-point model, but that are feasible to serve when simply added as additional points on our multiple-stop flight network. We do this by offering low-fare early-bird or night flights to lower-traffic destinations, which are usually the first or last stops on our routes, allowing us to increase our aircraft utilization and generate additional revenues.

We believe that our operating model, when combined with our low fares and reliable service, stimulates demand for air travel, and helped us to achieve a load factor of 73.7% for domestic flights in 2005, which is higher than those of our two largest Brazilian competitors in the same period, according to the DAC. The interconnectivity of our network also resulted in approximately one-half of our passengers making connections or stops while traveling to their final destination. In December 2005, we maintained high standards of operating efficiency and customer satisfaction, completing 98% of our scheduled flights, with on-time performance of 97%, based on our internal data.

In December 2005, we entered into a joint venture to create a low-cost Mexican airline. We will hold 25% of the voting capital stock and approximately 48% of the total capital stock of the Mexican airline company, with the remaining capital being subscribed by Mexican investors. Under a service agreement, we will implement and

develop the operational structure of the company and render consulting services for all operational matters to the new Mexican company in return for a performance-based service fee.

During 2005, we further improved our internal control over financial reporting in accordance with Section 404 of the U.S. Sarbanes Oxley Act of 2002, one year before this requirement becomes applicable to us as a non-U.S. company. We are one of the first Latin American companies to give the relevant officer certifications regarding these controls and procedures. We expect various benefits from the implementation of these controls and procedures, such as improved risk management and better operational and financial controls.

We are controlled by Brazil's Áurea group. The Áurea group has more than five decades of successful operating experience in Brazil's bus transportation industry, and brings the benefits of this expertise in the Brazilian transportation industry to our strategy and operations.

### ***Our Competitive Strengths***

Our principal competitive strengths are:

***We Keep Our Operating Costs Low.*** Our cost per available seat kilometer for the year ended December 31, 2005 was R\$15.5 cents, or approximately U.S.\$6.6 cents. We believe that our cost per available seat kilometer for the year ended December 31, 2005, adjusted for the average number of kilometers flown per flight, was one of the lowest in the airline industry worldwide, and was on average approximately 22% lower than that of our closest competitor in the domestic market, based upon our analysis of data collected from publicly available information. Typically, airline operating costs per kilometer decrease as flight length increases. Our low operating costs are the result of being innovative and using best practices adopted from other leading low-cost carriers to improve our operating efficiency, including:

*Efficient use of aircraft.* During 2005, our aircraft utilization totaled an average of 13.9 block hours per day, the highest aircraft utilization rate in the Brazilian domestic airline industry, according to the DAC, and among the highest worldwide according to airline company public filings. We achieve high aircraft utilization rates by operating a new fleet that requires less maintenance down time, accomplishing a fast turnaround on our aircraft between flights and operating more flights per day per aircraft than our competitors. The fast turnaround time for our aircraft between flights, which averages just 25 minutes, minimizes connection times for our passengers and enables our aircraft to fly approximately 11 flight legs a day, as compared to approximately eight flight legs a day by our closest competitor in the domestic market. We increase the speed of preparing our aircraft for the next flight by loading and unloading passengers through front and rear aircraft doors when possible, minimizing catering requirements and having cabin crew assist with cleaning the aircraft. Our efficient use of our fleet has helped us to generate revenue at times when the aircraft of our competitors are still on the ground and has allowed us to spread our fixed costs over a greater number of flights and available seat kilometers. As part of our aircraft utilization strategy, we introduced night flights on certain routes in December 2003 at very low fares to increase utilization, generate higher load factors and stimulate demand. Our night flights, which generated a load factor higher than that of our other flights, have helped us to make a portion of our fleet productive practically 24 hours per day. We also offer air cargo services on our flights to generate incremental revenue from space in the stronghold sections of our aircraft that would otherwise remain unutilized. With our firm purchase orders and purchase options of 101 additional Boeing 737-800 Next Generation aircraft, we expect to be able to maintain our young fleet of aircraft, and therefore increase efficiency and reduce maintenance costs.

*Operation of a simplified fleet.* Currently, we operate a simplified fleet type consisting of 45 Boeing 737 aircraft. Having a fleet with minimal aircraft types reduces inventory costs, as fewer spare parts are required, and reduces the need to train our pilots to operate different types of aircraft. In addition, keeping the number of types of aircraft we operate to a minimum simplifies our maintenance and operations processes. While our focus on having the lowest operating costs means that we will periodically review our fleet composition to ensure that it is achieving our low-cost goals, any decision we may make to introduce a new fleet type will be made only after carefully weighing the performance and profitability benefits of doing so against the emphasis we place on maintaining simplified operations.

*Use of efficient, low-cost distribution channels.* Our effective use of technology helps us to keep our costs low and our operations highly scalable and efficient. We seek to keep our distribution channels streamlined and convenient so as to allow our customers to interact with us directly via the internet. Approximately 81% of our ticket sales are through our website, and our customers can check-in for their flights online and by web-enabled cell phones. As a result of our emphasis on low-cost distribution channels, we generate more revenues from online ticket sales than any other airline company in Brazil. We enjoy significant cost savings associated with automated ticket sales, all while making the selection of travel options more convenient for our customers. We estimate that our distribution costs using our online ticket sales system is approximately 65% lower than our distribution costs involving more traditional means, such as the Global Distribution System, or GDS. In addition, like other low-cost carriers, but unlike our main competitors, all travel on our flights is ticketless. The elimination of paper tickets saves paper costs, postage, employee time and back-office processing expenses. Also, we do not need to maintain physical ticket sales locations outside of airports.

*Flexible and efficient operating approach.* We always seek the most cost-effective way of providing our services to our customers without compromising quality and safety. We constantly evaluate our operations to see if sensible cost-savings opportunities exist. As a result, we outsource the work that can be done properly and more efficiently by third parties and we internalize the functions that our employees can do more cost-efficiently. We have arrangements on competitive terms with third-party contractors at certain airports for aircraft and baggage handling, and call center customer services. We get competitive rates for these services by negotiating multi-year contracts at prices that are fixed or subject only to periodic increases linked to inflation. With our phased maintenance system, we are able to perform maintenance work every day without sacrificing aircraft revenue time and to schedule preventive maintenance with more regularity and around the utilization of our aircraft, which helps to maintain high levels of block hours per day and reduce costs. We are among the very few airlines in the world having maintenance technicians capable of executing our phased maintenance system. Furthermore, we are in the final phase of building a state-of-the-art aircraft maintenance center at the airport of Confins in the State of Minas Gerais. Although not complete, the maintenance center is already operational, enabling us to internalize aircraft heavy maintenance work to reduce maintenance costs. We plan to internalize other services that are currently outsourced if we believe we can better control the quality and efficiency of these services.

*We Stimulate Demand for Our Services.* We believe that through our low fares and high-quality service, we provide the best value in our markets and create demand for air travel services. Our average fares are lower than the average fares of our primary competitors. We identify and stimulate a demand among both business and leisure passengers for air travel that is safe, convenient, simple and is a reasonably priced alternative to traditional air, bus and car travel. By combining low fares with simple and reliable service that treats passengers equally in a single-class environment, we have successfully increased our market share, strengthened customer loyalty and are attracting a new group of air travelers in our markets. These new travelers did not previously consider air travel due to the higher prices and more complicated sales procedures that preceded our entry into the market. For example, our night flights, for which we offer highly competitive fares, have proven to be very successful, generating load factors higher than that of our other flights. We believe our night flights attract passengers who previously relied upon bus or car travel and who have now become air travel customers. We estimate that on average, approximately 15% of the customers on our flights are either first-time flyers or have not flown for more than one year. We have developed and will further develop flexible payment mechanisms such as debit payments and long-term installment payments, with which we are growing our potential market and customer base to broader income classes in Brazil and South America and which enable us to further penetrate these markets and customers.

*We Have One of the Newest Fleets in the Industry.* At December 31, 2005, our fleet of 42 Boeing 737 aircraft had an average age of 8.7 years, making our fleet one of the newest in South America. We believe that the firm purchase orders and purchase options we have for the delivery of up to 101 new Boeing 737-800 Next Generation aircraft, with expected delivery dates between 2006 and 2010, will further reduce the average age of our fleet for the next decade and help us to retain this competitive advantage. Our new fleet has enabled us to enjoy a high degree of performance reliability and to develop a reputation among customers for being an airline that delivers a safe, on-time, modern and comfortable travel experience. Our Boeing 737-800/700 Next Generation aircraft type provides us with state-of-the-art technology and aerodynamics with increased flying speed, improved fuel efficiency and simplified maintenance procedures.

***We Have a Strong Brand that Is Widely Recognized Among Consumers and Investors.*** We believe that the Gol brand has become synonymous with innovation and value in the Brazilian domestic airline industry. Gol was chosen as the 2004 “Company of the Year” by the annual Melhores e Maiores (The Biggest and Best) edition of Exame magazine, one of the most important business publications in Brazil. Our customers also identify us as being safe, accessible, friendly, fair and reliable and distinguish us in Brazil’s domestic airline industry on the basis of our modern and simplified approach to providing air travel services. Customer satisfaction surveys conducted in 2005 by *Pesquisas Inteligentes*, an independent market research firm, indicated that more than nine out of every ten passengers are satisfied with Gol, would fly again with Gol and consider Gol to be an innovative, modern and practical company. Our effort at promoting our brand awareness has earned us recognition from the marketing industry in Brazil as well. In 2005, we were named one of Brazil’s most valuable brands by *Isto é Dinheiro* magazine in its fourth annual Most Valuable Brazilian Brands Ranking, with a brand value of R\$326 million. We were also named Best Airline in Latin America by *Global Finance* magazine in 2005. In addition, we are recognized among Brazilian and international investors as a company with a very high level of disclosure and transparency, releasing financial information simultaneously in Brazilian GAAP and U.S. GAAP. We ranked first in the category of “Disclosure Procedures” in Latin America and top 5 in the category of “Corporate Governance” in Brazil at the Eighth Annual IR Global Rankings in February 2006.

***We Have a Strong Financial Position.*** We have focused on maintaining a strong financial position with significant cash balances and a low debt to capitalization ratio. As of December 31, 2005, we had R\$106.3 million of cash and cash equivalents, R\$762.7 million of short-term investments, R\$564.0 million of accounts receivable and R\$408.8 million of U.S. dollar denominated deposits for aircraft leasing and aircraft engine maintenance contracts, representing a total of R\$1,841.8 million. As of December 31, 2005, our debt to capitalization ratio was 2.9%. In 2005, we received the award for the Best Financial Management in 2004, from *Isto é Dinheiro* magazine.

***We Actively Manage Risk.*** We actively monitor movements in fuel prices, foreign exchange rates and interest rates to reduce our earnings volatility. We are able to adjust our fares to compensate for changes in fuel prices and the exchange rate of the real versus the U.S. dollar. Our general policy is to hedge on a short-term basis a majority of the fuel we expect to consume and our U.S. dollar exchange rate exposure, so as to minimize the effects of adverse changes in the fuel or foreign exchange markets. As part of our risk management program, we have established exposure limits and hedge ratios. We use a variety of financial instruments, including petroleum call options, petroleum fixed-price swap agreements, and foreign currency forward contracts. We do not hold or issue derivative financial instruments for trading purposes. As there is not a futures market for Brazilian jet fuel, we use international crude oil derivatives to hedge our exposure to increases in fuel price. In addition, we believe that our corporate wide high standards of internal control reduce our risk exposure.

***We Have a Motivated Workforce and a Proven Management Team.*** We benefit from a highly motivated workforce that brings a new enthusiasm to air travel and a commitment to high standards of friendly and reliable quality service that we believe distinguishes us in our markets. We believe that the positive feedback we received from our customers in our customer satisfaction surveys is directly related to the priority our employees place on delivering top quality customer service. We invest a significant amount of time and resources into carefully developing the best training practices and selecting individuals to join our team who share our focus on ingenuity and continuous improvement. We conduct ongoing training programs that incorporate industry best practices and encourage strong and open communication channels among all of the members of our team so that we can continue to improve the quality of the services we provide. We also motivate our workforce by providing our employees with profit sharing and through participation in our stock option program. Our controlling shareholder has been operating in the Brazilian passenger transportation market for over 50 years and our top managers have an average of approximately 20 years of experience in the Brazilian passenger transportation industries and this experience has helped us to develop the most effective elements of our low-cost model.

### ***Our Strategy***

To continue the growth of our business and increase its profitability, our strategy will be to further stimulate customer demand by continuing to offer a single-class of air travel service at low fares, while maintaining a high standard of quality and safety. We will strive to keep our operating costs low and continually pursue ways to make our operations more efficient. Our objectives are to provide the best travel value in the markets we serve, to encourage people to fly by making air travel accessible in our markets, and to further increase our market share. We

will continue to evaluate opportunities to expand our operations by (i) adding flights to existing high-demand routes and night-flight domestic routes, (ii) adding new domestic routes where sufficient market demand exists, (iii) expanding into other high-traffic centers in other South American countries and (iv) seeking opportunities to grow through joint ventures, acquisitions or business combinations. Our vision is to be recognized by 2010 as the airline that popularized high-quality, low-fare air transportation in South America. The following are the key elements of our strategy:

***To Expand Our Customer Base by Offering Services to High-Demand or Overpriced Routes.*** When planning the growth of our business, we will continue to establish bases, select our routes and build the frequency of our service based upon the extent and type of demand in the regions we serve in Brazil and other South American countries. In particular, we expect to increase our focus on business travelers from medium-sized companies, a growing customer base that tends to be more price sensitive, by closely monitoring the routes and flight frequencies that best serve their travel needs and increasing our marketing efforts directed at this segment of our customer base. For example, in response to the high volume of business travelers between Brazil's primary financial centers, served by the Congonhas airport in São Paulo, and Santos Dumont airport in Rio de Janeiro, we have increased our flight frequency on this route from five flights per day when we began transporting passengers in January 2001 to 24 in 2002, 28 in 2003, 36 during 2005 and 50 flights per day as of December 31, 2005. We are also very focused on stimulating demand and capturing market share in both the leisure and "visiting friends and relatives" market segments. For example, in response to a perceived demand for late evening flights linking São Paulo and Rio de Janeiro to allow travelers to avoid the need for overnight stays, we added night flight services between the two cities in December 2003 and to other cities in Brazil later on. Our night flights generated load factors higher than that of our other flights. We will continue to carefully evaluate opportunities to meet demand for leisure travel by expanding flight frequencies on existing routes, expanding successful night flight services and adding additional routes that contribute to our network and for which we perceive a market demand, such as daytime flights to and from Guarulhos airport in São Paulo, Brazil's largest airport.

We believe that the same business model and route management techniques that we have successfully introduced in Brazil to help popularize air travel can also be used to capture market share and stimulate demand for air travel between Brazil and neighboring South American countries. We are pursuing opportunities to offer flights on routes between Brazil and select cities in other South American markets where growth opportunities exist. For example, we began offering daily services between Guarulhos and Buenos Aires, Argentina in December 2004. These flights quickly achieved profitability. In 2005, we inaugurated nine new destinations, increasing the number of destinations served to 45 (43 in Brazil, one in Argentina and one in Bolivia). In January 2006 we commenced scheduled services to Asunción, Paraguay, and Montevideo, Uruguay and two additional destinations in Argentina: Rosario and Cordoba. Additionally, in 2006 we commenced service of our first fully non-Brazilian city-pair between Asunción, Paraguay and Cordoba, Argentina. By offering international flights with stops integrated in our network we create opportunities for incremental traffic, feeding our network and increasing our competitive advantage and supporting our strategy of stimulating demand for our services. The addition of routes between Brazil and cities in neighboring South American countries will be based upon an extension of our existing network using the same growth strategy that has proven to be successful for us to date. We also expect that the introduction of these flights will add traffic to our network, increasing our overall load factor.

***To Continue to Reduce Low Operating Costs and Improve Operating Efficiency.*** Continuing to reduce our operating costs per available seat kilometer is a key to increasing profitability. Our revenues per aircraft in 2005 were U.S.\$33.2 million, which are the highest in the low cost carrier industry according to publicly available data. Our CASK of 6.6 U.S.\$ cents was 22% lower than our closest competitor in the domestic market. We aim to remain one of the lowest cost airlines in the world. We have worked toward achieving this goal by assembling a new fleet of single-class aircraft that is capable of safely and reliably accommodating a high utilization rate, incurs low maintenance costs and is fuel-efficient. We are also working to achieve this goal by using our aircraft efficiently, concentrating on minimizing our turnaround times at airports and increasing our number of daily flights per aircraft. We will also continue to utilize technological innovations wherever possible to reduce our distribution costs and improve our operating efficiency. We expect to benefit from economies of scale and reduce our average cost per available seat kilometer as we add additional aircraft to an established and efficient operating infrastructure. Our system of phased maintenance allows us to perform maintenance work every day without sacrificing aircraft revenue time, to better determine the timing of heavy maintenance so as to help maximize aircraft utilization and to further reduce our maintenance costs. We will continue internalizing of our aircraft maintenance in our new Aircraft

Maintenance Center in Confins, in the State of Minas Gerais. By purchasing up to 101 new Boeing 737-800 Next Generation aircraft, we will further reduce the average age of our fleet and therefore increase operating efficiency and lower our operating costs.

**To Keep Our Customer Service Offering Simple and Convenient.** We believe that we are perceived by our customers as providing excellent value at reasonable fares and acting as a catalyst for changing the way the Brazilian airline industry works. In addition to offering low fares, our strategy is to make flying a simpler, more convenient experience. We have achieved this objective largely through the elimination of unnecessary extras and common-sense applications of technology. We encourage our customers to use the internet not only to make reservations, but also to make many of the arrangements from the comfort of their home or office that they would otherwise have to make at crowded airports or airline ticket offices, such as checking-in and changing their seat assignments. We provide free shuttle service between airports and drop-off zones on selected routes. We offer customers single-class, pre-assigned seating flights, do not overbook our flights and have designated female lavatories. Our strategy will be to continue to seek ways to make the Gol brand signify simplicity and convenience in the minds of air travelers.

**To Stimulate Demand with Low Fares.** Our widely available low fares and superior product offering are designed to popularize air travel and stimulate demand, particularly from fare-conscious leisure travelers and small- to mid-size business travelers who might otherwise have used alternative forms of transportation or would not have traveled at all. Our strategy is to continue to stimulate demand and encourage more people to fly by continuing to provide a superior product and low-fares. We will also continue to provide our customers with flexible payment mechanisms, such as debit payments, credit card installment payments and monthly installment payments in the form of direct credit. We launched in November 2005 the Voe Fácil (“Fly Easy”) Gol Program, which allows qualifying customers to pay for airline tickets in up to 36 monthly installments as an innovative new way to purchase airline tickets, especially designed to make the purchase of our tickets easier for customers belonging to broader income classes.

The following table shows total passengers enplaned at airports in selected cities served by us for the year ended December 31, 2000 (just before we commenced our operations) and the year ended December 31, 2005. The table also sets forth the date we commenced service at airports in selected cities and the compound annual growth rate of passengers enplaned at such airports.

Cities	Service Commencement Date	Total Passenger Traffic (Arrivals and Departures) Year Ended December 31,		CAGR (%) 2000-2005
		2000	2005	
			(in millions)	
Belo Horizonte(1) .....	January 2001	2.62	4.17	9.7
Brasília.....	January 2001	5.43	9.48	11.8
Curitiba .....	May 2001	2.07	3.39	10.3
Florianópolis.....	January 2001	0.72	1.55	16.5
Fortaleza .....	December 2001	1.44	2.77	14.0
Porto Alegre.....	January 2001	2.25	3.52	9.4
Recife.....	April 2001	2.14	3.60	11.0
Salvador.....	January 2001	3.02	4.55	8.5
Vitória.....	November 2001	0.84	1.52	12.5

(1) Includes the airports of Pampulha and Confins in Belo Horizonte. A large portion of passenger flow was transferred from the airport of Pampulha to the airport of Confins in 2005.

Source: INFRAERO

## ***Aircraft***

At the end of 2005, we operated a fleet of 42 aircraft comprised of 22 Boeing 737-700 Next Generation aircraft, 8 Boeing 737-800 Next Generation aircraft and 12 Boeing 737-300 aircraft. We expect to operate approximately 88 aircraft by the end of 2010, concentrating our fleet on the 737-800 Next Generation aircraft.

We have placed firm purchase orders with The Boeing Company for 67 737-800 Next Generation aircraft and we have options to purchase an additional 34 737-800 Next Generation aircraft. Currently, we have 11 firm purchase orders for aircraft deliveries scheduled in 2006, 13 in 2007, 10 in 2008, 11 in 2009, 8 in 2010 and 14 after 2010. With these firm purchase orders and purchase options, we expect to further reduce our financing costs. In addition, by purchasing aircraft, we expect to be able to maintain our young fleet of aircraft going forward, increase fuel and operating efficiency and reduce maintenance costs.

We took delivery of 4 Boeing 737-800, 4 Boeing 737-700 and 7 Boeing 737-300 aircraft in 2005. We expect to take delivery of 12 Boeing 737-800 and 4 Boeing 737-700 aircraft during 2006.

The following table shows the historical and expected development of our fleet from December 31, 2004 to December 31, 2010:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
737-800.....	4	8	20	32	43	58	69
737-700.....	18	22	26	22	20	19	19
737-300.....	5	12	12	10	7	3	0
Total fleet .....	<u>27</u>	<u>42</u>	<u>58</u>	<u>64</u>	<u>70</u>	<u>80</u>	<u>88</u>

Our new and simplified fleet structure allows us to maintain a cost-efficient operation by reducing maintenance and training costs, reducing spare parts inventory requirements and supporting high reliability and high aircraft utilization rates. The average daily utilization rate of our aircraft between 2002 and 2005 has been 13.1 block hours (including 13.9 block hours in 2005), the highest average utilization rate in Brazil and one of the highest utilization rates in the industry worldwide according to airline company public filings.

## ***Industry Overview***

Since air transportation has historically been affordable only to the higher income segment of Brazil's population, resulting in a comparatively low level of air travel, we believe that the low-cost, low-fare business model has the potential to significantly increase the use of air transportation in Brazil. According to the DAC, there were 31.1 million domestic enplanements and 4.9 million international enplanements in Brazil in 2004, out of a total population of approximately 181 million, according to the Brazilian Geographical and Statistical Institute (*Instituto Brasileiro de Geografia e Estatística—IBGE*). In contrast, according to the U.S. Department of Transportation, the United States had 628.5 million domestic enplanements and 133.5 million international enplanements in 2004, out of a total population of approximately 293 million, according to the latest U.S. census figures.

Most long-distance public travel services within Brazil are provided by interstate bus companies. In 2004, Brazil's domestic airline industry transported almost 36 million passengers, as compared to over 134 million passengers transported by interstate bus companies in 2004, according to the National Ground Transportation Agency (*Agência Nacional de Transportes Terrestres*). Brazil has no meaningful interstate passenger rail services.

The business travel segment is the largest component of Brazilian air transportation demand and the most profitable in the market. According to the DAC, business travel represents approximately 70% of the total demand for domestic air travel in 2005, which we believe is significantly higher than the business travel portion of domestic air travel in the global aviation sector. According to data collected from the DAC, flights between Rio de Janeiro and São Paulo accounted for 13.1% of all domestic passengers in 2004. The ten busiest routes accounted for 35.7% of all domestic air passengers and 2004 while the ten busiest airports accounted for 74.9% and 75.6% of all domestic passenger traffic through INFRAERO airports in terms of arrivals and departures in 2004 and 2005, respectively.

The scheduled domestic passenger airline industry in Brazil is primarily served by Gol and two main competitors—Varig and TAM. By the end of 2005, Gol, TAM and Varig accounted for over 97.7% of the market

share of domestic regular routes, measured in terms of revenue passenger kilometers. On June 17, 2005, Varig filed for bankruptcy protection in Brazil and the United States. On January 19, 2006, it presented a restructuring plan to its creditors which was approved in February 2006. We cannot foresee whether the judicial reorganization and related judicial proceedings will have a positive effect on Varig's financial condition in the short or medium term.

From 1997 to 2005, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 8.3% versus a compound annual growth rate in available industry capacity, in terms of available seat kilometers, of 5.5%. Domestic industry load factors, calculated as revenue passenger kilometers divided by available seat kilometers, have averaged 60% over the same period. The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	1997	1998	1999	2000	2001	2002	2003	2004	2005
	(In millions, except percentages)								
Available Seat Kilometers .....	31,146	38,121	40,323	41,437	45,008	47,109	41,927	43,034	47,979
Available Seat Kilometers Growth.....	8.7%	22.4%	5.8%	2.8%	8.6%	4.7%	(11.0)%	2.6%	11.5%
Revenue Passenger Kilometers .....	17,824	22,539	22,204	24,284	26,296	26,780	25,180	28,214	33,699
Revenue Passenger Kilometers Growth .....	7.5%	26.5%	(1.5)%	9.4%	8.3%	1.8%	(6.0)%	12.0%	19.4%
Load Factor.....	57.2%	59.1%	55.1%	58.6%	58.4%	56.8%	60.1%	65.6%	70.2%

Source: DAC, for 1997 to 2002 from *Anuário Estatístico*; and for 2003 through 2005 from *Dados Comparativos Avançados*.

Historically, domestic airline industry revenue growth has generally surpassed Brazilian GDP growth. From 1998 to 2004, domestic airline industry revenue grew at a real compound annual growth rate of 5.9% (as adjusted by the IPCA inflation index) while Brazilian GDP has grown at a real compound annual growth rate of 2.3% over the same period, according to data from the DAC and the Central Bank.

Set forth in the table below is the number of passengers traveling by air between Brazil and other specified South American countries during 2004, as well as the gross domestic product and population of each listed country.

Country	Enplanements(1)	Percentage of Total	GDP(2) (in billions of US\$)	Population(3) (in millions)
Argentina .....	1,457,877	51.3%	151.5	38.2
Chile .....	402,058	14.2%	94.1	16.0
Uruguay .....	264,271	9.3%	13.1	3.4
Bolivia .....	217,162	7.6%	8.8	9.0
Paraguay .....	181,639	6.4%	7.1	5.8
Peru.....	143,395	5.1%	68.4	27.5
Colombia .....	94,673	3.3%	97.4	45.3
Venezuela .....	<u>78,347</u>	<u>2.8%</u>	<u>109.3</u>	<u>26.1</u>
Total.....	<u>2,839,422</u>	<u>100%</u>	<u>549.7</u>	<u>171.3</u>

Sources: (1) DAC - *Anuário de Transporte Aéreo 2004*.

(2) World Development Bank Indicators database, August 2005. Figures as of 2004.

(3) World Development Bank Indicators database, August 2005. Figures as of 2004.

We were formed on March 12, 2004 as a *sociedade por ações*, a stock corporation duly incorporated under the laws of Brazil with unlimited duration. Our only material assets consist of the shares of Gol, an offshore finance subsidiary, cash and cash equivalents and short-term investments. We own all of Gol's common and preferred shares, except for five common shares and three Class B preferred shares of Gol that are held by members of Gol's board of directors for eligibility purposes.

### The Issuer

Gol Finance is an exempted limited liability company incorporated under the laws of the Cayman Islands on March 16, 2006. GLAI owns directly 100% of the Issuer's equity interests. The Issuer was established to primarily finance the acquisition of aircraft, equipment and supply materials by other companies of the Gol Group. The Issuer's issued capital is US\$50,000.00, divided into 50,000 shares, all of which are fully paid up. Its registered office is at Rua Tamoios 246, Jardim Aeroporto, 04630-000, Sao Paulo, SP, Brazil and its statutory documents and any other documents concerning the Issuer which are referred to in this offering memorandum can be inspected at

our headquarter at the same address. No financial statements have been produced for the issuer as of the date of this offering memorandum and no financial statements are expected to be prepared for the Issuer in the future.

***The Guarantor Gol***

Gol is our operating company, incorporated as a Sociedade Anônima (corporation) under Brazilian law. It was incorporated on August 1, 2000. Its registered office is at Rua Tamoios 246, Jardim Aeroporto, 04630-000, Sao Paulo, SP, Brazil and its statutory documents and other documents concerning Gol Transportes Aéreos S.A., which are referred to in this offering memorandum can be inspected at our headquarter at the same address. Gol's share capital consists of 451,072,648 common shares outstanding in the total amount of R\$536,489,276.47, all of which are fully paid up. Gol was established to operate our business of air transportation of passengers, cargo, mail bags, domestically and internationally, and development of related activities. An English language translation of its Brazilian GAAP financial statements for the year ended 2005 is included as Annex B in this offering memorandum. Gol's annual financial statements for the year ended December 31, 2005 are and its future annual financial statements will be available at the office of the Luxembourg Paying Agent. We do not expect to produce interim financial statements for Gol. As of the date of this offering memorandum, Gol has no convertible debt securities, exchangeable debt securities nor debt securities with warrants attached outstanding.

---

Our principal executive offices are located at Rua Tamoios 246, Jardim Aeroporto, 04630-000 São Paulo, SP, Brazil, and our general telephone number is +55 11 5033-4200. The telephone number of our investor relations department is +55 11 5033-4393. Our website address is [www.voegol.com.br](http://www.voegol.com.br) and our website is available in Portuguese, Spanish and English. Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this offering memorandum.

### The Offering

*This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum before investing in the notes, including “Risk Factors” and our Annual Report on Form 20-F for the year ended December 31, 2005, which is included as Annex A to this offering memorandum.*

Issuer .....	Gol Finance
Guarantors .....	Gol Linhas Aéreas Inteligentes S.A. and Gol Transportes Aéreos S.A.
Notes offered .....	U.S.\$200,000,000 aggregate principal amount of 8.75% perpetual notes
Issue price .....	100% plus accrued interest, if any, from April 5, 2006
Maturity date .....	The notes are perpetual notes with no fixed final maturity date and no sinking fund provisions.
Interest payment dates .....	January 5, April 5, July 5 and October 5 of each year, commencing on July 5, 2006
Interest .....	The notes will bear interest from April 5, 2006 at the annual rate of 8.75%, payable quarterly in arrears on each interest payment date.
Ranking .....	The notes will be unsecured and will rank equally with the other unsecured unsubordinated indebtedness the Issuer may incur. The notes will be guaranteed, jointly and severally, on an unsecured unsubordinated basis by the Guarantors. The guarantees will rank equally in right of payment with the other unsecured unsubordinated indebtedness and guarantees of the Guarantors. The notes will be effectively junior to the Issuer’s and the Guarantors’ secured indebtedness. Under Brazilian law, holders of the notes will not have any claim whatsoever against the Guarantors’ non-guarantor subsidiaries. See “Description of Notes—Ranking.”
Guarantees .....	The Guarantors will unconditionally guarantee, jointly and severally, on an unsecured unsubordinated basis, all of the Issuer’s obligations pursuant to the notes.
Optional redemption .....	The Issuer may, at its option, redeem the notes, in whole or in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, on any interest payment date on or after April 5, 2011, provided that if the notes are redeemed in part, at least U.S.\$150,000,000 aggregate principal amount of the notes must remain outstanding following any partial redemption. See “Description of Notes—Redemption—Optional Redemption.”

Tax redemption.....	The Issuer may, at its option, redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of specified events relating to the applicable tax law. See “Description of Notes—Redemption—Tax Redemption.”
Additional amounts.....	Payments of interest on the notes will be made after withholding and deduction for any Brazilian or Cayman taxes as set forth under “Taxation.” The Issuer, in respect of the notes, and the Guarantors, in respect of the guarantees, will pay such additional amounts as will result in receipt by the holders of notes of such amounts as would have been received by them had no such withholding or deduction for Brazilian or Cayman taxes been required, subject to certain exceptions set forth under “Description of Notes—Additional Amounts.”
Covenants .....	The terms of the notes do not contain any restrictive covenants or other provisions designed to protect holders of the notes in the event that the Issuer or the Guarantors or any other of the Guarantors’ present or future subsidiaries participate in a highly leveraged transaction or upon a change of control. The terms of the notes permit the Issuer and the Guarantors to consolidate or merge with, or transfer all or substantially all of their respective assets to, another person, as well as to enter into transactions with affiliates, only if the Issuer or the Guarantors, as the case may be, comply with certain requirements. See “Description of Notes—Covenants.”
Events of default.....	<p>The notes and the indenture will contain certain events of default, consisting of, among others, the following:</p> <ul style="list-style-type: none"> <li>• failure to pay the principal when due or failure to pay interest in respect of the notes within 30 days of the due date for an interest payment;</li> <li>• failure to comply with the Issuer’s and the Guarantors’ covenants with such failure continuing for 60 days, after written notice has been delivered to the Issuer and the Guarantors;</li> <li>• indebtedness of the Issuer, the Guarantors or any of the significant subsidiaries of GLAI exceeding U.S.\$50 million is not paid when due or is accelerated; and</li> <li>• specified events of bankruptcy, liquidation or insolvency of us or any of our subsidiaries.</li> </ul> <p>For a full description of the Events of Default, see</p>

	“Description of Notes—Events of Default.”
Further issuances .....	The Issuer may from time to time without notice to or consent of the holders of notes create and issue an unlimited principal amount of additional notes of the same series as the notes initially issued in this offering.
Use of proceeds .....	The gross proceeds to the Issuer from the sale of the notes are U.S.\$200,000,000 and will be primarily used to finance the acquisition of aircraft, equipment and supply materials by other companies of the Gol Group.
Form and denomination; settlement .....	<p>Any notes sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act will be in fully registered form without interest coupons attached, only in denominations of U.S.\$100,000 and in integral multiples of U.S.\$1,000 in excess thereof. Any notes sold pursuant to Rule 144A under the Securities Act will be issued in fully registered form in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof.</p> <p>The notes will be issued in book-entry form through the facilities of DTC, for the accounts of its participants, including Euroclear Bank S.A./N.V., as the operator of the Euroclear, and Clearstream, and will trade in DTC’s same-day funds settlement system. Beneficial interests in notes held in book-entry form will not be entitled to receive physical delivery of certificated notes, except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see “Form of Notes.”</p>
Transfer restrictions .....	The notes have not been registered under the Securities Act and are subject to certain restrictions on transfer. See “Transfer Restrictions.”
Listings .....	<p>Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and admission to trading has been made on the Euro MTF market of the Luxembourg Stock Exchange. The Issuer cannot assure you, however, that this application will be accepted, or if accepted, that the notes will remain so listed.</p> <p>The notes are expected to be designated as being eligible for trading in the PORTAL Market.</p>
Governing law .....	The indenture, the guarantees and the notes will be governed by the laws of the State of New York.
Trustee, transfer agent and registrar .....	The Bank of New York
Principal paying agent .....	The Bank of New York

Luxembourg listing agent.....	The Bank of New York Europe Ltd.
Selling restrictions .....	There are restrictions on persons to whom notes can be sold, and on the distribution of this offering memorandum, as described in “Plan of Distribution.”

### Summary Financial and Other Information

The following table presents summary historical consolidated financial and operating data for us for each of the periods indicated. You should read this information in conjunction with the consolidated financial statements and related notes included in our Annual Report on Form 20-F for the year ended December 31, 2005, which is included as Annex A to this offering memorandum. These consolidated financial statements and related notes have been prepared in accordance with U.S. GAAP and reflect our financial condition and results of operations as if we had been incorporated and held all of the capital stock of Gol since January 1, 2001, except for five common shares and three Class B preferred shares of Gol held by members of Gol's board of directors for eligibility purposes.

The Issuer is not required to and has not published financial statements for any period.

Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2005 have been translated into U.S. dollars at the commercial market rate in effect as of December 31, 2005 as reported by the Central Bank of R\$2.3407 to U.S.\$1.00.

	Year Ended December 31,					
	2001	2002	2003	2004	2005	2005
	(in thousands)					
<b>Net operating revenues:</b>						
Passenger .....	R\$ 223,384	R\$ 643,549	R\$ 1,339,191	R\$ 1,875,475	R\$ 2,539,016	US\$ 1,084,725
Cargo and other .....	7,089	34,330	61,399	85,411	130,074	55,571
Total net operating revenues .....	230,473	677,879	1,400,590	1,960,886	2,669,090	1,140,296
<b>Operating expenses:</b>						
Salaries, wages and benefits .....	33,263	77,855	137,638	183,037	260,183	111,156
Aircraft fuel .....	45,769	160,537	308,244	459,192	808,268	345,310
Aircraft rent .....	58,816	130,755	188,841	195,504	240,876	102,908
Aircraft insurance .....	7,556	23,186	25,850	25,575	29,662	12,672
Sales and marketing .....	35,299	96,626	191,280	261,756	335,722	143,428
Landing fees .....	14,602	32,758	47,924	57,393	92,404	39,477
Aircraft and traffic servicing .....	18,563	47,381	58,710	74,825	91,599	39,133
Maintenance, materials and repairs .....	4,773	16,160	42,039	51,796	55,373	23,657
Depreciation .....	2,383	7,885	13,844	21,242	35,014	14,959
Other operating expenses .....	7,741	22,654	44,494	54,265	98,638	42,140
Total operating expenses .....	228,765	615,797	1,058,864	1,384,585	2,047,739	874,840
<b>Operating income</b> .....	1,708	62,082	341,726	576,301	621,351	265,456
<b>Other income (expense):</b>						
Interest expense .....	(3,350)	(16,530)	(20,910)	(13,445)	(19,383)	(8,281)
Financial income (expense), net .....	(1,997)	7,447	(56,681)	24,424	115,554	49,367
<b>Income (loss) before income taxes</b> .....	(3,639)	52,999	264,135	587,280	717,522	306,542
Income taxes .....	—	(17,642)	(88,676)	(202,570)	(204,292)	(87,279)
<b>Net income (loss)</b> .....	<u>R\$ (3,639)</u>	<u>R\$ 35,357</u>	<u>R\$ 175,459</u>	<u>R \$384,710</u>	<u>R\$ 513,230</u>	<u>US\$ 219,263</u>
<b>Earnings (loss) per share, basic</b> <sup>(1)</sup> .....	R\$ (0.06)	R\$ 0.36	R\$ 1.07	R\$ 2.14	R\$ 2.66	US\$ 1.14
<b>Earnings (loss) per share, diluted</b> <sup>(1)</sup> .....	R\$ (0.06)	R\$ 0.36	R\$ 1.07	R\$ 2.13	R\$ 2.65	US\$ 1.13
Weighted average shares used in computing earnings (loss) per share, basic (in thousands) <sup>(1)</sup> .....	56,000	98,268	164,410	179,731	192,828	192,828
Weighted average shares used in computing earnings (loss) per share, diluted (in thousands) <sup>(1)</sup> .....	56,000	98,268	164,410	180,557	193,604	193,604
Earnings (loss) per ADS, basic <sup>(2)</sup> .....	R\$ (0.6)	R\$ 0.36	R\$ 1.07	R\$ 2.14	R\$ 2.66	US\$ 1.14
Earnings (loss) per ADS, diluted <sup>(2)</sup> .....	R\$ (0.6)	R\$ 0.36	R\$ 1.07	R\$ 2.13	R\$ 2.65	US\$ 1.13
Dividends paid per share .....	R\$ —	R\$ —	R\$ 0.16	R\$ 0.32	R\$ 0.60	US\$ 0.26
Dividends paid per ADS <sup>(2)</sup> .....	R\$ —	R\$ —	R\$ 0.16	R\$ 0.32	R\$ 0.60	US\$ 0.26

	As of December 31,					
	2001	2002	2003	2004	2005	2005
	(in thousands)					
<b>Balance Sheet Data:</b>						
Cash and cash equivalents.....	R\$ 5,156	R\$ 9,452	R\$ 146,291	R\$ 405,730	R\$ 106,347	US\$ 45,434
Short-term investments .....	—	—	—	443,361	762,688	325,837
Accounts receivable <sup>(3)</sup> .....	51,685	105,245	240,576	386,370	563,958	240,936
Deposits for aircraft leases and aircraft and engine maintenance contracts.....	27,130	121,980	180,916	289,416	408,776	174,638
Total assets .....	125,107	318,342	685,019	1,734,284	2,555,843	1,091,912
Short term debt.....	37,045	22,800	38,906	118,349	54,016	23,077
Long term debt .....	—	—	—	—	—	—
Shareholders' equity.....	19,728	71,583	314,739	1,148,453	1,822,331	778,540
<b>Other Financial Data:</b>						
	2001	2002	2003	2004	2005	2005
(in thousands, except percentages)						
Operating margin <sup>(4)</sup> .....	0.7%	9.2%	24.4%	29.4%	23.3%	23.3%
Net cash provided by (used in) operating activities .....	R\$(19,213)	R\$17,023	R\$85,235	R\$239,920	R\$353,745	US\$151,129
Net cash used in investing activities.....	(29,666)	(34,479)	(39,263)	(533,043)	(801,787)	(342,542)
Net cash provided by financing activities .....	53,239	21,752	90,867	552,562	148,659	63,510
EBITDA <sup>(5)</sup> .....	4,091	69,967	355,570	597,543	656,365	280,415
Aircraft rent <sup>(A)</sup> .....	58,816	130,755	188,841	195,504	240,876	102,908
<b>Operating Data (unaudited):</b>						
	2001	2002	2003	2004	2005	2005
(in thousands, except percentages)						
Revenue passengers .....		2,085	4,847	7,324	9,215	13,000
Revenue passenger kilometers (in millions).....		1,256	3,156	4,835	6,289	9,740
Available seat kilometers (in millions).....		2,091	5,049	7,527	8,844	13,246
Load-factor.....		60.1%	62.5%	64.2%	71.1%	73.5%
Break-even load factor .....		61.5%	59.8%	50.8%	52.5%	56.4%
Aircraft utilization (block hours per day) .....		11.1	12.3	12.8	13.6	13.9
Average fare .....		R\$ 115	R\$ 140	R\$ 195	R\$ 210	R\$ 201
Yield per passenger kilometer (cents) .....		17.8	20.4	27.7	29.8	26.1
Passenger revenue per available seat kilometer (cents) .....		10.7	12.7	17.8	21.2	19.1
Operating revenue per available seat kilometer (cents) .....		11.0	13.4	18.6	22.2	20.1
Operating expense per available seat kilometer (cents) .....		10.9	12.2	14.1	15.7	15.5
Operating expense less fuel expense per available seat kilometer (cents) .....		8.8	9.0	9.9	10.5	9.4
Departures .....		24,727	52,665	75,439	87,708	122,683
Departures per day .....		68	144	207	240	336
Destinations served .....		16	22	25	36	45
Average stage length (kilometers) .....		613	628	659	689	721
Average number of operating aircraft during period.....		7.7	15.3	21.6	22.3	34.3
Full-time equivalent employees at period end.....		1,134	2,072	2,453	3,307	5,456
Fuel liters consumed (in thousands) .....		77,850	164,008	264,402	317,444	476,725
Percentage of sales through website during period .....		13.2%	48.7%	57.9%	76.4%	81.3%
Percentage of sales through website and call center during period.....		81.6%	72.1%	74.1%	83.6%	88.7%
<p>(1) Our preferred shares are not entitled to any fixed dividend preferences, but are instead entitled to receive dividends per share in the same amount of dividends per share paid to holders of our common shares. Consequently, our earnings (loss) per share are computed by dividing income by the weighted average number of all classes of shares outstanding during the year.</p> <p>(2) Adjusted for the ADS ratio change in December 2005, which changed the ratio of ADS per preferred share from one ADS representing two preferred shares to one ADS representing one preferred share.</p> <p>(3) In managing our liquidity, we take into account our cash and cash equivalents, our short-term investments and our accounts receivable balances. Accounts receivable consist primarily of credit card receivables for purchased passenger tickets. We provide our customers with the option to pay in installments and therefore have to a limited extent a lag between the time that we pay our suppliers and the time that we receive payment for our services.</p> <p>(4) Operating margin represents operating income divided by net operating revenues.</p>						

- (5) EBITDA represents net income (loss) plus the sum of net interest and financial expense, income taxes and depreciation. EBITDA is presented as supplemental information because we believe it is a useful indicator of our operating performance and is useful in comparing our operating performance with other companies in the airline industry. However, EBITDA should not be considered in isolation, as a substitute for net income prepared in accordance with U.S. GAAP or as a measure of a company's profitability. In addition, our calculation of EBITDA may not be comparable to other similarly titled measures of other companies. The following table presents a reconciliation of our net income to EBITDA for the specified periods.

EBITDA Reconciliation: (A)	Year Ended December 31,					
	2001	2002	2003	2004	2005	2005
	(in thousands)					
Net income (loss).....	R\$(3,639)	R\$35,357	R\$175,459	R\$384,710	R\$513,230	US\$219,263
<i>Plus (minus)</i>						
Net interest and financial expense .....	5,347	9,083	77,591	(10,979)	(96,171)	(41,086)
Income taxes.....	—	17,642	88,676	202,570	204,292	87,279
Depreciation .....	2,383	7,885	13,844	21,242	35,014	14,959
EBITDA .....	<u>R\$4,091</u>	<u>R\$69,967</u>	<u>R\$355,570</u>	<u>R\$597,543</u>	<u>R\$656,365</u>	<u>US\$280,415</u>

- (A) Aircraft rent represents a significant operating expense of our business. Because we leased all of our aircraft during the periods presented, we believe that when assessing our EBITDA you should also consider the impact of our aircraft rent expense, which was R\$58,816 in 2001, R\$130,755 in 2002, R\$188,841 in 2003, R\$195,504 in 2004, and R\$240,876 in 2005.

## RISK FACTORS

*Prospective purchasers of notes should carefully consider the risks described below and those described in our Annual Report on Form 20-F for the year ended December 31, 2005 which is included as Annex A to this offering memorandum, as well as the other information in this offering memorandum, before deciding to purchase any notes. Our business, results of operations, financial condition or prospects could be negatively affected if any of these risks occurs, and as a result, the trading price of the notes could decline and you could lose all or part of your investment.*

### **Risks Relating to the Notes and the Guarantees**

***The notes have no maturity date or sinking fund provisions and are not redeemable at the option of holders of notes.***

The notes have no fixed final maturity date or any sinking fund provisions and are not redeemable at the option of holders of notes. As a result, holders of the notes will be entitled to receive a return of the principal amount of their investment only if the Issuer elects to redeem or repurchase the notes or in the event of acceleration due to an event of default. Therefore, you should be aware that you may be required to bear the financial risks of an investment in the notes for an indefinite period of time.

***There are no financial covenants in the notes or the guarantees.***

Neither the Issuer, the Guarantors nor any of their subsidiaries are restricted from incurring additional debt or liabilities, including additional senior debt, under the notes, the guarantees or the indenture. If either the Issuer or the Guarantors incur additional debt or liabilities, their ability to pay their obligations on the notes or the guarantees, as the case may be, could be adversely affected. The Issuer and the Guarantors expect from time to time to incur additional debt and other liabilities. In addition, neither the Issuer nor the Guarantors are not restricted from creating liens on their assets, and the Guarantors are not restricted from paying dividends or issuing or repurchasing securities under the guarantees or the indenture.

***Payments on the notes and the guarantees will be junior to any secured debt obligations of the Issuer and the Guarantors, as the case may be, and effectively junior to debt obligations of any non-guarantor subsidiaries.***

The notes and the guarantees will constitute unsecured unsubordinated obligations of the Issuer and the Guarantors and will rank equal in right of payment with all of the other existing and future unsecured unsubordinated indebtedness of the Issuer and the Guarantors, respectively. Although the holders of the notes will have a direct, but unsecured claim on the assets and property of the Issuer, payment on the notes will be subordinated to any secured debt of the Issuer to the extent of the assets and property securing such debt. Payment on the notes will also be effectively subordinated to the payment of secured and unsecured debt and other creditors of the Guarantor's non-guarantor subsidiaries. In addition, under Brazilian law, the obligations of the Guarantors under the guarantees are subordinated to certain statutory preferences, including claims for salaries, wages, secured obligations, social security, taxes, court fees, expenses and costs, as well as to other statutory claims specific to the aircraft industry. In the event of the Issuer's or the Guarantors' liquidation, such statutory preferences will have preference over any other claims, including claims by any holder of the notes.

As of December 31, 2005, the Issuer had no indebtedness and the Guarantors had approximately U.S.\$23.1 million of consolidated indebtedness.

***Judgments of Brazilian courts enforcing the Guarantors' obligations under the notes would be payable only in reais.***

If proceedings were brought in the courts of Brazil seeking to enforce obligations of the Guarantors under the guarantees, the Guarantors would not be required to discharge such obligations in a currency other than *reais*. Any judgment obtained against the Guarantors in Brazilian courts in respect of any payment obligations under the guarantees will be expressed in *reais* equivalent to the U.S. dollar amount at the exchange rate published by the

Central Bank of Brazil of the date on which such judgment is rendered. We cannot assure you that this exchange rate will afford you full compensation of the amount invested in the notes.

***We cannot assure you that an active trading market for the notes will develop.***

The notes constitute a new issue of securities, for which there is no existing market. Although application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and admission to trading has been made on the Euro MTF market of the Luxembourg Stock Exchange, we cannot provide you with any assurances that the application will be accepted. Further, no assurance can be provided regarding the development of a market for the notes, the ability of holders of the notes to sell their notes, or the price at which such holders may be able to sell their notes. Accordingly, we cannot assure you that an active trading market for the notes will develop or, if a trading market develops, that it will continue. The lack of an active trading market for the notes would have a material adverse effect on the market price and liquidity of the notes. Even if a market for the notes develops, the notes may trade at a discount from their initial offering price.

***For U.S. federal income tax purposes, the notes could be treated as equity interests in a PFIC, which could result in adverse U.S. federal income tax consequences for U.S. investors.***

From a U.S. federal income tax standpoint, the notes are expected to be characterized as equity interests in the Issuer, rather than as indebtedness. For this reason, U.S. Holders could be subject to certain adverse U.S. federal income tax consequences in the event that the Issuer was classified for U.S. federal income tax purposes as a “passive foreign investment company” or “PFIC.” In particular, in such event, a U.S. investor would be subject to U.S. federal income tax at ordinary income rates, plus a possible interest charge, in respect of any gain derived from the sale or other disposition of the notes, as well as on the receipt of payments on the notes in excess of 125% of the average amount of payments over a certain time period. Special U.S. federal income tax filing requirements also apply to an investment in equity interests in a PFIC. In general, a foreign corporation is classified as a PFIC for any taxable year in which either (1) 75% or more of its gross income is “passive income” or (2) 50% or more of its assets produce, or are held for the production of, passive income. We presently intend to limit the activities of the Issuer and to use commercially reasonable efforts to manage and conduct our affairs so as to cause the Issuer not to be classified as PFIC for the current and foreseeable future taxable years. However, because the application of the PFIC rules to the notes is not entirely clear, and further because our methods of operation and business plan could be subject to change, no assurances can be provided that we will be successful in avoiding PFIC status for the Issuer for any taxable year.

## **USE OF PROCEEDS**

We expect that the gross proceeds of this offering will be U.S.\$200 million. The proceeds of this offering will be used by the Issuer primarily to finance the acquisition of aircraft, equipment and supply materials by other companies of the Gol Group.

## CAPITALIZATION

The following table sets forth our consolidated capitalization at December 31, 2005 on a historical basis and as adjusted to give effect to this offering. This table should be read in conjunction with, and is qualified in its entirety by reference to, our consolidated financial statements and the notes thereto included elsewhere in this offering memorandum.

The “as adjusted” column gives effect to the issuance of notes in this offering in the aggregate principal amount of U.S.\$200 million and the investment of the proceeds of this issuance into cash and cash equivalents.

	As of December 31, 2005		As adjusted as of December 31, 2005	
	(in millions of reais)	(in millions of U.S. dollars)(1)	(in millions of reais)	(in millions of U.S. dollars)(1)
Cash				
Cash and cash equivalents.....	106.3	45.4	574.5	245.4
Short-term investments .....	762.7	325.8	762.7	325.8
<b>Total cash and financial investments .....</b>	<b>869.0</b>	<b>371.3</b>	<b>1,337.2</b>	<b>571.3</b>
Short-term borrowings .....	54.0	23.1	54.0	23.1
Perpetual Notes .....	—	—	468.1	200.0
<b>Total Debt.....</b>	<b>54.0</b>	<b>23.1</b>	<b>522.2</b>	<b>223.1</b>
<b>Shareholders' equity</b>				
Preferred shares .....	843.7	360.5	843.7	360.5
Common shares .....	41.5	17.7	41.5	17.7
Additional paid-in capital.....	34.6	14.8	34.6	14.8
Deferred compensation expenses.....	(2.4)	(1.0)	(2.4)	(1.0)
Appropriated retained earnings.....	39.6	16.9	39.6	16.9
Unappropriated retained earnings .....	858.9	366.9	858.9	366.9
Accumulated other comprehensive gain.....	6.4	2.7	6.4	2.7
<b>Total shareholders' equity.....</b>	<b>1,822.3</b>	<b>778.5</b>	<b>1,822.3</b>	<b>778.5</b>
<b>Total capitalization(2)(3) .....</b>	<b>1,876.3</b>	<b>801.6</b>	<b>2,344.5</b>	<b>1,001.6</b>

- (1) The *real* amounts for December 31, 2005 have been converted into dollars using the exchange rate of U.S.\$1.00 = R\$2.3407 and the dollar amounts of the perpetual notes have been converted into *reais* using the same rate, which is the selling rate reported by the Central Bank of Brazil on this date. This information is presented solely for the convenience of the reader. You should not interpret the currency conversions in this offering memorandum as a statement that the amount in *reais* currently represent such values in U.S. dollars. Additionally, you should not interpret such conversions as statements that the amounts in *reais* have been, could have been or could be converted into U.S. dollars at this or any other foreign exchange rates.
- (2) Total capitalization is the sum of total debt and total shareholders' equity.
- (3) After the completion of this offering, we may incur additional debt in the regular course of our business which may materially affect our total indebtedness as provided in this table. We are currently negotiating indebtedness with various public and private financial institutions that, if concluded, would increase our consolidated indebtedness by approximately U.S.\$550 million.

### Issuer

As at the date of this offering memorandum, the Issuer has no borrowings or indebtedness in the nature of borrowings (including loan capital issued or created but unissued), term loans, liabilities under acceptances or acceptance credits, mortgages, charges or guarantees or other contingent liabilities.

## DESCRIPTION OF NOTES

We will issue the notes pursuant to an indenture, to be dated as of April 5, 2006, among the Issuer, Gol Linhas Aéreas Inteligentes S.A., or GLAI, and Gol Transportes Aéreos S.A., or Gol, each as guarantors, or the Guarantors, The Bank of New York, as trustee (which term includes any successor as trustee under the indenture), transfer agent, registrar and principal paying agent. A copy of the indenture, including the form of the notes, is available for inspection during normal business hours at the office of the trustee set forth on the inside back cover page of this offering memorandum. The trustee or any other paying agent will also act as transfer agent and registrar in the event that the Issuer issues certificates for the notes in definitive registered form as set forth in “Form of Notes—Individual Definitive Notes.”

This description of notes is a summary of the material provisions of the notes and the indenture. You should refer to the indenture for a complete description of the terms and conditions of the notes and the indenture, including the obligations of the Issuer and the Guarantors and your rights.

You will find the definitions of capitalized terms used in this section under “—Certain Definitions.”

### General

The notes:

- will be senior unsecured obligations of the Issuer;
- will initially be limited to an aggregate principal amount of U.S.\$200,000,000;
- will be perpetual notes with no fixed final maturity date;
- will be issued in denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof; and
- will be represented by one or more registered notes in global form and may be exchanged for notes in definitive form only in limited circumstances.

Interest on the notes:

- will accrue at the rate of 8.75% per annum;
- will accrue from the date of issuance or from the most recent interest payment date;
- will be payable in cash quarterly in arrears on January 5, April 5, July 5 and October 5 of each year, commencing on July 5, 2006;
- will be payable to the holders of record on the December 21, March 21, June 21 and September 21 immediately preceding the related interest payment dates; and
- will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Principal of, and interest and any additional amounts on, the notes will be payable, and the transfer of notes will be registrable, at the office of the trustee, and at the offices of the paying agents and transfer agents, respectively. For so long as the notes are listed on the Luxembourg Stock Exchange (Euro MTF) and the rules of that stock exchange will so require, the Issuer will also maintain a paying agent and transfer agent in Luxembourg.

The indenture does not limit the amount of debt or other obligations that may be incurred by the Issuer or the Guarantors or any of their present or future Subsidiaries. The indenture does not contain any restrictive

covenants or other provisions designed to protect holders of the notes in the event the Issuer or the Guarantors or any of their present or future Subsidiaries participate in a highly leveraged transaction or upon a change of control.

The Issuer is entitled, without the consent of the holders, to issue additional notes under the indenture on the same terms and conditions as the notes being offered hereby in an unlimited aggregate principal amount. The notes and the additional notes, if any, will be treated as a single class for all purposes of the indenture, including waivers and amendments. Unless the context otherwise requires, for all purposes of the indenture and this “Description of Notes,” references to the notes include any additional notes actually issued.

### **Ranking**

The notes and the guarantees will be unsecured, unsubordinated obligations of each of the Issuer and the Guarantors, ranking equally with all of their other respective unsubordinated obligations. However, the notes will effectively rank junior to all secured debt of the Issuer and the Guarantors to the extent of the value of the assets securing that debt.

As of December 31, 2005, the Issuer had no indebtedness, and the Guarantors had approximately U.S.\$23.1 million of consolidated indebtedness.

### **Guarantees**

The Guarantors will unconditionally guarantee, jointly and severally, on an unsecured basis, all of the obligations of the Issuer pursuant to the notes, which we refer to as the guarantees. So long as any note remains outstanding (as defined in the indenture), GLAI shall continue to own directly 100% of the outstanding share capital of the Issuer.

The guarantees will be limited to the maximum amount that would not render the Guarantors’ respective obligations subject to avoidance under applicable fraudulent conveyance laws. By virtue of this limitation, the Guarantors’ respective obligations under the guarantees could be significantly less than amounts payable with respect to the notes, or the Guarantors may have effectively no obligation under the guarantees.

None of the Guarantors’ existing or future Subsidiaries (other than Gol in the case of GLAI) is guaranteeing the notes. Claims of creditors of such non-guarantor Subsidiaries, including trade creditors, employees and creditors holding indebtedness or guarantees issued by such non-guarantor Subsidiaries, and claims of preferred stockholders of such non-guarantor Subsidiaries generally will have priority with respect to the assets and earnings of such non-guarantor Subsidiaries over the claims of the Guarantors’ creditors, including holders of the notes. Accordingly, the notes will be effectively subordinated to creditors (including trade creditors and employees) and preferred stockholders, if any, of the Guarantors’ existing or future non-guarantor Subsidiaries. The indenture does not require any of the Guarantors’ existing or future Subsidiaries (other than Gol in the case of GLAI) to guarantee the notes, and it does not restrict any of the Guarantors from disposing of its assets to a third party or a Subsidiary that is not guaranteeing the notes.

Under Brazilian law, as a general rule, holders of the notes will not have any claim whatsoever against any non-guarantor Subsidiaries of the Guarantors.

The guarantees will terminate upon defeasance or repayment of the notes, as described under the caption “—Defeasance.”

### **Redemption**

The notes will not be redeemable, except as described below. Any optional or tax redemption may require the prior approval of the Central Bank.

#### *Optional Redemption*

The notes will be redeemable, at the option of the Issuer, in whole or in part, on any interest payment date on or after April 5, 2011, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), at 100% of the principal amount thereof, plus accrued and unpaid interest and any additional amounts payable with respect thereto, provided that if the notes are redeemed in part, at least U.S.\$150,000,000 aggregate principal amount of the notes must remain outstanding following any partial redemption.

#### *Tax Redemption*

If as a result of any change in or amendment to the laws (or any rules or regulations thereunder) of a Taxing Jurisdiction (as defined below under “—Additional Amounts”), or any amendment to or change in an official interpretation, administration or application of such laws, any treaties, rules, or related agreements to which the Taxing Jurisdiction is a party or regulations (including a holding by a court of competent jurisdiction), which change or amendment becomes effective or, in the case of a change in official position, is announced on or after the issue date of the notes or on or after the date a successor assumes the obligations under the notes, (i) the Issuer or any successor has or will become obligated to pay additional amounts as described below under “—Additional Amounts” or (ii) either of the Guarantors or any successor has or will become obligated to pay additional amounts as described below under “—Additional Amounts” in excess of the additional amounts either such Guarantor or any such successor would be obligated to pay if payments were subject to withholding or deduction at a rate of 15% or at a rate of 25% in case the holder of the notes is resident in a tax haven jurisdiction for Brazilian tax purposes (*i.e.*, countries which do not impose any income tax or which impose it at a maximum rate lower than 20% or where the laws impose restrictions on the disclosure of ownership composition or securities ownership) as a result of the taxes, duties, assessments and other governmental charges described above (the “Minimum Withholding Level”), the Issuer or any of its successors may, at its option, redeem all, but not less than all, of the notes, at a redemption price equal to 100% of their principal amount, together with accrued and unpaid interest to the date fixed for redemption, upon publication of irrevocable notice not less than 30 days nor more than 60 days prior to the date fixed for redemption. No notice of such redemption may be given earlier than 60 days prior to the earliest date on which the Issuer or any such successor would, but for such redemption, be obligated to pay the additional amounts above the Minimum Withholding Level. The Issuer or any such successor shall not have the right to so redeem the notes in the event it is obliged to pay additional amounts which in the aggregate amount to less than the additional amounts payable at the Minimum Withholding Level. Notwithstanding the foregoing, the Issuer or any such successor shall not have the right to so redeem the notes unless it has taken reasonable measures to avoid the obligation to pay additional amounts.

In the event that the Issuer or any successor elects to so redeem the notes, it will deliver to the trustee: (1) a certificate, signed in the name of the Issuer or any successor by any two of its executive officers or by its attorney in fact in accordance with its bylaws, stating that the Issuer or any successor is entitled to redeem the notes pursuant to their terms and setting forth a statement of facts showing that the condition or conditions precedent to the right of the Issuer or any successor to so redeem have occurred or been satisfied; and (2) an opinion of counsel, who is reasonably acceptable to the trustee, to the effect that the Issuer or any successor has or will become obligated to pay additional amounts in excess of the additional amounts payable at the Minimum Withholding Level as a result of the change or amendment, that the Issuer cannot avoid payment of such excess additional amounts by taking reasonable measures available to it and that all governmental requirements necessary for the Issuer or any successor to effect the redemption have been complied with.

#### *Open Market Purchases*

The Issuer or its affiliates may at any time purchase notes in the open market or otherwise at any price. Any such purchased notes will not be resold, except in compliance with applicable requirements or exemptions under the relevant securities laws.

#### **Payments**

The Issuer will make all payments on the notes exclusively in such coin or currency of the United States as at the time of payment will be legal tender for the payment of public and private debts.

The Issuer will make payments of principal and interest on the notes to the principal paying agent (as identified on the inside back cover page of this offering memorandum), which will pass such funds to the trustee and the other paying agents or to the holders.

The Issuer will make payments of principal at maturity upon surrender of the relevant notes at the specified office of the trustee or any of the paying agents. The Issuer will pay interest on the notes to the persons in whose name the notes are registered at the close of business on the 15<sup>th</sup> day before the due date for payment. Payments of principal and interest in respect of each note will be made by the paying agents by U.S. dollar check drawn on a bank in New York City and mailed to the holder of such note at its registered address. Upon application by the holder to the specified office of any paying agent not less than 15 days before the due date for any payment in respect of a note, such payment may be made by transfer to a U.S. dollar account maintained by the payee with a bank in New York City.

Under the terms of the indenture, payment by the Issuer or the Guarantors of any amount payable under the notes or the guarantees, as the case may be, on the due date thereof to the principal paying agent in accordance with the indenture will satisfy the obligation of the Issuer, or the Guarantors, as the case may be, to make such payment; *provided, however*, that the liability of the principal paying agent shall not exceed any amounts paid to it by the Issuer or the Guarantors, as the case may be, or held by it, on behalf of the holders under the indenture.

All payments will be subject in all cases to any applicable tax or other laws and regulations, but without prejudice to the provisions of “—Additional Amounts.” No commissions or expenses will be charged to the holders in respect of such payments.

Subject to applicable law, the trustee and the paying agents will pay to the Issuer upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years, and, thereafter, holders entitled to such monies must look to the Issuer for payment as general creditors. After the return of such monies by the trustee or the paying agents to the Issuer, neither the trustee nor the paying agents shall be liable to the holders in respect of such monies.

### **Listing**

The Issuer will use commercially reasonable efforts to cause the notes to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange, and to remain so listed so long as the Issuer and the Guarantors do not reasonably believe that doing so would impose burdensome financial reporting or other requirements, or costs relating thereto.

### **Form, Denomination and Title**

The notes will be in registered form without coupons attached in amounts of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof.

Notes sold in offshore transactions in reliance on Regulation S will be represented by one or more permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC for the accounts of Euroclear and Clearstream Luxembourg. Notes sold in reliance on Rule 144A will be represented by one or more permanent global notes in fully registered form without coupons deposited with a custodian for and registered in the name of a nominee of DTC. Notes represented by the global notes will trade in DTC’s Same-Day Funds Settlement System, and secondary market trading activity in such notes will therefore settle in immediately available funds. There can be no assurance as to the effect, if any, of settlements in immediately available funds on trading activity in the notes. Beneficial interests in the global notes will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct and indirect participants, including Euroclear and Clearstream Luxembourg. Except in certain limited circumstances, definitive registered notes will not be issued in exchange for beneficial interests in the global notes. See “Form of Notes—Global Notes.”

Title to the notes will pass by registration in the register. The holder of any note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it, writing on, or theft or loss of, the definitive note issued in respect of it) and no person will be liable for so treating the holder.

### **Transfer of Notes**

Notes may be transferred in whole or in part in an authorized denomination upon the surrender of the note to be transferred, together with the form of transfer endorsed on it duly completed and executed, at the specified office of the registrar or the specified office of any transfer agent. Each new note to be issued upon exchange of notes or transfer of notes will, within three business days of the receipt of a request for exchange or form of transfer, be mailed at the risk of the holder entitled to the note to such address as may be specified in such request or form of transfer.

Notes will be subject to certain restrictions on transfer as more fully set out in the indenture. See “Notice to Investors.” Transfer of beneficial interests in the global notes will be effected only through records maintained by DTC and its participants. See “Form of Notes.”

Transfer will be effected without charge by or on behalf of the Issuer, the registrar or the transfer agents, but upon payment, or the giving of such indemnity as the registrar or the relevant transfer agent may require, in respect of any tax or other governmental charges which may be imposed in relation to it. The Issuer is not required to transfer or exchange any note selected for redemption.

No holder may require the transfer of a note to be registered during the period of 15 days ending on the due date for any payment of principal or interest on that note.

### **Additional Amounts**

All payments by the Issuer in respect of the notes or the Guarantors in respect of the guarantees will be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments, or other governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or Brazil, or any authority therein or thereof or any other jurisdiction in which the Issuer or Guarantors are organized, doing business or otherwise subject to the power to tax (any of the aforementioned being a “Taxing Jurisdiction”), unless the Issuer or the Guarantors are compelled by law to deduct or withhold such taxes, duties, assessments, or governmental charges. In such event, the Issuer or the Guarantors, as applicable, will make such deduction or withholding, make payment of the amount so withheld to the appropriate governmental authority and pay such additional amounts as may be necessary to ensure that the net amounts receivable by holders of notes after such withholding or deduction shall equal the respective amounts of principal and interest which would have been receivable in respect of the notes in the absence of such withholding or deduction. Notwithstanding the foregoing, no such additional amounts shall be payable:

(1) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such note by reason of the existence of any present or former connection between such holder (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder, if such holder is an estate, a trust, a partnership, or a corporation) and the relevant Taxing Jurisdiction, including, without limitation, such holder (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein, other than the mere holding of the note or enforcement of rights under the indenture and the receipt of payments with respect to the note;

(2) in respect of notes surrendered or presented for payment (if surrender or presentment is required) more than 30 days after the Relevant Date (as defined below) except to the extent that payments under such note would have been subject to withholdings and the holder of such note would have been entitled to such additional amounts, on surrender of such note for payment on the last day of such period of 30 days;

(3) where such additional amount is imposed and is required to be made pursuant to any law implementing or complying with, or introduced in order to conform to, any European Union Directive on the taxation of savings;

(4) to, or to a third party on behalf of, a holder who is liable for such taxes, duties, assessments or other governmental charges by reason of such holder's failure to comply with any certification, identification, documentation or other reporting requirement concerning the nationality, residence, identity or connection with the relevant Taxing Jurisdiction of such holder, if (a) compliance is required by law as a precondition to, exemption from, or reduction in the rate of, the tax, assessment or other governmental charge and (b) the Issuer has given the holders at least 30 days' notice that holders will be required to provide such certification, identification, documentation or other requirement;

(5) in respect of any estate, inheritance, gift, sales, transfer, capital gains, excise or personal property or similar tax, assessment or governmental charge;

(6) in respect of any tax, assessment or other governmental charge which is payable other than by deduction or withholding from payments of principal of or interest on the note;

(7) in respect of any tax imposed on overall net income or any bank profits tax; or

(8) in respect of any combination of the above.

In addition, no additional amounts shall be paid with respect to any payment on a note to a holder who is a fiduciary, a partnership, a limited liability company or other than the sole beneficial owner of that payment to the extent that payment would be required by the relevant Taxing Jurisdiction to be included in the income, for tax purposes, of a beneficiary or settlor with respect to the fiduciary, a member of that partnership, an interestholder in a limited liability company or a beneficial owner who would not have been entitled to the additional amounts had that beneficiary, settlor, member or beneficial owner been the holder.

"Relevant Date" means, with respect to any payment on a note, whichever is the later of: (i) the date on which such payment first becomes due; and (ii) if the full amount payable has not been received by the trustee on or prior to such due date, the date on which notice is given to the holders that the full amount has been received by the trustee. The notes are subject in all cases to any tax, fiscal or other law or regulation or administrative or judicial interpretation. Except as specifically provided above, neither the Issuer nor the Guarantors shall be required to make a payment with respect to any tax, assessment or governmental charge imposed by any government or a political subdivision or taxing authority thereof or therein.

In the event that additional amounts actually paid with respect to the notes described above are based on rates of deduction or withholding of withholding taxes in excess of the appropriate rate applicable to the holder of such notes, and, as a result thereof such holder is entitled to make claim for a refund or credit of such excess from the authority imposing such withholding tax, then such holder shall, by accepting such notes, be deemed to have assigned and transferred all right, title, and interest to any such claim for a refund or credit of such excess to the Issuer.

Any reference in this offering memorandum, the indenture or the notes to principal, interest or any other amount payable in respect of the notes by the Issuer or the guarantees by the Guarantors will be deemed also to refer to any additional amount, unless the context requires otherwise, that may be payable with respect to that amount under the obligations referred to in this subsection.

The foregoing obligation will survive termination or discharge of the indenture.

## **Covenants**

The indenture contains the following covenants:

### *Limitations on the Issuer*

The indenture limits and restricts the Issuer from taking the following actions or engaging in the following activities or transactions:

- (1) engaging in any business or entering into, or being a party to, any transaction or agreement except for:
  - (a) the issuance, sale and redemption of the notes (including any additional notes) and activities incidentally related thereto;
  - (b) the incurrence of Debt to make inter-company loans to GLAI and entities controlled by GLAI to finance the acquisition and leasing of aircraft, equipment and supply materials by GLAI and such entities and activities reasonably related thereto;
  - (c) the entering into Hedging Agreements relating to the notes or such other Debt; and
  - (d) any other transaction required by law;
- (2) acquiring or owning any Subsidiaries or other assets or properties, except an interest in the inter-company loans described above and Hedging Agreements relating to its Debt and instruments evidencing interest in the foregoing; and
- (3) entering into any consolidation, merger, amalgamation, joint venture, or other form of combination with any person, or selling, leasing, conveying or otherwise disposing of any of its assets or receivables, except as otherwise permitted under “—Limitation on Consolidation, Merger or Transfer of Assets” below.

### *Limitation on Transactions with Affiliates*

Neither the Issuer nor any Guarantor will, nor will the Issuer or any Guarantor permit any Subsidiary to, enter into or permit to exist any transaction (including the purchase, sale, lease or exchange of any property, employee compensation arrangements or the rendering of any service) with, or for the benefit of, any Affiliate of the Issuer or such Guarantor, other than themselves or any Subsidiaries, (an “Affiliate Transaction”) unless the terms of the Affiliate Transaction are no less favorable to the Issuer or such Guarantor or such Subsidiary than those that could be obtained at the time of the Affiliate Transaction in arm’s length dealings with a person who is not an Affiliate.

### *Limitation on Consolidation, Merger or Transfer of Assets*

Neither the Issuer nor any Guarantor will consolidate with or merge with or into, or sell, convey, transfer or dispose of, or lease all or substantially all of its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to, any person, unless:

- (1) the resulting, surviving or transferee person (if not the Issuer or such Guarantor) will be a person organized and existing under the laws of the Cayman Islands, Brazil, the United States of America, any State thereof or the District of Columbia, or any other country (or political subdivision thereof) that is a member country of the European Union or of the Organisation for Economic Co-operation and Development on the date of the indenture, and such person expressly assumes, by a supplemental indenture to the indenture, executed and delivered to the trustee, all the obligations of the Issuer or such Guarantor under the notes and the indenture;
- (2) the resulting, surviving or transferee person (if not the Issuer or such Guarantor), if organized and existing under the laws of a jurisdiction other than the Cayman Islands or Brazil, undertakes, in such supplemental indenture, (i) to pay such additional amounts in respect of principal (and premium, if any) and interest as may be necessary in order that every net payment made in respect of the notes after deduction or

withholding for or on account of any present or future tax, duty, assessment or other governmental charge imposed by such other country or any political subdivision or taxing authority thereof or therein will not be less than the amount of principal (and premium, if any) and interest then due and payable on the notes, subject to the same exceptions set forth under “Additional Amounts” and (ii) that the provisions set forth under “Tax Redemption” shall apply to such person, but in both cases, replacing existing references in such clause to Cayman Islands or Brazil or to the Taxing Jurisdiction with references to the jurisdiction of organization of the resulting, surviving or transferee person as the case may be;

(3) immediately prior to such transaction and immediately after giving effect to such transaction, no Default or Event of Default will have occurred and be continuing; and

(4) the Issuer or such Guarantor will have delivered to the trustee an officers’ certificate and an opinion of independent legal counsel, each stating that such consolidation, merger or transfer and such supplemental indenture, if any, comply with the indenture.

Notwithstanding anything to the contrary contained in the foregoing, any of the Guarantors may consolidate with or merge with the Issuer or any Subsidiary that becomes a Guarantor concurrently with the relevant transaction.

The trustee will accept such certificate and opinion as sufficient evidence of the satisfaction of the conditions precedent set forth in this covenant, in which event it will be conclusive and binding on the holders.

#### *Reporting Requirements*

The Issuer and the Guarantors will provide the trustee with the following reports (and will also provide the trustee with sufficient copies, as required, of the following reports referred to in clauses (1) through (4) below for distribution, at their expense, to all holders of notes):

(1) an English language version of GLAI’s annual audited consolidated financial statements prepared in accordance with Brazilian GAAP promptly upon such financial statements becoming available but not later than 120 days after the close of its fiscal year;

(2) an English language version of GLAI’s unaudited quarterly financial statements prepared in accordance with Brazilian GAAP promptly upon such financial statements becoming available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of its fiscal year);

(3) simultaneously with the delivery of each set of financial statements referred to in clauses (1) and (2) above, an officers’ certificate stating whether a Default or Event of Default exists on the date of such certificate and, if a Default or Event of Default exists, setting forth the details thereof and the action which the Issuer and/or the Guarantors are taking or propose to take with respect thereto;

(4) without duplication, English language versions or summaries of such other reports or notices as may be filed or submitted by (and promptly after filing or submission by) the Issuer and/or the Guarantors with (a) the CVM, (b) the Luxembourg Stock Exchange or any other stock exchange on which the notes may be listed or (c) the SEC (in each case, to the extent that any such report or notice is generally available to its security holders or the public in Brazil or elsewhere and, in the case of clause (c), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act, or otherwise); and

(5) upon any director or executive officer of the Issuer or any Guarantor becoming aware of the existence of a Default or Event of Default, an officers’ certificate setting forth the details thereof and the action which the Issuer and/or such Guarantor are taking or propose to take with respect thereto.

Delivery of the above reports to the trustee is for informational purposes only and the trustee’s receipt of such reports will not constitute constructive notice of any information contained therein or determinable from

information contained therein, including the Issuer's or the Guarantors' compliance with any of their covenants in the indenture (as to which the trustee is entitled to rely exclusively on officers' certificates).

## Events of Default

An "Event of Default" occurs if:

- (1) the Issuer defaults in any payment of interest (including any related additional amounts) on any note when the same becomes due and payable, and such default continues for a period of 30 days;
- (2) the Issuer defaults in the payment of the principal (including any related additional amounts) of any note when the same becomes due and payable upon acceleration or redemption or otherwise;
- (3) the Issuer or either Guarantor fails to comply with any of its covenants or agreements in the notes or the indenture (other than those referred to in (1) and (2) above), and such failure continues for 60 days after the notice specified below;
- (4) the Issuer, either Guarantor or any Significant Subsidiary defaults under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Debt for money borrowed by the Issuer, either Guarantor or any such Significant Subsidiary (or the payment of which is guaranteed by the Issuer, such Guarantor or any such Significant Subsidiary) whether such Debt or guarantee now exists, or is created after the date of the indenture, which default (a) is caused by failure to pay principal of or premium, if any, or interest on such Debt after giving effect to any grace period provided in such Debt on the date of such default ("Payment Default") or (b) results in the acceleration of such Debt prior to its express maturity and, in each case, the principal amount of any such Debt, together with the principal amount of any other such Debt under which there has been a Payment Default or the maturity of which has been so accelerated, totals U.S.\$50 million (or the equivalent thereof at the time of determination) or more in the aggregate;
- (5) one or more final judgments or decrees for the payment of money of U.S.\$50 million (or the equivalent thereof at the time of determination) or more in the aggregate are rendered against the Issuer, either Guarantor or any Significant Subsidiary and are not paid (whether in full or in installments in accordance with the terms of the judgment) or otherwise discharged and, in the case of each such judgment or decree, either (a) an enforcement proceeding has been commenced by any creditor upon such judgment or decree and is not dismissed within 30 days following commencement of such enforcement proceedings or (b) there is a period of 60 days following such judgment during which such judgment or decree is not discharged, waived or the execution thereof stayed;
- (6) an involuntary case or other proceeding is commenced against the Issuer, either Guarantor or any Significant Subsidiary with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect seeking the appointment of a trustee, receiver, *sindico*, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding remains undismissed and unstayed for a period of 60 days; or an order for relief is entered against the Issuer, either Guarantor or any Significant Subsidiary under the federal bankruptcy laws as now or hereafter in effect and such order is not being contested by the Issuer, either Guarantor or such Significant Subsidiary, as the case may be, in good faith or has not been dismissed, discharged or otherwise stayed, in each case within 60 days of being made;
- (7) the Issuer, either Guarantor or any of its Significant Subsidiaries (i) commences a voluntary case or other proceeding seeking liquidation, reorganization, *concordata* or other relief with respect to itself or its debts under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or consents to the entry of an order for relief in an involuntary case under any such law, (ii) consents to the appointment of or taking possession by a receiver, *sindico*, liquidator, assignee, custodian, trustee, sequestrator or similar official of the Issuer, either Guarantor or any of its Significant Subsidiaries or for all or substantially all of the property

of the Issuer, either Guarantor or any of its Significant Subsidiaries or (iii) effects any general assignment for the benefit of creditors;

(8) any event occurs that under the laws of the Cayman Islands, Brazil or any political subdivision thereof or any other country has substantially the same effect as any of the events referred to in any of clause (6) or (7);

(9) any guarantee ceases to be in full force and effect, other than in accordance with the terms of the indenture, or a Guarantor denies or disaffirms its obligations under its guarantee; or

(10) GLAI ceases to own directly 100% of the outstanding share capital of the Issuer.

A Default under clause (3) above will not constitute an Event of Default until the trustee or the holders of at least 25% in principal amount of the notes outstanding notify the Issuer and the Guarantors of the Default and the Issuer and the relevant Guarantor, as the case may be, do not cure such Default within the time specified after receipt of such notice.

The trustee is not to be charged with knowledge of any Default or Event of Default or knowledge of any cure of any Default or Event of Default unless either (i) an attorney, authorized officer or agent of the trustee with direct responsibility for the indenture has actual knowledge of such Default or Event of Default or (ii) written notice of such Default or Event of Default has been given to the trustee by the Issuer or any holder.

If an Event of Default (other than an Event of Default specified in clause (6), (7) or (8) above) occurs and is continuing, the trustee or the holders of not less than 25% in principal amount of the notes then outstanding may declare all unpaid principal of and accrued interest on all notes to be due and payable immediately, by a notice in writing to the Issuer, and upon any such declaration such amounts will become due and payable immediately. If an Event of Default specified in clause (6), (7) or (8) above occurs and is continuing, then the principal of and accrued interest on all notes will become and be immediately due and payable without any declaration or other act on the part of the trustee or any holder.

Subject to the provisions of the indenture relating to the duties of the trustee in case an Event of Default occurs and is continuing, the trustee will be under no obligation to exercise any of its rights or powers under the indenture at the request or direction of any of the holders, unless such holders have offered to the trustee indemnity reasonably satisfactory to the trustee. Subject to such provision for the indemnification of the trustee, the holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

## **Defeasance**

The Issuer or any Guarantor may at any time terminate all of its obligations with respect to the notes (“defeasance”), except for certain obligations, including those regarding any trust established for a defeasance and obligations to register the transfer or exchange of the notes, to replace mutilated, destroyed, lost or stolen notes and to maintain agencies in respect of notes. The Issuer or any Guarantor may at any time terminate its obligations under certain covenants set forth in the indenture, and any omission to comply with such obligations will not constitute a Default or an Event of Default with respect to the notes issued under the indenture (“covenant defeasance”). In order to exercise either defeasance or covenant defeasance, the Issuer or such Guarantor must irrevocably deposit in trust, for the benefit of the holders of the notes, with the trustee money or U.S. government obligations, or a combination thereof, in such amounts as will be sufficient, in the opinion of an internationally recognized firm of independent public accountants expressed in a written certificate delivered to the trustee, without consideration of any reinvestment, to pay the principal of, and interest on the notes to redemption or maturity and comply with certain other conditions, including the delivery of an opinion of counsel as to certain tax matters (including to the effect that the holders of the notes will not recognize income, gain or loss for U.S., Cayman Islands and Brazilian federal income tax purposes as a result of such deposit and defeasance and will be subject to U.S., Cayman Islands and Brazilian federal income tax on the same amount and in the same manner and at the same times as would have

been the case if such deposit and defeasance had not occurred). In the case of defeasance or covenant defeasance, the guarantees will terminate.

### **Amendment, Supplement, Waiver**

Subject to certain exceptions, the indenture may be amended or supplemented with the consent of the holders of at least a majority in principal amount of the notes then outstanding, and any past Default or Event of Default or compliance with any provision may be waived with the consent of the holders of at least a majority in principal amount of the notes then outstanding. However, without the consent of each holder of an outstanding note affected thereby, no amendment or waiver may:

- (1) reduce the rate of or extend the time for payment of interest on any note;
- (2) reduce the principal of any note;
- (3) reduce the amount payable upon redemption of any note or change the time at which any note may be redeemed;
- (4) change the currency for payment of principal of, or interest on, any note;
- (5) impair the right to institute suit for the enforcement of any right to payment on or with respect to any note;
- (6) waive certain payment defaults with respect to the notes;
- (7) reduce the principal amount of notes whose holders must consent to any amendment or waiver;
- (8) make any change in the amendment or waiver provisions which require each holder's consent;
- (9) modify or change any provision of the indenture affecting the ranking of the notes or the guarantees in a manner adverse to the holders of the notes; or
- (10) make any change in the guarantees that would adversely affect the noteholders.

The holders of the notes will receive prior notice as described under “—Notices” of any proposed amendment to the notes or the indenture or any waiver described in the preceding paragraph. After an amendment or any waiver described in the preceding paragraph becomes effective, the Issuer is required to mail to the holders a notice briefly describing such amendment or waiver. However, the failure to give such notice to all holders of the notes, or any defect therein, will not impair or affect the validity of the amendment or waiver.

The consent of the holders of the notes is not necessary to approve the particular form of any proposed amendment or any waiver. It is sufficient if such consent approves the substance of the proposed amendment or waiver.

The Issuer, the Guarantors and the trustee may, without the consent or vote of any holder of the notes, amend or supplement the indenture or the notes for the following purposes:

- (1) to cure any ambiguity, omission, defect or inconsistency;
- (2) to comply with the covenant described under “—Limitation on Consolidation, Merger or Transfer of Assets”;
- (3) to add guarantees or collateral with respect to the notes;
- (4) to add to the covenants of the Issuer or the Guarantors for the benefit of holders of the notes;

- (5) to surrender any right conferred upon the Issuer or the Guarantors;
- (6) to evidence and provide for the acceptance of an appointment by a successor trustee;
- (7) to provide for the issuance of additional notes;
- (8) to provide for any guarantee of the notes, to secure the notes or to confirm and evidence the release, termination or discharge of any guarantee of the notes when such release, termination or discharge is permitted by the indenture;
- (9) make any other change that does not materially and adversely affect the rights of any holder of the notes or to conform the indenture to this “Description of Notes”; or
- (10) to comply with any applicable requirements of the SEC, including in connection with any required qualification of the indenture under the U.S. Trust Indenture Act of 1939, as amended.

### **Notices**

For so long as notes in global form are outstanding, notices to be given to holders will be given to the depository, in accordance with its applicable policies as in effect from time to time. If notes are issued in certificated form, notices to be given to holders will be deemed to have been given upon the mailing by first class mail, postage prepaid, of such notices to holders of the notes at their registered addresses as they appear in the trustee’s records. For so long as the notes are listed on the Luxembourg Stock Exchange (Euro MTF) and it is required by the rules of the Luxembourg Stock Exchange, publication of such notice to the holders of the notes in English in a leading newspaper having general circulation in Luxembourg (which is expected to be the *d’Wort*).

### **Trustee**

The Bank of New York is the trustee under the indenture.

The indenture contains provisions for the indemnification of the trustee and for its relief from responsibility. The obligations of the trustee to any holder are subject to such immunities and rights as are set forth in the indenture.

Except during the continuance of an Event of Default, the trustee needs to perform only those duties that are specifically set forth in the indenture and no others, and no implied covenants or obligations will be read into the indenture against the trustee. In case an Event of Default has occurred and is continuing, the trustee shall exercise those rights and powers vested in it by the indenture, and use the same degree of care and skill in their exercise, as a prudent person would exercise or use under the circumstances in the conduct of his own affairs. No provision of the indenture will require the trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of its duties thereunder, or in the exercise of its rights or powers, unless it receives indemnity satisfactory to it against any loss, liability or expense.

The Issuer and its affiliates may from time to time enter into normal banking and trustee relationships with the trustee and its affiliates.

### **Governing Law and Submission to Jurisdiction**

The notes, the indenture and the guarantees will be governed by the laws of the State of New York.

Each of the parties to the indenture will submit to the jurisdiction of the U.S. federal and New York State courts located in the Borough of Manhattan, City and State of New York for purposes of all legal actions and proceedings instituted in connection with the notes and the indenture. The Issuer and the Guarantors will appoint CT Corporation System, currently having an office at 111 Eighth Avenue, New York, New York 10011, as their authorized agent upon which process may be served in any such action.

## **Currency Indemnity**

U.S. dollars are the sole currency of account and payment for all sums payable by the Issuer or the Guarantors under or in connection with the notes and the guarantees, including damages. Any amount received or recovered in a currency other than dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) by any holder of a note in respect of any sum expressed to be due to it from the Issuer or the Guarantors will only constitute a discharge to the Issuer or the Guarantors, as the case may be, to the extent of the dollar amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so). If that dollar amount is less than the dollar amount expressed to be due to the recipient under any note, the Issuer and the Guarantors will indemnify such holder against any loss sustained by it as a result; and if the amount of United States dollars so purchased is greater than the sum originally due to such holder, such holder will, by accepting a note, be deemed to have agreed to repay such excess. In any event, the Issuer and the Guarantors will indemnify the recipient against the cost of making any such purchase.

For the purposes of the preceding paragraph, it will be sufficient for the holder of a note to certify in a satisfactory manner (indicating the sources of information used) that it would have suffered a loss had an actual purchase of dollars been made with the amount so received in that other currency on the date of receipt or recovery (or, if a purchase of dollars on such date had not been practicable, on the first date on which it would have been practicable, it being required that the need for a change of date be certified in the manner mentioned above). These indemnities constitute a separate and independent obligation from the other obligations of the Issuer and the Guarantors, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by any holder of a note and will continue in full force and effect despite any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under any note.

## **Certain Definitions**

The following is a summary of certain defined terms used in the indenture. Reference is made to the indenture for the full definition of all such terms as well as other capitalized terms used herein for which no definition is provided.

“Affiliate” means, with respect to any specified person, (a) any other person which, directly or indirectly, is in control of, is controlled by or is under common control with such specified person or (b) any other person who is a director or officer (i) of such specified person, (ii) of any subsidiary of such specified person or (iii) of any person described in clause (a) above. For purposes of this definition, control of a person means the power, direct or indirect, to direct or cause the direction of the management and policies of such person whether by contract or otherwise, and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Brazilian GAAP” means accounting practices prescribed by Brazilian Corporation Law, the rules and regulations issued by the CVM and the accounting standards issued by the Brazilian Institute of Independent Accountants (Instituto dos Auditores Independentes do Brasil), in each case as in effect from time to time.

“Capital Lease Obligations” means, with respect to any person, any obligation which is required to be classified and accounted for as a capital lease on the face of a balance sheet of such person prepared in accordance with Brazilian GAAP; the amount of such obligation will be the capitalized amount thereof, determined in accordance with Brazilian GAAP; and the Stated Maturity thereof will be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty.

“Capital Stock” means, with respect to any person, any and all shares of stock, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated, whether voting or non-voting), such person’s equity including any preferred stock, but excluding any debt securities convertible into or exchangeable for such equity.

“CVM” means the Brazilian Securities Commission, or *Comissão de Valores Mobiliários*.

“Debt” means, with respect to any person, without duplication:

- (1) the principal of and premium, if any, in respect of (a) indebtedness of such person for money borrowed and (b) indebtedness evidenced by notes, debentures, notes or other similar instruments for the payment of which such person is responsible or liable;
- (2) all Capital Lease Obligations of such person;
- (3) all obligations of such person issued or assumed as the deferred purchase price of property, all conditional sale obligations of such person and all obligations of such person under any title retention agreement (but excluding trade accounts payable or other short-term obligations to suppliers payable within 180 days, in each case arising in the ordinary course of business);
- (4) all obligations of such person for the reimbursement of any obligor on any letter of credit, banker’s acceptance or similar credit transaction (other than obligations with respect to letters of credit securing obligations (other than obligations described in clauses (1) through (3) above) entered into in the ordinary course of business of such person to the extent such letters of credit are not drawn upon or, if and to the extent drawn upon, such drawing is reimbursed no later than the tenth business day following receipt by such person of a demand for reimbursement following payment on the letter of credit);
- (5) all Hedging Obligations of such person;
- (6) all obligations of the type referred to in clauses (1) through (4) of other persons and all dividends of other persons for the payment of which, in either case, such person is responsible or liable, directly or indirectly, as obligor, guarantor or otherwise, including by means of any guarantee (other than obligations of other persons that are customers or suppliers of such person for which such person is or becomes so responsible or liable in the ordinary course of business to (but only to) the extent that such person does not, or is not required to, make payment in respect thereof);
- (7) all obligations of the type referred to in clauses (1) through (5) of other persons secured by any Lien on any property or asset of such person (whether or not such obligation is assumed by such person), the amount of such obligation being deemed to be the lesser of the value of such property or assets or the amount of the obligation so secured; and
- (8) any other obligations of such person which are required to be, or are in such person’s financial statements, recorded or treated as debt under Brazilian GAAP.

“Default” means any event which is, or after notice or passage of time or both would be, an Event of Default.

“guarantee” means any obligation, contingent or otherwise, of any person directly or indirectly guaranteeing any Debt or other obligation of any person and any obligation, direct or indirect, contingent or otherwise, of such person (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation of such person (whether arising by virtue of partnership arrangements, or by agreement to keep-well, to purchase assets, goods, securities or services, to take-or pay, or to maintain financial statement conditions or otherwise) or (b) entered into for purposes of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); *provided, however*, that the term “guarantee” will not include endorsements for collection or deposit in the ordinary course of business. The term “guarantee” used as a verb has a corresponding meaning.

“Guarantor” means each of (i) GLAI and Gol and (ii) any successor obligor under the guarantees pursuant to the covenant described under the caption “—Certain Covenants—Consolidation, Merger or Sale of Assets,” unless and until such Guarantor is released from its guarantee pursuant to the indenture.

“Hedging Agreement” means (i) any interest rate swap agreement, interest rate cap agreement or other agreement designed to protect against fluctuations in interest rates or (ii) any foreign exchange forward contract, currency swap agreement or other agreement designed to protect against fluctuations in foreign exchange rates or (iii) any commodity or raw material futures contract or any other agreement designed to protect against fluctuations in raw material prices.

“Hedging Obligations” means, with respect to any person, the obligations of such person pursuant to any interest rate swap agreement, foreign currency exchange agreement, interest rate collar agreement, option or futures contract or other similar agreement or arrangement designed to protect such person against changes in interest rates or foreign exchange rates.

“holder” means the person in whose name a note is registered in the register.

“Lien” means any mortgage, pledge, security interest, encumbrance, conditional sale or other title retention agreement or other similar lien.

“Significant Subsidiary” means any Subsidiary of GLAI (or any successor) which at the time of determination either (a) had assets which, as of the date of GLAI’s (or such successor’s) most recent quarterly consolidated balance sheet, constituted at least 10% of GLAI’s (or such successor’s) total assets on a consolidated basis as of such date, or (b) had revenues for the 12-month period ending on the date of GLAI’s (or such successor’s) most recent quarterly consolidated statement of income which constituted at least 10% of GLAI’s (or such successor’s) total revenues on a consolidated basis for such period.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means, in respect of any specified person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by such person.

## FORM OF NOTES

Notes sold in offshore transactions in reliance on Regulation S will be represented by a permanent global note or notes in fully registered form without interest coupons (the “Regulation S Global Note”) and will be registered in the name of a nominee of DTC and deposited with a custodian for DTC. Notes sold in reliance on Rule 144A will be represented by a permanent global note or notes in fully registered form without interest coupons (the “Restricted Global Note” and, together with the Regulation S Global Note, the “global notes”) and will be deposited with a custodian for DTC and registered in the name of a nominee of DTC.

The notes will be subject to certain restrictions on transfer as described in “Transfer Restrictions.” On or prior to the 40<sup>th</sup> day after the later of the commencement of the offering and the closing date of this offering, a beneficial interest in the Regulation S Global Note may be transferred to a person who takes delivery in the form of an interest in the Restricted Global Note only upon receipt by the principal paying agent of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made to a person whom the transferor reasonably believes to be a “qualified institutional buyer” within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction (a “Restricted Global Note Certificate”). After such 40<sup>th</sup> day, this certification requirement will no longer apply to such transfers. Beneficial interests in the Restricted Global Note may be transferred to a person who takes delivery in the form of an interest in the Regulation S Global Note, whether before, on or after such 40<sup>th</sup> day, only upon receipt by the principal paying agent of a written certification from the transferor (in the form provided in the indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144A under the Securities Act (a “Regulation S Global Note Certificate”). Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains an interest.

Except in the limited circumstances described under “— Global Notes,” owners of the beneficial interests in global notes will not be entitled to receive physical delivery of individual definitive notes. The notes are not issuable in bearer form.

### Global Notes

Upon the issuance of the Regulation S Global Note and the Restricted Global Note, DTC will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC (“DTC Participants”), including Euroclear or Clearstream, or persons who hold interests through DTC Participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC Participants) and the records of DTC Participants (with respect to interests of persons other than DTC Participants).

So long as DTC, or its nominee, is the registered owner or holder of a global note, DTC or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the notes. Unless DTC notifies the Issuer that it is unwilling or unable to continue as depository for a global note, or ceases to be a “clearing agency” registered under the Exchange Act, or any of the notes becomes immediately due and payable in accordance with “Description of Notes—Events of Default,” owners of beneficial interests in a global note will not be entitled to have any portions of such global note registered in their names, will not receive or be entitled to receive physical delivery of notes in individual definitive form and will not be considered the owners or holders of the global note (or any notes represented thereby) under the indenture or the notes. In addition, no beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC’s applicable procedures (in addition to those under the indenture referred to herein and, if applicable, those of Euroclear and Clearstream).

Payments of the principal of and interest on global notes will be made to DTC or its nominee as the registered owner thereof. Neither we nor any initial purchasers will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

We anticipate that DTC or its nominee, upon receipt of any payment of principal or interest in respect of a global note representing any notes held by its nominee, will immediately credit DTC Participants' accounts with payments in amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. We also expect that payments by DTC Participants to owners of beneficial interests in such global note held through such DTC Participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC Participants.

Transfers between DTC Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds. The laws of some jurisdictions require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited. Because DTC can only act on behalf of DTC Participants, who in turn act on behalf of indirect participants and certain banks, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical individual definitive certificate in respect of such interest. Transfers between account holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions available to the notes described above, cross-market transfers between DTC participants, on the one hand, and directly or indirectly through Euroclear or Clearstream account holders, on the other hand, will be effected at DTC in accordance with DTC rules on behalf of Euroclear or Clearstream, as the case may be, by its respective depository; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depository to take action to effect final settlement on its behalf by delivering or receiving interests in the Regulation S Global Note in DTC, and making or receiving payment in accordance with normal procedures for same day funds settlement applicable to DTC. Euroclear and Clearstream account holders may not deliver instructions directly to the depositories for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream account holder purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date and such credit of any transactions in interests in a global note settled during such processing day will be reported to the relevant Euroclear or Clearstream account holder on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream account holder to a DTC Participant will be received for value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

DTC has advised that it will take any action permitted to be taken by holder of notes (including the presentation of notes for exchange as described below) only at the direction of one or more DTC Participants to whose account or accounts with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such DTC Participant or DTC Participants has or have given such direction. However, in the limited circumstances described below, DTC will exchange the global notes for individual definitive notes (in the case of notes represented by the Restricted Global Note, bearing a restrictive legend), which will be distributed to its participants. Holders of indirect interests in the global notes through DTC Participants have no direct rights to enforce such interests while the notes are in global form.

The giving of notices and other communications by DTC to DTC Participants, by DTC Participants to persons who hold accounts with them and by such persons to holders of beneficial interests in a global note will be

governed by arrangements between them, subject to any statutory or regulatory requirements as may exist from time to time.

DTC has advised as follows: DTC is a limited purpose trust company organized under the laws of the State of New York, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the Uniform Commercial Code and a “Clearing Agency” registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for DTC Participants and to facilitate the clearance and settlement of securities transactions between DTC Participants through electronic book-entry changes in accounts of DTC Participants, thereby eliminating the need for physical movement of certificates. DTC Participants include security brokers and dealers, banks, trust companies and clearing corporations and may include certain other organizations. Indirect access to the DTC system is available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (“indirect participants”).

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Regulation S Global Note and in the Restricted Global Note among participants and accountholders of DTC, Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. Neither we nor the trustee will have any responsibility for the performance of DTC, Euroclear or Clearstream or their respective participants, indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

#### **Individual Definitive Notes**

If (1) DTC or any successor to DTC is at any time unwilling or unable to continue as a depository and a successor depository is not appointed by us within 90 days or (2) any of the notes has become immediately due and payable in accordance with “Description of Notes—Events of Default,” the Issuer will issue individual definitive notes in registered form in exchange for the Regulation S Global Note and the Restricted Global Note, as the case may be. Upon receipt of such notice from DTC or the paying agent, as the case may be, the Issuer will use its best efforts to make arrangements with DTC for the exchange of interests in the global notes for individual definitive notes and cause the requested individual definitive notes to be executed and delivered to the registrar in sufficient quantities and authenticated by the registrar for delivery to holders. Persons exchanging interests in a global note for individual definitive notes will be required to provide the registrar with (a) written instruction and other information required by us and the registrar to complete, execute and deliver such individual definitive notes and (b) in the case of an exchange of an interest in a Restricted Global Note, certification that such interest is not being transferred or is being transferred only in compliance with Rule 144A under the Securities Act. In all cases, individual definitive notes delivered in exchange for any global note or beneficial interests therein will be registered in the names, and issued in any approved denominations, requested by DTC.

In the case of individual definitive notes issued in exchange for the Restricted Global Note, such individual definitive notes will bear, and be subject to, the legend described in “Transfer Restrictions” (unless we determine otherwise in accordance with applicable law). The holder of a restricted individual definitive note may transfer such note, subject to compliance with the provisions of such legend, as provided in “Description of Notes.” Upon the transfer, exchange or replacement of notes bearing the legend, or upon specific request for removal of the legend on a note, the Issuer will deliver only notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act. Before any individual definitive note may be transferred to a person who takes delivery in the form of an interest in any global note, the transferor will be required to provide the principal paying agent with a Restricted Global Note Certificate or a Regulation S Global Note Certificate, as the case may be.

Individual definitive notes will not be eligible for clearing and settlement through Euroclear, Clearstream or DTC.

## TAXATION

*The following discussion summarizes certain Brazilian, U.S. federal income, Cayman Islands and European Union tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws and regulations now in effect in Brazil, laws, regulations, rulings and decisions now in effect in the United States, and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.*

*This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.*

### **Cayman Islands Tax Consideration**

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Notes under the laws of their country of citizenship, residence or domicile.

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the notes. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Under existing Cayman Islands laws, payments of interest and principal on the notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the Notes, nor will gains derived from the disposal of the notes be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the notes. An instrument of transfer in respect of a note is stampable if executed in or brought into the Cayman Islands.

The Company has been incorporated under the laws of the Cayman Islands as an exempted company and, as such, has applied for and expects to obtain an undertaking from the Governor in Cabinet of the Cayman Islands in the following form:

### **The Tax Concessions Law**

#### **1999 Revision**

#### **Undertaking as to Tax Concessions**

In accordance with the provision of Section 6 of The Tax Concession Law (1999 Revision), the Governor in Cabinet undertakes with Gol Finance ("the Company").

- 1 That no law which is hereafter enacted in the Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to the Company or its operations; and
- 2 In addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable:
  - 2.1 On or in respect of the shares, debentures or other obligations of the Company; or
  - 2.2 by way of the withholding in whole or part, of any relevant payment as defined in Section 6(3) of the Tax

Concessions Law (1999 Revision).

3 These concessions shall be for a period of twenty years from the date of issue of the certificate.

### **Brazilian Taxation**

The following discussion is a general description of certain Brazilian tax aspects of the notes applicable to an individual, entity, trust or organization, resident or domiciled outside Brazil for tax purposes (“Non-Brazilian Holder”).

Generally, any capital gains generated outside Brazil as a result of a transaction between two non-residents of Brazil with assets not located in Brazil are not directly subject to tax in Brazil. On the other hand, when the assets are located in Brazil, such capital gains are subject to income tax, according to Law No. 10,833, enacted on December 29, 2003. Since the notes will be issued abroad and will be registered in Luxembourg, we believe that the notes would not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833. However, we cannot assure prospective Non-Brazilian Holders that such interpretation of Law No. 10,833 will prevail in the courts of Brazil. In case the notes are deemed to be located in Brazil, gains recognized by a Non-Brazilian Holder upon the sale or other disposition of the notes to a Non-Brazilian Holder will be subject to income tax in Brazil at a rate of 15%, or 25% if the Non-Brazilian Holder is located in a tax haven as defined below.

Because the Issuer is considered for tax purposes as domiciled abroad, payments of interest or principal under the notes made by the Issuer to a Non-Brazilian Holder are not subject to withholding taxes in Brazil, as long as such payments are made with funds held by such entity abroad.

Generally, payments of income made by Brazilian residents are subject to income tax withheld at source, at a variable rate depending on the nature of the payment and the location of the beneficiary, at a maximum of 25%. Thus, if the Guarantors have to make any payments of interest under the notes, such payments will be taxed at a rate not exceeding 25%.

There is some uncertainty regarding the applicable tax treatment to payments of the principal amount by the Guarantors to Non-Brazilian Holders. Although the argument that such payments made by the Guarantors do not convert the nature of the payment from principal into taxable income, there are no precedents from Brazilian courts endorsing that position.

In addition, payments made from Brazil are taxed with the temporary contribution on financial transactions (CPMF), which is levied at a rate of 0.38% on any Brazilian bank account withdrawals, and with tax of foreign exchange transactions (*IOF/Câmbio*), which is levied on the conversion of Brazilian currency into foreign currency at a current rate of 0% (although the Brazilian federal government may increase such rate up to 25%, but only with respect to future transactions).

Generally, there is no stamp, transfer or other similar tax in Brazil with respect to the transfer, assignment or sale of any debt instrument outside Brazil (including the notes) nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by individuals or entities not domiciled or residing in Brazil to individuals or entities domiciled or residing within such Brazilian states.

**THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.**

### **U.S. Federal Income Taxation**

**Any discussion of U.S. federal income tax issues set forth in this offering memorandum was written in connection with the promotion and marketing of the transactions described in this offering memorandum.**

**Such discussion was not intended or written to be used, and it cannot be used, by any person for the purpose of avoiding any U.S. federal income tax penalties that may be imposed on such person. Each investor should seek advice based on its particular circumstances from an independent tax advisor.**

### *General*

The following summary describes the principal U.S. federal income tax consequences to “U.S. Holders” (as defined below) of purchasing, holding and disposing of the notes. This summary is based on the U.S. Internal Revenue Code of 1986, as amended, or the “Code,” its legislative history, existing final, temporary and proposed Treasury Regulations, administrative pronouncements by the U.S. Internal Revenue Service, or “IRS,” and judicial decisions, all as currently in effect and all of them are subject to change (possibly on a retroactive basis) and to different interpretations. This summary only applies to notes held as capital assets (generally, for investment) and does not discuss all of the tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, such as:

- financial institutions;
- insurance companies;
- tax-exempt organizations;
- real estate investment trusts;
- regulated investment companies;
- grantor trusts;
- U.S. expatriates;
- persons who own, or are deemed to own, 10% or more of our voting stock for U.S. federal income tax purposes;
- dealers or traders in securities or currencies;
- persons that will hold the notes as a position in a “straddle” or as a part of a “hedging,” “conversion” or an integrated transaction for U.S. federal income tax purposes; or
- persons that have a functional currency other than the U.S. dollar.

Moreover, this description does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or disposition of notes, and does not discuss any aspect of state, local or foreign tax law.

For purposes of this summary, a “U.S. Holder” is a beneficial owner of the notes who, for U.S. federal income tax purposes, is:

- an individual citizen or resident of the United States;
- a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia);
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or

- a trust if such trust validly elects under applicable U.S. Treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes or if (1) a court within the United States is able to exercise primary supervision over its administration and (2) one or more U.S. persons have the authority to control all of the substantial decisions of such trust.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the notes, the tax treatment of a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

Persons considering the purchase of the notes should consult their own tax advisers with regard to the application of the U.S. federal income tax laws to their particular situations as well as any tax consequences arising under the laws of any state, local or foreign taxing jurisdictions.

### *U.S. Tax Characterization of the Notes*

We have been advised and we believe that the notes should be treated as equity for U.S. federal income tax purposes and the following discussion assumes such treatment. However, no assurance can be given that the IRS will not assert that the notes should be treated as indebtedness for U.S. federal income tax purposes. If the notes were treated as indebtedness for U.S. federal income tax purposes, the timing, amount and character of income, gain and loss recognized by a U.S. Holder could be different, and the value of the notes could be adversely affected.

### *Payments of Interest*

Subject to the discussion below under “—Passive Foreign Investment Company Considerations,” the gross amount of any payment under the notes that is referred to hereunder as “interest,” including any additional amounts (collectively, “Periodic Payments”), before reduction for any withholding taxes deducted, will be includible in gross income by a U.S. Holder as dividend income to the extent such distributions are paid out of the current or accumulated earnings and profits of our company as determined under U.S. federal income tax principles. Dividends paid to corporate U.S. Holders will not be eligible for the dividends received deduction generally allowed to corporate U.S. Holders. Under current law, “qualified dividend income” received before January 1, 2009 by non-corporate United States investors on shares of certain foreign corporations may be subject to U.S. federal income tax at lower rates than other types of ordinary income if certain conditions are met. Currently, we do not believe that Periodic Payments made on the notes will constitute “qualified dividend income” and, as such, we do not believe that such Periodic Payments will be eligible for U.S. federal income taxation at lower rates. You should consult your own tax advisors regarding the application of this legislation to your particular circumstances.

Subject to the discussion below under “—Passive Foreign Investment Company Considerations,” to the extent, if any, that the amount of any distribution by our company exceeds our current and accumulated earnings and profits as determined under U.S. federal income tax principles, such amount will be treated first as a tax-free return of the U.S. Holder’s adjusted tax basis in the notes and thereafter as capital gain. We do not currently maintain calculations of our earnings and profits under U.S. federal income tax principles. Because these calculations are not made, Periodic Payments should be presumed to be taxable dividends for U.S. federal income tax purposes.

Dividend income derived by a U.S. Holder with respect to the notes will be treated as foreign source income, which may be relevant in calculating such U.S. Holder’s foreign tax credit limitation. A U.S. Holder will be entitled, subject to a number of complex limitations and conditions, to claim a U.S. foreign tax credit in respect of any Brazilian withholding taxes imposed on Periodic Payments received on the notes. U.S. Holders who do not elect to claim a U.S. foreign tax or other foreign income taxes credit for any foreign income taxes paid or accrued in the taxable year may instead claim a deduction in respect of such taxes. The limitation on foreign income taxes eligible for credit is calculated separately with respect to specific classes of income. For this purpose, Periodic Payments generally will constitute “passive income,” or, in the case of certain U.S. Holders, “financial services income.” U.S. Holders should note that recently enacted legislation eliminates the “financial services income” category with respect to taxable years beginning after December 31, 2006. Under this new legislation, the foreign tax credit limitation categories would be limited to “passive category income” and “general category income.” In certain circumstances, if a U.S. Holder holds notes for less than a specified minimum period during which it is

protected from risk of loss, or such U.S. Holder is obligated to make payments related to the Periodic Payments received on the notes, then such U.S. Holder will not be allowed a foreign tax credit for foreign taxes imposed on Periodic Payments. The rules governing the foreign income tax credit are complex. U.S. Holders should consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

### ***Sale or Other Taxable Disposition of Notes***

Subject to the discussion below under “—Passive Foreign Investment Company Considerations,” a U.S. Holder generally will recognize gain or loss on the sale or other taxable disposition of the notes in an amount equal to the difference between the amount realized on such sale or exchange and the U.S. Holder’s adjusted tax basis in the notes. The initial tax basis of the notes to a U.S. Holder will be the purchase price determined on the date of purchase. Subject to the discussion below under “—Passive Foreign Investment Company Considerations,” such gain or loss will be capital gain or loss and will be long-term gain or loss if the notes have been held for more than one year. In the case of certain non-corporate U.S. Holders, the maximum marginal U.S. federal income tax rate applicable to long-term capital gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income. The deductibility of capital losses is subject to limitations under the Code.

Gain or loss, if any, recognized by a U.S. Holder generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes. Consequently, a U.S. Holder may not be able to use the foreign tax credit arising from any Brazilian or other foreign income tax imposed on the disposition of a note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. Alternatively, in some circumstances, the U.S. Holder may take a deduction for any Brazilian or other foreign income tax if the U.S. Holder elects to deduct all foreign income taxes paid or accrued for the taxable year, although in that case, such U.S. Holder will not be entitled to claim a foreign tax credit with respect to any such taxes paid or accrued for such year.

### ***Passive Foreign Investment Company Considerations***

U.S. Holder could be subject to certain adverse U.S. federal income tax consequences in the event that the notes were determined to represent equity interests in a “passive foreign investment company” or “PFIC” for U.S. federal income tax purposes. In general, non-U.S. corporation will be classified as a PFIC for any taxable year in which either (1) at least 75 percent of its gross income is “passive income” or (2) at least 50 percent of the average value of its gross assets is attributable to assets that produce “passive income” or are held for the production of “passive income.” Passive income for this purpose generally includes dividends, interest, royalties, rents and gains from commodities and securities transactions, with exceptions for, among other things, dividends, interest, returns and royalties received from certain related companies to the extent attributable (in accordance with Treasury regulations) to non-passive income derived by such related companies.

The Issuer is a newly-formed special purpose company whose activities will be limited to providing financing for the purchase and lease of aircraft and other aviation-related assets by related companies. As such, the PFIC determination for the Issuer will depend in large part on the terms of its inter-company financing arrangements, and the nature of the income and operations of the related companies that obtain financing from the Issuer. We intend to structure the Issuer’s inter-company financing arrangements and to use commercially reasonable efforts to manage and conduct our affairs so as to cause the Issuer not to be classified as a PFIC for the current and foreseeable future taxable years. However, because the application of the PFIC rules to the notes is not entirely clear, and further because our methods of operation and business plan could be subject to change, no assurance can be provided that we will be successful in avoiding PFIC status for the Issuer for any taxable year.

If the notes are treated as equity interests in a PFIC for any taxable year, a U.S. Holder would be subject to special rules (and may be subject to increased tax liability) with respect to (a) any gain realized on the sale or other disposition of notes, and (b) any “excess distribution” made by us to the U.S. Holder (generally, any distribution during a taxable year in which distributions to the U.S. Holder on the notes exceed 125% of the average annual distributions the U.S. Holder received on the notes during the preceding three taxable years or, if shorter, the U.S. Holder’s holding period for the notes). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder’s holding period for the notes, (b) the amount allocated to the taxable year in which the gain or excess distribution is realized and to taxable years before the first day on which the Issuer became a PFIC

would be taxable as ordinary income, (c) the amount allocated to each prior year in which the Issuer was a PFIC would be subject to U.S. federal income tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of U.S. federal income tax would be imposed in respect of the tax attributable to each prior year in which the Issuer was a PFIC. In addition, a U.S. Holder generally would be required to annually file IRS Form 8621 to disclose ownership of an equity interest in a PFIC.

Under the PFIC rules, certain elections are provided that, if made on a timely basis, could minimize the impact of treatment of the notes as equity interests in a PFIC. However, the conditions necessary for making such elections may not be satisfied with respect to the notes. In particular, the Issuer does not presently intend to comply with the reporting requirements for a so-called “qualified electing fund” (QEF) election, and proposed regulations that would allow for a simplified QEF election for fixed return investments such as the notes would not become effective until 30 days after their adoption in final form. No prediction can be made as to whether or when such regulations might be finalized. U.S. Holders should consult their own tax advisors regarding the U.S. federal income tax consequences that could arise in the event that the notes were treated as equity interests in a PFIC.

### ***Backup Withholding and Information Reporting Requirements***

U.S. backup withholding and information reporting requirements generally apply to certain payments to certain non-corporate U.S. Holders. Information reporting generally will apply to the Periodic Payments on, and to proceeds from the sale or redemption of, notes made within the United States or by a U.S. payor or U.S. middleman to a U.S. Holder of notes, other than an exempt recipient (such as a corporation), a payee that is not a U.S. person that provides an appropriate certification and certain other persons. A payor will be required to backup withhold on any Periodic Payments on, or the proceeds from the sale or redemption of, notes within the United States or by a U.S. payor or U.S. middleman to a U.S. Holder, other than an exempt recipient, if such U.S. Holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, such backup withholding tax requirements. The backup withholding rate is currently 28%. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a U.S. Holder will be refunded or credited against the U.S. Holder’s U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS.

**THE ABOVE SUMMARY IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE OWNERSHIP OF NOTES. PROSPECTIVE PURCHASERS OF NOTES SHOULD CONSULT THEIR OWN TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.**

### **European Union Directive on Taxation of Savings Income**

The European Union has adopted a Directive regarding the taxation of savings income (the “EU Tax Directive”). Countries that are member states of the European Union (“Member States”) are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person to an individual in another Member State, except that Austria, Belgium and Luxembourg will instead impose a withholding system for a transitional period unless during such period they elect otherwise.

In certain circumstances, the withholding tax provisions of the EU Tax Directive could apply to payments on notes that are made or received in Austria, Belgium or Luxembourg. It is expected that holders will be able to take steps to keep payments from being subject to such withholding tax, for example, by using a procedure (or procedures) to be made available pursuant to the EU Tax Directive (namely, releasing the paying agent of its professional secrecy duty to the extent permitted by law or by producing an appropriate tax certificate), or by receiving payments from a paying agent within the European Union but outside Austria, Belgium and Luxembourg, although we cannot preclude the possibility that withholding tax will eventually be levied in some situations. In any event, details of payments made on notes from a Member State will likely have to be reported to tax or other relevant authorities under the EU Tax Directive or local law, including, for example, to Member States in cases where recipients are located in the jurisdiction where payments are actually made.

## PLAN OF DISTRIBUTION

Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc. will act as joint bookrunners and joint lead managers for the offering. Under the terms and subject to the conditions stated in the purchase agreement dated the date of this offering memorandum, Morgan Stanley & Co. Incorporated and J.P. Morgan Securities Inc., as initial purchasers, have agreed to purchase, and the Issuer has agreed to sell to them, the principal amount of the notes set forth opposite their respective names.

<u>Initial Purchasers</u>	<u>Principal Amount</u>
Morgan Stanley & Co. Incorporated.....	U.S.\$115,000,000
J.P. Morgan Securities Inc. ....	85,000,000
Total .....	<u>U.S.\$200,000,000</u>

In the purchase agreement, subject to the conditions thereof, the initial purchasers have agreed to purchase the notes at a discount and to resell the notes to purchasers as described under “Transfer Restrictions.” The notes will initially be offered at the price indicated on the cover page of this offering memorandum. After the initial offering of the notes, the offering price and other selling terms may from time to time be varied by the initial purchasers. The purchase agreement provides that the obligations of the initial purchasers to pay for and accept delivery of the notes is subject to, among other conditions, the delivery of certain legal opinions of its counsel. The initial purchasers are committed to take and pay for all of the notes offered hereby, if any are taken, subject to the conditions set forth in the purchase agreement.

The purchase agreement provides that the Issuer and the Guarantors will indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, and to contribute to payments which the initial purchasers may be required to make in respect thereof.

The notes are expected to be designated eligible for trading in The PORTAL Market.

The notes will constitute a new class of securities with no established trading market. The Issuer does not intend to list the notes on any exchange other than listing for the Official List of the Luxembourg Stock Exchange and trading on the Euro MTF market of the Luxembourg Stock Exchange. The initial purchasers have advised the Issuer and the Guarantors that they presently intend to make a market in the notes as permitted by applicable laws and regulations. The initial purchasers are not obligated, however, to make a market and any such market making may be discontinued at any time at the discretion of the initial purchasers. Accordingly, neither the Issuer nor the Guarantors can assure you as to the liquidity of, or trading markets for, the notes.

We expect to deliver the notes against payment for the notes on or about the date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the notes. Because trades in the secondary market generally settle in three business days, purchasers who wish to trade notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in T+5, to specify alternative settlement arrangements to prevent a failed settlement. Purchasers of the notes who wish to trade the notes on the date of pricing or the next succeeding business day should consult their own advisor.

To facilitate the offering of the notes, the initial purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the notes. Specifically, the initial purchasers may over-allot in connection with this offering, creating a short position in the notes for their own account. In addition, to cover over-allotments or to stabilize the price of the notes, the initial purchasers may bid for, and purchase, notes on the open market. Finally, the initial purchasers may reclaim selling concessions allowed to a dealer for distributing the notes in this offering, if the initial purchasers repurchase previously distributed notes in transactions to cover short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the notes above independent market levels. The initial purchasers are not required to engage in these activities, and may end any of these activities at any time.

The Issuer and the Guarantors have been advised that the initial purchasers propose to resell the notes (a) within the United States to QIBs in reliance on Rule 144A under the Securities Act and (b) outside the United States in offshore transactions to certain persons in reliance on Regulation S under the Securities Act.

The notes (and the guarantees) have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as described in the immediately preceding paragraph. For a description of certain restrictions on resale or transfer, see “Transfer Restrictions.”

In connection with sales outside the United States, the initial purchasers have agreed that except for sales described in the second preceding paragraph, the initial purchasers will not offer, sell or deliver the notes to, or for the account of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of the offering and the closing date, and they will send to each dealer to whom they sell such notes during such period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons. Resales of the notes are restricted as described below under “Transfer Restrictions.”

Further, until 40 days after the commencement of the offering, an offer or sale of the notes within the United States by a dealer that is not participating in the offering may violate the registration requirements of the Securities Act if such offer or sale is made other than in accordance with Rule 144A. As used herein, the terms “United States” and “U.S. person” have the meaning given to them in Regulation S under the Securities Act.

The initial purchasers or their affiliates may have in the past and from time to time hereafter provide investment banking and general financing and banking services to the Issuer, the Guarantors and certain of their affiliates.

### **Selling Restrictions**

No action has been taken in any jurisdiction by the Issuer, the Guarantors or the initial purchasers that would permit a public offering of the notes offered hereby in any jurisdiction where action for that purpose is required. The notes offered hereby may not be offered or sold, directly or indirectly, nor may this offering memorandum or any other offering material or advertisements in connection with the offer and sale of the notes be distributed or published in any jurisdiction, except under circumstances that will result in compliance with the applicable rules and regulations of such jurisdiction. Persons into whose possession this offering memorandum comes are advised to inform themselves about and to observe any restrictions relating to the offering of the notes and the distribution of this offering memorandum. This offering memorandum does not constitute an offer to purchase or a solicitation of an offer to sell any of the notes offered hereby in any jurisdiction in which such an offer or a solicitation is unlawful.

#### ***Brazil***

The initial purchasers have represented and agreed that they have not offered or sold, and will not offer or sell, any notes in the Federative Republic of Brazil, except in circumstances which do not constitute a public offering or distribution under Brazilian laws and regulations. The notes have not been and will not be registered with the CVM.

#### ***Cayman Islands***

The initial purchasers have represented and agreed that they have not offered or sold, and will not offer or sell, any notes to the public in the Cayman Islands.

#### ***European Economic Area***

In relation to each Member State of the European Economic Area, or EEA, which has implemented the Prospectus Directive, or a Relevant Member State, the initial purchasers have represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State, or the

Relevant Implementation Date, they have not made and will not make an offer of the notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that the initial purchasers may, with effect from and including the Relevant Implementation Date, make an offer of notes to the public in that Relevant Member State at any time:

- (1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (2) to any legal entity which has two or more of: (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000; and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (3) in any other circumstances which do not require the publication by the issuer of a prospectus pursuant to Section 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of notes to the public” in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe to the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

The EEA selling restriction is in addition to any other selling restrictions set out below.

#### ***United Kingdom***

The initial purchasers have represented and agreed that:

- (1) they have only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000, or FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to the issuer; and
- (2) they have complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

#### ***Luxembourg***

The notes will not be offered to the public in or from Luxembourg unless the requirements of Luxembourg law relating to the public offering of securities have been complied with.

#### ***Switzerland***

The notes may be offered in Switzerland only on the basis of a non-public offering. This offering memorandum does not constitute an issuance prospectus according to Sections 652a or 1156 of the Swiss Federal Code of Obligations or a listing prospectus according to Section 32 of the Listing Rules of the Swiss Exchange. The notes may not be offered or distributed on a professional basis in or from Switzerland and neither this offering memorandum nor any other offering materials relating to the notes may be publicly issued in connection with any such offer or distribution. The notes have not been and will not be approved by any Swiss regulatory authority. In particular, the notes are not and will not be registered with or supervised by the Swiss Federal Banking Commission, and investors may not claim protection under the Swiss Investment Fund Act.

### ***Hong Kong***

The initial purchasers have represented and agreed that:

- (1) they have not offered or sold and will not offer or sell in Hong Kong, by means of any document, any notes other than: (a) to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent; (b) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (iii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) they have not issued or had in their possession for the purposes of issue, and will not issue or have in their possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

### ***Japan***

The notes have not been, and will not be, registered under the Securities and Exchange Law of Japan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale directly or indirectly, in Japan or to any resident of Japan, except: (a) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan and (b) in compliance with any other applicable requirements of Japanese law.

### ***Singapore***

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a relevant person, or any person pursuant to Section 275(1A), and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the notes are subscribed or purchased under Section 275 by a relevant person which is:

- (1) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (2) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the notes pursuant to an offer made under Section 275 except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms

that such rights or interest are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

## TRANSFER RESTRICTIONS

The notes (and the guarantees) have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only to (1) “qualified institutional buyers” (as defined in Rule 144A under the Securities Act) (“QIBs”) in compliance with Rule 144A and (2) outside the United States to persons other than U.S. persons (“foreign purchasers”), which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners (other than an estate or trust), in reliance upon Regulation S under the Securities Act.

By its purchase of notes, each purchaser of notes will be deemed to:

- (1) represent that it is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion and that it and any such account is (a) a QIB, and is aware that the sale to it is being made in reliance on Rule 144A or (b) a foreign purchaser that is outside the United States (or a foreign purchaser that is a dealer or other fiduciary as referred to above);
- (2) acknowledge that the notes (and the guarantees) have not been registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below;
- (3) if it is a person other than a foreign purchaser outside the United States, agree that if it should resell or otherwise transfer the notes (and the guarantees) within the time period referred to in Rule 144(k) under the Securities Act after the original issuance of the notes (and the guarantees), it will do so only (a) to the Issuer, (b) to a QIB in compliance with Rule 144A, (c) outside the United States in compliance with Rule 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act;
- (4) agree that it will deliver to each person to whom it transfers notes notice of any restriction on transfer of such notes;
- (5) if it is a foreign purchaser outside the United States, (a) understand that the notes will be represented by the Regulation S global note and that transfers are restricted as described under “Form of Notes” and (b) represent and agree that it will not sell short or otherwise sell, transfer or dispose of the economic risk of the notes into the United States or to a U.S. person; if it is a QIB, it understands that the notes offered in reliance on Rule 144A will be represented by the restricted global note;
- (6) understand that until registered under the Securities Act, the notes (other than those issued to foreign purchasers or in substitution or exchange therefor) will bear a legend to the following effect unless otherwise agreed by us and the holder thereof:

THIS NOTE (AND RELATED GUARANTEES) HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”) AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN ACCORDANCE WITH THE FOLLOWING SENTENCE. BY ITS ACQUISITION HEREOF OR OF A BENEFICIAL INTEREST HEREIN, THE ACQUIRER

(1) REPRESENTS THAT

- (A) IT AND ANY ACCOUNT FOR WHICH IT IS ACTING IS A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT) AND THAT IT EXERCISES SOLE INVESTMENT DISCRETION WITH RESPECT TO EACH SUCH ACCOUNT; OR

- (B) IT IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND
- (2) AGREES FOR THE BENEFIT OF THE ISSUER THAT IT WILL NOT OFFER, SELL, PLEDGE OR OTHERWISE TRANSFER THIS NOTE OR ANY BENEFICIAL INTEREST HEREIN, EXCEPT IN ACCORDANCE WITH THE SECURITIES ACT AND ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ONLY
  - (A) TO THE ISSUER,
  - (B) PURSUANT TO A REGISTRATION STATEMENT WHICH HAS BECOME EFFECTIVE UNDER THE SECURITIES ACT,
  - (C) TO A QUALIFIED INSTITUTIONAL BUYER IN COMPLIANCE WITH RULE 144A UNDER THE SECURITIES ACT,
  - (D) IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, OR
  - (E) PURSUANT TO AN EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT OR ANY OTHER AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT.

PRIOR TO THE REGISTRATION OF ANY TRANSFER IN ACCORDANCE WITH (2)(E) ABOVE, THE ISSUER RESERVES THE RIGHT TO REQUIRE THE DELIVERY OF SUCH LEGAL OPINIONS, CERTIFICATIONS OR OTHER EVIDENCE AS MAY REASONABLY BE REQUIRED IN ORDER TO DETERMINE THAT THE PROPOSED TRANSFER IS BEING MADE IN COMPLIANCE WITH THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS. NO REPRESENTATION IS MADE AS TO THE AVAILABILITY OF ANY RULE 144 EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT; and

- (7) acknowledge that the Issuer, the Guarantors and the initial purchasers will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements, and agree that if any of the acknowledgements, representations or warranties deemed to have been made by it by its purchase of notes are no longer accurate, it shall promptly notify the Issuer, the Guarantors and the initial purchasers; if they are acquiring notes as a fiduciary or agent for one or more investor accounts, they represent that they have sole investment discretion with respect to each such account and they have full power to make the foregoing acknowledgments, representations and agreements on behalf of each such account.

Notes sold outside of the United States to persons other than U.S. persons, will be freely transferable to persons other than U.S. persons. Accordingly, in compliance with chapter VI, article 3, section (A)(II)(2) of the Rules and Regulations of the Luxembourg Stock Exchange, no transaction made on the Luxembourg Stock Exchange involving a non-U.S. purchaser shall be cancelled, and the notes shall be freely transferable to such purchasers.

## ENFORCEMENT OF CIVIL LIABILITIES

### Cayman Islands

The Issuer is a company with limited liability incorporated under the laws of the Cayman Islands. As a result, it may not be possible for investors to effect service of process upon the Issuer within the United States or to enforce against the Issuer in United States courts judgments predicated upon the civil liability provisions of the securities laws of the United States. The Issuer has been informed by Maples & Calder, its legal advisor in the Cayman Islands, that the United States and the Cayman Islands do not currently have a treaty providing for reciprocal recognition and enforcement of judgments in civil and commercial matters and that a final judgment for the payment of money rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon United States securities laws, would, therefore, not be automatically enforceable in the Cayman Islands and there is doubt as to the enforceability in the Cayman Islands, in original actions or in actions for the enforcement of judgments of the United States courts, of liabilities predicated solely upon United States securities laws. The Issuer will appoint CT Corporation System as its agent for service of process.

### Brazil

GLAI and Gol are corporations organized under the laws of Brazil. Substantially all of their directors and officers and independent accountants, and some of the advisors named herein, reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be located outside the United States. As a result, it may not be possible for investors to effect service of process upon GLAI, Gol and these persons within the United States or other jurisdictions outside Brazil or to enforce against them judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the terms and conditions of the notes, GLAI and Gol will (i) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (ii) name an agent for service of process in the Borough of Manhattan, The City of New York. See "Description of the Notes."

GLAI and Gol have been advised by their Brazilian counsel, Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, that judgments of non-Brazilian courts for civil liabilities predicated upon the securities laws of countries other than Brazil in respect of the guarantees, including the U.S. securities law, may be enforced in Brazil subject to certain requirements as described below. A judgment against either GLAI or Gol or any of their directors, officers, independent auditors or advisors obtained outside Brazil would be enforceable in Brazil against GLAI or Gol or any such person without retrial or reexamination of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice. That confirmation, generally, will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation, or after sufficient evidence of the parties' absence has been given;
- is not subject to appeal;
- is for a sum certain;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

The confirmation process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment for violation of the securities laws of countries other than Brazil, including the U.S. securities laws.

GLAI and Gol have also been advised that:

- the ability of a judgment creditor to satisfy a judgment against GLAI and Gol is limited by Brazilian bankruptcy, insolvency liquidation, reorganization and similar laws; and
- civil actions may be brought before Brazilian courts based on the federal securities laws of the United States and that, subject to applicable law, Brazilian courts may enforce such liabilities in such actions against GLAI and Gol (provided that the provisions of the federal securities laws of the United States do not contravene Brazilian public policy, good morals or national sovereignty and provided further that Brazilian courts can assert jurisdiction over the particular action).

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a note to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This note must have a value sufficient to satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

### **VALIDITY OF THE NOTES**

The validity of the notes offered and sold in this offering will be passed upon for the Issuer by Shearman & Sterling LLP, and for the initial purchasers by Davis Polk & Wardwell. Certain matters of Brazilian law relating to the notes and the guarantees will be passed upon for the Issuer and the Guarantors by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, our Brazilian counsel. Souza, Cescon Avedissian, Barrieu e Flesch Advogados will pass upon certain matters of Brazilian law relating to the notes and the guarantees for the initial purchasers. Certain matters of Cayman Islands law will be passed upon for the Issuer by Maples & Calder.

### **INDEPENDENT AUDITORS**

Our consolidated financial statements as of December 31, 2005 and 2004 and for the years ended December 31, 2005, 2004 and 2003 included as part of the Annual Report on Form 20-F for the year ended December 31, 2005 and set forth in Annex A of this offering memorandum have been audited by Ernst & Young Auditores Independentes S.S., independent accountants, as stated in their report appearing therein.

## LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance through DTC, Euroclear and Clearstream. The CUSIP and ISIN numbers for the notes are as follows:

	Restricted Global Note	Regulation S Global Note
CUSIP.....	38045U AA8	G3980P AA3
ISIN.....	US38045UAA88	USG3980PAA33
Common Code.....	025035003	025032900

2. Copies of our latest audited annual financial statements and unaudited quarterly financial statements, if any, may be obtained at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent. GLAI does not prepare annual or interim financial statements on a non-consolidated basis. Copies of our by-laws (*estatuto social*), as well as the indenture (including forms of notes), will be available for inspection at the offices of the principal paying agent and any other paying agent, including the Luxembourg paying agent.

3. Except as disclosed in this offering memorandum, there has been no material adverse change (i) in GLAI's, Gol's financial position since December 31, 2005, the date of the latest audited financial statements included in this offering memorandum or (ii) in the Issuer's financial position since the date of its incorporation.

4. Except as disclosed in this offering memorandum, none of GLAI, Gol or the Issuer is involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as any of GLAI, Gol or the issuer is aware is any such litigation or arbitration pending or threatened.

5. The notes are expected to be listed on the Luxembourg Stock Exchange (Euro MTF).

6. So long as the notes are listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the Euro MTF market of the Luxembourg Stock Exchange and the rules of this exchange so require, we shall appoint and maintain a paying agent in Luxembourg, where the notes may be presented or surrendered for payment or redemption, in the event that the global notes are exchanged for definitive certificated notes. In addition, in the event that the global notes are exchanged for definitive certificated notes, announcement of such exchange shall be made through the Luxembourg Stock Exchange (Euro MTF) and such announcement will include all material information with respect to the delivery of the definitive certificated notes, including details of the paying agent in Luxembourg.

7. The issuance of the notes was authorized by the Issuer's and the Guarantors' board of directors on March 27, 2006.

8. The issuer's and Gol's registered office is at Rua Tamoios 246, Jardim Aeroporto, 04630-000, Sao Paulo, SP, Brazil and its statutory documents can be inspected at our headquarter at the same address.

**ANNEX A**

**GOL LINHAS AÉREAS INTELIGENTES S.A. FOR THE YEAR 2005**

**ANNUAL REPORT ON FORM 20-F FOR THE YEAR ENDED DECEMBER 31, 2005**

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number 001-32221

**Gol Linhas Aéreas Inteligentes S.A.**

*(Exact name of Registrant as specified in its charter)*

**Gol Intelligent Airlines Inc.**

*(Translation of Registrant's name into English)*

**The Federative Republic of Brazil**

*(Jurisdiction of incorporation or organization)*

Rua Tamoios 246  
Jardim Aeroporto  
04630-000 São Paulo, São Paulo  
Federative Republic of Brazil  
(+55 11 5033-4200)

*(Address, including zip code and telephone number, including area code, of registrant's principal executive offices)*

Securities registered or to be registered pursuant to Section 12(b) of the Act.

<u>Title of each class:</u>	<u>Name of each exchange on which registered:</u>
Preferred Shares, without par value	New York Stock Exchange*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing one share of Preferred Stock	New York Stock Exchange

\*Not for trading purposes, but only in connection with the trading on the New York Stock Exchange of American Depositary Shares representing those preferred shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

The number of outstanding shares of each class of stock of Gol Linhas Aéreas Inteligentes S.A. as of December 31, 2005:

<b>109,448,497</b>	<b>Shares of Common Stock</b>
<b>86,524,136</b>	<b>Shares of Preferred Stock</b>

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this is an annual or transition report, indicate by check mark if the registrant is not required to file pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 Yes  No

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated Filer  Accelerated Filer  Non-accelerated Filer

Indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

## TABLE OF CONTENTS

	Page
Introduction .....	1
Presentation of Financial and Other Data .....	2
Special Note About Forward-Looking Statements .....	2
Item 1. Identity of Directors, Senior Management and Advisers .....	4
Item 2. Offer Statistics and Expected Timetable .....	4
Item 3. Key Information .....	4
A. Selected Financial Data .....	4
B. Capitalization and Indebtedness .....	7
C. Reasons for the Offer and Use of Proceeds .....	7
D. Risk Factors .....	7
Item 4. Information on the Company .....	16
A. History and Development of the Company .....	16
B. Business Overview .....	17
C. Organizational Structure .....	41
D. Property, Plants and Equipment .....	41
Item 4A. Unresolved Staff Comments .....	41
Item 5. Operating and Financial Review and Prospects .....	41
A. Operating Results .....	43
B. Liquidity and Capital Resources .....	53
C. Research and Development, Patents and Licenses, etc. ....	55
D. Trend Information .....	55
E. Off-Balance Sheet Arrangements .....	55
F. Tabular Disclosure of Contractual Obligations .....	55
Item 6. Directors, Senior Management and Employees .....	55
A. Directors and Senior Management .....	55
B. Compensation .....	59
C. Board Practices .....	60
D. Employees .....	61
E. Share Ownership .....	62
Item 7. Major Shareholders and Related Party Transactions .....	63
A. Major Shareholders .....	63
B. Related Party Transactions .....	63
C. Interests of Experts and Counsel .....	64
Item 8. Financial Information .....	64
A. Consolidated Statements and Other Financial Information .....	64
B. Significant Changes .....	69
Item 9. The Offer and Listing .....	69
A. Offer and Listing Details .....	69
B. Plan of Distribution .....	70
C. Markets .....	70
D. Selling Shareholders .....	77
E. Dilution .....	77
F. Expenses of the Issue .....	77
Item 10. Additional Information .....	77
A. Share Capital .....	77
B. Memorandum and Articles of Association .....	77
C. Material Contracts .....	84
D. Exchange Controls .....	85
E. Taxation .....	86
F. Dividends and Paying Agents .....	94
G. Statement by Experts .....	94
H. Documents on Display .....	94

I. Subsidiary Information .....	94
Item 11. Quantitative and Qualitative Disclosures about Market Risk .....	95
Item 12. Description of Securities Other than Equity Securities .....	95
Item 13. Defaults, Dividend Arrearages and Delinquencies .....	96
Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds .....	96
Item 15. Controls and Procedures .....	96
Item 16. ....	96
A. Audit Committee Financial Expert.....	96
B. Code of Ethics .....	97
C. Principal Accountant Fees and Services.....	97
D. Exemptions from the Listing Standards for Audit Committees .....	97
E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers .....	98
Item 17. Financial Statements .....	99
Item 18. Financial Statements .....	99
Item 19. Exhibits .....	99

## INTRODUCTION

In this annual report, we use the terms “the Registrant” to refer to Gol Linhas Aéreas Inteligentes S.A., “Gol” to refer to Gol Transportes Aéreos S.A. and “we,” “us” and “our” to refer to the Registrant and Gol together, except where the context requires otherwise. References to “preferred shares” and “ADSs” refer to non-voting preferred shares of the Registrant and American depository shares representing those preferred shares, respectively, except where the context requires otherwise.

The phrase “Brazilian government” refers to the federal government of the Federative Republic of Brazil, and the term “Central Bank” refers to the *Banco Central do Brasil*, or the Central Bank of Brazil. The term “Brazil” refers to the Federative Republic of Brazil. The terms “U.S. dollar” and “U.S. dollars” and the symbol “US\$” refer to the legal currency of the United States. The terms “*real*” and “*reais*” and the symbol “R\$” refer to the legal currency of Brazil. “U.S. GAAP” refers to generally accepted accounting principles in the United States, and “Brazilian GAAP” refers to generally accepted accounting principles in Brazil, which are accounting principles derived from Law No. 6,404 of December 15, 1976, as amended and supplemented, or the Brazilian corporation law and the rules of the CVM.

This annual report contains terms relating to operating performance within the airline industry that are defined as follows:

- “Revenue passengers” represents the total number of paying passengers flown on all flight segments.
- “Revenue passenger kilometers” represents the numbers of kilometers flown by revenue passengers.
- “Available seat kilometers” represents the aircraft seating capacity multiplied by the number of kilometers the seats are flown.
- “Load factor” represents the percentage of aircraft seating capacity that is actually utilized (calculated by dividing revenue passenger kilometers by available seat kilometers).
- “Breakeven load factor” is the passenger load factor that will result in passenger revenues being equal to operating expenses.
- “Aircraft utilization” represents the average number of block hours operated per day per aircraft for the total aircraft fleet.
- “Block hours” refers to the elapsed time between an aircraft’s leaving an airport gate and arriving at an airport gate.
- “Yield per passenger kilometer” represents the average amount one passenger pays to fly one kilometer.
- “Passenger revenue per available seat kilometer” represents passenger revenue divided by available seat kilometers.
- “Operating revenue per available seat kilometer” represents operating revenues divided by available seat kilometers.
- “Average stage length” represents the average number of kilometers flown per flight.
- “Operating expense per available seat kilometer” represents operating expenses divided by available seat kilometers.

## PRESENTATION OF FINANCIAL AND OTHER DATA

We make statements in this annual report about our competitive position and market share in, and the market size of, the Brazilian and South American airline industry. We have made these statements on the basis of statistics and other information from third-party sources, governmental agencies or industry or general publications that we believe are reliable. Although we have no reason to believe any of this information or these reports are inaccurate in any material respect, we have not independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications. All industry and market data contained in this annual report is based upon the latest publicly available information as of the date of this annual report.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

The consolidated financial statements included in this annual report have been prepared in accordance with U.S. GAAP and reflect our financial condition and results of operations as if the Registrant had been incorporated and held all of the capital stock of Gol, with the exception of five common shares and three Class B preferred shares of Gol held by members of Gol's board of directors for eligibility purposes, since January 1, 2001. See "Item 10.B. Memorandum of Articles of Association — Description of Capital Stock—General." We publish our consolidated financial statements in Brazil in accordance with Brazilian GAAP, which differ in certain significant respects from U.S. GAAP.

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2005 was R\$2.3407 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2005, as reported by the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at such rates or at any other rate. See "Exchange Rates" for more detailed information regarding the translation of *reais* into U.S. dollars.

## SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements, principally under the captions "Risk Factors," "Operating and Financial Review and Prospects" and "Business Overview." We have based these forward-looking statements largely on our current beliefs, expectations and projections about future events and financial trends affecting our business. Many important factors, in addition to those discussed elsewhere in this annual report, could cause our actual results to differ substantially from those anticipated in our forward-looking statements, including, among other things:

- general economic, political and business conditions in Brazil and in other South American markets we serve;
- management's expectations and estimates concerning our future financial performance and financing plans and programs;
- our limited operating history;
- our level of fixed obligations;
- our capital expenditure plans;
- inflation and fluctuations in the exchange rate of the *real*;
- existing and future governmental regulations, including air traffic capacity controls;

- increases in fuel costs, maintenance costs and insurance premiums;
- changes in market prices, customer demand and preferences and competitive conditions;
- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy; and
- the risk factors discussed under “Risk Factors”.

The words “believe,” “may,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The following table presents summary historical consolidated financial and operating data for us for each of the periods indicated. You should read this information in conjunction with our consolidated financial statements and related notes, and the information under “—Selected Financial Data” and “Item 5. Operating and Financial Review and Prospects.”

The Registrant is a holding company that was incorporated on March 12, 2004 and the shares of Gol, an offshore finance subsidiary, cash and cash equivalents and short-term investments are currently the Registrant’s only material assets.

The consolidated financial statements and related notes included elsewhere in this annual report have been prepared in accordance with U.S. GAAP and reflect our financial condition and results of operations as if the Registrant had been incorporated and held all of the capital stock of Gol since January 1, 2001, except for five common shares and three Class B preferred shares of Gol held by members of Gol’s board of directors for eligibility purposes. On June 29, 2004, the Registrant completed its initial public offering through the issuance of 18,750,000 preferred shares. See “Item 10.B. Memorandum of Articles of Association — Description of Capital Stock.”

Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2005 have been translated into U.S. dollars at the commercial market rate in effect as of December 31, 2005 as reported by the Central Bank of R\$2.3407 to US\$1.00.

	2001	2002	Year Ended December 31,		2005	2005
			2003	2004		
	(in thousands)					
<b>Net operating revenues:</b>						
Passenger.....	R\$223,384	R\$643,549	R\$1,339,191	R\$1,875,475	R\$2,539,016	US\$1,084,725
Cargo and other.....	7,089	34,330	61,399	85,211	130,111	55,555
Total net operating revenues .....	230,473	677,879	1,400,590	1,960,886	2,669,090	1,140,296
<b>Operating expenses:</b>						
Salaries, wages and benefits .....	33,263	77,855	137,638	183,037	260,183	111,156
Aircraft fuel.....	45,769	160,537	308,244	459,192	808,268	345,310
Aircraft rent.....	58,816	130,755	188,841	195,504	240,876	102,908
Aircraft insurance .....	7,556	23,186	25,850	25,575	29,662	12,672
Sales and marketing .....	35,299	96,626	191,280	261,756	335,722	143,428
Landing fees.....	14,602	32,758	47,924	57,393	92,404	39,477
Aircraft and traffic servicing .....	18,563	47,381	58,710	74,825	91,599	39,133
Maintenance, materials and repairs .....	4,773	16,160	42,039	51,796	55,373	23,657
Depreciation .....	2,383	7,885	13,844	21,242	35,014	14,959
Other operating expenses.....	7,741	22,654	44,494	54,211	98,111	42,111
Total operating expenses .....	228,765	615,797	1,058,864	1,384,585	2,047,739	874,840
<b>Operating income</b> .....	1,708	62,082	341,726	576,301	621,351	265,456
<b>Other income (expense):</b>						
Interest expense.....	(3,350)	(16,530)	(20,910)	(13,445)	(19,383)	(8,281)
Financial income (expense), net .....	(1,997)	7,447	(56,681)	24,424	115,554	49,367
<b>Income (loss) before income taxes</b> .....	(3,639)	52,999	264,135	587,280	717,522	306,542
Income taxes .....	—	(17,642)	(88,676)	(202,211)	(204,211)	(87,211)

	<b>Year Ended December 31,</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>
	<b>(in thousands)</b>					
Net income (loss).....	<u>R\$(3,639)</u>	<u>R\$35,357</u>	<u>R\$175,459</u>	<u>R\$384,710</u>	<u>R\$513,230</u>	<u>US\$219,263</u>
Earnings (loss) per share, basic <sup>(1)</sup> .....	R\$(0.06)	R\$0.36	R\$1.07	R\$2.14	R\$2.66	US\$1.14
Earnings (loss) per share, diluted <sup>(1)</sup> .....	R\$(0.06)	R\$0.36	R\$1.07	R\$2.13	R\$2.65	US\$1.13
Weighted average shares used in computing earnings (loss) per share, basic (in thousands) <sup>(1)</sup> .....	56,000	98,268	164,410	179,731	192,828	192,828
Weighted average shares used in computing earnings (loss) per share, diluted (in thousands) <sup>(1)</sup> .....	56,000	98,268	164,410	180,557	193,604	193,604
Earnings (loss) per ADS, basic <sup>(2)</sup> .....	R\$(0.06)	R\$0.36	R\$1.07	R\$2.14	R\$2.66	US\$1.14
Earnings (loss) per ADS, diluted <sup>(2)</sup> .....	R\$(0.06)	R\$0.36	R\$1.07	R\$2.13	R\$2.65	US\$1.13
Dividends paid per share.....	R\$—	R\$—	R\$0.16	R\$0.32	R\$0.60	US\$0.26
Dividends paid per ADS <sup>(2)</sup> .....	R\$—	R\$—	R\$0.16	R\$0.32	R\$0.60	US\$0.26

	<b>As of December 31,</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>
	<b>(in thousands)</b>					
<b>Balance Sheet Data:</b>						
Cash and cash equivalents.....	R\$5,156	R\$9,452	R\$146,291	R\$405,730	R\$106,347	US\$45,434
Short-term investments.....	—	—	—	443,361	762,688	325,837
Accounts receivable <sup>(3)</sup> .....	51,685	105,245	240,576	386,370	563,958	240,936
Deposits for aircraft leases and aircraft and engine maintenance contracts.....	27,130	121,980	180,916	289,416	408,776	174,638
Total assets.....	125,107	318,342	685,019	1,734,284	2,555,843	1,091,912
Short-term debt.....	37,045	22,800	38,906	118,349	54,016	23,077
Long-term debt.....	—	—	—	—	—	—
Shareholders' equity.....	19,728	71,583	314,739	1,148,453	1,822,331	778,540

	<b>Year Ended December 31,</b>					
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>
	<b>(in thousands, except percentages)</b>					
<b>Other Financial Data:</b>						
Operating margin <sup>(4)</sup> .....	0.7%	9.2%	24.4%	29.4%	23.3%	23.3%
Net cash provided by (used in) operating activities.....	R\$(19,213)	R\$17,023	R\$85,235	R\$239,920	R\$353,745	US\$151,129
Net cash used in investing activities.....	(29,666)	(34,479)	(39,263)	(533,043)	(801,787)	(342,542)
Net cash provided by financing activities.....	53,239	21,752	90,867	552,562	148,659	63,510
EBITDA <sup>(5)</sup> .....	4,091	69,967	355,570	597,543	656,365	280,415
Aircraft rent <sup>(A)</sup> .....	58,816	130,755	188,841	195,504	240,876	102,908

	<b>Year Ended December 31,</b>				
	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
<b>Operating Data (unaudited):</b>					
Revenue passengers (in thousands).....	2,085	4,847	7,324	9,215	13,000
Revenue passenger kilometers (in millions).....	1,256	3,156	4,835	6,289	9,740
Available seat kilometers (in millions).....	2,091	5,049	7,527	8,844	13,246
Load-factor.....	60.1%	62.5%	64.2%	71.1%	73.5%
Break-even load factor.....	61.5%	59.8%	50.8%	52.5%	56.4%
Aircraft utilization (block hours per day).....	11.1	12.3	12.8	13.6	13.9
Average fare.....	R\$115	R\$140	R\$195	R\$210	R\$201
Yield per passenger kilometer (cents).....	17.8	20.4	27.7	29.8	26.1
Passenger revenue per available seat kilometer (cents).....	10.7	12.7	17.8	21.2	19.1
Operating revenue per available seat kilometer (cents).....	11.0	13.4	18.6	22.2	20.1
Operating expense per available seat kilometer (cents).....	10.9	12.2	14.1	15.7	15.5
Operating expense less fuel expense per available seat kilometer (cents).....	8.8	9.0	9.9	10.5	9.4
Departures.....	24,727	52,665	75,439	87,708	122,683
Departures per day.....	68	144	207	240	336
Destinations served.....	16	22	25	36	45
Average stage length (kilometers).....	613	628	659	689	721
Average number of operating aircraft during period.....	7.7	15.3	21.6	22.3	34.3
Full-time equivalent employees at period end.....	1,134	2,072	2,453	3,307	5,456
Fuel liters consumed (in thousands).....	77,850	164,008	264,402	317,444	476,725
Percentage of sales through website during period.....	13.2%	48.7%	57.9%	76.4%	81.3%
Percentage of sales through website and call center during period.....	81.6%	72.1%	74.1%	83.6%	88.7%

- (1) Our preferred shares are not entitled to any fixed dividend preferences, but are instead entitled to receive dividends per share in the same amount of dividends per share paid to holders of our common shares. Consequently, our earnings (loss) per share are computed by dividing income by the weighted average number of all classes of shares outstanding during the year.
- (2) Adjusted for the ADS ratio change in December 2005, which changed the ratio of ADS per preferred share from one ADS representing two preferred shares to one ADS representing one preferred share.
- (3) In managing our liquidity, we take into account our cash and cash equivalents, our short-term investments and our accounts receivable balances. Accounts receivable consist primarily of credit card receivables for purchased passenger tickets. We provide our customers with the option to pay in installments and therefore have to a limited extent a lag between the time that we pay our suppliers and the time that we receive payment for our services.
- (4) Operating margin represents operating income divided by net operating revenues.
- (5) EBITDA represents net income (loss) plus the sum of net interest and financial expense, income taxes and depreciation. EBITDA is presented as supplemental information because we believe it is a useful indicator of our operating performance and is useful in comparing our operating performance with other companies in the airline industry. However, EBITDA should not be considered in isolation, as a substitute for net income prepared in accordance with U.S. GAAP or as a measure of a company's profitability. In addition, our calculation of EBITDA may not be comparable to other similarly titled measures of other companies. The following table presents a reconciliation of our net income to EBITDA for the specified periods.

	Year Ended December 31,					
	2001	2002	2003	2004	2005	2005
<b>EBITDA Reconciliation: (A)</b>	(in thousands)					
Net income (loss) .....	R\$(3,639)	R\$35,357	R\$175,459	R\$384,710	R\$513,230	US\$219,263
Plus (minus)						
Net interest and financial expense .....	5,347	9,083	77,591	(10,979)	(96,171)	(41,086)
Income taxes .....	—	17,642	88,676	202,570	204,292	87,279
Depreciation .....	<u>2,383</u>	<u>7,885</u>	<u>13,844</u>	<u>21,242</u>	35,014	<u>14,959</u>
EBITDA .....	<u>R\$4,091</u>	<u>R\$69,967</u>	<u>R\$355,570</u>	<u>R\$597,543</u>	<u>R\$656,365</u>	<u>US\$280,415</u>

- (A) Aircraft rent represents a significant operating expense of our business. Because we leased all of our aircraft during the periods presented, we believe that when assessing our EBITDA you should also consider the impact of our aircraft rent expense, which was R\$58,816 in 2001, R\$130,755 in 2002, R\$188,841 in 2003, R\$195,504 in 2004, and R\$240,876 in 2005.

## Exchange Rates

Prior to March 4, 2005, there were two principal legal foreign exchange markets in Brazil:

- the commercial rate exchange market; and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. These transactions included the purchase or sale of shares or payment of dividends or interest with respect to shares. Foreign currencies could only be purchased in the commercial exchange market through a Brazilian bank authorized to operate in these markets. In both markets, rates were freely negotiated.

Resolution No. 3.265 of the National Monetary Council, dated March 4, 2005, consolidated the foreign exchange markets into one single foreign exchange market, effective as of March 14, 2005. All foreign exchange transactions are now carried out through institutions authorized to operate in the consolidated market and are subject to registration with the Central Bank's electronic registration system. Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention.

Since 1999, the Central Bank has allowed the *real*/U.S. dollar exchange rate to float freely, and during that period, the *real*/U.S. dollar exchange rate has fluctuated considerably. In the past, the Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the U.S. dollar substantially in the future. For more information on these risks, see "Item 3. Risk Factors—Risks Relating to Brazil."

The following tables set forth the commercial selling rate, expressed in *reais* per U.S. dollar (R\$/US\$), for the periods indicated.

	<u>Period-end</u>	<u>Average for Period</u>	<u>Low</u>	<u>High</u>
		(reais per US. Dollar)		
<b>Year Ended</b>				
December 31, 2001 .....	2.320	2.353(1)	1.936	2.801
December 31, 2002 .....	3.533	2.998(1)	2.271	3.955
December 31, 2003 .....	2.889	3.060(1)	2.822	3.662
December 31, 2004 .....	2.654	2.917(1)	2.654	3.205
December 31, 2005 .....	2.341	2.412(1)	2,163	2.762
<b>Month Ended</b>				
October 2005 .....	2.254	2.261(2)	2.234	2.289
November 2005 .....	2.207	2.207(2)	2.163	2.252
December 2005 .....	2.341	2.277(2)	2.180	2.374
January 2006 .....	2.216	2.279(2)	2.212	2.346
February 2006 .....	2.136	2.170(2)	2.118	2.222
March 2006 (through March 10) .....	2.145	2.146(2)	2.113	2.178

Source: Central Bank

- (1) Represents the average of the exchange rates on the last day of each month during the period.  
(2) Average of the lowest and highest rates in the month.

## B. Capitalization and Indebtedness

Not applicable.

## C. Reasons for the Offer and Use of Proceeds

Not applicable.

## D. Risk Factors

*An investment in the ADSs or our preferred shares involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks or other factors, and you may lose all or part of your investment. The risks described below are those that we currently believe may materially affect us.*

### Risks Relating to Brazil

*The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement, as well as Brazilian political and economic conditions, could adversely affect our business and the trading price of our ADSs and our preferred shares.*

The Brazilian government frequently intervenes in the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, increases in interest rates, changes in tax policies, price controls, currency devaluations, capital controls and limits on imports. Our business, financial condition and results of operations may be adversely affected by changes in policy or regulations at the federal, state or municipal levels involving or affecting factors such as:

- interest rates;
- currency fluctuations;
- inflation;
- liquidity of domestic capital and lending markets;
- tax policies;
- exchange controls and restrictions on remittances abroad, such as those that were imposed in 1989 and early 1990; and
- other political, social and economic developments in or affecting Brazil.

Developments in Brazilian government policies, including economic policy, might adversely affect us. Additionally, in recent months, members of the Executive and Legislative Powers, as well as other related persons, have been investigated for alleged illicit or unethical behavior. It is impossible to foresee the outcome of these investigations and whether it could adversely affect the Brazil's economy. Such uncertainties, allegations of unethical or illegal political conduct and other future developments in the Brazilian economy may adversely affect the trading price of our ADSs and our preferred shares.

Presidential elections are to take place in Brazil in October 2006. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses, such as our company. The run-up to the presidential election may result in changes in existing governmental policies, and the post-election administration – even if President Luiz Inácio Lula da Silva is re-elected – may seek to implement new policies. We cannot predict what policies will be adopted by the Brazilian government and whether these policies will negatively affect the economy or our business or financial performance.

***Exchange rate instability may adversely affect our financial condition and results of operations and the market price of the ADSs and our preferred shares.***

As a result of inflationary pressures, among other factors, the Brazilian currency has devalued periodically during the last four decades. Throughout this period, the Brazilian government has implemented various economic plans and utilized a number of exchange rate policies, including sudden devaluations, periodic mini-devaluations during which the frequency of adjustments has ranged from daily to monthly, floating exchange rate systems, exchange controls and dual exchange rate markets. Although over long periods depreciation of the Brazilian currency generally has correlated with the rate of inflation in Brazil, devaluation over shorter periods has resulted in significant fluctuations in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The *real* depreciated against the U.S. dollar by 9.3% in 2000 and by 18.7% in 2001. In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the *real* appreciated 18.2%, 8.1% and 11.8% against the U.S. dollar in 2003, 2004 and 2005 respectively, no assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar again. On March 10, 2006, the U.S. dollar/*real* exchange rate was R\$2.1447 per US\$1.00. See “Exchange Rates.”

Substantially all of our passenger revenue and cargo revenue and temporary investments are denominated in *reais*, and a significant part of our operating expenses, such as fuel, aircraft and engine maintenance services, aircraft rent payments and aircraft insurance, are denominated in, or linked to, U.S. dollars. We maintain U.S. dollar-denominated deposits and maintenance reserve accounts under the terms of our aircraft operating leases. For the year ended December 31, 2005, 53% of our operating expenses were either denominated in or linked to the U.S. dollar. In addition, the purchase price of the 67 737-800 Boeing Next Generation aircraft for which currently we have placed firm purchase orders and the 34 737-800 Boeing Next Generation aircraft for which we currently have purchase options are denominated in U.S. dollars. While in the past we have generally adjusted our fares in response to, and to alleviate the effect of, depreciations of the *real* and increases in the price of jet fuel and have entered into hedging arrangements to protect us against the effects of such developments, there can be no assurance we will be able to continue to do so. To the extent we are unable to adjust our fares or effectively hedge against any such depreciation or increases in jet fuel prices, this may lead to a decrease in our profit margins or to operating losses caused by increases in U.S. dollar-denominated costs, increases in interest expense or exchange losses on unhedged fixed obligations and indebtedness denominated in foreign currency. We had total U.S. dollar-denominated future operating lease payment obligations of US\$385.6 million (including long-term vendor payables) and no other U.S. dollar-denominated indebtedness at December 31, 2005. We may incur substantial amounts of U.S. dollar-denominated operating lease or financial obligations, fuel costs linked to the U.S. dollar and U.S. dollar-denominated indebtedness in the future. At December 31, 2005, we had a short-term hedging program in place for a majority of our U.S. dollar-denominated operating lease obligations, our U.S. dollar-linked jet fuel expenses and our interest rate exposure.

Historically, depreciations of the *real* relative to the U.S. dollar have also created additional inflationary pressures in Brazil, and future depreciations could negatively affect us. Depreciations generally curtail access to

foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciations also reduce the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent of the market price of our preferred shares and, as a result, the ADSs.

***Inflation and government efforts to combat inflation may contribute significantly to economic uncertainty in Brazil and could harm our business and the market value of the ADSs and our preferred shares.***

Brazil has in the past experienced extremely high rates of inflation. More recently, Brazil's annual rate of inflation was 10.4% in 2001, 25.3% in 2002, 8.7% in 2003, 12.4% in 2004 and 1.2% in 2005 (as measured by *Índice Geral de Preços—Mercado*, or the IGP-M). Inflation, and certain government actions taken to combat inflation, have in the past had significant negative effects on the Brazilian economy. Actions taken to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil experiences high inflation in the future, we may not be able to adjust the fares we charge our customers to offset the effects of inflation on our cost structure. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm our business or adversely affect the market value of our preferred shares and, as a result, the ADSs.

***Developments and the perception of risk in other countries, especially emerging market countries, may adversely affect the market price of Brazilian securities, including the ADSs and our preferred shares.***

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in other emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the trading price of the ADSs or our preferred shares, and could also make it more difficult for us to access the capital markets and finance our operations in the future on acceptable terms or at all.

## **Risks Relating to Us and the Brazilian Airline Industry**

***Changes to the Brazilian civil aviation regulatory framework may adversely affect our business and results of operations.***

Law No. 11,182, enacted on September 27, 2005 and modified by the Provisional Measure No. 269, of December 15, 2005, created the National Civil Aviation Agency (*Agência Nacional de Aviação Civil*, or "ANAC"), a regulatory agency that will be linked, but not subordinated, to the Ministry of Defense and will operate as an independent agency for an indefinite term. ANAC will principally have the authority to: (i) regulate, inspect and supervise services rendered by Brazilian and foreign airlines operating in Brazil, (ii) grant concessions, permits and authorizations for air transport operations and airport infrastructure services after conducting a bidding process, (iii) represent the Brazilian government before international civil aviation organizations, (iv) control, register and inspect civil aircraft, and (v) carry out a mandate under articles 48 and 49 of Law No. 11,182 to ensure that air transportation services are provided under free enterprise principles.

In accordance with Section 7 of Law No. 11,182, ANAC shall be implemented and commence its activities within 180 days from September 28, 2005. However, it is necessary that the Brazilian Government issues a decree setting forth the organizational structure of the agency as well as its internal regulatory regime. As ANAC commences its activities and begins to exercise its powers, the Civil Aviation Department (*Departamento de Aviação Civil*, or "DAC"), an organization subordinated to the Air Force Command of the Ministry of Defense, and until now responsible for coordinating and supervising Brazilian civil aviation (coordinating and supervising air transportation services and aviation and ground infrastructure), will transfer all its responsibilities and operations to the new agency and will be extinguished. ANAC will not assume any of the current responsibilities of the Civil Aviation National Council (*Conselho de Aviação Civil* or "CONAC"), which will continue to set guidelines for regulation, control the development, and generally establish policy for the air transportation sector as a whole.

Therefore, up to the date of this annual report, DAC is still in charge of approving all new flight routes, as well as modifications to existing flight routes and increases in flight frequencies. In addition, the importation of any new aircraft is subject to approval by the Commission for Coordination of Civil Air Transportation (*Comissão de Coordenação de Transporte Aéreo Civil*, or “COTAC”), a sub-department of the DAC. In recent years, the DAC has actively monitored developments in Brazil’s airline market and has taken certain restrictive measures that have helped to restore greater stability to the industry. For example, the DAC has addressed overcapacity by establishing stricter criteria that must be met before new routes or additional flight frequencies are awarded. Our growth plans contemplate expanding into new markets, increasing flight frequencies and operating considerably more than our existing fleet. As such, our ability to grow generally depends on receiving the required authorizations from the DAC and the COTAC. We cannot assure you that future authorizations will be granted to us. If the Brazilian civil aviation framework changes in the future, or the ANAC implements increased restrictions, our growth plans and our business and results of operations could be adversely affected.

Several legislative initiatives have been taken, including the preparation of a draft bill of law that would replace Law No. 7,565 of December 19, 1986, the current Brazilian Aeronautical Code (*Código Brasileiro de Aeronáutica*). In general, this draft bill deals with matters related to civil aviation, including airport concessions, consumer protection, increased foreign shareholder participation in airlines, limitation of airlines’ civil liability, compulsory insurance and fines.

No assurance can be given that these or other changes in the Brazilian airline industry regulations will not have a material adverse effect on our business and results of operations.

***We operate in a highly competitive industry.***

We face intense competition on our domestic routes in Brazil from scheduled airlines and charter airlines. In addition, the Brazilian aviation authorities have the flexibility to permit new entrants in our market. We may face increased competition in the future.

In 2003, the Civil Aviation National Council (*Conselho de Aviação Civil*, or CONAC) issued guidelines regarding the need to increase barriers to the entry of new concessionaires and to limit the acquisition of new aircraft and the granting of new routes to existing concessionaires in order to protect the financial performance of the Brazilian airline industry as a whole. We cannot predict what impact the implementation of these restrictions might have on our competitive environment or our business.

Our existing competitors or new entrants into the market may undercut our fares in the future, increase capacity on their routes in an effort to increase their market share or attempt to conduct low-fare or low-cost airline operations of their own. In such an event, we cannot assure you that our level of fares or passenger traffic would not be adversely affected. We may also face competition from international airlines as we introduce and expand flights between Brazil and other South American destinations.

On June 17, 2005, Varig filed for bankruptcy protection in Brazil and the United States. On January 19, 2006, it presented a restructuring plan to its creditors which was approved in February 2006. We cannot foresee whether the judicial reorganization and related judicial proceedings will have a positive effect on Varig’s financial condition in the short or medium term.

In addition to competition among scheduled airline companies and charter operators, the Brazilian airline industry faces competition from ground transportation alternatives, such as interstate buses. Such competition may have an adverse impact on our business and results of operations.

***Because we have a limited operating history, it is difficult to evaluate an investment in the ADSs and our preferred shares.***

Because we have a limited operating history, having commenced operations in January 2001, it may be difficult to evaluate our prospects and an investment in the ADSs and our preferred shares. Our prospects are uncertain and must be considered in light of the risks, uncertainties and difficulties frequently encountered by

companies with a limited operating history. Our performance will depend upon a number of factors, including our ability to:

- implement our growth strategy;
- continue to provide high quality, reliable customer service at low fares;
- choose new markets successfully;
- stimulate customer demand for our services;
- hedge against fuel price, foreign exchange and interest rate fluctuations;
- maintain control of our expenses;
- attract, train, retain and motivate qualified personnel;
- react to customer and market demands and industry trends; and
- maintain the safety of our operations.

We cannot assure you that we will successfully address any of these factors, and our failure to do so could adversely affect our financial condition and results of operations.

***A failure to successfully implement our growth strategy would harm the market value of the ADSs and our preferred shares.***

Our growth strategy involves expanding the number of markets we serve and increasing the frequency of flights to the markets we currently serve. Increasing the number of markets we serve and our flight frequencies depend on our ability to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter will provide passenger traffic that is sufficient to make our operations in those new markets profitable. Three of the airport facilities from which we operate, Santos Dumont in Rio de Janeiro, Congonhas in São Paulo, and Pampulha in Belo Horizonte, are highly congested and passenger processing is at or near maximum capacity. Five of the airports from which we operate, Juscelino Kubitschek in Brasília, Santos Dumont, Congonhas, Guarulhos International Airport in Guarulhos and Pampulha, are subject to slot restrictions limiting the number of landings and take-offs at these airports and when they can be made. Any condition that would prevent or delay our access to airports or routes that will be vital to our growth strategy, including the ability to process more passengers or the imposition of flight capacity restrictions or our inability to maintain our existing slots, and obtain additional slots, in the Juscelino Kubitschek, Santos Dumont, Congonhas, Guarulhos and Pampulha airports, could constrain the expansion of our operations. In addition, the introduction and expansion of flights between Brazil and other South American destinations outside of Brazil requires the availability of flight capacity under, and compliance with, the criteria set forth in bi-lateral treaties governing cross-border air travel that have been negotiated between Brazil and other South American countries. To the extent that there is no available capacity or we cannot comply with the criteria contained in these treaties, our plans to introduce additional flights between Brazil and other South American destinations outside of Brazil could be constrained. In addition, our plans to further expand our operations into other South American countries could be adversely affected by political, economic and social conditions in those countries.

The expansion of our business will also require additional skilled personnel, equipment and facilities. An inability to hire and retain skilled personnel or secure the required equipment and facilities efficiently and cost-effectively may adversely affect our ability to execute our growth strategy. Expansion of our markets and flight frequencies may also strain our existing management resources and operational, financial and management information systems to the point that they may no longer be adequate to support our operations, requiring us to make significant expenditures in these areas. In light of these factors, we cannot assure you that we will be able to

successfully establish new markets or expand our existing markets and operations, and our failure to do so would harm our business and the value of the ADSs and our preferred shares.

***We have significant fixed costs, and we will incur significantly more fixed costs that could hinder our ability to meet our strategic goals.***

We have significant fixed costs, relating primarily to operating leases for our aircraft and engines, of which approximately 9% have floating-rate rent payments based on LIBOR or U.S. interest rates. Currently, we have commitments of approximately US\$4.675 billion to purchase 67 additional Boeing 737-800 Next Generation aircraft. We expect that we will incur additional fixed obligations and debt as we take delivery of the new aircraft and other equipment to implement our growth strategy.

Having significant fixed payment obligations could:

- limit our ability to obtain additional financing to support expansion plans and for working capital and other purposes;
- divert substantial cash flow from our operations to service our fixed obligations under aircraft operating leases and aircraft purchase commitments;
- if LIBOR or U.S. interest rates increase, require us to incur significantly more lease or interest expense than we currently do; and
- limit our ability to plan for or react to changes in our business and the airline industry and to general economic conditions.

Our ability to make scheduled payments on our fixed obligations, including indebtedness we will incur, will depend on our future operating performance and cash flow, which will in turn depend on prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. In addition, our ability to raise our fares to compensate for an increase in our fixed costs may be adversely affected by any imposition of fare control mechanisms by the Brazilian civil aviation authorities.

***We may have to use our cash resources to finance a portion of our firm purchase order aircraft. We may not have sufficient cash resources available to do so.***

We currently finance our aircraft through operating leases. As a result of our firm purchase orders to purchase 67 Boeing 737-800 Next Generation aircraft, in the future we expect to own a portion of our fleet as well as continue to lease aircraft through long-term operating leases. The firm purchase orders represent a significant financial commitment for us. While we expect that a preliminary commitment to us from the Export-Import Bank of the United States to provide guarantees covering approximately 85% of the aggregate purchase price for the firm purchase order aircraft will assist us in obtaining low-cost financing for the purchase of the firm purchase order aircraft, we may be required to use our own cash resources for the remaining 15% of the aggregate purchase price for the firm purchase order aircraft. As of December 31, 2005, we had approximately R\$869.0 million of cash, cash equivalents and short-term investments in overnight deposits and deposit certificates of highly-rated Brazilian banks and marketable securities, mainly highly-rated Brazilian government bonds. If the value or liquidity of these investments were to decrease, or we do not have sufficient cash resources, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would have an adverse impact on the execution of our growth strategy and business and could have an adverse impact on our results of operations.

***Substantial increases in fuel costs or the unavailability of sufficient quantities of fuel would harm our business.***

Fuel costs, which have recently been at historically high levels, constitute a significant portion of our total operating expenses, accounting for approximately 39.5% of our operating expenses for the year ended December 31, 2005. Historically, international and local fuel prices have been subject to wide price fluctuations based on

geopolitical issues and supply and demand. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. In the event of an international or local fuel supply shortage, our fuel prices may increase.

In addition, substantially all of our fuel is supplied by one source, Petrobras Distribuidora S.A. If Petrobras Distribuidora is unable or unwilling to continue to supply fuel to us at the times and in the quantities that we require, or if Petrobras Distribuidora were to raise significantly the price it charges us for its fuel, our business and results of operations would be adversely affected. Some of our competitors may be able to obtain fuel on better terms than us, both with respect to quantity and price. Although we enter into hedging arrangements to reduce our exposure to fuel price fluctuations and have historically passed on the majority of fuel price increases by adjusting our fare structure, the price and future availability of fuel cannot be predicted with any degree of certainty. Our hedging activities or the extent of our ability to adjust our fares may not be sufficient to protect us from fuel price increases.

***Insurance costs for airlines have increased substantially after 2001, and further increases would harm our business.***

Due to the threat of terrorist attacks, insurance companies have in recent years dramatically increased airline insurance premiums and significantly reduced the maximum amount of insurance coverage available to airlines for liability to persons (other than passengers) for claims resulting from acts of terrorism, war or similar events, to US\$150 million per aircraft. Although insurance costs have decreased since 2004, we cannot assure that these costs will continue to decrease.

Law No. 10,309 of November 22, 2001 authorized the Brazilian government to assume civil liability to third parties for any damages to persons and assets on the ground caused by terrorist attacks or acts of war against aircraft of Brazilian airlines in Brazil or abroad. This law was enacted in response to the substantial increases in insurance premiums attributable to concerns about potential terrorist attacks on aircraft operated by Brazilian airlines in Brazil and abroad after the September 11, 2001 attacks in the United States. Law No. 10,744 of October 9, 2003 confirmed coverage by the Brazilian government up to an overall limit of the *reais* equivalent of US\$1 billion for an indeterminate period of time. However, Decree No. 5,035 of April 5, 2004, which regulates the provisions of Law No. 10,744, provides that the Brazilian government may, at its sole discretion, suspend this coverage at any time, effective within seven days after the announcement by the Brazilian government of its decision to do so.

Airline insurers could reduce their coverage or increase their premiums even further in the event of additional terrorist attacks, hijackings, airline crashes, the end of the government-sponsored coverage or other events adversely affecting the airline industry abroad or in Brazil. Significant reductions in coverage or increases in insurance premiums would harm our financial condition and results of operations.

***We have only a limited number of suppliers for our aircraft and engines.***

One of the key elements of our current business strategy is to save costs by operating a simplified aircraft fleet equipped with one type of engine. After extensive research and analysis, we chose the Boeing 737-700/800 Next Generation aircraft and CFM 56-7B engines from CFM International. In light of our firm purchase orders to purchase 67 Boeing 737-800 Next Generation aircraft and options to purchase an additional 34 Boeing 737-800 Next Generation aircraft, we expect to continue to rely on Boeing and CFM International into the foreseeable future. If either Boeing or CFM International were unable to perform their contractual obligations, we would have to find another supplier for a similar type of aircraft or engines.

If we had to lease or purchase aircraft from another supplier, we could lose the benefits we derive from our current fleet composition. We cannot assure you that any replacement aircraft would have the same operating advantages as the Boeing 737-700/800 Next Generation aircraft or that we could lease or purchase engines that would be as reliable and efficient as the CFM 56-7B. We may also incur substantial transition costs, including costs associated with retraining our employees, replacing our manuals and adapting our facilities, to the extent that such costs would not be covered by the alternate supplier. Our operations could also be disrupted by the failure or inability of Boeing or CFM International to provide sufficient parts or related support services on a timely basis.

Our business would also be significantly harmed if a design defect or mechanical problem with the Boeing 737-700/800 Next Generation aircraft or the CFM 56-7B engine used on our aircraft were discovered causing our aircraft to be grounded while any such defect or problem is being corrected, assuming it could be corrected at all. The use of our aircraft could be suspended or restricted by the DAC in the event of any actual or perceived mechanical or design problems while the DAC conducts its own investigation. Our business would also be significantly harmed if the public avoids flying on our aircraft due to an adverse perception of the Boeing 737-700/800 Next Generation aircraft or the CFM 56-7B engine because of safety concerns or other problems, whether real or perceived, or in the event of an accident involving Boeing 737-700/800 Next Generation aircraft or the CFM 56-7B engine.

***We may be unable to maintain our company culture as our business grows.***

We believe that our growth potential and the maintenance of our results-oriented corporate culture are directly linked to our capacity to attract and maintain the best professionals available in the Brazilian and South American airline industry. We are dedicated to providing professional, high-quality service in a positive work environment and being innovative at finding ways to improve our business. We place great emphasis on the selection and training of enthusiastic employees with potential to add value to our business and who we believe fit in with and contribute to our company culture. As we grow domestically and internationally, we may be unable to identify, hire or retain enough people who meet the above criteria, or we may have trouble maintaining this company culture as we become a larger business. Our company culture is crucial to our business plan, and failure to maintain that culture could adversely affect our business and results of operations.

***The loss of our senior management and key employees could disrupt our business.***

Our business also depends upon the efforts of our chief executive officer, who has played an important role in shaping our company culture and, through his interest in Aeropar Participações S.A., owns a significant number of our shares, as well as other key executives. In the event that our chief executive officer or a number of our key executives leave our company, we may have difficulty finding suitable replacements, which could harm our business and results of operations.

***We rely heavily on automated systems to operate our business, and any failure of these systems could harm our business.***

We depend on automated systems to operate our business, including our computerized airline ticket sales system, our telecommunication systems and our website. Unlike our competitors, which issue traditional paper tickets to some or all of their passengers, we issue only paperless tickets. Our website and ticket sales system must be able to accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, ticket sales system or telecommunication systems failures could reduce the attractiveness of our services and could cause our customers to purchase tickets from another airline. Any disruption in these systems could result in the loss of important data, increase our expenses and generally harm our business.

***We rely on maintaining a high daily aircraft utilization rate to increase our revenues. High aircraft utilization also makes us vulnerable to delays.***

One of the key elements of our business strategy is to maintain a high daily aircraft utilization rate. High daily aircraft utilization allows us to generate more revenue from our aircraft and dilute our fixed costs, and is achieved in part by operating with quick turnaround times at airports so we can fly more hours on average in a day. Our rate of aircraft utilization could be adversely affected by a number of different factors that are beyond our control, including, among others, air traffic and airport congestion, adverse weather conditions and delays by third-party service providers relating to matters such as fueling and ground handling.

High aircraft utilization increases the risk that if an aircraft falls behind schedule during the day, it could remain behind schedule during the remainder of that day and potentially into the next day, which can result in disruption in operating performance, leading to passenger dissatisfaction related to delayed or cancelled flights and missed connections.

***Our reputation and financial results could be harmed in the event of an accident or incident involving our aircraft or our aircraft type.***

An accident or incident involving one of our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. We are required by the DAC and lessors of our aircraft under our operating lease agreements to carry liability insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses in the event of an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident involving our aircraft, even if fully insured, or an accident or incident involving Boeing 737 Next Generation aircraft, could cause a public perception that we are less safe or reliable than other airlines, which would harm our business and results of operations.

***Our controlling shareholder has the ability to direct our business and affairs and its interests could conflict with yours.***

Our controlling shareholder has the power to, among other things (i) elect a majority of our directors and (ii) determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations, dispositions, and the timing and payment of any future dividends, subject to minimum dividend payment requirements imposed under the Brazilian corporation law. Although you are entitled to tag-along rights in connection with a change of control of our company and you will have specific protections in connection with transactions between our controlling shareholder and related parties, our controlling shareholder may have an interest in pursuing acquisitions, dispositions, financings or similar transactions that could conflict with your interests as a holder of the ADSs or our preferred shares.

***We have historically faced significant fluctuations in our results of operations, and the trading price of the ADSs and our preferred shares may be affected by such variations.***

Our results of operations have at times varied significantly from quarter to quarter, and we expect variations to continue in the future. Among the factors causing these variations are the seasonal nature of air travel and the airline industry's sensitivity to general economic conditions. Generally, the revenues from and profitability of our flights reach their highest levels during the January and July summer and winter vacation periods and in the final two weeks of December during the Christmas holiday season. The week during which the annual Carnival celebrations take place in Brazil is generally accompanied by a notable decrease in load factors. In addition, because a substantial portion of both business and leisure airline travel is discretionary, the industry tends to experience adverse financial results during general economic downturns. Any prolonged general reduction in airline passenger traffic may adversely affect our business and results of operations.

#### **Risks Relating to the ADSs and Our Preferred Shares**

***The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the preferred shares underlying the ADSs at the price and time you desire.***

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented approximately 52% of the aggregate market capitalization of the BOVESPA as of December 31, 2005. The top ten stocks in terms of trading volume accounted for approximately 53%, 45% and 51% of all shares traded on the BOVESPA in 2003, 2004 and 2005, respectively.

***Holders of the ADSs and our preferred shares may not receive any dividends.***

According to our by-laws, we must generally pay our shareholders at least 25% of our annual net income as dividends, as determined and adjusted under Brazilian GAAP. This adjusted income may be capitalized, used to absorb losses or otherwise appropriated as allowed under the Brazilian corporation law and may not be available to be paid as dividends. We may not pay dividends to our shareholders in any particular fiscal year if our board of directors determines that such distributions would be inadvisable in view of our financial condition.

***If you surrender your ADSs and withdraw preferred shares, you risk losing the ability to remit foreign currency abroad and certain Brazilian tax advantages.***

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our preferred shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the preferred shares, you will not be able to remit abroad non-Brazilian currency unless you obtain your own electronic certificate of foreign capital registration or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration. If you do not qualify under the foreign investment regulations you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our preferred shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The depository's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

***Holders of ADSs may be unable to exercise preemptive rights with respect to our preferred shares.***

We may not be able to offer our preferred shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our preferred shares in connection with any future issuance of our preferred shares unless a registration statement under the Securities Act is effective with respect to such preferred shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our preferred shares, and we cannot assure you that we will file any such registration statement. If such a registration statement is not filed and an exemption from registration does not exist, The Bank of New York, as depository, will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of such sale. However, these preemptive rights will expire if the depository does not sell them, and U.S. holders of ADSs will not realize any value from the granting of such preemptive rights.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

###### **General**

The Registrant was formed on March 12, 2004 as a *sociedade por ações*, a stock corporation duly incorporated under the laws of Brazil with unlimited duration. The Registrant's only material assets consist of the shares of Gol, an offshore finance subsidiary, cash and cash equivalents and short-term investments. The Registrant owns all of Gol's common and preferred shares, except for five common shares and three Class B preferred shares of Gol that are held by members of Gol's board of directors for eligibility purposes. Our principal executive offices are located at Rua Tamoios 246, Jardim Aeroporto, 04630-000 São Paulo, SP, Brazil, and our general telephone number is +55 11 5033-4200. The telephone number of our investor relations department is +55 11 5033-4393. Our website address is [www.voegol.com.br](http://www.voegol.com.br) and our website is available in Portuguese, Spanish and English. Investor

information can be found on our website under the caption "Investor Relations." Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this annual report.

### **Capital Expenditures**

During 2005, capital expenditures were R\$482.8 million, which included expenditures of R\$169.4 million related to acquisitions of property and equipment and R\$313.3 million of pre-delivery deposits for aircraft acquisitions. During 2004, capital expenditures were R\$85.4 million, which included expenditures of R\$42.0 million related to acquisitions of property and equipment and R\$43.4 million of pre-delivery deposits for aircraft acquisitions. During 2003, capital expenditures were R\$42.7 million, related to acquisitions of property and equipment.

### **B. Business Overview**

We are one of the most profitable low-cost airlines in the world and had net revenues of R\$2.7 billion and net income of R\$513.2 million for the year ended December 31, 2005. We are the only low-fare, low-cost airline operating in Brazil providing frequent service on routes connecting all of Brazil's major cities. We focus on increasing the growth and profits of our business by popularizing air travel and stimulating and meeting demand for safe, affordable, convenient air travel in Brazil and between Brazil and other South American destinations for both business and leisure passengers. We do this by offering simple, safe and efficient service while having one of the lowest operating costs in the airline industry worldwide. Our long-term business objective is to become the largest Brazilian airline and to bring affordable air travel to all significant destinations in South America.

We have flown over 36 million passengers since beginning operations in 2001 and, according to the DAC, Brazil's civil aviation authority, our share of the domestic market, based on revenue passenger kilometers, grew from 4.7% in 2001 to 11.8% in 2002, 19.4% in 2003, 22.3% in 2004 and 27.3% in 2005. Our strategy involves not only capturing market share, but increasing the size of the market by attracting new passengers through our low fares and through a variety of payment mechanisms designed to make the purchase of our tickets easier for customers belonging to a much broader income class.

We began our operations in January 2001 with six single-class Boeing 737-700 Next Generation aircraft serving five cities in Brazil. As of the end of 2005, we operated 42 single-class Boeing 737 aircraft. Currently, we provide frequent service on routes between all of Brazil's major cities and to international destinations in Argentina, Bolivia, Paraguay and Uruguay. We placed firm purchase orders with The Boeing Company for 67 737-800 Next Generation aircraft and we have options to purchase an additional 34 737-800 Next Generation aircraft. Currently, we have 11 firm purchase orders for aircraft deliveries scheduled in 2006, 13 in 2007, 10 in 2008, 11 in 2009, 8 in 2010 and 14 after 2010. In 2005, we took delivery, under two- and three-year operating leases, of seven Boeing 737-300 aircraft, which we are using to help meet our short-term capacity needs while we await the delivery of the new 737-800 Next Generation aircraft.

Our strategy is to offer travelers in Brazil and other South American countries a low-fare transportation alternative that we believe is cost-competitive compared to conventional airline and bus transportation. We have a diversified revenue base, with customers ranging from business passengers traveling between densely populated cities in Brazil, such as São Paulo, Rio de Janeiro and Belo Horizonte, to leisure passengers traveling to destinations throughout Brazil and to our international destinations in Argentina, Bolivia, Paraguay and Uruguay. We carefully evaluate opportunities to continue the growth of our business through increasing the frequency of flights to our existing high-demand markets and adding new routes to overpriced routes in Brazil and to other South American destinations. In 2005, we inaugurated nine new destinations, increasing the number of destinations served to 45 (43 in Brazil, one in Argentina and one in Bolivia). In January 2006 we commenced scheduled services to Asunción, Paraguay, and Montevideo, Uruguay and two additional destinations in Argentina: Rosario and Cordoba. We intend to further expand our service to international destinations in South America.

Our affordable, reliable and simple service and our focus on markets that were either underserved or did not have a lower-fare alternative has led to a strong awareness of our brand and a rapid increase in our market share. We offer a simplified product to our customers with single-class seating and a light snack and beverage service. Generally, our low operating costs allow us to set our fares at levels significantly lower than the average fares of our

primary competitors. This approach has helped us win customer loyalty and in certain markets to stimulate demand by attracting new customers who previously used other means of travel or traveled less often due to price sensitivity. We have kept our operating costs low principally by maintaining a simplified aircraft fleet that is one of the newest in South America, which reduces maintenance and fuel costs.

We deploy aircraft in a highly efficient manner to maintain industry leading aircraft utilization, and concentrate heavily upon internet-based distribution channels and sales. The strong promotion of internet-based distribution channels and sales is an integral element of our low cost structure and efficiency and has made us one of the largest and leading e-commerce businesses in Brazil with total sales of passenger tickets of R\$2.6 billion over the internet in 2005. We believe we effectively employ technology to make our operations more efficient, using real time sales and operating information, internet based sales and ticketless travel, advanced yield management systems and intelligent outsourcing.

We have developed an innovative company culture that is supported by a highly motivated and streamlined workforce. Members of our senior management team have an average of approximately 20 years of experience in the domestic and international passenger transportation industries, and we have been able to draw upon this extensive experience to develop and strengthen our low-cost operating structure.

Our emphasis on controlling costs and yield management has given us flexibility in setting our fares to achieve a balance between our load factors and yields that we believe will generate the highest profitability for us. During 2005, when the airline industry globally was suffering from historically high fuel prices, we generated net income of R\$513.2 million. Our profitable results in 2005 were due largely to the economies of scale from the growth of our business and having a cost per available seat kilometer that was approximately 22% lower than that of our closest competitor in the domestic market, based upon our analysis of publicly available data. By acquiring 53 Boeing 737-800 Next Generation with increased seat capacity through 2010, we believe that we be able to more efficiently use the airport slots available to us and to further reduce our costs per seat kilometer.

Our operating model is a highly integrated, multiple-stop route network that is a variation on the point-to-point model used by other successful low-cost carriers worldwide. The high-level of integration of flights at selected airports permits us to offer frequent, non-stop flights at low fares between Brazil's most important economic centers and ample interconnections through our network linking city pairs through a combination of two or more flights with little connecting or stop-over time. Our network also allows us to increase our load factors on our strongest city pair routes by using the airports in those cities to connect our customers to their final destinations. This strategy increases our load factor by attracting customers traveling to secondary markets who prefer to pay lower fares even if this means making one or more stops before reaching their final destination. Finally, our operating model allows us to build our flight routes to add destinations to cities that would not, individually, be feasible to serve in the traditional point-to-point model, but that are feasible to serve when simply added as additional points on our multiple-stop flight network. We do this by offering low-fare early-bird or night flights to lower-traffic destinations, which are usually the first or last stops on our routes, allowing us to increase our aircraft utilization and generate additional revenues.

We believe that our operating model, when combined with our low fares and reliable service, stimulates demand for air travel, and helped us to achieve a load factor of 73.7% for domestic flights in 2005, which is higher than those of our two largest Brazilian competitors in the same period, according to the DAC. The interconnectivity of our network also resulted in approximately one-half of our passengers making connections or stops while traveling to their final destination. In December 2005, we maintained high standards of operating efficiency and customer satisfaction, completing 98% of our scheduled flights, with on-time performance of 97%, based on our internal data.

In December 2005, we entered into a joint venture to create a low-cost Mexican airline. We will hold 25% of the voting capital stock and approximately 48% of the total capital stock of the Mexican airline company, with the remaining capital being subscribed by Mexican investors. Under a service agreement, we will implement and develop the operational structure of the company and render consulting services for all operational matters to the new Mexican company in return for a performance-based service fee.

During 2005, we further improved our internal control over financial reporting in accordance with Section 404 of the U.S. Sarbanes Oxley Act of 2002, one year before this requirement becomes applicable to us as a non-U.S. company. We are one of the first Latin American companies to give the relevant officer certifications regarding these controls and procedures. The certifications are included as Exhibits 12.1 and 12.2 to this Annual Report. We expect various benefits from the implementation of these controls and procedures, such as improved risk management and better operational and financial controls.

We are controlled by Brazil's Áurea group. The Áurea group has more than five decades of successful operating experience in Brazil's bus transportation industry, and brings the benefits of this expertise in the Brazilian transportation industry to our strategy and operations.

### **Our Competitive Strengths**

Our principal competitive strengths are:

***We Keep Our Operating Costs Low.*** Our cost per available seat kilometer for the year ended December 31, 2005 was R\$15.5 cents, or approximately US\$6.6 cents. We believe that our cost per available seat kilometer for the year ended December 31, 2005, adjusted for the average number of kilometers flown per flight, was one of the lowest in the airline industry worldwide, and was on average approximately 22% lower than that of our closest competitor in the domestic market, based upon our analysis of data collected from publicly available information. Typically, airline operating costs per kilometer decrease as flight length increases. Our low operating costs are the result of being innovative and using best practices adopted from other leading low-cost carriers to improve our operating efficiency, including:

*Efficient use of aircraft.* During 2005, our aircraft utilization totaled an average of 13.9 block hours per day, the highest aircraft utilization rate in the Brazilian domestic airline industry, according to the DAC, and among the highest worldwide according to airline company public filings. We achieve high aircraft utilization rates by operating a new fleet that requires less maintenance down time, accomplishing a fast turnaround on our aircraft between flights and operating more flights per day per aircraft than our competitors. The fast turnaround time for our aircraft between flights, which averages just 25 minutes, minimizes connection times for our passengers and enables our aircraft to fly approximately 11 flight legs a day, as compared to approximately eight flight legs a day by our closest competitor in the domestic market. We increase the speed of preparing our aircraft for the next flight by loading and unloading passengers through front and rear aircraft doors when possible, minimizing catering requirements and having cabin crew assist with cleaning the aircraft. Our efficient use of our fleet has helped us to generate revenue at times when the aircraft of our competitors are still on the ground and has allowed us to spread our fixed costs over a greater number of flights and available seat kilometers. As part of our aircraft utilization strategy, we introduced night flights on certain routes in December 2003 at very low fares to increase utilization, generate higher load factors and stimulate demand. Our night flights, which generated a load factor higher than that of our other flights, have helped us to make a portion of our fleet productive practically 24 hours per day. We also offer air cargo services on our flights to generate incremental revenue from space in the stronghold sections of our aircraft that would otherwise remain unutilized. With our firm purchase orders and purchase options of 101 additional Boeing 737-800 Next Generation aircraft, we expect to be able to maintain our young fleet of aircraft, and therefore increase efficiency and reduce maintenance costs.

*Operation of a simplified fleet.* Currently, we operate a simplified fleet type consisting of 45 Boeing 737 aircraft. Having a fleet with minimal aircraft types reduces inventory costs, as fewer spare parts are required, and reduces the need to train our pilots to operate different types of aircraft. In addition, keeping the number of types of aircraft we operate to a minimum simplifies our maintenance and operations processes. While our focus on having the lowest operating costs means that we will periodically review our fleet composition to ensure that it is achieving our low-cost goals, any decision we may make to introduce a new fleet type will be made only after carefully weighing the performance and profitability benefits of doing so against the emphasis we place on maintaining simplified operations.

*Use of efficient, low-cost distribution channels.* Our effective use of technology helps us to keep our costs low and our operations highly scaleable and efficient. We seek to keep our distribution channels streamlined and convenient so as to allow our customers to interact with us directly via the internet. Approximately 81% of our ticket sales are through our website, and our customers can check-in for their flights online and by web-enabled cell phones. As a result of our emphasis on low-cost distribution channels, we generate more revenues from online ticket sales than any other airline company in Brazil. We enjoy significant cost savings associated with automated ticket sales, all while making the selection of travel options more convenient for our customers. We estimate that our distribution costs using our online ticket sales system is approximately 65% lower than our distribution costs involving more traditional means, such as the Global Distribution System, or GDS. In addition, like other low-cost carriers, but unlike our main competitors, all travel on our flights is ticketless. The elimination of paper tickets saves paper costs, postage, employee time and back-office processing expenses. Also, we do not need to maintain physical ticket sales locations outside of airports.

*Flexible and efficient operating approach.* We always seek the most cost-effective way of providing our services to our customers without compromising quality and safety. We constantly evaluate our operations to see if sensible cost-savings opportunities exist. As a result, we outsource the work that can be done properly and more efficiently by third parties and we internalize the functions that our employees can do more cost-efficiently. We have arrangements on competitive terms with third-party contractors at certain airports for aircraft and baggage handling, and call center customer services. We get competitive rates for these services by negotiating multi-year contracts at prices that are fixed or subject only to periodic increases linked to inflation. With our phased maintenance system, we are able to perform maintenance work every day without sacrificing aircraft revenue time and to schedule preventive maintenance with more regularity and around the utilization of our aircraft, which helps to maintain high levels of block hours per day and reduce costs. We are among the very few airlines in the world having maintenance technicians capable of executing our phased maintenance system. Furthermore, we are in the final phase of building a state-of-the-art aircraft maintenance center at the airport of Confins in the State of Minas Gerais. Although not complete, the maintenance center is already operational, enabling us to internalize aircraft heavy maintenance work to reduce maintenance costs. We plan to internalize other services that are currently outsourced if we believe we can better control the quality and efficiency of these services.

*We Stimulate Demand for Our Services.* We believe that through our low fares and high-quality service, we provide the best value in our markets and create demand for air travel services. Our average fares are lower than the average fares of our primary competitors. We identify and stimulate a demand among both business and leisure passengers for air travel that is safe, convenient, simple and is a reasonably priced alternative to traditional air, bus and car travel. By combining low fares with simple and reliable service that treats passengers equally in a single-class environment, we have successfully increased our market share, strengthened customer loyalty and are attracting a new group of air travelers in our markets. These new travelers did not previously consider air travel due to the higher prices and more complicated sales procedures that preceded our entry into the market. For example, our night flights, for which we offer highly competitive fares, have proven to be very successful, generating load factors higher than that of our other flights. We believe our night flights attract passengers who previously relied upon bus or car travel and who have now become air travel customers. We estimate that on average, approximately 15% of the customers on our flights are either first-time flyers or have not flown for more than one year. We have developed and will further develop flexible payment mechanisms such as debit payments and long-term installment payments, with which we are growing our potential market and customer base to broader income classes in Brazil and South America and which enable us to further penetrate these markets and customers.

*We Have One of the Newest Fleets in the Industry.* At December 31, 2005, our fleet of 42 Boeing 737 aircraft had an average age of 8.7 years, making our fleet one of the newest in South America. We believe that the firm purchase orders and purchase options we have for the delivery of up to 101 new Boeing 737-800 Next Generation aircraft, with expected delivery dates between 2006 and 2010, will further reduce the average age of our fleet for the next decade and help us to retain this competitive advantage. Our new fleet has enabled us to enjoy a high degree of performance reliability and to develop a reputation among customers for being an airline that delivers a safe, on-time, modern and comfortable travel experience. Our Boeing 737-800/700 Next Generation aircraft type

provides us with state-of-the-art technology and aerodynamics with increased flying speed, improved fuel efficiency and simplified maintenance procedures.

***We Have a Strong Brand that Is Widely Recognized Among Consumers and Investors.*** We believe that the Gol brand has become synonymous with innovation and value in the Brazilian domestic airline industry. Gol was chosen as the 2004 “Company of the Year” by the annual *Melhores e Maiores* (The Biggest and Best) edition of *Exame* magazine, one of the most important business publications in Brazil. Our customers also identify us as being safe, accessible, friendly, fair and reliable and distinguish us in Brazil’s domestic airline industry on the basis of our modern and simplified approach to providing air travel services. Customer satisfaction surveys conducted in 2005 by *Pesquisas Inteligentes*, an independent market research firm, indicated that more than nine out of every ten passengers are satisfied with Gol, would fly again with Gol and consider Gol to be an innovative, modern and practical company. Our effort at promoting our brand awareness has earned us recognition from the marketing industry in Brazil as well. In 2005, we were named one of Brazil’s most valuable brands by *Isto é Dinheiro* magazine in its fourth annual Most Valuable Brazilian Brands Ranking, with a brand value of R\$326 million. We were also named Best Airline in Latin America by *Global Finance* magazine in 2005. In addition, we are recognized among Brazilian and international investors as a company with a very high level of disclosure and transparency, releasing financial information simultaneously in Brazilian GAAP and U.S. GAAP. We ranked first in the category of “Disclosure Procedures” in Latin America and top 5 in the category of “Corporate Governance” in Brazil at the Eighth Annual IR Global Rankings in February 2006.

***We Have a Strong Financial Position.*** We have focused on maintaining a strong financial position with significant cash balances and a low debt to capitalization ratio. As of December 31, 2005, we had R\$106.3 million of cash and cash equivalents, R\$762.7 million of short-term investments, R\$564.0 million of accounts receivable and R\$408.8 million of U.S. dollar denominated deposits for aircraft leasing and aircraft engine maintenance contracts, representing a total of R\$1,841.8 million. As of December 31, 2005, our debt to capitalization ratio was 2.9%. In 2005, we received the award for the Best Financial Management in 2004, from *Isto é Dinheiro* magazine.

***We Actively Manage Risk.*** We actively monitor movements in fuel prices, foreign exchange rates and interest rates to reduce our earnings volatility. We are able to adjust our fares to compensate for changes in fuel prices and the exchange rate of the real versus the U.S. dollar. Our general policy is to hedge on a short-term basis a majority of the fuel we expect to consume and our U.S. dollar exchange rate exposure, so as to minimize the effects of adverse changes in the fuel or foreign exchange markets. As part of our risk management program, we have established exposure limits and hedge ratios. We use a variety of financial instruments, including petroleum call options, petroleum fixed-price swap agreements, and foreign currency forward contracts. We do not hold or issue derivative financial instruments for trading purposes. As there is not a futures market for Brazilian jet fuel, we use international crude oil derivatives to hedge our exposure to increases in fuel price. In addition, we believe that our corporate wide high standards of internal control reduce our risk exposure.

***We Have a Motivated Workforce and a Proven Management Team.*** We benefit from a highly motivated workforce that brings a new enthusiasm to air travel and a commitment to high standards of friendly and reliable quality service that we believe distinguishes us in our markets. We believe that the positive feedback we received from our customers in our customer satisfaction surveys is directly related to the priority our employees place on delivering top quality customer service. We invest a significant amount of time and resources into carefully developing the best training practices and selecting individuals to join our team who share our focus on ingenuity and continuous improvement. We conduct ongoing training programs that incorporate industry best practices and encourage strong and open communication channels among all of the members of our team so that we can continue to improve the quality of the services we provide. We also motivate our workforce by providing our employees with profit sharing and through participation in our stock option program. Our controlling shareholder has been operating in the Brazilian passenger transportation market for over 50 years and our top managers have an average of approximately 20 years of experience in the Brazilian passenger transportation industries and this experience has helped us to develop the most effective elements of our low-cost model.

## **Our Strategy**

To continue the growth of our business and increase its profitability, our strategy will be to further stimulate customer demand by continuing to offer a single-class of air travel service at low fares, while maintaining

a high standard of quality and safety. We will strive to keep our operating costs low and continually pursue ways to make our operations more efficient. Our objectives are to provide the best travel value in the markets we serve, to encourage people to fly by making air travel accessible in our markets, and to further increase our market share. We will continue to evaluate opportunities to expand our operations by (i) adding additional flights to existing high-demand routes and night-flight domestic routes, (ii) adding new domestic routes where sufficient market demand exists, (iii) expanding into other high-traffic centers in other South American countries and (iv) seeking opportunities to grow through joint ventures, acquisitions or business combinations. Our vision is to be recognized by 2010 as the airline that popularized high-quality, low-fare air transportation in South America. The following are the key elements of our strategy:

***To Expand Our Customer Base by Offering Services to High-Demand or Overpriced Routes.*** When planning the growth of our business, we will continue to establish bases, select our routes and build the frequency of our service based upon the extent and type of demand in the regions we serve in Brazil and other South American countries. In particular, we expect to increase our focus on business travelers from medium-sized companies, a growing customer base that tends to be more price sensitive, by closely monitoring the routes and flight frequencies that best serve their travel needs and increasing our marketing efforts directed at this segment of our customer base. For example, in response to the high volume of business travelers between Brazil's primary financial centers, served by the Congonhas airport in São Paulo, and Santos Dumont airport in Rio de Janeiro, we have increased our flight frequency on this route from five flights per day when we began transporting passengers in January 2001 to 24 in 2002, 28 in 2003, 36 during 2005 and 50 flights per day as of December 31, 2005. We are also very focused on stimulating demand and capturing market share in both the leisure and "visiting friends and relatives" market segments. For example, in response to a perceived demand for late evening flights linking São Paulo and Rio de Janeiro to allow travelers to avoid the need for overnight stays, we added night flight services between the two cities in December 2003 and to other cities in Brazil later on. Our night flights generated load factors higher than that of our other flights. We will continue to carefully evaluate opportunities to meet demand for leisure travel by expanding flight frequencies on existing routes, expanding successful night flight services and adding additional routes that contribute to our network and for which we perceive a market demand, such as daytime flights to and from Guarulhos airport in São Paulo, Brazil's largest airport.

We believe that the same business model and route management techniques that we have successfully introduced in Brazil to help popularize air travel can also be used to capture market share and stimulate demand for air travel between Brazil and neighboring South American countries. We are pursuing opportunities to offer flights on routes between Brazil and select cities in other South American markets where growth opportunities exist. For example, we began offering daily services between Guarulhos and Buenos Aires, Argentina in December 2004. These flights quickly achieved profitability. In 2005, we inaugurated nine new destinations, increasing the number of destinations served to 45 (43 in Brazil, one in Argentina and one in Bolivia). In January 2006 we commenced scheduled services to Asunción, Paraguay, and Montevideo, Uruguay and two additional destinations in Argentina: Rosario and Cordoba. Additionally, in 2006 we commenced service of our first fully non-Brazilian city-pair between Asunción, Paraguay and Cordoba, Argentina. By offering international flights with stops integrated in our network we create opportunities for incremental traffic, feeding our network and increasing our competitive advantage and supporting our strategy of stimulating demand for our services. The addition of routes between Brazil and cities in neighboring South American countries will be based upon an extension of our existing network using the same growth strategy that has proven to be successful for us to date. We also expect that the introduction of these flights will add traffic to our network, increasing our overall load factor.

***To Continue to Reduce Low Operating Costs and Improve Operating Efficiency.*** Continuing to reduce our operating costs per available seat kilometer is a key to increasing profitability. Our revenues per aircraft in 2005 were US\$33.2 million, which are the highest in the low cost carrier industry according to publicly available data. Our CASK of 6.6 US\$ cents was 22% lower than our closest competitor in the domestic market. We aim to remain one of the lowest cost airlines in the world. We have worked toward achieving this goal by assembling a new fleet of single-class aircraft that is capable of safely and reliably accommodating a high utilization rate, incurs low maintenance costs and is fuel-efficient. We are also working to achieve this goal by using our aircraft efficiently, concentrating on minimizing our turnaround times at airports and increasing our number of daily flights per aircraft. We will also continue to utilize technological innovations wherever possible to reduce our distribution costs and improve our operating efficiency. We expect to benefit from economies of scale and reduce our average cost per available seat kilometer as we add additional aircraft to an established and efficient operating infrastructure. Our

system of phased maintenance allows us to perform maintenance work every day without sacrificing aircraft revenue time, to better determine the timing of heavy maintenance so as to help maximize aircraft utilization and to further reduce our maintenance costs. We will continue internalizing of our aircraft maintenance in our new Aircraft Maintenance Center in Confins, in the State of Minas Gerais. By purchasing up to 101 new Boeing 737-800 Next Generation aircraft, we will further reduce the average age of our fleet and therefore increase operating efficiency and lower our operating costs.

**To Keep Our Customer Service Offering Simple and Convenient.** We believe that we are perceived by our customers as providing excellent value at reasonable fares and acting as a catalyst for changing the way the Brazilian airline industry works. In addition to offering low fares, our strategy is to make flying a simpler, more convenient experience. We have achieved this objective largely through the elimination of unnecessary extras and common-sense applications of technology. We encourage our customers to use the internet not only to make reservations, but also to make many of the arrangements from the comfort of their home or office that they would otherwise have to make at crowded airports or airline ticket offices, such as checking-in and changing their seat assignments. We provide free shuttle service between airports and drop-off zones on selected routes. We offer customers single-class, pre-assigned seating flights, do not overbook our flights and have designated female lavatories. Our strategy will be to continue to seek ways to make the Gol brand signify simplicity and convenience in the minds of air travelers.

**To Stimulate Demand with Low Fares.** Our widely available low fares and superior product offering are designed to popularize air travel and stimulate demand, particularly from fare-conscious leisure travelers and small- to mid-size business travelers who might otherwise have used alternative forms of transportation or would not have traveled at all. Our strategy is to continue to stimulate demand and encourage more people to fly by continuing to provide a superior product and low-fares. We will also continue to provide our customers with flexible payment mechanisms, such as debit payments, credit card installment payments and monthly installment payments in the form of direct credit. We launched in November 2005 the Voe Fácil (“Fly Easy”) Gol Program, which allows qualifying customers to pay for airline tickets in up to 36 monthly installments as an innovative new way to purchase airline tickets, especially designed to make the purchase of our tickets easier for customers belonging to broader income classes.

The following table shows total passengers enplaned at airports in selected cities served by us for the year ended December 31, 2000 (just before we commenced our operations) and the year ended December 31, 2005. The table also sets forth the date we commenced service at airports in selected cities and the compound annual growth rate of passengers enplaned at such airports.

Cities	Service Commencement Date	Total Passenger Traffic (Arrivals and Departures) Year Ended December 31,		CAGR (%) 2000-2005
		2000 (in millions)	2005	
Belo Horizonte(1) .....	January 2001	2.62	4.17	9.7
Brasília.....	January 2001	5.43	9.48	11.8
Curitiba.....	May 2001	2.07	3.39	10.3
Florianópolis.....	January 2001	0.72	1.55	16.5
Fortaleza .....	December 2001	1.44	2.77	14.0
Porto Alegre.....	January 2001	2.25	3.52	9.4
Recife.....	April 2001	2.14	3.60	11.0
Salvador.....	January 2001	3.02	4.55	8.5
Vitória.....	November 2001	0.84	1.52	12.5

(1) Includes the airports of Pampulha and Confins in Belo Horizonte. A large portion of passenger flow was transferred from the airport of Pampulha to the airport of Confins in 2005.

Source: INFRAERO

## Routes and Schedules

Our aircraft fly to various points on our route network linking our destinations. A significant portion of our route network is concentrated in the highly populated areas in Brazil and the southern cone of South America, where numerous major business centers are located. We generally offer direct flights between these primary business centers, which enables many of our business travelers to fly with us directly to their destinations. However, after directly connecting high-density cities along the primary business routes, our aircraft often make multiple stops to other destinations. In this way, each aircraft has a daily flight plan that includes stops at multiple destinations throughout our network. We integrate the flight plans of our aircraft to provide maximum flexibility and connectivity at each stop, so that passengers have numerous connection options to reach their final destination. We believe this model of flight scheduling has helped us to more frequently serve a greater number of cities, generate higher load factors and stimulate demand for air travel in new markets, while also enabling us to increase aircraft utilization and provide our customers with more destination options. Having implemented this variation on the point to point approach successfully in Brazil, we have started adding international destinations to our flight plans in 2005, offering Brazilian and international passengers further destination options via direct flights or with one or more stops in a cost-efficient and practicable fashion. As an example, with our flight from Cordoba, Argentina to Porto Alegre, Brazil, some passengers clear customs in Porto Alegre, which is quick and simple because Porto Alegre is not a traditional hub for international traffic. For some passengers, Porto Alegre is their final destination. Continuing passengers will have access to 19 destinations in Brazil with two or fewer additional stops.

At December 31, 2005, we offered 420 daily flights in Brazil and to our international destinations. In 2005, we inaugurated nine new destinations, increasing the number of destinations served to 45 (43 in Brazil, one in Argentina and one in Bolivia). In January 2006 we commenced scheduled services to Asunción, Paraguay, and Montevideo, Uruguay and two additional destinations in Argentina: Rosario and Cordoba. By adding points of destination for our customers, we believe we can increase our overall load factor.

In addition to monitoring growing market demand for increased daily flight frequency on our existing routes, we also seek to offer services in markets with previously untapped demand. For example, the highly competitive fares we offer for travel on our night flights are set to compete with interstate bus companies for customers who may otherwise not have previously considered air travel as an option due to their price sensitivity. We are also pursuing opportunities to offer flights on routes between Brazil and select cities in other South American countries where favorable market opportunities exist using the same business model and route management techniques that have proven successful within Brazil. Since 2005, we have been increasing the number of flights to and through Guarulhos and Galeão, the two international airports serving São Paulo and Rio de Janeiro, respectively, which we expect will give us additional growth opportunities in the Brazilian and South American markets and more code share opportunities with international airlines.

### **Customer Value**

We recognize that while low fares may initially encourage people to fly with us, we must offer excellent services to ensure that a new customer will become a repeat customer. As a result, we pay particular attention to the details that help to make for a pleasant, hassle-free flying experience, including:

- ticketless travel;
- convenient on-line sales, check-in, seat assignment and flight change and cancellation services;
- web-enabled cell phone ticket sales and check-in;
- self check-in at kiosks at designated airports;
- airport parking discounts;
- designated female lavatories;
- single-class, pre-assigned seating;

- friendly and efficient in-flight service;
- modern aircraft interiors;
- quick turnaround times at airport gates; and
- free or discounted shuttle services between airports and drop-off zones on certain routes.

We also recognize that efficient and punctual operations are of primary importance to our customers. This emphasis resulted in our completion factor of 98% in 2004 and 2005, and on-time performance rate of 97% in 2004 and 2005, based on company data.

Based on feedback from our customers, we believe we are meeting and exceeding their service expectations, as more than nine out of every ten passengers are satisfied with Gol, would fly again with Gol and consider Gol to be an innovative, modern and practical company. With regard to our service to Buenos Aires, 83% of our Argentine passengers said they were “very satisfied” or “satisfied” with our services. The survey conducted between April and July 2005 by *Pesquisas Inteligentes* confirmed our success in the Argentine market after just eight months of service to Buenos Aires, our first international destination.

## **Safety**

Our most important priority is the safety of our passengers and employees. We maintain our aircraft in strict accordance with manufacturer specifications and all applicable safety regulations, and perform routine line maintenance every day. Our pilots have extensive experience, with flight captains having more than 10,000 hours of career flight time, and we conduct ongoing courses, extensive flight simulation training and seminars addressing the latest developments in safety and security issues. We closely follow the standards established by the Air Accident Prevention Program of the DAC and we have installed the Flight Operations Quality Assurance System, which maximizes proactive prevention of incidents through the systematic analysis of the flight data recorder system. All of our aircraft are also equipped with Maintenance Operations Quality Assurance, a troubleshooting program that monitors performance and aircraft engine trends. The Brazilian civil aviation market follows the highest recognized safety standards in the world. Brazil is classified as a Category 1 country in flight safety standards by the International Civil Aviation Organization, which is the same classification held by the United States and Canada. We are also an active member of the Flight Safety Foundation, a foundation for the exchange of information about flight safety.

## **Sales and Distribution**

Our customers can purchase tickets directly from us through a number of different channels, including via our website, our call center and at airport ticket counters. For the year ended December 31, 2005, approximately 29.5% of our customers purchased tickets directly from us (23.3% on our website and 6.2% via call centers and directly at airports).

Our customers can also purchase tickets indirectly through travel agents, who are an important, widely-used travel service resource in Brazil and South America. Our partnership with travel agents provides us with more than 8,000 distribution outlets throughout the region. For the year ended December 31, 2005, approximately 70% of our customers purchased tickets indirectly from travel agents (approximately 7% of our sales through travel agents are made through a GDS system and approximately 63% of those sales on our website).

For the year ended December 31, 2005, 81.3% of our passenger revenues, whether directly to the customer or to travel agents, were made via the internet, making us one of the worldwide industry leaders in this area, as compared to 12.1% of our passenger revenues through call centers and airport sales counters and 6% of our total sales made through the GDS, respectively. The remaining 0.6% of our passenger revenues for the year ended December 31, 2005 were through other distribution systems. To illustrate the importance of continuing to focus on increasing internet-based ticket sales directly to our customers, it costs an average of approximately R\$2.11 for each ticket sale made directly to a customer through our website. By comparison, internet ticket sales through travel

agents cost an average of approximately R\$3.95 per sale, call center ticket sales cost an average of approximately R\$4.56 per sale and GDS ticket sales cost an average of approximately R\$11.27 per sale.

We strongly promote the use of our website because it is our most efficient distribution channel in terms of cost-savings and customer convenience. By focusing on virtual distribution, we are able to streamline our ticket sales and services and eliminate the need to incur costs associated with more traditional distribution channels, such as physical ticket sale centers located outside of airports. In addition to being cost-effective, focusing on internet distribution also provides our customers with high levels of convenience, as they are better able to interact with us when they want and how they want, in either Portuguese, English or Spanish. Consistent with our philosophy of using a “24 hours a day” operating strategy to generate revenues, such as through our high aircraft utilization and night flights, focusing on internet distribution allows us to conduct business with our customers 24 hours a day. As a result of this emphasis on virtual distribution, we have become one of the largest and leading e-commerce businesses in South America in terms of revenue from internet-based sales.

We also use GDS, which provides us several benefits including access to approximately 60,000 tourism professionals who are able to sell our tickets to customers throughout the globe. GDS also enables us to enter into code sharing agreements with other airlines to offer more flights and connection options to our passengers and add incremental passenger traffic to our network.

We currently outsource work related to our call center distribution channel to independent contractors working under the supervision of Gol employees. We intend to internalize our call center operations, as we believe we can implement measures to further reduce the cost of call center-based sales. Another measure we have taken to contain distribution and ticketing costs is to issue paperless tickets only and to provide web-based check-in procedures, which saves paper costs, postage, employee time and back-office processing expenses.

An important element of our business strategy is to cater to the corporate client, one of the most demanding customers in the market. *Pesquisas Inteligentes*, an independent research firm in the market, estimates that approximately 62% of our passenger traffic consists of business customers. Business travelers have provided greater stability in our demand, as they fly regularly and not only during peak travel seasons. We have increased flight frequencies, destinations and fleet size so that we can increase options for our corporate customers. To further develop our business relationship with our corporate customers, we have also entered into alliances with hotel chains and rental car service providers to offer our corporate customers the convenience of packaged transportation and accommodation arrangements. We will continue to focus on expanding our base of cost-conscious, medium-sized corporate clients who serve as a source of recurring revenues.

To increase our market and stimulate demand for our tickets, we will also continue to provide our customers with a variety of flexible payment mechanisms. We offer more than 11 payment options for online-sales, such as credit card payments, debit payments and monthly installment payments. As part of this strategy, we launched in November 2005 the Voe Fácil (“Fly Easy”) Gol Program, which allows customers selected based on their credit history to pay for airline tickets in up to 36 monthly installments. The program is especially designed for highly price-sensitive customers, many of which do not hold credit cards. Installment payments are a typical sales strategy in the Brazilian retail market and we are now applying this sales technique to passenger transportation.

We advertise primarily through cost-efficient media, including internet websites, radio spots, local newspaper ads and billboards. When establishing a route in a new market, approximately two weeks before we begin offering air travel services, we send representatives to high-concentration areas in the new market such as shopping malls and popular restaurants to hold promotional giveaways and make people aware of their new travel option by focusing on our low fares and efficient service. Our *Aqui todo mundo pode voar*, or “Here everyone can fly” advertising campaign, commenced in July 2004, has been very effective in various related campaigns in promoting our objective to popularize air travel in Brazil. In December 2005, we successfully launched the campaign *Por que viajar de outro jeito, se você pode voar?*, or “Why travel by other means of transportation, if you can fly?”.

We also use innovative promotions to stimulate demand for air travel. For example, we first offered our night flights in December 2003 as a measure designed to attract customers who may not have previously considered air travel as an option due to their price sensitivity and also to generate revenues from our aircraft at times they

would otherwise have remained idle. These flights proved to be extremely popular among customers, achieving an average load factor of 90%, and we decided to offer them on a permanent basis. In 2004, we introduced our *Brasil mais perto*, or “Brazil is closer”, campaign, which featured very low internet-based fares for weekend travel and we also offered promotional prices for certain customer segments, such as senior citizens and children. We believe that the high number of visits to our website, which averaged 1,000,000 visitors per month during 2005, are in part the result of the customer interest created by our promotions. By offering campaigns with low promotional prices, we stimulate our customers to search for opportunities to fly Gol.

Unlike other Brazilian airlines, we do not accept customer reservations for flights. Instead, tickets are paid for by our customers at the time their seat is secured. This eliminates the possibility of overbooking, and guarantees all of our ticketed customers a seat on our flights.

## **Awards**

We have received a number of awards for matters such as service excellence, our website, finance, marketing and social responsibility. Among the highlights in 2005 were:

- *Air Transport World's (ATW)* – Market Leadership Award for 2006.
- Best Airline in Latin America by *Global Finance Magazine* in its November 2005 edition;
- No. 1 in the category of “Disclosure Procedures” in Latin America and top 5 in the category of “Corporate Governance” in Brazil at the Eighth *annual IR Global Rankings* in February 2006;
- Best Financial Management in 2004, in *Isto é Dinheiro* magazine; and
- One of Brazil’s most valuable brands by *Isto é Dinheiro* magazine in its 2005 Most Valuable Brazilian Brands Ranking.

## **Pricing**

Our emphasis on keeping our operating costs low has in turn allowed us to set low fares while achieving and increasing profitability. We have designed our fare structure to balance our load factors and yields in a way that we believe will generate the most profits from our flights. Our fares are below the average fares of our competitors and we dedicate most of our seats to the lower fare classes. As a result, we believe that we have established a reputation among our customers for more consistently delivering seats at our lowest advertised prices than do our competitors. Our approach to more transparent and competitive pricing has lowered fares in many of the markets that we have entered. Consistent with airline industry market practice in Brazil, with the exception of our deeply discounted night flights or special offers and promotions, we do not have advance purchase restrictions, minimum stays or required Saturday night stayovers. As provided for in the DAC regulations, passengers canceling travel plans on our flights are subject to a cancellation penalty. Passengers canceling their travel plans on our flights can either reschedule (if it occurs up to 24 hours prior to the flight and subject to the fare differential, if any), obtain a credit for future flights or be reimbursed for 80% of their fare. If the cancellation occurs less than 24 hours before the scheduled flight time, there is an additional penalty of R\$50. We charge no-show customers a R\$50 change fee, plus fare differential, if any, to use their ticket for another flight. If the replacement flight has a lower fare than the original flight (after giving effect to the change fee), the customer receives a credit equal to the difference.

In connection with our night flights, we set deeply discounted fares designed to compete with bus lines for travel to the same destinations. This approach has helped us to maximize our aircraft utilization rates to generate revenue during all times of the day. The night flights have also increased our customer base to include those who have previously only used other modes of transportation. The night flight fares usually require a two to five night minimum stay.

We also adjust our pricing in accordance with changes in passenger volume stemming from imbalances in the direction of traffic, such as during the holiday season. These periods often create demand peaks that result in

traffic flows that are weighted heavily in one direction, causing demand for seats in the other direction to be low. During these periods, we discount fares on the lower demand flights to stimulate traffic on those routes to help offset our fixed costs.

## **Yield Management**

Yield management involves the use of historical data and statistical forecasting models to produce knowledge about our markets and guidance on how to compete in them to maximize our operating revenues. Yield management and pricing form the backbone of our revenue generation strategy and they are also strongly linked to our route and schedule planning and our sales and distribution methods. Our yield management practices enable us not only to react quickly in response to market changes but also to anticipate and help shape market changes. For example, our yield management is instrumental in helping us to identify times and the routes for which we offer promotions. By offering lower fares for seats that our yield management indicates would otherwise remain unsold, we capture additional revenue and also stimulate customer demand.

The number of seats we offer at each fare level in each market results from a continual process of analysis and forecasting. Past sales history, seasonality, the effects of competition and current sales trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are included in our forecasting model to arrive at optimal seat allocations for our fares on specific routes. Also, our practice of not accepting seat reservations but instead requiring customers to pay for tickets at the time their seat is secured helps to increase the accuracy of our yield management. We use a combination of approaches, taking into account yields and flight load factors, depending on the characteristics of the markets served, to arrive at a strategy for achieving the best possible revenue per available seat kilometer, balancing the average fare charged against the corresponding effect on our load factors. For this purpose, we use a sophisticated M.I.T.-developed forecasting, optimization and competitive analysis technology that proposes the optimal fare mix for a given flight based on the historical purchasing behavior of our customers. Our revenue management system is similar to that used by other successful low-cost carriers, such as Ryanair and JetBlue.

## **Competition**

There is currently no other low cost airline in Brazil offering scheduled air passenger services. As the growth in the Brazilian low-cost, low-fare sector evolves, we may face increased competition from our primary competitors and charter airlines as well as other entrants into the market that reduce their fares to attract new passengers in some of our markets. In 2005, we became the second largest airline in the Brazilian market with a market share of 27.3%.

Airlines in Brazil compete primarily on the basis of routes, fare levels, frequency of flights, reliability of services, brand recognition, passenger amenities, such as frequent flyer programs, and customer service. We believe that our low-cost operating model and our low fares enable us to compete favorably in many of these areas. See “—Our Competitive Strengths.”

Our competitors and potential competitors include Brazil’s major airlines, regional airlines, charter airlines and new entrants, which mainly have regional networks. Our primary competitors are Varig and TAM Linhas Aéreas S.A., or TAM, each of which is a full-service carrier offering flights on domestic routes and international routes. On June 17, 2005, Varig filed for bankruptcy protection in Brazil and the United States. On January 19, 2006, it presented a restructuring plan to its creditors which was approved in February 2006. We cannot foresee whether the judicial reorganization and related judicial proceedings will have a positive effect on Varig’s financial condition in the short or medium term.

When we enter a new market, our primary competitors often reduce fares using capacity controls, such as limitations on the number of seats available in varying discount ranges, the use of minimum stay-over requirements and other restrictions to limit yield erosion. Our primary competitors have also used their customer loyalty plans as a competitive tool to limit the loss of their higher yield market share. We believe that the majority of our passengers are price sensitive, preferring low fares to paying for extras such as mileage programs.

The following table sets forth the historical market shares on domestic routes, based on revenue passenger kilometers, of the significant airlines in Brazil for each of the periods indicated:

<b>Domestic Market Share — Scheduled Airlines</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>
Gol(1) .....	4.7%	11.8%	19.4%	22.3%	27.3%
TAM .....	33.1%	34.9%	33.1%	35.8%	43.5%
Varig Group(2) .....	39.8%	39.3%	33.7%	31.1%	26.7%
Others(3) .....	22.4%	14.0%	13.8%	10.8%	2.5%

Source: DAC—Annual Air Transportation Report (Anuário do Transporte Aéreo)—Statistical Data—2001-2004. Advanced Comparative Data (Dados Comparativos Avançados) 2005

(1) Began operations in January 2001.

(2) Varig Group—includes Varig, Rio Sul and Nordeste.

(3) Includes Transbrasil (ceased operations in December 2001) and VASP (ceased operations in December 2003), among others.

We also face competition from ground transportation alternatives, primarily interstate bus companies. In 2004, interstate bus companies transported over 134 million passengers, according to the National Ground Transportation Agency (*Agência Nacional de Transportes Terrestres*), and given the absence of meaningful passenger rail services in Brazil, travel by bus has traditionally been the only low-cost option for long-distance travel for a significant portion of Brazil's population. We believe that our low-cost business model and strong capitalization has given us flexibility in setting our fares to stimulate demand for air travel among passengers who in the past have traveled long distances primarily by bus. In particular, the highly competitive fares we have offered for travel on our night flights, which have often been comparable to bus fares for the same destinations, have had the effect of providing direct competition for interstate bus companies on these routes. For example, at the end of 2005, we offered night flights between São Paulo and Porto Alegre, with a 1.5 hour flight duration, for an average fare of R\$161. In comparison, interstate bus companies charged their passengers a fare of approximately R\$150 for an 18.5 hour journey between the same two cities. We believe that operating night flights presents an opportunity to increase our overall load factor.

As we expand our international services, our pool of competitors will increase and we will face competition from airlines that are already established in the international market and that participate in strategic alliances and code sharing arrangements.

## Aircraft

At the end of 2005, we operated a fleet of 42 aircraft comprised of 22 Boeing 737-700 Next Generation aircraft, 8 Boeing 737-800 Next Generation aircraft and 12 Boeing 737-300 aircraft. We expect to operate approximately 88 aircraft by the end of 2010, concentrating our fleet on the 737-800 Next Generation aircraft. The composition of our fleet as of December 31, 2005 is more fully described below:

	<b>Number of Aircraft</b>		<b>Average Term of Lease Remaining (Years)</b>	<b>Average Age (Years)</b>	<b>Seating Capacity</b>
	<b>Total</b>	<b>Operating Lease</b>			
Boeing 737-800 .....	8	8	3.64	4.00	177
Boeing 737-700 .....	22	22	3.62	5.94	144
Boeing 737-300 .....	12	12	2.33	16.75	141

Each aircraft in our fleet is powered by two CFM International Model CFM 56-7B22 engines, two CFM International Model CFM 56-7B24 engines or two 51-3C1 engines and operates in a comfortable single-class layout. The average age of our aircraft at December 31, 2005 was 8.7 years, making ours one of the youngest fleets in South America.

We have placed firm purchase orders with The Boeing Company for 67 737-800 Next Generation aircraft and we have options to purchase an additional 34 737-800 Next Generation aircraft. Currently, we have 11 firm purchase orders for aircraft deliveries scheduled in 2006, 13 in 2007, 10 in 2008, 11 in 2009, 8 in 2010 and 14 after 2010. With these firm purchase orders and purchase options, we expect to further reduce our financing costs. In addition, by purchasing aircraft, we expect to be able to maintain our young fleet of aircraft going forward, increase fuel and operating efficiency and reduce maintenance costs.

We took delivery of 4 Boeing 737-800, 4 Boeing 737-700 aircraft and 7 Boeing 737-300 in 2005. We expect to take delivery of 12 Boeing 737-800 and 4 Boeing 737-700 during 2006.

The following table shows the historical and expected development of our fleet from December 31, 2004 to December 31, 2010:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
737-800.....	4	8	20	32	43	58	69
737-700.....	18	22	26	22	20	19	19
737-300.....	<u>5</u>	<u>12</u>	<u>12</u>	<u>10</u>	<u>7</u>	<u>3</u>	<u>0</u>
Total fleet .....	27	42	58	64	70	80	88

Our new and simplified fleet structure allows us to maintain a cost-efficient operation by reducing maintenance and training costs, reducing spare parts inventory requirements and supporting high reliability and high aircraft utilization rates. The average daily utilization rate of our aircraft between 2002 and 2005 has been 13.1 block hours (including 13.9 block hours in 2005), the highest average utilization rate in Brazil and one of the highest utilization rates in the industry worldwide according to airline company public filings.

The Boeing 737-700 and Boeing 737-800 Next Generation aircraft currently comprising our fleet are fuel-efficient and very reliable. They suit our cost efficient operations well for the following reasons:

- they have comparatively simplified maintenance routines;
- they require just one type of standardized training for our crews;
- they use an average of 7% less fuel than other aircraft of comparable size, according to Boeing; and
- they have one of the lowest operating costs in their class.

In addition to being cost-efficient, the Boeing 737-700/800 Next Generation aircraft are equipped with advanced technology that promotes flight stability, providing a more comfortable flying experience for our customers. Our focus on having low operating costs means that we will periodically review our fleet composition. As a result, our fleet composition may change over time if we conclude that adding other aircraft types would contribute to this goal. However, our approach to our fleet composition is based upon having a minimal number of different aircraft types to preserve the simplicity of our operations. As a result, the introduction of any new aircraft type to our fleet will only be done if, after careful consideration, we determine that such a step will reduce our operating costs. Since 2005, some of our leased Boeing 737-800 Next Generation aircraft have been equipped with blended winglets and all Boeing 737-800 Next Generation aircraft we will purchase in the next years will be equipped with these winglets. With these winglets, we expect to reduce our fuel and maintenance costs. In addition, the new aircraft will have technical modifications that we expect to significantly improve airplane performance during take-off and landing on short runways and will enable us to fly with our Boeing 737-800 Next Generation aircraft to the airport of Santos Dumont in Rio de Janeiro, an important link to highly profitable routes in Brazil.

We currently lease all of our aircraft under long-term operating lease agreements that have an average remaining term of 42 months. We believe that leasing a portion of our aircraft fleet provides us with flexibility to adjust our fleet size if we consider it to be in our best interests to do so. We make monthly rental payments, some of which are based on floating rates, but are not required to make termination payments at the end of our leases. Under our operating lease agreements, we do not have purchase options and we are required to maintain maintenance reserve accounts and to return the aircraft in the agreed condition at the end of the lease term. Title to the aircraft remains with the lessor. We are responsible for the maintenance, servicing, insurance, repair and overhaul of the aircraft during the term of the lease. As of December 31, 2005, our operating leases had terms of up to 96 months from the date of delivery of the relevant aircraft. Currently, 5 of our aircraft leases expire in 2006, 7 in 2007, 5 in 2008, 15 in 2009 and 8 in 2010.

## **Maintenance**

The maintenance performed on our aircraft can be divided into two general categories: line and heavy maintenance. Line maintenance consists of routine, scheduled maintenance checks on our aircraft, including pre-flight, daily and overnight checks and any diagnostics and routine repairs. All of our line maintenance is performed by our own highly experienced technicians at our bases in São Paulo, Rio de Janeiro, Porto Alegre, Curitiba, Florianópolis, Brasília, Salvador, Campinas, Vitória, Navegantes, Maringa, Recife and Londrina. We believe that our practice of performing daily preventative maintenance helps to maintain a higher aircraft utilization rate and reduces maintenance costs. Heavy maintenance consists of more complex inspections and servicing of the aircraft that cannot be accomplished overnight. Heavy maintenance checks are performed following a pre-scheduled agenda of major overhauls defined by the aircraft's manual, based on the number of flights flown by the aircraft. Our continued high aircraft utilization rate will result in shorter periods of time between heavy maintenance checks for our aircraft in comparison to carriers with lower aircraft utilization rates. We do not believe that our high aircraft utilization rate will necessarily result in the need to make more frequent repairs to our aircraft, given the durability of the aircraft type in our fleet.

We have internalized heavy maintenance on our aircraft and are in the final stage of completing our new Aircraft Maintenance Center at the Tancredo Neves International Airport in Confins, in the State of Minas Gerais. The center's first hangar was certified by the DAC and is already fully operational. The certification authorizes maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We will use the new facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We already make use of this new facility and expect it to be fully and permanently operational by mid-2006. We believe that the construction of the new maintenance facility will accommodate our recent fleet expansion, centralize our aircraft maintenance operations, provide cost savings and better enable us to determine the timing of the heavy maintenance so as to continue to maximize our aircraft utilization.

With our system of phased maintenance, we are able to perform maintenance work every day without sacrificing aircraft revenue time and to schedule preventive maintenance with more regularity and around the utilization of our aircraft, which helps to maintain high levels of block hours per day and reduces costs. We are one of the few airlines in the world having maintenance technicians capable of executing our system of phased maintenance.

We have also been certified by the DAC under the Brazilian Aeronautical Certification Regulations to perform heavy maintenance services for third parties. We intend to offer these services on competitive terms shortly after the completion of the new maintenance facility.

We employ 702 maintenance professionals, including engineers, supervisors, technicians and mechanics, who perform maintenance in accordance with maintenance plans that are established by Boeing and approved and certified by Brazilian aviation authorities. Our aircraft are covered by warranties that have an average term of seven years and that begin expiring in 2007, resulting in lower maintenance expenses during the period of coverage.

## **Facilities**

We have renewable concessions with terms varying from one to five years from INFRAERO to use and operate all of our facilities at each of the major airports that we serve. Our concession agreements for our terminals' passenger service facilities, which include check-in counters and ticket offices, operations support area and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the concession term.

INFRAERO has announced in 2003 its intention to invest approximately R\$5 billion in the Brazilian airport system until 2008. Among the projects underway is an investment to modernize the passenger terminal and expand parking capacity at Congonhas airport in São Paulo, an investment in Guarulhos airport in São Paulo to construct two new arrival terminals and an additional runway, and an investment in Santos Dumont airport in Rio de Janeiro to construct a new arrival terminal. The airport upgrade plan does not require contributions or investments by the Brazilian airlines and is not expected to be accompanied by increases in landing fees or passenger taxes on air travel.

Our primary corporate offices are located in two buildings in São Paulo. Our commercial, operations, technology, finance and administrative staff is based primarily at our headquarters. We have concessions to use other airport buildings and hangars throughout Brazil, including a part of a hangar at Congonhas airport where we perform parts of our aircraft maintenance. In addition, we are constructing a maintenance center at the Tancredo Neves International Airport in Confins, in the State of Minas Gerais.

## Fuel

Our fuel costs totaled R\$808.3 million in 2005, representing 39.5% of our operating expenses for the year. In 2005, we consumed approximately 477 million liters of fuel. We purchase substantially all of our fuel from Petrobras Distribuidora S.A., a retail subsidiary of Petrobras, principally under an into-plane contract under which the supplier supplies fuel and also fills our aircraft tanks. Fuel prices under our contracts are re-set every 15 days and are composed of a variable and a fixed component. The variable component is defined by the refinery and follows international crude oil price fluctuations and the *real*/U.S. dollar exchange rate. The fixed component is a spread charged by the supplier and is usually a fixed cost per liter during the term of the contract. We currently operate a tankering program under which we fill the fuel tanks of our aircraft in regions where fuel prices are lower. We also provide our pilots with training in fuel management techniques, such as carefully selecting flight altitudes to optimize fuel efficiency.

In July 2001, the Brazilian federal government eliminated fuel subsidies, causing a 30% increase in the price of fuel consumed domestically. Fuel costs are extremely volatile, as they are subject to many global economic and geopolitical factors that we can neither control nor accurately predict. Because international prices for jet fuel are denominated in U.S. dollars, our fuel costs, though payable in *reais*, are subject not only to price fluctuations but also to exchange rate fluctuations. In September 2003, we implemented a fuel and foreign exchange hedging program, based upon best practices employed by other successful low-cost carriers, under which we enter into fuel and currency hedging agreements with various counterparties providing for price protection in connection with the purchase of fuel. Our hedging practices cover short-term periods, and are adjusted weekly or more frequently as conditions require. Our hedging practices are overseen by a risk management committee at the operating level and a risk policies committee at the board of directors level. The risk management committee meets on a weekly basis to analyze price movements in the fuel and foreign exchange markets, review the impact of such changes on our revenues and expenses and determine our hedge ratio. We use risk management instruments that have a high correlation with the underlying assets so as to reduce our exposure. We require that all of our risk management instruments be liquid so as to allow us to make position adjustments and have prices that are widely disclosed. We also avoid concentration of credit and product risk. The risk policies committee of our board of directors meets quarterly to assess the effectiveness of our hedging policies and recommends amendments where appropriate. We have not otherwise entered into arrangements to guarantee our supply of fuel and we cannot provide assurance that our hedging program is sufficient to protect us against significant increases in the price of fuel. As of March 10, 2006, we have hedged approximately 55% and 65% of our projected fuel requirements and our U.S. dollar foreign exchange rate exposure, respectively, for the first quarter of 2006, and 30% of our projected fuel requirements for the year of 2006.

The following chart summarizes our fuel consumption and costs for the periods indicated:

	Year Ended December 31,			
	2002	2003	2004	2005
Liters consumed (in thousands) .....	164,008	264,402	317,444	476,725
Total cost (in thousands).....	R\$160,537	R\$308,244	R\$459,192	R\$808,268
Percent of operating expenses.....	26.1%	29.1%	33.2%	39.5%

## Insurance

We maintain passenger liability insurance in an amount consistent with industry practice and we insure our aircraft against losses and damages on an “all risks” basis. We are required by the DAC to maintain insurance coverage for general liability against terrorist acts or acts of war with a minimum amount of US\$600 million. We are in compliance with this requirement. We have obtained all insurance coverage required by the terms of our leasing agreements. We believe our insurance coverage is consistent with airline industry standards in Brazil and is

appropriate to protect us from material loss in light of the activities we conduct. No assurance can be given, however, that the amount of insurance we carry will be sufficient to protect us from material loss.

In response to the substantial increases of insurance premiums for coverage for damages resulting from terrorist attacks to aircraft after the September 11, 2001 attacks in the United States, the Brazilian government enacted Law No. 10,309 on November 22, 2001, generally authorizing the Brazilian government to undertake liabilities for damages caused to third parties as a result of terrorist attacks or acts of war against aircraft of Brazilian airlines. According to Law No. 10,744 of October 9, 2003, this undertaking by the federal government is currently limited to cover damages caused to third parties resulting from terrorist attacks and acts of war to Brazilian aircraft up to US\$1 billion. Decree No. 5,035 of April 5, 2004, which regulates the provisions of Law No. 10,744, provides that the Brazilian government may, at its sole discretion, suspend this coverage at any time, effective within seven days after the announcement by the Brazilian government of its decision to do so.

### **Social Responsibility and Cultural Sponsorship**

Our values are based upon growth, respect, and incentives for teamwork for our employees, and the fulfillment of our social and environmental obligations. We are committed to being a good corporate citizen in Brazil by participating in projects dedicated to improving the education, health and nutrition of the underprivileged portion of Brazil's population, particularly children. We are the largest individual sponsor of *Pastoral da Criança*, a non-governmental organization that has assisted in the health and education needs of more than 1.8 million children in Brazil from infancy to age six. We also support other non-governmental organizations, such as *Fundação Gol de Letra*, a foundation dedicated to educating underprivileged children and teenagers; *Projeto Felicidade*, a project that provides assistance to children with cancer; and *Projeto Solidariedade ao Nordeste*, a project that provides food donations to poor families in the northeastern region of Brazil. We sponsor numerous cultural and sports activities, such as theater plays and dance shows and sports events, to help promote travel and tourism in Brazil. In addition to making a difference for those in need, we also believe that our social responsibility and cultural sponsorship initiatives benefit us by enhancing our corporate image and promoting awareness of our brand. In December 2005, our shares were included in the Corporate Sustainability Index (ISE) Bovespa. It is the first stock index in Latin America comprised of companies with responsible views towards the environment, society, customers, suppliers and other stakeholders.

### **Industry Overview**

Since air transportation has historically been affordable only to the higher income segment of Brazil's population, resulting in a comparatively low level of air travel, we believe that the low-cost, low-fare business model has the potential to significantly increase the use of air transportation in Brazil. According to the DAC, there were 31.1 million domestic enplanements and 4.9 million international enplanements in Brazil in 2004, out of a total population of approximately 181 million, according to the Brazilian Geographical and Statistical Institute (*Instituto Brasileiro de Geografia e Estatística—IBGE*). In contrast, according to the U.S. Department of Transportation, the United States had 628.5 million domestic enplanements and 133.5 million international enplanements in 2004, out of a total population of approximately 293 million, according to the latest U.S. census figures.

Most long-distance public travel services within Brazil are provided by interstate bus companies. In 2004, Brazil's domestic airline industry transported almost 36 million passengers, as compared to over 134 million passengers transported by interstate bus companies in 2004, according to the National Ground Transportation Agency (*Agência Nacional de Transportes Terrestres*). Brazil has no meaningful interstate passenger rail services.

The business travel segment is the largest component of Brazilian air transportation demand and the most profitable in the market. According to the DAC, business travel represents approximately 70% of the total demand for domestic air travel in 2005, which we believe is significantly higher than the business travel portion of domestic air travel in the global aviation sector. According to data collected from the DAC, flights between Rio de Janeiro and São Paulo accounted for 13.1% of all domestic passengers in 2004. The ten busiest routes accounted for 35.7% of all domestic air passengers in 2004 while the ten busiest airports accounted for 74.9% and 75.6% of all domestic passenger traffic through INFRAERO airports in terms of arrivals and departures in 2004 and 2005, respectively.

The table below sets forth information about the ten busiest routes for air travel in Brazil during 2004.

<u>City Pair</u>	<u>Passengers</u>	<u>Route Market Share</u>
São Paulo—Rio de Janeiro(1).....	4,069,859	13.1%
São Paulo (Congonhas)—Rio de Janeiro (Santos Dumont)	3,194,514	10.3%
Rio de Janeiro (Galeão)—São Paulo (Guarulhos)	637,597	2.1%
São Paulo (Congonhas)—Brasília .....	1,227,220	3.9%
São Paulo (Congonhas)—Belo Horizonte (Pampulha).....	1,142,953	3.7%
São Paulo (Congonhas)—Curitiba.....	978,681	3.1%
São Paulo (Congonhas)—Porto Alegre .....	966,582	3.1%
São Paulo (Congonhas)—Salvador.....	650,857	2.1%
São Paulo (Congonhas)—Florianópolis.....	540,074	1.7%
São Paulo (Cumbica)—Recife.....	516,418	1.7%
Rio de Janeiro (Galeão)—Salvador .....	515,022	1.7%

Source: DAC, from *Anuário do Transporte Aéreo 2004*

(1) Includes flights between Congonhas and Guarulhos to either Santos Dumont or Galeão airports.

The scheduled domestic passenger airline industry in Brazil is primarily served by Gol and two main competitors—Varig and TAM. By the end of 2005, Gol, TAM and Varig accounted for over 97.7% of the market share of domestic regular routes, measured in terms of revenue passenger kilometers. On June 17, 2005, Varig filed for bankruptcy protection in Brazil and the United States. On January 19, 2006, it presented a restructuring plan to its creditors which was approved in February 2006. We cannot foresee whether the judicial reorganization and related judicial proceedings will have a positive effect on Varig’s financial condition in the short or medium term.

Set forth in the table below is the number of passengers traveling by air between Brazil and other specified South American countries during 2004, as well as the gross domestic product and population of each listed country.

<u>Country</u>	<u>Enplanements(1)</u>	<u>Percentage of Total</u>	<u>GDP(2)</u> <u>(in billions of US\$)</u>	<u>Population(3)</u> <u>(in millions)</u>
Argentina .....	1,457,877	51.3%	151.5	38.2
Chile .....	402,058	14.2%	94.1	16.0
Uruguay .....	264,271	9.3%	13.1	3.4
Bolivia .....	217,162	7.6%	8.8	9.0
Paraguay .....	181,639	6.4%	7.1	5.8
Peru.....	143,395	5.1%	68.4	27.5
Colombia .....	94,673	3.3%	97.4	45.3
Venezuela .....	<u>78,347</u>	<u>2.8%</u>	<u>109.3</u>	<u>26.1</u>
Total.....	<u>2,839,422</u>	<u>100%</u>	<u>549.7</u>	<u>171.3</u>

Sources (1) DAC – *Anuário de Transporte Aéreo 2004*

(2) *World Development Bank Indicators database, August 2005. Figures as of 2004*

(3) *World Development Bank Indicators database, August 2005. Figures as of 2004*

When inaugurating flights between Brazil and select destinations in neighboring South American countries, we must observe the terms of bilateral air transport agreements negotiated between Brazil and foreign governments. These bilateral agreements govern the operation of scheduled services between specified destinations in each country. See “—Regulation of the Brazilian Civil Aviation Market—Route Rights—International routes.”

### **Trends in Brazilian Civil Aviation Market**

Since 1970, Brazil has for the most part had stable growth in revenue passenger kilometers. From 1970 to 2005, domestic revenue passenger kilometers grew at a compound annual rate of 8.4%. In the past 35 years, the domestic market generally experienced year over year growth in revenue passenger kilometers except in times of significant economic or political distress, such as the petroleum crisis in the 1970’s, the Brazilian sovereign debt crisis in the early 1980’s and the economic and political distress in Brazil in the early 1990’s.

From 1997 to 2005, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 8.3% versus a compound annual growth rate in available industry capacity, in terms of available seat kilometers, of 5.5%. Domestic industry load factors, calculated as revenue passenger kilometers divided by available seat kilometers, have averaged 60% over the same period. The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	1997	1998	1999	2000	2001	2002	2003	2004	2005
	(In millions, except percentages)								
Available Seat Kilometers .....	31,146	38,121	40,323	41,437	45,008	47,109	41,927	43,034	47,979
Available Seat Kilometers Growth.....	8.7%	22.4%	5.8%	2.8%	8.6%	4.7%	(11.0)%	2.6%	11.5%
Revenue Passenger Kilometers .....	17,824	22,539	22,204	24,284	26,296	26,780	25,180	28,214	33,699
Revenue Passenger Kilometers Growth .....	7.5%	26.5%	(1.5)%	9.4%	8.3%	1.8%	(6.0)%	12.0%	19.4%
Load Factor.....	57.2%	59.1%	55.1%	58.6%	58.4%	56.8%	60.1%	65.6%	70.2%

Source: DAC, for 1997 to 2002 from *Anuário Estatístico*; and for 2003 through 2005 from *Dados Comparativos Avançados*.

Historically, domestic airline industry revenue growth has generally surpassed Brazilian GDP growth. From 1998 to 2004, domestic airline industry revenue grew at a real compound annual growth rate of 5.9% (as adjusted by the IPCA inflation index) while Brazilian GDP has grown at a real compound annual growth rate of 2.3% over the same period, according to data from the DAC and the Central Bank.

The airline industry in Brazil is regulated pursuant to Law No. 7,565, of December 19, 1986, also known as the Brazilian Aeronautical Code, as well as extensive regulations issued by the High Command of Aeronautics of the Ministry of Defense (*Comando da Aeronáutica*), the CONAC, and the DAC. Although the Brazilian airline sector was deregulated in the early 1990s, the DAC has imposed varying degrees of regulation since that time, and is charged with guiding, planning, stimulating and supporting the activities of public and private civil aviation as well as implementing international rules and conventions that have already been adopted by the Brazilian government. The decisions of the CONAC and the DAC at times significantly alter the regulatory environment for civil aviation. Decisions that change regulatory policy often correspond to major socio-economic events, such as the Persian Gulf War and the September 11, 2001 terrorist attacks, and we believe have been designed to shelter domestic carriers from major economic shocks. The DAC monitors and reacts to ongoing developments in the air transportation sector to achieve multiple competing objectives. The DAC often takes targeted action to address perceived constraints or challenges affecting civil aviation. The *ad hoc* policy initiatives of the DAC in the past have included moving to restrict or expand the supply of air transportation services, to reduce or decrease the availability of new routes and slots, to curtail or encourage competition in air fares, and to facilitate an orderly cessation of the activities of financially unsound carriers. Currently, the DAC imposes a series of restrictions and demands on the standards, safety, maintenance, regularity and quality of air carrier operations. Brazilian airlines are permitted to establish their own domestic fares. Domestic fares can be reviewed by the DAC in order to prevent airlines, which are public concessionaires, from operating in a way that is detrimental to their economic viability. The DAC also monitors the concession of airport slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new aircraft. The regulatory environment relating to the Brazilian civil aviation market is evolving, and a number of new laws are being discussed in Congress and within various regulatory bodies that would change the way in which the industry is regulated. See “Item 4. Business Overview—Regulation of the Brazilian Civil Aviation Market.”

In 2003, the CONAC issued guidelines to limit the entry of new concessionaires, the acquisition of new aircraft and the granting of new routes to existing concessionaires in order to protect the financial performance of the Brazilian airline industry as a whole. Based on these guidelines, in order to obtain authorizations for existing concessionaires to operate new routes and to change existing ones, the applicant must file with the DAC studies to justify the technical and economic viability of the requested route and the DAC will also consider the capacity of the airport infrastructure support, the increase in demand and competition among airlines.

The current regulatory environment developed following an economic slowdown in Brazil and a significant decline in passenger air traffic in late 2001. According to the DAC, the airline sector generated a R\$330 million operating profit in 2004 compared to an operating loss of R\$1.2 billion in 2001. We believe the current regulatory regime has benefited the recent improved financial performance of the Brazilian airline sector and helped to shift the trend back towards stability. Brazilian airline industry yields increased from R\$0.29 in 2002 to R\$0.35 in 2003 and R\$0.36 in 2004, with load factors of 56.8% in 2002 and 60.1% in 2003 and 65.6% in 2004.

On September 27, 2005, President Luis Inácio Lula da Silva approved Law No. 11,182 relating to the creation of the National Civil Aviation Agency, or ANAC, which will replace DAC as the primary civil aviation authority. According to Law No. 11,182, ANAC will be responsible for organizing civil aviation within a coherent system (coordinating and supervising air transportation service and aviation and ground infrastructure) and for modernizing the regulation of Brazilian aviation operations. ANAC will be linked, but not subordinated, to the

Ministry of Defense and will operate as an independent agency for an indefinite term. ANAC will principally have the authority to (i) regulate, inspect and supervise services rendered by Brazilian and foreign airlines operating in Brazil, (ii) grant concessions, permits and authorizations for air transport operations and airport infrastructure services after conducting a bidding process, (iii) represent the Brazilian government before international civil aviation organizations and (iv) control, register and inspect civil aircraft. Furthermore, Law No. 11,182 promotes private enterprise in civil aviation. In accordance with articles 48 and 49, passenger transportation is intended to be provided by the private sector on a competitive basis. In accordance with Section 7 of Law No. 11,182, ANAC shall be implemented and commence its activities within 180 days as of September 28, 2005. However, it is necessary that the Brazilian Government issue a decree setting forth the organizational structure of the agency as well as its internal regulatory regime.

## **Regulation of the Brazilian Civil Aviation Market**

### *The Brazilian Aviation Authorities and Regulation Overview*

Air transportation services are considered a public service and are subject to extensive regulation and monitoring by the High Command of Aeronautics of the Ministry of Defense (*Comando da Aeronáutica*), the CONAC and, until ANAC commences its activities, the DAC. Air transportation services are also regulated by the Brazilian Federal Constitution and the Brazilian Aeronautical Code.

In light of the troubled financial situation of several carriers operating in Brazil's domestic airline industry, the Brazilian civil aviation authorities have introduced measures and applied policies designed to reestablish the health of Brazil's domestic airline industry. A principal element of this objective has been to proactively manage the balance between market supply and demand by, for example, only granting approvals to carriers to operate new routes, increase flight frequencies or lease or acquire additional aircraft upon demonstration by carriers of satisfactory levels of demand and profitability. These measures contributed towards increased health for the Brazilian domestic airline industry in 2004 and 2005. Another key feature of the decisions taken by aviation authorities has been a reliance on private sector investment in air transportation services.

The Brazilian Aeronautical Code provides for the main rules and regulations relating to airport infrastructure and operation, flight safety and protection, airline certification, lease structuring, burdening, disposal, registration and licensing of aircraft; crew training; concessions, inspection and control of airlines; public and private air carrier services, civil liability of airlines, and penalties in case of infringements.

The CONAC is an advisory body of the President of Brazil and its upper level advisory board is composed of the Minister of Defense, the Minister of Foreign Affairs, the Minister of Treasury, the Minister of Development, Industry and International Trade, the Minister of Tourism, the Minister Chief of the Civil Cabinet and the Commandant of the Air Force.

The CONAC has the authority to establish national civil aviation policies that may be adopted and enforced by the High Command of Aeronautics and by the DAC, and in the future, by the ANAC. The CONAC establishes guidelines relating to the proper representation of Brazil in conventions, treaties and other actions related to international air transportation, airport infrastructure, the granting of supplemental funds to be used for the benefit of airlines and airports based on strategic, economic or tourism-related aspects, the coordination of civil aviation, air safety, the granting of air routes and concessions, as well as permission for the provision of commercial air transportation services.

The DAC is currently Brazil's highest civil aviation authority and reports directly to the High Command of Aeronautics. Until the installation of the ANAC, the DAC is responsible for guiding, planning, stimulating and supporting the activities of public and private civil aviation companies in Brazil. The DAC regulates flying operations generally and economic issues affecting air transportation, including matters relating to air safety, certification and fitness, insurance, consumer protection and competitive practices.

The Brazilian government recognized and ratified, and must comply with, the Warsaw Convention of 1929, the Chicago Convention of 1944, and the Geneva Convention of 1948, the three leading international conventions relating to worldwide commercial air transportation activities.

#### *Concession for Air Transportation Services*

According to the Brazilian Federal Constitution, the Brazilian government is responsible for public services related to airspace as well as airport infrastructure, and may provide these services directly or through third parties under concessions or permissions. According to the Brazilian Aeronautical Code and regulations issued by the High Command of Aeronautics, the application for a concession to operate regular air transportation services is subject to the DAC having granted to the applicant a license to operate an airline, which must be then confirmed by the High Command of Aeronautics. After the installation of the ANAC, the agency will be the only body responsible for regulation, monitoring and granting of the licenses to applicants to explore regular air transportation services. The applicant is required by the DAC to have met certain economic, financial, technical, operational and administrative requirements in order to be granted such license. Additionally, a concession applicant must be an entity incorporated in Brazil, duly registered with the Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro*, or RAB), must have a valid CHETA and must also comply with certain ownership restrictions. See “—Restrictions to the Ownership of Shares Issued by Concessionaires of Air Transportation Services.” The DAC has the authority to revoke a concession for failure by the airline to comply with the terms of the Brazilian Aeronautical Code, the complementary laws and regulations and the terms of the concession agreement.

Our concession was granted on January 2, 2001 by the High Command of Aeronautics of the Ministry of Defense. Our concession agreement has a 15-year term and is renewable at its expiration for a further 15-year term upon six months’ prior written notice. The concession agreement can be terminated if, among other things, we fail to meet specified service levels, cease operations or declare bankruptcy.

Article 122 of Law No. 8,666 of June 21, 1993, provides that airline concessions are to be regulated by specific procedures set forth in the Brazilian Aeronautical Code. The Brazilian Aeronautical Code and the regulations issued by the High Command of Aeronautics do not expressly provide for public bidding processes and currently it is not necessary to conduct public bidding processes prior to the granting of concessions for the operation of air transportation services.

#### *Import of Aircraft into Brazil*

The import of civil or commercial aircraft into Brazil is subject to prior authorization by the COTAC, which is a sub-department of the DAC. Such import authorizations usually follow the general procedures for import of goods into Brazil, after which the importer must request the registration of the aircraft with the RAB.

#### *Registration of Aircraft*

The registration of aircraft in Brazil is governed by the Brazilian Aeronautical Code. Under the Brazilian Aeronautical Code, no aircraft is allowed to fly in Brazilian airspace, or land in or take off from Brazilian territory, without having been properly registered. In order to be registered and continue to be registered in Brazil, an aircraft must have a certificate of registration (*certificado de matrícula*) and a certificate of airworthiness (*certificado de aeronavegabilidade*), both of which are issued by the RAB after technical inspection of the aircraft by the DAC. A certificate of registration attributes Brazilian nationality to the aircraft and is evidence of its enrollment with the competent aviation authority. A certificate of airworthiness is generally valid for six years from the date of the DAC’s inspection and authorizes the aircraft to fly in Brazilian airspace, subject to continuing compliance with certain technical requirements and conditions. The registration of any aircraft may be cancelled if it is found that the aircraft is not in compliance with the requirements for registration and, in particular, if the aircraft has failed to comply with any applicable safety requirements specified by the DAC or the Brazilian Aeronautical Code.

All information relating to the contractual status of an aircraft, including purchase and sale agreements, operating leases and mortgages, must be filed with the RAB in order to provide the public with an updated record of any amendments made to the aircraft certificate of registration.

### *Route Rights*

*Domestic routes.* The DAC has the authority to grant Brazilian airlines the right to operate new routes, subject to the airline having filed studies satisfactory to the DAC demonstrating the technical and financial viability of such routes and fulfilling certain conditions in respect of the concession for such routes. For the granting of new routes and changes to existing ones, the DAC evaluates the actual capacity of the airport infrastructure from where such route is or would be operated, as well as the increase in demand and competition among airlines. In addition, route frequencies are granted subject to the condition that they are operated on a frequent basis. Any airline's route frequency rights may be terminated if the airline (a) fails to begin operation of a given route for a period exceeding 15 days, (b) fails to maintain at least 75% of flights provided for in its air transportation schedule (*Horário de Transporte Aéreo*, or HOTRAN) for any 90-day period or (c) suspends its operation for a period exceeding 30 days. The DAC approval of new routes or changes to existing routes is given in the course of an administrative procedure and requires no changes to existing concession agreements.

Once routes are granted, they must be immediately reflected in the HOTRAN, which is the official schedule report of all routes that an airline can operate. The HOTRAN provides not only for the routes but also the times of arrival at and departure from certain airports, none of which may be changed without the prior consent of the DAC. According to Brazilian laws and regulations, an airline cannot sell, assign or transfer its routes to another airline.

*International routes.* In general, requests for new international routes, or changes to existing ones, must be filed by each interested Brazilian airline that has been previously qualified by the DAC to provide international services, with the CERNAI, which decides upon each request based on the provisions of the applicable bilateral agreement and general policies of the Brazilian aviation authorities. International route rights for major city pairs, as well as the corresponding landing rights, derive from bilateral air transport agreements negotiated between Brazil and foreign governments. Under such agreements, each government grants to the other the right to designate one or more of its domestic airlines to operate scheduled service between certain destinations in each country. Airlines are only entitled to apply for new international routes when they are made available under these agreements. Since the beginning of 2005, we extended our South American network to five new destinations in Argentina, Uruguay, Paraguay and Bolivia.

### *Slots Policy*

Under Brazilian law, a slot is a concession of the DAC, which is reflected in the airline's HOTRAN. A slot, like a route, may not be transferred by one airline to another. Each HOTRAN represents the authorization for an airline to depart from and arrive at specific airports within a predetermined timeframe. Such period of time is known as an "airport slot" and provides that an airline can operate at the specific airport at the times established in the HOTRAN. The most congested Brazilian airports are subject to traffic restrictions through time slot policies. An airline must request an additional slot from the DAC upon a minimum of two months' prior notice.

On October 5, 2001, the Department of Control of the Air Space (*Departamento de Controle do Espaço Aéreo*), or DECEA, was created with the main purpose of coordinating and inspecting the infrastructure support of airports and the safety of aircraft operations. The DECEA also performs studies in all Brazilian airports to determine the maximum capacity of the operations of each airport. There are five airports in Brazil that have slot restrictions: Congonhas and Guarulhos (both of which serve São Paulo), Santos Dumont in Rio de Janeiro, Pampulha in Belo Horizonte and Juscelino Kubitschek in Brasília. Since the slots of all congested airports are fully utilized, the DAC is unable to grant the right to new slots to airlines to operate in these airports. Ongoing investment in the Brazilian aviation infrastructure should permit the increase of aircraft operations in these congested airports and consequently the concession of rights to new slots to airlines.

### *Airport Infrastructure*

INFRAERO, a state-controlled corporation reporting to the High Command of Aeronautics, is in charge of managing, operating and controlling federal airports, including control towers and airport safety operations. Smaller, regional airports may belong to states or municipalities within Brazil and, in such cases, are often managed by local

governmental entities. At most Brazilian airports, INFRAERO performs safety and security activities, including passenger and baggage screening, cargo security measures and airport security.

The use of areas within federal airports, such as hangars and check-in booths, is subject to a concession by INFRAERO. If there is more than one applicant for the use of a specific airport area, INFRAERO may conduct a public bidding process for the granting of the concession.

We have renewable concessions with terms varying from one to five years from INFRAERO to use and operate all of our facilities at each of the major airports that we serve. Our concession agreements for our terminals' passenger service facilities, which include check-in counters and ticket offices, operations support area and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the concession term.

INFRAERO has announced in 2003 its intention to invest approximately R\$5 billion in the Brazilian airport system until 2008. Among the projects underway is an investment to modernize the passenger terminal and expand parking capacity at Congonhas airport in São Paulo, an investment in Guarulhos airport in São Paulo to construct two new arrival terminals and an additional runway, and an investment in Santos Dumont airport in Rio de Janeiro to construct a new arrival terminal. The airport upgrade plan does not require contributions or investments by the Brazilian airlines and is not expected to be accompanied by increases in landing fees or passenger taxes on air travel.

The table below sets forth the number of passengers at the ten busiest airports in Brazil during 2005:

<u>Airport</u>	<u>Thousands of Passengers (Inbound and Outbound)</u>
São Paulo—Congonhas .....	17,147,628
São Paulo—Guarulhos.....	15,827,708
Brasília.....	9,481,983
Rio de Janeiro—Galeão.....	8,657,139
Salvador.....	4,554,096
Recife.....	3,604,652
Rio de Janeiro—Santos Dumont.....	3,562,297
Porto Alegre.....	3,521,204
Curitiba.....	3,392,986
Belo Horizonte—Confins .....	2,892,393

Source: INFRAERO

### *Pricing*

Brazilian airlines are permitted to establish their own domestic fares without government regulation. However, domestic fares are monitored on a regular basis by the DAC in order to prevent airlines, which are public concessionaires, from operating in a way that is detrimental to their economic viability. Airlines are free to offer price discounts or follow other promotional strategies. Airlines must submit, with a minimum of five working days' advance notice, fares that are set at greater than a 65% discount to the per kilometer reference fares index curve published by the DAC. Such reference fares index curves are based on industry average operating costs, according to DAC calculations.

International tariffs are set based upon bilateral arrangements. Fares for specific routes are submitted to the DAC for approval.

### *Civil Liability*

The Brazilian Aeronautical Code and the Warsaw Convention limit the liability of an aircraft operator for damages caused to third parties during its air and ground operations, or resulting from persons or things ejected out

of the aircraft. Brazilian courts, however, have occasionally disregarded these limitations by awarding damages purely based on the Brazilian Civil Code and Brazilian Consumer Protection Code, both of which do not expressly provide for limitations on the amount of such awards.

In response to the substantial increases in insurance premiums for coverage relating to damage resulting from terrorist attacks to aircraft after the September 11, 2001 attacks in the United States, the Brazilian government enacted a law which authorizes the Brazilian government to undertake liability for damages caused to third parties as a result of terrorist attacks or acts of war against aircraft of Brazilian airlines. See “Item 4. Business Overview—Insurance.”

#### *Environmental Regulations*

Brazilian airlines are subject to various federal, state and municipal laws and regulations relating to the protection of the environment, including the disposal of materials and chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities, each of which may impose administrative sanctions in case of violation, in addition to any eventual criminal or civil liabilities. For example, according to a DAC ordinance, the operation of scheduled commercial flights to and from the Congonhas airport is subject to a noise curfew from 11:00 p.m. to 6:00 a.m. because of its proximity to residential areas in São Paulo. Our scheduled flights to Congonhas airport are in full compliance with the noise curfew limits.

#### *Restrictions on the Ownership of Shares Issued by Concessionaires of Air Transportation Services*

According to the Brazilian Aeronautical Code, in order to be eligible for a concession for operation of regular services, the entity operating the concession must have at least 80% of its voting stock held directly or indirectly by Brazilian citizens and must have certain management positions entrusted to Brazilian citizens. The Brazilian Aeronautical Code also imposes certain restrictions on the transfer of capital stock of concessionaires of air transportation services, such as Gol, including the following:

- the voting shares have to be nominative and non-voting shares cannot be converted into voting shares;
- prior approval of the Brazilian aviation authorities is required for any transfer of shares, regardless of the nationality of the investor, which results in the change of the company’s corporate control, causes the assignee to hold more than 10% of the company’s capital stock or represents more than 2% of the company’s capital stock;
- the airline must file with the DAC, in the first month of each semester, a detailed stockholding interest chart including a list of shareholders, as well as a list of all share transfers effected in the preceding semester; and
- based on its review of the airline’s stock interest chart, the DAC has the authority to subject any further transfer of shares to its prior approval.

The Registrant holds substantially all of the shares of Gol, which is a public concessionaire of air transportation services in Brazil. Under the Brazilian Aeronautical Code, the restrictions on the transfer of shares described above apply only to companies that hold concessions to provide regular air transportation services. Therefore, the restrictions do not apply to the Registrant.

#### *Pending Legislation*

In addition, on March 28, 2001, CONAC published for public consultation a draft of a bill to replace the Brazilian Aeronautical Code and modernize the basic laws and regulations relating to the industry. In general, this draft deals with matters related to civil aviation, including airport concessions, consumer protection, increased foreign shareholding participation in airlines, limitation of airlines’ civil liability, compulsory insurance and fines.

#### *Cape Town Convention*

The Cape Town Convention aims at promoting investments in aircraft by facilitating the granting of guarantees on aircraft lease and purchase transactions. The Brazilian government has not yet ratified the Cape Town Convention. In case the convention is ratified, aircraft financing costs for Brazilian airlines could decrease by about one percent.

### **C. Organizational Structure**

The Registrant is a holding company, which owns shares of three subsidiaries: Gol, GOL Finance LLP and GTI S/A. Gol is the Registrant's operating subsidiary, under which we conduct our business. GOL Finance LLP is a United Kingdom-based financing vehicle established for the purpose of facilitating cross-border transactions, including the lease and the purchase of aircraft. GTI S/A is a Brazilian company and has not had any activities since its incorporation.

### **D. Property, Plants and Equipment**

Our primary corporate offices are located in two buildings in São Paulo. Our commercial, operations, technology, finance and administrative staff is based primarily at our headquarters. We have concessions to use other airport buildings and hangars throughout Brazil, including a part of a hangar at Congonhas airport where we perform aircraft maintenance. We are in the final stage of building our new state-of-the-art Aircraft Maintenance Center in Confins, in the State of Minas Gerais. The center's first hangar was certified by the DAC to begin maintenance services and received its first aircraft. The certification authorizes maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We will use the new facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We expect the new facility to be operational by mid-2006.

### **ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*You should read this discussion in conjunction with our consolidated financial statements and the related notes and the other financial information included elsewhere in this annual report.*

We are one of the most profitable low-cost airlines in the world and had net revenues of R\$2.7 billion and net income of R\$513.2 million for the year ended December 31, 2005. We are the only low-fare, low-cost airline operating in Brazil providing frequent service on routes connecting all of Brazil's major cities. We focus on increasing the growth and profits of our business by popularizing air travel and stimulating and meeting demand for safe, affordable, convenient air travel in Brazil and between Brazil and other South American destinations for both business and leisure passengers. We do this by offering simple, safe and efficient service while having one of the lowest operating costs in the airline industry worldwide. Our long-term business objective is to become the largest Brazilian airline and to bring affordable air travel to all significant destinations in South America.

The Registrant is a holding company that was incorporated on March 12, 2004. Shares of Gol, an off-shore finance subsidiary, cash and cash equivalents and short-term investments are currently the Registrant's only material assets.

Gol was incorporated in August 2000 and began transporting passengers in January 2001 with six single-class Boeing 737-700 Next Generation aircraft serving five cities in Brazil. By the end of 2005, we were operating 42 single-class Boeing 737 Next Generation aircraft serving 43 cities in Brazil, one in Argentina and one in Bolivia. We have flown over 36 million passengers since commencing operations and 13 million in 2005, an increase of 41% to the number of passengers flown in 2004. According to the DAC, Brazil's civil aviation authority, our share of the domestic market based on revenue passenger kilometers grew from 11.8% in 2002 to 19.4% in 2003, 22.3% in 2004 and 27.3% in 2005. The increase in our fleet size and flight frequencies, entry into new markets and new customer segments have been primarily accountable for yearly increases in our revenues (40.0% between 2003 and 2004 and

36.1% between 2004 and 2005) and operating costs (30.8% between 2003 and 2004 and 47.9% between 2004 and 2005).

We offer travelers a low-fare, high-quality transportation alternative that we believe is an attractive value compared to conventional airline and bus transportation. We have a diversified passenger base, with customers ranging from business passengers traveling within densely populated centers in Brazil, such as São Paulo, Rio de Janeiro and Belo Horizonte, to leisure passengers traveling to destinations throughout Brazil and from Brazil to Argentina, Bolivia, Paraguay and Uruguay.

We are the lowest cost provider of passenger air transportation in South America, and one of the lowest cost airlines in the world based on publicly available data. Our low costs have helped us to become the most profitable airline in South America and one of the most profitable low-cost carriers in the world, based on results of operations for the year ended December 31, 2005.

Set forth in the table below is information about key performance indicators for select leading low-cost carriers worldwide and other South American carriers.

<u>Company</u>	<u>Operating Income (in Millions of US\$)</u>	<u>Net Income (Loss) (in Millions of US\$)</u>	<u>Operating Margin</u>	<u>Net Income Margin</u>
<b>Low-cost carriers:</b>				
Southwest Airlines(1).....	820.0	548.0	10.8%	7.2%
Ryanair(2).....	456.9	372.2	23.5%	19.1%
Gol(3).....	265.5	219.3	23.3%	19.2%
Virgin Blue(4).....	117.0	80.2	8.8%	6.0%
Jet Blue Airways(1).....	47.6	(20.3)	2.8%	(1.2)%
EasyJet(5).....	86.2	75.4	3.6%	3.2%
Air Asia(6).....	32.2	48.7	15.7%	23.7%
<b>South American carriers:</b>				
Copa Airlines (7).....	97.2	77.2	18.1%	14.4%
LanChile(8).....	141.6	146.6	5.7%	5.8%
TAM(3).....	261.4	182.2	10.8%	7.6%
Varig(9).....	155.1	(239.4)	4.2%	(6.4)%

(1) U.S. GAAP figures for the fiscal year ended December 31, 2005.

(2) U.S. GAAP figures for the 12 month period ended September 30, 2005. Based on a US Dollar/Euro exchange rate of 1.1796 as of December 31, 2005.

(3) U.S. GAAP figures for the fiscal year ended December 31, 2005. Based on a Brazilian Real/US Dollar exchange rate of 2.3407 as of December 31, 2005.

(4) Australian GAAP figures for the 9 month period ended September 30, 2005. Based on an US Dollar/Australian Dollar exchange rate of 0.7636 as of September 30, 2005.

(5) UK GAAP figures for the 12 month period ended September 30, 2005. Based on a US Dollar/British Pound exchange rate of 1.7691 as of September 30, 2005.

(6) Malaysian GAAP figures for the fiscal year ended December 31, 2005. Based on a US Dollar/Malaysian Ringitt exchange rate of 0.2646 as of December 31, 2005.

(7) U.S. GAAP figures for the 12 month period ended September 30, 2005.

(8) U.S. GAAP figures in US Dollars, for the fiscal year ended December 31, 2005.

(9) Brazilian GAAP figures for the fiscal year ended September 30, 2005. Based on a Brazilian *Real*/US Dollar exchange rate of 2.2222 as of September 30, 2005.

The following table demonstrates the growth of our operations, on a quarterly basis, since we commenced our operations in January 2001:

<u>At Period Ended</u>	<u>Cities Served</u>	<u>Number of Departures</u>	<u>Operating Aircraft(1)</u>
March 31, 2001.....	7	3,771	6
June 30, 2001.....	10	5,493	7
September 30, 2001.....	11	6,540	9
December 31, 2001.....	16	8,923	10
March 31, 2002.....	16	9,791	15
June 30, 2002.....	20	13,040	15
September 30, 2002.....	20	13,880	16
December 31, 2002.....	21	15,954	19

March 31, 2003.....	24	17,349	21
June 30, 2003.....	25	18,298	21
September 30, 2003.....	25	19,685	22
December 31, 2003.....	28	20,107	22
March 31, 2004.....	28	20,825	22
June 30, 2004.....	28	20,838	22
September 30, 2004.....	30	22,299	23
December 31, 2004.....	36	23,746	27
March 31, 2005.....	37	25,513	30
June 30, 2005.....	41	28,750	34
September 30, 2005.....	42	32,237	38
December 31, 2005.....	45	34,192	42

(1) Currently, all of our aircraft are leased.

## A. Operating Results

### Revenues

We derive our revenues primarily from transporting passengers on our aircraft. Approximately 95% of our revenues are derived from passenger fares, and the remaining 5% of our revenues are derived principally from our cargo and other business, which utilizes available cargo space on our passenger flights. Nearly all of our passenger revenue and cargo revenue is denominated in *reais*. Passenger revenue is recognized either when transportation is provided or when the ticket expires unused. Cargo revenue is recognized when transportation is provided. Other revenue consists primarily of charter services, ticket change fees and excess baggage charges. Passenger revenues are based upon our capacity, load factor and yield. Our capacity is measured in terms of available seat kilometers, which represents the number of seats we make available on our aircraft multiplied by the number of kilometers the seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing revenue passenger kilometers by available seat kilometers. Yield is the average amount that one passenger pays to fly one kilometer.

The following table sets forth our capacity, load factor and yield for the periods indicated.

	<u>Year Ended December 31,</u>		
	<u>2003</u>	<u>2004</u>	<u>2005</u>
Capacity (in available seat kilometers, in millions).....	7,526.6	8,843.9	13,245.9
Revenue per available seat kilometers (in R\$ cents).....	18.6	22.2	20.2
Load factor.....	64.2%	71.1%	73.5%
Yield (in R\$ cents).....	R\$ 27.7	R\$ 29.8	R\$ 26.1
Growth in passenger revenues per available seat kilometer.....	38.6%	19.2%	(9.6)%

We have increased our revenues by increasing our capacity (in terms of fleet size and departures), load factor and yield. We believe that our careful focus on serving specific segments of the domestic air travel market, the value that we offer our customers and our low fares distinguish us from other airlines and enable us to continue increasing our capacity to take advantage of strong, untapped demand for low-cost, low-fare services.

We are optimizing our revenues per available seat kilometer due to strong demand for our services, quick aircraft turnaround times, our efficient route network and our modern fleet, our high aircraft utilization rate and effective revenue management strategies that balance our fares and load factors. In 2005, however, our revenue per available seat kilometer decreased by 9.1% from R\$22.2 cents in 2004 to R\$20.2 cents mainly due to a decrease in yield of 12.6% from R\$29.8 cents in 2004 to R\$26.1 cents. Our yield decreased mainly due to a fare re-alignment in March 2005 and the appreciation of the Brazilian real against the U.S. dollar. Our load factors for domestic flights increased by 3.4% from 71.1% in 2004 to 73.7% in 2005.

The DAC and the aviation authorities of the other South American countries in which we operate, may influence our ability to generate revenues. In Brazil, the DAC approves the concession of slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new aircraft. As an element of government measures designed to improve the financial health of the Brazilian major carriers operating in the Brazilian civil aviation industry, since March 2003 airlines have been required to demonstrate satisfactory

levels of demand and profitability before the DAC will approve requests for new routes, increases in flight frequencies or the lease or acquisition of additional aircraft. Our ability to grow and to increase our revenues is dependent on the receipt of approvals for new routes, increased frequencies and additional aircraft from the DAC.

Our revenues are net of certain taxes, including state-value added taxes, *Imposto sobre Circulação de Mercadorias e Serviços*, or ICMS; federal social contribution taxes, including *Programa de Integração Social*, or PIS, and the *Contribuição Social para o Financiamento da Seguridade Social*, or COFINS. ICMS does not apply to passenger revenues. The average rate of ICMS on cargo revenues varies by state from 4% to 12%. As a general rule, PIS and COFINS are imposed at rates of 1.65% and 7.6%, respectively, of total revenues.

Generally, the revenues from and profitability of our flights reach their highest levels during the January and July summer and winter vacation periods and in the final two weeks of December during the Christmas holiday season. The week during which the annual Carnival celebrations take place in Brazil is generally accompanied by a decrease in load factors. Given our high proportion of fixed costs, this seasonality is likely to cause our results of operations to vary from quarter to quarter. We generate most of our revenue from ticket sales through our website, and we are one of the largest and leading e-commerce companies in Brazil in terms of net sales through the internet.

### **Operating Expenses**

We have lower operating expenses than other airlines because we operate a simplified fleet with a single-class of service, have one of the newest fleets in the industry, utilize our aircraft efficiently, use and encourage low-cost ticket sales and distribution processes. The main components of operating expenses include those related to aircraft fuel, aircraft rent, aircraft maintenance, sales and marketing, and salaries, wages and benefits provided to employees, including provisions for our profit sharing plan.

Our aircraft fuel expenses are higher than those of low-cost airlines in the United States and Europe because there is only one significant supplier of jet fuel in Brazil and taxes applicable to the sale of jet fuel are very high and are passed along to us. Our aircraft fuel expenses are variable and fluctuate based on global oil prices. From January 1, 2001 to December 31, 2005, the price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 128% from US\$26.80 per barrel to US\$61.04 per barrel. Since global oil prices are U.S. dollar-based, our aircraft fuel costs are also linked to fluctuations in the exchange rate of the *real* versus the U.S. dollar. As we can generally adjust our fares to offset fuel price increases and *real* exchange rate declines over a period of several months, we currently enter into short-term arrangements to hedge against increases in oil prices and foreign exchange fluctuations.

Our aircraft rent expenses are in U.S. dollars and have increased in line with the expansion of our operations. We also use short-term arrangements to hedge against exchange rate exposure related to our lease payment obligations. In addition, approximately 9% of our aircraft operating leases have floating-rate payment obligations that are based on fluctuations in international interest rates. We currently have a hedging program in place to manage our interest rate exposure.

Our maintenance, material and repair expenses consist of light and scheduled heavy maintenance of our aircraft. Maintenance and repair expenses, including overhaul of aircraft components, are charged to operating expenses as incurred. Our aircraft require a low level of maintenance because the average age of the aircraft in our fleet at December 31, 2005 was 8.7 years. We also currently incur lower maintenance expenses because most of the parts on our aircraft are under multi-year warranties. If the age of our fleet increases and our warranties expire, our maintenance expenses under U.S. GAAP will increase. For an explanation of the treatment of maintenance and repair expenses under U.S. GAAP, see Note 2 to our consolidated financial statements. We have maintenance reserve accounts denominated in U.S. dollars to cover a portion of our future maintenance costs. In October 2005, we completed the first phase of our new Aircraft Maintenance Center in Confins, in the State of Minas Gerais. The center's first hangar was certified by the DAC to begin maintenance services and received its first aircraft. The certification authorizes maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We will use the new facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We expect the new facility to be fully operational by mid-2006. We believe that the construction of the new maintenance facility and the internalization of our aircraft maintenance operations will provide cost savings.

Our sales and marketing expenses include commissions paid to travel agents, fees paid for our own and third-party reservations systems and agents, fees paid to credit card companies and advertising. Our distribution costs are lower than those of other airlines in Brazil on a per available seat kilometer basis because a higher proportion of our customers purchase tickets from us directly through our website instead of through traditional distribution channels, such as ticket offices, and we have comparatively fewer sales made through higher cost global distribution systems. We generated 57.9%, 76.4% and 81.3% of our passenger revenues through our website in the years ended December 31, 2003, 2004 and 2005, respectively, including internet sales through travel agents.

Salaries, wages and benefits paid to our employees increase as the number of our employees grows and include annual cost of living adjustments and provisions made for our profit sharing plan. We have no seniority-related increases in these costs due to our salary structure.

Aircraft and traffic servicing expenses include ground handling and the cost of airport facilities. Other operating expenses consist of general and administrative expenses, purchased services, equipment rentals, passenger refreshments, communication costs, supplies and professional fees.

During the period between the beginning of 2001 and December 31, 2005, we reduced our break-even load factor, which is the passenger load factor that will result in operating revenues being equal to operating expenses, from 61.5% to 56.4%. This decrease has been primarily due to increases in yield and revenues per available seat kilometer due to our effective revenue management system, combined with the spreading of fixed costs over a greater number of available seat kilometers.

Our operating margin, which measures operating income as a percentage of operating revenues, has consistently improved during the first five years of our operations and was among the highest in the airline industry worldwide in 2005, according to publicly-filed company reports.

### **Brazilian Economic Environment**

As a company with substantially all of its operations currently in Brazil, we are affected by general economic conditions in the country. While our growth since 2001 has been primarily driven by our expansion into new markets and increased flight frequencies, we have also been affected by macroeconomic conditions in Brazil. Our growth outpaced that of our primary competitors because of strong demand for our lower fare service. In 2005, we grew 54.9% in terms of revenue passenger kilometers. We believe the rate of growth in Brazil will become increasingly important in determining our future growth capacity and our results of operations, primarily because the DAC's approval of requests for new routes and increases in flight frequencies will depend in part on its perception of Brazil's macroeconomic environment.

Our results of operations are affected by currency fluctuations. Almost all of our revenues are denominated in *reais* (with a small portion of our revenues from our international flights being denominated in other currencies), but a significant part of our operating expenses are either payable in or affected by the U.S. dollar, such as our aircraft operating lease payments, related maintenance reserves and deposits, and jet fuel expenses. Based on a statistical analysis of our first five years of operations, we believe that our revenues are highly correlated with the *real*/U.S. dollar exchange rate and jet fuel prices because *real* depreciations and increases in jet fuel prices are generally incorporated into the fare structures of Brazilian airlines. Approximately 53% of our operating expenses (including aircraft fuel) are denominated in, or linked to, U.S. dollars and therefore vary with the *real*/U.S. dollar exchange rate. We believe that our foreign exchange and fuel hedging programs protect us against short-term swings in the *real*/U.S. dollar exchange rate and jet fuel prices. Overall, we believe that the combination of our revenue stream, with its correlation to movements in the *real*/U.S. dollar exchange rate, and short-term hedges on the U.S. dollar-linked portion of our expenses, will mitigate the adverse effect on our operating expenses of abrupt movements in the *real*/U.S. dollar exchange rate.

Inflation has also had, and may continue to have, effects on our financial condition and results of operations. Approximately 47% of our operating expenses (excluding aircraft fuel) are denominated in *reais*, and the suppliers and service providers of these expense items generally attempt to increase their prices to reflect Brazilian inflation.

Since presidential elections were held in Brazil in 2002, the Brazilian economy has moved towards increased stability. The country went through a period of market turmoil in the second half of 2002 as investors feared that, if elected, the Labor Party led by Luiz Inácio Lula da Silva would change the economic policies of the previous administration. The *real* fluctuated significantly as a result, depreciating by 52.3% during the year and closing at R\$3.5333 to US\$1.00 on December 31, 2002. Inflation for the year, as measured by the IGP-M, was 25.3% and real GDP grew by 1.9%.

The Labor Party government administration has largely continued the macroeconomic policies of the previous administration, focusing on fiscal responsibility. In 2003, investor confidence rebounded as a result and the *real* appreciated by 18.2% against the U.S. dollar to R\$2.8892 per US\$1.00 at December 31, 2003. Inflation in 2003, as measured by the IGP-M, decreased to 8.7%. However, Brazil's real gross domestic product, or GDP, increased 0.5% to US\$507 billion during 2003, despite the very high interest rates that prevailed at the beginning of 2003 to combat inflationary pressures, which also acted to constrain economic growth.

During 2004, Brazil's GDP increased 4.9% to US\$604 billion and the country achieved a trade surplus of US\$33.7 billion, its highest trade surplus ever. Inflation in 2004, as measured by the IGP-M, was 12.4% and 7.6% as measured by the IPCA. The Brazilian Central Bank's year-end inflation target for each of 2005 and 2006 is 4.5%, based on the IPCA index, within a band of 2.5 and 2.0 percentage points, respectively. Interest rates continued to be high, with the CDI rate at the end of 2004 equaling an annualized rate of 17.8%. By end of 2004, the *real* appreciated by 8.1% against the U.S. dollar, reflecting continued investor confidence. On December 31, 2004, the U.S. dollar/*real* exchange rate was R\$2.6544 per US\$1.00.

During 2005, Brazil's GDP increased 2.3% and the country achieved a trade surplus of US\$44.8 billion, its highest trade surplus ever. Inflation in 2005, as measured by the IGP-M, was 1.2% and 5.7% as measured by the IPCA. The Brazilian Central Bank's year-end inflation target for each of 2006 and 2007 is 4.5%, based on the IPCA index, within a band of 2 percentage points. Interest rates continued to be high, with the CDI rate at the end of 2005 equaling an annualized rate of 18.0%. In 2005, the *real* appreciated by 11.8% against the U.S. dollar, reflecting continued investor confidence. On March 10, 2006, the U.S. dollar/*real* exchange rate was R\$2.1447 per US\$1.00.

The following table shows data for real GDP growth, inflation, interest rates, the U.S. dollar exchange rate and crude oil prices for and as at the periods indicated.

	December 31,		
	2003	2004	2005
Real growth in gross domestic product.....	0.5%	4.9%	2.3%
Inflation (IGP-M)(1).....	8.7%	12.4%	1.2%
Inflation (IPCA)(2).....	9.3%	7.6%	5.7%
CDI rate(3).....	16.3%	17.8%	18.0%
LIBOR rate(4).....	1.1%	2.4%	4.5%
Depreciation (appreciation) of the <i>real</i> vs. U.S. dollar.....	(18.2)%	(8.1)%	(11.8)%
Period-end exchange rate—US\$1.00.....	R\$ 2.8892	R\$ 2.6544	R\$2.3407
Average exchange rate—US\$1.00(5).....	R\$ 3.0600	R\$ 2.9171	R\$2.4125
Increase (decrease) in West Texas intermediate crude (per barrel).....	4.2%	33.6%	40.5%
West Texas intermediate crude (per barrel).....	US\$ 32.52	US\$ 43.45	US\$61.04
West Texas intermediate crude (average per barrel during period).....	US \$31.06	US\$ 41.51	US\$56.59

Sources: *Fundação Getúlio Vargas, the Central Bank and Bloomberg*

- (1) Inflation (IGP-M) is the general market price index measured by the *Fundação Getúlio Vargas*.
- (2) Inflation (IPCA) is a broad consumer price index measured by the *Instituto Brasileiro de Geografia e Estatística*.
- (3) The CDI rate is average of inter-bank overnight rates in Brazil (accumulated for period-end month, annualized).
- (4) Three-month U.S. dollar LIBOR rate as of the last date of the period. The LIBOR rate is the London inter-bank offer rate, which is the rate applicable to the short-term international inter-bank market.
- (5) Represents the average of the exchange rates on the last day of each month during the period.

## Critical Accounting Policies and Estimates

The preparation of our consolidated financial statements in conformity with U.S. GAAP requires our management to adopt accounting policies and make estimates and judgments to develop amounts reported in our

consolidated financial statements and related notes. We strive to maintain a process to review the application of our accounting policies and to evaluate the appropriateness of the estimates that are required to prepare our consolidated financial statements. We believe that our estimates and judgments are reasonable; however, actual results and the timing of recognition of such amounts could differ from those estimates. In addition, estimates routinely require adjustment based on changing circumstances and the receipt of new or better information.

Critical accounting policies and estimates are defined as those that are reflective of significant judgments and uncertainties, and potentially result in materially different outcomes under different assumptions and conditions. The policies and estimates discussed below have been reviewed with our independent auditors. For a discussion of these and other accounting policies, see Note 2 to our consolidated financial statements.

*Revenue Recognition.* Passenger revenue is recognized either when transportation is provided or when the ticket expires unused. Tickets sold but not yet used are recorded as air traffic liability. Air traffic liability primarily represents tickets sold for future travel dates and estimated refunds and exchanges of tickets sold for past travel dates. A small percentage of tickets (or partial tickets) expire unused. We estimate the amount of future refunds and exchanges, net of forfeitures, for all unused tickets once the flight date has passed. These estimates are based on historical data and experience. Estimated future refunds and exchanges included in the air traffic liability account are constantly evaluated based on subsequent refund and exchange activity to validate the accuracy of our revenue recognition method with respect to forfeited tickets. Revenue from the shipment of cargo is recognized when transportation is provided. Other revenue includes charter services, ticket change fees and other incidental services, and is recognized when the service is performed. Our revenues are net of certain taxes, including state value-added and other state and federal taxes that are collected from customers and transferred to the appropriate government entities. Such taxes in 2005, 2004 and 2003 were R\$109.0 million, R\$93.8 million and R\$96.8 million, respectively.

*Accounting for Long-lived Assets.* In accounting for long-lived assets, we make assumptions about the expected useful lives of our assets and the potential for impairment. Our long-lived assets are evaluated for impairment when events and circumstances indicate that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Indicators include operating or cash flow losses, significant decreases in market value or changes in technology. If impairment occurs, any loss is measured by comparing the fair value of the asset to its net book value. As our assets are all relatively new and we continue to have positive cash flow, we have not identified any impairments related to long-lived assets.

*Financial Derivative Instruments.* We account for financial derivative instruments utilizing Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended. As part of our risk management program, we use a variety of financial instruments, including petroleum call options, petroleum collar structures, petroleum fixed-price swap agreements, and foreign currency forward contracts. We do not hold or issue derivative financial instruments for trading purposes.

As there is not a futures market for Brazilian jet fuel, we use international crude oil derivatives to hedge our exposure to increases in fuel prices. Historically, there is high correlation between international crude oil prices and Brazilian jet fuel prices, making crude oil derivatives effective at offsetting jet fuel prices to provide some short-term protection against a sharp increase in average fuel prices. We measure the effectiveness of the hedging instruments in offsetting changes to those prices, as required by SFAS 133. Since the majority of our financial derivative instruments for fuel are not traded on a market exchange, we estimate their fair values. The fair value of fuel derivative instruments, depending on the type of instrument, is determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. Also, since there is not a reliable forward market for jet fuel, we must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices, as required by SFAS 133.

Our outstanding derivative contracts are designated as cash flow hedges for accounting purposes. While outstanding, these contracts are recorded at fair value on the balance sheet with the effective portion of the change in their fair value being recorded in other comprehensive income. All changes in fair value that are considered to be effective, as defined, are recorded in "Accumulated other comprehensive income" until the underlying exchange exposure is realized and fuel is consumed. Changes in fair value that are not considered to be effective are recorded

to “other gains and losses” in the income statement. See Note 12 for further information on SFAS 133 and financial derivative instruments.

*Accounting for stock-based compensation.* We account for stock-based compensation in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees”, and related interpretations. Compensation expense for a stock option grant is recognized when the exercise price is less than the fair value of our preferred shares on the grant date.

Pro forma information regarding our net profit and net profit per share is required by SFAS No. 123 “Accounting for Stock-Based Compensation” and has been determined as if we accounted for employee stock options under the fair value method prescribed by SFAS No. 123. Considering the amounts involved, the application of SFAS No. 123 would not result in a material effect on our net income and earnings per share.

In December 2005, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), “Share-Based Payment,” (SFAS 123(R)), which is a revision of FASB Statement No. 123. SFAS 123(R) supersedes APB Opinion No. 25, “Accounting for Stock Issued to Employees,” and amends FASB Statement No. 95, “Statement of Cash Flows.” Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

As permitted by SFAS 123(R), we currently account for share-based payments to employees using APB Opinion 25’s intrinsic value method and, as such, generally recognize compensation cost for employee stock options equal to their intrinsic values at the award date. Accordingly, the adoption of SFAS 123(R)’s fair value method will impact our results of operations, although it will not have a significant impact on our overall financial position. The impact of adoption cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had we adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 2 to our financial statements.

## Results of Operations

The following table sets forth certain components of our income for the years ended December 31, 2005, 2004 and 2003.

	<b>Year Ended December 31,</b>			
	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2005</b>
	(In thousands)			
<b>Net operating revenues:</b>				
Passenger .....	R\$1,339,191	R\$1,875,475	R\$2,539,016	US\$1,084,725
Cargo and other.....	61,3	85,411	130,074	55,571
Total net operating revenues.....	1,400,590	1,960,886	2,669,090	1,140,296
<b>Operating expenses:</b>				
Salaries, wages and benefits .....	137,638	183,037	260,183	111,156
Aircraft fuel .....	308,244	459,192	808,268	345,310
Aircraft rent .....	188,841	195,504	240,876	102,908
Aircraft insurance .....	25,850	25,575	29,662	12,672
Sales and marketing.....	191,280	261,756	335,722	143,428
Landing fees .....	47,924	57,393	92,404	39,477
Aircraft and traffic servicing.....	58,710	74,825	91,599	39,133
Maintenance, materials and repairs.....	42,039	51,796	55,373	23,657
Depreciation.....	13,844	21,242	35,014	14,959
Other operating expenses.....	44,4	54,265	98,638	42,140
Total operating expenses.....	1,058,864	1,384,585	2,047,739	874,840
<b>Operating income</b> .....	341,726	576,301	621,351	265,456
<b>Other expenses:</b>				
Interest expense .....	(20,910)	(13,445)	(19,383)	(8,281)
Financial income (expense), net.....	(56,6	24,424	115,554	49,367
<b>Income before income taxes</b> .....	264,135	587,280	717,522	306,542

Income taxes .....	(88,676)	(202,570)	(204,292)	(87,279)
<b>Net income</b> .....	<u>R\$175,459</u>	<u>R\$384,710</u>	<u>R\$513,230</u>	<u>US\$219,263</u>
<b>Earnings per share, basic</b> <sup>(1)</sup> .....	R\$1.07	R\$2.14	R\$2.66	US\$1.14
<b>Earnings per share, diluted</b> <sup>(1)</sup> .....	R\$1.07	R\$2.13	R\$2.65	US\$1.13
Weighted average shares used in computing earnings per share, basic (in thousands) <sup>(1)</sup> .....	164,410	179,731	192,828	192,828
Weighted average shares used in computing earnings per share, diluted (in thousands) <sup>(1)</sup> .....	164,410	180,557	193,604	193,604
Earnings per ADS, basic <sup>(2)</sup> .....	R\$1.07	R\$2.14	R\$2.66	US\$1.14
Earnings (loss) per ADS, diluted <sup>(2)</sup> .....	R\$1.07	R\$2.13	R\$2.65	US\$1.13

(1) Our preferred shares are not entitled to any fixed dividend preferences, but are instead entitled to receive dividends per share in the same amount of dividends per share paid to holders of our common shares. However, our preferred shares are entitled to receive distributions prior to holders of the common shares. Consequently, our earnings (loss) per share are computed by dividing income by the weighted average number of all classes of shares outstanding during the year. Preferred shares are excluded during any loss period.

(2) Adjusted for the ADS ratio change in December 2005, which changed the ratio of ADS per preferred share from one ADS representing two preferred shares to one ADS representing one preferred share.

### *Year 2005 Compared to Year 2004*

Our net income for the year 2005 increased to R\$513.2 million from R\$384.7 million for 2004, an increase of R\$128.5 million. We had operating income of R\$621.4 million, an increase of R\$45.1 million over 2004, and our operating margin was 23.3%, a decrease of 6.1 % from 2004. Income before income tax increased 22.2% to R\$717.5 million.

*Net Operating Revenues.* Net operating revenues increased 36.1%, or R\$708.2 million, due primarily to increased passenger revenue. Increased passenger revenues, resulted primarily from a 54.9% increase in revenue passenger kilometers, which was due to a 39.9% increase in departures, an increase in the average number of aircraft in service from 22.3 to 34.3 and a 3.4 % increase in our load factor from 71.1% to 73.5%. The increase in revenues passenger kilometers was partially offset by a 12.6% decrease in our yield due to a 4.1% decrease in our average fares and an increase in our average stage length. Cargo and other revenue increased by R\$44.7 million due primarily to increases in revenues from our cargo service operations.

*Operating Expenses.* Operating expenses increased 47.9%, or R\$663.2 million, due primarily to the operation of an average 12 additional aircraft during 2005, increased flight departures during the period, an increase in the average cost and number of liters of jet fuel consumed and an increase in salaries, wages and benefits and sales and marketing expenses. Operating capacity increased by 49.8% to 13.25 billion available seat kilometers due to scheduled capacity increases and high aircraft utilization at 13.9 block hours per day. Operating expenses per available seat kilometer decreased 1.3% to R\$15.46 cents primarily due to a reduction in maintenance expense on a per available seat kilometer basis and the spreading of our fixed costs over a larger fleet, despite a 17.5% increase in the average cost of jet fuel and an 7.5% increase in landing fees, each on a per seat kilometer basis. The breakdown of our operating expenses on a per available seat kilometer basis for 2005 compared to 2004 is as follows (percent changes are based on unrounded numbers):

	<u>Year Ended</u> <u>December 31,</u>		<u>Percent</u> <u>Change</u>	<u>Percentage of</u> <u>Net Revenues</u> <u>(2005)</u>
	<u>2004</u>	<u>2005</u>		
	(cost per available seat kilometer in R\$ cents)			
<b>Operating expenses:</b>				
Salaries, wages and benefits .....	2.07	1.96	(5.1%)	9.7%
Aircraft fuel .....	5.19	6.10	17.5%	30.3%
Aircraft rent .....	2.21	1.82	(17.7%)	9.0%
Aircraft insurance .....	0.29	0.22	(22.6%)	1.1%
Sales and marketing .....	2.96	2.53	(14.4%)	12.6%
Landing fees .....	0.65	0.70	7.5%	3.5%
Aircraft and traffic servicing .....	0.85	0.69	(18.3%)	3.4%
Maintenance, materials and repairs .....	0.59	0.42	(28.6%)	2.1%

Depreciation.....	0.24	0.26	10.1%	1.3%
Other operating expenses.....	<u>0.61</u>	<u>0.74</u>	21.4%	<u>3.7%</u>
Total operating expenses.....	<u>15.66</u>	<u>15.46</u>	(1.3%)	<u>76.7%</u>
Cost per flight hour.....	14.94	14.77	(1.2%)	—
Break-even load factor.....	52.5%	56.4%	12.3%	—

Salaries, wages and benefits increased 42.1%, or R\$77.1 million, due to (i) a 65.0% increase in full-time equivalent employees from 3,307 at the end of 2004 to 5,456 at the end of 2005 due to a higher number of employees in training, the international expansion of our operations and the internalization of certain services, (ii) an increase in wage rates of 6.0% due to cost of living increase and (iii) an increase of R\$3.4 million in provisions for our profit sharing plan. Salaries, wages and benefits per available seat kilometer decreased 5.1% due to increased productivity and higher capacity.

Aircraft fuel expense increased 76.0%, or R\$349.1 million, primarily due to 159.3 million more liters of fuel being consumed (a 50.2% increase from 2004) and an increase in average fuel cost per liter (a 17.2% increase per liter from 2004), partially offset by the appreciation of the *real* against the U.S. dollar and the effects of our exchange rate hedging program. Aircraft fuel per available seat kilometer increased 17.5% due primarily to the increase in the average fuel cost per liter.

Aircraft rent, which we incur in U.S. dollars, increased 23.2%, or R\$45.4 million, due to an increase in the average size of our fleet to 34.3 aircraft from 22.3, partially offset by the 11.8% appreciation of the *real* against the U.S. dollar during the year and the effects of our exchange rate hedging program. Aircraft rent per available seat kilometer decreased 17.7% due to the appreciation of the *real* against the U.S. dollar and higher aircraft utilization.

Aircraft insurance expense, which we incur in U.S. dollars, increased 16.0%, or R\$4.1 million, due to a larger fleet size, partially offset by the 11.8% appreciation of the *real* against the U.S. dollar during the year, a decrease in average insurance premium rates and the effects of our exchange rate hedging program. Aircraft insurance per available seat kilometer decreased 22.6% due to the appreciation of the *real* against the U.S. dollar and the decrease in average insurance premium rates.

Sales and marketing expense increased 28.3%, or R\$74.0 million, primarily due to higher bookings through travel agents, increased advertising expenses, costs due to the opening of four new operating bases, and higher credit card fees resulting from increased passenger revenues. We booked a substantial majority of our ticket sales through a combination of our website (81.3% in 2005 compared to 76.4% in 2004). Travel agents accounted for approximately 70% of our sales in 2005, 63% of which through the internet. Sales and marketing per available seat kilometer decreased 14.4% due to increased internet sales, lower sales and travel agent commissions and higher aircraft utilization rates.

Landing fees increased 61.0%, or R\$35.0 million, due to a 39.9% increase in departures and a 26% increase in average landing tariffs because of increased international traffic, partially offset by increased average stage length. Landing fees per available seat kilometer increased 7.5%.

Aircraft and traffic servicing expense increased 22.4%, or R\$16.8 million, primarily due to an increase in our operations from 38 to 45 airports served and a 39.9% increase in departures, partially offset by a reduction in technology costs. Aircraft and traffic servicing per available seat kilometer decreased 18.3% as a result of fixed costs being spread over a higher number of available seat kilometers.

Maintenance, materials and repairs increased 6.9%, or R\$3.6 million, due to 12 average additional aircraft in operation as well as 34.3 airframe checks and engine repairs in 2005 as compared to 27 airframe checks and engine repairs in 2004. Maintenance, materials and repairs per available seat kilometer decreased 28.6% due to the appreciation of the *real* against the U.S. dollar and lower maintenance costs for airframe checks and engine repairs.

Depreciation increased 64.8%, or R\$13.8 million, due primarily to an increase in our inventory of aircraft spare parts and, to a lesser extent, an increase in computer equipment resulting from the expansion of our operations. Depreciation per available seat kilometer increased 10.1% due to increased depreciable assets, offset by higher aircraft utilization rates.

Other operating expenses increased 81.8%, or R\$44.4 million, due to an increase in general and administrative expenses related to the expansion of our operations, the increased lodging of flight crews, increased direct passenger expenses and interrupted flights. Other operating expenses per available seat kilometer increased 21.4% due to the expansion of our operations.

*Other Income (Expense).* Interest expense and financial income (expense), net increased R\$85.2 million, due to increases of R\$106.0 million in interest income on cash balances, and an increase of R\$13.9 million in capitalized interest, partially offset by an increase of R\$5.9 million in interest expenses due to increased working capital financing.

*Income Taxes.* Income taxes, as a percentage of income before taxes, decreased to 28% in 2005 from 34% in 2004. The reduction was principally due to the payment of a portion of a mandatory minimum dividend as interest in shareholder's equity, which is deductible for corporate income tax purposes.

### **Year 2004 Compared to Year 2003**

Our net income for the year 2004 increased to R\$384.7 million from R\$175.5 million for 2003, an increase of R\$209.2 million. We had operating income of R\$576.3 million in 2004, an increase of R\$234.6 million from 2003, and our operating margin was 29.4%, an increase of 5.0% from 2003. Income before income taxes increased 122.3% to R\$587.3 million, resulting in increased income and social contribution taxes to R\$202.6 million in 2004 from R\$88.7 million in 2003. Our effective tax rate was 34% in 2004 and 2003, respectively.

*Net Operating Revenues.* Net operating revenues increased 40.0%, or R\$560.3 million, due primarily to increased passenger revenues. Increased passenger revenues resulted from an 7.6% increase in our yield, a 16.3% increase in capacity and a 6.7% increase in our load factor from 64.3% to 71.1%. The increase in capacity was driven by the addition of over 100 regularly-scheduled departures. A 28.6% increase in revenue passenger kilometers resulted in an increase of our market share to 22.3% from 19.2% in 2003. Cargo and other revenue increased by R\$24.0 million due primarily to increases in revenues from our cargo service operations. Revenue growth was facilitated by the average number of aircraft in service increasing from 21.6 to 22.3.

*Operating Expenses.* Operating expenses increased 30.8%, or R\$325.7 million, due primarily to a 49.0% increase in the average cost of jet fuel and a 36.8% increase in our sales and marketing expenses. Operating expense increases were partially offset by higher productivity and decreases in average aircraft rents and aircraft insurance premiums as a result of the 8.1% appreciation of the *real* against the U.S. dollar. Operating capacity increased by 16.3% to 8.84 billion available seat kilometers due to scheduled capacity that allowed us to add over 100 additional regularly scheduled flight frequencies. Additionally, we increased aircraft utilization from 12.8 block hours per day in 2003 to 13.6 block hours per day in 2004. Operating expenses per available seat kilometer increased 12.4% to R\$15.66 cents, primarily as a result of the increase in the average cost of jet fuel and the increase in sales and marketing expense, partially offset by spreading our fixed costs over more available seat kilometers. The breakdown of our operating expenses for 2004 compared to 2003 is as follows (percent changes are based on unrounded numbers):

	<u>Year Ended</u> <u>December 31,</u>		<u>Percent</u> <u>Change</u>	<u>Percentage of</u> <u>Net Revenues</u> <u>(2004)</u>
	<u>2003</u>	<u>2004</u>		
	(cost per available seat kilometer in R\$ cents)			
<b>Operating expenses:</b>				
Salaries, wages and benefits .....	1.83	2.07	13.1%	9.3%
Aircraft fuel .....	4.10	5.19	26.6%	23.4%
Aircraft rent .....	2.51	2.21	(12.0)%	10.0%
Aircraft insurance .....	0.34	0.29	(14.7)%	1.3%
Sales and marketing.....	2.54	2.96	16.5%	13.4%
Landing fees .....	0.64	0.65	1.6%	2.9%
Aircraft and traffic servicing.....	0.78	0.85	9.0%	3.8%
Maintenance, materials and repairs.....	0.56	0.59	5.4%	2.7%

Depreciation.....	0.18	0.24	33.3%	1.1%
Other operating expenses.....	<u>0.60</u>	<u>0.61</u>	1.7%	<u>2.8%</u>
Total operating expenses.....	<u>14.07</u>	<u>15.66</u>	<u>11.3</u>	<u>70.6%</u>
Cost per flight hour.....	13.45	14.94	11.1%	—
Break-even load factor.....	50.8%	52.5%	3.3%	—

Salaries, wages and benefits increased 33.0%, or R\$45.4 million, due to a 34.7% increase in full-time equivalent employees from 2,453 at the end of 2003 to 3,307 at the end of 2004, a 5.8% increase in wage rates due to cost of living increases, R\$27.2 million in provisions for our profit sharing plan and crew training costs to support the addition of five Boeing 737-300 aircraft in the second half of 2004. Salaries, wages and benefits per available seat kilometer increased 13.2% due to the provision for profit sharing, partially offset by increased productivity per employee and higher capacity.

Aircraft fuel expense increased 49.0%, or R\$150.9 million, primarily due to an increase in average fuel cost per liter of 24.2% and 53.0 million more liters of fuel being consumed (a 20.0% increase from 2003), partially offset by our fuel efficient fleet and pricing power, which helped to mitigate the increase in jet fuel prices. Aircraft fuel per available seat kilometer increased 26.6% due primarily to the increase in the average fuel cost per liter.

Aircraft rent, which we incur in U.S. dollars, increased 3.5%, or R\$6.7 million, due to an increase in the average size of our fleet to 22.3 aircraft from 21.6, partially offset by a lower average rent for the five additional Boeing 737-300 aircraft that we are leasing on two- and three-year contracts to meet short-term capacity needs and the 8.1% appreciation of the *real* against the U.S. dollar. Aircraft rent per available seat kilometer decreased 12.0% due to high aircraft utilization of 13.6 block hours per day.

Aircraft insurance, which we incur in U.S. dollars, expense decreased 1.1%, or R\$0.3 million, primarily due to the appreciation of the *real* against the U.S. dollar during the year and a decrease in our average insurance premium rates. Aircraft insurance per available seat kilometer decreased 14.7% due to the same reasons.

Sales and marketing expense increased 36.8%, or R\$70.5 million, primarily due to increased ticket sales per *real* of passenger revenues, increased advertising expenses related to the opening of 11 new bases and higher credit card fees resulting from higher passenger revenues, partially offset by reductions in travel agency commissions. We sold 76.4% of our tickets through our website in 2004 as compared to 57.9% in 2003. Travel agents accounted for 74.9% of our online ticket sales in 2004 as compared to 75.9% in 2003. Sales and marketing per available seat kilometer increased 16.5% as a result of these factors.

Landing fees increased 19.8%, or R\$9.5 million, due to a 16.2% increase in departures and a 3.0% increase in average landing tariffs. Landing fees per available seat kilometer increased 1.6%.

Aircraft and traffic servicing expense increased 27.4%, or R\$16.1 million, due to the start-up of 11 new bases. Aircraft and traffic servicing per available seat kilometer increased 9.0% as a result of fixed costs relating to the new bases.

Maintenance, materials and repairs increased 23.2%, or R\$9.8 million, due to 0.7 average additional aircraft in operation as well as 27 scheduled airframe checks and engine repairs in 2004, as compared to 19 performed in 2003. Maintenance, materials and repairs per available seat kilometer increased 5.4% due to the same reasons.

Depreciation increased 53.4%, or R\$7.4 million, due primarily to a R\$6.0 million depreciation of inventoried aircraft spare parts. Depreciation per available seat kilometer increased 33.3% due to the depreciation of the aircraft spare parts.

Other operating expenses increased 22.0%, or R\$9.8 million, due to an increase in general and administrative expenses related to the expansion of our operations. Other operating expenses per available seat kilometer increased 4.9% due to the expansion of our operations.

*Other Income (Expense).* Interest expense and financial income (expense), net decreased R\$88.6 million, due to increases of R\$32.3 million in interest income on cash balances and R\$32.3 million in hedging gains, and decreases of R\$10.7 million in interest expenses and R\$11.0 million in exchange variation losses.

## **B. Liquidity and Capital Resources**

In managing our liquidity, we take into account our cash and cash equivalents and short-term investments as well as our accounts receivable balances. Our accounts receivable balance is affected by the payment terms of our credit card receivables. Our customers can purchase seats on our flights using a credit card and pay in installments, typically creating a one- or two-month lag between the time that we pay our suppliers and expenses and the time that we receive payment for our services. When necessary, we obtain working capital loans, which can be secured by our receivables, to finance the sale-to-cash collection cycle. At December 31, 2005, we had cash and cash equivalents of R\$106.3 million, short-term investments of R\$762.7 million and accounts receivable of R\$564.0 million, as compared to cash and cash equivalents of R\$405.7 million, short-term investments of R\$443.4 million and accounts receivable of R\$386.4 million at December 31, 2004.

At December 31, 2005, we had 11 revolving lines of credit with six financial institutions, which allowed for total borrowings of up to R\$340.0 million. As of December 31, 2005 and 2004, there were R\$54.0 million (US\$23.1 million) and R\$112.3 million outstanding under these facilities, respectively. One of the revolving lines of credit is secured by the Company's credit card receivables and allows for borrowing of up to R\$50.0 million. As of December 31, 2005, there were no outstanding borrowings under this facility.

*Operating Activities.* We rely primarily on cash flows from operations to provide working capital for current and future operations. Cash flows from operating activities totaled R\$353.7 million in 2005, R\$239.9 million in 2004 and R\$85.2 million in 2003. The increase in operating cash flows over these periods was primarily due to the growth of our business. Net cash used for investing and financing activities was (R\$653.1) million in 2005 and net cash provided by investing and financing activities was R\$19.5 million in 2004. Net cash used in investing and financing activities was R\$51.6 million in 2003. The increase in cash provided by financing activities in 2005 was due primarily to the capital we raised in our follow-on offering in May 2005.

Our operating cash flows are affected by the requirement under the terms of our aircraft operating leasing agreements that we establish maintenance reserve accounts for our aircraft that must be funded at specified levels. At December 31, 2005, we had R\$408.8 million of deposits under our aircraft operating leases for aircraft and engine maintenance. We believe the amounts deposited in these reserve accounts currently exceed the amounts actually required to maintain our aircraft, given the young age of our fleet. As our fleet ages and maintenance costs increase, funds will be drawn from the maintenance reserve accounts to pay for structural maintenance. The amount we will be required to deposit in the maintenance reserve accounts will be affected by a number of factors in addition to our fleet size and number of hours flown, including changes in maintenance rates and the potential to substitute other instruments for cash deposits. We believe the amounts to be deposited will be sufficient to service our future aircraft and maintenance costs for the duration of the applicable operating leases.

We believe that we can meet our existing financial commitments and aircraft rent obligations with our cash and cash equivalents, and cash from operations, short-term investments and accounts receivable collected.

*Investing Activities.* During 2005, capital expenditures were R\$482.8 million, which included expenditures of R\$169.4 million related to acquisitions of property and equipment and R\$313.3 million of pre-delivery deposits for aircraft acquisitions. Our investing activities totaled R\$801.8 million, which included the capital expenditures described before and R\$319.3 million of purchases of short term security investments. During 2004, capital expenditures were R\$85.4 million, which included expenditures of R\$42.0 million related to acquisitions of property and equipment and R\$43.4 million of pre-delivery deposits for aircraft acquisitions. Our investing activities totaled R\$533.0 million, which included the capital expenditures described before and R\$443.4 million of purchases of short term security investments. During 2003, capital expenditures were R\$42.7 million, related to acquisitions of property and equipment.

*Financing Activities.* Financing activities during 2005 consisted primarily of a reduction in short-term borrowings of R\$64.3 million offset by the proceeds from the issuance of R\$279.1 million of preferred shares in our

follow-on offering in May 2005. Financing activities during 2004 consisted primarily of short-term borrowings of R\$79.4 million and the issuance of R\$470.4 million of preferred shares of Gol in our initial public offering in June 2004. Financing activities during 2003 consisted primarily of short-term borrowings of R\$16.1 million and the issuance of R\$94.2 million of preferred shares of Gol. We intend to increase our funded debt principally in the form of loans from governmental development banks and private financial institutions and finance leases related to the acquisition of aircraft.

We declared dividends of R\$117.9 million for the fiscal year 2005. We declared R\$60.7 million and R\$26.5 million of dividends for the fiscal years 2004 and 2003, respectively, which were accrued on our balance sheet as "Other Current Liabilities" and paid in March 2004 and 2003, respectively. Under our by-laws, at least 25% of our adjusted net income, as calculated under Brazilian GAAP and adjusted under the Brazilian corporation law (which differs significantly from net income as calculated under U.S. GAAP), for the preceding fiscal year must be distributed as a mandatory annual dividend. The most significant adjustment to U.S. GAAP net income in arriving at adjusted net income under Brazilian GAAP relates to the accounting for additions to our maintenance deposits. Under U.S. GAAP, additions to our maintenance deposits are deferred and such deposits are charged to operating expense as maintenance is incurred. Under Brazilian GAAP, additions to our maintenance deposits are charged to operating expenses when made.

*Capital Resources.* We typically finance our leased aircraft through operating lease financings. Although we believe that debt and/or operating lease financings should be available for our future aircraft deliveries, we cannot assure you that we will be able to secure financings on terms attractive to us, if at all. To the extent we cannot secure financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to continue to require working capital investment due to the use of credit card installment payments by our customers. We have one line of credit that is secured by our accounts receivable. We expect to meet our operating obligations as they become due through available cash and internally generated funds, supplemented as necessary by short-term credit lines.

We structure our growth plans in a way that is mindful of the DAC's criteria for the granting of new routes and frequencies. Our growth plans contemplate operating approximately 88 aircraft by the end of 2010. On December 31, 2005 we had firm purchase orders with The Boeing Company for 65 737-800 Next Generation aircraft and we have options to purchase an additional 36 737-800 Next Generation aircraft. On December 31, 2005 we had 11 firm order aircraft scheduled to be delivered in 2006, 13 in 2007, 9 in 2008, 10 in 2009, 8 in 2010 and 14 after 2010. The purchase options are exercisable for deliveries between 2007 and 2010. Committed expenditures for these aircraft, based on aircraft list price and including estimated amounts for contractual price escalations and pre-delivery deposits, are US\$775.4 million in 2006, US\$859.7 million in 2007, US\$540.1 million in 2008, US\$700.2 million in 2009, US\$585.7 million in 2010 and US\$1,073.8 million after 2010. We expect to meet our pre-delivery deposits by using cash from operations or borrowings under short-term credit facilities and/or vendor financing. We expect to finance the balance of the purchase price of the Boeing 737-800 Next Generation aircraft through a combination of means, such as cash and funds generated from operations, low-interest bank financing and credit agreements, sale and leaseback transactions, additional equity or debt offerings and/or vendor financing. The firm orders represent a significant financial commitment for us. Pending the application of the proceeds from our public offerings, we have invested these proceeds in overnight deposits and deposit certificates with highly-rated Brazilian banks and temporary investments, mainly highly-rated Brazilian government bonds. As of December 31, 2005, we had approximately R\$869.0 million of these temporary investments. Most of the temporary investments are held in an account managed by an unaffiliated, independent third party. Although the account manager has the discretion in selecting investment instruments for the managed account, this discretion is limited by the charter of the managed account and the cash management policies approved by our risk policies committee. See note 4 to our consolidated financial statements included elsewhere in this annual report. While we expect that a preliminary commitment to us from the Export-Import Bank of the United States to provide guarantees covering approximately 85% of the aggregate purchase price for the firm order aircraft will assist us in obtaining low-cost financing for the purchase of the firm order aircraft, we may be required to use our own cash resources for the remaining 15% of the aggregate purchase price for the firm order aircraft. To the extent that we do not have sufficient cash resources to do so, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would have an adverse impact on the execution of our growth strategy and business.

### C. Research and Development, Patents and Licenses, etc.

We believe that the Gol brand has become synonymous with innovation and value in the Brazilian airline industry. We have filed requests for registration of the trademarks “GOL” and “GOL LINHAS AÉREAS INTELIGENTES” with trademark offices in Brazil and in other countries, and have already been granted final registration of these trademarks in Argentina, Bolivia, Chile, Colombia, the European Union, the United States, Paraguay and Uruguay. A study conducted by the business magazine *Isto e Dinheiro* revealed that our trademark Gol is already on the eighth place of the most valuable trademarks in Brazil, with a brand value of R\$326 million.

### D. Trend Information

We expect to expand our operations by adding additional flights to existing domestic routes, adding new domestic routes where sufficient market potential exists and expanding into high-traffic centers in other South American countries. In 2005, we added nine destinations to our network and we intend to continue this growth strategy in Brazil and South America. As in previous years, in 2006 we will also concentrate on keeping our operating costs low and pursuing ways to make our operations more efficient.

Given the demand for our services, we believe that we will continue to have significant growth opportunities. We expect to benefit from economies of scale and reduce our average cost per available seat kilometer as we add additional aircraft to an established and efficient operating infrastructure. We currently have applications with the DAC to add additional routes and flight frequencies. We expect our operating capacity to increase 45% with the addition of up to 16 aircraft in 2006, which will increase our available seat kilometers and operating costs on an aggregate basis.

We expect jet fuel prices will continue to be high in 2006 and we plan to use our fuel and foreign exchange hedging programs to help protect us against short-term movements in crude oil prices and the *real*/ U.S. dollar exchange rate.

### E. Off-Balance Sheet Arrangements

None of our operating lease obligations are reflected on our balance sheet. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors.

### F. Tabular Disclosure of Contractual Obligations

Our non-cancelable contractual obligations at December 31, 2005 included the following (in millions of *reais*):

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
Aircraft and engine operating leases .....	R\$902.7	R\$ 266.9	R\$ 435.0	R\$ 172.8	R\$ 28.0
Short-term borrowings .....	R\$ 54.0	R\$ 54.0	—	—	—
Total.....	<u>R\$956.7</u>	<u>R\$ 320.9</u>	<u>R\$ 435.0</u>	<u>R\$ 172.8</u>	<u>R\$ 28.0</u>

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

Under our by-laws, we are managed by our *Conselho de Administração*, or board of directors, which is composed of at least five members and at most 11 members, and a *Diretoria*, or board of executive officers, which is composed of at least two and at most six members. According to the Differentiated Corporate Governance Practices (Level 2) introduced by BOVESPA, at least 20% of the members of our board of directors shall be “independent directors”, as defined by the BOVESPA.

Our by-laws provide for the establishment of a non-permanent *Conselho Fiscal*, or fiscal committee, to be comprised of three to five members. We also have corporate governance and nomination, audit, compensation, risk policies and financial policy committees comprised of members of our board of directors and non-board members, and management, executive policy, budget, investment, corporate governance and risk management and finance committees, comprised of members of our board of executive officers and senior managers.

We are committed to achieving and maintaining high standards of corporate governance. In working towards this goal, we have established a corporate governance and nomination committee to monitor and make recommendations with respect to corporate governance “best practices” to our board of directors. In addition, in connection with listing as a Level 2 company on the BOVESPA, we have entered into an agreement with the BOVESPA to grant certain additional rights not required of Level 2 companies to our shareholders, such as tag-along rights offering our preferred shareholders 100% of the price paid per common share of controlling block shareholders. We conduct our business with a view towards transparency and the equal treatment of all of our shareholders. We have implemented policies to help to ensure that all material information that our shareholders require to make informed investment decisions is made available to the public promptly and that we at all times accurately reflect the state of our operations and financial position through press releases, filings with the SEC and CVM, and by keeping the investor relations section of our website current and complete. We have also adopted formal policies that restrict trading in our preferred shares by company insiders.

In addition, according to the Level 2 practices, the company shall cause all new members of the board of directors to sign a statement of consent in which they undertake to comply with the regulations of the Differentiated Corporate Governance Practices (Level 2), their taking office is conditioned to signing of such document.

Also the members of the fiscal committee shall sign a statement of consent, in which they undertake to refer to arbitration rules, instituted by BOVESPA Arbitration Chamber, for resolution of disputes and/or controversies arising out of the application of the listing rules of the Differentiated Corporate Governance Practices, the listing agreement with the latter, the regulations of the BOVESPA, the provisions of the Brazilian corporation law, guidelines issued by the Brazilian authorities and the other rules applicable to the capital markets in general, involving the company, the shareholders, the managers and the members of the fiscal committee. The taking office of the members or the fiscal committee is also conditioned upon signing of such document.

## **Board of Directors**

Our board of directors is dedicated to providing our overall strategic guidelines and, among other things, is responsible for establishing our general business policies and for electing our executive officers and supervising their management. Currently, our board of directors is comprised of eight members. Each of the new board members qualifies as independent based upon New York Stock Exchange criteria. The board of directors meets six times per year or whenever requested by the president or three members of our board of directors.

Under the Brazilian corporation law, each director must hold at least one of our common or preferred shares, may reside outside of Brazil, and is elected by the holders of our common shares at the *Assembléia Geral*, or the annual general meeting of shareholders. There are no provisions in our by-laws restricting (i) a director’s power to vote on a proposal, arrangement or contract in which such director is materially interested, or (ii) the borrowing powers exercisable by our directors from us. However, under the Brazilian corporation law, a director is prohibited from voting on any matter that would result in such director having a conflict of interest with our company.

Under the Brazilian corporation law, shareholders of publicly traded companies, such as we are, who together hold non-voting or voting-right restricted preferred shares representing at least 10% of our total share capital for at least three months, are entitled to appoint one member of our board of directors.

Under our by-laws, the members of the board of directors are elected by the holders of our common shares at the annual general meeting of shareholders. Members of our board of directors serve the same one-year terms and may be re-elected. The terms of our current directors expire in 2006. Our by-laws do not provide for a mandatory retirement age for our directors.

The following table sets forth the name, age and position of each member of our board of directors. A brief biographical description of each member of our board of directors follows the table.

Name	Age	Position
Constantino de Oliveira .....	74	Chairman
Constantino de Oliveira Junior .....	37	Director
Henrique Constantino .....	34	Director
Joaquim Constantino Neto.....	39	Director
Ricardo Constantino .....	41	Director
Alvaro de Souza .....	56	Director
Antonio Kandir .....	51	Director
Luiz Kaufmann .....	59	Director

*Constantino de Oliveira* is the chairman of our board of directors and has served in this capacity since March 2004. Mr. Oliveira has also been the chairman of the board of directors of Gol since 2002. Mr. Oliveira is founder and president of the Áurea group. He founded his first company, Expresso União, a bus transportation company, in 1957 in the state of Minas Gerais. Mr. Oliveira was the principal architect in our creation.

*Constantino de Oliveira Junior* is a member of our board of directors and our Chief Executive Officer. He has served in both capacities since March 2004. Mr. Oliveira has also been the chief executive officer and a member of the board of directors of Gol since 2001. Mr. Oliveira introduced the “low-cost, low-fare” concept to the Brazilian airline industry and was elected the Most Valuable Executive in 2001 and 2002 by the Brazilian newspaper *Valor Econômico* and was also elected the Leading Executive in the logistics sector in 2003 by the readers of *Gazeta Mercantil*, a Brazilian financial newspaper. From 1994 to 2000, Mr. Oliveira served as an officer of the Áurea group. Mr. Oliveira studied Business Administration at the *Universidade do Distrito Federal* and he attended the Executive Program on Corporate Management for Brazil conducted by the Association for Overseas Technical Scholarships.

*Henrique Constantino* has been a member of our board of directors since March 2004. Mr. Constantino has also been a member of the board of directors of Gol since 2003. He has been the financial officer of the Áurea group since 1994. He participated in the creation of Gol and served as its financial officer from January 2001 to March 2003, when he became a member of the board. Mr. Constantino has a law degree from *CEUB— Centro de Ensino Unificado de Brasília* and has a Master in Business Administration degree from *EAESP— FGV (Fundação Getúlio Vargas—São Paulo)*.

*Joaquim Constantino Neto* has been a member of our board of directors since March 2004. Mr. Constantino has been a member of the board of directors of Gol since 2001. He has been the operations officer of the Áurea group since 1994. From 1984 to 1990, he was in charge of operations of Reunidas Paulista. Since 1990 to the present, he has been the President of Breda Turismo, a transportation company. Since 1998, Mr. Constantino has also been a member of the board of directors of Metra, a metropolitan bus company serving the cities of São Paulo, Santo André, São Bernardo do Campo and Diadema.

*Ricardo Constantino* has been a member of our board of directors since March 2004. Mr. Constantino has been a member of the board of directors of Gol since 2001. He has been the technical and maintenance officer of the Áurea group since 1994. Since 2000, Mr. Constantino is also a member of the board of directors of Mercabenco S.C., a consortium of Mercedes automobile dealers.

*Alvaro de Souza* has been a member of our board of directors since August 2004. Mr. Souza is an officer of AdS—Gestão, Consultoria e Investimentos Ltda. and member of the board of directors of SAG do Brasil S.A., World Wildlife Group (WWF), Comgás, British Gas Group, AMBEV and Roland Berger do Brasil. He was the Chief Executive Officer of Citibank Brasil from 1993 to 1994 and an Executive Vice-President of Citigroup from 1995 to 2003. Mr. Souza holds a bachelor’s degree in Economics and Business Administration from Pontifícia Universidade Católica de São Paulo. Mr. Souza is an independent member of our board of directors under the requirement of the SEC and NYSE listing standards and is a member of our audit committee.

*Antonio Kandir* has been a member of our board of directors since August 2004. Mr. Kandir is an economic consultant and is a member of the board of directors of AVIPAL/ELEGÊ and the consulting board of Portugal

Telecom. Mr. Kandir served in the Brazilian government as a Congressional Representative for two terms of office, and served as Planning and Budget Minister and Secretary of Economic Policy and President of the Privatization Council. He has a bachelor's degree in production engineering from the Escola Politécnica at USP and bachelor's, master's and PHD degrees in Economics from Unicamp. Mr. Kandir is an independent member of our board of directors under the requirement of the SEC and NYSE listing standards and is a member of our audit committee.

*Luiz Kaufmann* has been a member of our board of directors since December 2004. Mr. Kaufmann has presided over several companies such as Aracruz Celulose S.A., Vésper, Petropar, Grupo Multiplic, Arthur D. Little, and was a partner at GP Investimentos. He was a member of several companies' board of directors, including Pioneer Hi-Bred International, América Latina Logística, and Lojas Americanas. Luiz Kaufmann is also a member of Medial Saúde's and VIVO's Board of Directors, and chief executive officer of L. Kaufmann Consultores. He was a member of the Global Corporate Governance Advisory Board, which was comprised of 20 internationally renowned business leaders from 16 different countries, created to advance knowledge on the roles and responsibilities of boards of directors of international companies. Mr. Kaufmann is an independent member of our board of directors under the requirement of the SEC and NYSE listing standards. He is a member of our audit committee and our audit committee financial expert as defined by the current SEC rules.

Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino are brothers and Constantino de Oliveira is their father. Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino control Aeropar Participações S.A. and Comporte Participações S.A. on an equal basis.

### **Executive Officers**

Our executive officers have significant experience in the domestic and international passenger transportation industries, and we have been able to draw upon this extensive experience to develop our low-cost operating structure. The executive officers are responsible for our day-to-day management. The executive officers have individual responsibilities established in our by-laws and by our board of directors. The business address of each of our executive officers is the address of our principal executive offices.

According to the Level 2 practices, the company shall cause all new members of the executive office to sign a statement of consent in which they undertake to comply with the regulations of the Level 2, their taking office is conditioned upon signing of such document.

Under our by-laws, we must have at least two and at most five executive officers that are elected by the board of directors for a one-year term. Any executive officer may be removed by the board of directors before the expiration of his term. The current term of all our executive officers ends in May 2006.

The following table sets forth the name, age and position of each of our executive officers elected in May 2005. A brief biographical description of each of our executive officers follows the table.

<u>Name</u>	<u>Age</u>	<u>Position</u>
Constantino de Oliveira Junior .....	37	President and Chief Executive Officer
David Barioni Neto.....	47	Vice President-Technical
Richard F. Lark, Jr.....	39	Vice President-Finance, Chief Financial Officer and Investor Relations Officer
Tarcisio Geraldo Gargioni .....	59	Vice President-Marketing and Services
Wilson Maciel Ramos .....	59	Vice President-Planning and Information Technology

*Constantino de Oliveira Junior.* See “—Board of Directors.”

*David Barioni Neto* has been an officer since May 2004. Mr. Barioni has been an officer of Gol since 2001. Mr. Barioni has been an aircraft pilot for 25 years and worked as an aircraft pilot for VASP from 1982 to 2000. Mr.

Barioni is a civil aviation inspector, flight instructor and aeronautical accident investigator. He also specializes in restricted and dangerous cargo.

*Richard F. Lark, Jr.* has been an officer since May 2004. Mr. Lark has been an officer of Gol since 2003. From 2000 to 2003, Mr. Lark was a founding director and served as Chief Financial Officer of Americanas.com, one of the leading Brazilian e-commerce companies. Prior to joining Americanas.com, Mr. Lark was a Vice President in the investment banking division of Morgan Stanley, where he was responsible for the Brazilian transportation sector. Mr. Lark holds a Master in Business Administration degree from the Anderson School at The University of California at Los Angeles (UCLA) and bachelor degrees in philosophy and finance and business economics from The University of Notre Dame.

*Tarcisio Geraldo Gargioni* has been an officer since May 2004. Mr. Gargioni has been an officer of Gol since 2001. From 1990 to 2000, Mr. Gargioni served as Commercial Director of VASP. Mr. Gargioni received a degree in Business Administration and a post-graduate degree in transport engineering from COOPEAD/ RJ, Brazil. Mr. Gargioni received a certificate in marketing from *Fundação Getúlio Vargas—São Paulo*.

*Wilson Maciel Ramos* has been an officer since March 2004. Mr. Ramos has been an officer of Gol since 2001. From 1999 to 2000, Mr. Ramos was an independent consultant for urban transportation companies. From 1997 to 1999, Mr. Ramos was the President of Transurb, a syndicate of urban transportation companies in São Paulo. From 1993 to 1997, Mr. Ramos served as Chief Information Officer at VASP. Mr. Ramos received a degree in mechanical engineering from the *Universidade do Rio Grande do Sul* and a master's degree in production engineering from the *Universidade de Santa Catarina*.

## **B. Compensation**

Under our by-laws, our shareholders are responsible for establishing the aggregate amount we pay to the members of our board of directors and our executive officers. Once our shareholders establish an aggregate amount of compensation for our board of directors and executive officers, the members of our board of directors are then responsible for setting individual compensation levels in compliance with our by-laws.

For the fiscal year ended December 31, 2005, the aggregate compensation, including cash and benefits-in-kind, that we paid to the members of our board of directors and executive officers was approximately R\$2.9 million.

## **Executive Stock Options**

At a shareholders' meeting held on May 25, 2004, our shareholders approved an executive stock option plan for key senior executive officers. Under this plan, we have issued to executive officers stock options to purchase up to 937,412 of our preferred shares at an exercise price of R\$3.04 per share. One half of the options vested on October 25, 2004, with the remaining 50% vesting at the end of each quarter subsequent to October 25, 2004. Each option will expire two years after its vesting date. The preferred shares reserved for issuance pursuant to these options are in addition to and separate from those shares that are reserved for issuance under the plan described in the paragraph immediately below. During 2005, our executive officers exercised stock options for an aggregate of 703,579 preferred shares. For further information regarding our stock option plans, see Note 9 of our notes to our consolidated financial statements as of December 31, 2005 and 2004.

## **Stock Option Plan**

Our stock option plan was approved at a special shareholders' meeting held on December 9, 2004. The stock option plan is aimed at promoting our interests by encouraging management employees to contribute substantially to our success, by motivating them with stock options. The plan is managed by both our compensation committee and our board of directors.

Participants in the plan are selected by the compensation committee, provided that they have been either president, vice-president, officer, advisor to the president or to the vice-president, or general manager for at least six months prior to the date on which the option is granted. The stock options to be granted under the plan confer rights

related only to our preferred shares, and over a number of preferred shares that does not, at any time, exceed 5% of our shares. The compensation committee establishes the strike price of the options to be granted, which must be equal to the average price of the preferred shares recorded in the last 60 trading sessions prior to the granting date, adjusted pursuant to the IGP-M inflation index. The options that can be freely exercised may be exercised up to the tenth anniversary of the granting date.

The plan is valid for a ten-year term. In case of termination of our legal relationship with the option holder, with or without cause (except in the case of retirement, permanent disability or death) all options that have been granted to the participant, and which were not yet exercisable, automatically expire.

In 2005, we issued stock options of up to 87,418 of our preferred shares to our directors and certain employees, at a weighted average exercise price of R\$33.06 per share.

In 2006, we issued stock options of up to 12,398 of our preferred shares to our directors and certain employees, at a weighted average exercise price of R\$47.30 per share.

### **C. Board Practices**

Currently, our board of directors is comprised of eight members. The terms of our current directors will expire in 2006. See “—Board of Directors.”

#### **Fiscal Committee**

Under the Brazilian corporation law, the *Conselho Fiscal*, or fiscal committee, is a corporate body independent of management and a company’s external auditors. The fiscal committee may be either permanent or non-permanent, in which case it is appointed by the shareholders to act during a specific fiscal year. A fiscal committee is not equivalent to, or comparable with, a U.S. audit committee. The primary responsibility of the fiscal committee is to review management’s activities and a company’s financial statements, and to report its findings to a company’s shareholders. The Brazilian corporation law requires fiscal committee members to receive as remuneration at least 10% of the average annual amount paid to a company’s executive officers. The Brazilian corporation law requires a fiscal committee to be composed of a minimum of three and a maximum of five members and their respective alternates.

Under the Brazilian corporation law, our fiscal committee may not contain members that (i) are on our board of directors, (ii) are on the board of executive officers, (iii) are employed by us or a controlled company or a company of the Áurea group, or (iv) are spouses or relatives of any member of our management, up to the third degree. Our by-laws provide for a non-permanent fiscal committee to be elected only by our shareholders’ request at a general shareholders’ meeting. The fiscal committee, when elected, will be comprised of a minimum of three and a maximum of five members and an equal number of alternate members. We currently do not have an active fiscal committee and, therefore, no members have been appointed.

#### **Committees of the Board of Directors and Board of Executive Officers**

Our board of directors also has corporate governance and nomination, audit, compensation and risk policies committees. Our board of executive officers has management, executive policy, budget, investment, corporate governance and risk policies committees. Members of the committees do not need to be members of our board of directors or board of executive officers. The charters of the corporate governance and nomination, audit and compensation committees specify that each committee shall include one member to be appointed by our minority shareholders, as well as one independent member. The responsibilities and composition of these committees are described below.

*Corporate Governance and Nomination Committee.* The corporate governance and nomination committee is responsible for the coordination, implementation and periodic review of “best practices” of corporate governance and for monitoring and keeping our board of directors informed about legislation and market recommendations addressing corporate governance. The committee also proposes individuals for consideration for election to our

board of directors. The committee consists of up to five members elected by our board of directors for a one-year term. The corporate governance and nomination committee currently consists of Charles Barnsley Holland, Paulo César Aragão and Betania Tanure de Barros.

*Audit Committee.* Our audit committee, which is not equivalent to, or comparable with, a U.S. audit committee, provides assistance to our board of directors in matters involving our accounting, internal controls, financial reporting and compliance. The audit committee recommends the appointment of our independent auditors to our board of directors and reviews the compensation of and coordinates with our independent auditors. The audit committee also evaluates the effectiveness of our internal financial and legal compliance controls. The audit committee is comprised of up to three members elected by the board of directors for a one-year term. The current members of our audit committee are Álvaro Souza, Antonio Kandir and Luiz Kaufmann. All members of the audit committee satisfy the audit committee membership independence requirements of the SEC and the independence and other standards of the NYSE. Luiz Kaufmann is an audit committee “financial expert” within the meaning of the rules adopted by the SEC relating to the disclosure of financial experts on audit committees in periodic filings pursuant to the U.S. Securities Exchange Act of 1934.

*Compensation Committee.* The compensation committee reviews and recommends to our board of directors the forms of compensation, including salary, bonus and stock options, to be paid to our directors and executive officers. The compensation committee also reviews and recommends revisions to the compensation policies applicable to our directors and executive officers and reviews our management’s career and succession plans. The compensation committee is comprised of up to three members elected by our board of directors for a one-year term. The compensation committee currently consists of Henrique Constantino, member of our board of directors, Marco Antonio Piller, Human Resources Director of Gol and Marcos Roberto Morales.

*Risk Policies Committee.* The risk policies committee conducts periodic reviews of the measures we take to protect the company against foreign exchange, jet fuel price and interest rate changes and analyzes the effect of such changes on our revenues and expenses, cash flow and balance sheet. The risk policies committee assesses the effectiveness of hedging measures taken during the previous quarter and approves recommendations for future changes and also conducts reviews of cash management activities. The risk policies committee meets on a quarterly basis and is comprised of our chief financial officer and two other members elected by our board of directors. The risk policies committee currently consists of Richard F. Lark, Jr., our chief financial officer, Henrique Constantino, one of our directors, and Barry Siler, a fuel hedging specialist and the chief executive officer of Kodiak Fuels.

*Financial Policy Committee.* The financial policy committee prepares and approves our corporate finance policies, and examines their effectiveness and implementation; periodically examines our investment and financing plans, and makes recommendations to the Board of Directors; assesses the impact of the investment and financing plans on the capital structure of the company, and makes recommendations to the Board of Directors; and determines parameters for the maintenance of desired capital and liquidity structures, monitors their enforcement and approves the policies to be used in the subsequent quarter. The financial policy committee meets quarterly and is comprised of our chief financial officer and two other members elected by our board of directors. The financial policy committee currently consists of Richard F. Lark, Jr., our chief financial officer, and Henrique Constantino, a member of our board of directors.

#### **D. Employees**

We believe that our growth potential and the achievement of our results-oriented corporate goals are directly linked to our ability to attract and maintain the best professionals available in the airline business. We place great emphasis on the selection and training of enthusiastic employees with potential to add value to our business and who we believe fit in with and contribute to our business culture.

As of December 31, 2005, we had 5,456 active employees, compared to 3,307, 2,453 and 2,072 active employees as of December 31, 2004, 2003 and 2002 respectively. As of December 31, 2005, we employed only full-time employees, which consisted of 720 pilots, 1,179 flight attendants, 889 mechanics, customer service representatives (including sales and marketing personnel and reservation agents), 2,219 airport and flight operations personnel and 449 management and administrative personnel. We also subcontract certain services, such as cargo handling, information technology, call center personnel and runway handling operations personnel.

We invest significant resources promoting the well being of our employees. In 2005, we allocated approximately 4% of our net income to health and safety matters, training, social contributions, employee meals and transportation, and profit sharing.

We train our own pilots and promoted 28 co-pilots during 2005. We also provide extensive ongoing training for our pilots, flight attendants and customer service representatives. In addition to the required technical training, which follows the strictest international standards, we also provide comprehensive managerial training to our pilots and flight attendants through Crew Resource Management and Line Oriented Flight Training programs, emphasizing the importance of resource management to provide the best service to our passengers.

In order to help retain our employees, we encourage open communication channels between our employees and management and offer career development opportunities in the company and periodic evaluations. We offer in-house post-graduate business school training in conjunction with the *Fundação Getúlio Vargas*, a leading Brazilian business school, to provide management training to selected employees. Our compensation strategy reinforces our determination to retain talented and highly motivated employees and is designed to align the interests of our employees with our shareholders. Our compensation packages include competitive salaries and participation in our profit sharing program. We have agreements with medical and insurance companies to offer affordable health and pension plan options to our employees.

A national aviators' union represents Brazil's pilots and flight attendants, and six other regional aviation unions represent ground employees of air transportation companies. Approximately 4% of our employees are members of unions. Negotiations in respect of cost of living wage and salary increases are conducted annually between the workers' unions and a national association of airline companies. There is no salary differential or seniority pay escalation among our pilots. Work conditions and maximum work hours are regulated by government legislation and are not the subject of labor negotiations. Since the commencement of our operations, we have not had a work stoppage by our employees and we believe that our relationship with our employees is good.

To motivate our employees and align their interests with our results of operations, we provide an annual profit sharing program to all of our employees. Under Brazilian law, companies may provide profit sharing programs that define mechanisms for distributing a portion of a company's profits based upon the achievement of pre-defined targets established by the company. Our annual profit sharing programs are negotiated with a commission formed by our employees and approved by labor unions for the benefit of all of our unionized and non-unionized employees. For the purposes of our profit sharing program, a portion of profit sharing distributions are based upon the achievement of corporate profit targets and a portion of the distributions are based on the achievement of operational targets set for each of our departments. Based on the achievement of our annual profit targets, we made a profit sharing payment equivalent to 17% of one month's salary, 3.7 months' salary and over four months' salary to each of our employees in 2003, 2004 and 2005, respectively. We have established a stock option plan for 18 of our management employees vesting over a 10 year period. In 2006, an additional 25 employees will be granted stock options under this plan.

## **E. Share Ownership**

The members of our board of directors and our executive officers, on an individual basis and as a group, own less than 1% of our common stock. See "Item 7A.—Major Shareholdings and Related Party Transactions—Major Shareholders." Aeropar Participações S.A., our largest shareholder, is a company indirectly controlled by Messrs. Constantino de Oliveira Júnior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino, respectively. Comporte Participações S.A., which holds 3.9% of our preferred shares, is controlled equally by Constantino de Oliveira Júnior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino.

For a description of stock options granted to our board of directors and our executive officers, see "—Compensation—Executive Stock Options" and "—Compensation—Stock Option Plan."

## Item 7. Major Shareholders and Related Party Transactions

### A. Major Shareholders

The following table sets forth information relating to the beneficial ownership of our common shares and preferred shares as of December 31, 2005, by each person known by us to beneficially own 5% or more of our common shares or preferred shares and all our directors and officers as a group.

Each shareholder's percentage ownership in the following table is based on the 109,448,497 common shares and 86,524,136 preferred shares outstanding as of December 31, 2005.

	Common Shares		Preferred Shares Beneficially Owned		Common and Preferred Shares Beneficially Owned	
	Shares	(%)	Shares	(%)	Shares	(%)
Aeropar Participações S.A. <sup>(1)</sup> .....	109,448,477	100.0%	31,493,863	36.4%	140,942,340	71.9%
Comporte Participações S.A. <sup>(2)</sup> .....	—	—	3,351,775	3.9%	3,351,775	1.7%
Executive officers and directors as a group (8 persons).....	14 <sup>(3)</sup>	*	703,587	0.8%	703,601	0.4%
Free Float	6	*	50,974,911	58.9%	50,974,917	26.0%
<b>Total</b>	<b>109,448,497</b>	<b>100.0%</b>	<b>86,524,136</b>	<b>100.0%</b>	<b>195,972,633</b>	<b>100.0%</b>

\* Represents ownership of less than 1%.

- (1) Aeropar Participações S.A. is a company controlled by Aller Participações S.A., a closely-held corporation headquartered in the City of São Paulo, State of São Paulo, at Rua Funchal, No. 551, 10<sup>th</sup> floor, part, enrolled with C.N.P.J. under No. 07.058.533/0001-73, Vaud Participações S.A., a closely-held corporation headquartered in the City of São Paulo, State of São Paulo, at Rua Funchal, No. 551, 10<sup>th</sup> floor, part, enrolled with C.N.P.J. under No. 07.058.553/0001-44, Thurgau Participações S.A., a closely-held corporation headquartered in the City of São Paulo, State of São Paulo, at Rua Funchal, No. 551, 10<sup>th</sup> floor, part, enrolled with C.N.P.J. under No. 07.061.067/0001-85 and Limmat Participações S.A., a closely-held corporation headquartered in the City of São Paulo, State of São Paulo, at Rua Funchal, No. 551, 10<sup>th</sup> floor, part, enrolled with C.N.P.J. under No. 07.058.544/0001-53, which, in turn, are controlled by Messrs. Constantino de Oliveira Júnior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino, respectively.
- (2) Comporte Participações S.A. is controlled equally by Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino. The address of Comporte Participações S.A. is Avenida Dom Jaime de Barros Câmara 300, suite 08, São Bernardo do Campo, São Paulo, 09895-400, Brazil.
- (3) Shares transferred to members of the board of directors for eligibility purposes.

According to our internal share record, which contains information regarding the ownership of our shares and the ADSs as filed by the holders of such shares and ADS, there were, at December 31, 2005, approximately 4 record holders of ADSs in the United States.

### B. Related Party Transactions

According to the Level 2 regulations, the company shall forward and disclose to BOVESPA the information regarding every and any agreement entered by and between Gol and its affiliates and associate companies, its administrators, its controlling shareholder, as the case may be, as well as other corporations that make a group with any such persons, whether factual or by law, whenever they reach, with a single agreement or with successive agreements, with or without the same purpose, at any period of one year, an amount of R\$0.2 million or more, or a value of 1% or more over the net equity of the company, whichever is higher.

Such announced information shall describe the scope of the agreement, the term, the price, the termination or completion conditions and any possible influence of the agreement upon administration or company business conducting.

We have engaged in a number of transactions with related parties, none of which have involved the issuance of guarantees.

### Shareholders' Agreement

Under the terms of our former shareholders' agreement, five of the members of our board of directors have been appointed by Aeropar Participações S.A. BSSF Air Holdings LLC has the right to elect one member of our board of directors under the terms of our shareholders' agreement as long as BSSF Air Holdings holds 5% or more

of our total share capital. None of the current members of our board of directors had been elected by BSSF Air Holdings. Upon the exercise by our minority shareholders of any minority rights set forth under the Brazilian corporation law, BSSF Air Holding's right to elect one member of our board of directors would have only prevailed to the extent that Aeropar Participacoes S.A. still retained the right to appoint the majority of our board of directors. The shareholders' agreement terminated upon the sale by BSSF Air Holdings LLC of 9,179,189 of our preferred shares in our global public offering that closed on May 3, 2005.

#### **Agreements with Áurea Administração e Participações S.A.**

##### ***Headquarters lease agreement***

On April 1, 2003 Gol entered into a five-year lease agreement with Áurea Administração e Participações S.A. for the lease of our headquarters located at Rua Tamoios, 246. The lease agreement provides for monthly payments of R\$25,000, adjusted annually for inflation by the IGP-M index.

##### ***Transportation agreement***

Gol has entered into exclusive bus transportation agreements with Expresso União Ltda. and Breda Serviços, which are companies controlled by Áurea Administração e Participações S.A. for the transportation of Gol's passengers, their baggage and Gol's employees. In 2004 and 2005, Gol made total payments of approximately R\$967,000 and approximately R\$1,998,000, respectively, under these bus transportation agreements.

##### ***Subscription and Option Agreement***

On January 20, 2003, Áurea Administração e Participações S.A., BSSF II Holdings Ltda., BSSF Air Holdings Ltd. And Gol entered into a Subscription and Option Agreement under which BSSF II Holdings Ltda. agreed to subscribe and pay for 7,675,748 of Gol's Class A preferred shares and BSSF Air Holdings Ltd. Agreed to subscribe and pay for 2,699,252 of Gol's Class A preferred shares and 8,408,206 of Gol's Class B preferred shares.

In February 2004, Áurea Administração e Participações S.A. exercised its call option pursuant to the Subscription and Option Agreement. As a result, on March 29, 2004, Áurea Administração e Participações S.A. acquired all of BSSF Air Holdings Ltd.'s share ownership in Gol and 140,350 Class A preferred shares of Gol from BSSF II Holdings Ltda.

#### **C. Interests of Experts and Counsel**

Not applicable.

### **ITEM 8. FINANCIAL INFORMATION**

#### **A. Consolidated Statements and Other Financial Information**

See "Item 3. Key Information—Selected Financial Data" and "Item 18. Financial Statements."

##### **Legal Proceedings**

In the ordinary course of our business, we are party to various legal actions, which we believe are incidental to our operations, in large part linked to the routine demands related to the rights of consumers. As of December 31, 2005, we had R\$21.6 million of provisions for legal and administrative actions. We believe that the outcome of the proceedings to which we are currently a party will not have a material adverse effect on our financial position, results of operations and cash flows.

## **ICMS**

We are currently challenging the levy of Brazil's state value added tax (the *Imposto sobre Circulação de Mercadorias e Serviços*, or ICMS) on the import of our leased aircraft and engines from foreign countries. It is the understanding of our administration that the ICMS does not apply to these operations because of their status as leases, which by contractual obligation requires the return of the aircraft and engines. We believe that, by not having circulated the aircraft and engines, we are exempt from the ICMS.

On December 31, 2005, there were 29 judicial suits of this nature in the second instance, and seven in the first instance. The aggregate value of the ongoing disputes at December 31, 2005 was R\$45.0 million.

We have not constituted provisions in regards to these processes because we understand that the possibility of loss in these instances are remote and that practices adopted in financial preparation, consistent with international patterns, do not require provisions for losses.

## **Dividends and Dividend Policy**

### ***Amounts Available for Distribution***

At each annual general shareholders' meeting, our board of directors is required to propose how our earnings for the preceding fiscal year are to be allocated. For purposes of Brazilian corporation law, a company's non-consolidated net income after federal income tax and social contribution on net income for such fiscal year, net of any accumulated losses from prior fiscal years and amounts allocated to employees' and management's participation in earnings, represents its "income" for such fiscal year. In accordance with the Brazilian corporation law, an amount equal to the company's "income," as adjusted (the "distributable amount"), will be available for distribution to shareholders in any particular year. The distributable amount will be affected by the following:

- reduced by amounts allocated to the legal reserve;
- reduced by amounts allocated to the statutory reserve, if any;
- reduced by amounts allocated to the contingency reserve, if any;
- reduced by amounts allocated to the unrealized profits reserve established by the company in compliance with applicable law (as discussed below);
- reduced by amounts allocated to the reserve for investment projects (as discussed below); and
- increased by reversals of reserves recorded in prior years.

Our by-laws do not provide for statutory or contingency reserves. Under the Brazilian corporation law and according to our by-laws, we are required to maintain a "legal reserve" to which we must allocate 5% of our "income" for each fiscal year until the amount of the reserve equals 20% of paid-in capital. We are not required to make any allocations to our legal reserve in respect of any fiscal year in which such reserve, when added to our capital reserves, exceeds 30% of our capital. Accumulated losses, if any, may be charged against the legal reserve. Other than that, the legal reserve can only be used to increase our capital. The legal reserve is subject to approval by the shareholders voting at the annual shareholders' meeting and may be transferred to capital but is not available for the payment of dividends in subsequent years. Our calculation of net income and allocations to reserves for any fiscal year are determined on the basis of our non-consolidated financial statements prepared in accordance with the Brazilian corporation law.

Under the Brazilian corporation law, a portion of a corporation's "income" may be allocated for discretionary appropriations for plant expansion and other fixed or working capital investment projects, the amount of which is based on a capital budget previously presented by management and approved by the shareholders in a general shareholders' meeting. After completion of the relevant capital projects, the company may retain the

appropriation until shareholders vote to transfer all or a portion of the reserve to capital or retained earnings. The Brazilian corporation law provides that, if a project to which the reserve for investment projects account is allocated has a term exceeding one year, the budget related to the project must be submitted to the shareholders' meeting each fiscal year until the relevant investment is completed.

Under the Brazilian corporation law, the amount by which the mandatory distribution exceeds the "realized" portion of net income for any particular year may be allocated to the unrealized profits reserve and the mandatory distribution may be limited to the "realized" portion of net income. The "realized" portion of net income is the amount by which "income" exceeds the sum of (a) our net positive results, if any, from the equity method of accounting for earnings and losses of our subsidiaries and certain affiliates, and (b) the profits, gains or income obtained on transactions maturing after the end of the following fiscal year. As amounts allocated to the unrealized income reserve are realized in subsequent years, such amounts must be added to the dividend payment relating to the year of realization.

Under Brazilian tax legislation, a portion of the income taxes payable may also be transferred to a general "fiscal incentive reserve" in amounts equivalent to the reduction in the company's income tax liability which results from the option to deposit part of that liability into investment in approved projects in investment incentive regions established by government.

Under the Brazilian corporation law, any company may create a "statutory" reserve, which reserve must be described in the company's by-laws. Those by-laws which authorize the allocation of a percentage of a company's net income to the statutory reserve must also indicate the purpose, the criteria for allocation and the maximum amount of the reserve. The Brazilian corporation law provides that all discretionary allocations of "income," including the unrealized profits reserve and the reserve for investment projects, are subject to approval by the shareholders voting at the general shareholders' meeting and may be transferred to capital or used for the payment of dividends in subsequent years. The fiscal incentive reserve and the legal reserve are also subject to approval by the shareholders voting at the general shareholders' meeting and may be transferred to capital or used to absorb losses, but are not available for the payment of dividends in subsequent years.

The amounts available for distribution may be further increased by a reversion of the contingency reserve for anticipated losses constituted in prior years but not realized. Allocations to the contingency reserve are also subject to approval by the shareholders voting at the general shareholders meeting. The amounts available for distribution are determined on the basis of our non-consolidated financial statements prepared in accordance with Brazilian GAAP.

The balance of the profit reserve accounts, except for the contingency reserve and unrealized profits reserve, may not exceed the share capital. If this happens, a shareholders' meeting must resolve whether the excess will be applied to pay in the subscribed and unpaid capital, to increase and pay in the subscribed stock capital or to distribute dividends.

Pursuant to Law No. 10,303, net income unallocated to the accounts mentioned above must be distributed as dividends.

### ***Mandatory Distribution***

The Brazilian corporation law generally requires that the by-laws of each Brazilian corporation specify a minimum percentage of the amounts available for distribution by such corporation for each fiscal year that must be distributed to shareholders as dividends, also known as the mandatory distribution.

The mandatory distribution is based on a percentage of adjusted non-consolidated net income, not lower than 25%, rather than a fixed monetary amount per share. If the by-laws of a corporation are silent in this regard, the percentage is deemed to be 50%. Under our by-laws, at least 25% of our adjusted non-consolidated net income, as calculated under Brazilian GAAP and adjusted under the Brazilian corporation law (which differs significantly from net income as calculated under U.S. GAAP), for the preceding fiscal year must be distributed as a mandatory annual dividend. Adjusted net income means the net income after any deductions for the legal reserve and contingency reserves and any reversals of the contingency reserves created in previous fiscal years. The Brazilian corporation

law, however, permits a publicly held company, such as we are, to suspend the mandatory distribution of dividends in any fiscal year in which the board of directors reports to the shareholders' meeting that the distribution would be inadvisable in view of the company's financial condition. The suspension is subject to the approval at the shareholders' meeting and review by members of the fiscal committee. While the law does not establish the circumstances in which payment of the mandatory dividend would be "inadvisable" based on the company's financial condition, it is generally agreed that a company need not pay the mandatory dividend if such payment threatens the existence of the company as a going concern or harms its normal course of operations. In the case of publicly held corporations, the board of directors must file a justification for such suspension with the CVM within five days of the relevant general meeting. If the mandatory dividend is not paid and funds are available, those funds shall be attributed to a special reserve account. If not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

### ***Payment of Dividends***

We are required by the Brazilian corporation law to hold an annual general shareholders' meeting by no later than April 30 of each year, at which time, among other things, the shareholders have to decide on the payment of an annual dividend. Additionally, interim dividends may be declared by the board of directors. Any holder of record of shares at the time of a dividend declaration is entitled to receive dividends. Dividends on shares held through depositaries are paid to the depositary for further distribution to the shareholders. Commencing in the first quarter of 2006, we intend to pay dividends quarterly.

Under the Brazilian corporation law, dividends are generally required to be paid to the holder of record on a dividend declaration date within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which such dividend was declared. Pursuant to our by-laws, unclaimed dividends do not bear interest, are not monetarily adjusted and revert to us three years after dividends were declared. See "Item 10.B. Memorandum of Articles of Association — Description of Capital Stock."

In general, shareholders who are not residents of Brazil must register their equity investment with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted outside Brazil. The preferred shares underlying the ADSs are held in Brazil by Banco Itaú S.A., also known as the custodian, as agent for the depositary, that is the registered owner on the records of the registrar for our shares. The current registrar is Banco Itaú S.A. The depositary registers the preferred shares underlying the ADSs with the Central Bank and, therefore, is able to have dividends, sales proceeds or other amounts with respect to the preferred shares remitted outside Brazil.

Payments of cash dividends and distributions, if any, are made in *reais* to the custodian on behalf of the depositary, which then converts such proceeds into U.S. dollars and causes such U.S. dollars to be delivered to the depositary for distribution to holders of ADSs. In the event that the custodian is unable to convert immediately the Brazilian currency received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by depreciations of the Brazilian currency that occur before the dividends are converted. Under the current Brazilian corporation law, dividends paid to persons who are not Brazilian residents, including holders of ADSs, will not be subject to Brazilian withholding tax, except for dividends declared based on profits generated prior to December 31, 1995, which will be subject to Brazilian withholding income tax at varying tax rates. See "Item 10. Taxation—Material Brazilian Tax Considerations."

Holders of ADSs have the benefit of the electronic registration obtained from the Central Bank, which permits the depositary and the custodian to convert dividends and other distributions or sales proceeds with respect to the preferred shares represented by ADSs into foreign currency and remits the proceeds outside Brazil. In the event the holder exchanges the ADSs for preferred shares, the holder will be entitled to continue to rely on the depositary's certificate of registration for five business days after the exchange. Thereafter, in order to convert foreign currency and remit outside Brazil the sales proceeds or distributions with respect to the preferred shares, the holder must obtain a new certificate of registration in its own name that will permit the conversion and remittance of such payments through the commercial rate exchange market. See "Item 10.B. Memorandum of Articles of Association — Description of Capital Stock—Regulation of Foreign Investment and Exchange Controls."

If the holder is not a duly qualified investor and does not obtain an electronic certificate of foreign capital registration, a special authorization from the Central Bank must be obtained in order to remit from Brazil any payments with respect to the preferred shares through the commercial rate exchange market. Without this special authorization, the holder may currently remit payments with respect to the preferred shares through the floating rate exchange market, although no assurance can be given that the floating rate exchange market will be accessible for these purposes in the future.

Under current Brazilian legislation, the federal government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments.

#### ***Interest Attributable to Shareholders' Equity***

Under Brazilian tax legislation effective January 1, 1996, Brazilian companies are permitted to pay "interest" to holders of equity securities and treat such payments as an expense for Brazilian income tax purposes and, beginning in 1998, for social contribution purposes. The purpose of the tax law change is to encourage the use of equity investment, as opposed to debt, to finance corporate activities. Payment of such interest may be made at the discretion of our board of directors, subject to the approval of the shareholders at a general shareholders' meeting. The amount of any such notional "interest" payment to holders of equity securities is limited in respect of any particular year to the daily pro rata variation of the TJLP, as determined by the Brazilian Central Bank from time to time, and may not exceed the greater of:

- 50% of net income (after the deduction of the provisions for social contribution on net profits but before taking into account the provision for income tax and the interest attributable to shareholders' equity) for the period in respect of which the payment is made; or
- 50% of the sum of retained earnings and profit reserves as of the beginning of the year in respect of which such payment is made.

For Brazilian GAAP accounting purposes, although the interest charge must be reflected in the statement of operations to be tax deductible, the charge is reversed before calculating net income in the statutory financial statements and deducted from shareholders' equity in a manner similar to a dividend. Any payment of interest in respect of preferred shares (including the ADSs) is subject to Brazilian withholding income tax at the rate of 15%, or 25% in the case of a shareholder domiciled in a tax haven jurisdiction (see "Item 10. Taxation—Material Brazilian Tax Considerations"). If such payments are accounted for, at their net value, as part of any mandatory dividend, the tax is paid by the company on behalf of its shareholders, upon distribution of the interest. In case we distribute interest attributed to shareholders' equity in any year, and that distribution is not accounted for as part of mandatory distribution, Brazilian income tax would be borne by the shareholders. For U.S. GAAP accounting purposes, interest attributable to shareholders' equity is reflected as a dividend payment.

Under our by-laws, interest attributable to shareholders' equity may be treated as a dividend for purposes of the mandatory dividend.

The following table sets forth the distributions out of net income that we made or will make to our shareholders in respect of our 2003, 2004 and 2005 net income. All these amounts distributed or to be distributed were or will be in the form of interest attributed to shareholders' equity.

Year Ended December 31,	Payment Dates	Payment per Share	Payment per ADS	Aggregate Amount Distributed(1)	Pay-out Ratio(2)
2003 .....	March 2004	R\$0.16	R\$0.16(3)	R\$26.5	25.0%
2004 .....	April 2005	R\$0.32	R\$0.32(3)	R\$60.7	26.6%
2005 .....	April 2006*	R\$0.60	R\$0.60(3)	R\$117.9	29.2%

(1) In millions of *reais*.

(2) Represents distribution divided by net income, as calculated under Brazilian GAAP and adjusted under the Brazilian corporation law.

(3) Adjusted for the 2:1 ADS ratio change in December 2005.  
 \* Expected payment date

### **Dividend Policy**

We intend to declare and pay dividends and/or interest attributed to shareholders' equity, as required by the Brazilian corporation law and our by-laws. Commencing in the first quarter of 2006, we intend to pay dividends quarterly. Our board of directors may approve the distribution of dividends and/or interest attributed to shareholders' equity, calculated based on our non-consolidated semiannual or quarterly financial statements. The declaration of annual dividends, including dividends in excess of the mandatory distribution, requires approval by the vote of the majority of the holders of our common shares. The amount of any distributions will depend on many factors, such as our results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by our board of directors and shareholders. Within the context of our tax planning, we may in the future continue determining that it is to our benefit to distribute interest attributed to shareholders' equity.

### **B. Significant Changes**

None.

## **ITEM 9. THE OFFER AND LISTING**

### **A. Offer and Listing Details**

In the United States, our preferred shares trade in the form of ADSs. Since December 2005 each ADS represents one preferred share, issued by The Bank of New York, as Depositary pursuant to a Deposit Agreement. On December 13, 2005, we executed a 2:1 ADS split, changing to ratio of one ADS representing two preferred shares to one ADS representing one preferred share, as approved by a meeting of the Board of Directors of the Company on November 8, 2005. The ADSs commenced trading on the NYSE on June 24, 2004. As of December 31, 2005, the ADSs represented approximately 52% of our preferred shares and 88% of our current global public float. The following table sets forth the reported high and low closing sales prices for the ADSs on the NYSE for the periods indicated.

	US\$ per ADS(1)		
	Low	High	Average(2)
<b>2004</b>			
<b>Annual</b> .....	<b>8.20</b>	<b>16.45</b>	<b>10.47</b>
First quarter .....	-	-	-
Second quarter .....	8.50	9.11	8.72
Third Quarter .....	8.20	10.61	9.08
Fourth Quarter .....	9.68	16.45	12.02
<b>2005</b>			
<b>Annual</b> .....	<b>12.20</b>	<b>28.74</b>	<b>16.57</b>
First quarter .....	12.57	16.51	14.60
Second quarter .....	12.20	16.56	14.62
Third Quarter .....	14.06	18.00	15.88
Fourth Quarter .....	15.50	28.74	21.17
<b>Last Six Months</b>			
September 2005 .....	15.25	16.65	15.93
October 2005 .....	15.50	17.61	16.69
November 2005 .....	18.79	22.76	20.83
December 2005 .....	23.47	28.74	25.77
January 2006 .....	25.25	30.68	27.39
February 2006 .....	29.08	34.12	31.52

Source: Bloomberg

(1) Reflecting the ADS ratio change from one ADS representing two preferred shares to one ADS representing one preferred share, occurred in December 2005.

(2) Calculated as average of closing prices for the period.

Our preferred shares began trading on the São Paulo Stock Exchange on June 24, 2004. The following table sets forth the reported high and low closing sale prices for our preferred shares on the BOVESPA, for the periods indicated.

	<u>Reais per Preferred Share</u>		
	<u>Low</u>	<u>High</u>	<u>Average(1)</u>
<b>2004</b>			
<b>Annual</b> .....	<b>25.00</b>	<b>44.31</b>	<b>29.83</b>
First quarter .....	-	-	-
Second quarter .....	26.31	28.45	27.10
Third Quarter .....	25.00	30.11	26.78
Fourth Quarter .....	27.25	44.31	33.18
<b>2005</b>			
<b>Annual</b> .....	<b>32.24</b>	<b>66.90</b>	<b>40.00</b>
First quarter .....	34.00	42.60	38.89
Second quarter .....	32.24	39.88	36.29
Third Quarter .....	33.53	42.00	37.19
Fourth Quarter .....	35.05	66.90	47.64
<b>Last Six Months</b>			
September 2005 .....	35.20	39.00	36.80
October 2005 .....	35.05	40.00	37.44
November 2005 .....	42.00	50.45	46.06
December 2005 .....	51.90	66.90	58.96
January 2006 .....	58.70	67.81	62.12
February 2006 .....	63.67	72.00	67.68

Source: Bloomberg

(1) Calculated as average of closing prices for the period.

## B. Plan of Distribution

Not applicable.

## C. Markets

### Trading on the BOVESPA

In 2000, the BOVESPA was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the BOVESPA, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

When shareholders trade in common and preferred shares on the BOVESPA, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia*, or CBLC.

The BOVESPA is a nonprofit entity owned by its member brokerage firms. Trading on the BOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BOVESPA has two open outcry trading sessions each day from 11:00 a.m. to 6:00 p.m., São Paulo time, for all securities traded on all markets, except during daylight savings time in the United States. During daylight savings time in the United States, usually the sessions are from 10:00 a.m. to 17:00 p.m., São Paulo time, to closely mirror the NYSE trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States, on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the BOVESPA and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system that links

electronically with the seven smaller regional exchanges. The BOVESPA also permits trading from 6:45 p.m. to 7:30 p.m. on an online system connected to traditional and internet brokers called the “after market.” Trading on the after market is subject to regulatory limits on price volatility and on the volume of shares transacted through internet brokers. There are no specialists or officially recognized market makers for our shares in Brazil.

In order to better control volatility, the BOVESPA adopted a “circuit breaker” system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the BOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session.

The BOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 2005, the aggregate market capitalization of the 381 companies listed on the BOVESPA was equivalent to R\$1,128 billion and the 10 largest companies listed on the BOVESPA represented approximately 52% of the total market capitalization of all listed companies. In contrast, as of December 2005, the aggregate market capitalization of the nearly 2,800 companies listed on the NYSE was US\$21.4 trillion and the 10 largest companies listed on the NYSE represented approximately 11.1% of the total market capitalization of all listed companies. The average daily trading volume of BOVESPA and NYSE for December 2005 was approximately R\$1,783 million and US\$55,168 million, respectively. Although any of the outstanding shares of a listed company may trade on the BOVESPA, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder. See “Item 3. Risk Factors—Risks Relating to the ADSs and Our Preferred Shares—The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the preferred shares underlying the ADSs at the time and price you desire.”

Trading on the BOVESPA by a holder not deemed to be domiciled in Brazil for Brazilian tax and regulatory purposes, a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock exchanges in accordance with the requirements of Resolution No. 2,689, of January 26, 2000, of the National Monetary Council (*Conselho Monetário Nacional*, or CMN), or Resolution No. 2,689. Resolution No. 2,689 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions and be registered with a clearinghouse. Such financial institutions and clearinghouses must be duly authorized to act as such by the Central Bank and the CVM. In addition, Resolution No. 2,689 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through a private transaction. See “Item 10. Taxation—Material Brazilian Tax Considerations—Taxation on Gains” for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 2,689.

### **Corporate Governance Practices**

In 2000, the BOVESPA introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and New Market (*Novo Mercado*), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the BOVESPA, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders’ rights and enhance the quality of information provided to shareholders.

To become a Level 1 (*Nível 1*) company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (a) ensure that shares of the issuer representing 25% of its total capital are effectively available for trading, (b) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, (c) comply with minimum quarterly disclosure standards including cash flow statements, (d) follow stricter disclosure policies with respect to transactions made by controlling shareholders, directors and officers involving securities issued by the issuer, (e) submit any existing shareholders’ agreements and stock option plans to the BOVESPA, and (f) make an annual calendar announcing scheduled corporate events, bringing information on the company, the event, date and time it is going to take place; any changes in the schedule shall be promptly forwarded to the BOVESPA and published.

To become a Level 2 (*Nível 2*) company, in addition to the obligations imposed by current Brazilian law, an issuer must agree to (a) comply with all of the listing requirements for Level 1 companies, (b) grant tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share for controlling block common shares and 80% of the price paid per share for controlling block preferred shares, (c) grant voting rights to holders of preferred shares in connection with certain corporate restructurings and related party transactions, such as: (i) any transformation of the company into another corporate form, (ii) any merger, consolidation or spin-off of the company, (iii) approval of any transactions between the company and its controlling shareholder, including parties related to the controlling shareholder, (iv) approval of any valuation of assets to be delivered to the company in payment for shares issued in a capital increase, (v) appointment of an independent company, with renowned expertise, to ascertain the economic value of the company in connection with any deregistration and delisting tender offer, and (vi) any changes to these voting rights, (d) have a board of directors comprised of at least five members, of which at least 20% shall be “independent”, as defined by the BOVESPA, with a term limited to two years, (e) if it elects to delist from the Level 2 segment, hold a tender offer by the company’s controlling shareholder (the minimum price of the shares to be offered will be the economic value determined by an appraisal process), and, for the same purposes, in the case of companies with diffuse control (controlling power exercised by the shareholder holding less than 50% of the voting capital and per group of shareholders who are not signatories of voting agreements and which is not under a common control and does not act as a representative of a common interest) to comply with complementary rules to be issued by BOVESPA.; (f) disclose: (i) quarterly financial statements in English or prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS); and (ii) annual financial statements in English, including cash flow statements, prepared in accordance with U.S. GAAP or International Financial Reporting Standards (IFRS), in American Dollars or *reais*, and (g) adhere exclusively to the rules of the BOVESPA Arbitration Chamber for resolution of disputes involving the controlling shareholders, the managers and the members of the fiscal committee.

To be listed in the *Novo Mercado*, an issuer must meet all of the requirements described above, in addition to (a) issuing only voting shares and ensure that all the shares will be composed exclusively of common shares, (b) granting tag-along rights for all shareholders in connection with a transfer of control of the company, offering the same price paid per share for controlling block common shares.

In May 2004, we entered into an agreement with the BOVESPA to comply with the requirements to become a Level 2 company. Upon the closing of our global public offering of our preferred shares on May 3, 2005, we are in compliance with the requirement to achieve a free float of 25% of our preferred shares. In addition to complying with Level 2 requirements, we have also granted tag-along rights to holders of our preferred shares in connection with a transfer of control of our company, offering preferred shareholders 100% of the price paid per common share of controlling block shareholders. Furthermore, we prepare quarterly financial statements in accordance with U.S. GAAP. In 2005, we were included in the following indexes: IbrX100 (*Índice Brasil, Index Brazil*), IGC (*Índice de Ações com Governança Corporativa Diferenciada, Special Corporate Governance Index*), ITAG (*Índice de Ações com Tag Along Diferenciado, Special Tag Along Stock Index*) and MSCI (*Morgan Stanley Capital International Index*), which reflects our increased market capitalization and liquidity of our preferred shares.

### **Regulation of the Brazilian Securities Market**

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and securities markets, as well as by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities markets are governed by Law No. 10,198 dated February 14, 2001, Law No. 10,303 dated October 31, 2001, known as Law No. 10,303, and Law No. 10,411 dated February 26, 2002, which introduced new concepts and several changes to Law No. 6,385 dated December 7, 1976, as amended and supplemented, the principal law governing the Brazilian securities markets, by Brazilian corporation law, and by regulations issued by the CVM, the CMN and the Central Bank. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, criminal sanctions for insider trading and price manipulation, and protection of minority shareholders. They also provide for licensing and oversight of brokerage firms and governance of Brazilian stock exchanges. However, the Brazilian securities markets are not as highly regulated and supervised as U.S. securities markets.

Under the Brazilian corporation law, a company is either publicly held, a *companhia aberta*, or privately held, a *companhia fechada*. All listed companies are registered with the CVM and are subject to reporting and regulatory requirements. A company registered with the CVM may trade its securities either on the BOVESPA or in the Brazilian over-the-counter market. Shares of companies listed on the BOVESPA may not simultaneously trade on the Brazilian over-the-counter market. The shares of a listed company may also be traded privately, subject to several limitations. To be listed on the BOVESPA, a company must apply for registration with the BOVESPA and the CVM.

The trading of securities on the BOVESPA may be halted at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of the BOVESPA or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a significant event or has provided inadequate responses to inquiries by the CVM or the BOVESPA.

Trading on the BOVESPA by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for the preferred shares underlying the ADSs must, on behalf of the depositary for the ADSs, obtain registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions, or upon the disposition of the shares and sales proceeds thereof. If you exchange your ADSs for preferred shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for five business days after the exchange. Thereafter, you may not be able to obtain and remit abroad non-Brazilian currency upon the disposition of or distributions relating to the preferred shares, and will be subject to a less favorable tax treatment on gains with respect to the preferred shares, unless you obtain a new electronic certificate of foreign capital registration or qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on the BOVESPA without obtaining separate electronic certificates of foreign capital registration. See "Item 10.B. Memorandum of Articles of Association — Description of Capital Stock—Regulation of Foreign Investment."

## **Disclosure Requirements**

Pursuant to CVM Rule No. 358, of January 3, 2002, the CVM revised and consolidated the requirements regarding the disclosure and use of information related to material facts and acts of publicly held companies, including the disclosure of information in the trading and acquisition of securities issued by publicly held companies.

Such requirements include provisions that:

- establish the concept of a material fact that gives rise to reporting requirements. Material facts include decisions made by the controlling shareholders, resolutions of the general meeting of shareholders and of management of the company, or any other facts related to the company's business (whether occurring within the company or otherwise somehow related thereto) that may influence the price of its publicly traded securities, or the decision of investors to trade such securities or to exercise any of such securities' underlying rights;
- specify examples of facts that are considered to be material, which include, among others, the execution of shareholders' agreements providing for the transfer of control, the entry or withdrawal of shareholders that maintain any managing, financial, technological or administrative function with or contribution to the company, and any corporate restructuring undertaken among related companies;
- oblige the officer of investor relations, controlling shareholders, other officers, directors, members of the audit committee and other advisory boards to disclose material facts;
- require simultaneous disclosure of material facts to all markets in which the corporation's securities are admitted for trading;
- require the acquirer of a controlling stake in a corporation to publish material facts, including its intentions as to whether or not to de-list the corporation's shares, within one year;

- establish rules regarding disclosure requirements in the acquisition and disposal of a material stockholding stake; and
- forbid the use of insider information.

### **Changes in the Brazilian Corporation Law**

On October 31, 2001, Law No. 10,303, amending the Brazilian corporation law, was enacted. The main goal of Law No. 10,303 is to broaden the rights of minority shareholders. Law No. 10,303:

- obligates our controlling shareholders to make a tender offer for our shares if it increases its interest in our share capital to a level that materially and negatively affects the liquidity of our shares, as defined by the CVM;
- requires any acquirer of control to make a tender offer for our common shares at a price equal to 80% of the per share price paid for the controlling block of shares;
- authorizes us to redeem minority shareholders' shares if, after a tender offer, our controlling shareholders increase their participation in our total share capital to more than 95%;
- entitles dissenting or, in certain cases, non-voting shareholders to obtain redemption upon a decision to conduct a spin-off that results in (a) a change of our corporate purpose, (b) a reduction in the mandatory dividend or (c) any participation in a group of companies (as defined by the Brazilian corporation law);
- requires that the preferred shares have one of the following advantages in order to be listed and to trade on a stock exchange: (a) priority in receipt of dividends corresponding to at least 3% of the book value per share (after this priority condition is met, equal conditions apply to common shares); (b) dividends 10% higher than those paid for common shares; or (c) a tag-along right at 80% of the price paid to the controlling shareholder in case of a transfer control. No withdrawal rights arise from such amendments made before December 31, 2002;
- entitles shareholders that are not controlling shareholders but that together hold (a) preferred shares representing at least 10% of our total share capital or (b) common shares representing at least 15% of our voting capital the right to appoint one member and an alternate to our board of directors. If no group of common or preferred shareholders meets the thresholds described above, shareholders holding preferred or common shares representing at least 10% of our total share capital are entitled to combine their holdings to appoint one member and an alternate to our board of directors. Until 2005, the board members that may be elected pursuant to (a) above or by the combined holdings of holders of preferred and common shares are to be chosen from a list of three names drawn up by the controlling shareholder. Any such members elected by the minority shareholders will have veto powers on the selection of our independent auditors;
- requires controlling shareholders, shareholders that appoint members of our board of directors or fiscal council and members of our board of directors, board of executive officers or fiscal council to file immediately with the CVM and the stock exchanges (or the over-the-counter markets on which our securities are traded) a statement of any change in their shareholdings; and
- requires us to send copies of the documentation we submit to our shareholders in connection with shareholders meetings to the stock exchanges on which our shares are most actively traded.

## **Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we are required only to: (a) have an audit committee or audit board, pursuant to an applicable exemption available to foreign private issuers, that meets certain requirements, as discussed below, (b) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules, and (c) provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies. The discussion of the significant differences between our corporate governance practices and those required of U.S. listed companies follows below.

### ***Majority of Independent Directors***

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both the Brazilian Corporate Law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of the Brazilian Corporate Law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence. The Brazilian Corporate Law requires that our directors be elected by our shareholders at a general shareholders' meeting. Five of our directors are elected by, and represent, our controlling shareholder.

### ***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. The Brazilian Corporate Law does not have a similar provision. According to the Brazilian Corporate Law, up to one-third of the members of the board of directors can be elected from management. Constantino de Oliveira Jr., our president and chief executive officer, is a member of our board of directors. The remaining non-management directors are not expressly empowered to serve as a check on management, and there is no requirement that those directors meet regularly without management. As a result, the non-management directors on our board do not typically meet in executive session.

### ***Nominating/Corporate Governance Committee***

NYSE rules require that listed companies have a nominating/corporate governance committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. Our corporate governance and nomination committee is responsible for the coordination, implementation and periodic review of "best practices" of corporate governance and for monitoring and keeping our board of directors informed about legislation and market recommendations addressing corporate governance. The committee also proposes individuals to be considered for election to our board of directors. The committee consists of up to five members elected by our board of directors for a one-year term of office. Currently, the corporate governance and nomination committee consists of Charles Barnsley Holland, Paulo César Aragão and Betania Tanure de Barros.

### ***Compensation Committee***

NYSE rules require that listed companies have a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities, which include, among other things, reviewing corporate goals relevant to the chief

executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive-compensation and equity-based plans. We are not required under applicable Brazilian law to have a compensation committee. Under the Brazilian Corporate Law, the total amount available for compensation of our directors and executive officers and for profit-sharing payments to our executive officers is established by our shareholders at the annual general meeting. The board of directors is then responsible for determining the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members. In making such determinations, the board reviews the performance of the executive officers, including the performance of our chief executive officer, who typically excuses himself from discussions regarding his performance and compensation.

Our compensation committee reviews and recommends to our board of directors the forms of compensation, including salary, bonus and stock options, to be paid to our directors and executive officers. The compensation committee also reviews and recommends revisions to the compensation policies applicable to our directors and executive officers and reviews our management's career and succession plans. The compensation committee is comprised of up to three members elected by our board of directors for a one-year term. The compensation committee currently consists of Henrique Constantino, who is one of our directors, Marco Antonio Piller, the human resources and quality director of Gol, and Marcos Morales, a human resources consultant from Watson Wyatt.

#### ***Audit Committee***

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies. The Brazilian Corporate Law requires companies to have a non-permanent *Conselho Fiscal* composed of three to five members who are elected at the general shareholders' meeting. We have established an audit committee, which is equivalent to a U.S. audit committee, provides assistance to our board of directors in matters involving our accounting, internal controls, financial reporting and compliance. The audit committee recommends the appointment of our independent auditors to our board of directors and reviews the compensation of, and coordinates with, our independent auditors. The audit committee also evaluates the effectiveness of our internal financial and legal compliance controls. The audit committee is comprised of up to three members elected by the board of directors for a one-year term of office. The current members of our audit committee are Álvaro Souza, Antonio Kandir and Luiz Kaufmann. All members of the audit committee satisfy the audit committee membership independence requirements set forth by the SEC and the NYSE. Luiz Kaufmann is an audit committee "financial expert" within the meaning of the rules adopted by the SEC relating to the disclosure of financial experts on audit committees in periodic filings pursuant to the U.S. Securities Exchange Act of 1934.

#### ***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under the Brazilian Corporate Law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval.

#### ***Corporate Governance Guidelines***

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We have not adopted any formal corporate governance guidelines beyond those required by applicable Brazilian law. We have adopted and observe a disclosure policy, which requires the public disclosure of all relevant information pursuant to guidelines set forth by the CVM, as well as an insider trading policy, which, among other things, establishes black-out periods and requires insiders to inform management of all transactions involving our securities.

### ***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement. We have adopted a Code of Ethics and Conduct applicable to our officers, directors and employees worldwide, including at the subsidiary level. We believe this code addresses the matters required to be addressed pursuant to the NYSE rules. For a further discussion of our Code of Ethics and Conduct, see “Item 16B. Code of Ethics.”

### ***Internal Audit Function***

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company’s risk management processes and system of internal control. Our internal audit and compliance department was created in 2004 under the supervision of our chief financial officer and our audit committee and is responsible for our compliance with the requirements of Section 404 of the U.S. Sarbanes-Oxley Act of 2002 regarding internal control over financial reporting. The internal audit and compliance department reports to our chief executive officer and the audit committee.

### **Sarbanes-Oxley of 2002**

We maintain controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. During 2005, we further improved our internal control over financial reporting in accordance with Section 404 of the U.S Sarbanes-Oxley Act of 2002, one year before this requirement becomes obligatory to us as a non-U.S. company. We are one of the first Latin American companies to give the relevant officer certifications regarding these controls and procedures. The certifications are included as Exhibits 12.1 and 12.2 to this Annual Report. We expect various gains from the implementation of these controls and procedures, such as improved risk management and better operational and financial controls.

### **D. Selling Shareholders**

Not applicable.

### **E. Dilution**

Not applicable.

### **F. Expenses of the Issue**

Not applicable.

## **ITEM 10. ADDITIONAL INFORMATION**

### **A. Share Capital**

Not applicable.

### **B. Memorandum and Articles of Association**

The Registrant was formed on March 12, 2004 as a *sociedade por ações*, a stock corporation duly incorporated under the laws of Brazil with unlimited duration. The Registrant is registered with the São Paulo Commercial Registry (*Junta Comercial do Estado de São Paulo*) under number NIRE 35.300.314.441. Gol was formed on August 1, 2001 as a Brazilian *sociedade limitada*, and on May 2, 2002, Gol was converted into a *sociedade por ações*.

## Description of Capital Stock

### *General*

The Registrant became the parent company of Gol on March 29, 2004, when all of the common shares, Class A preferred shares and Class B preferred shares of Gol (except for five common shares and three Class B preferred shares of Gol that are held by members of Gol's board of directors for eligibility purposes) were contributed to the Registrant by the shareholders of Gol in exchange for the applicable number of either common shares or preferred shares of the Registrant. As a result of this reorganization, 41,499,995 common shares of Gol were exchanged for 109,448,267 common shares and 6,751,719 preferred shares of the Registrant, 10,375,000 Class A preferred shares of Gol were exchanged for 29,049,994 preferred shares and 6 common shares of the Registrant and 8,408,206 Class B preferred shares of Gol were exchanged for 23,542,977 preferred shares of the Registrant. The reorganization did not affect our operations in any respect. The aggregate number of our common and preferred shares outstanding was increased to 168,793,243 as the result of a 2.80-for-one stock split on May 25, 2004 (which includes 224 common shares and 56 preferred shares of the Registrant that were issued in connection with its formation on March 12, 2004). On June 24, 2004, the Registrant completed its initial public offering through the issuance of 18,750,000 preferred shares in the form of ADSs in the United States and other countries outside Brazil and in the form of preferred shares in Brazil. On April 28, 2005, the Registrant completed a primary and secondary offering of 16,905,000 preferred shares in the form of ADSs in the United States and other countries outside Brazil and in the form of preferred shares in Brazil. In addition, during 2005, our executive officers exercised stock options for an aggregate of 703,579 preferred shares. As a result, our capital structure currently consists of 109,448,497 common shares and 86,524,236 undesignated preferred shares, all with no par value. We are a stock corporation (*sociedade anônima*) incorporated under the laws of Brazil.

### *Issued Share Capital*

Under our by-laws, our authorized capital as of December 31, 2005 was R\$1.2 billion, and can be increased by the issuance of preferred or common shares, after approval by our board of directors. Our shareholders must approve any capital increase that exceeds our authorized capital. Under our by-laws and the Brazilian corporation law, if we issue additional shares in a private transaction, the existing shareholders have preemptive rights to subscribe for shares on a pro rata basis according to their holdings. See “—Preemptive Rights.”

### *Regulation of Foreign Investment*

There are no general restrictions on ownership of our preferred shares or common shares by individuals or legal entities domiciled outside Brazil, except for those regarding airline companies (see “—Regulation of the Brazilian Civil Aviation Market”). However, the right to convert dividend payments and proceeds from the sale of preferred shares or common shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, the registration of the relevant investment with the Central Bank.

Foreign investors may register their investment under Law No. 4,131 of September 3, 1962, or Law No. 4,131, or Resolution No. 2,689 of January 26, 2000 of the CMN, or Resolution No. 2,689. Registration under Law No. 4,131 or under Resolution No. 2,689 generally enables foreign investors to convert into foreign currency dividends, other distributions and sales proceeds received in connection with registered investments and to remit such amounts abroad. Resolution No. 2,689 affords favorable tax treatment to foreign investors who are not resident in a tax haven jurisdiction, which is defined under Brazilian tax laws as a country that does not impose taxes or where the maximum income tax rate is lower than 20% or that restricts the disclosure of shareholder composition or ownership of investments.

Under Resolution No. 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities that are domiciled or headquartered abroad.

Pursuant to Resolution No. 2,689, foreign investors must:

- Appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment;
- complete the appropriate foreign investor registration form;
- register as a foreign investor with the CVM; and
- register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM. The right to convert dividend payments and proceeds from the sale of our capital stock into foreign currency and to remit these amounts outside Brazil is subject to restrictions under foreign investment legislation, which generally requires, among other things, that the relevant investment be registered with the Central Bank. Restrictions on the remittance of foreign capital abroad could hinder or prevent the custodian for the preferred shares represented by ADSs, or holders who have exchanged ADSs for preferred shares, from converting dividends, distributions or the proceeds from any sale of preferred shares, as the case may be, into U.S. dollars and remitting such U.S. dollars abroad. Delays in, or refusal to grant, any required governmental approval for conversions of *reais* payments and remittances abroad of amounts owed to holders of ADSs could adversely affect holders of ADSs.

Resolution No. 1,927 of the CMN, which is the restated and amended Annex V to Resolution No. 1,289 of the CMN, or the Annex V Regulations, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. We will file an application to have the ADSs approved under the Annex V Regulations by the Central Bank and the CVM, and we will have received final approval before the completion of this offering.

The custodian will obtain on behalf of the depositary an electronic certificate of foreign capital registration with respect to the ADSs sold in the international offering. This electronic registration is carried on through the Central Bank Information System, or SISBACEN. Pursuant to the registration, the custodian and the depositary will be able to convert dividends and other distributions with respect to the preferred shares represented by ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs surrenders such ADSs and withdraws preferred shares, the holder will be entitled to continue to rely on the depositary's registration for five business days after the withdrawal, following which such holder must seek to obtain its own electronic certificate of foreign capital registration. Thereafter, unless the preferred shares are held pursuant to Resolution No. 2,689, by a duly registered investor, or, if not a registered investor under Resolution No. 2,689, a holder of preferred shares applies for and obtains a new certificate of registration, the holder may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, the preferred shares, and the holder, if not registered under Resolution No. 2,689, will be subject to less favorable Brazilian tax treatment than a holder of ADSs. In addition, if the foreign investor resides in a tax haven jurisdiction, the investor will also be subject to less favorable tax treatment. See "Risk Factors—Risks Relating to the ADSs and Our Preferred Shares—If you surrender the ADSs and withdraw our preferred shares, you risk losing the ability to remit foreign currency abroad and certain Brazilian tax advantages" and "Taxation—Brazilian Tax Consequences."

#### *Description of Preferred Shares*

According to our by-laws, similar to preferred shares of companies incorporated under the laws of the State of Delaware, our preferred shares are non-voting. However, under certain limited circumstances provided for in the Brazilian corporation law and as described in this section, holders of our preferred shares may be entitled to vote. Upon liquidation, holders of preferred shares are entitled to receive distributions prior to the holders of our common shares.

Also unlike holders of preferred shares of companies incorporated under the laws of the State of Delaware, which typically do not have the benefit of tag-along rights, according to our by-laws, holders of our preferred shares are entitled to be included in a public tender offer in case our controlling shareholder sells its controlling stake in us, and the minimum price to be offered for each preferred share is 100% of the price paid per share of the controlling stake.

Under Brazilian law, the protections afforded to minority shareholders are different from those in the United States. In particular, judicial guidance with respect to shareholder disputes is less established under Brazilian law than U.S. law and there are different procedural requirements for bringing shareholder lawsuits, such as shareholder derivative suits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company.

#### *Redemption and Rights of Withdrawal*

Similar to dissenting shareholders of corporations incorporated under the State of Delaware, under the Brazilian corporation law, a dissenting or non-voting shareholder has the right to withdraw from a company and be reimbursed for the value of the preferred or common shares held whenever a decision is taken at a general shareholders' meeting by a vote of shareholders representing at least 50% of the total outstanding voting capital to:

- create a new class of preferred shares or increase disproportionately an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws (our by-laws allow us to do so);
- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares, or create a new class with greater privileges than the existing classes of preferred shares;
- reduce the mandatory distribution of dividends;
- merge or consolidate us with another company;
- participate in group of companies as defined in the Brazilian corporation law and subject to the conditions set forth therein;
- change our corporate purpose, including a sale of the voting control of Gol to a third party;
- transfer all of our shares to another company or receive shares of another company in order to make the company whose shares were transferred a wholly owned subsidiary of such company, known as *incorporação de ações*;
- conduct a spin-off that results in (a) a change of our corporate purposes, except if the assets and liabilities of the spin-off company are contributed to a company that is engaged in substantially the same activities, (b) a reduction in the mandatory dividend or (c) any participation in a centralized group of companies, as defined under the Brazilian corporation law; or
- dissolution of the company or terminating a state of liquidation..

In the event that the entity resulting from a merger, consolidation, or *incorporação de ações*, or spin-off of a listed company fails to become a listed company within 120 days of the shareholders meeting at which such decision was taken, the dissenting or non-voting shareholders may also exercise their withdrawal right.

If there is a resolution to (a) merge or consolidate us with another company; (b) *incorporação de ações*; (c) participate in a group of companies, as defined under the Brazilian corporation law, or (d) acquire control of

another company, the withdrawal rights are exercisable only if our shares do not satisfy certain tests of liquidity and dispersal of the type or class of shares in the market at the time of the general meeting.

Only holders of shares adversely affected by the changes mentioned in the first and second items above may withdraw their shares.

The right of withdrawal lapses 30 days after publication of the minutes of the relevant general shareholders' meeting that approved the corporate actions described above. In the case of the changes mentioned in the first and second items above, the resolution is subject to confirmation by the preferred shareholders, which must be obtained at a special meeting held within one year. In those cases, the 30-day term is counted from the date of publication of the minutes of the special meeting. We would be entitled to reconsider any action triggering appraisal rights within 10 days following the expiration of such rights if the redemption of shares of dissenting or non-voting shareholders would jeopardize our financial stability. Shares to be purchased by us from the dissenting or non-voting shareholders exercising appraisal rights will be valued at an amount equal to the lesser of the ratable portion attributable to such shares of our shareholders' equity as shown on the last balance sheet approved at a general shareholders' meeting (book value) and the ratable portion attributable to such shares of the economic value of the company, pursuant to an appraisal report produced in accordance with the provisions of the Brazilian corporation law. If more than 60 days have elapsed since the date of such balance sheet, dissenting shareholders may require that the book value of their shares be calculated on the basis of a new balance sheet. As a general rule, shareholders who acquire their shares after the first notice convening the general shareholders' meeting or after the relevant press release concerning the meeting is published will not be entitled to appraisal rights.

For purposes of the right of withdrawal, the concept of "dissenting shareholder," under the Brazilian corporation law, includes not only those shareholders who vote against a specific resolution, but also those who abstain from voting, who fail to attend the shareholders meeting or who do not have voting rights. The concept of "dissenting shareholder" under the Brazilian corporation law differs from that of "dissenting shareholder" under Delaware law, under which a dissenting shareholder is generally a shareholder who objects to a proposed corporate action and demands payment for his or her shares before such action is voted upon.

#### *Preemptive Rights*

Each of our shareholders generally has a preemptive right to subscribe for shares or convertible securities in any capital increases, in proportion to its shareholdings. A minimum period of 30 days, unless a shorter period is established by our board of directors, following the publication of notice of the capital increase is allowed for the exercise of the right and the right is negotiable. In the event of a capital increase which would maintain or increase the proportion of capital represented by preferred shares, holders of ADSs or preferred shares would have preemptive rights to subscribe only to newly issued preferred shares. In the event of a capital increase which would reduce the proportion of capital represented by preferred shares, holders of ADSs or preferred shares would have preemptive rights to subscribe for preferred shares, in proportion to their shareholdings, and for common shares, only to the extent necessary to prevent dilution of their equity participation. (See "Risks Relating to the ADSs and Our Preferred Shares—Holders of ADSs may be unable to exercise preemptive rights with respect to our preferred shares"). Our by-laws provide that our board of directors may, within the limit of its authorized capital, withdraw preemptive rights to existing shareholders in connection with an increase in share capital through sale in stock exchanges, public offerings or public exchange offers. In addition, Brazilian corporation law provides that the granting or exercise of stock options pursuant to certain stock option plans is not subject to preemptive rights. Shareholders of corporations incorporated under the laws of the State of Delaware generally do not have preemptive rights unless set forth specifically in such corporations' charters.

#### *Voting Rights*

Each common share entitles its holder to one vote at our shareholders' meetings. Preferred shares have no voting rights, except that each preferred share entitles its holder to one vote at our shareholders' meeting to decide on certain specific matters, such as:

- any transformation of the company into another corporate type; (b) any merger, consolidation or spin-off of the company;
- approval of any transactions between the company and its controlling shareholder or parties related to the controlling shareholder;
- approval of any evaluation of assets to be delivered to the company in payment for shares issued in a capital increase;
- appointment of an expert to ascertain the fair value of the company in connection with any deregistration and delisting tender offer;
- any changes to these voting rights; and
- approval of a change of our corporate purpose.

Holders of preferred shares are entitled to attend shareholders' meetings and to participate in the discussions. The Brazilian corporation law provides that non-voting shares, such as preferred shares, may acquire voting rights if the company fails to distribute fixed or minimum dividends in connection with such shares for three consecutive fiscal years and will retain such voting rights until the distribution of such fixed or minimum dividends. (See "Risks Relating to the ADSs and Our Preferred Shares—Holders of the preferred shares may not receive any dividends").

According to the Brazilian corporation law, any change in the preferences or rights of our preferred shares, or the creation of a class of shares having priority over our preferred shares, unless such change is authorized by our by-laws, would require the approval of our preferred shareholders in a special shareholders' meeting in addition to approval by a majority of the holders of our outstanding voting shares. The holders of preferred shares would vote as a class at the special meeting.

The Brazilian corporation law grants (i) holders of preferred shares without voting rights (or with restricted voting rights) representing 10% of the total issued capital stock, and (ii) holders of our common shares that are not part of the controlling group, and represent at least 15% of the voting capital stock, the right to appoint a member to the board of directors, by voting during the annual shareholders' meeting. If none of our non-controlling holders of common or preferred shares meets the respective thresholds described above, holders of preferred or common shares representing at least 10% of the share capital would be able to combine their holdings to appoint one member and an alternate to our board of directors. Such rights may only be exercised by those shareholders who prove that they have held the required stake with no interruption during at least the three months directly preceding our annual shareholders meeting. Until 2005, the board members that may be elected by the preferred shareholders as described above must be chosen from a list of three names indicated by our controlling shareholders.

Holders of common shares are entitled to certain rights that cannot be amended by changes in the by-laws or at a general shareholders' meeting, which include (i) the right to vote at general shareholders' meetings; (ii) the right to participate in distributions of dividends and interest on capital and to share in the remaining assets of the company in the event of liquidation; (iii) preemptive rights in certain circumstances; and (iv) the right to withdraw from the company in certain cases. In addition to those rights, the by-laws or a majority of the voting shareholders may establish additional rights and, likewise, remove them. Currently, our by-laws do not establish any rights in addition to those already set forth by the Brazilian corporation law. The Level 2 of Differentiated Corporate Governance Practices, which we will comply with, provides for the granting of voting rights to holders of preferred shares in connection with certain matters, including corporate restructurings, mergers and related party transactions.

Controlling shareholders may nominate and elect a majority of the members of the board of directors of Brazilian companies. In a Brazilian company, management is not entitled to nominate directors for election by the shareholders. Non-controlling shareholders and holders of non-voting shares are entitled to elect representatives to the board, as described above. Holders of a threshold percentage of the voting shares may also request, up to 48 hours prior to any general shareholders' meeting, that the election of directors be subject to cumulative voting.

The threshold percentage required for cumulative voting for a corporation such as ours is currently 5% of the outstanding shares. Shareholders who vote to elect a representative of the non-controlling shareholders may not cast cumulative votes to elect other members of the board.

### ***Conversion Right***

Our shareholders may, at any time, convert common shares into preferred shares, at the rate of one common share to one preferred share, to the extent such shares are duly paid and provided that the amount of preferred shares does not exceed 50% of the total amount of shares outstanding. Any request for conversion must be delivered to our board of executive officers and, once accepted by the board of executive officers, must be confirmed by our board of directors at the first meeting after the date of the request for conversion.

### ***Special and General Meetings***

Unlike the laws governing corporations incorporated under the laws of the State of Delaware, the Brazilian corporation law does not allow shareholders to approve matters by written consent obtained as a response to a consent solicitation procedure. All matters subject to approval by the shareholders must be approved in a general meeting, duly convened pursuant to the provisions of Brazilian corporation law. Shareholders may be represented at a shareholders' meeting by attorneys-in-fact who are (i) shareholders of the corporation, (ii) a Brazilian attorney, (iii) a member of management or (iv) a financial institution.

General and special shareholders' meetings may be called by publication of a notice in the *Diário Oficial do Estado de São Paulo* and in a newspaper of general circulation in our principal place of business at least 15 days prior to the meeting. Special meetings are convened in the same manner as general shareholders' meetings and may occur immediately before or after a general meeting.

### ***Anti-Takeover Provisions***

Differently from companies incorporated under the laws of the State of Delaware, Brazilian companies generally do not employ "poison pill" provisions to prevent hostile takeovers. As most Brazilian companies have clearly identified controlling shareholders, hostile takeovers are highly unusual and no developed body of case law addresses the limits on the ability of management to prevent or deter potential hostile bidders. Our by-laws require any party that acquires our control to extend a tender offer for common and preferred shares held by non-controlling shareholders at the same purchase price paid to the controlling shareholder.

### ***Arbitration***

In connection with our listing with Level 2 of Differentiated Corporate Governance Practices, we and our controlling shareholders, directors and officers have undertaken to refer to arbitration any and all disputes arising out of the Level 2 rules or any other corporate matters. See "Market Information." Under our by-laws, any disputes among us, our shareholders and our management with respect to the application of Level 2 rules, the Brazilian Corporate Law or the application of the rules and regulations regarding Brazilian capital markets, will be resolved by arbitration conducted pursuant to the BOVESPA Arbitration Chamber and rules. Any disputes among shareholders, including holders of ADSs, and disputes between us and shareholders, including holders of ADSs, will be submitted to arbitration in accordance with the BOVESPA Arbitration Chamber and rules.

### ***Form and Transfer***

Because our preferred shares are in registered book-entry form, Banco Itaú S.A., as registrar, must effect any transfer of shares by an entry made in its books, in which it debits the share account of the transferor and credits the share account of the transferee. When our shares are acquired or sold on a Brazilian stock exchange, the transfer is effected on the records of our registrar by a representative of a brokerage firm or the stock exchange's clearing system. Transfers of shares by a foreign investor are executed in the same way by that investor's local agent on the investor's behalf except that, if the original investment were registered with the Central Bank pursuant to Resolution No. 2,689, the foreign investor should also seek amendment through its local agent, if necessary, of the electronic

registration to reflect the new ownership. The BOVESPA operates a clearinghouse through CBLC. The fact that such shares are subject to custody with the relevant stock exchange will be reflected in our registry of shareholders. Each participating shareholder will, in turn, be registered in the register of our beneficial shareholders that is maintained by CBLC and will be treated in the same way as registered shareholders.

### ***American Depositary Receipts***

The Bank of New York, as depositary, has executed and delivered the ADRs representing our preferred shares. Each ADR is a certificate evidencing a specific number of American Depositary Shares, also referred to as ADSs. After our 2:1 ADS ratio change in December 2005, each ADS represents one preferred share (or a right to receive one preferred share) deposited with the principal São Paulo office of Banco Itaú S.A., as custodian for the depositary in Brazil. Each ADS also represents any other securities, cash or other property which may be held by the depositary. The depositary's office at which the ADRs are administered is located at 101 Barclay Street, New York, New York 10286.

You may hold ADSs either directly (by having an ADR registered in your name) or indirectly through your broker or other financial institution. If you hold ADSs directly, you are an ADR holder. We do not treat ADR holders as our shareholders and ADR holders have no shareholder rights. Brazilian law governs shareholder rights. The depositary is the holder of the preferred shares underlying the ADSs. Holders of ADRs have ADR holder rights. A deposit agreement among us, the depositary and you, as an ADR holder, and the beneficial owners of ADRs sets out ADR holder rights as well as the rights and obligations of the depositary. New York law governs the deposit agreement and the ADRs.

### **C. Material Contracts**

Our material contracts are directly related to our operating activities, such as contracts relating to aircraft leasing and fuel supply as well as contracts relating to our concession to operate as a commercial airline. We do not have material contracts that are not related to our operating activities.

#### **Commercial Sale Promise Agreement between Petrobras Distribuidora S.A. and Gol Transportes Aereas Ltda.**

On May 1, 2001, we entered into a commercial sale promise agreement for the purchase of fuel from Petrobras. We agreed to purchase fuel exclusively from Petrobras in all of the airports where Petrobras maintains aircraft fueling facilities. Petrobras, in turn, agreed to provide us with all of our fuel needs in the supplying airports.

#### **Reservation Services and Software License Use Agreement between Open Skies, Inc. and Gol Transportes Aereas Ltda.**

On October 6, 2000, we entered into an agreement with Open Skies for host reservation services and obtained a license to use the Open Skies software to provide reservation services to Gol customers. Open Skies provides a number of ancillary services in addition to the host reservation services, including data center implementation services, network configuration and design services, system integration services, customer site installation services and initial training services.

#### **Aircraft General Terms Agreement between The Boeing Company and Gol Transportes Aereos S.A.**

In 2003, we entered into an agreement with The Boeing Company for the purchase of aircraft, installation of buyer furnished equipment provided by us, customer support services and product assurance. In addition to the aircraft supplied, The Boeing Company will provide maintenance training and flight training programs, as well as operations engineering support.

## **D. Exchange Controls**

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our preferred shares represented by our ADSs or the holders of our preferred shares from converting dividends, distributions or the proceeds from any sale of these preferred shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the preferred shares underlying our ADS and to remit the proceeds abroad.

Resolution No. 1,927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. It restates and amends Annex V to Resolution No. 1,289 of the National Monetary Council, known as the Annex V Regulations. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of the ADSs are entitled to favorable tax treatment under certain circumstances. See “Taxation—Material Brazilian Tax Considerations.”

Under Resolution 2,689 of the CMN, foreign investors registered with the CVM may buy and sell Brazilian securities, including our preferred shares, on Brazilian stock exchanges without obtaining separate certificates of registration for each transaction. Registration is available to qualified foreign investors, which principally include foreign financial institutions, insurance companies, pension and investment funds, charitable foreign institutions and other institutions that meet certain minimum capital and other requirements. Resolution 2,689 also extends favorable tax treatment to registered investors. See “Taxation—Material Brazilian Tax Considerations.”

Pursuant to the Resolution 2,689 foreign investors must: (i) appoint at least one representative in Brazil with the ability to perform actions regarding the foreign investment; (ii) complete the appropriate foreign investor registration form; (iii) obtain registration as a foreign investor with CVM; and (iv) register the foreign investment with the Central Bank.

The securities and other financial assets held by a foreign investor pursuant to Resolution 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or by the CVM or be registered in register, clearing and custody systems authorized by the Central Bank or by the CVM. In addition, the trading of securities is restricted to transactions carried out on the stock exchanges or over-the-counter markets licensed by the CVM.

### ***Registered Capital***

Amounts invested in our preferred shares by a non-Brazilian holder who qualifies under Resolution 2,689 and obtains registration with the CVM, or by the depositary representing an ADS holder, are eligible for registration with the Central Bank. This registration (the amount so registered is referred to as registered capital) allows the remittance outside Brazil of foreign currency, converted at the commercial market rate, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our preferred shares. The registered capital per preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per preferred share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (i) the average price of a preferred share on the Brazilian stock exchange on which the most preferred shares were traded on the day of withdrawal, or (ii) if no preferred shares were traded on that day, the average price on the Brazilian stock exchange on which the most preferred shares were traded in the fifteen trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average commercial market rates quoted by the Central Bank on these dates.

A non-Brazilian holder of preferred shares may experience delays in effecting Central Bank registration, which may delay remittances abroad. This delay may adversely affect the amount in U.S. dollars received by the non-Brazilian holder.

A certificate of registration has been issued in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary. Pursuant to the certificate of registration, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by our ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, such holder will be entitled to continue to rely on the depositary's certificate of registration for five business days after such exchange, following which such holder must seek to obtain its own certificate of registration with the Central Bank. Thereafter, any holder of preferred shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such preferred shares, unless the holder is a duly qualified investor under Resolution 2,689 or obtains its own certificate of registration.

If the shareholder does not qualify under Resolution 2,689 by registering with the CVM and the Central Bank and appointing a representative in Brazil, the holder will be subject to less favorable Brazilian tax treatment than a holder of ADSs. Regardless of qualification under Resolution 2,689, residents in tax haven jurisdictions are subject to less favorable tax treatment than other foreign investors. See “—Taxation—Brazilian Tax Considerations.”

Under current Brazilian legislation, the federal government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately six months in 1989 and early 1990, the Brazilian government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with federal government directives. There can be no assurance that the Brazilian government will not impose similar restrictions on foreign repatriations in the future. See “Item 3. Risk Factors—Risks Relating to Brazil.”

## **E. Taxation**

The following discussion addresses the material Brazilian and United States federal income tax consequences of acquiring, holding and disposing of our preferred shares or ADSs.

This discussion is not a comprehensive discussion of all the tax considerations that may be relevant to a decision to purchase our preferred shares or ADSs and is not applicable to all categories of investors, some of which may be subject to special rules, and does not specifically address all of the Brazilian and United States federal income tax considerations applicable to any particular holder. It is based upon the tax laws of Brazil and the United States as in effect on the date of this annual report, which are subject to change, possibly with retroactive effect, and to differing interpretations. Each prospective purchaser is urged to consult its own tax advisor about the particular Brazilian and United States federal income tax consequences to it of an investment in our preferred shares or ADSs. This discussion is also based upon the representations of the depositary and on the assumption that each obligation in the deposit agreement among us, The Bank of New York, as depositary, and the registered holders and beneficial owners of our ADSs, and any related documents, will be performed in accordance with its terms.

Although there presently is no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. We cannot assure you, however, as to whether or when a treaty will enter into force or how it will affect holders of our preferred shares or ADSs.

### **Material Brazilian Tax Considerations**

The following discussion, in the opinion of Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, addresses the material Brazilian tax consequences of the acquisition, ownership and disposition of our preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation (a “Non-Brazilian Holder”). Pursuant to Brazilian law, foreign investors may invest in the preferred shares under Resolution No. 2,689.

In accordance with Resolution No. 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Resolution No. 2,689 allows foreign investors to invest in almost all financial assets and to engage in almost all transactions available in the Brazilian financial and capital markets, provided that some requirements are fulfilled. Pursuant to Resolution No. 2,689, foreign investors must: (a) appoint at least one representative in Brazil with powers to perform actions relating to the foreign investment; (b) complete the appropriate foreign investor registration form; (c) register as a foreign investor with the Brazilian securities commission; and (d) register the foreign investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to Resolution No. 2,689 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM. In addition, securities trading is restricted to transactions carried out in the stock exchanges or organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, occurring upon the death of an investor by operation of law or will or as a consequence of the delisting of the relevant shares from a stock exchange and the cancellation of the registration with the CVM.

*Taxation of Dividends.* Dividends, including dividends in kind, paid by us to the depository in respect of the preferred shares underlying the ADSs or to a Non-Brazilian Holder in respect of preferred shares generally will not be subject to Brazilian withholding income tax, provided that such amounts are related to profits earned after January 1, 1996. Dividends paid out of profits earned through and including December 31, 1995 are subject to a Brazilian withholding tax of 15% to 25% according to the tax legislation applicable to each corresponding year. Stock dividends paid from profits earned after and including January 1, 1996 are also not subject to withholding tax in Brazil.

*Taxation of Gains.* According to Law No. 10,833, enacted on December 29, 2003, or Law No. 10,833, capital gains realized on the disposition of assets located in Brazil by a Non-Brazilian Holder are subject to taxation in Brazil without regard to whether the transaction is conducted in Brazil or conducted with a Brazilian resident. As such, a Non-Brazilian Holder may be subject to income tax on the gains assessed on the disposition of the preferred shares. Although we believe that the ADSs do not fall within the definition of assets located in Brazil for purposes of Law No. 10,833, considering the general and unclear scope of Law No. 10,833 such provision and the lack of a judicial guidance in respect thereof, we are unable to predict whether such understanding will ultimately prevail in the Brazilian courts.

It is important to clarify that, for purposes of Brazilian taxation, the income tax rules on gains related to disposition of preferred shares or ADSs vary depending on the domicile of the Non-Resident Holder, the form by which such Non-Resident Holder has registered its investment before the Central Bank and/or how the disposition is carried out, as described below.

The deposit of preferred shares in exchange for ADSs may be subject to Brazilian tax on capital gains at the rate of 15%, or 25% in the case of investors domiciled in a tax haven jurisdiction, if the acquisition cost of the preferred shares is lower than (a) the average price per preferred share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit; or (b) if no preferred shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of preferred shares were sold in the 15 trading sessions immediately preceding such deposit. In such case, the difference between the acquisition cost and the average price of the preferred shares, calculated as described above, will be considered to be a capital gain subject to taxation. There are grounds to sustain that such taxation is not applicable in the case of investors registered under Resolution No. 2,689 that are not located in a tax haven jurisdiction.

The withdrawal of ADSs in exchange for preferred shares is not subject to Brazilian tax as long as the regulatory rules are duly observed in respect to the registration of the investment before the Brazilian Central Bank.

Upon receipt of the underlying preferred shares, a Non-Brazilian Holder registered under Resolution No. 2,689 will be entitled to register the U.S. dollar value of such shares with the Central Bank as described below.

Gains assessed on the disposition of the preferred shares carried out on the Brazilian stock exchange:

- are exempt from income tax, when assessed by a Non-Resident Holder that (i) has registered its investment in Brazil before the Central Bank under the rules of Resolution No. 2,689/01 (“2,689 Holder”) and (ii) is not a holder located in a place considered as a tax haven jurisdiction, i.e., a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% or where the internal legislation imposes restrictions to disclosure of shareholding composition or the ownership of the investment, (“Tax Haven Holder”); or
- are subject to income tax at a rate of 15% in any other case, including the gains assessed by a Non-Resident holder that (i) is not a 2,689 Holder, or (ii) is a 2,689 Holder but a Tax Haven Holder. In these cases, a withholding income tax of 0.005% shall be applicable and can be offset with the eventual income tax due on the capital gain.

Any other gains assessed on the disposition of the preferred shares that are not carried out on the Brazilian stock exchange are subject to income tax at a rate of 15%, except for Tax Haven Holders which, in this case, are subject to income tax at a rate of 25%.

With reference to proceeds of a redemption or of a liquidating distribution with respect to the preferred shares, the difference between the amount effectively received by the shareholder and the amount of the corresponding acquisition cost of the preferred shares redeemed or liquidated will be also subject to income tax at a rate of 15% once such transactions are treated as a sale or exchange not carried out on a Brazilian stock exchange.

As a general rule, the gains realized as a result of a disposition transaction of preferred shares or ADRs is the difference between the amount in Brazilian currency realized on the sale or exchange of the shares and their acquisition cost, without any adjustments for inflation.

There can be no assurance that the current preferential treatment for holders of ADSs and Non-Brazilian Holders of preferred shares under Resolution No. 2,689 will continue or will not be changed in the future.

Any exercise of preemptive rights relating to the preferred shares or ADSs will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to preferred shares by the depositary on behalf of holders of ADSs will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of preferred shares.

*Distributions of Interest Attributable to Shareholders' Equity.* In accordance with Law No. 9,249, dated December 26, 1995, as amended, Brazilian corporations may make payments to shareholders characterized as distributions of interest on the company's shareholders' equity. Such interest is calculated by reference to the TJLP as determined by the Central Bank from time to time and cannot exceed the greater of:

- 50% of net income (after social contribution on profits and before taking such distribution and any deductions for corporate income tax into account) for the period in respect of which the payment is made; or
- 50% of the sum of retained profits and profits reserves, as of the date of the beginning of the period in respect of which the payment is made.

Distributions of interest on shareholders' equity in respect of the preferred shares paid to shareholders who are either Brazilian residents or Non-Brazilian Residents, including holders of ADSs, are subject to Brazilian income withholding tax at the rate of 15%, or 25% in case of shareholders domiciled in a tax haven jurisdiction, and shall be deductible by us as long as the payment of a distribution of interest is approved by our shareholders. The distribution of interest on shareholders' equity may be determined by our board of directors. We cannot assure you that our board of directors will not determine that future distributions of profits may be made by means of interest on shareholders' equity instead of by means of dividends.

The amounts paid as distribution of interest on shareholders' equity are deductible for corporation income tax and social contribution on profit, both of which are taxes levied on our profits, as far as the limits and rules described above are observed by us.

### **Other Relevant Brazilian Taxes**

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs by a Non-Brazilian Holder except for gift and inheritance taxes which are levied by some states of Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or domiciled within the state to individuals or entities resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration or similar taxes or duties payable by holders of preferred shares or ADSs.

Pursuant to Decree 4,494 of December 2000, the conversion into foreign currency or the conversion into Brazilian currency of the proceeds received or remitted by a Brazilian entity from a foreign investment in the Brazilian securities market, including those in connection with the investment in the preferred shares and ADSs and those made under Resolution No. 2,689, is potentially subject to an exchange transactions tax (*Imposto Sobre Operações Financeiras—IOF/Câmbio*), although at present the rate of such tax is generally zero percent. Under Law No. 8,894 of June 21, 1994, or Law No. 8,894, such IOF tax rate may be increased at any time to a maximum of 25%, but any such increase will only be applicable to transactions occurring after such increase becomes effective.

Law No. 8,894 creates the Tax on Bonds and Securities Transactions (*IOF/Títulos*), which may be imposed on any transactions involving bonds and securities effected in Brazil, even if the transactions are performed on a Brazilian stock exchange. As a general rule, the rate of this tax is currently zero for transactions involving preferred shares but the executive branch may increase such rate up to 1.5% per day, but only with respect to future transactions.

Financial transfers are taxed by the *Contribuição Provisória sobre Movimentação Financeira*, or CPMF, at a rate of 0.38%. The CPMF is levied upon the remittance of proceeds on the amount converted in *reais* of the transaction and is required to be withheld by the financial institution that carries out the transaction. Currently, the funds transferred from a bank account to acquire shares can be exempt from CPMF. Since there are recent modifications in the legislation in this respect, each Non-Resident Holder should consult its own legal and financial advisors with respect to the applicability of CPMF tax to its purchase. The funds transferred abroad resulting from the disposal of the shares on the Brazilian stock exchange are also exempt from CPMF.

*Registered Capital.* The amount of an investment in preferred shares held by a Non-Brazilian Holder who qualifies under Resolution No. 2,689 and obtains registration with the CVM, or by the depositary, as the depositary representing such holder, is eligible for registration with the Central Bank. Such registration allows the remittance outside of Brazil of any proceeds of distributions on the shares, and amounts realized with respect to disposition of such shares. The amounts received in Brazilian currency are converted into foreign currency through the use of the commercial market rate. The registered capital for preferred shares purchased in the form of ADSs or purchased in Brazil, and deposited with the depositary in exchange for ADSs will be equal to their purchase price (in U.S. dollars) to the purchaser. The registered capital for preferred shares that are withdrawn upon surrender of ADSs, as applicable, will be the U.S. dollar equivalent of the average price of preferred shares, as applicable, on a Brazilian stock exchange on which the greatest number of such preferred shares, as applicable, was sold on the day of withdrawal. If no preferred shares, as applicable, were sold on such day, the registered capital will refer to the average price on the Brazilian stock exchange on which the greatest number of preferred shares, as applicable, were sold in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar value of the preferred shares, as applicable, is determined on the basis of the average commercial market rate quoted by the Central Bank on such date or, if the average price of preferred shares is determined under the last preceding sentence, the average of such average quoted rates on the same 15 dates used to determine the average price of the preferred shares.

A Non-Brazilian Holder of preferred shares may experience delays in effecting such action, which may delay remittances abroad. Such a delay may adversely affect the amount, in U.S. dollars, received by the Non-Brazilian Holder.

## Material United States Federal Income Tax Consequences

The following discussion describes the material United States federal income tax consequences of purchasing, holding and disposing of our preferred shares or ADSs. This discussion applies only to beneficial owners of ADSs or preferred shares that are “U.S. Holders,” as defined below. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing final, temporary and proposed Treasury Regulations, administrative pronouncements by the United States Internal Revenue Service, or IRS, and judicial decisions, all as currently in effect and all of which are subject to change (possibly on a retroactive basis) and to different interpretations.

This discussion does not purport to address all United States federal income tax consequences that may be relevant to a particular holder and you are urged to consult your own tax advisor regarding your specific tax situation. The discussion applies only to U.S. Holders who hold preferred shares or ADSs as “capital assets” (generally, property held for investment) under the Code and does not address the tax consequences that may be relevant to U.S. Holders in special tax situations including, for example:

- insurance companies;
- tax-exempt organizations;
- broker-dealers;
- traders in securities that elect to mark to market;
- banks or other financial institutions;
- holders whose functional currency is not the United States dollar;
- United States expatriates;
- holders that hold our preferred shares or ADSs as part of a hedge, straddle, conversion or other integrated transaction; or
- holders that own, directly, indirectly, or constructively, 10% or more of the total combined voting power, if any, of our voting stock.

Except where specifically described below, this discussion assumes that we are not a passive foreign investment company, or PFIC, for United States federal income tax purposes. Please see the discussion under “—Taxation—Material United States Federal Income Tax Consequences—Passive Foreign Investment Company Rules” below. Further, this discussion does not address the alternative minimum tax consequences of holding preferred shares or ADSs or the indirect consequences to holders of equity interests in partnerships or other entities that own our preferred shares or ADSs. In addition, this discussion does not address the state, local and foreign tax consequences of holding our preferred shares or ADSs.

You should consult your own tax advisor regarding the United States federal, state, local and foreign income and other tax consequences of purchasing, owning, and disposing of our preferred shares or ADSs in your particular circumstances.

You are a “U.S. Holder” if you are a beneficial owner of preferred shares or ADSs and you are for United States federal income tax purposes:

- an individual who is a citizen or resident of the United States;

- a corporation, or any other entity taxable as a corporation, created or organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to United States federal income tax regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over its administration and one or more United States persons have the authority to control all substantial decisions of the trust (or otherwise if the trust has a valid election in effect under current Treasury regulations to be treated as a United States person).

If a partnership holds preferred shares or ADSs, the tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A prospective investor who is a partner of a partnership holding our preferred shares or ADSs should consult its own tax advisor.

For United States federal income tax purposes, a U.S. Holder of an ADS will generally be treated as the beneficial owner of the preferred shares represented by the ADS. However, see the discussion below under “Distribution on preferred shares or ADSs” regarding certain statements made by the U.S. Treasury concerning depository arrangements.

#### ***Distributions on preferred shares or ADSs***

Cash distributions (including amounts withheld to pay Brazilian withholding taxes and distributions of notional interest charges on shareholders’ equity, but excluding distributions in redemption of the preferred shares treated as exchanges or sales under the Code) made by us to or for the account of a U.S. Holder with respect to preferred shares or ADSs generally will be taxable to such U.S. Holder as ordinary dividend income when such distribution is paid, actually or constructively, out of our current or accumulated earnings and profits (as determined for United States federal income tax purposes). Distributions in excess of our current or accumulated earnings and profits will be treated first as a non-taxable return of capital reducing such U.S. Holder’s adjusted tax basis in the preferred shares or ADSs. Any distribution in excess of such tax basis will be treated as capital gain and will be either long-term or short-term capital gain depending upon whether the U.S. Holder held the preferred shares or ADSs for more than one year. As used below, the term “dividend” means a distribution that constitutes a dividend for U.S. federal income tax purposes.

A U.S. Holder will be entitled, subject to a number of complex limitations and conditions, to claim a United States foreign tax credit in respect of any Brazilian withholding taxes imposed on dividends received on preferred shares or ADSs. U.S. Holders who do not elect to claim a foreign tax credit with regard to any foreign taxes paid during the taxable year may instead claim a deduction in respect of such withholding taxes. Dividends received with respect to the preferred shares or ADSs will be treated as foreign source income, which may be relevant in calculating such U.S. Holder’s United States foreign tax credit limitation. Holders are urged to consult their tax advisors regarding the availability of the foreign tax credit in their particular circumstances. The U.S. Treasury has expressed concern that intermediaries in connection with depository arrangements may be taking actions that are inconsistent with the claiming of foreign tax credits by United States persons who are holding depository shares. Accordingly, investors should be aware that the discussion above regarding the ability to credit Brazilian withholding tax on dividends and the availability of the reduced tax rate for dividends received by certain non-corporate holders described below could be affected by actions taken by parties to whom the ADSs are released and the IRS.

Dividends paid by us generally will not be eligible for the dividends received deduction available under the Code to certain United States corporate shareholders. Subject to the above-mentioned concerns by the U.S. Treasury and certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by certain U.S. Holders (including individuals) prior to January 1, 2009 with respect to the ADSs will be subject to taxation at a maximum rate of 15% if the dividends represent “qualified dividend income.” Dividends paid on the ADSs will be treated as qualified dividend income if (i) the ADSs are readily tradable on an established securities market in the United States and (ii) we were not in the year prior to the year in which the dividend was paid, and are not in the year in which the dividend is paid a PFIC. Our ADSs are listed on the New York Stock Exchange, and therefore the

ADSs will qualify as readily tradable on an established securities market in the United States so long as they are so listed. However, no assurances can be given that the ADSs will be or remain readily tradable. Subject to the discussion of passive foreign investment company rules below, based upon the nature of our current and projected income, assets and activities, we do not believe the preferred shares or the ADSs have been, nor do we expect them to be, shares of a PFIC for United States federal income tax purposes.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares will be treated as qualified dividends, because the preferred shares are not themselves listed on a United States exchange. In addition, the United States Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or preferred stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs and preferred shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

The amount of any cash distribution paid in Brazilian currency will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depository (in the case of ADSs) or by the U.S. Holder (in the case of preferred shares held directly by such U.S. Holder), regardless of whether the payment is in fact converted to U.S. dollars at that time. A U.S. Holder should not recognize any foreign currency gain or loss in respect of such distribution if such Brazilian currency is converted into U.S. dollars on the date received. If the Brazilian currency is not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the Brazilian currency. Such foreign currency gain or loss, if any, will be United States source ordinary income or loss.

Because our preferred shares will not be treated as “preferred stock” for purposes of Section 305 of the Code, distributions to U.S. Holders of additional shares of our “non-preferred stock” or preemptive rights relating to such “non-preferred stock” with respect to their preferred shares or ADSs that are made as part of a pro rata distribution to all shareholders in most instances will not be subject to United States federal income tax. However, if the holders of ADSs are restricted in their ability to participate in the exercise of preemptive rights, the preemptive rights may give rise to a deemed distribution to holders of the preferred shares under Section 305 of the Code. Any deemed distribution will be taxable as a dividend to the extent of our earnings and profits as discussed above.

#### ***Sale or exchange or other taxable disposition of preferred shares or ADSs***

Deposits and withdrawals of preferred shares by U.S. Holders in exchange for ADSs will not result in the realization of gain or loss for United States federal income tax purposes.

A U.S. Holder generally will recognize capital gain or loss upon the sale, exchange or other taxable disposition of preferred shares or ADSs measured by the difference between the amount realized and the U.S. Holder’s adjusted tax basis in the preferred shares or ADSs. Any gain or loss will be long-term capital gain or loss if the preferred shares or ADSs have been held for more than one year. Long-term capital gains of certain U.S. holders (including individuals) are eligible for reduced rates of United States federal income taxation. The deductibility of capital losses is subject to certain limitations under the Code.

If a Brazilian tax is withheld on the sale or other disposition of a preferred share or ADS, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that sale or other disposition before deduction of the Brazilian tax. Capital gain or loss, if any, realized by a U.S. Holder on the sale, exchange or other taxable disposition of a preferred share or ADS generally will be treated as United States source income or loss for United States foreign tax credit purposes. Consequently, in the case of a disposition of a preferred share that is subject to Brazilian tax imposed on the gain (or, in the case of a deposit, in exchange for an ADS or preferred share, as the case may be, that is not registered pursuant to Resolution No. 2,689, on which a Brazilian capital gains tax is imposed (see “—Taxation of Gains”)), the U.S. Holder may not be able to benefit from the foreign tax credit for that Brazilian tax unless the U.S. Holder can apply the credit against United States federal income tax payable on other income from foreign sources in the appropriate income category. Alternatively, the U.S. Holder may take a deduction for the Brazilian tax if it does not elect to claim a foreign tax credit for any foreign taxes paid during the taxable year.

### ***Passive foreign investment company rules***

In general, a foreign corporation is a PFIC with respect to a U.S. Holder if, for any taxable year in which the U.S. Holder holds stock in the foreign corporation, at least 75% of its gross income is passive income or at least 50% of the value of its assets (determined on the basis of a quarterly average) produce passive income or are held for the production of passive income. For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties and gains from the disposition of investment assets (subject to various exceptions). Based upon the nature of our current and projected income, assets and activities, we do not believe the preferred shares or ADSs are, nor do we expect them to be, shares of a PFIC for United States federal income tax purposes. However, the determination of whether the preferred shares or ADSs constitute shares of a PFIC is a factual determination made annually and thus may be subject to change. Because these determinations are based on the nature of our income and assets from time to time, and involve the application of complex tax rules, no assurances can be provided that we will not be considered a PFIC for the current or any past or future tax year.

If, contrary to the discussion above, we are treated as a PFIC, a U.S. Holder would be subject to special rules (and may be subject to increased tax liability and form filing requirements) with respect to (a) any gain realized on the sale or other disposition of preferred shares or ADSs, and (b) any “excess distribution” made by us to the U.S. Holder (generally, any distribution during a taxable year in which distributions to the U.S. Holder on the preferred shares or ADSs exceed 125% of the average annual distributions the U.S. Holder received on the preferred shares or ADSs during the preceding three taxable years or, if shorter, the U.S. Holder’s holding period for the preferred shares or ADSs). Under those rules, (a) the gain or excess distribution would be allocated ratably over the U.S. Holder’s holding period for the preferred shares or ADSs, (b) the amount allocated to the taxable year in which the gain or excess distribution is realized and to taxable years before the first day on which we became a PFIC would be taxable as ordinary income, (c) the amount allocated to each prior year in which we were a PFIC would be subject to United States federal income tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of United States federal income tax would be imposed in respect of the tax attributable to each prior year in which we were a PFIC.

A U.S. Holder who owns preferred shares or ADSs during any taxable year we are a PFIC must file IRS Form 8621. In general, if we are treated as a PFIC, the rules described above can be avoided by a U.S. Holder that elects to be subject to a mark-to-market regime for stock in a PFIC. A U.S. Holder may elect mark-to-market treatment for its preferred shares or ADSs, provided the preferred shares or ADSs, for purposes of the rules, constitute “marketable stock” as defined in Treasury Regulations. The ADSs will be “marketable stock” for this purpose if they are regularly traded on the New York Stock Exchange, other than in de minimis quantities, on at least 15 days during each calendar quarter. A U.S. Holder electing the mark-to-market regime generally would compute gain or loss at the end of each taxable year as if the preferred shares or ADSs had been sold at fair market value. Any gain recognized by the U.S. Holder under mark-to-market treatment, or on an actual sale, would be treated as ordinary income, and the U.S. Holder would be allowed an ordinary deduction for any decrease in the value of preferred shares or ADSs as of the end of any taxable year, and for any loss recognized on an actual sale, but only to the extent, in each case, of previously included mark-to-market income not offset by previously deducted decreases in value. Any loss on an actual sale of preferred shares or ADSs would be a capital loss to the extent in excess of previously included mark-to-market income not offset by previously deducted decreases in value. A U.S. Holder’s tax basis in preferred shares or ADSs would increase or decrease by gain or loss taken into account under the mark-to-market regime. A mark-to-market election is generally irrevocable.

If we are deemed to be a PFIC for a taxable year, dividends on our ADSs would not be “qualified dividend income” subject to preferential rates of United States federal income tax, as described above. See “—Certain United States Federal Income Tax Consequences—Distributions on preferred shares or ADSs.”

### ***Backup withholding and information reporting***

In general, dividends on preferred shares or ADSs, and payments of the proceeds of a sale, exchange or other disposition of preferred shares or ADSs, paid within the United States or through certain United States-related financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding at a current maximum rate of 28% unless the holder (i) is a corporation or other exempt recipient or

(ii) provides an accurate taxpayer identification number and certifies that it is a U.S. person and that no loss of exemption from backup withholding has occurred.

You generally may obtain a refund of any amounts withheld under the backup withholding rules that exceed your United States federal income tax liability by filing a refund claim with the IRS. The amount of any backup withholding tax from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's United States federal income tax liability, provided that the required information is furnished to the IRS.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

#### **H. Documents on Display**

We are subject to the informational requirements of the U.S. Securities Exchange Act of 1934, which is also known as the Exchange Act. Accordingly, we are required to file reports and other information with the Commission, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy reports and other information to be filed with the Commission at the public reference facilities maintained by the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 and at the Commission's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661, and 233 Broadway, New York, New York 10279. Copies of the materials may be obtained from the Public Reference Room of the Commission at 450 Fifth Street, N.W., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the Commission's Public Reference Room by calling the Commission in the United States at 1-800-SEC-0330. In addition, the Commission maintains an internet website at <http://www.sec.gov>, from which you can electronically access the registration statement and its materials.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we furnish our shareholders with annual reports containing financial statements audited by our independent auditors and make available to our shareholders quarterly reports containing unaudited financial data for the first three quarters of each fiscal year. We file quarterly financial statements with the Commission within two months of the end of the first three quarters of our fiscal year, and we file annual reports on Form 20-F within the time period required by the Commission, which is currently six months from December 31, the end of our fiscal year.

We will send the depository a copy of all notices that we give relating to meetings of our shareholders or to distributions to shareholders or the offering of rights and a copy of any other report or communication that we make generally available to our shareholders. The depository will make all these notices, reports and communications that it receives from us available for inspection by registered holders of ADSs at its office. The depository will mail copies of those notices, reports and communications to you if we ask the depository to do so and furnish sufficient copies of materials for that purpose.

We also file financial statements and other periodic reports with the CVM located at Rua Sete de Setembro, 111, Rio de Janeiro, Rio de Janeiro 20159-900, Brazil.

#### **I. Subsidiary Information**

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The risk inherent in our market risk sensitive instruments and positions is the potential loss arising from adverse changes to the price of fuel, interest rates and the *real*/U.S. dollar exchange rate.

### Aircraft Fuel

Our results of operations are affected by changes in the price of aircraft fuel. To manage the price risk, we utilize crude oil derivative contracts. All of our derivative instruments must be liquid so as to allow us to make position adjustments and have prices that are widely disclosed. We avoid concentration of credit risk. All existing contracts settle on a monthly basis. We do not purchase or hold any derivative instruments for trading purposes. At December 31, 2005, we had crude oil derivative contracts outstanding for up to 1,431,000 barrels of oil. The fair value of such contracts was R\$8.5 million. If the price of fuel increased by 10% in relation to the average 2005 price, based on projected 2006 fuel usage, such an increase would result in an increase to aircraft fuel expense of approximately R\$101.8 million in 2006, not considering our derivative contracts. We acquire substantially all of our fuel and oil from one supplier.

### Foreign Currencies

A significant part of our costs and operating expenses, such as aircraft and engine maintenance services, aircraft lease payments and aircraft insurance, are denominated in U.S. dollars. To manage exchange rate risk, we enter into derivative contracts with various counterparties to protect ourselves against a possible depreciation or devaluation of the *real* in relation to the U.S. dollar. At December 31, 2005, we had outstanding currency futures contracts. The fair value of such contracts was R\$1.2 million. As a measure of our market risk with respect to our foreign currency exposure, an increase in aircraft and engine maintenance services expenses, aircraft operating lease payments and aircraft insurance from a hypothetical R\$0.10 depreciation of the *real* against the U.S. dollar would be approximately R\$19.2 million, not considering our derivative contracts.

### Interest

Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate debt instruments, variable-rate leasing contracts and on interest income generated from our cash and investment balances. At December 31, 2005, 10% of our aircraft rental expenses had floating interest rates. If interest rates average 10% more in 2006 than they did during 2005, our aircraft rental and interest expense would increase by approximately R\$2.5 million. If interest rates average 10% less in 2006 than they did in 2005, our interest income from cash equivalents and short-term investments would decrease by approximately R\$14.0 million. These amounts are determined by considering the impact of the hypothetical interest rates on our variable-rate debt, variable-rate leasing contracts and cash equivalent balances at December 31, 2005.

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

Not applicable.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

### ITEM 15. CONTROLS AND PROCEDURES

*Disclosure Controls and Procedures.* The Registrant maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of the Registrant's disclosure controls and procedures as of the end of the period covered by this report conducted by the Registrant's management, with the participation of the Chief Executive and Chief Financial Officers, the Chief Executive and Chief Financial Officers believe that these controls and procedures are effective to ensure that the Registrant is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

*Management's Report on Internal Control over Financial Reporting.* Management of the Registrant is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Registrant's internal control over financial reporting is designed to provide reasonable assurance to the Registrant's management and board of directors regarding the preparation and fair presentation of published financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Management assessed the effectiveness of the Registrant's internal control over financial reporting as of December 31, 2005. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm who also audited the Company's consolidated financial statements. Ernst & Young's attestation report on management's assessment of the Company's internal control over financial reporting is included herein

*Changes in internal controls.* No significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses, were made as a result of the evaluation.

### ITEM 16.

#### A. Audit Committee Financial Expert

Our board of directors has determined that Luiz Kaufmann, a member of our audit committee, is an "audit committee financial expert" as defined by current SEC rules and meets the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see "Item 6C. Board Practices—Audit Committee."

## B. Code of Ethics

Our board of directors has adopted a Code of Ethics applicable to our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Ethics can be found at [www.voego.com.br](http://www.voego.com.br) under the heading “Investor Relations”. Information found at this website is not incorporated by reference into this document.

## C. Principal Accountant Fees and Services

The following table sets forth by category of service the total fees for services performed by Ernst & Young Auditores Independentes S.S. during the fiscal years ended December 31, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
	(in reais)	
Audit Fees.....	1,771,142	1,037,978
Audit-Related Fees .....	2,063,728	1,009,198
Tax Fees .....	27,669	—
All Other Fees.....	—	—
<b>Total.....</b>	<b>3,862,539</b>	<b>2,047,176</b>

### Audit Fees

Audit fees included the audit of our annual financial statements and internal controls, the audit of our Brazilian GAAP pro-forma financial statements, review of our quarterly reports in 2005 and required statutory audits.

### Audit-Related Fees

Audit-related fees included the review of internal control policies and procedures implemented by the Company, review of the Company’s follow-on offering and prospectus, as well as accounting consultations related to and the application of US and Brazilian GAAP.

### Tax Fees

Tax fees include the review of our income tax returns in 2005. There were no tax fees during fiscal year ended December 31, 2004.

### All Other Fees

There were no other fees for services performed by Ernst & Young Auditores Independentes S.S. during the fiscal years ended December 31, 2005 and 2004.

### Pre-Approval Policies and Procedures

Our audit committee approves all audit, audit-related services, tax services and other services provided by Ernst & Young Auditores Independentes S.S. Any services provided by Ernst & Young Auditores Independentes S.S. that are not specifically included within the scope of the audit must be pre-approved by the audit committee in advance of any engagement. Pursuant to Rule 2-01 of Regulation S-X, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis* exception prior to the completion of an audit engagement. In 2005, none of the fees paid to Ernst & Young Auditores Independentes S.S. were approved pursuant to the *de minimis* exception.

## D. Exemptions from the Listing Standards for Audit Committees

None.

**E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None.

## PART III

### ITEM 17. FINANCIAL STATEMENTS

See “Item 18. Financial Statements.”

### ITEM 18. FINANCIAL STATEMENTS

See our consolidated financial statements beginning on Page F-1.

### ITEM 19. EXHIBITS

- 1.1 By-laws of the Registrant (English translation), incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 2.1 Form of Deposit Agreement among the Registrant, The Bank of New York, as depositary, and the Holders from time to time of American Depositary Shares issued thereunder, including the form of American Depositary Receipts, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 2.2 Shareholders’ Agreement among Comporte Participações S.A., Aeropar Participações S.A., BSSF Air Holdings LLC and the Registrant, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 2.3 Subscription and Option Agreement, dated January 20, 2003, by and among Áurea Administração e Participações S.A., BSSF Air Holdings Ltd., BSSF II Holdings Ltda. and Gol Transportes Aéreos S.A., and addendum, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 10.1 Agreement, dated as of January 1, 2002, between the Registrant and Petrobras Distribuidora S.A., including Amendment No. 1, dated as of May 1, 2002, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 10.3 Open Skies Reservation Services Agreement, dated October 6, 2000, between Open Skies, Inc. and the Registrant, including amendments thereto, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 10.4 Aircraft Purchase Agreement, dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 10.5 Supplemental Aircraft Purchase Agreement No. 1 dated as of July 16, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.6 Supplemental Aircraft Purchase Agreement No. 2 dated as of January 20, 2005 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.7 Supplemental Aircraft Purchase Agreement No. 3 dated as of January 7, 2005 between Gol Transportes Aéreos S.A. and The Boeing Company. Incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File

No. 333-123625.

- 10.8 Supplemental Aircraft Purchase Agreement No. 4 dated as of March 24, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004 , as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.9 Supplemental Agreement No. 5 dated July 25, 2005 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company.
- 10.10 Supplemental Agreement No. 6 dated August 26, 2005 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company.
- 10.11 Supplemental Agreement No. 7 dated October 18, 2005 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company.
- 10.12 Supplemental Agreement No. 8 dated February 19, 2006 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company.
- 10.13 Supplemental Agreement No. 9 dated March 6, 2006 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company.
- 12.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 12.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 13.1 Section 1350 Certification of Chief Executive Officer.
- 13.2 Section 1350 Certification of Chief Financial Officer.
- 15.1 Ernst & Young's attestation report on the Company's internal controls over financial reporting dated February 10, 2006.

**SIGNATURE**

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

GOL LINHAS AÉREAS INTELIGENTES S.A.

By: /s/ CONSTANTINO DE OLIVEIRA JUNIOR

Name: Constantino de Oliveira Junior

Title: President and Chief Executive Officer

Dated: March 20, 2006



***Consolidated Financial  
Statements under US GAAP***

***GOL Linhas Aéreas Inteligentes S.A.***

***Years ended at December 31, 2005 and 2004,  
with Report of Independent Registered Public  
Accounting Firm***

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

Contents

Reports of Independent Registered Public Accounting Firm .....	F - 1
Consolidated Balance Sheets as of December 31, 2005 and 2004 .....	F - 2
Consolidated Statements of Income for the Years ended December 31, 2005, 2004 and 2003 .....	F - 4
Consolidated Statements of Cash Flows for the Years ended December 31, 2005, 2004 and 2003....	F - 5
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the Years ended December 31, 2005, 2004 and 2003.....	F - 6
Notes to Consolidated Financial Statements .....	F - 7

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
**Gol Linhas Aéreas Inteligentes S.A.**

We have audited the accompanying consolidated balance sheets of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years ended in the period December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries at December 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Gol Linhas Aéreas Inteligentes S.A.'s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 10, 2006 expressed an unqualified opinion thereon.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-1

Maria Helena Pettersson  
Partner

São Paulo, Brazil  
February 10, 2006

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

**CONSOLIDATED BALANCE SHEETS**

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

	<u>2004</u>	<u>2005</u>	<u>Translation into thousands of US\$ 2005</u>
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	R\$ 405,730	<b>R\$ 106,347</b>	US\$ 45,434
Short-term investments	443,361	<b>762,688</b>	325,837
Receivables, less allowance (2004 – R\$ 3,547; 2005 – R\$ 4,890, US\$ 2,089)	386,370	<b>563,958</b>	240,936
Inventories	21,038	<b>40,683</b>	17,381
Recoverable taxes and current deferred tax	10,657	<b>13,953</b>	5,961
Prepaid expenses	34,184	<b>39,907</b>	17,049
Other current assets	3,389	<b>13,102</b>	5,597
Total current assets	<u>1,304,729</u>	<u><b>1,540,638</b></u>	<u>658,195</u>
 <b>PROPERTY AND EQUIPMENT</b>			
Pre-delivery deposits	43,447	<b>356,765</b>	152,418
Flight equipment	102,197	<b>225,724</b>	96,434
Other property and equipment	29,703	<b>75,619</b>	32,306
	<u>175,347</u>	<u><b>658,108</b></u>	<u>281,158</u>
Less accumulated depreciation	(43,989)	<b>(79,508)</b>	(33,968)
Property and equipment, net	<u>131,358</u>	<u><b>578,600</b></u>	<u>247,190</u>
 <b>OTHER ASSETS</b>			
Deposits for aircraft leasing contracts	22,884	<b>22,583</b>	9,648
Prepaid aircraft and engine maintenance	266,532	<b>386,193</b>	164,990
Other	8,781	<b>27,829</b>	11,889
Total other assets	<u>298,197</u>	<u><b>436,605</b></u>	<u>186,527</u>
 <b>TOTAL ASSETS</b>	 <u><u>R\$ 1,734,284</u></u>	 <u><u><b>R\$ 2,555,843</b></u></u>	 <u><u>US\$ 1,091,912</u></u>

			Translation into thousands of US\$
	2004	2005	2005
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	R\$ 36,436	R\$ 73,924	US\$ 31,582
Salaries, wages and benefits	51,041	71,638	30,605
Sales tax and landing fees	51,515	83,750	35,780
Air traffic liability	159,891	217,800	93,049
Short-term borrowings	118,349	54,016	23,077
Dividends payable	60,676	101,482	43,355
Other accrued liabilities	39,906	43,615	18,633
Total current liabilities	517,814	646,225	276,081
<b>NON-CURRENT LIABILITIES</b>			
Deferred income taxes, net	44,493	63,694	27,212
Other	23,524	23,593	10,079
	68,017	87,287	37,291
<b>COMMITMENTS AND CONTINGENCIES</b>			
<b>SHAREHOLDERS' EQUITY</b>			
Preferred shares, no par value; 86,524,136 and 78,094,746 issued and outstanding in 2005 and 2004, respectively	564,634	843,714	360,454
Common shares, no par value; 109,448,497 issued and outstanding in 2005 and 2004	41,500	41,500	17,730
Additional paid-in capital	49,305	34,634	14,796
Deferred compensation expenses	(10,059)	(2,361)	(1,009)
Appropriated retained earnings	18,352	39,577	16,908
Unappropriated retained earnings	484,721	858,856	366,923
Accumulated other comprehensive gain	-	-	-
Total shareholders' equity	1,148,453	6,411	2,738
		1,822,331	778,540
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	R\$ 1,734,284	R\$ 2,555,843	US\$ 1,091,912

See accompanying notes to consolidated financial statements

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

**CONSOLIDATED STATEMENTS OF INCOME**

Years ended December 31, 2005, 2004 and 2003

(In thousands of Brazilian Reais, except per share amounts)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Translation into thousands of US\$ 2005</u>
<b>NET OPERATING REVENUES</b>				
Passenger	R\$ 1,339,191	R\$ 1,875,475	<b>R\$ 2,539,016</b>	US\$ 1,084,725
Cargo and Other	61,399	85,411	<b>130,074</b>	55,571
Total net operating revenues	<u>1,400,590</u>	<u>1,960,886</u>	<u><b>2,669,090</b></u>	<u>1,140,296</u>
<b>OPERATING EXPENSES</b>				
Salaries, wages and benefits	137,638	183,037	<b>260,183</b>	111,156
Aircraft fuel	308,244	459,192	<b>808,268</b>	345,310
Aircraft rent	188,841	195,504	<b>240,876</b>	102,908
Aircraft insurance	25,850	25,575	<b>29,662</b>	12,672
Sales and marketing	191,280	261,756	<b>335,722</b>	143,428
Landing fees	47,924	57,393	<b>92,404</b>	39,477
Aircraft and traffic servicing	58,710	74,825	<b>91,599</b>	39,133
Maintenance materials and repairs	42,039	51,796	<b>55,373</b>	23,657
Depreciation	13,844	21,242	<b>35,014</b>	14,959
Other operating expenses	44,494	54,265	<b>98,638</b>	42,140
Total operating expenses	<u>1,058,864</u>	<u>1,384,585</u>	<u><b>2,047,739</b></u>	<u>874,840</u>
<b>OPERATING INCOME</b>	341,726	576,301	<b>621,351</b>	265,456
<b>OTHER INCOME (EXPENSE)</b>				
Interest expense	(20,910)	(13,445)	<b>(19,383)</b>	(8,281)
Capitalized interest	-	3,216	<b>17,113</b>	7,311
Exchange loss	(16,938)	(5,926)	<b>(8,967)</b>	(3,831)
Interest income	1,815	34,159	<b>140,204</b>	59,898
Other	(41,558)	(7,025)	<b>(32,796)</b>	(14,011)
Total other income (expenses)	<u>(77,591)</u>	<u>10,979</u>	<u><b>96,171</b></u>	<u>41,086</u>
<b>INCOME BEFORE INCOME TAXES</b>	264,135	587,280	<b>717,522</b>	306,542
Income taxes	(88,676)	(202,570)	<b>(204,292)</b>	(87,279)
<b>NET INCOME</b>	<u>R\$ 175,459</u>	<u>R\$ 384,710</u>	<u><b>R\$ 513,230</b></u>	<u>US\$ 219,263</u>
<b>EARNINGS PER COMMON AND PREFERRED SHARE:</b>				
<b>Basic</b>	R\$ 1.07	R\$ 2.14	R\$ 2.66	US\$ 1.14
<b>Diluted</b>	R\$ 1.07	R\$ 2.13	R\$ 2.65	US\$ 1.13

See accompanying notes to Consolidated Financial Statements.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2005, 2004 and 2003

(In thousands of Brazilian Reais)

	<b>2003</b>		<b>2004</b>		<b>2005</b>		<b>Translation in thousands of US\$</b>
	<b>R\$</b>		<b>R\$</b>		<b>R\$</b>		<b>2005</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Net income	R\$	175,459	R\$	384,710	R\$	513,230	US\$ 219,263
Adjustments to reconcile net income to net cash provided by operating activities							
Depreciation and amortization		13,844		31,300		35,519	15,175
Deferred income taxes		27,929		36,860		20,926	8,940
Provision for doubtful accounts receivable		2,455		(213)		1,343	574
Changes in operating assets and liabilities							
Receivables		(137,785)		(145,581)		(178,931)	(76,443)
Accounts payable and other accrued liabilities		8,525		15,355		37,488	16,016
Deposits for aircraft and engine maintenance		(62,409)		(104,237)		(119,661)	(51,122)
Air traffic liability		52,829		36,498		57,909	24,740
Other, net		4,388		(14,772)		(14,078)	(6,014)
Net cash provided by operating activities		85,235		239,920		353,745	151,129
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Deposits for aircraft leasing contracts		3,473		(4,263)		301	129
Acquisition of property and equipment		(42,736)		(41,971)		(169,443)	(72,390)
Pre-delivery deposits		-		(43,447)		(313,318)	(133,857)
Change in short term securities, net		-		(443,362)		(319,327)	(136,424)
Net cash used in investing activities		(39,263)		(533,043)		(801,787)	(342,542)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Short-term borrowings, net		16,106		79,443		(64,333)	(27,485)
Issuance of preferred shares		94,200		470,434		279,080	119,229
Tax benefit contributed by shareholders		-		29,188		-	-
Dividends paid		-		(26,503)		(60,676)	(25,922)
Other, net		(19,439)		-		(5,412)	(2,312)
Net cash provided by financing activities		90,867		552,562		148,659	63,510
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>							
		136,839		259,439		(299,383)	(127,903)
Cash and cash equivalents at beginning of the period		9,452		146,291		405,730	173,337
Cash and cash equivalents at end of the period	R\$	146,291	R\$	405,730	R\$	106,347	US\$ 45,434
<b>Supplemental disclosure of cash flow information</b>							
Interest paid	R\$	20,910	R\$	12,223	R\$	19,383	US\$ 8,281
Income taxes paid	R\$	73,454	R\$	162,663	R\$	168,975	US\$ 72,190
<b>Disclosure of non cash transactions</b>							
Tax benefit contributed by shareholders			R\$	29,188			

See accompanying notes to consolidated financial statements.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
Years ended December 31, 2005, 2004 and 2003  
(In thousands of Brazilian Reais, except for share information)

	Common Shares		Preferred Shares		Additional paid in capital	Deferred compensation	Appr
	Shares	Amount	Shares	Amount			
Balance at December 31, 2002	116,200,000	R\$ 41,500	-	R\$ -	R\$ -	R\$ -	R\$ -
Net income	-	-	-	-	-	-	-
Transfer to appropriated retained earnings	-	-	-	-	-	-	-
Issuance of preferred shares	-	-	52,592,985	94,200	-	-	-
Dividends payable	-	-	-	-	-	-	-
Balance at December 31, 2003	116,200,000	R\$ 41,500	52,592,985	R\$ 94,200	-	-	R\$ -
Net income	-	-	-	-	-	-	-
Proceeds from public offering, net	(6,751,503)	-	25,501,761	459,185	-	-	-
Deferred income taxes on public offering issuance costs, net	-	-	-	11,249	-	-	-
Tax benefit contributed by shareholders	-	-	-	-	29,188	-	-
Deferred compensation	-	-	-	-	20,117	(20,117)	-
Amortization of deferred compensation	-	-	-	-	-	10,058	-
Dividends payable	-	-	-	-	-	-	-
Transfer to appropriated retained earnings	-	-	-	-	-	-	-
Balance at December 31, 2004	109,448,497	R\$ 41,500	78,094,746	R\$ 564,634	R\$ 49,305	R\$ (10,059)	R\$ -
Comprehensive income:							
Net income	-	-	-	-	-	-	-
Unrealized gain on derivative instruments, net of taxes	-	-	-	-	-	-	-
Total Comprehensive income	-	-	-	-	-	-	-
Proceeds from public offering, net	-	-	7,725,811	258,123	-	-	-
Issuance of preferred shares pursuant to employee stock option plan	-	-	703,579	17,238	(15,099)	-	-
Unpaid subscribed capital	-	-	(572,000)	(1,739)	-	-	-
Deferred income taxes on public offering issuance costs, net	-	-	-	5,458	-	-	-
Deferred compensation	-	-	-	-	428	(428)	-
Amortization of deferred compensation	-	-	-	-	-	8,126	-
Dividends payable and interest on stockholders' equity	-	-	-	-	-	-	-
Transfer to appropriated retained earnings	-	-	-	-	-	-	-
Balance at December 31, 2005	109,448,497	R\$ 41,500	85,952,136	R\$ 843,714	R\$ 34,634	R\$ (2,361)	R\$ -

See accompanying notes to consolidated financial statements.

## GOL LINHAS AÉREAS INTELIGENTES S.A.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

#### 1. Business Overview

GOL Linhas Aéreas Inteligentes S.A. (the Company or GLAI) is the parent company of GOL Transportes Aéreos S.A. (GOL), a low-fare, low-cost airline headquartered in Brazil, providing frequent service on routes between all of Brazil's major cities and also to major cities in Argentina and Bolivia. The Company focuses on increasing the growth and profits of its business by popularizing and stimulating and meeting demand for simple, safe and affordable air travel in South America for both business and leisure passengers, while maintaining among the lowest costs in the airline industry worldwide. GOL's simplified, single class fleet is among the newest and most modern in the industry, with low maintenance, fuel, and training costs and high levels of utilization.

GOL commenced operations on January 15, 2001 and, as of December 31, 2005, operated a fleet of 42 aircraft, consisting of 8 Boeing 737-800 Next Generation, 22 Boeing 737-700 and 12 Boeing 737-300 aircraft. During 2005, the Company inaugurated nine new destinations increasing the number of destinations served to 45 (43 in Brazil, one in Argentina and one in Bolivia).

During 2005, the Company obtained authorization to operate regularly-scheduled flights from Brazil to Santa Cruz de La Sierra, Bolivia, which began during the fourth quarter of 2005, and from Brazil to Asunción, Paraguay and Montevideo, Uruguay, to be initiated in January 2006.

In 2005, the Company successfully completed a global public offering of preferred shares as further detailed in note 8.

In December 2005, the Company formalized a joint venture with a group of Mexican entrepreneurs and investors for the creation of a Mexican-controlled low-cost airline company in which GOL will hold 25% of the voting capital stock and 48% of the total capital stock. Steps are being taken to obtain the necessary authorizations to operate under Mexican regulations.

On December 13, 2005, the Company changed the ratio of its American Depositary Receipt (ADR) program from one American Depositary Share (ADS) representing two preferred shares of the Company to one ADS representing one preferred share of the Company.

#### 2. Summary of Significant Accounting Policies

**Basis of presentation.** These financial statements were prepared in accordance with accounting principles generally accepted in the United States (US GAAP), using Brazilian Reais as the functional and reporting currency. The exchange rate at December 31, 2005 was R\$ 2.3407 and R\$ 2.6544 at December 31, 2004. (this rate used for convenience translation). The average exchange rates for 2005 and 2004 were R\$ 2.4341 and R\$ 2.9257, respectively, per US Dollar (the rate provided for reference purposes). The accounting principles adopted under USGAAP differ in certain respects from accounting principles generally accepted in Brazil ("Brazilian GAAP"), which the Company uses to prepare its statutory financial statements.

The consolidated financial statements include the accounts of GOL Linhas Aéreas Inteligentes S.A. and its subsidiaries, GOL Transportes Aéreos S.A. and GOL Finance LLP. All significant intercompany balances have been eliminated.

**Use of estimates.** The preparation of financial statements in conformity with USGAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and disclosures in the accompanying notes. Actual results could differ from these estimates.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

**2. Summary of Significant Accounting Policies (Continued)**

**Cash and cash equivalents.** Cash in excess of that necessary for operating requirements is invested in short-term, highly liquid, income-producing investments. Investments with maturities of three months or less are classified as cash and cash equivalents, which primarily consist of certificates of deposit, money market funds, and investment grade commercial paper issued by major financial institutions.

**Short-term investments.** The Company's short-term investment portfolio consists of traditional fixed maturities securities, which are readily convertible into cash and are primarily highly liquid in nature. Short-term investments are classified as trading securities, as defined by SFAS 115, "Accounting for Certain Investments in Debt and Equity Securities," and are carried at their fair values based upon the quoted market prices at period end. Accordingly, changes in values of such investments are included in interest income.

**Inventories.** Inventories consist of expendable aircraft spare parts and supplies. These items are stated at average acquisition cost and are charged to expense when used. Allowance for obsolescence is based on management estimates, which are subject to change.

**Property and equipment.** Property and equipment are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Interest related to pre-delivery deposits to acquire new aircraft is capitalized. The estimated useful lives for property and equipment are as follows:

	<u>Estimated Useful Life</u>
Leasehold improvements.....	Lower of lease term or useful life
Maintenance and engineering equipment .....	10 years
Communication and meteorological equipment.....	5 years
Computer hardware and software.....	5 years

**Measurement of asset impairments.** In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), the Company records impairment charges on long-lived assets used in operations when events and circumstances indicate that the assets may be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amount of those assets. If impairment occurs, any loss is measured by comparing the fair value of the asset to its net book value.

**Maintenance and repair costs.** Regular aircraft and engine maintenance and repair costs, including the overhaul of aircraft components, for owned and leased flight equipment, are charged to operating expenses as incurred.

**Revenue recognition.** Passenger revenue is recognized either when transportation is provided or when the ticket expires unused. Tickets sold but not yet used are recorded as air traffic liability. Air traffic liability primarily represents tickets sold for future travel dates and estimated refunds and exchanges of tickets sold for past travel dates. A small percentage of tickets (or partial tickets) expire unused. The company estimates the amount of future refunds and exchanges, net of forfeitures, for all unused tickets once the flight date has passed. These estimates are based on historical data and experience. Estimated future refunds and exchanges included in the air traffic liability account are constantly evaluated based on subsequent refund and exchange activity to validate the accuracy of the Company's revenue recognition method with respect to forfeited tickets.



## GOL LINHAS AÉREAS INTELIGENTES S.A.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

#### 2. Summary of Significant Accounting Policies (Continued)

Revenue from the shipment of cargo is recognized when transportation is provided. Other revenue includes charter services, ticket change fees and other incidental services, and is recognized when the service is performed. The Company's revenues are net of certain taxes, including state value-added and other state and federal taxes that are collected from customers and transferred to the appropriate government entities. Such taxes in 2005, 2004 and 2003 were R\$ 108,994, R\$ 93,763 and R\$ 96,803, respectively.

**Advertising.** Advertising costs, which are included in sales and marketing expenses, are expensed as incurred. Advertising expense in 2005, 2004 and 2003 was R\$ 32,720, R\$ 31,798 and R\$ 25,396, respectively.

**Income Taxes.** Deferred income taxes are provided using the liability method and reflect the net tax effects of temporary differences between the tax bases of assets and liabilities and their reported amounts in the financial statements. A valuation allowance for net deferred tax assets is provided unless realizability is judged by the Company to be more likely than not.

**Financial Derivative Instruments.** The Company accounts for financial derivative instruments utilizing Statement of Financial Accounting Standards No. 133 (SFAS 133), "Accounting for Derivative Instruments and Hedging Activities", as amended. As part of the Company's risk management program, the Company uses a variety of financial instruments, including petroleum call options, petroleum collar structures, petroleum fixed-price swap agreements, and foreign currency forward contracts. The Company does not hold or issue derivative financial instruments for trading purposes.

As there is not a futures market for Brazilian jet fuel, the Company uses international crude oil derivatives to hedge its exposure to increases in fuel price. Historically, there is high correlation between international crude oil prices and Brazilian jet fuel prices, making crude oil derivatives effective at offsetting jet fuel prices to provide some short-term protection against a sharp increase in average fuel prices. The Company measures the effectiveness of the hedging instruments in offsetting changes to those prices, as required by SFAS 133. Since the majority of the Company's financial derivative instruments for fuel are not traded on a market exchange, the Company estimates their fair values. The fair value of fuel derivative instruments, depending on the type of instrument, is determined by the use of present value methods or standard option value models with assumptions about commodity prices based on those observed in underlying markets. Also, since there is not a reliable forward market for jet fuel, the Company must estimate the future prices of jet fuel in order to measure the effectiveness of the hedging instruments in offsetting changes to those prices, as required by SFAS 133.

The Company's outstanding derivative contracts are designated as cash flow hedges for accounting purposes. While outstanding, these contracts are recorded at fair value on the balance sheet with the effective portion of the change in their fair value being recorded in other comprehensive income. All changes in fair value that are considered to be effective, as defined, are recorded in "Accumulated other comprehensive income" until the underlying exchange exposure is realized and fuel is consumed. Changes in fair value that are not considered to be effective are recorded in "other gains and losses" in the income statement. See Note 12 for further information on SFAS 133 and financial derivative instruments.

**Foreign currency transactions.** Transactions in foreign currency are recorded at the prevailing exchange rate at the time of the related transactions. Exchange gains and losses are recognized in the statements of income as they occur and are recorded in financial expense.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

**2. Summary of Significant Accounting Policies (Continued)**

**Stock options.** The Company accounts for stock-based compensation under the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25. "Accounting for Stock Issued to Employees" (APB No. 25).

The following table illustrates the effect on net income and earnings per common and preferred share as if the fair value method to measure stock-based compensation had been applied as required under the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation", as amended:

	2003	2004	2005	Translation into thousands of US\$ - 2005
<b>Net income, as reported</b>	R\$ 175,459	R\$ 384,710	<b>R\$ 513,230</b>	US\$ 219,263
Add: Stock-based employee compensation using intrinsic value	-	10,058	<b>8,126</b>	3,472
Deduct: Stock-based employee compensation expense determined under the fair value method	-	(9,969)	<b>(8,632)</b>	(3,688)
<b>Pro forma net income</b>	<b>R\$ 175,459</b>	<b>R\$ 384,799</b>	<b>R\$ 512,724</b>	<b>US\$ 219,047</b>
Earnings per common and preferred shares:				
Basic as reported and pro forma	R\$ 1.07	R\$ 2.14	<b>R\$ 2.66</b>	US\$ 1.14
Diluted as reported and pro forma	R\$ 1.07	R\$ 2.13	<b>R\$ 2.65</b>	US\$ 1.13

The fair value for these stock options was estimated at the date of grant using the Black Scholes option-pricing model assuming an expected dividend yield of 2%, expected volatility of approximately 39%, weighted average risk-free interest rate of 17%, and an expected average life of 3.9 years.

**US\$ dollar amounts.** The U.S. dollar amounts are included solely for the convenience of the reader and have been translated at the rate of R\$ 2.3407 = US\$ 1.00, the official exchange rate issued by the Brazilian Central Bank as of December 31, 2005. This translation should not be construed to imply that the Brazilian reais amounts represent, or have been or could be converted into, equivalent amounts in U.S. dollars.

**Reclassifications.** Certain balance sheet and statement of income amounts have been reclassified to conform to current year's presentation.

**3. Recent Accounting Pronouncements**

In December 2005, the Financial Accounting Standards Board (FASB) issued FASB Statement No. 123 (revised 2004), "Share-Based Payment," SFAS 123(R), which is a revision of FASB Statement No. 123, "Accounting for Stock-Based Compensation." SFAS 123(R) supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees," and amends FASB Statement No. 95, "Statement of Cash Flows." Generally, the approach in SFAS 123(R) is similar to the approach described in SFAS 123. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

**3. Recent Accounting Pronouncements (Continued)**

As permitted by SFAS 123(R), the Company currently accounts for share-based payments to employees APB Opinion 25's intrinsic value method and, as such, generally recognizes compensation cost for employee stock options equal to their intrinsic values at the award date. Accordingly, the adoption of SFAS 123(R)'s fair value method will impact the Company's results of operations, although it will not have a significant impact on the Company's overall financial position. The impact of adoption cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had the Company adopted SFAS 123(R) in prior periods, the impact of that standard would have approximated the impact of SFAS 123 as described in the disclosure of pro forma net income and earnings per share in Note 2.

**4. Cash and Cash Equivalents and Short-term Investments**

	2004	2005	Translation into thousands of US\$ - 2005
<b>Cash and cash equivalents</b>			
Cash on hand	R\$ 105,743	R\$ 25,964	US\$ 11,092
<b>Investments in local currency</b>			
Financial investment funds	87,089	44,816	19,146
Public Securities	35,523	34,567	14,768
Bank Deposit Certificates – CDBs	150,806	1,000	428
	273,417	80,383	34,342
<b>Investments in foreign currency</b>			
Financial Investment Funds and Public Securities	26,570	-	-
<b>Total cash and cash equivalents</b>	R\$ 405,730	R\$ 106,347	US\$ 45,434
<b>Short-term investments</b>			
Bank Deposit Certificates – CDB	R\$ 146,048	R\$ 309,757	US\$ 132,335
Public securities	286,931	452,931	193,502
Other securities	10,382	-	-
<b>Total short-term investments</b>	R\$ 443,361	R\$ 762,688	US\$ 325,837

**5. Deposits**

**Deposits for aircraft leasing contracts.** All the Company's aircraft are leased under operating leasing contracts. As required by the leasing contracts, the Company made certain U.S. dollar deposits as a guarantee to the leasing companies. These deposits are non-interest bearing and refundable at the end of the respective lease agreements.

**Prepaid aircraft and engine maintenance.** U.S. dollar deposits for aircraft and engine maintenance as stipulated in the respective lease agreements are made to specific accounts in the name of the lessor responsible for the maintenance services. Certain required aircraft and engine maintenance, as stipulated in the respective lease agreement, are funded from these deposits. The Company is required to pay the lessor for maintenance expenditures that exceed deposited amounts. The Company can apply deposits amounts that exceed maintenance expenditures to the final lease payment. These deposits are non-interest bearing.

## GOL LINHAS AÉREAS INTELIGENTES S.A.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

#### 6. Short-term Borrowings

At December 31, 2005, the Company had eleven revolving lines of credit with six financial institutions allowing for combined borrowings up to R\$ 340,000. Two of the credit lines are secured by promisory notes and allow for borrowings up to R\$ 200,000. At December 31, 2005 and 2004, there were R\$ 54,016 (US\$ 23,077) and R\$ 112,253 outstanding borrowings under these facilities, respectively. One of the revolving lines of credit is secured by the Company's Credit card receivables and allows for borrowings of up to R\$50,000. As of December 31, 2005, there were no outstanding borrowings under this facility.

The weighted average annual interest rate for these Reais-based short-term borrowings at December 31, 2005 and 2004 was 20.7% and 17.7%, respectively.

#### 7. Transactions with Related Parties

The Company has an exclusive bus transportation agreement with related companies Breda Transportes e Serviços S.A. and Expresso União Ltda. During 2005, the Company paid R\$ 1,690 and R\$ 308 to these companies, respectively.

The Company also has a five-year office space lease agreement with Áurea Administração e Participações S.A. for the lease of headquarters located at Rua Tamoios, 246 in São Paulo. The lease agreement provides for monthly payments, adjusted by the IGP-M inflation index. During 2005, the Company paid R\$ 344 to this company.

The payments to and from the related parties in the normal course of business were based on prevailing market rates.

#### 8. Shareholders' Equity

The following table sets forth the ownership and percentages of the Company's voting (common) and non-voting (preferred) shares as at December 31, 2005 and December 31, 2004:

	2005			2004		
	Common	Preferred	Total	Common	Preferred	Total
Aeropar Participações S.A.	100.00%	36.40%	<b>71.92%</b>	100.00%	40.32%	75.15%
Comporte Participações S.A.	-	3.87%	<b>1.71%</b>	-	4.30%	1.78%
Public Market	-	59.73%	<b>26.37%</b>	-	55.38%	23.07%
	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

The Company is a stock corporation (*sociedade anônima*) incorporated under the laws of Brazil. As of December 31, 2005, the Company had 109,448,497 shares of common stock and 86,524,136 shares of preferred stock authorized, issued and outstanding. According to the Company's bylaws, the capital can be increased up to R\$ 1,223,119 through the issuance of common or preferred shares.

Each common share entitles its holder to one vote at the Company's shareholder meetings. The preferred shares outstanding have no class designation, are not convertible into any other security and are non-voting, except under the limited circumstances provided under Brazilian law. Upon liquidation, holders of preferred shares are entitled to receive distributions prior to the holders of our common shares. In addition, the Bovespa Level 2 of Differentiated Corporate Governance Practices, which we will comply with, provides for the granting of voting rights to holders of preferred shares in connection with certain matters, including corporate restructurings, mergers and related party transactions.

## GOL LINHAS AÉREAS INTELIGENTES S.A.

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

#### 8. Shareholders' Equity (Continued)

##### i) 2005 transactions

On April 27, 2005 the Company concluded a public offering on the New York Stock Exchange (NYSE) and the São Paulo Stock Exchange (BOVESPA) of 14,700,000 preferred shares (5,520,811 offered by the Company, representing proceeds in the amount of R\$ 184,454, net of issuance costs of R\$ 8,723, and 9,179,189 by a selling shareholder, BSSF Air Holdings LLC) at a price of R\$ 35.12 per share (US\$ 27.88 per American Depositary Share). On May 2, 2005 the Company issued an additional of 2,205,000 preferred shares, related to the exercise of the underwriter's over-allotment option on the April 27, 2005 public offering, representing proceeds in the amount of R\$ 73,669, net of issuance costs of R\$ 3,484.

##### ii) 2004 transactions

On March 29, 2004, GLAI became the parent company of GOL pursuant to a reorganization plan approved by the shareholders of GOL. In accordance with the reorganization plan, all outstanding common and preferred shares of GOL (except for 14 common shares and 8 class B preferred shares of GOL held by members of GOL's board of directors) were contributed to the Company in exchange for common and preferred shares of the Company. The 116,199,986 common shares of GOL were exchanged for 109,448,267 common shares and 6,751,719 preferred shares of the Company. The 29,050,000 class A preferred shares of GOL were exchanged for 29,049,994 preferred shares and 6 common shares of the Company. The 23,542,977 preferred shares class B of GOL were exchanged for 23,542,977 preferred shares of the Company.

On May 25, 2004, the shareholders approved a 2.80 for 1 stock split for all outstanding common and preferred shares. As a result of the stock split, the aggregate number of preferred shares and common shares outstanding was increased to 168,793,243. All share and earnings per share information for all periods presented have been restated to give retroactive effect to the May 25, 2004 stock split. On May 25, 2004, the board of directors authorized the issuance of up to 20,325,734 preferred shares.

On June 29, 2004, the Company concluded its initial public offering on the New York Stock Exchange (NYSE) and The São Paulo Stock Exchange (Bovespa) issuing 18,750,000 preferred shares for R\$ 26.57 per share (US\$ 17.00 per American Depositary Share – "ADS") and receiving proceeds in the amount of R\$ 459,185, net of the issuance costs of R\$ 37,050, each ADS representing two preferred shares. Additionally, R\$ 386,593 of proceeds were remitted to BSSF Holdings LLC and Comporte Participações S.A. in connection with their sale of 14,300,000 preferred shares in the initial public offering.

#### ***Dividends***

The Company's bylaws provide for a mandatory minimum dividend to common and preferred shareholders including interest on shareholders equity, in the aggregate of at least 25% of annual net distributable income determined in accordance with Brazilian corporation law.

Brazilian law permits the payment of cash dividends only from retained earnings and certain reserves registered in the Company's statutory accounting records. On December 31, 2005, after considering appropriated retained earnings which can be transferred to unappropriated retained earnings, the earnings and reserves available for distribution as dividends, upon approval by the Company's shareholders at the annual shareholder's meeting, amounted to R\$ 1,128,206.

## GOL LINHAS AÉREAS INTELIGENTES S.A.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

### 8. Shareholders' Equity (Continued)

#### *Dividends* (Continued)

Brazilian corporations are allowed to attribute interest on shareholder's equity. The calculation is based on the shareholder's equity amounts as stated in the statutory accounting records and the interest rate applied may not exceed the long term interest rate ("TJLP") determined by the Brazilian Central Bank (approximately 11.50%, 9.81% and 9.75% for years 2003, 2004 and 2005, respectively). Also, such interest may not exceed the greater of 50% of net income for the year or 50% of retained earnings plus revenue reserves, determined in each case on the basis of the statutory financial statements. The amount of interest attributed to shareholders is deductible for corporate income tax purposes, and applies toward the mandatory minimum dividend.

For the year ended December 31, 2005, the Company accrued a total of R\$ 117,870 of dividends payable (represented by R\$ 113,870 of interest on stockholder's equity and R\$ 4,200 of dividends) for payment in 2006 (R\$ 60,676 in 2005). Dividends and interest on shareholder's equity are included in current liabilities and ratification for payment will be made at the annual shareholders meeting.

For the year ended December 31, 2005, the Company's statutory consolidated financial statements presented a net profit of R\$ 424,501 (R\$ 239,788 in 2004).

#### *Appropriated retained earnings*

Under Brazilian corporation law and according to its bylaws, the Company is required to maintain a "legal reserve" to which it must allocate 5% of its net income, less accumulated losses as determined on the basis of the statutory financial statements for each fiscal year until the amount of the reserve equals 20% of paid-in capital. Accumulated losses, if any, may be charged against the legal reserve. The legal reserve can only be used to increase the capital of the Company. The legal reserve is subject to approval by the shareholders voting at the annual shareholders meeting and may be transferred to capital but is not available for the payment of dividends in subsequent years. At December 31, 2005, the allocation of retained earnings related to the legal reserve was R\$ 21,225.

#### *Unappropriated retained earnings*

The balance of R\$ 858,856 is pending approval at the Annual Shareholders Meeting in order to meet the Company investment plan and increase in working capital.

### 9. Stock Option Plans

At shareholders meetings held on May 25 and December 9, 2004, the Company's shareholders approved an executive stock option plan for key senior executive officers. On April 25, 2004, the Company issued to executive officers stock options to purchase up to 937,412 of its preferred shares at an exercise price of R\$3.04 per share (determined based on the book value of GOL before the creation of GLAI). Fifty percent of the options vested on October 25, 2004, with the remaining 50% vesting at the end of each quarter ending subsequent to October 25, 2004, on a pro rata basis, through the second quarter of 2006. Each option will expire two years after the vesting date. The fair value of each share at the date of the grant was R\$ 24.50. In connection with the initial grant of preferred stock options, the Company recorded deferred stock compensation of R\$ 20,117, representing the difference between the exercise price of the options and the deemed fair value of the preferred stock.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

**9. Stock Option Plans (Continued)**

On December 9, 2004, the Company's shareholders approved a stock option plan for employees. Under this plan the stock options granted to employees cannot exceed 5% of total outstanding shares. Initially, 87,418 of the Company's preferred shares have been reserved for issuance under this plan. On January 19, 2005, the Company issued stock options to 17 key employees to purchase up to 87,418 of its preferred shares at an exercise price of R\$ 33.06 per share, (the volume weighted average price for the 60 previous trading days). The options vest at a rate of 1/5 per year, and can be exercised up to 10 years after the grant date. The fair value of each share at the date of the grant was R\$ 37.96. In connection with the initial grant of preferred stock options, the Company recorded deferred stock compensation of R\$ 428, representing the difference between the exercise price of the options and the deemed fair value of the preferred stock.

Transactions are summarized as follows:

	<b>Stock Options</b>	<b>Weighted-Average Exercise Price</b>
Outstanding at December 31, 2003	-	-
Granted	937,412	3.04
Exercised	-	-
Outstanding at December 31, 2004	937,412	3.04
Granted	87,418	33.06
Exercised	(703,579)	3.04
Outstanding at December 31, 2005	321,251	11.21
Shares exercisable at December 31, 2004	507,765	3.04
Shares exercisable at December 31, 2005	158,353	6.50

The weighted-average fair values at the date of grant for options granted, as of December 31, 2004 and December 31, 2005, were R\$ 21.46 and R\$ 19.95, respectively, and were estimated using the Black-Scholes option-pricing model assuming an expected dividend yield of 2%, expected volatility of approximately 39%, weighted average risk-free interest rate of 17%, and an expected average life of 3.9 years.

Range of exercised prices and the weighted average remaining contractual life of the options outstanding and the range of exercise prices for the options exercisable at December 31, 2005 are summarized as follows:

<b>Options Outstanding</b>				<b>Options Exercisable</b>	
Range of Exercise Prices	Options Outstanding at 12/31/2005	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Options Exercisable at 12/31/2005	Weighted Average Exercise Price
3.04	233,833	2.0	3.04	140,092	3.04
33.06	87,418	9.0	33.06	18,261	33.06
3.04-33.06	321,251	3.9	11.21	158,353	6.50

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

**10. Lease and Other Commitments**

The Company leases all aircraft, as well as airport terminal space, other airport facilities, office space and other equipment. At December 31, 2005, the Company leased 42 aircraft under operating leases (as compared to 27 aircraft at December 31, 2004), with initial lease term expiration dates ranging from 2006 to 2012.

Future minimum lease payments under non-cancelable operating leases are denominated in US dollars. Such leases with initial or remaining terms in excess of one year at December 31, 2005 were as follows:

	Thousands of R\$			Thousands of US\$		
	Aircraft	Other	Total	Aircraft	Other	Total
2006	255,111	11,802	266,913	108,989	5,042	114,031
2007	242,798	10,681	253,479	103,729	4,563	108,292
2008	172,568	8,941	181,509	73,725	3,820	77,545
2009	127,032	4,728	131,760	54,271	2,020	56,291
2010	38,769	2,252	41,021	16,563	962	17,525
After 2010	27,976	-	27,976	11,952	-	11,952
Total minimum Lease payments	<b>864,254</b>	<b>38,404</b>	<b>902,658</b>	<b>369,229</b>	<b>16,407</b>	<b>385,636</b>

During 2005 the Company entered into new operating lease agreements for seven Boeing 737-300 aircraft, four Boeing 737-700 aircraft and four Boeing 737-800 aircraft. Under the terms of the new leasing agreements, the Company is not required to make deposits.

The Company has a purchase contract with Boeing for 101 Boeing 737-800 Next Generation aircraft, under which the Company has 65 firm orders and 36 purchase options. The firm orders have an approximate value of R\$ 10,615 million based on the aircraft list price, including estimated amounts for contractual prices escalations and pre-delivery deposits (corresponding to approximately US\$ 4,535 million), and are summarized as follows:

	Expected Firm Order Deliveries	In thousands of Brazilian Reais	Translation into thousands of US\$
2006	11	1,815,091	775,448
2007	13	2,012,209	859,661
2008	9	1,264,172	540,083
2009	10	1,638,900	700,175
2010	8	1,371,030	585,735
After 2010	14	2,513,521	1,073,833
<b>Total</b>	<b>65</b>	<b>10,614,923</b>	<b>4,534,935</b>

As of December 31, 2005, the Company has made deposits in the amount of R\$ 356,765 (US\$ 152,418 million) related to the orders described above. The Company makes payments for aircraft acquisition utilizing the proceeds from equity financings, cash flow from operations, short-term credit lines and supplier financing.

The Company plans to finance up to 85% of the value of purchased aircraft with long-term financing guaranteed by the U.S. Exim Bank.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

**11. Contingencies**

The Company is party to legal proceedings and claims that arise during the ordinary course of business. While the outcome of these lawsuits and proceedings cannot be predicted with certainty and could have a material adverse effect on the Company's financial position, results of operations and cash flows, it is the Company's opinion, after consulting with its outside counsel, that the ultimate disposition on such lawsuits will not have a material adverse effect on its financial position, results of operation or cash flows.

**12. Financial Instruments and Concentration of Risk**

At December 31, 2005 and 2004, the Company's primary monetary assets were cash equivalents, short-term investments and assets related to aircraft leasing operations. The Company's primary monetary liabilities are related to aircraft leasing operations. All monetary assets other than those related to aircraft leasing operations included in the balance sheet are stated at amounts that approximate their fair values.

Financial instruments that expose the Company to credit risk involve mainly cash equivalents, short-term investments and accounts receivable. Credit risk on cash equivalents and short term investments related to amounts invested with major financial institutions. Credit risk on accounts receivable relates to amounts receivable from the major international credit card companies. These receivables are short-term and the majority of them settle within 30 days.

The Company's revenue is generated in Brazilian Reais (except for a small portion in Argentine Pesos and Bolivian Bolivianos from flights between Brazil, Argentina and Bolivia). However, its liabilities, particularly those related to aircraft leasing, are US dollar-denominated. The Company's currency exchange exposure at December 31, 2005 is as set forth below:

	R\$	Translation into thousands of US\$ 2005
<b>Assets</b>		
Cash and cash equivalents	(11,120)	(4,751)
Deposits for aircraft leasing contracts	(22,583)	(9,648)
Prepaid aircraft and engine maintenance	(14,133)	(6,038)
Advances to suppliers	(48,793)	(20,845)
Other	(9,713)	(4,150)
Total assets in U.S. dollars	<u>(106,342)</u>	<u>(45,432)</u>
<b>Liabilities</b>		
Foreign suppliers	15,628	6,677
Leases payable	13,127	5,608
Insurance premium payable	25,371	10,839
	<u>52,216</u>	<u>23,124</u>
Exchange exposure	<u>(54,126)</u>	<u>(22,308)</u>
<b>Off-balance sheet transactions exposure</b>		
Operating Leases	902,658	385,636
Aircraft commitments	10,614,922	4,534,935
Total exchange exposure	<u>11,476,326</u>	<u>4,902,947</u>

The Company's off-balance sheet exposure represents the future obligations related to operating lease contracts and aircraft purchase contracts.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

**12. Financial Instruments and Concentration of Risk (Continued)**

a) Fuel

Airline operations are exposed to the effects of changes in the price of aircraft fuel. Aircraft fuel consumed in 2005, 2004 and 2003 represented approximately 39.5%, 33.2% and 29.1% of the Company's operating expenses, respectively. To manage this risk, the Company periodically enters into crude oil option contracts and swap agreements. Because jet fuel is not traded on an organized futures exchange, liquidity for hedging is limited. However, the Company has found commodities for effective hedging of jet fuel costs, primarily crude oil. Historically, prices for crude oil are highly correlated to Brazilian jet fuel, making crude oil derivatives effective at offsetting jet fuel prices to provide short-term protection against a sharp increase in average fuel prices.

The following is a summary of the company's fuel derivative contracts (in thousands, except as otherwise indicated):

	2005	2004	
<b>At December 31:</b>			
Fair value of derivative instruments at year end	R\$ 8,464	R\$ 5,131	
Average remaining term (months)	8	1	
Hedged volume (barrels)	1,431,000	120,000	
	2005	2004	2003
<b>Year ended December 31:</b>			
Hedge effectiveness gains recognized in aircraft fuel expense	R\$ 5,246	N.A.	N.A.
Hedge ineffectiveness gains recognized in other income (expense)	R\$ 397	N.A.	N.A.
Percentage of actual consumption hedged (during year)	55%	75%	58%

The Company utilizes financial derivatives instruments as hedges to decrease its exposure to jet fuel price increases for short-term time frames. The Company currently has a combination of purchased call options, collar structures, and fixed price swap agreements in place to hedge over 30 percent of its 2006 total anticipated jet fuel requirements at average crude equivalent prices of approximately US\$ 59.90 per barrel.

The Company accounts for its fuel hedge derivative instruments as cash flow hedges under SFAS 133. Under SFAS 133, all derivatives designated as hedges that meet certain requirements are granted special hedge accounting treatment. Generally, utilizing the special hedge accounting, all periodic changes in fair value of the derivatives designated as hedges that are considered to be effective, as defined, are recorded in "Accumulated other comprehensive income" until the underlying jet fuel is consumed. As of December 31, 2005 the unrealized gain recorded in "comprehensive income" was R\$5,586, net of taxes. Ineffectiveness, as defined, results when the change in the total fair value of the derivative instrument does not equal the change in the value of the aircraft fuel being hedged. To the extent that the periodic changes in the fair value of the derivatives are not effective, that ineffectiveness is recorded to "Other gains and losses" in the income statement. Likewise, if a hedge ceases to qualify for hedge accounting, those periodic changes in the fair value of derivative instruments are recorded to "Other gains and losses" in the income statement in the period of the change. When aircraft fuel is consumed and the related derivative contract settles, any gains or losses previously deferred in other comprehensive income are recognized as aircraft fuel expense.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)  
December 31, 2005 and 2004  
(In thousands of Brazilian Reais)

**12. Financial Instruments and Concentration of Risk (Continued)**

a) Fuel (Continued)

Outstanding financial derivative instruments expose the Company to credit loss in the event of nonperformance by the counterparties to the agreements. However, the Company does not expect any of its six counterparties to fail to meet their obligations. The amount of such credit exposure is generally the unrealized gain, if any, in such contracts. To manage credit risk, the Company selects counterparties based on credit assessments, limits overall exposure to any single counterparty and monitors the market position with each counterparty. The Company does not purchase or hold financial derivative instruments for trading purposes.

b) Exchange rates

The Company is exposed to the effects of changes in the USD exchange rate. Exchange exposure relates to amounts payable arising from USD-denominated and USD-linked expenses and payments. To manage this risk, the Company uses USD options and futures contracts.

The following is a summary of our foreign currency derivative contracts (in thousands, except as otherwise indicated):

	2005	2004		
<b>At December 31:</b>				
Fair value of derivative instruments at year end	R\$ 1,249	R\$ (451)		
Longest remaining term (months)	1	1		
Hedged volume	R\$ 135,129	R\$ 56,775		
	2005	2004	2003	
<b>Year ended December 31:</b>				
Hedge effectiveness losses recognized in operating expenses	R\$ (24,236)	N.A.	N.A.	
Hedge ineffectiveness losses recognized in other income (expense)	R\$ (10,921)	N.A.	N.A.	
Percentage of expenses hedged (during year)	60%	73%	68%	

The Company utilizes financial derivative instruments as hedges to decrease its exposure to increases in the USD exchange rate. The Company has utilized financial derivative instruments for short-term time frames. The Company accounts for its foreign currency futures derivative instruments as cash flow hedges under SFAS 133. As of December 31, 2005 the unrealized gain recorded in "comprehensive income" was R\$825, net of taxes.

While outstanding, these contracts are recorded at fair value on the balance sheet with the effective portion of the change in their fair value being reflected in other comprehensive income. Ineffectiveness, the extent to which the change in fair value of the financial derivatives exceeds the change in the fair value of the operating expenses being hedged, is recognized in other income (expense) immediately. When operating expenses are incurred and the related derivative contract settles, any gain or loss previously deferred in other comprehensive income is recognized in operating expenses.

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

**13. Income Taxes**

a) Deferred income taxes

The deferred income taxes are summarized as follows:

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Translation into thousands of US\$ 2005</b>
<b>Deferred tax assets</b>				
Loss carryforward	R\$ -	R\$ 11,589	<b>R\$ 8,762</b>	<b>US\$ 3,743</b>
Interest on stockholders' equity	-	-	<b>36,748</b>	<b>15,670</b>
Deferred tax benefit contributed by shareholders	-	25,296	<b>19,458</b>	<b>8,313</b>
Estimated liabilities	2,913	3,519	<b>964</b>	<b>412</b>
Allowance for doubtful accounts	-	2,943	<b>1,663</b>	<b>710</b>
Other	4,813	244	<b>4,059</b>	<b>1,734</b>
Total deferred tax assets	7,726	43,591	<b>71,654</b>	<b>30,612</b>
<b>Deferred tax liabilities</b>				
Property and equipment	-	(1,093)	<b>(5,818)</b>	<b>(2,486)</b>
Maintenance deposits	(51,902)	(86,991)	<b>(128,914)</b>	<b>(55,075)</b>
Other	-	-	<b>(616)</b>	<b>(263)</b>
Total deferred tax liabilities	(51,902)	(88,084)	<b>(135,348)</b>	<b>(57,824)</b>
Current deferred tax assets	3,060	-	-	-
Net deferred tax liabilities	(47,236)	(44,493)	<b>(63,694)</b>	<b>(27,212)</b>

b) Income statement

The following current and deferred income taxes amounts were recorded in the statements of income:

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Translation into thousands of US\$ 2005</b>
Current expense	60,747	165,710	<b>189,576</b>	80,992
Deferred expense	27,929	36,860	<b>14,716</b>	6,287
	88,676	202,570	<b>204,292</b>	87,279

The reconciliation of the reported income tax and social contribution and the amount determined by applying the composite fiscal rate at December 31, 2005 and December 31, 2004, is as follows:

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>Translation into thousands of US\$ 2005</b>
Income before income taxes	R\$ 264,135	R\$ 587,280	<b>R\$ 717,522</b>	<b>US\$ 306,542</b>
Nominal composite rate	34%	34%	<b>34%</b>	<b>34%</b>
Income tax by the nominal rate	89,806	199,675	<b>243,957</b>	<b>104,224</b>
Interest on stockholders' equity	-	-	<b>(38,716)</b>	<b>(16,540)</b>
Other permanent differences	(1,130)	2,895	<b>(949)</b>	<b>(405)</b>
Income taxes expense	88,676	202,570	<b>204,292</b>	<b>87,279</b>

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2005 and 2004

(In thousands of Brazilian Reais)

**14. Earnings per Share**

The Company's preferred shares are not entitled to receive any fixed dividends. Rather, the preferred shareholders are entitled to receive dividends per share in the same amount of the dividends per share paid to holders of the common shares. However, our preferred shares are entitled to receive distributions prior to holders of the common shares. Consequently, basic earnings per share are computed by dividing income by the weighted average number of all classes of shares outstanding during the year. Preferred shares are excluded during any loss period. The diluted preferred shares are computed including the executive employee stock options calculated using the treasury-stock method as they were granted at an exercise price less than the market price of the shares.

	R\$			US\$
	2003	2004	2005	2005
<b>Numerator</b>				
Net income applicable to common and preferred shareholders for basic and diluted earnings per share	175,459	384,710	513,230	219,263
<b>Denominator</b>				
Weighted-average shares outstanding for basic earnings per share (in thousands)	164,410	179,731	192,828	192,828
<b>Effect of dilutive securities:</b>				
Executive stock options (in thousands)	-	826	776	776
Adjusted weighted-average shares outstanding and assumed conversions for diluted earnings per shares (in thousands)	164,410	180,557	193,604	193,604

**15. Quarterly Financial Data (Unaudited)**

Quarterly results of operations for the years ended December 31, 2005 and 2004 are summarized below (in thousands, except per share amounts).

2005	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net operating revenues	R\$ 589,159	R\$ 562,168	R\$ 696,658	R\$ 821,105
Operating income	177,246	84,977	183,223	175,905
Net income	131,084	73,377	138,190	170,579
Earnings per share, basic	0.70	0.38	0.71	0.88
Earnings per share, diluted	0.70	0.38	0.70	0.88
2004	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net operating revenues	R\$ 433,092	R\$ 385,526	R\$ 517,233	R\$ 625,035
Operating income	135,615	92,775	162,023	185,888
Net income	90,656	73,229	96,900	123,925
Earnings per share, basic	0.54	0.42	0.52	0.66
Earnings per share, diluted	0.54	0.42	0.51	0.66

The sum of the quarterly earnings per share amounts may not equal the annual amount reported because per share amounts are computed independently for each quarter and for the full year based on respective weighted-average common shares outstanding and other dilutive potential common shares

**ANNEX B**

***Financial Statements***

***GOL Transportes Aéreos S.A.***

***December 31, 2005 and 2004  
with Report of Independent Registered Public  
Accounting Firm***

# **GOL TRANSPORTES AÉREOS S.A.**

## **FINANCIAL STATEMENTS**

December 31, 2005 and 2004

### **Contents**

Report of Independent Registered Public Accounting Firm ..... 1

#### **Audited Financial Statements**

Balance Sheets ..... 2

Statements of Income ..... 4

Statements of Shareholders' Equity ..... 5

Statements of Changes in Financial Position ..... 6

Notes to the Financial Statements ..... 7

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Shareholders  
Gol Transportes Aéreos S.A.

We have audited the balance sheets of GOL Transportes Aéreos S.A., as of December 31, 2005 and 2004, and related statements of income, shareholders' equity and statements of changes in financial position, for the years then ended. The financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with generally accepted auditing standards in Brazil which comprised: (a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company, (b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements, and (c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material aspects, the equity and financial position of GOL Transportes Aéreos S.A. at December 31, 2005 and 2004, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in accordance with the accounting practices adopted in Brazil.

Our audits were conducted for the purpose of forming an opinion on the financial statements referred to in the first paragraph. The social balance sheet and the statements of cash flows and of value added, prepared in accordance with the accounting practices adopted in Brazil, are presented for purposes of additional information and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures described in the second paragraph and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

São Paulo, February 10, 2006

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP015199/O-1

Maria Helena Pettersson  
CRC-1SP119891/O-0

**GOL TRANSPORTES AÉREOS S.A.**

**BALANCE SHEETS**  
December 31 2005 and 2004  
(In thousands of reais)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	91,339	374,809
Short-term investments	3	529,323	443,361
Accounts receivable		568,848	389,917
Allowance for doubtful accounts		(4,890)	(3,547)
Recoverable and deferred taxes	4	8,985	16,494
Inventories	5	40,683	21,038
Prepaid expenses		39,043	35,669
Other current assets		13,199	3,388
<b>Total current assets</b>		<b>1,286,530</b>	<b>1,281,129</b>
<b>Noncurrent assets</b>			
Deposits for aircraft leasing contracts		29,618	33,559
Deferred taxes	4	17,120	25,921
Prepaid expenses		-	5,321
Investments		1,829	1,260
Property, plant and equipment	6	223,263	87,911
Other		35,457	9,386
<b>Total noncurrent assets</b>		<b>307,287</b>	<b>163,358</b>
<b>Total assets</b>		<b>1,593,817</b>	<b>1,444,487</b>

	<u>Note</u>	<u>2005</u>	<u>2004</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Trade accounts payable		73,924	36,436
Salaries, wages and benefits		39,947	23,860
Provision for income and social contribution taxes		40,135	40,844
Sales tax and landing fees		26,564	10,603
Airtraffic liability		217,800	159,891
Loans and financing	7	54,016	118,349
Dividends payable	10 c	349,506	76,239
Employee profit sharing	15	31,691	27,181
Intercompany		-	390,789
Other liabilities and provisions		50,940	39,906
Total current liabilities		<u>884,523</u>	<u>924,098</u>
<b>Noncurrent liabilities</b>			
Accounts payable and other provisions	8	23,595	23,526
<b>Shareholders' equity</b>			
Capital stock	10 a	526,489	135,700
Capital reserves		29,878	29,878
Retained earnings	10 b	122,921	331,285
Unrealized hedge result, net of taxes	16 a,b	6,411	-
Total shareholders' equity		<u>685,699</u>	<u>496,863</u>
Total liabilities and shareholders' equity		<u><u>1,593,817</u></u>	<u><u>1,444,487</u></u>

See accompanying notes.

## GOL TRANSPORTES AÉREOS S.A.

### STATEMENTS OF INCOME

Years ended December 31, 2005 and 2004

(In thousands of reais, except per share profit)

	<u>Note</u>	<u>2005</u>	<u>2004</u>
Gross operating revenues			
Passenger		2,642,699	1,965,154
Cargo		78,599	49,017
Other		56,786	40,478
		<u>2,778,084</u>	<u>2,054,649</u>
Income and social contribution taxes		(108,994)	(93,763)
Net operating revenues		2,669,090	1,960,886
Cost of services rendered	11	<u>(1,751,275)</u>	<u>(1,161,722)</u>
Gross profit		<u>917,815</u>	<u>799,164</u>
Operating expenses (income)			
Commercial expenses	11	(335,722)	(268,068)
Administrative expenses	11	(69,899)	(56,954)
Financial income	12	137,099	56,437
Financial expenses	12	(85,879)	(44,700)
		<u>(354,401)</u>	<u>(313,285)</u>
Income before income and social contribution taxes		563,414	485,879
Income and social contribution taxes – current		(193,748)	(163,441)
Net income for the year		<u>369,666</u>	<u>322,438</u>
Number of outstanding shares at the balance sheet date	10 a	451,072,648	60,283,209
Earnings per share (R\$)		<u>0.82</u>	<u>5.35</u>

See accompanying notes.

**GOL TRANSPORTES AÉREOS S.A.**

**STATEMENTS OF SHAREHOLDERS' EQUITY**  
 Years ended December 31, 2005 and 2004  
 (In thousands of reais)

	Capital reserves			Revenue reserves	
	Capital	Tax incentives	Subsidiary's special goodwill reserve	Legal reserve	Reinvestment reserve
Balance at December 31, 2003	<u>135,700</u>	<u>691</u>	<u>-</u>	<u>5,579</u>	<u>-</u>
Setup of special goodwill reserve	-	-	29,187	-	-
Net income for the year	-	-	-	-	-
Proposed profit allocation:					
Legal reserve	-	-	-	17,481	-
Dividends payable	-	-	-	-	-
Reinvestment reserve	-	-	-	-	308,225
Balance at December 31, 2004	<u>135,700</u>	<u>691</u>	<u>29,187</u>	<u>23,060</u>	<u>308,225</u>
Unrealized hedge result, net of taxes	-	-	-	-	-
Capital increase	390,789	-	-	-	-
Net income for the year	-	-	-	-	-
Proposed profit allocation:					
Legal reserve	-	-	-	18,483	-
Proposed dividends	-	-	-	-	-
Distribution of reinvestment reserve	-	-	-	-	(226,847)
Balance at December 31, 2005	<u>526,489</u>	<u>691</u>	<u>29,187</u>	<u>41,543</u>	<u>81,378</u>

See accompanying notes.

## GOL TRANSPORTES AÉREOS S.A.

### STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2005 and 2004

(In thousands of reais)

	Note	2005	2004
<b>SOURCES OF WORKING CAPITAL</b>			
From operations:			
Funds generated by operations			
Net income for the year	10 a	369,666	322,438
Items that not affection working capital:			
Depreciation and amortization	11	36,206	22,913
Deferred taxes	13	2,957	(2,269)
		408,829	343,082
From shareholders:			
Special goodwill reserve		-	29,187
Capital increase	10 a	390,789	-
		390,789	29,187
From third parties:			
Increase in noncurrent liabilities		69	8,809
Unrealized hedge result, net of taxes	16 a	6,411	-
Total sources		806,098	381,078
<b>APPLICATIONS OF WORKING CAPITAL</b>			
Operations			
Proposed dividends		351,183	76,239
Distribution of reinvestment reserve		226,847	-
Property, plant and equipment		170,811	42,851
Investments		569	630
Deferred charges		7,771	-
Investments in noncurrent assets		3,942	38,349
Total applications		761,122	158,069
Increase in working capital		44,976	223,009
Changes in working capital			
Current liabilities			
At end of year		1,286,530	1,281,129
At beginning of year		(1,281,129)	(442,347)
		5,401	838,782
Current liabilities			
At end of year		884,523	924,098
At beginning of year		(924,098)	(308,325)
		(39,575)	615,773
Increase in working capital		44,976	223,009

See accompanying notes.

# **GOL TRANSPORTES AÉREOS S.A.**

## **NOTES TO THE FINANCIAL STATEMENTS**

December 31, 2005 and 2004

(In thousands of reais)

### **1. Business Overview**

Gol Transportes Aéreos S.A. (Company or GOL) is a low-cost low-fare airline headquartered in Brazil, which provides regular air transportation services to and from major cities in Brazil and also in Argentina and Bolivia. The Company's strategy is to grow and increase its business profits, by popularizing and stimulating demand for safe air transportation in South America both for business and leisure passengers, keeping its costs among the lowest in the industry worldwide.

The Company's simplified, single class fleet is among the industry's newest and most modern, with low maintenance, fuel and training costs and high utilization and efficiency levels.

Gol Transportes Aéreos S.A. is a wholly-owned subsidiary of Gol Linhas Aéreas Inteligentes S.A., and its core business involves regular national and international air transportation of passengers, cargo and air mail, under concession granted by the Department of Civil Aviation – DAC, of the Air Ministry, pursuant to governmental decree #1109/DGAC, of August 18, 2000. The Company started its operations on January 15, 2001 and, on December 31, 2005, operated a 42-aircraft fleet, comprised of 8 Boeing 737-800, 22 Boeing 737-700 and 12 Boeing 737-300. During 2005, the Company inaugurated 9 new destinations, increasing served destinations to 45 (43 in Brazil, one in Argentina and one in Bolivia).

In 2005, the Company obtained authorization to operate regular flights from Brazil to Santa Cruz de la Sierra in Bolivia, which began during the fourth quarter, and from Brazil to Asunción in Paraguay and Montevideo in Uruguay, which started in January, 2006.

### **2. Basis of Preparation and Presentation of the Financial Statements**

The consolidated financial statements were prepared in compliance with the accounting practices adopted in Brazil, the provisions of Brazilian corporate law, the Chart of Accounts prepared by the Civil Aviation Department – DAC and the supplementary rules of the Brazilian Securities and Exchange Commission – CVM, consistently applied in relation to the financial statements for the year ended December 31, 2004.

The financial statements are presented in compliance with IBRACON pronouncement NPC 27 – Financial Statements – Reporting and Disclosure. The following reclassifications were made in 2005 and 2004 due to the application of NPC 27:

## **GOL TRANSPORTES AÉREOS S.A.**

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### **2. Basis of Preparation and Presentation of the Financial Statements – Continued**

- i. Investments in the amount of R\$ 529,323 (R\$ 443,361 in 2004) were segregated into short-term investments.
- ii. The net financial result was segregated into financial income and expenses based on the new concepts set forth in NPC 27, as described in note 2 j.

Additionally, the following reclassifications and groupings were made for adequacy and consistency with the current year:

- i. The Company reviewed the profit sharing concept and, considering that the profit sharing plan also includes other operating targets, total bonuses are classified as salary operating expenses in 2005 and 2004.
- ii. Commercial leases payable in the short term were included in other liabilities and provisions, and the items of long-term liabilities were grouped in accounts payable and provisions, under noncurrent liabilities, due to relevance of the amounts involved.
- iii. Investments in deferred assets were grouped under other noncurrent assets.

The financial statements include the following supplementary information that management considers relevant for the market:

Appendix I – Statements of cash flow - prepared according to the indirect method, using accounting records, based on the guidelines of IBRACON – Brazilian Institute of Independent Auditors.

Appendix II – Statements of value added – prepared according to the Brazilian Accounting Standards, supplemented by guidelines and recommendations provided by the Brazilian Securities and Exchange Commission – CVM.

Appendix III – Statement of Environmental and Social Information – prepared according to the Brazilian Accounting Standards.

The main accounting practices and consolidation criteria adopted by the Company are described as follows:

## **GOL TRANSPORTES AÉREOS S.A.**

### **NOTES TO THE FINANCIAL STATEMENTS – Continued**

December 31, 2005 and 2004

(In thousands of reais)

#### **2. Basis of Preparation and Presentation of the Financial Statements – Continued**

##### **a) Revenue recognition**

Revenues are appropriated in compliance with the accrual method. Passenger transportation revenues are recognized after the effective provision of services. Reservations sold and corresponding air traffic liabilities are shown in current liabilities, the period of one year being the final term for utilization.

Cargo transportation revenues are recognized when the transport is executed. Other revenues are represented by charter services, flight reservation change fees and other services, which are recognized when services are provided.

##### **b) Cash and cash equivalents, financial investments and short-term investments**

Financial investments with maturity up to 90 days from the balance sheet date are shown by the investment amount plus agreed interest proportionally recognized to the balance sheet date. Short-term investments refer to financial investments redeemable in a term over 90 days from the balance sheet date and are represented by securities acquired for the purpose of being frequently and actively traded, classified as securities for trading. Such investments are valued and accounted for at market value based on rates or estimates, and realized and unrealized gains and losses are recognized in the result.

##### **c) Allowance for doubtful accounts**

Allowance for doubtful accounts is constituted in an amount sufficient to cover possible losses in the realization of accounts receivable.

##### **d) Inventories**

Inventories are comprised of consumption material, parts and maintenance material. They include imports in progress and are presented at their acquisition cost, reduced for obsolescence provision, when applicable, not exceeding market value.

##### **e) Deposits for leasing contracts**

All aircraft operated by the Company are leased in the operating leasing mode with no purchase option clause. As required by contracts, the Company makes lease contract deposits for leasing companies. These deposits are denominated in US dollars, do not earn interest and are repayable at the end of the contract.

## **GOL TRANSPORTES AÉREOS S.A.**

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### **2. Basis of Preparation and Presentation of the Financial Statements – Continued**

##### f) Property, plant and equipment

Property, plant and equipment are recorded by acquisition cost, which includes financial charges incurred during the aircraft construction stage, minus respective accumulated depreciation, calculated by the straight-line method at rates that take into consideration the estimated useful life of the assets. Leasehold improvements are depreciated over the term of the lease agreements. Recovery of property, plant and equipment in the course of future operations is periodically evaluated.

##### g) Deferred charges

Deferred charges are comprised of pre-operating expenses and expenses that will benefit deferred income and may be amortized in a period of 2 to 5 years.

##### h) Assets and liabilities in foreign currency or subject to indexation

They are restated based on foreign exchange rates and indices effective on the balance sheet date.

##### i) Leasing operations

Monthly liabilities resulting from aircraft leasing contracts without a purchase option clause are appropriated to the result as incurred.

##### j) Financial income (expenses)

Financial income represents accrued interest, foreign exchange variations of assets, financial investment gains and financial derivative instrument gains. Financial expenses include interest expenses on loan, foreign exchange variations of liabilities and losses on financial derivative instruments.

##### k) Income and social contribution taxes

Provision for income tax is calculated at the rate of 15% rate plus an additional 10% on taxable income that exceeds R\$ 240 a year; provision for social contribution tax is set up at the rate of 9% on the taxable base.

Deferred income and social contribution taxes arise from temporary additions to taxable income, recognized upon computation of such taxes.

## **GOL TRANSPORTES AÉREOS S.A.**

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### **2. Basis of Preparation and Presentation of the Financial Statements – Continued**

##### k) Income tax and social contribution – Continued

The fiscal credit arising from goodwill incorporated by the Company is being amortized on a straight-line basis over 60 months.

##### l) Provision for contingencies

Provision for contingencies is constituted based on the opinion of legal consultants by amounts sufficient to cover probable losses and risks.

The Company has adopted the concepts set forth in NPC No. 22 about Provisions, Liabilities, Contingent Liabilities and Assets when setting up provisions and disclosing issues involving litigations and contingencies.

##### m) Use of estimates

The preparation of the financial statements in accordance with the accounting practices requires that Management makes estimates based on assumptions affecting the value of assets, liabilities, income and expenses and disclosures reported in the financial statements. The effective results may differ from these estimates.

##### n) Proposed profit allocation

The financial statements reflect the Board of Directors' proposal for the allocation of net income for the year in the assumption of its approval by the Annual General Meeting.

##### o) Employee profit sharing

The provision for employee profit sharing is monthly constituted based on Management's estimates, considering the targets established for the year, and recorded as payroll expenses.

##### p) Derivatives

In order to protect part of the Company's exposure in connection with fluctuations of foreign exchange rates and the increase in fuel prices, the Company uses oil and foreign exchange financial derivative instruments. Those instruments are mainly futures, options, collars and swaps.

## **GOL TRANSPORTES AÉREOS S.A.**

### **NOTES TO THE FINANCIAL STATEMENTS – Continued**

December 31, 2005 and 2004

(In thousands of reais)

#### **2. Basis of Preparation and Presentation of the Financial Statements – Continued**

##### p) Derivatives – Continued

As there is not a future market for aircraft fuel in Brazil, the Company uses international derivatives to manage its exposure to increases in fuel price. There is a high correlation between international oil prices and aircraft fuel in Brazil, making oil derivatives effective in the compensation of variations in aircraft fuel prices and serving as a short-term protection against sudden increases in the average aircraft fuel price.

The Company measures the effectiveness of derivatives in relation to variations in the hedged asset prices. As most of the Company's fuel derivatives is not traded on stock exchanges, the Company estimates their fair values. The fair value of derivative instruments, depending on the type, is determined based on evaluation methods of present value and option valuation models that use assumptions on the market price of commodities. Furthermore, as there is not a reliable futures market for aircraft fuel, Management estimates aircraft fuel future prices to measure the effectiveness of derivatives to offset variations in prices.

Aiming to record, report and disclose transactions involving financial derivative instruments, and based on its formal risk management policy, the Company started, as of January 2005, to measure the effectiveness of financial derivative instruments used for the specific purpose of market risk coverage based on their fair values, and to recognize the ineffective portion of realized results of the transactions with financial derivative instruments directly in the financial result for the year, as the effective portion of realized results is recognized by means of adjusting revenues and expenses related to the items covered. Unrealized results or the variation of the market fair value are recognized in the shareholders' equity.

The accounting policy for measuring the effectiveness of derivative instruments was defined based on the Company's risk management policy that considers effective those instruments which offset between 80% and 120% of the change in the price of the item to which protection was contracted.

The market value of financial derivative instruments is calculated based on usual market practices, using closing amounts in the period and material underlying rates, except for option contracts, whose values are determined by means of the adoption of a pricing methodology (*Black & Scholes*), and the variables and information related to volatility ratios are obtained by means of acknowledged market information providers.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 2. Basis of Preparation and Presentation of the Financial Statements – Continued

##### q) Earnings per share

Earnings per share are calculated based on the number of outstanding shares as of the balance sheet date.

#### 3. Cash and Cash Equivalents and Short-Term Investments

	<u>2005</u>	<u>2004</u>
<b>Cash and cash equivalents</b>		
<b>Cash and banks</b>	<b>24,421</b>	105,689
<b>Financial Investments</b>		
Fixed income	<b>43,961</b>	87,089
Government securities	-	35,523
Bank Deposits Certificates – CDB	<b>22,957</b>	146,508
	<u><b>91,339</b></u>	<u>374,809</u>
<b>Short-term Investments</b>		
Government securities	<b>275,113</b>	286,931
Bank Deposits Certificates – CDB	<b>254,210</b>	146,048
Investment Funds	-	10,382
	<u><b>529,323</b></u>	<u>443,361</u>

Financial investments in CDB (Bank Deposit Certificate) have an average remuneration, net of taxes, of nearly 1.47% a month, based on CDI (Interbank Deposit Certificate) variation, and may be redeemed at any time without loss of the recognized revenue. At December 31, 2005, investments in CDB in the amount of R\$ 9,600 were linked to loan guarantees with Banco do Brasil.

The Company holds 100% of exclusive investment fund quotas, constituted as mutual funds with indefinite term of duration and with tax neutrality, resulting in benefits to their quota holders. Investments in exclusive investment funds have a daily liquidity. The exclusive fund portfolio management is carried out by external managers who follow the investment policies established by the Company.

Based on the financial statements of the exclusive funds prepared according to the rules of the Central Bank of Brasil – BACEN, these investments are classified as securities for trading, appraised at market value, whose earnings are reflected in financial income.

Financial assets integrating fund portfolios are recorded, as applicable, in the Special System for Settlement and Custody – SELIC, in the Brazilian Custody and

Settlement Chamber – CETIP or on the Brazilian Mercantile and Futures Exchange  
– BM&F.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 3. Cash and Cash Equivalents and short-term investments – Continued

Investment funds take part in operations comprising financial derivative instruments recorded in balance sheet or memorandum accounts that aim to manage the Company's exposure to market risks and foreign exchange rates. Information concerning risk management policies and the positions of open financial derivative instruments are detailed in Note 16.

#### 4. Deferred Taxes and Carryforwards, Current and Noncurrent

	<u>2005</u>	<u>2004</u>
<b>Carryforwards</b>		
PIS and Cofins credits	<b>494</b>	3,250
Prepayment of IRPJ and CSSL	-	4,400
IRRF credit on financial investments	-	2,561
Other	<b>2,654</b>	446
	<u><b>3,148</b></u>	<u>10,657</u>
<b>Deferred taxes</b>		
Tax credits arising from incorporation	<b>19,458</b>	25,296
Temporary differences	<b>3,499</b>	6,462
	<u><b>22,957</b></u>	<u>31,758</u>
Current	<u><b>(8,985)</b></u>	<u>(16,494)</u>
Noncurrent	<u><b>17,120</b></u>	<u>25,921</u>

Tax credits resulting from accumulated income tax losses (corporate income tax and social contribution tax) were recorded at December 31, 2005 based on the expected generation of future taxable income. Management estimates, based on the Company's business plans approved by the Board of Directors, that the credits will be realized in a 3-year term as of 2006.

Gol Transportes Aéreos S.A. succeeded BSSF II Holdings Ltda. in the right to amortize, for tax purposes, the goodwill resulting from expected future income whose amortization results in a tax benefit corresponding to 34% of the goodwill amount, recorded in the financial statements as deferred income and social contribution taxes as a matching entry to the special goodwill reserve under the shareholder's equity in the amount of R\$ 29,187. The Company has been amortizing goodwill on the straight-line basis for a period of 60 months since May 2004. The goodwill amortized in fiscal year 2005 was R\$ 17,168, (R\$ 11,446 in 2004), generating a tax benefit of R\$ 5,838 (R\$ 3,891 in 2004). Management understands that, based on the projection of taxable income, the remaining balance of deferred income and social contribution taxes is totally realizable.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 5. Inventories

	2005	2004
Consumable material	3,149	2,182
Parts and maintenance material	15,644	11,178
Advances to suppliers	14,976	6,179
Other	6,914	1,499
	40,683	21,038

#### 6. Property, Plant and Equipment

		2005		2004	
		Cost	Accumulated depreciation	Net value	Net value
<b>Flight equipment</b>					
Spare engines	20%	53,401	-	53,401	-
Replacement part kits	20%	169,568	(64,445)	105,123	63,717
Aircraft and safety equipment	20%	801	(166)	635	1,025
Tools	10%	1,954	(254)	1,700	653
		225,724	(64,865)	160,859	65,395
<b>Property, plant and equipment in service</b>					
Software licenses	20%	18,715	(5,943)	12,772	11,607
Vehicles	20%	1,832	(815)	1,017	949
Machinery and equipment	10%	3,962	(524)	3,438	1,594
Furniture and fixtures	10%	4,511	(940)	3,571	2,970
Computers and peripherals	20%	6,412	(2,673)	3,739	2,519
Communication equipment	10%	1,078	(201)	877	530
Facilities	10%	1,080	(138)	942	385
Brand names and patents	-	37	-	37	35
Leasehold improvements	4%	25,928	(3,409)	22,519	508
Work in progress	-	13,492	-	13,492	1,419
		77,047	(14,643)	62,404	22,516
		302,771	(79,508)	223,263	87,911

Work in progress refers mainly to the construction of the Aircraft Maintenance Center in Minas Gerais and construction works in new bases.

#### 7. Loans and Financing

At December 31, 2005, the Company has 11 short-term credit lines with 6 financial institutions that allow loans up to R\$ 340,000. Two of those lines are guaranteed by promissory notes which allow loans up to R\$ 200,000. At December 31, 2005, there were loans of R\$ 54,016 using those instruments. One of those lines is guaranteed by accounts receivable of the credit cards administrators within a limit of R\$ 50,000. At December 31, 2005, there were no loans using that instrument.

## **GOL TRANSPORTES AÉREOS S.A.**

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### **8. Provision for Contingencies**

The Company is a party to legal proceedings and civil and labor claims that arise in the ordinary course of business. Although the results of those proceedings cannot be forecasted, the final judgment of those actions will not have a relevant effect on the Company's financial position, operating income and cash flow, according to management's opinion which is supported by its external legal advisors.

In order to provide a better current estimate, the provisions constituted for probable losses are classified in noncurrent liabilities and are regularly reviewed based on the status of legal suits and on the background of losses on labor and civil claims.

The Company is judicially discussing several aspects regarding the levy and calculation basis of PIS and COFINS on its operations. In 2005, the Company made judicial deposits in the amount of R\$ 23,723 and the related provisions regarding legal obligations totaled R\$ 18,794.

The Company is questioning in court VAT (ICMS) not levied on aircraft and engine imports under operating leasing in transactions made with lessors headquartered in foreign countries. The Company's Management understands that these transactions are mere leases in view of the contractual obligation to return the object of the contract, which will never integrate the Company's assets, either now or in the future. Given that there is no circulation of goods, the tax triggering event is not characterized.

As of December 31, there were 29 judicial petitions in court and another 7 judicial petitions in lower court. The estimated aggregate amount of current lawsuits - based on the 4% rate applied to the price of the leased aircraft and engines and taking these assets' estimated useful life over the average period of the Company's commercial leases – totals R\$45,000 in 2005 (R\$34,000 in 2004), monetarily adjusted and excluding eventual default fees.

The Company, supported by case law and the opinion of its independent legal advisors, understands that it is unlikely for the Company to lose these court suits, and the accounting practices adopted in the preparation of its financial statements, in line with international standards, do not require provisions for losses.

#### **9. Transactions with Related Parties**

The Company maintains operating agreements with associated companies for passenger and luggage transportation between airports and for the transportation of employees, executed under normal market conditions.

## **GOL TRANSPORTES AÉREOS S.A.**

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 9. Transactions with Related Parties – **Continued**

The Company is the tenant of the property located at no. 246, Rua Tamoios, in the city of São Paulo, State of São Paulo, owned by Áurea Administrações e Participações S.A., the agreement for which expires as of March 31, 2008 and has an annual price restatement clause based on the General Market Price Index (IGP-M).

The amounts payable to the associated companies, totaling R\$ 97 (R\$ 69 in 2004) are included in the balance of trade accounts payable together with third-party operations. The expenses that affected the 2005 income is R\$ 2,300 (R\$ 1,401 in 2004).

#### **10. Shareholders' Equity**

##### a) Capital stock

- i. At December 31, 2005, capital stock consists of 60,283,209 shares, being 41,500,000 common shares, 10,375,000 class A preferred shares – with voting rights – and 8,408,209 class B preferred shares.
- ii. On March 12, 2004 the Company's shareholders approved the use of total shares they owned for contribution to capital stock of Gol Linhas Aéreas S.A. – GLAI, which became the parent company of GOL.
- iii. At the Extraordinary General Meeting on March 29, 2004, in connection with the approval of the merger with BSSF II Holdings Ltda., the Company absorbed net assets consisting of a goodwill of R\$ 85,845. There was not a capital stock raise; as a consequence, the Company recognized in its shareholders' equity a tax benefit amounting R\$ 29,187, equal to 34% of the goodwill value recognized as special goodwill reserve.
- iv. At the Extraordinary General Meeting on April 8, 2005, in connection with the approval of a capital raise by R\$ 390,789,439 through the issue of 390,789,439 shares, all nominative and observing the proportion between common and preferred shares, consisting of 269,026,185 common shares, 67,256,546 class A preferred shares and 54,506,708 class B preferred shares at an issue price of R\$ 1.00 per share, all of them subscribed by shareholder Gol Linhas Aéreas Inteligentes S.A.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 10. Shareholders' Equity – Continued

##### a) Capital stock – Continued

Therefore, at December 31, 2005, capital stock consists of 451,072,648 shares, being 310,526,185 common shares, 77,631,546 class A preferred shares – with voting rights and convertible to common shares at any time as decided by their owners in the proportion of one preferred class A share to each common share – and 62,914,917 class B preferred shares.

##### b) Revenue reserves

###### i. *Legal*

Accrued by means of the appropriation of 5% of net income for the year, according to article 193 of Law No. 6404/76.

###### ii. *Reinvestments*

The remaining net income for 2005 after accruing the legal reserve net of dividends amounting to R\$ xxxx - (R\$ 308,225 for 2004) was allocated to reinvestment, as estimated in the capital budget approved by the Board of Directors.

The reinvestment reserve aims to meet the investments estimated in the capital budget for the 2006 fiscal year and depends on the resolution at the Shareholders Annual Meeting to be held on February 23, 2006.

##### c) Dividends

In accordance with the Company's articles of incorporation and by-laws, shareholders are entitled to a mandatory dividend of at least 25% of net income for the year, adjusted under the terms of article 202 of the Brazilian Corporation Law.

The dividends proposal for fiscal year ended December 31, 2005, which will be submitted by Company management to shareholders' approval at the Extraordinary General Meeting on April 7, 2006, in the amount of R\$ 351,183, ensures the rights guaranteed by the Company articles of incorporation and by-laws.

The base income for determining the dividends and the proposed dividends was calculated as follows:

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 10. Shareholders' Equity – Continued

##### c) Dividends – Continued

	<b>2005</b>	<b>2004</b>
Base net income for legal reserve	369,666	322,438
Legal reserve setup	18,483	17,481
Base income for the determination of the dividend	351,183	304,957
Proposed dividends	351,183	76,239

The proposed dividends will be paid no later than seven businesses days after the approval of the financial statements at the Shareholders Annual Meeting.

#### 11. Cost of Services Rendered, Selling and Administrative Expenses

	2005					2004	
	Cost of services rendered	Selling Expenses	Administrative Expenses	Total	%	Total	%
Salaries, wages and benefits	187,929	-	64,128	<b>252,057</b>	<b>11.7</b>	172,979	11.6
Aircraft fuel and lubricants	808,268	-	-	<b>808,268</b>	<b>37.5</b>	468,192	31.5
Aircraft leasing	240,876	-	-	<b>240,876</b>	<b>11.2</b>	195,504	13.1
Supplementary leasing	126,085	-	-	<b>126,085</b>	<b>5.8</b>	103,202	6.9
Aircraft insurance	29,662	-	-	<b>29,662</b>	<b>1.4</b>	25,575	1.7
Maintenance and repair material	55,373	-	-	<b>55,373</b>	<b>2.6</b>	51,796	3.5
Service rendering	89,168	-	698	<b>89,866</b>	<b>4.1</b>	74,825	5.0
Advertising and promotion	-	335,722	-	<b>335,722</b>	<b>15.6</b>	261,756	17.6
Landing and take-off fees	92,404	-	-	<b>92,404</b>	<b>4.3</b>	57,393	3.9
Depreciation	35,345	-	114	<b>35,459</b>	<b>1.6</b>	21,242	1.4
Amortization	-	-	747	<b>747</b>	-	1,651	0.2
Other expenses	86,165	-	4,212	<b>90,377</b>	<b>4.2</b>	52,629	3.5
	<b>1,751,275</b>	<b>335,722</b>	<b>69,899</b>	<b>2,156,896</b>	<b>100.0</b>	1,486,744	100.0

Salaries, wages and benefits expenses include a provision for 2005 employee profit sharing, estimated at R\$ 30,535 at December 31, 2005 (R\$ 27,181 in 2004).

In 2005, aircraft fuel expenses include R\$ 11,153 arising from results with derivatives consisting of fuel hedge contract results expired in the year and rated as effective to hedge expenses on fuel price fluctuations.

The management's compensation totaled R\$ 2,851 for 2005 (R\$ 2,261 for 2004).

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 12. Net Financial Income

	2005	2004
<b>Financial Expenses:</b>		
Interest on loans	(19,383)	(13,445)
Foreign exchange variations on liabilities	(29,804)	(10,367)
Losses in investment funds	-	(5,110)
Losses on financial instruments	(11,622)	(5,131)
CPMF tax	(8,702)	(5,716)
Monetary variations on liabilities	(5,874)	(1,464)
Other	(10,494)	(3,467)
	(85,879)	(44,700)
<b>Financial income:</b>		
Interest and gains on short-term financial investments	3,464	39,269
Foreign exchange variations on assets	20,873	9,140
Gains on financial instruments	106,319	6,607
Monetary variations on assets	6,019	464
Other	424	957
	137,099	56,437
Net financial income	51,220	11,737

#### 13. Income Tax and Social Contribution

The reconciliation of income tax and social contribution expenses, tax expenses, calculated by applying combined statutory tax rates and the amounts presented in P&L is as follows:

Description	2005	2004
Income before income and social contribution taxes	563,414	485,879
Combined tax rate	34.0%	34.0%
Income and social contribution taxes at the combined tax rate	191,561	165,199
Permanent additions		
Nondeductible expenses	2,187	8,563
Provision reversal	-	(10,321)
Income and social contribution taxes posted to P&L	193,748	163,441
Effective rate	34.4%	33.6%
Current income and social contribution taxes	190,791	165,710
Deferred income and social contribution taxes	2,957	(2,269)
	193,748	163,441

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 14. Commitments

The Company leases its operating aircraft, airport terminals, other airport facilities, offices and other equipment. At December 31, 2005 the Company had operational lease agreements on 42 aircraft (27 in 2004), with expiration dates from 2006 to 2012.

The future payments of leases under the operating lease agreements are denominated in US dollars and are broken down as follows at December 31, 2005:

	R\$			US\$ (in thousands)		
	Aircraft	Engines	Total	Aircraft	Engines	Total
2006	255,111	11,802	266,913	108,989	5,042	114,031
2007	242,798	10,681	253,479	103,729	4,563	108,292
2008	172,568	8,941	181,509	73,725	3,820	77,545
2009	127,032	4,728	131,760	54,271	2,020	56,291
2010	38,769	2,252	41,021	16,563	962	17,525
After 2010	27,976	-	27,976	11,952	-	11,952
	<b>864,254</b>	<b>38,404</b>	<b>902,658</b>	<b>369,229</b>	<b>16,407</b>	<b>385,636</b>

During the 2005 fiscal year, the Company entered into new operating lease agreements for seven Boeing 737-300, four Boeing 737-700 and four 737-800 which are not subject to deposits for leasing contracts.

The Company has an agreement with Boeing to purchase 101 Boeing 737-800 Next Generation aircraft, 65 of which are firm orders and 36 purchase options. The firm order approximate value is R\$10,615 million (corresponding to approximately US\$4,535 million), based on the aircraft list price that includes estimates for contractual increases in prices and deposits during the aircraft construction, as shown below:

	Expected Delivery of Firm Orders	R\$	US\$ (in thousands)
	2006	11	1,815,091
2007	13	2,012,209	859,661
2008	9	1,264,172	540,083
2009	10	1,638,900	700,175
2010	8	1,371,030	585,735
After 2010	14	2,513,521	1,073,833
	<b>65</b>	<b>10,614,923</b>	<b>4,534,935</b>

The Company expects that aircraft purchase obligations will be financed up to 85% through long-term financing agreements guaranteed by the US Exim Bank.

## **GOL TRANSPORTES AÉREOS S.A.**

### **NOTES TO THE FINANCIAL STATEMENTS – Continued**

December 31, 2005 and 2004

(In thousands of reais)

#### **15. Employees**

The Company keeps an employees' profit sharing plan and stock option plans.

The employee profit sharing plan is linked to the economic and financial results measured with basis on the Company's performance indicators that assume the achievement of the Company's, its business units' and individual performance goals. At December 31, 2005, the provision set up on Management's expectations and estimates is R\$ 30,535 (R\$ 27,181 for 2004).

#### **16. Financial Derivative Instruments**

The Company is exposed to several market risks arising from its operations. Such risks involve mainly the effects of changes in fuel price and foreign exchange rate risk, as its revenues are generated in reais and the Company has significant commitments in US dollars, credit risks and interest rate risks. The Company uses financial derivative instruments to mitigate those risks. The Company maintains a formal risk management policy under the management of its executive officers, its Risk Policy Committee and its Board of Directors.

The management of those risks is performed through control policies, establishing limits, as well as other monitoring techniques, mainly mathematical models adopted for the continuous monitoring of exposures. The exclusive investment funds in which the Company is a quotaholder are used as means for the risk coverage contracting according to the Company's risk management policies.

##### **a) Fuel**

Airlines are exposed to aircraft fuel price change effects. Aircraft fuel consumption in 2005 and 2004 represented approximately 37.5% and 31.5%, respectively, of the Company's operating expenses. The Company periodically uses futures contracts, swaps and oil options and its derivatives to manage those risks. Fuel hedges go towards fuel acquisition operating expenses. As the aircraft fuel is not traded on a commodities exchange, the liquidity and alternatives for contracting hedge operations of that item are limited. However, the Company has found effective commodities to hedge aircraft fuel costs, mainly crude oil. Historically, oil prices are highly related to aircraft fuel prices, which makes oil derivatives effective in compensating oil price fluctuations, in order to provide short-term protection against sudden fuel price increases. The futures contracts are listed on NYMEX, swaps are contracted with first class international banks and the options can either be those listed on NYMEX or those traded with first class international banks.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 16. Financial Derivative Instruments – Continued

##### a) Fuel – Continued

The Company's derivative contracts, at December 31, 2005, are summarized as follows (in thousands, except when indicated):

	2005	2004
<b>At December 31:</b>		
Fair value of financial derivative instruments at year end	R\$ 8,464	R\$ 5,131
Average remaining term (months)	8	1
Hedged volume (barrels)	1,431,000	120,000
<b>Year ended December 31:</b>		
Hedge effectiveness gains recognized in aircraft fuel expense	R\$ 5,246	N.A.
Hedge ineffectiveness gains recognized in financial expense	R\$ 397	N.A.
Percentage of actual consumption hedged (during year)	55%	75%

The Company uses financial derivatives for short and long terms and keeps its positions for future months. At December 31, 2005 the Company holds a combination of call options, collar structures and swaps to hedge approximately 30% of its aircraft fuel consumption in 2006 at average oil prices equivalent to US\$ 59.90 per barrel, approximately.

The Company classifies fuel hedge as “cash flow hedge”, and recognizes the changes of market fair value of effective hedges accounted in the shareholders' equity until the hedged fuel is consumed. At December 31, 2005, unrealized gains recorded in shareholders' equity amounted to R\$ 5,586, net of taxes. Ineffective hedges arise whenever changes in the value of derivatives are not between 80% and 120% of the hedged fuel value variation. As periodic changes in the derivative fair value are ineffective, such “ineffectiveness” is recognized in the same period as the estimated fuel consumption occurs. The effective hedge results are recorded as fuel acquisition cost reduction or increase, and the hedge results that are not effective are recognized as financial revenue or expense. When the aircraft fuel is consumed and the related financial derivative instrument is settled, gains or losses recorded in shareholders' equity are recognized as aircraft fuel expenses. The fuel hedge effectiveness is estimated based on correlation statistical methods or in the proportion of fuel purchase expense changes that are offset against the fair market value change in derivatives.

The fair market value of swaps is estimated by discounted cash flow methods, and the fair value of the options is estimated by the Black-Scholes model adapted to commodities options.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 16. Financial Derivative Instruments – Continued

##### b) Exchange rate

At December 31, 2005 the main assets and liabilities denominated in foreign currency are related to aircraft leasing and acquisition operations.

The Company's foreign exchange exposure at December 31, 2005 is set forth below:

	2005	2004
<b>Assets</b>		
Cash, cash equivalents and short-term financial investments	(11,120)	(450)
Deposits for aircraft leasing contracts	(22,583)	(33,559)
Prepaid leasing expenses	(14,133)	(9,885)
Advances to suppliers	(48,793)	(5,984)
Others	(9,713)	-
Total obligations in US dollar	(106,342)	(49,878)
<b>Liabilities</b>		
Foreign suppliers	15,628	8,218
Operating leases payable	13,127	14,044
Hedge operations	-	2,600
Insurance premium payable	25,371	24,060
	54,126	48,922
Foreign exchange exposure in R\$	(52,216)	(956)
Total foreign exchange exposure in US\$	(22,308)	(360)
<b>Obligations not recorded in the balance sheet</b>		
Operating lease agreements	902,658	759,304
Obligations arising from firm orders for aircraft purchase	10,614,923	2,997,000
Total foreign exchange exposure in R\$	11,465,365	3,755,348
Total foreign exchange exposure in US\$	4,898,263	1,414,763

The foreign exchange exposure concerning amounts payable resulting from operating leases, insurances, maintenance, and the exposure to fuel price changes caused by the foreign exchange rate are managed by hedge strategies with US dollar futures contracts and US dollar options listed on BM&F (Brazilian Mercantile and Futures Exchange). The expense accounts object matter of foreign exchange rate hedge are as follows: fuel expenses, lease, maintenance, insurance and international IT services.

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 16. Financial Derivative Instruments – Continued

##### b) Exchange rate – Continued

Company's Management believes that the derivatives it engages to relate mainly to the US dollar/real foreign exchange rate in order to provide short-term protection to foreign exchange rate changes. The Company classifies the US dollar hedge as "cash flow hedge" and recognizes the fair market value changes of highly effective hedges in the same period of the estimated expenses, which are the purpose of the hedge. The market value changes of the highly effective hedges are recorded in Financial Revenues or Expenses until the period the hedged item is recognized, being then recognized as decrease or increase in incurred expenses. The market value changes of hedges that are not highly effective are recognized as financial revenue or expense. The US dollar hedge effectiveness is estimated by statistical correlation methods or by the proportion of expenses change that are offset against the fair market value change of the derivatives.

The fair market value of swaps is estimated by discounted cash flow methods; the fair value of options is estimated by the Black-Scholes method adapted to the currency options; and the futures fair value refers to the last owed or receivable adjustment already determined but not yet settled.

The Company uses short-term financial derivative instruments. The following table summarizes the position of the foreign exchange derivative contracts (in thousands, except otherwise indicated):

	<u>2005</u>	<u>2004</u>
<b>At December 31:</b>		
Fair value of financial derivative instruments at year end	R\$ 1,249	R\$ (451)
Longest remaining term (months)	1	1
Hedged volume	R\$ 135,129	R\$ 56,775
<b>Period ended December 31:</b>		
Hedge effectiveness losses recognized in operating expenses	R\$ (24,236)	N.A.
Hedge ineffectiveness losses recognized in financial expenses	(10,921)	N.A.
Current percentage of hedged consumption during year	60%	73%

The Company accounts for its futures derivative instruments of foreign currencies as cash flow hedges. At December 31, 2005, unrealized gains recorded in shareholders' equity amounted to R\$ 825, net of taxes.

## **GOL TRANSPORTES AÉREOS S.A.**

### **NOTES TO THE FINANCIAL STATEMENTS – Continued**

December 31, 2005 and 2004

(In thousands of reais)

#### **16. Financial Derivative Instruments – Continued**

##### **c) Credit risk of financial derivative instruments**

The financial derivative instruments used by the Company are conducted with prime credit entities, consisting of AA+ or better rated international banks, according to Moody's and Fitch agencies or international futures exchange or the Brazilian Mercantile and Futures Exchange (BM&F). The Company believes that the risk of not receiving the amounts owed by its counterparts in derivatives operations is not material.

##### **d) Interest rate risk**

The Company's results are affected by changes in international interest rates in US dollar due to the impact of such changes in interest expenses of operating lease agreements. At December 31, 2005, there were no open hedge contracts for the international interest rate risk. During 2005, international interest rates hedge operations were not carried out.

The Company's results are affected by changes in the interest rates in Brazil, both those applicable to deposits and liabilities in Brazilian real and those applicable to US dollar indexed securities, due to the impact of such changes on the market value of financial derivative instruments conducted in Brazil, on the market value of preset securities in Brazilian real and on the remuneration of the cash balance and short-term financial investments. The Company uses Interbank Deposit futures of the Brazilian Mercantile and Futures Exchange (BM&F) solely to hedge itself from domestic interest rate impacts on the preset portion of its investments. At December 31, 2005, the nominal value of Interbank Deposit futures contracts with the Brazilian Mercantile and Futures Exchange (BM&F) totaled R\$ 238,381 with periods of up to 18 months, at a fair market value of R\$(38), consisting of the last owed or receivable adjustment, already received but not yet settled. The total changes in market value, payments and receivables related to the DI futures are recognized as increase or decrease in financial incomes in the same period they occur.

#### **17. Insurance Coverage**

Management holds an insurance coverage in amounts that it deems necessary to cover possible disasters due to the nature of its assets and the risks inherent to its activity, observing the limits established in lease agreements. At December 31, 2005 the insurance coverage, by nature, considering GOL's aircraft fleet and in relation to the maximum indemnifiable amounts, is the following:

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### 17. Insurance Coverage – Continued

Aeronautic Type	R\$	US\$
Warranty – Hull	2,715,992	1,160,333
Civil Liability per occurrence/aircraft	1,404,420	600,000
Warranty – Hull/War	2,715,992	1,160,333
Inventories	327,356	139,854

By means of Law 10605, of December 18, 2002, the Brazilian government committed to supplementing any civil liability expenses against third parties caused by acts of war or terrorist attacks, occurred in Brazil or abroad, which may be claimed to GOL, for the amounts that exceed the insurance policy limit effective on September 10, 2001, limited to the equivalent in reais to one billion US dollars.

# GOL TRANSPORTES AÉREOS S.A.

## NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

### APPENDIX I – CASH FLOW STATEMENTS

	2005	2004
Income for the year	369,666	322,438
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	36,206	22,913
Allowance for doubtful accounts	1,343	(213)
Deferred income taxes	2,957	(2,269)
Tax incentives	-	-
Changes in operating assets and liabilities:		
Receivables	(178,931)	(145,581)
Inventories	(19,645)	(5,802)
Prepaid expenses, taxes recoverable and other receivables	(21,239)	(48,358)
Suppliers	28,250	(2,931)
Maintenance deposits	-	-
Leases payable	(1,973)	(2,202)
Airtraffic liability	57,909	36,498
Taxes payable	(709)	29,359
Insurance payable	1,311	24,060
Payroll and related charges	16,087	16,082
Provision for contingencies	11,034	1,781
Dividends payable	273,267	-
Other liabilities	30,194	51,973
<b>Net cash generated (used) in operating activities</b>	<b>605,883</b>	<b>297,748</b>
Short-term financial investments	(85,962)	(150,779)
Investments	(569)	(630)
Deposits for leasing contracts	3,941	(5,298)
Property, plant and equipment acquisition	(171,558)	(42,851)
<b>Net cash used in investment activities</b>	<b>(253,401)</b>	<b>(199,558)</b>
<b>Financing activities:</b>		
Borrowings	(64,333)	79,443
Special goodwill reserve	-	29,187
Capital increase	390,789	-
Dividends payable	(351,183)	(76,239)
Unrealized hedge result, net of taxes	6,411	-
Related party liabilities	-	390,519
Capital increase	(390,789)	-
Use of reinvestment reserve	(226,847)	-
<b>Net cash generated in financing activities</b>	<b>(635,952)</b>	<b>422,910</b>
Net cash addition	(283,470)	521,100
Cash and cash equivalents at the beginning of the year	374,809	146,291
Cash and cash equivalents at the end of the year	<b>91,339</b>	<b>374,809</b>
<b>Transactions not affecting cash</b>		
Special goodwill reserve	29,187	29,187
Additional information		
Interest paid	12,776	12,223
Income and social contribution taxes paid for the year	160,782	162,663

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### APPENDIX II – VALUE ADDED STATEMENTS

	<u>2005</u>	<u>2004</u>
REVENUES		
Passenger, cargo and other transportation	2,778,084	2,054,649
Allowance for doubtful accounts	(1,343)	(213)
INPUTS ACQUIRED FROM THIRD PARTIES (includes ICMS and IPI)		
Fuel and lubricant suppliers	(808,268)	(407,003)
Material, energy, third-party services and other	(234,273)	(240,419)
Aircraft insurance	(29,662)	(25,575)
Sales and marketing	(335,722)	(261,543)
<b>GROSS VALUE ADDED</b>	<b>1,368,816</b>	<b>1,119,896</b>
RETENTIONS		
Depreciation and amortization	(36,206)	(22,913)
<b>NET VALUE ADDED GENERATED BY THE COMPANY</b>	<b>1,332,610</b>	<b>1,096,983</b>
VALUE ADDED RECEIVED IN TRANSFER		
Interest income	137,099	56,437
<b>TOTAL VALUE ADDED TO BE DISTRIBUTED</b>	<b>1,469,709</b>	<b>1,153,420</b>
VALUE ADDED DISTRIBUTION		
Employees	(252,057)	(172,979)
Government	(395,146)	(314,597)
Financing companies	(85,879)	(44,700)
Lessors	(366,961)	(298,706)
Shareholders	(351,183)	(76,239)
Reinvested	(18,483)	(246,199)
<b>TOTAL DISTRIBUTED VALUE ADDED</b>	<b>1,469,709</b>	<b>1,153,420</b>

# GOL TRANSPORTES AÉREOS S.A.

## NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

### APPENDIX III – ENVIRONMENTAL AND SOCIAL STATEMENT

	2005		2004	
1) Tax base				
Net revenues (NR)	2,669,090		1,960,886	
Operating income (OI)	563,414		485,879	
Gross payroll (GP)	100,895		90,367	
	2005		2004	
	Value	% on	Value	% on
2) Internal Social Indicators	(R\$ 000)	GP	(R\$ 000)	GP
		% on		% on
		NR		NR
Food	10,324	10.23	6,807	7.53
Mandatory social charges	53,879	53.40	32,554	36.02
Professional training and coaching	8,650	8.57	6,473	7.16
Private pension	3,609	3.58	-	-
Employees transportation	2,106	2.09	3,666	4.06
Safety and occupational medicine	40	0.04	211	0.23
Profit sharing	30,535	30.26	27,181	30.08
Total internal social Indicators	109,143	108.17	76,892	85.08
	2005		2004	
	Value	% on	Value	% on
3) External Social Indicators	(R\$ mil)	GP	(R\$ mil)	GP
		% on		% on
		NR		NR
Education	163	0.16	-	-
Culture	5,628	5.58	1,730	1.91
Sports and leisure	425	0.42	-	-
Health and sanitation	680	0.67	500	0.55
Taxes (social charges excluded)	277,969	275.50	271,378	300.30
Total internal social indicators	284,865	282.33	273,608	302.76
	2005		2004	
4) Staff Indicators				
Number of employees at the end of the year			5,456	3,303
Number of employees			5,444	3,293
Number of outsourced professionals			1,926	1,421
Number of officers			12	10
Gross remuneration segregated by :				
Employees			97,616	75,978
Officers			3,279	2,162
Outsourced professionals			51,128	34,377

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

### APPENDIX III – ENVIRONMENTAL AND SOCIAL STATEMENT – Continued

#### 4) Staff Indicators – Continued

	2005	2004
Relation between the highest and the lowest remuneration at the entity, considering employees and officers (salary)	107	117
Number of outsourced service providers	26	14
Number of professionals hired in the year	2,496	850
Number of lay-offs in the year	343	298
Number of interns	172	180
Number of special needs people	230	-
Total employees by age:		
Less than 18 years of age	9	4
From 18 to 35 years of age	4,138	2,444
From 36 to 60 years of age	1,305	853
Above 60 years of age	4	2
Total employees according to their level of education:		
Illiterate	-	*
Elementary and Junior-High	66	*
High-School	3,387	*
Vocational School	-	*
Undergraduates	1,966	*
Graduates	37	*
Number of women working in the Company	2,170	1,420
Percentage of women in leadership positions	40%	42%
Number of black people working in the Company	168	37
Labor claims broken down by:		
Number of claims filed against the Company	138	90
Number of proven cases	128	85
Number of unproven cases	10	5
Total severance pay and fines following court decisions	296	192
Clients' relationship data:		
Number of claims filed directly with the entity	196	-
Number of claims filed through consumer and protection defense agency	251	142
Number of claims filed through court	1,235	582
Number of claims answered at each court level	327	327
Amount of fines and indemnity to clients, certain consumer protection and defense agency or by court	-	-
Claims filed by the Company to settle or mitigate the causes of the claims	30	15

**GOL TRANSPORTES AÉREOS S.A.**

NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

**APPENDIX III – ENVIRONMENTAL AND SOCIAL STATEMENT – Continued**

4) Staff Indicators – Continued

	<u>2005</u>	<u>2004</u>
Environment		
Investments and expenses for the maintenance of operating processes to improve the environment	146	-
Investments and expenses on the preservation and/or recovery of damaged environments	50	-
Amount of environmental , administrative and legal claims filed against the Company	-	-
Value of fines and indemnities concerning environmental material, determined at administrative and/or legal level	-	-
Environment liabilities and contingencies	-	-

\* Information not available for year 2004.

5) Significant Indicators regarding the Corporate Citizenship Practice in 2005 and 2004

Total number of labor accidents	23 in 2005	24 in 2004	
The social and environmental projects developed by the Company were defined by its:	<input type="checkbox"/> officers	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees
The work environment health and safety standards were defined by its :	<input type="checkbox"/> officers	<input checked="" type="checkbox"/> officers and managers	<input type="checkbox"/> all employees

## GOL TRANSPORTES AÉREOS S.A.

### NOTES TO THE FINANCIAL STATEMENTS – Continued

December 31, 2005 and 2004

(In thousands of reais)

#### APPENDIX III – ENVIRONMENTAL AND SOCIAL STATEMENT – Continued

##### 5) Significant Indicators regarding the Corporate Citizenship Practice in 2005 and 2004 – Continued

The profit sharing comprises:	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	officers	officers and managers	all employees
When choosing suppliers, the same ethical, environmental and social responsibility standards adopted by the Company	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	are not considered	are suggested	are required
Regarding employees' participation in volunteering programs, the Company:	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	does not involve itself	supports and encourages	organizes
Customers' interaction indicators:	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	does not involve itself	supports and encourages	organizes
Environment indicators:	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	does not involve itself	supports and encourages	organizes

**[THIS PAGE IS INTENTIONALLY LEFT BLANK]**

**PRINCIPAL EXECUTIVE OFFICES OF**

**GOL LINHAS AÉREAS INTELIGENTES S.A.**

Rua Tamoios 246, Jardim Aeroporto  
04630-000 São Paulo – SP  
Brazil

**TRUSTEE, TRANSFER AGENT, REGISTRAR AND PRINCIPAL PAYING AGENT**

**The Bank of New York (Luxembourg) S.A**

125 Aerogolf Centre  
1A Hoehenhof  
L-1736 Senningerberg  
Luxembourg

**LUXEMBOURG LISTING AGENT**

**The Bank of New York**

One Canada Square  
Canary Wharf  
London E14 5LA  
United Kingdom

**LEGAL ADVISORS**

To Gol Linhas Aéreas Inteligentes S.A.,  
Gol Transportes Aéreos S.A. and Gol Finance as to  
United States Law

**Shearman & Sterling LLP**

Av. Brigadeiro Faria Lima 3400 - 17º andar  
04538-132 São Paulo – SP  
Brazil

To Gol Linhas Aéreas Inteligentes S.A.,  
Gol Transportes Aéreos S.A. and Gol Finance as to  
Brazilian Law

**Mattos Filho, Veiga Filho, Marrey Jr. E Quiroga  
Advogados**

Al. Joaquim Eugênio de Lima, 447  
01403-001 São Paulo – SP  
Brazil

To the Initial Purchasers  
as to United States Law  
**Davis Polk & Warwell**  
450 Lexington Avenue  
New York, New York 10017  
USA

To the Initial Purchasers  
as to Brazilian Law  
**Souza, Cescon Avedissian, Barriou e  
Flesch Advogados**  
Rua Funchal, 263, 11º andar  
04551-060 São Paulo – SP  
Brazil

To Gol Linhas Aéreas Inteligentes S.A.,  
Gol Transportes Aéreos S.A. and Gol Finance as to Cayman Island Law

**Maples & Calder**

Ugland House, P.O. Box 309GT  
South Church Street  
George Town, Grand Cayman  
Cayman Islands

**INDEPENDENT PUBLIC ACCOUNTANTS**

To Gol Linhas Aéreas Inteligentes S.A.

Ernst & Young Auditors Independentes S.S.

Av. Juscelino Kubitscheck. 1830 – Torre 1 - 6º andar – 3ª  
04543-900 São Paulo – SP  
Brazil