

Gol Intelligent Airlines Inc.  
Form 20-F  
April 01, 2010

As filed with the Securities and Exchange Commission on March 31, 2010

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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

X ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE  
FISCAL YEAR ENDED DECEMBER 31, 2009

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)

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**The Federative Republic of Brazil**

(Jurisdiction of incorporation or organization)

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**04626-020 São Paulo, São Paulo  
Federative Republic of Brazil  
(+55 11 2128-4000)**

**(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)**

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

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

\* 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.

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**Securities registered or to be registered pursuant to Section 12(g) of the Act:**  
**None**

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**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**  
**7.50% Senior Notes Due 2017**

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The number of outstanding shares of each class of stock of Gol Linhas Aéreas Inteligentes S.A. as of December 31, 2009:

<b>133,199,658</b>	<b>Shares of Common Stock</b>
<b>132,079,880</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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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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 basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards  
as issued by the

Other

International Accounting Standards Board

If  Other has been checked in response to the previous question, 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

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## Table of Contents

<u>Presentation of Financial and Other Data</u>	1	<u>ITEM 9. The Offer and Listing</u>	74
<u>Cautionary Statements about Forward-Looking Statements</u>	2	<u>A. Offer and Listing Details</u>	74
<u>ITEM 1. Identity of Directors, Senior Management and Advisors</u>	3	<u>B. Plan of Distribution</u>	76
<u>ITEM 2. Offer Statistics and Expected Timetable</u>	3	<u>C. Markets</u>	76
<u>ITEM 3. Key Information</u>	3	<u>D. Selling Shareholders</u>	81
<u>A. Selected Financial Data</u>	3	<u>E. Dilution</u>	81
<u>B. Capitalization and Indebtedness</u>	7	<u>F. Expenses of the Issue</u>	81
<u>C. Reasons for the Offer and Use of Proceeds</u>	7	<u>ITEM 10. Additional Information</u>	81
<u>D. Risk Factors</u>	7	<u>A. Share Capital</u>	81
<u>ITEM 4. Information On The Company</u>	16	<u>B. Memorandum and Articles of Association</u>	82
<u>A. History and Development of the Company</u>	16	<u>C. Material Contracts</u>	90
<u>B. Business Overview</u>	16	<u>D. Exchange Controls</u>	90
<u>C. Organizational Structure</u>	36	<u>E. Taxation</u>	90
<u>D. Property, Plant and Equipment</u>	36	<u>F. Dividends and Paying Agents</u>	98
<u>ITEM 4A. Unresolved Staff Comments</u>	36	<u>G. Statement by Experts</u>	98
<u>ITEM 5. Operating and Financial Review and Prospects</u>	37	<u>H. Documents on Display</u>	98
<u>A. Operating Results</u>	37	<u>I. Subsidiary Information</u>	99
<u>B. Liquidity and Capital Resources</u>	51	<u>ITEM 11. Quantitative and Qualitative Disclosures about Market Risk</u>	99
<u>C. Research and Development, Patents and Licenses, etc.</u>	59	<u>ITEM 12. Description of Securities Other than Equity Securities</u>	100
<u>D. Trend Information</u>	59	<u>D. American Depositary Shares</u>	100
<u>E. Off-Balance Sheet Arrangements</u>	59	<u>ITEM 13. Defaults, Dividend Arrearages and Delinquencies</u>	102
<u>F. Tabular Disclosure of Contractual Obligations</u>	60	<u>ITEM 14. Material Modifications To The Rights Of Security Holders And Use Of Proceeds</u>	102
<u>ITEM 6. Directors, Senior Management and Employees</u>	60	<u>ITEM 15. Controls And Procedures</u>	102
<u>A. Directors and Senior Management</u>	60	<u>ITEM 16. [reserved]</u>	103
<u>B. Compensation</u>	64	<u>ITEM 16A. Audit Committee Financial Expert</u>	103
<u>C. Board Practices</u>	65	<u>ITEM 16B. Code of Ethics</u>	103
<u>D. Employees</u>	67	<u>ITEM 16C. Principal Accountant Fees and Services</u>	104
<u>E. Share Ownership</u>	67	<u>ITEM 16D. Exemptions from the Listing Standards for Audit Committees</u>	104
<u>ITEM 7. Major Shareholders and Related Party Transactions</u>	68	<u>ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	105
<u>A. Major Shareholders</u>	68	<u>ITEM 16F. Change in Registrant's Certifying Accountant</u>	105
<u>B. Related Party Transactions</u>	68	<u>ITEM 16G. Corporate Governance</u>	106
<u>C. Interests of Experts and Counsel</u>	69	<u>ITEM 17. Financial Statements</u>	108
<u>ITEM 8. Financial Information</u>	69	<u>ITEM 18. Financial Statements</u>	108
<u>A. Consolidated Statements and Other Financial Information</u>	69	<u>ITEM 19. Exhibits</u>	109

B. Significant Changes

74 Signature

112

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## PRESENTATION OF FINANCIAL AND OTHER DATA

The consolidated financial statements included in this annual report have been prepared in accordance with International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB), in *reais*.

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, 2009 was R\$1.7412 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect on December 31, 2009, as reported by the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the 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 the above rate. See *Exchange Rates* for more detailed information regarding the Brazilian foreign exchange system and historical data on the exchange rate of the *real* against the into U.S. dollars.

In this annual report, we use the terms *the Registrant* to refer to Gol Linhas Aéreas Inteligentes S.A., and *Gol*, *Company*, *we*, *us* and *our* to refer to the Registrant and its consolidated subsidiaries together, except where the context requires otherwise. The term *VRG* refers to VRG Linhas Aéreas S.A., a wholly owned subsidiary of the Registrant. References to *preferred shares* and *ADSs* refer to non-voting preferred shares of the Registrant and American depositary 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. 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. *IFRS* refers to the international financial reporting standards issued by the International Accounting Standards Board, or IASB. *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 by Law No. 11,638 of December 28, 2007, or the Brazilian corporation law and the rules of the CVM.

We make statements in this annual report about our competitive position and market share in, and the market size of, the Brazilian and international 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 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 rounded. Accordingly, figures shown as totals in certain tables may not be an arithmetic sum of the figures that precede them.

This annual report contains terms relating to operating performance in 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.

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- 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.

#### **CAUTIONARY STATEMENTS 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;
- the effects of the global financial markets and economic crisis;
- management's expectations and estimates concerning our future financial performance and financing plans and programs;
- our level of fixed obligations;
- our capital expenditure plans;
- our ability to obtain financing on acceptable terms;
- 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 strategy;
- developments in the Brazilian civil aviation infrastructure, including air traffic control, airspace and airport infrastructure, and
- the risk factors discussed under Risk Factors.

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect and similar words 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, and 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 ADVISORS

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

We changed our financial reporting from U.S. GAAP to IFRS, beginning with the financial statements as of and for the year ended December 31, 2008. Therefore, we present in this section the following summary financial data:

- Summary financial and operating data derived from our audited financial statements included herein and prepared in accordance with IFRS as of and for the years ended December 31, 2009, 2008 and 2007; and
- Summary financial data derived from our audited financial statements not included herein and prepared in accordance with U.S. GAAP as of and for the years ended December 31, 2006 and 2005.

The summary financial data prepared in accordance with IFRS and U.S. GAAP is not comparable.

The following tables present summary historical consolidated financial and operating data for us for each of the periods indicated. Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2009 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2009 as reported by the Central Bank of R\$1.7412 to US\$1.00.

*IFRS Summary Financial and Operating Data*

	<b>Year Ended December 31,</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>
	<b>(in thousands)</b>			
<b>Income Statement Data:</b>				
Net operating revenues:				
Passenger	R\$4,566,691	R\$5,890,104	R\$5,306,530	US\$3,047,628
Cargo and other	374,293	516,089	718,852	412,849
Total net operating revenues	4,940,984	6,406,193	6,025,382	3,460,477
Operating expenses:				
Salaries	(799,344)	(983,783)	(1,100,953)	(632,296)
Aircraft fuel	(1,898,840)	(2,630,834)	(1,813,104)	(1,041,296)
Aircraft rent	(525,785)	(645,089)	(650,683)	(373,698)
Sales and marketing	(367,866)	(588,735)	(364,551)	(209,368)
Landing fees	(273,655)	(338,370)	(312,637)	(179,553)
Aircraft and traffic servicing	(348,732)	(422,177)	(381,721)	(219,229)
Maintenance, materials and repairs	(339,281)	(388,030)	(417,212)	(239,612)
Depreciation and amortization	(62,548)	(125,127)	(142,853)	(82,043)
Other operating expenses	(315,068)	(372,696)	(428,376)	(246,023)
Total operating expenses	(4,931,119)	(6,494,841)	(5,612,090)	(3,223,116)
Operating profit (loss)	9,865	(88,648)	413,292	237,360
Other income (expense):				
Interest expense	(182,618)	(269,278)	(288,112)	(165,467)
Financial income (expense), net	373,636	(837,116)	630,956	362,368
Profit (loss) before income taxes	200,883	(1,195,042)	756,136	434,261
Income taxes	(33,595)	(44,305)	134,696	77,358
Profit (loss) for the year	167,288	(1,239,347)	890,832	511,620
Earnings (loss) per share, basic (1):	0.84	(6.16)	3.92	2.25
Earnings (loss) per share, diluted (1):	0.84	(6.16)	3.91	2.25
Weighted average shares used in computing earnings per share basic (in thousands)(1)	198,609	201,193	227,472	227,472
Weighted average shares used in computing earnings per share, diluted (in thousands)(1)	198,657	201,193	227,583	227,583
Earnings per ADS, basic (1)	0.84	(6.16)	3.92	2.25
Earnings per ADS, diluted (1)	0.84	(6.16)	3.91	2.25
Dividends paid per share (net of withheld income tax) (1)	1.25	0.18	0.70	0.40
Dividends paid per ADS (net of withheld income tax) (1)	1.25	0.18	0.70	0.40

	<b>As of December 31,</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>
	<b>(in thousands)</b>			
<b>Balance Sheet Data:</b>				
Cash and cash equivalents	R\$573,121	R\$169,330	R\$1,382,408	US\$793,940
Financial assets	820,343	245,585	40,444	23,228
Accounts receivable(2)	903,061	344,927	519,308	298,247
Deposits with lessors	641,164	731,374	855,569	491,367
Total assets	7,486,412	7,131,865	8,720,120	5,008,109
Short-term borrowings	891,543	967,452	591,695	339,820
Shareholders equity	2,392,448	1,071,608	2,609,986	1,498,958
	<b>Year Ended December 31,</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2009</b>
	<b>(in thousands except percentages)</b>			
<b>Other Financial Data:</b>				
Operating margin(3)	0.02%	(1.4)%	6.9%	6.9%
Net cash (used in) provided by operating activities	R\$(141,488)	R\$151,700	R\$457,259	US\$262,611
Net cash (used in) investing activities	(190,339)	40,650	5,422	3,114
Net cash provided by (used in) financing activities	617,484	(611,301)	769,238	441,786

**Year Ended December 31,**

	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>Operating Data:</b>			
Revenue passengers (in thousands)	23,689	25,664	28,410
Revenue passenger kilometers (in millions)	22,670	25,308	26,092
Available seat kilometers (in millions)	34,349	41,107	39,988
Load-factor	66.0%	61.6%	65.2%
Break-even load-factor	65.9%	62.5%	60.8%
Aircraft utilization (block hours per day)	13.8	12.1	11.6
Average fare	198	262	191
Yield per passenger kilometer (cents)	20.1	23.3	20.3
Passenger revenue per available seat kilometer (cents)	13.3	14.3	13.3
Operating revenue per available seat kilometer (cents)	14.4	15.6	15.1
Operating expense per available seat kilometer (cents)	14.4	15.8	14.0
Operating expense less fuel expense per available seat kilometer	8.9	9.4	9.5

(cents)			
Departures	237,287	268,540	273,602
Departures per day	650	736	750
Destinations served	66	59	59
Average stage length (kilometers)	960	933	890
Average number of operating aircraft during period	88.6	106.4	108.7
Full-time equivalent employees at period end	15,722	15,911	17,963
Fuel liters consumed (in thousands)	1,177,300	1,364,719	1,291,412
Percentage of sales through website during period (4)	90.0%	92.4%	92.4%
Percentage of sales through website and call center during period	98.9%	99.2%	98.7%

- (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) Trade and other receivables related to receivables from credit card administrators, travel agencies, installment sales from the Voe Fácil program, cargo agencies and others. These receivables are stated at cost less allowances for doubtful receivables, which approximates their fair value given their short term nature.
- (3) Operating margin represents operating income divided by net operating revenues.
- (4) Considering sales through our website and API (*application programming interface*) systems.



*U.S. GAAP Summary Financial Data\****Year Ended December 31,****2005**                      **2006****(in thousands)****Income Statement  
Data:****Net operating  
revenues:**

Passenger	R\$2,539,016	R\$3,580,919
Cargo and other	130,074	221,098

Total net operating revenues	2,669,090	3,802,017
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**Operating  
expenses:**

Salaries, wages and benefits	260,183	413,977
Aircraft fuel	808,268	1,227,001
Aircraft rent	240,876	292,548

Sales and marketing	335,722	414,597
Landing fees	92,404	157,695

Aircraft and traffic servicing	91,599	199,430
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Maintenance, materials and repairs	55,373	146,505
Depreciation	35,014	69,313

Other operating expenses	128,300	179,494
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Total operating expenses	2,047,739	3,100,560
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<b>Operating income (loss)</b>	621,351	701,457
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**Other income  
(expense):**

Interest expense	(19,383)	(66,378)
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Financial income (expense), net	115,554	163,883
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**Income (expense)  
benefits before**



<b>income taxes</b>	717,522	798,962
Income taxes	(204,292)	(229,825)
<b>Net income</b>	R\$513,230	R\$569,137
<b>Earnings per share, basic(1)</b>	R\$2.66	R\$2.90
<b>Earnings per share, diluted(1)</b>	R\$2.65	R\$2.90
Weighted average shares used in computing earnings per share, basic (in thousands)(1)	192,828	196,103
Weighted average shares used in computing earnings per share, diluted (in thousands)(1)	193,604	196,210
Earnings per ADS, basic(1)	R\$2.66	R\$2.90
Earnings per ADS, diluted(1)	R\$2.65	R\$2.90
Dividends paid per share	R\$0.60	R\$0.92
Dividends paid per ADS(1)	R\$0.60	R\$0.92

**As of December 31,**

<b>2005</b>	<b>2006</b>
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**(in thousands)****Balance Sheet****Data:**

Cash and cash equivalents	R\$106,347	R\$280,977
Short-term investments	762,688	1,425,369
Accounts receivable(2)	563,958	659,306
Deposits with lessors	408,776	537,835
Total assets	2,555,843	4,258,454
Short-term borrowings	54,016	128,304
Long-term debt		949,006
Shareholders equity	1,822,331	2,205,158

- \* For a reconciliation of profit (loss) and shareholders' equity of our audited financial statements in U.S. GAAP to our audited financial statements in IFRS at January 1, 2007 and December 31, 2007 and for the year then ended, see note 23 under the caption "Reconciliation between US GAAP and IFRS as of and for the year ended December 31, 2007" to our financial statements included in our annual report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- (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) Trade and other receivables related to receivables from credit card administrators, travel agencies, installment sales from the Voe Fácil program, cargo agencies and others. These receivables are stated at cost less allowances for doubtful receivables, which approximates their fair value given their short term nature

**Exchange Rates**

The Brazilian foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of the amount, subject to certain regulatory procedures. The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R\$3.53 per US\$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macro-economic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R\$1.56 per US\$1.00 in August 2008. With the crisis in the global financial markets beginning in mid-2008, the *real* depreciated 31.9% against the U.S. dollar over the year 2008, reaching R\$2.34 per US\$1.00 on December 31, 2008. On December 31, 2009 the exchange rate was R\$1.74 per US\$1.00 and on March 26, 2010, the exchange rate was R\$1.82 per US\$1.00. The Central Bank has intervened occasionally to control instability in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may substantially depreciate or appreciate against the U.S. dollar.

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

	<b>Period-End</b>	<b>Average for Period <sup>(1)</sup></b>	<b>Low</b>	<b>High</b>
	<b>(reais per U.S. dollar)</b>			
<b>Year</b>				
2005	2.341	2.435	2.163	2.762
2006	2.138	2.177	2.059	2.371
2007	1.771	1.948	1.733	2.156
2008	2.337	1.836	1.559	2.500
2009	1.741	1.994	1.702	2.422
2010 (through March 26, 2010)	1.823	1.801	1.723	1.877

	<b>Month-End</b>	<b>Average for Month<sup>(2)</sup></b>	<b>Low</b>	<b>High</b>
	<b>(reais per U.S. dollar)</b>			
<b>Month</b>				
September 2009	1.778	1.820	1.778	1.904
October 2009	1.744	1.738	1.704	1.784
November 2009	1.751	1.726	1.702	1.759
December 2009	1.741	1.750	1.710	1.788
January 2010	1.875	1.780	1.723	1.875
February 2010	1.811	1.842	1.805	1.878
March 2010 (through March 26, 2010)	1.823	1.785	1.764	1.823

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 rates and exchange controls and restrictions on remittances abroad, such as those that were briefly imposed in 1989 and early 1990;
- presidential elections will be held in Brazil in October 2010 and speculation about the new government's economic, monetary and tax policies may create market instability and volatility; and
- other political, social and economic developments in or affecting Brazil.

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

The Brazilian currency has during the last decades experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. Between 2000 and 2002, the *real* depreciated significantly against the U.S. dollar, reaching an exchange rate of R\$3.53 per US\$1.00 at the end of 2002. Between 2003 and mid-2008, the *real* appreciated significantly against the U.S. dollar due to the stabilization of the macro-economic environment and a strong increase in foreign investment in Brazil, with the exchange rate reaching R\$1.56 per US\$1.00 in August 2008. In the context of the crisis in the global financial markets after mid-2008, the *real* depreciated against the U.S. dollar over the year 2008 and reached R\$2.337 per US\$1.00 at year end 2008. During 2009 the *real* appreciated against the U.S. dollar 25.26% in the context of the economic recovery and reached 1.7412 per US\$1.00 at year end 2009. On March 26, 2010, the exchange rate was R\$1.8231 per US\$1.00.

Depreciation of the *real* against the U.S. dollar could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole and harm our financial condition and results of operations, may curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation of the *real* against the U.S. dollar can also, as in the context of the current economic slowdown, lead to decreased consumer spending, deflationary pressures and

reduced growth of the economy as a whole. On the other hand, appreciation of the *real* relative to the U.S. dollar and other foreign currencies could lead to a deterioration of the Brazilian foreign exchange current accounts, as well as dampen export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect the growth of the Brazilian economy and our business, financial condition and results of operations.

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 deposits under the terms of some of our aircraft operating leases. For the year ended December 31, 2009, 52.3% of our operating expenses were either denominated in or linked to the U.S. dollar. In addition, the purchase price of the 90 Boeing 737 Next Generation aircraft for which we had placed firm purchase orders as of December 31, 2009 and the 40 Boeing 737 Next Generation aircraft for which we currently have purchase options are denominated in U.S. dollars. At the end of 2009, 81.3% of our indebtedness was denominated in U.S. dollars. While in the past we have generally adjusted our fares in response to, and to alleviate the effect of, depreciation of the *real* and increases in the price of jet fuel (which is priced in U.S. dollars) 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 developments, 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 R\$2,498.6 million and R\$2,530.0 million other U.S. dollar-denominated indebtedness at December 31, 2009. We may incur substantial additional amounts of U.S. dollar-denominated operating lease or financial obligations and U.S. dollar-denominated indebtedness and be subject to fuel cost increases linked to the U.S. dollar. At December 31, 2009, we had a short-term hedging program in place to cover part of our U.S. dollar-denominated expenses and our floating interest rate exposure.

Depreciation of the *real* also reduces 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.

***Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm our business.***

Brazil has in the past experienced extremely high rates of inflation and has therefore followed monetary policies that have resulted in one of the highest real interest rates in the world. Between 2004 and 2009, the base interest rate (SELIC) in Brazil varied between 19.25% p.a. and 8.75% p.a. Inflation and the Brazilian government's measures to fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our business. In addition, we may not be able to adjust the fares we charge our customers to offset the effects of inflation on our cost structure.

***Developments and the perception of risk in other countries, including the United States and 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 issuers is affected by economic and market conditions in other countries, including the United States, the European Union and emerging market countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investor's reactions to developments in other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in the United States, the European Union or 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.

The global financial crisis which began during the second half of 2008 has had significant consequences, including in Brazil, such as stock and credit market volatility, unavailability of credit, higher interest rates, a general economic slowdown, volatile exchange rates and inflationary pressure, among others, which may, directly or indirectly, adversely affect us and the market price of Brazilian securities, including the ADSs and our preferred shares. Although the scenario has improved significantly since the second half of 2009, it is still not clear that the global economy has efficiently recovered.



## **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.***

Brazilian aviation supervisory authorities monitor and influence the developments in Brazil's airline market. For example, the predecessor of the National Civil Aviation Agency (*Agência Nacional de Aviação Civil*), or ANAC, the DAC (*Departamento de Aviação Civil*), had addressed overcapacity by establishing strict criteria that must be met before new routes or additional flight frequencies were awarded. Conversely, the ANAC (the successor of the DAC) has more recently pursued policies to loosen the market structures and increase competition. The policies of the ANAC and other aviation supervisory authorities may negatively affect our operations. For example, in 2008, ANAC enacted a regulation providing that the minimal ground time for aircraft between landing and take-off must be 40 minutes at the International Airport of São Paulo in Guarulhos, the international airport of Rio de Janeiro Galeão and at the Brasília airports, and 30 minutes at all other Brazilian airports. In addition, in December 2009, ANAC imposed a reduction in the number of landings per hour in Guarulhos International Airport (GRU) from 49 to 45 in order to avoid congestion in the airport during peak hours. These regulations negatively affected our ability to increase aircraft utilization by minimizing turnaround times between flights.

Several legislative initiatives have been taken by the National Congress, including the preparation of a draft bill that would replace 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, limitation of airlines' civil liability, compulsory insurance and fines. This draft bill is still under discussion in the House of Representatives and, if approved, must be submitted for approval to the Federal Senate, before being sent to the government for presidential approval. If the Brazilian civil aviation framework changes in the future, or ANAC implements increased restrictions, our growth plans and our business and results of operations could be adversely affected.

Since 2009, the Brazilian government has been analyzing the privatization of airports or granting of rights for private concessionaries to operate currently existing airports or expansions of those airports. Although such measures may serve as a potential positive catalyst to accelerate investments in airport infrastructure, we are unable to foresee the effects of any such measures on our business and results of operations.

***The airline industry is particularly sensitive to changes in economic conditions and continued negative economic conditions would likely continue to negatively impact our results of operations and our ability to obtain financing on acceptable terms.***

Our operations and the airline industry in general are particularly sensitive to changes in economic conditions. Unfavorable general economic conditions, such as higher unemployment rates, a constrained credit market and increased business operating costs, can reduce spending for both leisure and business travel. Unfavorable economic conditions can also impact our ability to raise fares to counteract increased fuel, labor, and other costs. Any of these factors may negatively impact our results of operations.

Unfavorable economic conditions, a significant decline in demand for air travel, or continued instability of the credit and capital markets could also result in pressure on our borrowing costs, operating results and financial condition and would affect our growth and investment plans. These factors could also negatively impact our ability to obtain financing on acceptable terms and our liquidity generally.

***Technical and operational problems in the Brazilian civil aviation infrastructure, including air traffic control systems, airspace and airport infrastructure may have a material adverse effect on our business, our results of***

*operations and our strategy.*

We are dependent on improvements in the coordination and development of Brazilian airspace control and airport infrastructure, which, mainly due to the large growth in civil aviation in Brazil in recent years, require substantial improvements and government investments. This is further emphasized by the need for additional infrastructure investments in the context of the Soccer Confederations Cup (2013) and World Cup (2014) and the Summer Olympics (2016) in Brazil. If the measures taken and investments made by the Brazilian government and regulatory authorities do not prove sufficient or effective, air traffic control, airspace management and sector coordination-related difficulties might reoccur or worsen, which might have a material adverse effect on our business, our results of operations and our growth strategy.

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

We face intense competition on domestic routes in Brazil from existing scheduled airlines and charter airlines and new entrants in our market. 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. We may also face competition from international airlines as they introduce and expand flights between Brazil, other South American and Caribbean destinations.

Our existing competitors or new entrants into the markets in which we operate have in the past and may again undercut our fares, 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 any such event, we cannot assure you that our level of fares or passenger traffic would not be adversely affected and would not have an adverse impact on our business and results of operations.

In 2009 the National Civil Aviation Council (*Conselho de Aviação Civil*), or CONAC, announced that it would propose to the Brazilian Government a change to the regulatory limit of foreign ownership in Brazilian airline companies from 20% to 49%. This proposal may be accepted by the Brazilian Government and become a draft bill. We cannot foresee the effects of this regulation on the competitive environment on us and our industry.

As a result of the competitive environment there may be further consolidation in the Brazilian and global airline industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry and, to the extent that we act as a consolidator, we may not be able to implement our growth strategy or make use of synergies, our costs may increase and our operational efficiency may be reduced.

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

Our strategy involves capitalizing on our strong market position in Brazil and Latin America with the highest number of routes at the most important airports in Brazil, our consolidated flight network, our e-commerce platform and our *Smiles* mileage program, to increase our penetration of all traveler segments.

Slots at Congonhas Airport in São Paulo, the most important airport for our operations, are fully utilized. The Santos-Dumont airport in Rio de Janeiro, a highly utilized airport with half-hourly shuttle flights between São Paulo and Rio de Janeiro, has certain slot restrictions. Several other Brazilian airports, for example the Brasília International Airport and São Paulo International Airport in Guarulhos, have limited the number of slots per day due to infrastructural limitations at these airports. Any condition that would prevent or delay our access to airports or routes that are vital to our strategy, or our inability to maintain our existing slots, and obtain additional slots, could materially adversely affect our operations. In addition, we cannot assure that any investments will be made by the Brazilian government in the Brazilian aviation infrastructure to permit a capacity increase at busy airports and consequently additional concessions for new slots to airlines.

Our strategy involves developing new products and businesses in order to increase our ancillary revenues and therefore our total net revenues. Any condition that would prevent or delay our ability to develop such additional revenue sources may significantly impact our operating margins. In addition, a large portion of such ancillary revenues relies on developing partnerships to sell products through our e-commerce platform and on our flights. We do not have any experience in the operation of these businesses and if any of our partners fails to properly deliver products or services it offers, our brand, reputation and results of operations may be significantly adversely impacted and we may be exposed to contingencies with regard to those activities.



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

We have significant costs, relating primarily to leases for our aircraft and engines, of which leases for 115 aircraft have floating-rate rent payments based on LIBOR or U.S. interest rates. As of December 31, 2009, we had commitments of R\$10.9 billion to purchase additional Boeing 737-800 Next Generation aircraft, based on aircraft list prices, although the actual price payable by us for the aircraft will be lower due to supplier discounts. As of December 31, 2009, we had R\$2.2 billion in long-term indebtedness, excluding our perpetual bonds in the amount of R\$310.1 million. 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 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 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 to do so.***

We currently finance our aircraft principally through operating leases. As a result of our firm purchase orders to purchase 40 Boeing 737-800 Next Generation aircraft as of December 31, 2009, we expect to own a larger portion of our fleet as well as continue to lease aircraft through principally long-term operating leases. The firm purchase orders represent a significant financial commitment for us. We have in recent years financed and intend to continue financing our new Boeing 737-800 NG aircraft with a commitment we received from the U.S. Export-Import Bank providing guarantees covering 85% of the aggregate purchase price for the firm purchase order aircraft. While we expect that the guaranty from the U.S. Export-Import Bank will help 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, 2009, we had R\$1.4 billion of cash, cash equivalents, short-term investments in overnight deposits and deposit certificates of highly-rated Brazilian banks and marketable securities, mainly highly-rated Brazilian government bonds, including R\$18.8 million in restricted cash. 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 strategy and business and could have an adverse impact on our results of operations.

***Substantial fluctuations in fuel costs or the unavailability of fuel would harm our business.***

Historically, international and local fuel prices have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel costs, which at times in 2007 and 2008 were at historically high levels, constitute a significant portion of our total operating expenses, accounting for 32.2% of our operating expenses for the year ended December 31, 2009. 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. 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.

In addition, substantially all of our fuel is supplied by one source, Petrobrás Distribuidora S.A. If Petrobrás Distribuidora is unable or unwilling to continue to supply fuel to us at the times and in the quantities that we require, our business and results of operations would be adversely affected.

***We rely on one supplier for our aircraft and engines.***

One of the key elements of our current business strategy is to save costs by operating a standardized aircraft fleet. After extensive research and analysis, we chose the Boeing 737-700/800 Next Generation aircraft and CFM 56-7B engines from CFM International. 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 its 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 engines. 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 engines 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 ANAC in the event of any actual or perceived mechanical, design or other problems while the ANAC conducts an 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 engines 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 engines.

***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 airline industry. We are dedicated to providing professional, high-quality service in a positive work environment and finding innovative 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 these criteria, or we may have trouble maintaining this company culture as we become larger. 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 depends significantly upon the efforts of our executive officers, especially our chief executive officer, who has played an important role in shaping our company culture. If the services of our chief executive officer or our key executives become unavailable to us, 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. 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 and reduce our costs. 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 the next day, which can result in disruption in operating performance, leading to passenger dissatisfaction related to delayed or cancelled flights and missed connections, which may negatively affect our reputation, results of operation and the market price of our ADSs and preferred shares

***The airline industry is dynamic and volatile and our reputation, financial results and the market price of our ADSs and preferred shares could be harmed by events out of our control***

Accidents or incidents involving 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 ANAC 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 or the aircraft of any major airline could cause negative public perceptions about us or the air transport system, which would harm our business and results of operations as well as the market price of our ADSs and preferred shares.

We may also be affected by other events that affect travel behavior, such as the potential of epidemics or acts of terrorism. These events are out of our control and may affect us even if occurring in markets where we do not operate and/or in connection with other airlines. For example, in the second quarter of 2009, there was an outbreak of the H1N1 virus which had an adverse impact on global air travel and on our operations to and from Argentina. In addition, in the past there have been concerns about outbreaks or potential outbreaks of other diseases, such as avian flu and Severe Acute Respiratory Syndrome, or SARS, which had an adverse impact on global air travel. Any outbreak of a disease that affects travel behavior could have a material adverse impact on us and the trading price of shares of companies in the worldwide airline industry, including our ADRs and preferred shares. Outbreaks of disease could also result in quarantines of our personnel or an inability to access facilities or our aircraft, which could

adversely affect our operations. The trading price of shares of companies in the worldwide airline industry are relatively volatile and investors' perception of the market value of these shares, including our ADSs and preferred shares, may also be negatively impacted with additional volatility and decreases in the price of our ADSs and preferred shares.

***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, elect a majority of our directors and 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.

### **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 depository 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 52.5% of the aggregate market capitalization of the BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias & Futuros ( BM&FBOVESPA ) as of December 31, 2009. The top ten stocks in terms of trading volume accounted for 41.5%, 53.2% and 49.7% of all shares traded on the BM&FBOVESPA in 2007, 2008 and 2009, 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 corporate law. 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 depositary'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 Mellon, as depositary, 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 depositary 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 material assets consist of the shares of VRG, three offshore finance subsidiaries, cash and cash equivalents and short-term investments. The Registrant owns all of VRG's shares, except for shares held by members of VRG's boards of directors for eligibility purposes. Our principal executive offices are located at Praça Comandante Linneu Gomes, S/N, Portaria 3, Jardim Aeroporto, CEP: 04626-020, São Paulo, SP, Brazil, and our general telephone number is +55 11 2128-4000. The telephone number of our investor relations department is +55 11 2128-4700. Our website address is [www.voegol.com.br](http://www.voegol.com.br). Investor information can be found on our website [www.voegol.com.br/ir](http://www.voegol.com.br/ir). Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this annual report.

**Capital Expenditures**

For a description of our capital expenditures, see below Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources.

**B. Business Overview**

We are one of the largest low-cost low-fare airlines in the world in terms of passengers transported in 2009, and the largest low-cost low-fare airline in Latin America providing frequent service on routes connecting all of Brazil's major cities and from Brazil to major cities in South America and select touristic destinations in the Caribbean. With our young and standardized operating fleet of 108 Boeing 737 aircraft, we serve the largest number of destinations of any airline in the Brazilian air passenger transportation market.

Since the beginning of our operations in 2001, our affordable, reliable and simple service and our focus on markets that were either underserved or did not have a lower-fare alternative have led to a strong awareness of our brand and a rapid increase in our market share. We were the first company to successfully introduce low-cost carrier industry practices and technologies in Latin America. We have a diversified revenue base, with customers ranging from business passengers to leisure passengers traveling throughout Brazil and other South American and Caribbean destinations. Our strategy is to increase the size of the market by attracting new passengers as well as to diversify our revenue portfolio through our consolidated flight network, a modern aircraft fleet, targeted marketing and our loyalty

program *Smiles* (the largest loyalty program in Latin America with more than 6.6 million members), a variety of attractive ancillary businesses such as our air cargo services (*Gollog*), and through a variety of payment mechanisms designed to make the purchase of our tickets easier for customers in lower income classes. Passenger transportation revenues represented 88.1% and ancillary revenues represented 11.9%, of our net revenues of R\$6.0 billion in 2009.

As of March 31, 2010, we offered approximately 800 daily flights per day to 61 destinations connecting the most important cities in Brazil as well as key destinations in Argentina, Bolivia, Curacao, Aruba, Chile, Colombia, Paraguay, Uruguay and Venezuela. We strategically focus on the Brazilian and South American markets, and will continue to carefully evaluate opportunities to continue growing by increasing the frequency of flights to our existing high-demand markets and adding new routes in these markets (for example, in the Caribbean region), all of which can be reached with our Boeing 737 Next Generation (NG) aircraft.

## Our Competitive Strengths

***We Have a Strong Market Position Based on Slots at the Most Important Airports in Brazil.*** Since the VRG acquisition, we have been the carrier with the most flights connecting the busiest airports in Brazil: Congonhas (São Paulo), Santos Dumont and Galeão (Rio de Janeiro), Juscelino Kubitschek (Brasília), Confins (Belo Horizonte) Salvador (Bahia), Porto Alegre (Rio Grande do Sul), Recife (Pernambuco) and Curitiba (Paraná). Routes between these airports are among the most profitable routes in our markets, with higher yields achieved mostly from business travelers. In Congonhas, an airport with slot restrictions, we were the leading airline in terms of the number of departures for these routes in 2009.

***We Have a Strong Brand Recognition.*** We believe that the Gol brand has become synonymous with innovation and value in the airline industry. Our customers identify Gol as being safe, accessible, friendly, fair, intelligent and reliable and distinguish Gol in Brazil's domestic airline industry on the basis of its modern and simplified approach to air travel services. Our *Smiles*, *Gollog* and *Voe Fácil* brands give us valuable customer recognition in various businesses and create a tool for brand diversification for us. Our Varig brand is widely known in the Brazilian and Latin American markets in which we operate.

***We Keep Our Operating Costs Low.*** Our operating expense per available seat kilometer (CASK) for the year ended December 31, 2009 was R\$14.0 cents. We believe that our CASK for the year ended December 31, 2009, adjusted for the average number of kilometers flown per flight, was over the year the lowest in the domestic market and one of the lowest among international low-cost carriers, based upon our analysis of data collected from publicly available information. Our business model is based on innovation and best practices adopted to improve our operating efficiency, including:

- ***Operation of a young and standardized fleet.*** At December 31, 2009, our operating fleet of 108 Boeing 737 aircraft was one of Latin America's largest and youngest fleets, with an average age of 6 years. We plan to continue keeping our operating fleet exclusively comprised of Boeing 737-800 and 737-700 NG aircraft. Having a standardized fleet reduces inventory costs, as it requires fewer spare parts, and reduces the need to train our pilots to operate different types of aircraft. It also simplifies our maintenance and operations processes. From our original 94 firm purchase orders and 36 options placed in December 2008, we had 90 firm purchase orders remaining as of December 31, 2009, to be delivered until 2016, and purchase options for 40 additional Boeing 737 NG aircraft. We expect to be able to further decrease the age of our fleet, and therefore increase efficiency and better control maintenance costs. We expect to have our seven remaining Boeing 737-300 aircraft returned during 2010. We are in the process of returning our six remaining Boeing 767 aircraft and until we are able to return these aircraft we will assign them to revenue generating uses to reduce their leasing costs.
- ***State of the art maintenance.*** We carry out heavy maintenance on our Boeing 737 aircraft internally at our Aircraft Maintenance Center at the Tancredo Neves International Airport located in Confins, in the State of Minas Gerais. We use this facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We started the first of a two-stage expansion project in 2008, when the facility had a capacity to service 60 aircraft. The second stage was inaugurated in March, 2010 and we now have a total capacity to perform full maintenance services for more than 120 Boeing 737 aircraft per year. With our system of phased maintenance for our Boeing NG 737-700 and 737-800 aircraft fleet, we are able to perform maintenance work every day without sacrificing aircraft revenue time, and schedule preventive maintenance with more regularity and around the utilization of our aircraft, which further dilutes fixed costs. We are one of the few airlines in the world that takes full advantage of the Boeing 737 NG phased maintenance philosophy, supported by extensive investments we have made in personnel, material, tools and equipment.

***We Stimulate Demand for Our Service.*** As a result of our low cost structure, we believe that through our differentiated services we create demand for air travel services. Our average fares are lower than the average fares of most of our domestic competitors. We identify and stimulate demand among both business and leisure passengers for air travel that is safe, convenient, simple and a reasonably priced alternative to traditional air, bus and car travel. By combining low fares with simple and reliable service, we have successfully improved our brand awareness, product quality, punctuality and regularity as well as strengthened customer loyalty and are attracting new groups of air travelers in our markets. We estimate that, on average, approximately 10% of the customers on our flights are either first-time flyers or have not flown for more than a year.



***We Have the Largest Loyalty Program in Latin America.*** Since the VRG acquisition, we have a loyalty program (*Smiles*), which is available to all our passengers and which we consider a strong relationship tool. The *Smiles* loyalty program serves as a source of revenue for us, as it enables us to sell miles directly to corporate clients for marketing purposes or utilize them for co-branded credit cards. It supports partnerships with more than 160 partners, including hotel chains, car rental companies, restaurants, insurance companies, publishers and schools and also forms the basis for partnerships with some of Brazil and South America's largest banks and credit card companies. The *Smiles* loyalty program had over 6.6 million members at December 31, 2009. On June 30, 2009, we entered into a partnership with Banco Bradesco and Banco do Brasil for the issuance and management of co-branded credit cards, enabling these banks to issue credit cards under the *Smiles* brand. As part of the agreement, we received an aggregate of R\$252.7 million (i) from the sale of miles under the *Smiles* loyalty program to these two institutions, (ii) from a share of the revenue generated by the cards, and (iii) for granting the banks the right to access and use the program's database.

***We are one of the largest e-commerce companies in Brazil.*** 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 via the Internet. In 2009, we booked a significant majority (92.4%) of our ticket sales through a combination of our website and application programming interface, or API, systems and our call center (6.3%). In addition, our customers can check in online and through web-enabled cell phones. As a result of our emphasis on low-cost distribution channels, in 2009 we were one of the largest e-commerce companies in Brazil and Latin America, with R\$5.7 billion in net ticket sales through the internet, more than any other airline and publicly-held e-commerce company in Brazil. Our platform also has strong traffic statistics, with more than six million visitors per month. We enjoy significant cost savings associated with automated ticket sales, which also makes the selection of travel options more convenient for our customers. Our e-commerce platform is starting to allow us to cross-sell other travel-related products to our customers.

***We Offer Innovative and Flexible Payment Mechanisms.*** We have developed and will further develop flexible payment mechanisms such as debit payments and long-term installment payments (Voe Fácil), with which we expect to increase our potential market and customer base to broader income classes and which enable us to further penetrate markets and capture customers.

***We Have Proven Management.*** Our controlling shareholders have been operating in the Brazilian passenger transportation market for over 50 years, and our top managers have broad experience in many sectors of the Brazilian economy, including air and ground transportation, telecommunications and home appliances and consumer products. This experience has helped us to develop the most effective elements of our low-cost model and we expect will help us to further penetrate the Brazilian middle class and to generate ancillary revenues through Voe Fácil and our e-commerce platform [www.voegol.com](http://www.voegol.com).

***We Have High Corporate Governance Standards.*** Our corporate governance practices go beyond those of most issuers in the transportation industry and emerging markets issuers, with the efficient and active use of specialized committees with highly qualified professionals and senior managers that add value to decisions made in the day-to-day management of our business. We have four independent board members, including the chairman of our board of directors. All members of our board of directors have broad and internationally recognized skills in the areas of corporate finance, business management, banking and in the transportation industry.

***We Have a Strong Liquidity and Cash Position.*** We believe that a strong liquidity and cash position is key to our success. Our strong balance sheet increases our capacity to establish partnerships, negotiate with suppliers and to mitigate impacts of financial markets volatility on our results, to strengthen our financial resilience and to ensure the execution of our growth strategy. We have a strong balance sheet, especially our cash and cash equivalents position which amount to approximately 24% of our trailing twelve months' net operating revenues. We are also committed to not having any significant financial debt coming due within any three-year horizon. In this view we believe that a

stronger balance sheet, combined with our operating cash flow generation will further improve our operating flexibility in order to allow us to rapidly respond to market changes and to explore opportunities.

## Our Strategies

Our strategy is to capitalize on our competitive advantages while further strengthening our financial resilience, based on four main strategic pillars: increase passenger revenue, expand ancillary revenues, further reduce costs and improve our financial resilience. In order to implement our strategies we intend to:

**Capitalize on Our Strong Market Position in Brazil and Latin America.** We intend to capitalize on our strong market position, with our high brand recognition, the highest number of routes and frequencies between the most important airports in Brazil, our consolidated flight network and our *Smiles* loyalty program and to increase penetration across all segments of travelers. We will focus on Brazilian operations and selected South American destinations that are, or we expect to become, profitable and fit into our flight network. In addition, we believe that the airline industry may experience further consolidation in the future and therefore partnerships and alliances are key success factors. In this environment we intend play a leading role and strengthen our position as a long-term player.

**Expand Our Customer Base.** In planning the growth of our business, we will continue to select our routes and build the frequency of our service based on the extent and type of demand in the areas we serve in Brazil and Latin America. We are committed to providing air travel to a wide range of travelers. We will continue to popularize air travel, making low-fare flights more accessible to a larger portion of the population, including all types of business travelers, including with the following measures:

- **Stimulate Demand.** Our widely available service is designed to popularize air travel and stimulate demand, particularly from fare-conscious leisure travelers and small-to mid-size business travelers who might otherwise use alternative forms of transportation or not travel at all. We will continue to provide our customers with low fare alternatives and flexible payment mechanisms, such as debit payments, credit card installment payments and monthly installment payments in the form of direct credit. For example, our *Voe Fácil* ( Fly Easy ) Program, which allows qualifying customers to pay for airline tickets in up to 36 monthly installments as an innovative way to purchase airline tickets, is especially designed to make the purchase of our tickets easier for customers from lower income classes. The Brazilian middle class has grown significantly in the last five years. According to *Fundação Getúlio Vargas*, or FGV, and the Brazilian Geographical and Statistical Institute (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the total population with monthly income between R\$450 and R\$4,500 has grown by 22 million, from 76 million in 2003 to 98 million 2009.
- **Expand our network.** We will continue to carefully evaluate opportunities to meet demand for leisure travel by offering more seats at lower fares, expanding flight frequencies on existing routes and adding additional routes that contribute to our network and for which we perceive a market demand in Brazil. In addition, by offering flights to South American and Caribbean destinations with connections integrated in our network, we will create opportunities for incremental traffic, feeding our network and increasing our overall load factor and supporting our strategy of expanding our network and stimulating demand for our services.
- **Expand our partnerships.** We believe we have the best platform to expand our customer base in the markets in which we operate. Our standardized services and lower fares attract leisure travelers from all income levels, and with the integration of the *Smiles* loyalty program into our operations we intend to increase our penetration in the corporate segment. In August 2009, we received our International Operating Safety Audit, or IOSA, airline safety registration from International Air Transport Association, or IATA, and we believe this certification will, combined with the integration of the *Smiles* loyalty program into our consolidated flight network, make us the preferred Brazilian partner of major international airlines operating in the country, with which we do not compete on inter-continental routes. We expect that, under these partnerships, our customers will be able to use miles accumulated under the *Smiles* loyalty program to fly to destinations in North

America, Europe and Asia. We intend to strengthen our existing partnerships and build new ones with large international airlines in the form of code-share arrangements to further increase our international feeder network, load factors and profitability. During 2009, we signed four important code share agreements, with Air France-KLM in April, with American Airlines in July and with Aero Mexico and Iberia in October. We also seek to evaluate partnerships with financial institutions, retail chain-stores, car rental and insurance companies. We believe that these agreements will generate passenger and ancillary revenues by feeding our route network, strengthening the *Smiles* loyalty program and increasing traffic and sales through our e-commerce platform.

**Further Establish and Increase Our Ancillary Revenue Businesses.** Our ancillary revenues are derived from *Voe Fácil*, our e-commerce platform [www.voegol.com.br](http://www.voegol.com.br) and *Gollog* as well as ticket change fees, excess baggage charges and other incidental services. We expect further growth in these businesses, which will provide us with additional revenue at low incremental cost by:

- **Increasing *Voe Fácil* penetration.** The *Voe Fácil* program allows select customers to pay for airline tickets in up to 36 monthly installments, with interest. By increasing the *Voe Fácil* program penetration we believe that we will be able to stimulate demand for our tickets and better utilize our yield management system by selling seats which, based on statistical analyses, we would otherwise expect to fly empty without the implementation of the program.
- **Continuously innovating and introducing new businesses to the Brazilian market.** We have a strong track record of innovation and introduction of new business practices in Brazil. We started our operations in 2001 introducing the low-cost low-fare in Brazil and were the first company to develop paperless travel ticketing. In June 2009, we introduced the sale of beverages and food on board (buy on board) in Brazil, providing a more flexible and robust board service, generating ancillary revenue without increasing our cost structure or the fare price. We are currently developing an onboard wireless entertainment system in order to provide onboard entertainment which will be sponsored by large corporations, particularly from the media, entertainment and consumer segments.

We believe that integrating travel-related products through the combination of partnerships, the development of new products, our e-commerce platform ([www.voegol.com](http://www.voegol.com)) and Smiles, will be key to a faster increase in our ancillary revenues. We intend to provide comfort and convenience to our clients by upgrading our current e-commerce platform into a fully-integrated portal that provides a wide range of integrated travel-related products to be charged in a single invoice. We are constantly evaluating opportunities, such as sales of travel insurance, marketing activities and other services, which may help us to better capitalize on the large number of passengers on our flights and the high volume of customers using our website.

- **Focusing on express delivery services.** Through *Gollog*, our cargo transportation service, we make efficient use of extra capacity in our aircraft by carrying cargo. During 2009 we launched our express *Gollog* product line, a value added service which provides a range of express delivery services focusing on the corporate market. We intend to intensify our efforts in the express delivery services by further strengthening our logistics capability, mainly by expanding our ground distribution network and further intensifying our commercial efforts.

**Improve Operating Efficiency and Financial Resilience.** Continuing to reduce our operating expense per available seat kilometer is key to increased profitability. We aim to maintain our position as one of the lowest cost airlines in the world. We intend to further reduce the average age of our fuel-efficient fleet, while optimizing the size of our fleet to ensure high utilization rates. In 2005, we became the first airline in Latin America to use winglets on our aircraft and in 2009, we became the first airline in Latin America to implement electrostatic painting in our aircraft reducing significant aircraft weight and savings in paintings and environmental emissions. We are currently working on implementation of GPS Landing system, installation of winglets to our Boeing 737-700 fleet and a tankering strategy, among other initiatives to further increase our fuel efficiency and lower our operating costs.

We seek to continue to reduce our operating expense per available seat kilometer by using our aircraft efficiently, concentrating on minimizing our turnaround times at airports and maintaining a high number of daily flights per aircraft. We will 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 aircraft to an established and efficient operating infrastructure.

We have a strong balance sheet and we seek to continuously set financial targets in order to further improve our financial resilience to support our growth strategy. We currently seek to maintain a cash position equivalent to more than 20% of our net revenues recorded in the last twelve months, to continuously improve debt ratios and to avoid significant debt maturities in a three-year range.

## Routes and Schedules

Our operating model is a highly integrated, multiple-hub route network that is different from the point-to-point model used by other 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. Over 40% of our passengers connect or fly through one or more destinations before reaching their final travel destination. Our operating model allows us to build our flight routes to add destinations to cities that would not, individually, be economically viable 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 route network. We do this by offering low-fare, early-bird, minimum stay or night (red-eye) flights to lower-traffic destinations, which can be the first or last stops on our routes, allowing us to increase our aircraft utilization and generate additional revenues. By offering international flights to South American and Caribbean destinations, and with stops integrated in our network, we create opportunities for incremental traffic, feeding our network and increasing our overall load factor and our competitive advantage and supporting our strategy of expanding our network and stimulating demand for our services.

We have been increasing the number of flights to and through the major Brazilian airports and prudently adding more routes to Caribbean destinations, which we expect to give us additional growth opportunities in the Brazilian and international markets.

At March 31, 2009, we offered over 800 daily flights to 61 destinations connecting the most important cities in Brazil as well as the main destinations in Argentina, Bolivia, Chile, Paraguay, Uruguay, Colombia, Venezuela and Caribbean Region.

## Services

### *Passenger Transportation*

We recognize that we must offer excellent services to our customers. Since April 2009, we have offered lower priced seats to price-sensitive leisure travelers and more flexible tickets with higher *Smiles* miles allocation to our corporate customers. We pay particular attention to the details that help to make for a pleasant, complication-free flying experience, including:

- ticketless travel;
- convenient on-line sales, check-in, seat assignment and flight change and cancellation services;
- online flight status service;
- web-enabled cell phone ticket sales and check-in;
- self check-in at kiosks at designated airports;
- designated female lavatories;

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



- buy on board services on certain flights;
- Mobile check-in and boarding pass (100% paperless boarding); and
- iPhone application for check-in, electronic boarding pass and *Smiles* account management.

We seek to achieve punctual operations, which are of primary importance to our customers. According to our internal data, which are corrected for delays out of our control and pre-advised changes in flight schedules, our punctuality rate in December 2009 was 85.3%, as compared to 72.0% in 2008.

#### *Smiles Loyalty Program.*

We have a loyalty program (*Smiles*), which we consider as a strong relationship tool and which is available to all our passengers. We intend to increase the *Smiles* penetration through creating marketing initiatives and additional benefits to our customers (*e.g.*, double miles promotions and the launch of several miles redemption options, allowing our customers to use part of their miles to complete the payment) increasing and establishing partnerships with affiliated credit cards or using services and products at partner establishments. There are four tiers in our *Smiles* program (*Diamond, Gold, Silver and Blue*) and qualification for a particular tier is based on the miles flown. The *Smiles* program serves as a source of revenue for us, since we can sell miles directly to corporate clients for marketing purposes or utilize them for co-branded credit cards. It maintains partnerships with hotel chains, car rental companies, restaurants, insurance companies, publishers and schools and also maintains a partnership with some of Brazil and South America's largest banks and credit card companies. In 2009, the program offered a number of marketing promotions aimed at re-engaging its existing members and expanding its client base. We have received our IOSA certification during the first half of 2009, which we believe will make us, combined with the integration of the *Smiles* loyalty program in our consolidated flight network, the preferred partner of major international airlines in Brazil, with which we do not compete on intercontinental routes. We expect that, through these partnerships, our customers could use their miles accumulated under the *Smiles* program to fly to international destinations in North America, Europe and Asia. For example, in April 2009, we entered into a commercial cooperation agreement with Air France-KLM, which will be implemented in two phases and will allow for the integration of our *Smiles* and Air France-KLM's Flying Blue programs and lays the groundwork for a future code-share agreement. The *Smiles* program had over 6.6 million members at the end of 2009.

#### *Ancillary revenues*

Ancillary revenues such as revenues from our Gollog services, our *Voe Fácil* program, as well as baggage excess and ticket change fees and buy on board revenues are an increasingly important part of our revenues. The further development and growth of our Gollog services and *Voe Fácil* program is part of our strategy, and they represented 11.9% of our consolidated revenues in 2009, compared to 8.1% in 2008.

We are constantly evaluating opportunities to generate additional ancillary revenues such as sales of travel insurance, marketing activities and other services which may help us to better capitalize on the large number of passengers on our flights and the high volumes of customers using our website.

We believe that integrating travel-related products in our e-commerce platform to be key to a faster increase in our ancillary revenues. We intend to provide comfort and convenience to our clients by upgrading our current e-commerce platform into a fully-integrated portal that provides a wide range of integrated travel-related products to be charged in a single invoice. In addition, we plan to integrate the *Smiles* and *Gollog* platforms into our air travel portal to further provide convenience and simplicity to our customers.

*Gollog Cargo Transportation*

In addition to our passenger service, we make efficient use of extra capacity in the stronghold of our aircraft by carrying cargo, through our cargo transport service Gollog. Gollog's success is the result of the unique service we offer to the market: the Electronic Air Waybill that can be completed via the Internet. The Gollog system provides online access to air waybills and allows customers to track their shipment from any computer with Internet access. Our 61 destinations throughout Brazil, South America and Caribbean provide access to multiple locations in the region. With our capacity of over 800 daily flights we can guarantee quick and reliable delivery. Packages are shipped in the freight hold of our passenger aircraft.

*Voe Fácil Installment Program*

In 2005 we launched the *Voe Fácil* ( Fly Easy ) program, an innovative new way to purchase airline tickets, which allows selected customers 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 applying this sales technique to passenger transportation to increase our market and stimulate demand for our tickets. In 2009, the *Voe Fácil* program decreased its ticket sales by 43% compared to 2008 to R\$112.6 million in 2009 from R\$198.4 million in 2008, corresponding to a decrease in tickets sold by 51.6% to 140,661 in 2009 from 290,850 in 2008. This decrease was due to reduced promotion and exposure of the *Voe Fácil* product during the first half of 2009.

**Aircraft Fleet**

In line with our strategy of combining the renovation of our fleet with disciplined growth in our seat supply, we concluded the following operating agreements and initiatives in 2009:

- Agreement with Boeing to reschedule the delivery of 20 Boeing 737 NG aircraft from between 2010 and 2012 to between 2010 and 2014.
- Sub-leasing of two 737-800s to a European airline, which returned in October 2009. This agreement can be renewed in the next year and represents more flexibility for us by enabling a temporary fleet reduction during our winter period providing an opportunity to keep higher levels of average aircraft utilization during the year.
- Replacement of a 767-300 with a 737-800 in April, leaving six wide-body aircraft grounded, two of which are currently under sub-leasing/wet-leasing negotiations.
- Receipt of three 737-800 NGs (two of which are specially equipped for short runway landings and take-offs) as part of the 737-700 and 737-800 fleet standardization, which aims to replace all remaining 737-300s.

As a result of the above, on December 31, 2009 we had an operational fleet of 108 operational aircraft and a total fleet of 127. We expect to have 111 aircraft in our operating fleet by the end of 2010.

As of March 31, 2010, one of our Boeing 767 aircrafts was subleased to a charter company in the United States until 2013, one is under final formalization process for a wet lease to a Brazilian company for flights connecting Brazil to Angola and three are under final stages of negotiation to be chartered to operate intercontinental flights.

The following table sets forth the composition of our fleet at the dates indicated:

<b>Operating Fleet</b>	<b>At December 31,</b>		
	<b>Seats<sup>(1)</sup></b>	<b>2008</b>	<b>2009</b>
B737-300	141	13	3
B737-700 NG	144	38	43
B737-800 NG	177	23	18
B737-800 NG Short-Field Performance	187	32	44
<b>Sub Total</b>	-	<b>106</b>	<b>108</b>

**Non-Operating Fleet**

		<b>At December 31,</b>	
	<b>Seats<sup>(1)</sup></b>	<b>2008</b>	<b>2009</b>
B737-300	141	2	8

Non-Operating Fleet	At December 31,		
	Seats <sup>(1)</sup>	2008	2009
B737-800 NG	177	-	5
B767-300 ER	218	7	6
<b>Sub Total</b>	-	<b>9</b>	<b>19</b>
<b>Total</b>	-	<b>115</b>	<b>127</b>

(1) As of December 31, 2009.

At December 31, 2009, we had a total of 127 aircraft, 94 of which were under operating leases and 33 were under finance leases.

The average age of our operating aircraft at December 31, 2009 was 6.3 years. The average daily utilization rate of our operating fleet in 2009 was 11.6 block hours (12.1 block hours in 2008).

Each Boeing 737 aircraft in our fleet is powered by two CFM International Model CFM 56-7B22 engines or two CFM International Model CFM 56-7B24 engines.

The following table sets forth our year-end projected operating fleet through 2015:

Operating Fleet Plan	2010	2011	2012	2013	2014	2015
B737-700 NG	40	40	40	40	40	40
B737-800 NG *	71	75	79	81	85	91
Total	111	115	119	121	125	131

\* Includes SFP aircrafts (Short Field Performance)

We will revise this fleet plan according to our expectations for the growth potential in the markets in which we operate.

The Boeing 737-700 Next Generation 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 standardized 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. We use a single type of aircraft 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. Most of our leased Boeing 737-800 Next Generation aircraft are equipped with blended winglets and all Boeing 737-800 Next Generation aircraft from our purchase order will be equipped with winglets, which reduce our fuel and maintenance costs. Our experience with the new winglets has shown operating fuel consumption reductions from 3% to 5%. In addition, the winglets improve airplane performance during take-off and landing on short runways. The new Boeing 737-800 NG aircraft will be delivered with short-field performance (SFP) with technical modifications that we expect to significantly improve flight performance, the ability to operate non-stop flights, reduce noise during take-off and to 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 the most important routes in Brazil.

At the end of 2009, we leased 94 of our 127 aircraft under operating lease agreements that have an average remaining term of 42 months. We believe that leasing our aircraft fleet under operating leases provides us with flexibility to adjust our fleet size. We make monthly rental payments, some of which are based on floating rates. We 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 for some of our lease agreements we are required to maintain maintenance reserve deposits and to return the aircraft and engine 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, 2009, our operating leases had terms of up to 144 months from the date of delivery of the relevant aircraft.

At the end of 2009, we had 33 aircraft acquired under our firm purchase order with Boeing under finance lease arrangements that had an average remaining term of 121 months.

### **Sales and Distribution**

Our customers can purchase tickets directly from us through a number of different channels, such as our website including our Booking Web Services (BWS), GDS Global Distribution System, our call center and at airport ticket counters.

Our low cost low fare business model utilizes website ticket sales as its main distribution channel especially in the local market. For the year ended December 31, 2009, 23.2% of our passenger revenues, whether directly to the customer or through travel agents, were booked via the Internet, making us one of the worldwide industry leaders in this area. In the same period, 6.3% of our passenger revenues were booked through call centers, airport sales counters, and our BWS and 1.3% of our total sales were made through the GDS, respectively.

Our customers can purchase tickets indirectly through travel agents, who are a widely-used travel service resource in Brazil and South America, Europe, North America and other regions. For the year ended December 31, 2009, travel agents provide us with more than 20,000 distribution outlets throughout these regions.

GDSs allows us access to a large number of tourism professionals who are able to sell our tickets to customers throughout the globe, and enables us to enter into interline agreements with other airlines to offer more flights and connection options to our passengers and add incremental international passenger traffic, especially to our international network. In 2009 we made additional investments to expand our presence with Amadeus, Sabre and TravelPort.

On October 21, 2009 we became an issuer of cards for Universal Air Travel Plan, or UATP, a payment network owned and operated by several foreign airlines. UATP allows us access to a payment network with lower costs than those offered by credit cards and other means of payment. In addition, as an UATP card issuer we are able to maintain a closer relationship with our corporate customers.

During 2009 we have invested in increasing the number of distribution channels: we have opened Gol stores outside the traditional airport areas in Buenos Aires, Cordoba, Rosário (Argentina); Asunción (Paraguay); Santiago (Chile); Santa Cruz de la Sierra, La Paz, Cochabamba (Bolivia); Montevideo (Uruguay); Caracas (Venezuela), Bogota (Colombia). We also opened the first airline store in São Paulo (Brazil) 100% designed to sell to the Brazilian middle class. All stores are strategically located in high density population regions.

### ***Partnerships and Alliances***

Our market positioning enables us to successfully negotiate a number of arranged partnerships with supplementary major carriers worldwide, mostly in the form of code share agreements and interline agreements. Strategically, the additional passenger inflows generated from those partnerships aim to improve revenues at low incremental costs.

At March 31, 2010, we had a code share agreement with American Airlines, Iberia, Air France KLM, Aero Mexico and Copa Airlines. We are also launching a frequent flyer tie between our *Smiles* program and the code share partners enabling travelers to accrue and redeem miles between our *Smiles* and the each of the partners (however, the partnerships are not integrated among themselves). In addition, passengers will be able to connect with Gol operated flights within Brazil, marketed as a code-share partner flight. We intend to enter into similar agreements with other long haul airlines serving or intending to serve Brazil.



At December 31, 2009 we had interline agreements with 63 airlines, including Korean Airlines, Delta Airlines, Emirates Airlines, Avianca, Continental Airlines, Japan Airlines, TAP Air Portugal, and others. An interline agreement is a commercial agreement between individual airlines to handle passengers traveling on itineraries that require multiple airlines and allow its customers to utilize a single ticket, and to check their baggage through to the customers final destination. Interline agreements differ from code sharing agreements in that code sharing agreements usually refer to numbering a flight with the airline's code (abbreviation) even though the flight is operated by another airline. This provides for better marketing and customer recognition of the links between the airlines.

An important element of our business strategy is to cater to the corporate client. To further develop our business relationship with our corporate customers, we have entered into partnerships with hotel chains, rental car service and insurance providers to offer our corporate customers the convenience of the combination of transportation and accommodation arrangements.

### **Pricing**

Brazilian airlines are permitted to establish their own domestic fares without previous government approval. However, domestic fares are monitored on a regular basis by the ANAC in order to prevent airlines, which are public concessionaires, from engaging in predatory pricing. Airlines are free to offer price discounts or follow other promotion activities. 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 ANAC. The reference fares index curves are based on industry average operating costs, according to ANAC calculations.

Airlines are permitted to establish fares for international tickets sold in Brazil without previous government approval, subject only to registration with the ANAC.

### **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 to maximize our operating revenues. Yield management forms the backbone of our revenue generation strategy and is strongly linked to our route and schedule planning and our sales and distribution methods. Our yield management practices enable us to react quickly in response to market changes. For example, our yield management systems are instrumental in helping us to identify the flight times and 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.

### **Maintenance**

According to ANAC regulation, we are directly responsible for the execution and control of all maintenance services performed on our aircraft. 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 line maintenance service bases throughout Brazil and South America. We believe that our practice of performing daily preventative maintenance helps to maintain a high 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 manufacturer, based on the number of hours and 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. In addition, engine maintenance services are rendered in different MRO (Maintenance, Repair and

Operations) facilities. 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. Our aircraft are covered by warranties that have an average term of three to five years. The warranties on the aircraft we received in 2009 under our firm purchase order with Boeing will start expiring in 2013.

We internalized heavy maintenance on our Boeing 737 aircraft in our Aircraft Maintenance Center at the Tancredo Neves International Airport in Confins, in the State of Minas Gerais. We use this facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We started the first of a two-stage expansion project in 2008, when the facility had a capacity to service 60 aircraft. The second stage was inaugurated in March, 2010 and we now have a total capacity to perform full maintenance services for more than 120 Boeing 737 aircraft per year.

With our system of phased maintenance for our Boeing Next Generation 737-700 and 737-800 aircraft fleet, 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 that takes full advantage of the Boeing 737 Next Generation phased maintenance philosophy, supported by extensive investments we made in personnel, material, tools and equipment.

We have also been certified by the ANAC under the Brazilian Aeronautical Certification Regulations to perform heavy maintenance services for third parties. We expect to utilize this certification, a potential source for ancillary revenues, now that the construction of an additional maintenance facility has been completed.

## **Fuel**

Our fuel costs totaled R\$1,813.1 million in 2009, representing 32.2% of our operating expenses for the year. In 2009, we purchased substantially all of our fuel from Petrobrás Distribuidora S.A., a retail subsidiary of Petrobrás, principally under an into-plane contract under which the supplier supplies fuel and also fills our aircraft tanks. In 2009, fuel prices under our contracts were re-set every 30 days and were 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.

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. We maintain a fuel and foreign exchange hedging program, based upon policies which define volume, price targets and instruments for multi-year periods, 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 positions cover short-term periods, and are adjusted weekly or more frequently as conditions require. Our hedging practices are executed by our internal risk management committee and overseen by the risk policies committee of our board of directors. The risk policies committee of our board of directors meets quarterly or more often, if called, and its main responsibilities are to assess the effectiveness of our hedging policies, recommend amendments when and where appropriate and establish its views regarding fuel price trends. 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. 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 December 31, 2009, we had hedged 22% on average for our projected fuel requirements for 2010 and 5.5% in average for our projected expenditures in foreign currency. The fuel hedges are based on call options and the foreign currency hedges are divided in 67% in call options and 33% in futures contracts.



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

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
Liters consumed (in thousands)	1,364,719	1,291,412
Total cost (in thousands)	R\$2,630,834	R\$1,813,104
Average price per liter	R\$1.93	R\$ 1.40
% change in price per liter	53.7	(27.26)
Percent of operating expenses	40.5%	32.3%

### **Safety and Security**

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 ANAC 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. We are also an active member of the Flight Safety Foundation, a foundation for the exchange of information about flight safety. In June 2009, we created the office of Safety Officer which reports directly to our board of directors and whose main goal is to oversee flight safety and report directly to our highest management level.

### **Environmental Sustainability**

We constantly invest in becoming more environmentally sustainable and have recently implemented the following actions:

- Expansion of our Aircraft Maintenance Center at the Tancredo Neves International Airport located in Confins, in the State of Minas Gerais (completed in March 2010): we have reduced cost by decreasing the need to fly our aircraft overseas to be serviced and we treat all of the effluents generated in our facilities and reuse water.
- Electrostatic painting: the use of electrostatic painting has reduced aircraft weight by 300 kg and has also reduced the amount of paint used and emission of carbon dioxide.
- Implementation of ACARS (Aircraft Communications Addressing and Reporting System): we expect to start using ACARS by April 2010 and to have the system implanted in all our fleet by 2012. ACARS provides real time flight data via satellite and allow us to better anticipate maintenance needs, increasing flight safety, efficiency and gains of scale.
- Implementation of GPS Landing System: we expect to start using the system by June 2010 and to have the system implemented in all our fleet by the end of 2014. This system reduces fuel consumption during take-off and landing, increases precision and safety.

In addition in recent years we have also implemented the following actions:

- Passando a Limpo Project: implemented five years ago this initiative uses a dry cleaning process to wash aircrafts and reduces water consumption by 90%.
- Recycling: all of our offices and headquarters recycle their waste.

- Support to Florestas do Futuro: we have supported a reforestation project by Fundação SOS Mata Atlântica for the past five years. We financed the GOL Forest project and maintain 30 thousand native trees in the Piracicaba River and in the Ponte Nova reservoir, in the city of Salesópolis, both in the state of São Paulo.

## 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 ANAC to maintain insurance coverage for general liability against terrorist acts or acts of war with a minimum amount of US\$0.8 billion. 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.

## Competition

### *Domestic*

Airlines in Brazil compete primarily on the basis of routes, fare levels, frequency of flights, capacity, airport operating rights and presence, reliability of services, brand recognition, frequent flyer programs and customer service.

Our main competitor in Brazil is TAM Linhas Aéreas S.A., or TAM, which is a full-service scheduled carrier offering flights on domestic routes and international routes. We also face domestic competition from other domestic scheduled carriers, regional airlines and charter airlines, which mainly have regional networks.

As the growth in the Brazilian airline 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.

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</b>				
<b>Scheduled Airlines</b>	<b>2006</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>
Gol	34.0%	43.0%	42.4%	41.4%
TAM	47.8%	48.8%	50.4%	45.6%
Others	18.2%	8.2%	7.2%	13.0%

*Source:* Advanced Comparative Data (Dados Comparativos Avançados) 2006-2009

Domestically, we also face competition from ground transportation alternatives, primarily interstate bus companies. In 2007, interstate bus companies transported over 131 million passengers, according to preliminary data from 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 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.

*International*

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



## 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. Brazil is the fifth largest domestic aviation market in the world and, according to the ANAC, there were 50.1 million domestic enplanements and 6.0 million international enplanements on Brazilian carriers in Brazil in 2008, out of a total population of approximately 185 million, according to IBGE. In contrast, according to the U.S. Department of Transportation, the United States had 652 million domestic enplanements and 158 million international enplanements in 2008, out of a total population of approximately 308 million, based on the latest U.S. census estimates.

The business travel segment is the largest component of Brazilian air transportation demand and the most profitable in the market. According to company data, business travel represented more than 60% of the total demand for domestic air travel in 2009, 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 ANAC, flights between Rio de Janeiro and São Paulo accounted for 13.2% of all domestic passengers in 2008. The ten busiest routes accounted for 27.8% of all domestic air passengers in 2008, while the ten busiest airports accounted for 74.2% and 72.6% of all domestic passenger traffic through INFRAERO airports in terms of arrivals and departures in 2008 and 2009, respectively.

In light of economic growth, the domestic market has significantly increased in the last years from 76 million in 2003 to more than 128 million in 2009, according to FGV and IBGE, due to increased passenger volumes and both the soccer confederations and world cup scheduled for 2013 and 2014, respectively, in Brazil and the summer Olympics scheduled for 2016 in Rio de Janeiro, the Brazilian airport infrastructure will need substantial improvements.

In parts of 2006 and 2007, technical and operational problems in the Brazilian civil aviation system, including air traffic control, airspace coordination and airport administration adversely affected airline operations. Various measures, such as hiring and training of additional air-traffic control personnel, investments in new systems and additional terminal and runway capacity in congested airports, have been taken by the relevant governmental authorities and discussions are currently ongoing with a view to possible additional changes in the organizational structure of the aviation infrastructure system.

In 2009 the CONAC announced that it would propose to the Brazilian Government a change to the regulatory limit of foreign ownership in Brazilian airline companies from 20% to 49%. This proposal may be accepted by the Brazilian Government and become a draft bill during 2011.

Since 2009, the Brazilian government has been analyzing the privatization of airports or granting of rights for private concessionaries to operate currently existing airports or expansions of those airports but has not yet made any formal announcements as to its decision.

## Brazilian Civil Aviation Market Evolution

Since 1970, Brazil has for the most part had stable growth in revenue passenger kilometers. From 1970 to 2009 domestic revenue passenger kilometers grew at a compound annual rate of 8.9%. In the past 9 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 1970s, the Brazilian sovereign debt crisis in the early 1980s and the economic and political distress in Brazil in the early 1990s.

From 2005 to 2009, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 13.7%, versus a compound annual growth rate in available industry capacity, in terms of available seat kilometers, of 15.1%. Domestic industry load factors, calculated as revenue passenger kilometers divided by available seat kilometers, have averaged 66.7% over the same period. The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	2005	2006	2007	2008	2009
	<b>(in millions, except percentages)</b>				
Available Seat Kilometers	50,182	55,608	64,597	72,841	84,283
Available Seat Kilometers Growth	11.5%	10.8%	16.2%	12.8%	15.7%
Revenue Passenger Kilometers	35,429	39,802	44,446	47,838	56,255
Revenue Passenger Kilometers Growth	19.4%	12.3%	11.7%	7.4%	17.6%
Load Factor	70.2%	71.6%	68.8%	65.5%	66.7%

*Source: ANAC, Dados Comparativos Avançados.*

## **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 CONAC and the ANAC. Air transportation services are also regulated by the Brazilian Federal Constitution and the Brazilian Aeronautical Code. The Brazilian civil air transportation system is controlled by several authorities. The ANAC is responsible for the regulation of the airlines, the DECEA is responsible for airspace control and INFRAERO is responsible for airport administration.

The following chart illustrates the main regulatory bodies, their responsibilities and reporting lines within the Brazilian governmental structure.

The ANAC is currently responsible for guiding, planning, stimulating and supporting the activities of public and private civil aviation companies in Brazil, and also 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.

On October 5, 2001, the Department of Air Space Control (*Departamento de Controle do Espaço Aéreo*), or DECEA, was created. It reports indirectly to the Brazilian Minister of Defense. The DECEA is responsible for planning, administrating and controlling activities related to airspace, aeronautical telecommunications and technology. This includes approving and overseeing the implementation of equipment as well as of navigation, meteorological and radar systems. The DECEA also controls and supervises the Brazilian Airspace Control System.

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. See Airport Infrastructure below.

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, the Minister of Justice 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 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 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.

Recently, in February 2009, the Federal Government approved the new Civil Aviation National Policy (*Política Nacional de Aviação Civil*), or PNAC. Although the PNAC does not establish any immediate measure, it contains the main guidelines for the national civil aviation system. It encourages the Ministry of Defense, CONAC and ANAC to issue regulations on strategic matters such as safety, competition, environmental, and consumers issues, as well as to inspect, review and value the activities of all operating companies.

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.

### *Route Rights*

*Domestic routes.* For the granting of new routes and changes to existing ones, the ANAC evaluates the actual capacity of the airport infrastructure where such route is or would be operated. 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 ANAC 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 ANAC. 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 routes, must be filed by each interested Brazilian airline that has been previously qualified by the ANAC to provide international services, with the SRI (Superintendence of International Relations of the ANAC), which, based on the provisions of the applicable bilateral agreement and general policies of the Brazilian aviation authorities, submits the request to the ANAC for approval. International route rights for all countries, as well as the corresponding transit 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. For the granting of new routes and changes to existing ones, the ANAC has the authority to approve Brazilian airlines to operate new routes, subject to the airline having filed studies satisfactory to the ANAC demonstrating the technical and financial viability of such routes and fulfilling certain conditions in respect of the concession for such routes. Any airline's international route frequency rights may be terminated if the airline fails to maintain at least 80% of flights provided for in its air transportation schedule HOTRAN for any 180-day period or suspends its operation for a period exceeding 180 days.

### *Slots Policy*

*Domestic.* Under Brazilian law, a domestic slot is a concession of the ANAC, which is reflected in the airline's HOTRAN. 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. An airline must request an additional slot from the ANAC with a minimum of two months' prior notice.

Congonhas airport in the city of São Paulo is a coordinated airport, where slots must be allocated to an airline company before it starts its operations there. Although it is difficult to obtain a slot in Congonhas airport, on March 8, 2010 ANAC reallocated 202 Congonhas slots that were idle. When the capacity at the airport increases and more slots become available, 20% of those slots must be distributed to new entrants who will have a preference to their assignment. The remaining slots will be allocated to the other airline companies, including us. The Santos-Dumont airport in Rio de Janeiro, a highly utilized airport with half-hourly shuttle flights between São Paulo and Rio de Janeiro, is also a coordinated airport with certain slot restrictions. Several other Brazilian airports, for example the Brasília International Airport and São Paulo International Airport in Guarulhos have limited the number of slots per day due to infrastructural limitations at these airports.

Recently, ANAC has imposed schedule restrictions to several Brazilian airports from which we operate. Operating restrictions, including the prohibition of international flights' operations and the prohibition of civil aircraft's operation after 11:00 p.m. and before 6:00 a.m., were imposed for Congonhas Airport, one of the busiest Brazilian airports and the most important airport for our operations. No assurance can be given that these or other government measures will not have a material adverse effect on our business and results of operations.

CONAC has recently taken measures to minimize the recent technical and operational problems in the São Paulo airports, redistributing air traffic from the Congonhas airport to the airports of Guarulhos and has mentioned its intention to adjust tariffs for the use of busy airport hubs to encourage further redistribution of air traffic.

In the last quarter of 2008, the ANAC proposed a new regulation for the allocation of slots to domestic airlines. This regulation governs the manner of allocation of slots, by organizing rotations among the concessionaires, determining the procedures for registration, qualification, judgment and homologation of a request for slot concessions in coordinated airports. Additionally, such regulation also establishes the rules permitting transfers of slots between concessionaires. ANAC's resolution has not yet been released.

Also, in 2008, the ANAC enacted a regulation providing that the minimum ground time for aircraft between landing and take-off must be 40 minutes at the International Airport of Sao Paulo in Guarulhos, the international airport of Rio de Janeiro Galeão and at the Brasília airports, and 30 minutes at all other Brazilian airports. This regulation negatively affected our ability to increase aircraft utilization by minimizing turnaround times between flights.

*Airport Infrastructure*

INFRAERO, a state-controlled corporation reporting to the Ministry of Defense, 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 important 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 counters, 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.

Of the 67 Brazilian airports managed by INFRAERO, approximately 20 airports are receiving infrastructure investments and upgrades. 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.

#### *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 authorizations. According to the Brazilian Aeronautical Code and regulations issued by the CONAC, the application for a concession to operate regular air transportation services is subject to a license granted by the ANAC to operate an airline and to explore regular air transportation services. The applicant is required by the ANAC 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 airline operating certificate (*Certificado de Homologação de Empresa de Transporte Aéreo*), or CHETA, and must also comply with certain ownership restrictions. See Restrictions to the Ownership of Shares Issued by Concessionaires of Air Transportation Services. The ANAC 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. The concession agreement can be terminated if, among other things, we fail to meet specified service levels, cease operations or declare bankruptcy.

The Brazilian Aeronautical Code and the regulations issued by the CONAC and ANAC do not expressly provide for public bidding processes and currently it is not necessary to conduct public bidding processes prior to granting of concessions for the operation of air transportation services. Due to the intense growth of the civil aviation sector, this rule may be changed by the government, in order to allow more competition or to achieve other political purposes.

#### *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 ANAC. 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 which 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 ANAC. 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 ANAC'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 ANAC 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.

#### *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 VRG, 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 ANAC, in the first month of each semester, a detailed shareholder 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 shareholder chart, the ANAC has the authority to subject any further transfer of shares to its prior approval.

The Registrant holds substantially all of the shares of VRG, which are public concessionaires 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.

#### *Environmental Regulation*

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. The non-compliance with such laws and regulations may subject the violator to administrative and criminal sanctions, in addition to the obligation to repair or to pay damages caused to the environment and third parties. As far as civil liabilities are concerned, Brazilian environmental laws adopt the strict liability regime. Moreover, pursuant to Brazilian environmental laws and regulations, the piercing of the corporate veil of a company may occur in order to ensure enough financial resources to the recovery of damages caused against the environment. For example, according to an ANAC 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.

We adopted several Environmental Management System (EMS) procedures with our suppliers and use technical audits to enforce compliance. We exercise caution, and may reject goods and services from companies that do not meet our environmental protection parameters unless confirmation of compliance is received.

We are monitoring and analyzing the developments regarding amendments to Kyoto protocol and emissions regulations in the United States and Europe and may in the future be obliged to acquire carbon credits for the operation of our business. No legislation on this matter has yet been enacted in Brazil.

### *Pending Legislation*

In March 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. This draft bill is still under discussion in the House of Representatives and, if approved, must be submitted to the Federal Senate, for new approval, before being sent to the government in order to receive the presidential approval.

In addition, the Brazilian government has been analyzing granting of rights for private concessionaries to build new airports, expand or operate currently existing airports.

### *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.

The Export-Import Bank of the United States ( Ex-Im ) has extended its offer to reduce by one-third the premium it charges in connection with guarantees of large commercial aircraft financings for those countries that ratify the Cape Town Convention. If the Cape Town Convention is ratified by the government of Brazil, future guarantee premiums charged to Gol by Ex-Im ( Exposure Fees ) may be reduced by as much as one percent for aircraft that are scheduled for delivery prior to December 31, 2010; provided that the underlying purchase contract was a firm contract as of April 30, 2007.

Ex-Im has also agreed on a common approach with European export-credit agencies on offering export credits for commercial aircraft. Among other things, the new Sector Understanding on Export Credits for Civil Aircraft (the ASU ) sets forth minimum guarantee premium rates applicable to aircraft delivered on or after January 1, 2011, or under a firm contract entered into after April 30, 2007. While subject to modification, the exposure fees paid by Gol on applicable aircraft are likely to increase, the amount of any such increase will depend upon the credit risk assigned to Gol by the participating export-agencies pursuant to the protocols of the ASU. In addition, Gol will no longer be able to finance the amortization payments of loans guaranteed by Ex-Im with SOAR loan facilities.

## **C. Organizational Structure**

The Registrant is a holding company, which owns directly or indirectly shares of five subsidiaries: VRG and four offshore finance subsidiaries Gol Finance Cayman and GAC Inc., which owns Sky Finance and Sky Finance II. VRG is the Registrant's operating subsidiary, under which we conduct our business. Gol Finance, GAC Inc., Sky Finance and Sky Finance II are off-shore companies established for the purpose of facilitating cross-border general and aircraft financing transactions.

## **D. Property, Plant 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 own a state-of-the-art Aircraft Maintenance Center in Confins, in the State of Minas Gerais. The certification authorizes maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We use the new facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. See also Item 4 Business Overview Aircraft and note 6 to our financial statements as of and for the year ended

December 31, 2009.

**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.*

**A. Operating Results****Revenues**

We derive our revenues primarily from transporting passengers on our aircraft. In 2009, 88.1% of our revenues were derived from passenger fares, and the remaining 11.9% of our revenues were derived from ancillary revenues principally from our cargo 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, including revenue from our *Smiles* loyalty program, is recognized either when transportation is provided or when the ticket expires unused. Cargo revenue is recognized when transportation is provided. Other ancillary revenue consists primarily of ticket change fees, excess baggage charges, interest on installment sales and other incidental services. 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 demonstrates our main financial and operating performance indicators in 2008 and 2009.

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
Financial and Operating Data:		
Load-factor	61.6%	65.2%
Break-even load-factor	62.5%	60.8%
Aircraft utilization (block hours per day)	12.1	11.6
Yield per passenger kilometer (cents)	23.3	20.3
Passenger revenue per available seat kilometer (cents)	14.3	13.3
Operating revenue per available seat kilometer (cents)	15.6	15.1
Number of departures	268,540	273,602
Operating aircraft	106	108

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 (summer) and July (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.

The ANAC and the aviation authorities of the other countries in which we operate may influence our ability to generate revenues. In Brazil, the ANAC approves the concession of slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new 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 ANAC.

## Operating Expenses

We seek to lower our operating expenses by operating a standardized fleet with a single-class of service, having one of the newest fleets in the industry, utilizing our aircraft efficiently, using and encouraging 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 the Brazilian infrastructure to produce, transport and store fuel is expensive and underdeveloped, especially in the north and northeast regions of the country. In addition, taxes applicable to the sale of jet fuel are high and are passed along to us. Our aircraft fuel expenses are variable and fluctuate based on global oil prices. 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. In 2009, fuel expenses represented 32.2% of our total operating expenses, as compared to 40.5% in 2008. In 2008, 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, varied significantly, reaching an all-time high of US\$ 145 in March, 2008 and decreasing to US\$44.60 per barrel at the end of 2008. At year end 2009 the price per barrel was US\$79.36. We currently enter into short-term arrangements to hedge against increases in oil prices and foreign exchange fluctuations. We believe that we have an advantage compared to industry peers in Brazil in aircraft fuel expenses because we mainly use Boeing 737 Next Generation aircraft that are more fuel efficient than other aircraft in the industry. We expect these advantages to improve in the future due to the increase of our fleet of fuel efficient new Boeing 737-800 Next Generation aircraft.

Our aircraft rent expenses are in U.S. dollars and have increased in line with the expansion of our operations. We use short-term arrangements to hedge against exchange rate exposure related to our lease payment obligations. In addition, leases for 20 of our aircraft are subject to floating-rate payment obligations that are based on fluctuations in international interest rates. We currently have hedging policies in place to manage our interest rate exposure.

Our maintenance, material and repair expenses consist of light (line) and scheduled heavy (structural) maintenance of our aircraft. Line maintenance and repair expenses are charged to operating expenses as incurred. Structural maintenance for aircraft leased under finance leases is capitalized and amortized over the life of the maintenance cycle. Once the maintenance is performed, accrual does not commence again until the maintenance status is reduced below the return condition. Since the average age of our operating fleet was 6 years at December 31, 2009 and most of the parts on our aircraft are under multi-year warranties, our aircraft have required a low level of maintenance and therefore we have incurred low maintenance expenses. Our aircraft are covered by warranties that have an average term of three to five years. The warranties on the aircraft we received in 2009 under our firm purchase order with Boeing will start expiring in 2013. Thus, with regard to the accounting for aircraft maintenance and repair costs, our current and past results of operations may not be indicative of future results. Our Aircraft Maintenance Center in Confins, in the State of Minas Gerais is certificated for the maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We currently use the new facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We believe that we have an advantage compared to industry peers in maintenance, materials and repairs expenses due to the use of Boeing 737 Next Generation aircraft that allows for phased maintenance as described in this annual report, and due to the internalization of our maintenance. We believe that this advantage will remain in the future.

Our sales and marketing expenses include commissions paid to travel agents, fees paid for our own and third-party reservation 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 92.4% of our consolidated passenger revenues through our website and API systems in the years ended December 31, 2008 and 2009, including internet sales through travel agents. For these reasons, we believe that we have an advantage compared to industry peers in sales and marketing expenses and expect this advantage will remain in the future.



Salaries, wages and benefits paid to our employees 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. We believe that we have an advantage compared to industry peers in salaries, wages and benefits expenses due to generally lower labor costs in Brazil as compared to other countries. We believe that these advantages will continue to exist in the future.

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.

Our break-even load factor, which is the passenger load factor that will result in operating revenues being equal to operating expenses, decreased from 62.5% to 60.8% between 2008 and 2009. This decrease has been primarily due to an increase in yield, which resulted in an increase in revenues per available seat kilometer, partially offset by the decrease in utilization, which increased our cost per available seat kilometer, and spreading of fixed costs over a greater number of available seat kilometers which benefited also our cost per available seat kilometer.

### **Brazilian Economic Environment**

As a company with most 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 2009, we grew 14.9% in terms of revenue passenger kilometers in the domestic market and considering both international and domestic market 3.1% . The relatively lower consolidated growth rate compared to the domestic market is due to the discontinuation of intercontinental flights operated in the first half of 2008, and the negative impact from the swine flu on our routes to Argentina and Chile. We believe the rate of growth in Brazil is important in determining our future growth capacity and our results of operations.

Our results of operations are affected by currency fluctuations. The vast majority 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 seven 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* fluctuations and increases in jet fuel prices are generally incorporated into the fare structures of Brazilian airlines. In 2009, 52.3% 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. In 2009, 47.7% of our operating expenses (excluding aircraft fuel) were denominated in *reais*, and the suppliers and service providers of these expense items generally attempt to increase their prices to reflect Brazilian inflation.

In the second half of 2008, the Brazilian economy began to reflect the effects of the global financial markets and economic crisis, with slower GDP growth, a weakening *real*, increasing unemployment rates, decreasing liquidity and reduced consumer spending. This led to a slow down in the air transportation industry growth rate during the first half

of 2009, which was offset by a strong growth observed during the second half of 2009 due to (i) an improved and more stable macroeconomic scenario and a stimulating demand and pricing environment, and (ii) an improved consumer confidence in Brazil driven by the election of Brazil to host the soccer 2013 Confederations Cup and 2014 World Cup, and the election of Rio de Janeiro as the host of the Summer Olympic Games in 2016.

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 of the periods indicated.

	<b>December 31,</b>		
	<b>2007</b>	<b>2008</b>	<b>2009</b>
Real growth in gross domestic product	5.4%	5.1%	(0.2)%
Inflation (IGP-M) <sup>(1)</sup>	7.7%	9.8%	(1.7)%
Inflation (IPCA) <sup>(2)</sup>	4.5%	5.9%	4.3%
CDI rate <sup>(3)</sup>	11.1%	13.5%	8.6%
LIBOR rate <sup>(4)</sup>	4.7%	1.4%	0.3%
Depreciation (appreciation) of the <i>real</i> vs. U.S. dollar	(20.7)%	32.2%	(25.5)%
Period-end exchange rate US\$1.00	R\$1.7713	R\$ 2.337	R\$1.7412
Average exchange rate US\$1.00	R\$1.9483	R\$1.8364	R\$1.9946
Period-end West Texas intermediate crude (per barrel)	US\$96.00	US\$ 44.6	US\$79.36
Period-end Increase (decrease) in West Texas intermediate crude (per barrel)	57.2%	(53.5)%	(77.9)%
West Texas Intermediate crude (average per barrel during period)	US\$72.23	US\$99.92	US\$62.09
Average Increase (decrease) in West Texas Intermediate crude (per barrel)	9.3%	(38.3)%	(37.8)%

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

(5) Represents the average of the exchange rates on the last day of each month during the period.

### **Critical Accounting Policies**

The preparation of our consolidated financial statements in conformity with IFRS 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 those that are reflective of significant judgments and uncertainties, and potentially result in materially different outcomes under different assumptions and conditions. For a discussion of

these and other accounting policies, see Note 2 to our consolidated financial statements.

*Accounting for Property, Plant and Equipment.* Property, plant and equipment, including rotatable parts, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Each component of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item is depreciated separately. Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as rotatable spares purchased separately, are carried as fixed assets and generally depreciated in line with the fleet to which they relate. Pre-delivery deposits refer to prepayments made based on the agreements entered into with Boeing Company for the purchase of Boeing 737-800 Next Generation aircraft and includes interest and finance charges incurred during the manufacture of aircraft and the leasehold improvements.

The following table shows a breakdown of our property, plant and equipment along with information about their respective estimated useful lives and residual values:

	<b>Estimated Useful Life</b>
Leasehold improvements to flight equipment	Lower of lease term or useful life
Aircraft flight equipment	25 years
Rotables	25 years
Maintenance and engineering equipment.	10 years
Major overhaul expenditures	5 years
Communication and meteorological equipment	10 years
Computer hardware and software	5 years

Under IAS 16 Property, Plant and Equipment, major engine overhauls including replacement spares and labor costs, are treated as a separate asset component with the cost capitalized and depreciated over the period to the next major overhaul. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred. Interest costs incurred and exchange differences on borrowings that fund progress payments on assets under construction, including pre-delivery deposits to acquire new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or aircraft delivery. Exchange differences are capitalized to the extent that they are regarded as an adjustment to interest costs.

In estimating the lives and expected residual values of its aircraft, the Company primarily has relied upon actual experience with the same or similar aircraft types and recommendations from Boeing, the manufacturer of the Company's aircraft. Aircraft estimated useful lives are based on the number of cycles flown (one-take-off and landing). The Company has made a conversion of cycles into years based on both its historical and anticipated future utilization of the aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to the Company's maintenance program, changes in utilization of the aircraft (actual cycles during a given period of time), governmental regulations related to aging aircraft, and changing market prices of new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. These adjustments are accounted for on a prospective basis through depreciation and amortization expense, as required by IFRS. The Company revised the depreciation rates used for aircraft under financial leases, aircraft reconfiguration and spare parts, from 5% to 4%, to reflect better compatibility with the useful life of these assets, supported on technical studies approved by the Company's management. This change in economic useful life was applied prospectively in the financial statements since April 1, 2009. The related reduction of depreciation arising from the change in economic useful life in the year ended December 31, 2009 amounted to R\$12.0 million and an increase of 1.6% in our net income before taxes for the year ended December 31, 2009.

We evaluate annually whether there is an indication that our property, plant and equipment may be impaired. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset(s), a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of the long-lived assets. We have not identified any impairments related to our existing aircraft fleet. As of 31 December 2009 and 2008, no impairment on property, plant and equipment assets was recognized.

*Lease accounting.* Aircraft lease agreements are accounted as either operating or capital leases (finance leases). When the risks and benefits of the lease are transferred to us, as lessee, the lease is classified as capital lease. Capital leases are accounted as an acquisition obtained through a financing, with the aircraft recorded as a fixed asset and a

corresponding liability recorded as a loan. Capital leases are recorded based on the lesser of the fair value of the aircraft or the present value of the minimum lease payments, discounted at an implicit interest rate, when it is clearly identified in the lease agreement, or market interest rate. The aircraft is depreciated through the lesser of its useful life or the lease term. Interest expense is recognized through the effective interest rate method, based on the implicit interest rate of the lease. Lease agreements that do not transfer de risks and benefits to us are classified as operating leases. Operating leases are accounted as a rent, and the lease expense is recognized when incurred through the straight line method.

Sale-lease back transactions that result in a subsequent operating lease have different accounting treatments depending on the fair value of the fair value, the price and the cost of the sale. If the fair value is less than the carrying amount of the asset, the difference is recognized as a loss immediately. When the sale gives rise to a gain it is recognized up to the fair value, the excess is deferred and amortized throughout the term of the lease. When the sale results in a loss and the carrying amount is not greater than fair value, the loss is deferred if compensated by future lease payments. If the carrying amount is greater than fair value it is written down to fair value, and if there is still a loss it is deferred if compensated by future lease payments.

Lease accounting is critical for us because it requires an extensive analysis of the lease agreements in order to classify and measure the transactions in our financial statements and significantly impacts our financial position and results of operations. Changes in the terms of our outstanding lease agreements and the terms of future lease agreements may impact the accounting for the lease transactions and our future financial position and results of operations.

*Goodwill and Intangible Assets.* We have allocated goodwill and intangible assets with indefinite lives acquired through business combinations for the purposes of impairment testing to a single cash-generating unit, the operating subsidiary VRG. Goodwill is tested for impairment annually by comparing the carrying amount to the recoverable amount of the cash-generating unit level that has been measured on the basis of its value-in-use, by applying cash flow projections in the functional currency based on the Company's approved business plan covering a five-year period followed by the long-term growth rate of 3%. The pre-tax discount rate applied to the cash flow projections is 23.1%. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure the recoverable amount. Assumptions in the Company's impairment evaluations are consistent with internal projections and operating plans. Airport operating rights were acquired as part of the acquisition of VRG and were capitalized at fair value at that date and are not amortized. Those rights are considered to have indefinite useful lives due to several factors and considerations, including requirements for necessary permits to operate within Brazil and limited slot availability in the most important airports in terms of traffic volume. VRG tradenames were acquired as part of the VRG acquisition and were capitalized at fair value at that date. The tradenames are considered to have an indefinite useful life (and are not amortized) due to several factors and considerations, including the brand awareness and market position, customer recognition and loyalty and the continued use of the VARIG tradenames. The carrying values of the airport operating rights and tradenames are reviewed for impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that carrying values may not be recoverable. No impairment has been recorded to date. Costs related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately and amortized over a period not exceeding five years on a straight-line basis. The carrying value of these intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. The Company assesses at each balance sheet date whether intangibles with indefinite useful lives are impaired using discounted cash flow analyses, which considers the creditworthiness of the issuer of the security, as further described in Note 8 to our financial statements. As of 31 December 2009 and 2008, no impairment on goodwill and other intangible assets was recognized.

*Derivative Financial Instruments.* The Company accounts for derivative financial instruments in accordance with IAS 39. In executing the risk management program, management uses a variety of financial instruments, including petroleum call options, interest fixed-price swap agreements, and foreign currency forward contracts to protect against sharp changes in market prices and to mitigate the volatility of its expenditures related to these prices. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognized at fair value and subsequently the change in fair value is recorded in profit or loss, unless the derivative meets the strict criteria for hedge accounting which are accounted for as cash flow hedges.

For hedge accounting purposes, according to IAS 39, the hedge instrument is classified as a cash flow hedge when it protects against the exposure to fluctuations in cash flow that are attributable to a particular risk associated with an asset or liability recognized regarding an operation that is highly likely to occur or to an exchange rate risk for an unrecognized firm commitment.

At the beginning of a hedge transaction, the Company designates and formally documents the item covered by the hedge, as well as the objective of the hedge and the risk policy strategy. Documentation includes identification of the hedge instrument, the item or transaction to be protected, the nature of the risk to be hedged and how the entity will determine the effectiveness of the hedge instrument in offsetting exposure to variations in the fair value of the item covered or the cash flows attributable to the risk covered. The purpose is that such hedge instruments will be effective in offsetting the changes in fair value or cash flows and they are constantly appraised to determine if they really have been effective throughout the entire period for which they have been designated.



According to the provisions of IAS 39, the effective portion of the gain or loss on change in the fair value of the hedging instrument is recognized directly in equity, while any ineffective portion is recognized immediately in profit or loss.

Amounts classified in equity are transferred to profit or loss each period in which the hedged transaction affects profit or loss. If the hedged item is the cost of a non-financial asset, the amounts classified in equity are transferred to the initial carrying amount of the non-financial asset.

If the forecast transaction or the firm commitment is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the hedging instrument expires, is terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognized in equity are recognized in profit or loss.

The Company measures quarterly the effectiveness of the hedge instruments in offsetting changes in prices. Derivative financial instruments are effective if they offset between 80% and 125% of the changes in price of the item for which the hedge has been contracted. Any gain or loss resulting from changes in the fair value of the derivative financial instruments during the quarter in which they are not qualified for hedge accounting, as well as the ineffective portion of the instruments designated for hedge accounting are recognized as other finance income (expenses).

The Company had the following derivative financial instruments classified as cash flow hedges: petroleum call options, foreign currency call options denominated in U.S. Dollars, forward contracts for U.S. Dollars and interest fixed-price swap agreements for Libor.

*Aircraft maintenance and repair costs.* Our aircraft lease agreements specifically provide that we, as lessee, are responsible for maintenance of the leased aircraft and engines, and we must meet specified airframe and engine return conditions upon lease expiration. Under certain of our existing lease agreements, we pay maintenance deposits to aircraft and engine lessors that are to be applied to future maintenance events. These deposits are calculated based on a performance measure, such as flight hours or cycles, and are available for reimbursement to us upon the completion of the maintenance of the leased aircraft. If there are sufficient funds on deposit to reimburse us for our maintenance costs, such funds are returned to us. The maintenance deposits paid under our lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, we maintain the right to select any third-party maintenance provider or to perform such services in-house. Therefore, we record these amounts as a deposit on our balance sheet and recognize maintenance expense when the underlying maintenance is performed, in accordance with our maintenance accounting policy. Certain of our lease agreements provide that excess deposits at the end of the lease term are not refundable to us. Such excess could occur if the amounts ultimately expended for the maintenance events were less than the amounts on deposit. Any excess amounts held by the lessor or retained by the lessor upon the expiration of the lease, which are not expected to be significant, would be recognized as additional aircraft rental expense at the time it is no longer probable that such amounts will be used for maintenance for which they were deposited. The amount of aircraft and engine maintenance deposits expected to be utilized in the next twelve months is classified in current assets.

At the inception of the leases, our initial estimates of the maintenance expenses are equal to or in excess of the amounts required to be deposited. This demonstrates it is probable the amounts will be utilized for the maintenance for which they are to be deposited and the likelihood of an impairment of the balance is remote. There has been no impairment of our maintenance deposits.

A summary of activity in the Aircraft and Engine Maintenance Deposits is as follows:

	2008	2009
	(in thousands of <i>reais</i> )	
Beginning of year	322,354	391,989
Amounts paid in	142,282	103,480
Reimbursement of expense incurred	(72,647)	(48,939)
End of year	391,989	446,530

Additionally, some of our lessors agreed that we replace the deposits with letters of credit and use the deposited funds to settle other amounts owed under the leases. As of December 31, 2009, the balance of deposits released amounted to R\$76.1 million, as compared to R\$129.7 million as of December 31, 2008. Many of our new aircraft leases do not require maintenance deposits.

Our fleet plan contemplates the replacement of some operating leases with financing lease agreements, in line with our plan to further standardize our fleet, especially by replacing our Boeing 737-300 aircraft by Boeing Next Generation 737-700 and 737-800 aircraft. Due to the performance advantages of Boeing Next Generation 737-700 and 737-800 aircraft, we believe these aircraft should sustain attractive market valuations over the next years. We therefore intend to increase the number of financing leases. In light of this trend, our maintenance deposit accounts should decrease in the near term, subject to significant potential variations, including the actual cost of maintenance, the timing of the maintenance, aircraft cycles and potential new maintenance requirements

*Revenue Recognition and Mileage Program.* Passenger revenue is recognized either when transportation is provided or when the unused ticket expires. Tickets sold but not yet used are recorded as advance ticket sales that represents primarily deferred revenue for tickets sold for future travel dates and also estimated refunds and exchanges of tickets sold for past travel dates. Estimated refunds and exchanges included in the advance ticket sales account are compared with actual refund and exchange activities every month to monitor their reasonableness. These estimates are based on historical data and experience.

Since the acquisition of VRG, the Company operates a frequent flyer program, ( *Smiles Program* ) that provides travel and other awards to members based on accumulated mileage credits. The obligations assumed under the *Smiles Program* were valued at the acquisition date at estimated fair value that represents the estimated price the Company would pay to a third party to assume the obligation for miles expected to be redeemed under the *Smiles Program*.

The sale of passenger tickets by the Company includes air transportation and mileage credits. The Company sales of miles to business partners includes marketing and mileage credits. The fair value of the mileage credit, net of breakage is determined based (i) on weighted-average price of passenger tickets sold by VRG considering the mileage amount necessary to issue a ticket when VRG offers mileage for flying and, (ii) on weighted-average price at which the Company sells mileage credits to business partners. The fair value of the mileage credits sold and the mileage component of passenger ticket sales is deferred and recognized as revenue when miles are redeemed and services are provided based on the weighted-average price of all miles that have been deferred. The portion of the revenue received in excess of the fair value of mileage credits sold (the *marketing premium* ) is recognized in income when the related marketing services are provided and classified as cargo and other revenue.

*Share-Based Payments.* The Company measures the fair value of equity-settled transactions with employees at the grant date using an appropriate valuation model. The resulting amount, as adjusted for forfeitures is charged to income over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The change in cumulative expense since the previous balance sheet date is recognized in the income statement with a corresponding entry in equity.

*Provisions.* For certain operating leases, the Company is contractually obligated to return aircraft in a defined condition. The Company accrues for restitution costs related to aircraft held under operating leases at the time the asset does not meet the return condition criteria throughout the duration of the lease. Other provisions are recorded for probable losses and are reviewed based on the development of lawsuits and the background of losses on labor and civil claims, based on the best current estimate.

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

*Deferred taxes.* Deferred taxes are calculated based on tax losses, temporary differences arising on differences between tax bases and carrying amounts for financial reporting purposes of our assets and liabilities.

Even though unused tax losses and temporary differences have no expiration date in Brazil, deferred tax assets are recorded when there is evidence that future taxable profit will be available to use such tax credits. We record our deferred tax assets based on projections for future taxable profits, which considers a number of assumptions for revenue increase, for operating costs such as jet fuel prices, leasing expenses and etc. Our business plan is revised annually in order to reevaluate the amounts to be recorded as deferred tax assets.

Deferred taxes is a critical accounting policy for us because it requires a number of assumptions and is based on our best estimate of our projections related to future taxable profit. In addition, because the preparation of our business plan is subject to a variety of market conditions, the results of our operations may vary significantly from our projections and as such, the amounts recorded as deferred tax assets may be impacted significantly in the future.

## Results of Operations

### *Year 2009 Compared to Year 2008*

Our results of operations in 2009 were affected by the following key drivers:

*VRG Merger:* Our corporate restructuring, which allowed us to fully integrate VRG into our operations, was concluded in the last quarter of 2008 and therefore we were operating on a fully integrated basis since January 2009. The merger was the key driver to the cost reduction and optimization of our route network, enabling us to gather the expected synergies from the VRG acquisition in 2007 (including the revamp of our *Smiles* loyalty program), benefit from our high frequency route network and generate operating profits in all quarters of 2009.

*Better market positioning and focus on our competitive strengths:* since the merger of VRG into our operations, we have focused on our core competitive strengths. We discontinued our intercontinental flights to the EU in mid-2008 and relied on our operations in Brazil and South America. According to TMC Brasil and Favecc, the largest business travel agency associations in Brazil, our market share among business passengers increased by 6.1 and 8.3 percentage points, from 34.5% to 40.7% and from 25.7% to 33.8%, respectively. These advantages combined with our low cost structure and dynamic yield management enabled us to also continue to offer low fares to compete against airlines and interstate buses and stimulate demand from the growing Brazilian middle class, resulting in a 6% increase in market share among first time travelers.

*Positive macroeconomic scenario:* demand in the Brazilian airline industry was, during the recent global financial crisis, not as significantly affected as worldwide air travel demand and demand in other consumer based industries in Brazil or worldwide. In 2009, volatility in the financial and oil markets was relatively low, which benefited our yield management and cost structure. The second half of 2009 was particularly positive, principally due to improved consumer confidence levels and an ongoing change in customer behavior, shifting towards a relative increase in leisure expenditures in the disposable income share of wallet. According to the Brazilian Ministry of Tourism, the Brazilian middle class will increase their share in the leisure segment from 35.5% between 2007 and 2009 to 58.5% between 2009 and 2011. In light of the combination of these factors, demand grew 17.7% in 2009 in the domestic market, the vast majority of which was generated during the second half, when the industry experienced domestic growth averaging more than 30% year over year from the last quarter 2008 as compared to the last quarter 2009. These positive factors were partially offset by a highly competitive scenario in the domestic market, principally during the months of September and October 2009.

We present in the following table information regarding our results of operations in IFRS in 2009 and 2008.



Table of Contents

	<b>Year Ended December 31,</b>	
	<b>2008</b>	<b>2009</b>
	<b>(in R\$, except where indicated)</b>	
	<b>(in thousands)</b>	
<b>Income Statement Data:</b>		
Net operating revenues:		
Passenger	5,890,104	5,306,530
Cargo and other	516,089	718,852
<b>Total net operating revenues</b>	<b>6,406,193</b>	<b>6,025,382</b>
Operating expenses:		
Salaries, wages and benefits	(983,783)	(1,100,953)
Aircraft fuel	(2,630,834)	(1,813,104)
Aircraft rent	(645,089)	(650,683)
Sales and marketing	(588,735)	(364,551)
Landing fees	(338,370)	(312,637)
Aircraft and traffic servicing	(422,177)	(381,721)
Maintenance, materials and repairs	(388,030)	(417,212)
Depreciation and amortization	(125,127)	(142,853)
Other operating expenses	(372,696)	(428,376)
<b>Total operating expenses</b>	<b>(6,494,841)</b>	<b>(5,612,090)</b>
<b>Operating income (loss)</b>	<b>(88,648)</b>	<b>413,292</b>

We had operating income of R\$413.2 million in 2009 compared to operating losses of R\$88.6 million in 2008. Our operating margin was 6.9% in 2009, and a negative 1.4% in 2008. We reported net income in 2009 of R\$890.8 million compared to a net loss of R\$1,239.3 million for 2008. Income before income tax was R\$756.1 million in 2009 compared to losses before income tax of R\$1,195.0 million in 2008.

*Net Operating Revenues.* Net operating revenues decreased 5.9% to R\$6,025.4 million in 2009 as a result of our decision to discontinue intercontinental flights since the second half of 2008, focusing our operations in the domestic market, South America and deploying new routes to the Caribbean Region (Aruba and Curacao). Consolidated demand increased 3.1%. Domestic market demand increased by 14.9%, while in the international market dropped 44.2% as a result of the discontinuation of our intercontinental flights to the EU in mid 2008 and the low demand to our routes to Argentina and Chile, due to the swine flu, especially during the second and third quarter of 2009. The higher demand was partially offset by a 12.6% decrease in yields to R\$20.34 cents in 2009 from R\$23.27 cents in 2008 due to a variety of factors: (i) more stable capital markets scenario, (ii) lower selling expenses in the domestic market due to a gradual decrease during 2009 of commissions paid to travel agencies in the domestic market (valid for all players in the industry) which were fully extinguished in February 2010, (iii) a highly competitive scenario in the domestic market, principally during the months of September and October 2009 and (iv) high demand growth from Brazilian consumers during the second half of 2009, mainly due to the positive economic scenario and improved consumer confidence.

Despite the 1.8% increase in the average number of operating aircraft from 106.4 in 2008 to 108.7 in 2009, our operating capacity decreased 2.7% in terms of available seat kilometers, from 41,107 million in 2008 to 39,998

million in 2009. The lower capacity was mainly due to the discontinuation of the long haul flights and our focus on fine tuning our capacity to demand growth by adjusting our aircraft utilization rate, especially during the first half of 2009, when the macroeconomic environment was still not as positive as during the second half of 2009. As a consequence, our utilization rate dropped 4.1% from 12.2 in 2008 to 11.6 in 2009. The number of departures increased 1.9% from 268,540 in 2008 to 273,602 in 2009 driven by our strategy to focus our operations in Brazil, South America and Caribbean markets, reflecting our average stage length to decrease by 4.7% from 933 km in 2008 to 890 km in 2009.

Our load factor increased 3.7 percentage points from 61.6% in 2008 to 65.3% in 2009, mainly due a 2.7% decrease in available seat kilometers and a 3.1% increase in revenue passenger kilometers.

Our ancillary revenues are derived from the *Gollog* and *Voe Fácil* businesses as well as ticket change fees, excess baggage charges, *Smiles* co-branded credit card and other incidental services, and are an increasingly important part of our revenue composition. Our ancillary and other revenues increased 39.3% from R\$516.1 million in 2008 to R\$718.9 million in 2009, representing 11.9% of our total net revenues, mainly due to one off revenues of R\$48.1 million related to image rights and rental of our *Smiles* client database as part of the co-branded credit card contract, higher revenues from cargo transportation and other fees related to flight rescheduling and excess baggage.

Table of Contents

*Operating Expenses.* Operating expenses per available seat kilometer decreased 11.2% to R\$14.03 in 2009, primarily due to (i) a 29.2% decrease in fuel cost from R\$6.40 cents in 2008 to R\$4.53 cents in 2009, (ii) a more favorable macroeconomic scenario in Brazil and (iii) the better cost structure after fully integrated VRG into our operations in the last quarter of 2008. Operating expenses per available seat kilometer excluding fuel increased by 1.2% to R\$9.50 in 2009, mainly due to non-recurring expenses related to (i) the fleet renewal carried out in 2009 in order to further standardize our fleet, which, since January 2010, has been fully comprised of Boeing Next Generation aircraft Boeing 737-700, and 737-800, and (ii) non-recurring expenses related to VRG merger concentrated in the first half of 2009, and recurring expenses related to Boeing 767 aircrafts.

Our breakeven load factor decreased 1.6% percentage points to 60.8% in 2009 compared to 62.4% in 2008, primarily due the lower fuel cost per liter and lower cost structure, a 3.7 percentage points increase in load factor, partially offset by a 12.6% decline in yields.

The breakdown of our operating expenses on a per available seat kilometer basis for 2009 compared to 2008 is as follows.

	Year Ended December 31,	
	2008	2009
	<b>(cost per available seat kilometer in R\$ cents)</b>	
Operating expenses:		
Salaries, wages and benefits	2.39	2.75
Aircraft fuel	6.40	4.53
Aircraft rent	1.57	1.63
Sales and marketing	1.43	0.91
Landing fees	0.82	0.78
Aircraft and traffic servicing	1.03	0.95
Maintenance materials and repairs	0.94	1.04
Depreciation and amortization	0.30	0.36
Other operating expenses	0.91	1.08
Total operating expenses	15.80	14.03
Cost per flight hour	16.84	14.88

Salaries, wages and benefits increased 11.9%, or R\$117.2 million, due to a 8% cost of living increase on salaries effected in December 2008, a 12.9% increase in the number of employees from 15,911 in 2008 to 17,963 in 2009 (mainly due to the internalization of our call center) and a provision for our profit sharing plan of R\$71 million, due to the company's return to profitability. Salaries, wages and benefits per available seat kilometer increased 15.2% due to the same reasons, although less diluted due to the decrease in available seat kilometers in 2009.

Aircraft fuel expense decreased 31.1%, or R\$817.7 million, primarily due to a 37.9% decrease in average oil (WTI) prices, partially offset by an 8.5% average appreciation of the U.S. dollar against the *real*. Aircraft fuel expense per available seat kilometer decreased 29.2% due to the same reasons, although less diluted by the decrease in available seat kilometers in 2009.



Aircraft rent, which we incur in U.S. dollars, increased 0.9%, or R\$5.6 million, due to a 4.4% increase in the total fleet under operational leases from 90 in 2008 to 94 in 2009. This tendency was partially offset by an 8.5% average appreciation of the U.S. dollar against the *real*. Aircraft rent per available seat kilometer increased 3.6%, reflecting a lower expense dilution due to the lower available seat kilometers in 2009.

Sales and marketing expense decreased 38.1%, or R\$224.2 million, resulting from the integration of VRG's reservation systems that optimized selling expenses as well as the progressive decrease in travel agent commissions for domestic market sales. Sales and marketing per available seat kilometer decreased 36.2% due to the same reasons, although diluted by the decrease in available seat kilometers in 2009.

Landing fees decreased 7.6%, or R\$25.7 million, mainly due to the discontinuation of intercontinental flights in the second half of 2008 resulting in lower fares, partially offset by the 1.9% increase in the number of departures. Landing fees per available seat kilometer increased 4.7% due to the same reasons, although less diluted by the decrease in available seat kilometers in 2009. Aircraft and traffic servicing expense increased 9.6%, or R\$40.5 million, primarily due to same reasons that impacted landing fees. Aircraft and traffic servicing expense per available seat kilometer decreased 7.3% due to the decrease in the total capacity as a result of our decision to discontinue intercontinental flights as of July 2008.

Maintenance, materials and repairs increased 7.5%, or R\$29.2 million, due to increased maintenance expenses related to the return of part the Boeing 737-300 fleet as part of the further fleet standardization and renovation plan, partially offset by a 8.8% decrease in engine overhauls from 58 in 2008 to 51 in 2009. Maintenance, materials and repairs per available seat kilometer decreased 11.0% primarily due to the same reasons, although less diluted by the decrease in available seat kilometers in 2009.

Depreciation and amortization increased 14.2% or R\$17.7 million, due primarily to the increase in fixed assets resulting from the addition of 8 aircraft as finance leases during 2009. Depreciation and amortization per available seat kilometer increased 19.1% due to the same reasons, although less diluted by the decrease in available seat kilometers in 2009.

Other operating expenses increased 14.9%, or R\$55.7 million, due to expenses of R\$73.0 million related to the integration of accounting systems that provided further automation of our consolidation process and adherence to the Brazilian Federal Taxes Installment Payment Program (REFIS), to finance past due taxes in up 180 installments. Other operating expenses per available seat kilometer decreased 18.7% due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

*Financial Income.* Financial income totaled R\$342.8 million as of December 31, 2009, compared to a financial expense of R\$1.106.4 million in 2008, mainly as a result of non-cash foreign exchange variation gain on our assets and liabilities of R\$713.4 million due to the impact of the appreciation of the *real* against the U.S. dollar during 2009.

*Income Taxes.* We recorded an income tax benefit of R\$134.7 million in 2009, compared to an expense of R\$44.3 million, mainly due to the use of tax credits in the amount of R\$135.3 million from tax losses generated by VRG, acquired in 2007. This change was possible due to our positive operating profit for the last six quarters and we expect that this trend will continue in the next years

### ***Year 2008 Compared to Year 2007***

Our results of operations in 2008 were affected by the following key drivers:

*Macro-economic conditions:* Record-high fuel prices in the first half of 2008 and a strong devaluation of the *real* against the U.S. dollar in the second half of 2008 have negatively affected our results of operations in 2008. Average crude oil WTI was up 38.3% year-over-year, from US\$72.23 per barrel in 2007 against US\$99.92 per barrel in 2008. In March 2008, crude oil WTI peaked at a historical record of US\$145.29 per barrel. In the context of the global financial markets and credit crisis oil prices sharply decreased in the fourth quarter of 2008, with crude oil WTI closing in 2008 at US\$44.60 per barrel. While the average exchange rate of the *real* against the U.S. dollar year over year decreased 5.6% from R\$ 1.95 per US\$1.00 in 2007 to R\$1.84 per US\$1.00 in 2008, the *real* depreciated 31.9% in absolute terms in the second half of 2008, from an all time high of R\$1.56 per US\$1.00 in July, 2008 to R\$2.34 at year end 2008.

*VRG acquisition:* In April 2007, we acquired VRG as part of our strategy to strengthen our market position with VRG's route rights, airport operating rights and the largest passenger loyalty program in South America. The acquisition was approved by the ANAC on April 3, 2007 and by the Brazilian antitrust authority CADE on June 25, 2008. Until the CADE approval and the subsequent corporate restructuring, we had to operate two fully separate airlines until September 30, 2008, which resulted in lower overall load factors, an overlap in flight networks, increased operating and overhead costs and therefore lower efficiency for the year. In addition, the operational and technological integration of VRG caused substantial costs in 2008. The launch and cancellation of our long-haul operations to European destinations, a business we opportunistically entered into at the end of 2007, did not prove successful and resulted in lower than expected revenues and higher than expected operating and administrative costs. Meanwhile, we

were not able to return or sublease all of the seven Boeing 767 wide-body aircraft, all of which we stopped operating during the second half of 2008. Our corporate restructuring took place in September 2008, which allowed us, commencing in the last quarter of 2008, to consolidate our flight network, standardize our aircraft maintenance and optimize employee allocation by standardizing job positions, responsibilities and salaries. We were, as a consequence, able to achieve operating income of R\$53.9 million for the last quarter of 2008.

*Low fleet utilization and higher fares:* Due to the above factors, our results of operations in 2008 were atypical, with a 32.2% increase in average fares and a reduction in block hours from 13.8 in 2007 to 12.1 in 2008. The cancellation of our long-haul operations and the increase in the minimum turnaround time for our aircraft led to the 1.7 block hours reduction in our aircraft utilization and a reduction from nine flight legs per day in 2007 to seven flight legs per day in 2008. On a cost per available seat kilometer basis, this effect was partially offset by our 19.7% increase in available seat kilometers in 2008. Increased fuel expenses led us to increase average fares by 32.3%, which increased our yields and revenues per available seat kilometers.

We present in the following table information regarding our results of operations in IFRS in 2008 and 2007.

	<b>Year Ended December 31,</b>	
	<b>2007</b>	<b>2008</b>
	<b>(in R\$, except where indicated)</b>	
	<b>(in thousands)</b>	
<b>Income Statement Data:</b>		
Net operating revenues:		
Passenger	4,566,691	5,890,104
Cargo and other	374,293	516,089
Total net operating revenues	4,940,984	6,406,193
Operating expenses:		
Salaries, wages and benefits	(799,344)	(983,783)
Aircraft fuel	(1,898,840)	(2,630,834)
Aircraft rent	(525,785)	(645,089)
Sales and marketing	(367,866)	(588,735)
Landing fees	(273,655)	(338,370)
Aircraft and traffic servicing	(348,732)	(422,177)
Maintenance, materials and repairs	(339,281)	(388,030)
Depreciation and amortization	(62,548)	(125,127)
Other operating expenses	(315,068)	(372,696)
Total operating expenses	(4,931,119)	(6,494,841)
Operating income (loss)	9,865	(88,648)

We incurred operating losses of R\$88.6 million in 2008, compared to operating profit of R\$9.9 million in 2007. Our operating margin in 2008 was a negative 1.4%, and break-even in 2007. We reported a net loss for the year 2008 of R\$1,239.3 million compared to profit of R\$167.3 million for 2007. Losses before income tax were R\$1.195.0 million in 2008 compared to income before income tax of R\$200.9 million in 2007.

*Net Operating Revenues.* Net operating revenues increased 29.7% to R\$6,406.2 million in 2008, due primarily to a 15.5% increase in yield from R\$20.14 cents in 2007 to R\$23.27 cents in 2008. The increase in yield was mainly due to a 32.3% increase in average fares from R\$198 in 2007 to R\$262 in 2008, reflecting higher fuel prices during the first nine months of 2008. For the fourth quarter, yields remained at high levels due to better yield management under our new integrated route network that eliminated overlapping routes and schedules between the former Gol and Varig route networks. For the same reasons, our operating revenue per available seat kilometer increased by 8.3% from

R\$14.38 cents in 2007 to R\$15.58 cents in 2008.

Revenue passenger kilometers increased 11.6% from 22,670 million in 2007 to 25,308 million in 2008, while the number of enplaned passengers increased 8.3% from 23,689 in 2007 to 25,664 in 2008. Our revenue passenger kilometers growth in 2008 was mainly driven by a 13.2% increase in the number of departures from 237,287 in 2007 to 268,540 in 2008.

A 20.1% increase in the average number of operating aircraft from 88.6 in 2007 to 106.4 in 2008 resulted in a 19.7% increase in operating capacity, or available seat kilometers, from 34,349 million in 2007 to 41,107 million in 2008 and a 13.2% growth in departures from 237,287 in 2007 to 268,540 in 2008.

Our load factor decreased 4.4 percentage points from 66.0 in 2007 to 61.6 in 2008, mainly due a 19.7% increase in available seat kilometers and the inefficiency resulting from our parallel operation of two airline companies with partly overlapping route networks until October 2008.

Our ancillary revenues are derived from the *Gollog* and *Voe FÁCil* businesses as well as ticket change fees, excess baggage charges, charter service revenues and other incidental services, and are an increasingly important part of our revenue composition. Our ancillary and other revenues increased 37.9% from R\$374.3 million in 2007 to R\$516.1 million in 2008 representing 8.1% of our total revenues, mainly due to higher revenues from cargo transportation.

Table of Contents

*Operating Expenses.* Operating expenses per available seat kilometer increased 10.1% to R\$15.80 in 2008, primarily due to (i) the costs related to the integration of VRG in 2008, mostly related to non-recurring costs for closing of inter-continental long haul routes, aircraft return (Boeing 737-300 and Boeing 767 aircraft) and downtime (Boeing 767 aircraft) expenses and the implementation of a new integrated sales system and (ii) unfavorable macro-economic conditions. Operating expenses per available seat kilometer excluding fuel increased by 6.5% to R\$9.40 in 2008.

Our breakeven load factor decreased 3.4 percentage points to 62.5% in 2008 compared to 65.9% in 2007, primarily due to an increase in yield, which resulted in an increase in revenue per available seat kilometer, partially offset by the decrease in utilization, which increased our cost per available seat kilometer. Our breakeven load factor was also impacted by the spreading of fixed costs over a greater number of available seat kilometers which benefited our cost per available seat kilometer.

The breakdown of our operating expenses on a per available seat kilometer basis in IFRS for 2008 compared to 2007 is as follows.

	Year Ended December 31,	
	2007	2008
	<b>(cost per available seat kilometer in R\$ cents)</b>	
Operating expenses:		
Salaries, wages and benefits	2.33	2.39
Aircraft fuel	5.53	6.40
Aircraft rent	1.53	1.57
Sales and marketing	1.07	1.43
Landing fees	0.80	0.82
Aircraft and traffic servicing	1.02	1.03
Maintenance materials and repairs	0.99	0.94
Depreciation and amortization	0.18	0.30
Other operating expenses	0.92	0.91
Total operating expenses	14.36	15.80
Cost per flight hour	14.62	16.84

Salaries, wages and benefits increased 23.1%, or R\$184.4 million, due to a 5% cost of living increase on salaries effected in December 2007, the 20.1% increase in the average number of operating aircraft from 88.6 in 2007 to 106.4 in 2008, and the 1.2% increase in the number of employees in the year over year comparison. Salaries, wages and benefits per available seat kilometer increased 2.6% due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

Aircraft fuel expense increased 38.5%, or R\$732.0 million, primarily due to a 38% increase in WTI fuel prices, a 16% increase in fuel consumption derived from the increase in departures and capacity, and the devaluation of the *real* against the U.S. dollar in the second half of 2008. Aircraft fuel expense per available seat kilometer increased 15.7% due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

Aircraft rent, which we incur in U.S. dollars, increased 22.7%, or R\$119.3 million, due to a 20.1% increase in the average number operating aircraft from 88.6 in 2007 to 106.4 in 2008 and the devaluation of the *real* against the U.S. dollar in the second half of 2008. During the second half of 2008, we stopped operating our seven Boeing 767 aircraft, which we expect to return or sublease during 2009. Aircraft rent per available seat kilometer increased only 2.6% as the cost increase was offset by the 19.7% increase in available seat kilometers in 2008.

Sales and marketing expense increased 60.0%, or R\$220.9 million, resulting from (i) expenses incurred in operating both Gol and Varig as separate airlines until our corporate reorganization, (ii) the launch in 2008 of a new integrated sales system that improved the purchasing process, identifies operating and performance synergies and improves the performance and quality of the online sales service, and (iii) an increase in sales incentives mainly during the first nine months of 2008. Sales and marketing per available seat kilometer increased 34.0% due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

Landing fees increased 23.6%, or R\$64.7 million, mainly due to the 13.2% increase in departures. Landing fees per available seat kilometer increased 2.5% due to the same reasons, although diluted by the increase in available seat kilometers in 2008. Aircraft and traffic servicing expense increased 21.0%, or R\$73.4 million, primarily due to an increase of 20.1% in the average operating fleet, from 88.6 in 2007 to 106.4 in 2008, higher departures and lower average stage length. Aircraft and traffic servicing expense per available seat kilometer remained flat reflecting the full dilution of these expenses by the increase in available seat kilometers.

Maintenance, materials and repairs increased 14.4%, or R\$48.7 million, due to an increase in scheduled aircraft maintenance events during the year, reflecting (i) the larger average operating fleet and lower average stage length, which reduced scheduled maintenance periods and (ii) extraordinary expenses related to returned aircrafts during the second half of 2008. Maintenance, materials and repairs per available seat kilometer decreased 5.1% primarily due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

Depreciation and amortization increased 100% or R\$62.6 million, due primarily to the increase in fixed assets resulting from the addition of 12 aircraft to our consolidated fleet during the last quarter of 2007, including four 767-300 ERs operated under finance leases. This increased our total fixed assets to be depreciated during 2008, and also caused an increase in rotables and other parts and inventories for maintenance purposes. Depreciation and amortization per available seat kilometer increased 66.7% due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

Other operating expenses increased 14.9%, or R\$55.7 million, due to costs related to closing of international bases in 2008, an increase in insurance expenses and expenses related to cancelled flights and crew lodging expenses, especially during the first nine months of 2008. Other operating expenses per available seat kilometer decreased 3.2% due to the same reasons, although diluted by the increase in available seat kilometers in 2008.

*Financial* expenses totaled R\$1,106.4 million, compared to a financial income of R\$191.0 million in 2007, mainly as a result of non-cash foreign exchange variation loss of R\$757.5 million due to the devaluation of the *real* against the U.S. dollar in the second half of 2008, and to fuel and currency hedge losses of R\$131.8 million in the year.

*Income Taxes.* Income tax expenses increased 31.9%, or R\$10.7 million in 2008, as compared to 2007, mainly due to the fact that, in 2008, our prior operating subsidiary GTA had taxable profits for the nine months ended September 30, 2008, which could not be offset against losses in the operations of VRG, a separate legal entity until the execution of our corporate restructuring in September 2008. For further detail on our income tax expenses, see note 5 to our financial statements as of and for the year ended December 31, 2008 included herein.

## **B. Liquidity and Capital Resources**

### **Liquidity**

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. We have a strong balance sheet, especially our cash and cash equivalents position which amount to at least 20% of our trailing twelve months net operating revenues. We are also committed to have no significant financial debt maturities coming due within any three-year horizon.





The following table sets forth certain key liquidity data in IFRS at the dates indicated:

	<b>At December 31,</b>		
	<b>2008</b>	<b>2009</b>	<b>% Change</b>
	<b>(in millions of reais)</b>		
<b><i>Real Denominated</i></b>	<b>936.5</b>	<b>1,960.9</b>	<b>109.39%</b>
Cash and Cash Equivalents, Short Term			
Investments and Restricted Cash	591.6	1,441.6	143.68%
Short-term Receivables	344.9	519.3	50.57%
<b><i>Foreign Exchange Denominated</i></b>	<b>957.2</b>	<b>804.6</b>	<b>(15.94)%</b>
Pre-Delivery Deposit Advances	957.2	804.6	(15.94)%
<b>Total Cash Deposits</b>	<b>1,893.7</b>	<b>2,765.5</b>	<b>46.04%</b>

At December 31, 2009, cash and investments were R\$1,441.6 million, including R\$18.8 million in restricted deposits that guarantee a portion of BNDES, BDMG and hedge operations. The balance of R\$40.4 million in cash and cash equivalents represents of immediate liquid assets. The increase in total liquidity as compared to 2008 is mostly due to the operating cash flow generation and the several measures in 2009 taken towards increasing our liquidity such as a rights offering of R\$203.5 million, the issuance of a debenture of R\$400 million, the receipt of R\$252.7 million related to the *Smiles* co-branded credit card and a follow-on equity offering of R\$600.3 million.

Short-term receivables include credit card sales, the *Voe Fácil* installment payment program, accounts receivables from travel agencies and cargo transportation. At the end of 2009, we had significantly increased the volume of short-term receivables as compared to 2008, due to our better operating performance in 2009, which resulted in a 50.6% increase in our short-term receivables on December 31, 2009 as compared to December 31, 2008.

At December 31, 2009, we had R\$804.6 million deposited with Boeing as advances for aircraft acquisitions, a decrease of 12.1% as compared to December 31, 2008, mainly due to the return of approximately R\$40 million from the contracting of a PDP Facility in December 2009 and the lower number of new aircraft deliveries scheduled to be delivered from Boeing under our fleet plan in the next 18 months as compared to the same period in 2008.

As a result, our total cash deposits was R\$2,765.5 million at December 31, 2009 as compared to R\$1,893.7 million at December 31, 2008

## **Cash Flow Analysis**

*Operating Activities.* Our strategy is to rely primarily on cash flows from operations to provide working capital for current and future operations. In 2009, we generated R\$457.3 million cash from our operating activities. Excluding, however, the prepayment of a R\$467 million working capital loan with short-term receivables, we would have a use of operating cash of R\$300.1 million in 2008 (instead of the operating cash provided of R\$151.7 million), mainly due to our operating losses in 2008. In 2007, the year in which we acquired VRG, we used cash of R\$141.5 million in our operating activities due to net operating losses in 2007.

Our operating cash flows are affected by the requirement under the terms of certain of our aircraft operating lease agreements that we establish maintenance reserve deposit accounts for our aircraft that must be funded at specified levels. At December 31, 2009, we had R\$522.7 million of deposits under our aircraft operating leases for maintenance. Funds will be drawn from the maintenance reserve accounts to reimburse for certain structural

maintenance expenditures incurred. We believe the amounts deposited and to be deposited plus our own cash resources will be sufficient to service our future aircraft and maintenance costs for the duration of the applicable operating leases.

*Investing Activities.* During 2009, capital expenditures were R\$130.5 million, due to investments in airport infrastructure and stores, especially in South American destinations, information technology, rotables and spare parts. In 2008, capital expenditures were R\$346.0 million related to acquisitions of property, plant and equipment and cash generated was R\$40.6 million. During 2007, capital expenditures were R\$742.7 million, which included expenditures of R\$201.5 million for the VRG acquisition (net of cash acquired), R\$541.2 million related to acquisitions of property and equipment which included R\$255.3 million of pre-delivery deposits for aircraft acquisitions. Cash used in our investing activities in 2007 was R\$190.3 million, which included the capital expenditures described above and R\$566.9 million of net investments in liquid financial assets.

*Financing Activities.* Net cash provided by financing activities totaled R\$769.2 million in 2009, as compared to net cash used in financing activities of R\$611.3 millions in 2008, mainly due to receipt of net proceeds from a follow-on offering of common and preferred shares in the amount of R\$600.3 million concluded in October 2009 and receipt of net proceeds from a rights offering in the amount of R\$203.5 million concluded in the second quarter of 2009.

### Indebtedness

The following table sets forth our loans and financings at December 31, 2008 and 2009:

	<b>At December 31</b>		
	<b>2008</b>	<b>2009</b>	<b>% Change</b>
	(in millions of <i>reais</i> )		
Loans and Financing	695.0	1,003.1	44.33%
Aircraft Financing	2,284.9	1,800.8	(21,19)%
Interest	25.6	19.9	(22,27)%
Perpetual Bonds	414.4	310.1	(25.17)%
<b>Total Loans and Financing</b>	<b>3,419.9</b>	<b>3,133.9</b>	<b>(8.36)%</b>

At the close of fiscal year 2009, our total debt was R\$3.1 billion, with an average term of 4.0 years (excluding finance leases and perpetual notes) and an average rate of 10.1% for obligations in local currency and of 7.1% for U.S. dollar denominated obligations. Excluding our perpetual bonds, which have no maturity date, total loans and financing totaled R\$2.8 billion at December 31, 2009, with a positive foreign exchange effect generating a decrease of 5.6% in *reais* at the end of 2009 as compared to year end 2008, partially offset by an additional working capital line in the amount of R\$110 million contracted in September 2009.

### Loans

The following table sets forth our short- term and long-term loans (excluding aircraft financings) as of December 31, 2008 and 2009:

	<b>At December 31</b>		
	<b>2008*</b>	<b>2009*</b>	<b>% Change</b>
	(in millions of <i>reais</i> )		
<b>Short-term</b>			
<b>Real Denominated Loans</b>	<b>66.8</b>	<b>177.2</b>	<b>165.27%</b>
Working Capital	50.0	160.0	220.00%
BNDES(1)	14.2	14.4	1.41%
BDMG(2)	2.6	2.8	7.69%
<b>Foreign Currency Denominated Loans</b>	<b>19.5</b>	<b>14.5</b>	<b>(25.64)%</b>
IFC(3)	19.5	14.5	(25.64)%
<b>Total Short-term</b>	<b>86.3</b>	<b>191.7</b>	<b>122.14%</b>

**Long-term**

**Real Denominated Loans**

	<b>49.2</b>	<b>406.8</b>	<b>726.83%</b>
BNDES(1)	36.6	22.7	(37.98)%
BDMG(2)	12.6	10.1	(19.84)%
Debentures		374.0	100.0%

Table of Contents

<b>Foreign Currency Denominated Loans</b>	<b>559.5</b>	<b>404.5</b>	<b>(27.70)%</b>
IFC(3)	77.9	43.5	(44.16)%
Senior Notes	481.6	361.0	(25.04)%
<b>Total Long-term</b>	<b>608.7</b>	<b>811.3</b>	<b>33.28%</b>
<b>Total Loans ex-perpetual bonds</b>	<b>695.0</b>	<b>1,003.0</b>	<b>44.32%</b>
<i>Perpetual Bonds**</i>	414.4	310.1	(25.17)%
<b>Loans - including perpetual bonds</b>	<b>1,109.4</b>	<b>1,313.1</b>	<b>18.36%</b>

\* Does not include interest

\*\* No maturity term bonds

(1) Credit line with Banco Nacional de Desenvolvimento Econômico e Social (the Brazilian Development Bank)

(2) Credit line with Banco de Desenvolvimento Minas Gerais (Minas Gerais State Development Bank)

(3) Credit line with International Finance Corporation)

#### *Aircraft Financings:*

The following table sets forth our aircraft financings as of December 31, 2008 and 2009:

	<b>At December 31,</b>		
	<b>2008*</b>	<b>2009*</b>	<b>% Change</b>
	(in millions of <i>reais</i> )		
<b>Short-term (Foreign Currency)</b>			
PDP Facility	697.7	243.4	(65.11)%
Financial Leasings	157.9	136.7	(13.43)%
<b>Total Short-term (Foreign Currency)</b>	<b>855.6</b>	<b>380.1</b>	<b>(55.58)%</b>
<b>Long-term (Foreign Currency)</b>			
PDP Facility			
Financial Leasings	1,429.2	1,420.7	(0.59)%
<b>Total Long-term (Foreign Currency)</b>	<b>1,429.2</b>	<b>1,420.7</b>	<b>(0.59)%</b>
<b>Total Aircraft Financings*</b>	<b>2,284.8</b>	<b>1,800.8</b>	<b>(21.18)%</b>

\* Does not include interest

On December 31, 2009, aircraft financing debt totaled R\$1.8 billion, including:

- Pre-delivery deposits (PDP) facility for aircraft acquisition prepayments totaling R\$243.4 million. All of these financings are refinanced in a combination of both sale and lease-back transactions and long-term debt with financial institutions, backed by the U.S. EX-IM Bank.
- Finance leases totaled R\$1,557.5 million and are paid in monthly installments with funds generated from our operations. Financial expenses related thereto are booked as financial expenses on the income statement.

Total short-term debt at December 31, 2009 (excluding the Pre-Delivery Deposit Facility) consisting of finance leases of R\$136.7 million, working capital of R\$160.0 million, interest of R\$19.9 million and loans of R\$31.7 million, was R\$348.2 million.



The following table sets forth the maturities and interest rates of our indebtedness:

	<b>Maturity</b>	<b>Contractual Interest</b>	<b>Effective Interest p.a.</b>	<b>Currency</b>
		100% -128%		
Working Capital	Mar/10	of CDI	10.89%	Real
BNDES	Jul/12	TJLP +2.65%	8.90%	Real
BDMG	Jan/14	IPCA +6%	8.88%	Real
		126.5% of		
Debentures	Nov/14	CDI	11.03%	Real
		Libor		
IFC Loan	Jul/13	+1.875%	4.72%	U.S. dollar
Senior Notes	Apr/17	7.50%	7.50%	U.S. dollar
PDP Facility I	Feb/10	Libor + 0.5%	1.99%	U.S. dollar
PDP Facility II	Dec/10	Libor + 2.45%	2.68%	U.S. dollar
Perpetual Bonds	n/a	8.75%	8.75%	U.S. dollar

The following table sets forth the loans and financings amortization schedule:

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2013</b>	<b>After 2014</b>	<b>Total</b>
				<i>(in R\$ millions)</i>			
<b>Real Denominated</b>	<b>177.1</b>	<b>110.9</b>	<b>105.1</b>	<b>96.6</b>	<b>94.3</b>	-	<b>584.0</b>
BDMG	2.8	3.1	3.1	3.1	0.8	-	12.9
BNDES	14.3	14.3	8.5	-	-	-	37.1
Debentures	-	93.5	93.5	93.5	93.5	-	374.0
Working Capital	160.0	-	-	-	-	-	160.0
<b>Foreign Currency Denominated</b>	<b>14.5</b>	<b>14.5</b>	<b>14.5</b>	<b>14.5</b>	-	<b>361.0</b>	<b>419.0</b>
IFC	14.5	14.5	14.5	14.5	-	-	58.0
Senior Notes	-	-	-	-	-	361.0	361.0
<b>Total*</b>	<b>191.6</b>	<b>125.4</b>	<b>119.6</b>	<b>111.1</b>	<b>94.3</b>	<b>361.0</b>	<b>1,003.0</b>

*\*excluding interest expenses and aircraft financing*

For further information on our financing activities, see note 23 to our consolidated financial statements as of December 31, 2009.

### **Covenant Compliance**

Our long term financings, excluding the perpetual bonds and aircraft financings, in the aggregate amount of R\$811.3 million at December 31, 2009 contain customary covenants and restrictions, including but not limited to those that require us to maintain defined debt liquidity and interest expense coverage ratios.

We are subject to certain financial and performance indicators (covenants) based on consolidated financial statements such as: (1) net debt/EBITDAR, (2) current assets/current liabilities, (3) EBITDA/debt service, (4) short-term debt/EBITDA, (5) current ratio and (6) debt coverage index (DCI). At December 31, 2009, we had not met the minimum parameters established with BNDES and presented a letter of consent in compliance with the obligations



established in the contract. We were in compliance with all other covenants at December 31, 2009.

The debentures we issued during the second quarter of 2009 require the maintenance of certain debt service coverage index, which is defined as the ratio between our cash flow and debt service (total of the principal amortized plus interest paid) for any given fiscal year. VRG must obtain an index of at least 100% in 2009 and 130% in 2010, to be in compliance at the end of each respective period. In addition, VRG must also maintain its financial leverage ratio, which is defined as net adjusted debt divided by EBITDAR, below 7.0x. At December 31, 2009, we met the minimum required performance indicators for the debentures.

## Other Financing Sources and Measures

We declared aggregate dividends of R\$185.8 million, for the fiscal year 2009 and will offer our shareholders to reinvest the dividends and subscribe for new shares in a R\$185.8 million capital increase approved on March 11, 2010. We intend to extend these rights to holders of our ADRs. We declared dividends of R\$ 36.3 million for the fiscal year 2008.

On March 20, 2009, our board of directors approved a capital increase of a total of 26,093,722 shares comprising 6,606,366 common and 19,487,356 non-voting preferred shares to improve the company's cash position and capital structure and to ensure the level of investments planned. The issue price for all shares was fixed issued at R\$7.80 per share. Our controlling shareholders fully subscribed and paid for their portion of the capital increase in an amount of R\$150.0 million. On June 2, 2009, our board of directors authorized the subscription of all shares and approved the capital increase in an amount of R\$203.5 million.

On October 8, 2009, our board of directors approved the capital increase of R\$627.1 million in the context of a primary public offering of a total of 38,005,000 shares, comprising 19,002,500 common shares and 19,002,500 preferred shares. The issue price of the common and preferred shares was set at R\$16.50 per share, as defined in a bookbuilding procedure.

## Capital Resources

We typically finance our leased aircraft through operating and finance 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 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.

Our growth plans contemplate operating 119 aircraft by the end of 2012. As of December 31, 2009, we had firm purchase orders with The Boeing Company for 90 737-800 Next Generation aircraft and we have options to purchase an additional 40 737-800 Next Generation aircraft. Committed expenditures for these aircraft, based on aircraft list price and including estimated amounts for contractual price escalations and pre-delivery deposits, are US\$91.6 million in 2010, US\$115.0 million in 2011, US\$233.3 million in 2012, US\$246.7 million in 2013 and US\$127.0 million in 2014 and US\$90.1 beyond 2014. We expect to meet our pre-delivery deposits by using long term loans from private financial institutions guaranteed by triple A rated institutions and capital markets financings such as long term and perpetual bonds.

The firm aircraft orders represent a significant financial commitment for us. Pending the application of the proceeds from financing activities, we have invested these proceeds in overnight deposits and deposit certificates with highly-rated Brazilian banks and short-term investments, mainly highly-rated Brazilian government bonds.

We expect that the continuance of the commitment to us from the Export-Import Bank of the United States to provide guarantees covering 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. The remaining 15% of the aggregate purchase price for the firm order aircraft is expected to be funded by our cash or other financing alternatives. 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 strategy and business. The Company believes that it has and will in the future have appropriate funding resources available with the

combination of U.S. Eximbank supported financing, local development bank funding and sale and leaseback transactions.

### **Recent Accounting Pronouncements**

As of the date of our consolidated financial statements included elsewhere in this annual report, the following new and revised standards and interpretations were adopted by us and affected our consolidated financial statements:

- **IFRS 7 Financial Instruments Disclosures** (effective January 1, 2009) introduces a three-level hierarchy for fair value measurement disclosures and require entities to provide additional disclosures about the relative reliability of fair value measurements. We present our financial instruments according to the amendments made on this statement.

- IFRS 8 Operating Segments (effective for annual periods beginning on or after January 1, 2009) has been amended by the annual improvements issued in April 2009 and requires additional disclosures to operating segments. We have only one business segment: the provision of air transportation services within South America and Caribbean, where we operate domestic and international flights.
- IAS 1 (revised 2007) Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2009) has introduced a number of terminology changes (including revised titles for the financial statements) and has resulted in a number of changes in presentation and disclosure. However, the revised standard has had no impact on our reported results or financial position. IAS 1 requires an entity to present, in a statement of changes in equity, all owner changes in equity. All non-owner changes in equity (i.e. comprehensive income) are required to be presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). Components of comprehensive income are not permitted to be presented in the statement of changes in equity. We elected to present comprehensive income in two statements, a separate statement of operations and a statement of comprehensive income.
- IAS 34 Interim Financial Reporting (effective January 1, 2009) clarifies that earnings per share is disclosed in interim financial reports if an entity is within the scope of IAS 33. This standard defines the minimum content of an interim financial report including disclosures and also identifies the recognition and measurement principles that should be applied in an interim financial report. This amendment was already considered in our interim financial statements.

The following new and revised standards and interpretations have had no impact on our consolidated financial statements:

- IFRS 2 - Share-based payments: the purpose of this amendment is to give greater clarity in respect of vesting conditions and cancellations (effective January 1, 2009).
- IFRS 3 (revised 2008) Business Combinations - effective for business combinations for which the acquisition date is on or after the beginning of the first annual period beginning on or after July 1, 2009.
- IAS 16 Property, Plant and Equipment (effective January 1, 2009) introduced improvements regarding recoverable amount, replacing the term net selling price with fair value less costs to sell. In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale.
- IAS 21 (revised 2008) Effects of Foreign Exchange Rates - effective for annual periods beginning on or after July 1, 2009.
- IAS 23 (revised 2009) Borrowing Costs (effective January 1, 2009) The IASB had revised the definition of borrowing costs to consolidate the types of items that are considered components of borrowing costs that is components of the interest expense calculated using the effective interest rate method. The revised standard requires that borrowing costs must be capitalized if they are directly attributed to the acquisition, construction or production of a qualifying asset.
- IAS 27 (revised 2008, together with amendment on IAS 21 Effects of Foreign Exchange Rates) Consolidated and Separate Financial Statements improvements related to measurement of a subsidiary held for sale in separate financial statements. Effective for annual periods beginning on or after July 1, 2009.
- IAS 28 (revised 2008) Investments in Associates requires disclosures when investments in associates are accounted at fair value through profit or loss. This improvement also requires impairment test for investments in this associate. Effective for annual periods beginning on or after January 1, 2009.

- Amendment to IAS 32 and IAS 1 - Puttable Financial Instruments and Obligations arising on Liquidation (effective January 1, 2009) as a result of the amendments, some financial instruments that currently meet the definition of a financial liability will be classified as equity because they represent the residual interest in the net assets of the entity.
- IFRIC 13 Customer Loyalty Programmes (effective for periods beginning on or after July 1st, 2008 with early adoption permitted) deals with accounting for customer loyalty award credits. We adopted IFRIC 13 during the year ended on December 31, 2007 and its adoption had no impact on the Company's consolidated financial statements.
- IFRIC 16 - Hedges of a Net Investment in a Foreign Operation (effective for periods beginning on or after October 1, 2008) presents an amendment to the restriction on the entity that can hold hedging instruments and provides guidance regarding hedge of foreign currency gains and losses on a net investment in a foreign operation.
- IFRIC 17 - Distributions of Non-cash Assets to Owners (effective July 1, 2009) requires a change in accounting policy for many entities, which may result in a significant profit being recognized at the date of settlement that may not have been previously recognized.
- IFRIC 18 Transfer of assets from customers (effective July 1, 2009) this interpretation provides guidance on how to account for items of property, plant and equipment received from customers or cash that is received and used to acquire or construct specific assets.

As of the date of this annual report, the following new and revised standards and interpretations were issued but not yet adopted by us since adoption was not yet mandatory:

- IFRS 5 Disclosure of Non-current Assets classified as Held for Sale or Discontinued Operations (effective for periods beginning on or after July 1, 2009) when a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under IFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale. The impact of this amendment will depend on future events.
- IFRS 9 Financial Instruments: Classification and Measurement only requires to be adopted by January 1, 2013, although earlier adoption is permitted. This standard will change substantially the classification and measurement of financial instruments and hedging requirements. We are currently evaluating the potential impact that this standard will have on our consolidated financial statements.
- Amendments to IAS 24 (revised on 2009) the revised standard simplifies the disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a government (referred to as government related entities) and clarifies the definition of a related party. The revised standard is effective for annual periods beginning on or after 1 January 2011. We are currently evaluating the potential impact that this standard will have on our consolidated financial statements.
- IAS 7 (revised 2009) Statements of Cash Flows (effective January 1, 2010) requires reclassification of expenditures on unrecognized assets. We do not expect material effects in our financial statements.
- IAS 17 (revised 2009) Leases (effective January 1, 2010) introduced improvements regarding classification of land and buildings. We do not expect material effects in our financial statements.
- IAS 36 Impairment of Assets (effective January 1, 2010) requires disclosure of estimates used to determine recoverable amounts. When discounted cash-flows are used to estimate fair value less costs to sell, the same disclosures are required as when discounted cash flows are used to estimate value in use. We are currently evaluating the potential impact that this standard will have on our consolidated financial statements.
- IAS 38 (revised 2009) Intangible Assets (effective January 1, 2010) reflects additional consequential amendments arising from revised IFRS 3 and measuring the fair value of an intangible asset acquired in a business combination. The impact of this amendment will depend on future events.



- IAS 39 (revised 2009) - Financial Instruments: Recognition and Measurement (effective for periods beginning on or after July 1, 2009) had introduced improvements related to: (i) treating loan prepayment penalties as closely related embedded derivatives; (ii) scope exemption for business combination contracts; and (iii) cash flow hedge accounting. We are currently evaluating the potential impact that this standard will have on our consolidated financial statements.
- IFRIC 19 (issued 2009) Extinguishing Financial Liabilities with Equity Instruments (effective for periods beginning on or after July 1, 2009) clarifies the requirements of IFRS when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. We are currently evaluating the potential impact that this standard will have on our consolidated financial statements.

### **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. VRG holds trademarks for its *Varig* and *Smiles* brands in various countries.

### **D. Trend Information**

We believe in a strong recovery in the Brazilian economy, specially in the growth of the Brazilian middle class in the next years. We are forecasting demand for the Brazilian domestic airline industry to remain above the growth of the Brazilian GDP. We also plan to continue to add capacity in a conservative basis by following demand growth and believe that yields in our network should remain stable as compared to 2009. This positive macroeconomic and operating scenario, combined with our strategy to continue to grow passenger revenue while further reducing and diluting unitary costs, should further improve operating margins.

### **E. Off-Balance Sheet Arrangements**

None of our operating lease obligations are reflected on our balance sheet. At December 31, 2009, we had 33 aircraft recognized as finance leases 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, 2009 included the following:

	<b>Total</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>Beyond 2014</b>
			(in thousands of <i>reais</i> )				
<b>Non-derivative financial instruments</b>							
Aircraft and engine operating leases	<b>2,498,571</b>	515,936	489,655	466,315	402,497	245,792	378,376
Aircraft capital leases	<b>2,003,583</b>	207,877	206,823	204,907	204,053	204,053	975,870
Short-term borrowing	<b>455,016</b>	455,016	-	-	-	-	-
Long-term borrowings <sup>(1)</sup>	<b>1,121,428</b>	-	125,448	119,469	111,096	94,343	671,072
<b>Total non-derivative financial instruments</b>	<b>6,078,598</b>	1,178,829	821,926	790,691	717,646	544,188	2,025,318
<b>Derivative financial instruments</b>							
Fuel derivative	<b>18,588</b>	18,588	-	-	-	-	-
Foreign exchange derivative	<b>982</b>	982	-	-	-	-	-
Interest rate swaps	<b>(6,593)</b>	(6,593)	-	-	-	-	-
<b>Total derivative financial instruments</b>	<b>12,977</b>	12,977	-	-	-	-	-
<b>Aircraft commitments</b>							
Pre-delivery deposits	<b>1,574,659</b>	159,536	200,228	406,147	429,396	222,477	156,875
Aircraft purchase commitments	<b>10,990,377</b>	1,091,624	966,897	417,312	2,273,215	3,352,360	2,888,969
<b>Total aircraft commitments</b>	<b>12,565,036</b>	<b>1,251,160</b>	<b>1,167,125</b>	<b>823,459</b>	<b>2,702,611</b>	<b>3,574,837</b>	<b>3,045,844</b>
<b>TOTAL</b>	<b>18,656,611</b>	<b>2,442,966</b>	<b>1,989,051</b>	<b>1,614,150</b>	<b>3,420,257</b>	<b>4,119,025</b>	<b>5,071,162</b>

(1) Does not include short-term finance leases.

**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 eleven members, and a *Diretoria*, or board of executive officers, which is composed of at least two and at most seven members. According to the Differentiated Corporate Governance Practices Level 2 introduced by BM&FBOVESPA, at least 20% of the members of our board of directors shall be independent



directors, as defined by the BM&FBOVESPA.

Our management and board of directors is supported and advised by a number of committees which comprise highly specialized and qualified individuals. These committees actively participate in the strategic and other key decisions of our management and we believe they add substantial value to our business. We currently have audit, personnel and corporate governance, financial and risk policy, and accounting committees, comprised of members of our board of directors and non-board members. We also have a tax and financial statement policy subcommittee.

We are committed to achieving and maintaining high standards of corporate governance. In working towards this goal, we have established a personnel and corporate governance 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 BM&FBOVESPA, we have entered into an agreement with the BM&FBOVESPA 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 Brazilian Securities Commission ( 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, board of executive officers and fiscal committee must 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 board of directors, board of executive officers and fiscal committee must sign a statement of consent, in which they undertake to refer to arbitration under the auspices of the BM&FBOVESPA Arbitration Chamber any disputes and/or controversies arising out of the application of the listing rules of the Differentiated Corporate Governance Practices Level 2, the listing agreement with BM&FBOVESPA, the regulations of the BM&FBOVESPA, 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.

### **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 nine members. Four of the board members qualify as independent based upon New York Stock Exchange criteria. The board of directors meets an average of five 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 and be a Brazilian resident, and is elected by the holders of our common shares at the *Assembléia Geral Ordinária*, 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 in which such director has a conflict of interest with our company.

Additionally, 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 simultaneous one-year terms and may be re-elected. The terms of our current directors expire in April 2010. 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.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Alvaro de Souza	61	Chairman
Constantino de Oliveira Junior	41	Director
Henrique Constantino	38	Director
Joaquim Constantino Neto	45	Director
Ricardo Constantino	47	Director
Antonio Kandir	56	Director
Luiz Kaufmann	64	Director
Richard F. Lark, Jr.	43	Director
Paulo Kakinoff.	35	Director

*Alvaro de Souza* has been a member of our board of directors since August 2004 and became our chairman of the board in April 2009. Mr. Souza is an officer of AdS Gestão, Consultoria e Investimentos Ltda., member of the board of directors of Unidas S/A, chairman of the board of directors of World Wildlife Group (WWF), co-chairman of the board of directors of Quinsa (Argentina) and member of the audit committee of AMBEV. He was Chief Executive Officer of Citibank Brazil from 1991 to 1994 and an Executive Vice-President of Citigroup in New York 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 requirements of the SEC and NYSE listing standards and is a member of our audit committee and personnel and corporate governance committee.

*Constantino de Oliveira Junior* has been a member of GOL's board of directors and its Chief Executive Officer since the Company was founded in 2001. Mr. de Oliveira introduced the low-cost, low-fare concept to the Brazilian airline industry and was named "Most Valuable Executive" by the Brazilian newspaper *Valor Econômico* in 2001 and 2002. He was also elected the Leading Executive in the logistics sector by the readers of *Gazeta Mercantil*, a Brazilian financial newspaper, in 2003, and in 2008, was named a "Distinguished Executive" in the Air Transportation category at the GALA (Latin American Aeronautics Gallery) awards, sponsored by IATA. Prior to joining GOL, Mr. de Oliveira served as an officer of the Áurea group (1994-2000). Mr. de Oliveira studied Business Administration at the *Universidade do Distrito Federal* and 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 chief financial officer of the Áurea group since 1994 and is an officer of Comporte S.A. He participated in the creation of Gol and served as its chief financial officer from January 2001 to March 2003, when he became a member of the board. Mr. Henrique Constantino is also a member of the board of directors of Providência S.A. and BR Vias S.A. Mr. Constantino has a law degree from *CEUB - Centro de Ensino Unificado de Brasília* and has a post-graduate degree in Business Administration from *EAESP - FGV (Fundação Getúlio Vargas - São Paulo)*. Mr. Constantino is a member of our financial and risk policy committee and personnel and corporate governance committee.

*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 chief 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 Serviços, a bus transportation company. Mr. Joaquim Constantino Neto is also member of the board of directors of Providência S.A.

*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 chief technical and maintenance officer of the Áurea group since 1994.

*Antonio Kandir* has been a member of our board of directors since August 2004. Mr. Kandir is an economic consultant. Mr. Kandir is also partner of Governança e Gestão and is a member of the board of directors of Medial Saúde and Providência S.A. Mr. Kandir served in the Brazilian government as a Federal Lower House 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 degree in production engineering from the Escola Politécnica at USP and bachelors, masters and doctoral degrees in Economics from Unicamp. Mr. Kandir is an independent member of our board of directors under the requirements 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 is the Managing Partner of L. Kaufmann Consultores Associados, member of the board of directors of Providência S.A. and the CEO of Kroton Educacional S.A. 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. 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 requirements 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.

*Richard F. Lark, Jr.* has been a member of our board of directors since June 2008. Mr. Lark served as our executive vice president, chief financial and investor relations officer from April 2003 to June 2008. He is a director of Endurance Capital Partners, an investment management firm, and a member of the board of directors of several public and private companies. From 2000 to 2003, Mr. Lark served as chief financial officer of Americanas.com, one of the leading Brazilian e-commerce companies. Prior to joining Americanas.com, Mr. Lark was an executive in the investment banking divisions of Morgan Stanley & Co., Citicorp and The First Boston Corporation. Mr. Lark is a member of the Board of Governors of the American Society of São Paulo since 2003, having served as its president during 2005-2007. Mr. Lark holds a Master in Business Administration degree from the Anderson School at UCLA and bachelor degrees in finance and business economics and philosophy from the University of Notre Dame. Mr. Lark is a member of our financial and risk policy committee and accounting, tax and financial statement policy subcommittee.

*Paulo Kakinoff* has been a member of our Board of Directors since January 2010. Mr. Kakinoff is currently CEO of Audi Brasil and vice president of the Brazilian Automobile Importers Association (*Associação Brasileira de Importadores de Veículos Automotores - ABEIVA*). Mr. Kakinoff has 17 years of experience in the auto industry, having served as Sales & Marketing Director at Volkswagen do Brasil and as Executive Director for South America at the Volkswagen Group's head offices in Germany. He holds a bachelor's degree in Business Administration from Mackenzie University. Mr. Kakinoff is an independent member of our board of directors under the requirements of the SEC and NYSE listing standards.

Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino are brothers. Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino control our major shareholder Fundo de Investimento em Participações Asas 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 office.

Under our by-laws, we must have at least two and at most seven 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 March 2011.

The following table sets forth the name, age and position of each of our executive officers elected in March 2008. A brief biographical description of each of our executive officers follows the table.

<b>Name</b>	<b>Age</b>	<b>Position</b>
Constantino de Oliveira Junior	41	President and Chief Executive Officer
Fernando Rockert de Magalhães	59	Executive Vice President-Technical Executive Vice President Chief Financial Officer
Leonardo Porciúncula Gomes Pereira.	51	Information Technology and Investor Relations Officer
Cláudia Jordão Ribeiro Pagnano.	43	Executive Vice President - Marketing

*Constantino de Oliveira Junior. See Board of Directors.*

*Fernando Rockert de Magalhães* has been an officer since August 2007. Mr. Rockert joined Gol in January 2004 and assumed the role of Gol's Director of Flight Operations in March 2005. He is an experienced pilot with more than 16,000 flight hours. Mr. Rockert holds a law degree and a graduate degree in Administration. He also earned a Master in Business Administration degree from the Fundação Getúlio Vargas (FGV). Mr. Rockert is also a professor of Aeronautical Law. Mr. Rockert began his career in the 1970s as a pilot for Rio Sul, a regional airline in Brazil. He also worked as a VASP pilot for more than 18 years, his last position being MD-11 Captain and Instructor. During three years Capt Rockert was a simulator instructor based in Seoul, South Korea for Flight Safety Boeing (now Alteon), where he trained pilots for Korean Airlines.

*Leonardo Pereira* has been an officer since February 2009. Prior to joining Gol, Mr. Pereira served two years as the Director President of Companhia do Vale do Araguaia, a Brazilian commercial foresting company, and six years

as the Executive Director Finance and Investor Relations of NET Serviços, a leading cable provider in Latin America listed on the BM&FBOVESPA (Level II), NASDAQ and Latibex. He previously served five years as Planning Director at Globopar, a media industry holding company, and 13 years in a number of roles at Citibank Corporate Finance Bank in Brazil, Asia, Latin America and the United States, including leader of the Latin American Aviation team. He is member of the Corporate Governance Committee of the São Paulo chapter of the American Chamber of Commerce. Mr. Pereira holds degrees in Production Engineering from the Universidade Federal do Rio de Janeiro (UFRJ) and Economics from the Universidade Candido Mendes; he received his MBA from Warwick University (England). Pereira has also studied Finance at IMD in Switzerland and General Management at Wharton Business School, attended The Association for Overseas Technical Scholarship (AOTS) in Japan, and completed Columbia University's Senior Executive Education Program.

*Cláudia Jordão Ribeiro Pagnano* has been an officer since March 2010. Before joining Gol, Mrs. Pagnano worked for two years as *Perdigão's* Business Unit Officer of BRF Brasil Foods. Mrs. Pagnano also served for two years as Business Unit Officer of Grupo Pão de Açúcar and worked as Business and Marketing Officer of several consumer and financial services companies, such as Boston, Unibanco, Kodak and Colgate. Mrs. Pagnano holds a bachelor's degree in marketing from Escola Superior de Propaganda Marketing (ESPM) and specialization in Finances from Fundação Getúlio Vargas (FGV-SP).

#### *Other Officers*

In addition to our Executive Officers, who are appointed by our Board of Directors and perform certain statutory roles under Brazilian laws and our by-laws, Ricardo Khauaja, our Vice-President of Customers, Employees and Management, is also part of our senior management team. Following is his brief biographical description. *Ricardo Khauaja* has been Gol's Vice-President of Customers, Employees and Management since July 2009. Mr. Khauaja worked for beverage company Ambev for ten years, where he served in several positions, including Corporate Human Resources manager (2001 to 2003). After this, he worked for six years at home appliance manufacturer Whirlpool, first as the Human Resources Officer for Latin America (three years), followed by vice-president (three years). Mr. Khauaja has a degree in Production Engineering from the Federal University of Rio de Janeiro (UFRJ) and a MBA in Finance from the Brazilian Capital Market Institute (IBMEC/RJ). He also completed The Transition from Functional to General Management course at Columbia University in the United States.

#### **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, 2009, the aggregate compensation, including cash and benefits-in-kind but excluding stock options, that we paid to the members of our board of directors and executive officers was R\$13.8 million.

#### **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 personnel and corporate governance committee and our board of directors.

Participants in the plan are selected by the personnel and corporate governance committee, provided that they have been either president, vice-president, officer, advisor to the president or to the vice-president, general manager or manager. 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 personnel and corporate governance committee establishes each year 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. One fifth of the total options granted to a participant vests in each anniversary of the option grant.



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 2008, we issued stock options of up to 190,296 at a weighted average exercise price of R\$45.46 per share. In 2009, we issued 925,800 stock options, of which only 485,150 are still outstanding after the cancellation of 418,000 stock options due to the departure of their respective holders from the company and the exercise of 22,650 stock options. These stock options were issued at a weighted average exercised price of R\$10.52 per share. On February 2, 2010, our board of directors approved the granting of 2,672,746 options to purchase preferred Company stock at the price of R\$20.65 per share for the year 2010. The total number of options granted in the last three years, excluding the 418,000 options cancelled and the 22,650 options exercised, is 3,348,192, or 1.3% of our total shares. The vesting period of the stock options is 5 years for the options granted until 2009 and 3 years for the options granted until 2010, and options can be exercised up to 10 years after the grant date. The purpose of our stock option plan is to align shareholder and top management interests.

### **C. Board Practices**

Currently, our board of directors is comprised of nine members. The terms of our current directors will expire in 2010. 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 of our 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 the 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, the 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 (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. In 2009, our shareholders did not request the election of a fiscal committee.

### **Committees of the Board of Directors and Board of Executive Officers**

Our board of directors also has audit, personnel and corporate governance, and financial and risk policy committees and an accounting, tax and financial statement policy subcommittee. Our board of executive officers has management, executive policy, budget, investment, corporate governance and risk policies committees. In most cases, members of the committees do not need to be members of our board of directors or board of executive officers. The responsibilities and composition of these committees are described below.

*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 on matters involving 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 our independent auditors and helps coordinate their activities. It also evaluates the effectiveness of our internal financial and legal compliance controls. The audit committee comprises three members elected by the board of directors for a one-year term with the right to re-election, all three of which are independent. The current members of our audit committee are Álvaro de Souza, Antônio Kandir and Luiz Kaufmann. All members meet the independent membership requirements of the SEC and NYSE as well as other NYSE requirements. Luiz Kaufmann is the committee's financial expert within the scope of the SEC rules covering the disclosure of financial experts on audit committees in periodic filings pursuant to the U.S. Securities Exchange Act of 1934.

*Personnel and Corporate Governance Committee.* The personnel and corporate governance committee is responsible for the coordination, implementation and periodic review of best corporate governance practices and for monitoring and keeping our board of directors informed of legislation and market recommendations addressing corporate governance. It also reviews and recommends to our board of directors human resources policies, forms of compensation, including salary, bonus and stock options, to be paid to our employees, as well as analyzing management's career and succession plans. The committee consists of up to five members elected by our board of directors for a one-year term, with the right to re-election, comprising the chairman of the board of directors, one member of the board of directors, two outside specialists and the management and personnel officer. The personnel and corporate governance committee currently consists of Henrique Constantino, a member of our board of directors, Betânia Tanure de Barros, Álvaro de Souza, Paulo César Aragão and Ricardo Khauaja.

*Financial and Risk Policy Committee.* The financial and risk policy 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 these changes on our revenues and expenses, cash flow and balance sheet. It also prepares and approves our corporate finance policies, examines their efficiency and oversees their implementation, periodically examines our investment and financing plans and makes recommendations to our board of directors, determines the parameters for maintaining the desired liquidity and capital structures, monitors their execution and approves the policies to be adopted in the following quarter. It further assesses the effectiveness of hedging measures taken during the previous quarter, approves recommendations for future changes and also conducts reviews of cash management activities. The financial and risk policy committee meets on a quarterly basis and consists of seven members elected by the board of directors for a one-year term with the right to re-election, comprising three members of our board of directors, our chief financial officer, an internal auditor and two outside specialists. The committee currently consists of Henrique Constantino, Richard F. Lark, Jr., Luiz Kauffman, all members of our board of directors, Leonardo P. Gomes Pereira, our chief financial and investor relations officer, Charles B. Holland, Barry Siler, a fuel hedging specialist and chief executive officer of Kodiak Fuels, and Marcos Provetti.

*Accounting, Tax and Financial Statement Policy Subcommittee.* The accounting, tax and financial statement policy subcommittee conducts periodic reviews of, and evaluates and monitors the company's accounting policies and financial statements and makes observations and recommendations to the board of directors on these matters. The subcommittee meets on a quarterly basis and consists of three members elected by the board of directors for a one-year term with the right to re-election, comprising the company's chief financial officer, a member of the board of directors or a member of the audit committee, and an independent member. The committee currently consists of Richard F. Lark, Jr., a member of our board of directors, Leonardo Pereira, our chief financial and investor relations officer, Charles B. Holland and Marcos da Cunha Carneiro.

Our board of directors had a strategy committee that was dissolved in January 2010 upon completing its task of preparing our five year business plan. The strategy committee made recommendations to the board of directors concerning the company's basic strategy and institutional positioning, as well as the periodic revision of its mission and values and the revision of the strategic plan proposed by the board of executive officers. It also made recommendations to the board of directors regarding the revision of the company's annual business plan, targets and budget, and advised the board of executive officers on the methodology used to prepare the business plan in order to ensure that it was both participatory and comprehensive. The strategy committee consisted of up to nine members elected by the board of directors for a six-month term of office, comprising the chairman of the board of directors, the chief executive officer, the chief financial officer, the management and personnel officer, the marketing officer; the information technology and planning officer and three members of the board of directors. The last committee members were Constantino de Oliveira Junior, Henrique Constantino, Luiz Kaufmann, Álvaro de Souza and Antônio Kandir, all members of our board of directors, Leonardo Pereira, our chief financial and investor relations officer, and Ricardo Khauaja, our Vice-President of Customers, Employees and Management.



## 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, 2009, we had 17,963 active employees.

We invest significant resources promoting the well being of our employees. In 2009, we spent R\$394.2 million on health and safety matters, training, social contributions, employee meals, transportation and profit sharing.

We train our own pilots. 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 seven other regional aviation unions represent ground employees of air transportation companies. Approximately 6% 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. We have established a stock option plan for our management and employees vesting over a 3 year period. As of February, 2010, a total of 52 of our management and employees were 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, directly own approximately 1.6% of our preferred stock. See Item 7A. Major Shareholdings and Related Party Transactions Major Shareholders. Fundo de Investimento em Participações Asas is a fund directly controlled by Messrs. Constantino de Oliveira Júnior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino, respectively.

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, 2009, 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 133,199,658 common shares and 132,079,880 preferred shares outstanding as of December 31, 2009.

	Common Shares		Preferred Shares		Total Shares	
	Shares	(%)	Shares	(%)	Shares	(%)
Fundo de Investimento em Participações ASAS (1)	133,199,642	100.0%	35,610,617	27.0%	168,810,259	63.6%
Executive officers and directors	16	0%	2,066,787	1.6%	2,066,803	0.8%
Stock Held in Treasury	-	-	454,425	0.3%	454,425	0.2%
Free Float	-	-	93,948,051	71.1%	93,948,051	35.4%
<b>Total</b>	<b>133,199,658</b>	<b>100.0%</b>	<b>132,079,880</b>	<b>100.0%</b>	<b>265,279,538</b>	<b>100.0%</b>

(1) Fundo de Investimento em Participações Asas is controlled equally by Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino.

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, 2009, 33 record holders of ADSs in the United States.

On March 20, 2009, our board of directors approved a capital increase of a total of 26,093,722 shares comprising 6,606,366 common and 19,487,356 non-voting preferred shares to improve the company's cash position and capital structure and to ensure the level of investments planned. The issue price for all shares was set and issued at R\$7.80 per share. Our controlling shareholders fully subscribed and paid for their portion of the capital increase in an amount of R\$150.0 million. On June 2, 2009, our board of directors authorized the subscription of all shares and approved the capital increase in an amount of R\$203.5 million.

On October 8, 2009, our board of directors approved the capital increase of R\$627.1 million in the context of a primary public offering of a total of 38,005,000 shares, comprising 19,002,500 common shares and 19,002,500 preferred shares. The issue price of the common and preferred shares was set at R\$16.50 per share, as defined in a bookbuilding procedure.

In December 2009 our board of directors approved the cancellation of 1,119,775 preferred shares held as treasury stock. We still hold 454,425 preferred shares in treasury.

On March 11, 2010, our board of directors authorized the dividends distribution for 2009 year, through a capital increase in the same amount of dividends declared for the 2009 year in the amount of R\$185.8 million by means of a private offering of 7,622,584 shares, of which 3,833,077 are common shares and 3,789,507 are preferred shares. The issuance price was R\$24.38 per share, based on the closing price of our preferred shares on March 11, 2010 at the BM&FBOVESPA.

#### **Shareholders Agreement**

No shareholders agreements have been filed with us.

#### **B. Related Party Transactions**

According to the Level 2 regulations, the company shall forward and disclose to BM&FBOVESPA 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.

### **Transportation, Graphic and Consultancy Agreements with Comporte Participações S.A.**

We have exclusive bus transportation agreements with Expresso União Ltda. and Breda Serviços for the transportation of our passengers, their luggage and our employees. We also have operating agreements with Serviços Gráficos Ltda. and HK Consultoria e Participações, for graphic and consultancy services, respectively. We are the tenant of a property located at Rua Tamoios, 246, in São Paulo, SP, owned by an affiliate, Patrimony Administradora de Bens. The entities mentioned above belong to the same economic group and are all controlled by Comporte Participações S.A.

In 2008 and 2009, we made total payments of R\$8.6 million and R\$10.5 million, under these operating agreements.

### **Commercial Agreement with Unidas Rent a Car**

In May, 2009, we entered into a commercial agreement with Unidas Rent a Car, a Brazilian car rental company, which gives Unidas customers a 50% discount on the daily car rental charges when these customers purchase their Gol tickets through our website. Gol's chairman, Álvaro de Souza, is also a member of Unidas Rent a Car board of directors.

### **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. At December 31, 2009, we were parties in 17,446 judicial lawsuits and administrative proceedings, including 12,425 civil claims, of which 1,257 were administrative proceedings, and 5,021 labor claims, of which 97 were administrative proceedings. 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. We have established provisions for all amounts in dispute that represent a probable loss in the view of our legal advisors and in relation to those disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable.

We are party to approximately 11,590 civil proceedings arising from the normal course of our business, which includes flight delays or cancellations and baggage loss or damage, and 5,856 civil proceedings against Varig S.A. in which plaintiffs claim we would be a successor in interest of Varig S.A. The vast majority of these proceedings

involve minor cases relating to customer relations. At December 31, 2009, we had established provisions to address these contingencies in the total amount of R\$34.8 million.

We are party to approximately 1,089 labor proceedings arising from the normal course of our business, which includes overtime, hazardous work premium, health exposure allowance and differences in salary, and 3,932 labor proceedings against Varig S.A. in which plaintiffs claim we would be a successor in interest of Varig S.A.. At December 31, 2009, we have established provisions to address these contingencies in the total amount of R\$35.5 million. We are subject to 19 labor proceedings related to employees' claims against Varig S.A. in Spain. We established provisions in the amount of R\$21.1 million for these proceedings.

In 2001, we commenced proceedings against the Brazilian state revenue service, in which we claim an exemption from the payment of Brazilian value added tax (ICMS) due on imported aircraft, parts and engines. On May 30, 2007, the *Supremo Tribunal Federal* (Federal Supreme Court) ruled in our favor in respect of one of these cases. Various of the proceedings relating to this matter are still pending. We have not established any provisions for the amounts in question, which were, as of December 31, 2009, R\$210.2 million.

We are party in indemnification lawsuits regarding the collision of our new Boeing 737-800 NG aircraft on September 26, 2006. We believe that any potential liability arising out of such lawsuits will be covered by our insurance policies. We continue to cooperate fully with all regulatory and investigatory agencies to determine the cause of this accident and have reached agreements regarding 112 of the 148 passengers. The payments for the hull to the lessor were made by the insurance company. We have provisioned the amount insured as a liability on our balance sheet, and recorded a corresponding receivable for the insurance claim under Other assets .

We commenced an arbitration before the International Chamber of Commerce against the sellers of VRG and its controlling shareholders relating to the purchase price adjustments for our acquisition of VRG. In the arbitral proceeding, we are seeking a price adjustment of R\$164.0 million from the sellers of VRG. The amount owed by the sellers of VRG will be determined by the arbitral tribunal. In conjunction with the arbitral proceedings, we have brought legal action and joined certain lawsuits in Brazilian courts with a view to preserving the ability of the sellers to satisfy our claims. We have provisioned all amounts subject to these proceedings.

For further information on our legal proceedings and contingencies, see note 18 to our consolidated financial statements.

## **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 IFRS), 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.

The board of directors can also decide to make the mandatory dividend distribution in the form of interest attributable to shareholders' equity, which is deductible when calculating income and social contribution taxes.

### ***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.

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.

Our board of directors may declare interim dividends or interest attributable to shareholders' equity based on income verified in semi-annual financial statements. The board of directors may also declare dividends based on financial statements prepared for shorter periods, provided that the total dividends paid in each six-month period do not exceed the capital reserves amount required by Brazilian corporation law. The board of directors may also pay interim dividends or interest attributable to shareholders' equity out of retained earnings or income reserves recorded in the last annual balance sheet. Any payment of interim dividends may be set off against the amount of mandatory

dividends relating to the net income earned in the year in which the interim dividends were paid.

Our by-laws do not require that we adjust the amount of any dividend payment to inflation.

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. 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 registered 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 depreciation 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 Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, as determined by the 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.



Payment of interest to a holder that is not domiciled in Brazil for Brazilian tax and regulatory purposes (a non-Brazilian holder ) is subject to withholding income tax at the rate of 15%, or 25% if the Non Brazilian Holder is domiciled in a country or location that does not impose income tax or where the income tax rate is lower than 20% ( Low or Nil Tax Jurisdiction ). These payments may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest on net equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

Under current Brazilian legislation, the sum of the amount distributed as interest on shareholders' equity and as dividends must be at least equal to the mandatory dividend. 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 IFRS 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.

In 2008 we distributed R\$36.3 million to our shareholders, equivalent to a payment of R\$0.18 per share or ADS. In 2009 we distributed R\$185.8 million to our shareholders, equivalent to a payment of R\$0.70 per share or ADS. We will offer our shareholders to reinvest these dividends and subscribe for new shares in a R\$185.8 million capital increase approved on March 11, 2010. We intend to extend these rights to holders of our ADRs.

### ***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. 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 ADS. 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, 2009, the ADSs represented 23.0% of our preferred shares and 32.3% 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		
	Low	High	Average(1)
<b>2007</b>			
<b>Annual</b>	19.19	34.30	27.38
<b>2008</b>			
<b>Annual</b>	3.06	23.94	11.51
First quarter	14.76	23.99	18.40
Second quarter	11.26	17.83	14.83
Third Quarter	5.95	12.00	9.04
Fourth Quarter	2.93	6.97	4.14
<b>2009</b>			
<b>Annual</b>	2.88	15.59	7.44
First quarter	2.88	5.26	4.13
Second quarter	2.88	5.98	4.30
Third Quarter	5.59	11.20	8.78
Fourth Quarter	9.80	15.59	12.56
<b>Last Six Months</b>	5.59	15.59	10.61
September 2009	9.32	10.43	10.08
October 2009	9.80	11.45	10.35
November 2009	10.49	14.27	12.45
December 2009	13.66	15.59	14.75
January 2010	12.20	16.48	14.61
February 2010	12.05	13.97	13.25
March 2010 (through March 26, 2010)	12.10	13.96	13.14

*Source: Bloomberg*

(1) 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 BM&FBOVESPA, for the periods indicated.

	<i>Reais per Preferred Share</i>		
	<b>Low</b>	<b>High</b>	<b>Average(1)</b>
<b>2007</b>			
<b>Annual</b>	36.61	67.26	53.52
<b>2008</b>			
<b>Annual</b>	6.90	42.40	20.02
First quarter	25.40	42.40	31.84
Second quarter	17.92	29.12	24.51
Third Quarter	11.51	19.10	14.96
Fourth Quarter	6.90	13.05	9.37
<b>2009</b>			
<b>Annual</b>	6.58	27.34	14.13
First quarter	6.65	11.96	9.56
Second quarter	6.58	11.62	8.82
Third Quarter	10.93	20.50	16.40
Fourth Quarter	17.06	27.34	21.85
<b>Last Six Months</b>	10.93	27.34	18.99
September 2009	17.58	18.80	18.33
October 2009	17.06	19.69	18.38
November 2009	18.32	25.01	21.51
December 2009	24.37	27.34	25.82
January 2010	23.10	28.03	25.93
February 2010	22.62	25.33	24.23
March 2010 (through March 26, 2010)	22.10	25.20	23.41

*Source: Bloomberg*

(1) Calculated as average of closing prices for the period.

## **B. Plan of Distribution**

Not applicable.

## **C. Markets**

### **Trading on the BM&FBOVESPA**

In 2000, the São Paulo Stock Exchange 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 São Paulo Stock Exchange, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange.

On May 8, 2008, the São Paulo Stock Exchange and the Brazilian Mercantile and Futures Exchange merged, creating BM&FBOVESPA. Together, the companies have formed one of the largest exchanges worldwide in terms of market value, the second largest in the Americas, and the leading exchange in Latin America.

When shareholders trade in common and preferred shares on the BM&FBOVESPA, 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 BM&FBOVESPA is a for-profit listed company that has regulatory authority over its trading markets. Trading on the BM&FBOVESPA is limited to member brokerage firms and a limited number of authorized nonmembers. The BM&FBOVESPA has two open outcry trading sessions each day from 10:00 a.m. to 5:00 p.m., São Paulo time, for all securities traded on all markets, except during daylight savings time in Brazil. During daylight savings time in Brazil, usually the sessions are from 11:00 a.m. to 6:00 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 BM&FBOVESPA 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 BM&FBOVESPA also permits trading from 5:45 p.m. to 7:00 p.m., São Paulo time, or from 6:45 p.m. to 7:30 p.m. during daylight savings time in Brazil, 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 BM&FBOVESPA 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 BM&FBOVESPA falls below the limits of 10% or 15%, respectively, in relation to the index registered in the previous trading session.

The BM&FBOVESPA is significantly less liquid than the NYSE or other major exchanges in the world. As of December 2009, the aggregate market capitalization of the BM&FBOVESPA was equivalent to R\$2.3 trillion and the 10 largest companies listed on the BM&FBOVESPA represented 52.5% of the total market capitalization of all listed companies. In contrast, as of December 2009, the aggregate market capitalization of the NYSE was US\$18.9 trillion. Although any of the outstanding shares of a listed company may trade on the BM&FBOVESPA, 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 BM&FBOVESPA by 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 São Paulo Stock Exchange 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 BM&FBOVESPA, 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 issuers; (e) submit any existing shareholders' agreements and stock option plans to the BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA, 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 BM&FBOVESPA, (f) disclose: (i) quarterly financial statements in English or prepared in accordance with U.S. GAAP or IFRS and (ii) annual financial statements in English, including cash flow statements, prepared in accordance with U.S. GAAP or IFRS, in U.S. dollars or *reais* and (g) adhere exclusively to the rules of the BM&FBOVESPA 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 BM&FBOVESPA to comply with the requirements to become a Level 2 company. In addition to complying with Level 2 requirements, we have granted tag-along rights that entitle our preferred shareholders to receive 100% of the price paid per common share of controlling block shareholders in connection with a transaction resulting in a transfer of control of our company. Furthermore, we prepare quarterly financial statements in accordance with IFRS. We were included in the following indexes (a) since 2005: IbrX-100 (*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*), (b) since 2006: IbrX-50 (*Índice Brasil 50, Index Brazil 50*): and (c) since 2007: *Índice BM&FBOVESPA*, all of which reflect 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 BM&FBOVESPA or in the Brazilian over-the-counter market. Shares of companies listed on the BM&FBOVESPA 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 BM&FBOVESPA, a company must apply for registration with the BM&FBOVESPA and the CVM.

The trading of securities on the BM&FBOVESPA 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 BM&FBOVESPA 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 BM&FBOVESPA.

Trading on the BM&FBOVESPA 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 BM&FBOVESPA 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

According to Law No 6,385, a publicly held company must submit to CVM and BM&FBOVESPA certain periodic information, including annual and quarterly reports prepared by management and independent auditors. This legislation also requires us to file with CVM our shareholders' agreements, notices of shareholders' meetings and copies of the related minutes.

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 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 trading on the basis of insider information.

In addition to the disclosure requirements under the Brazilian corporate law and the CVM regulations, we must also observe the following disclosure requirements:

- no later than six months following the listing of our shares on the Level 2 segment, we must disclose our consolidated financial statements at the end of each quarter (except for the last one of each year) and at the end of each fiscal year, including a statement of cash flows, which must indicate, at least, the changes in cash and cash equivalents, separated into operating, financing and investing cash flows;
- after the disclosure of our financial statements for the second fiscal year after the approval for the listing of our shares on the Level 2 segment, we must, no later than four months after the end of the fiscal year: (i) disclose our financial statements and consolidated financial statements in accordance with U.S. GAAP or IFRS, in *reais* or U.S. dollars, which must be fully disclosed, in English, together with a management report, explanatory notes that shall include the net income and shareholders' equity calculated at the end of such fiscal year, prepared in accordance with Brazilian GAAP, as well as the proposal for distribution or other use of net income, and the independent auditors' report; or (ii) disclose, in English, the complete financial statements, management report and explanatory notes, prepared in accordance with the Brazilian GAAP, and an additional explanatory note regarding the reconciliation of the net income and shareholders' equity calculated in accordance with the Brazilian GAAP and U.S. GAAP or IFRS, as the case may be, which must include the main differences between these accounting principles, as well as the independent auditors' report; and
- within no longer than 15 days following the term established by the Brazilian corporation law for disclosure of our quarterly information, we must also: (i) disclose our quarterly information translated into English; or (ii) disclose our financial statements and consolidated financial statements in accordance with U.S. GAAP or IFRS, and the independent auditors' report.

### **Changes in Brazilian Corporation Law**

On July 13, 2007, the CVM issued CVM Rule No. 457 to require listed companies to publish their consolidated financial statements according to IFRS starting with the year ending December 31, 2010.

On December 28, 2007, Law No. 11,638 was enacted and amended numerous provisions of the Brazilian corporate law relating to accounting principles and authority to issue accounting standards. Law No. 11,638 sought to enable greater convergence between Brazilian GAAP and IFRS. To promote convergence, Law No. 11,638 modified certain accounting principles of the Brazilian corporate law and mandated the CVM to issue accounting rules conforming to the accounting standards adopted in international markets. Additionally, the statute acknowledged a role in the setting of accounting standards for the *Comitê de Pronunciamentos Contábeis* (the Committee for Accounting Pronouncements), or CPC, which is a committee of officials from the BM&FBOVESPA, industry representatives and academic bodies that has issued accounting guidance and pursued the improvement of accounting standards in Brazil. Law No. 11,638 permits the CVM and the Central Bank to rely on the accounting standards issued by the CPC in establishing accounting principles for regulated entities.

On December 07, 2009, CVM issued Rule No. 480 in order to, among other provisions: 1) create two different categories of securities issuers (categories A and B) in accordance with the securities that those issuers are authorized to negotiate in the Brazilian regulated markets (i.e., a category A issuer is authorized to negotiate any and all securities - which is our classification - and a category B issuer is authorized to negotiate any and all securities, except for shares, shares certificates, and other securities issued by the issuer of such shares or shares certificates or by a company of its group that grants to their holders the right to acquire such shares or shares certificates) and establishing different disclosure requirements for each category, where category A companies are subject to stricter disclosure requirements; 2) create a new CVM form (*Formulário de Referência*) to substitute the previous one (*Formulário de Informações Anuais* or *IAN*) with a significantly higher level of disclosure requirement in several areas, including management discussion and analysis of the financial statements, management compensation, risk controls, derivative policies, among others, which shall be signed by the company's Chief Executive Officer and Investor Relations Officer and which covers the previous three years; 3) replace the former prospectus requirement for a public securities offering prepared in accordance with Annex III of CVM Rule No. 400 with the new form (*Formulário de Referência*) and an offering note with information on the securities offering (but not on the issuer); 4) classify as Well Known Seasoned Issuers or WKSI (*Emissor de Grande Exposição ao Mercado* or *EGEM*) the companies: (i) that have had securities traded in the Brazilian stock exchange for at least three years, (ii) that are in compliance with the CVM rules on current and periodical obligations on the previous 12 months, and (iii) which market value of the shares negotiated in the market is equal or greater than R\$5 billion. WKSI shall be able to register public securities offerings much faster than the other issuers, which depends on additional regulation to be issued by CVM.

On December 17, 2009, the CVM issued Rule No. 481 which sets forth (i) the procedures relating to the public solicitation of proxies for the exercise of voting rights at shareholders' meetings of public held companies; and (ii) disclosure requirements to be followed by public held companies before the shareholders' meetings.

CVM Rule No. 481 provides that: (i) shareholders that own 0.5% or more of the company's corporate capital may indicate members to the Board of Directors and to the Fiscal Council in public solicitation of proxies conducted by the company's management, being thus required that the shareholders be able to vote on the referred candidates; (ii) the companies that accept digital proxies sent via world wide web must allow shareholders who hold 0.5% or more of the company's corporate capital to make public solicitation of proxies through the company's referred system; and (iii) the publicly held companies that do not accept digital proxies sent via world wide web must pay part of the costs of the public solicitation of proxies made by shareholders that own 0.5% or more of the company's corporate capital.

CVM Rule No. 481 also specifies the information and documents that shall be made available to shareholders which varies according to the meeting's agenda (including net profits distribution and allocation, stock option plans, capital increases, issue of debentures or warrants/subscription bonus, capital reductions, acquisition of controlling stake in another company and withdrawal rights) since the date of the publication of the first call notice for the shareholders' meeting. This information must be available at the CVM website before the meeting, shall be prepared in accordance with the requirements of Rule No. 481 and includes the disclosure of management discussion and analysis of the financial statements prior to the annual shareholders meeting, personal data and history of those who are up for election for an office with the company's Board of Director and/or Fiscal Council and a proposal for the compensation of the company's management.

#### **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.

### 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 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 109,448,497 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 six 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. During 2006, our executive officers exercised stock options for an aggregate of 233,833 preferred shares. In 2007, we increased our capital and, as a result of 6.1 million shares issued for the VRG acquisition and 11,569 shares issued related to our stock option program. On March 20, 2009, our board of directors approved a capital stock increase issuing 6,606,366 voting and 19,487,356 preferred shares. On October 19, 2009, we concluded a global share offering of 19,002,500 common shares and 43,187,500 preferred shares. As of December 31, 2009 our capital structure consisted of 133,199,658 common shares and 133,199,658 preferred shares, each 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, 2009 was R\$4 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 bylaws 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. Resolution No. 2,690 investors may not transfer the ownership of investments made under Resolution No. 2,689 to other non-Brazilian holders through private transactions.

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;
- register the foreign investment with the Central Bank;
- appoint a tax representative in Brazil; and
- obtain a taxpayer identification number from the Brazilian federal tax authorities.

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 jurisdiction 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.

#### *Description of Preferred Shares*

According to our by-laws, 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.

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*

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 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) conduct a *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 items (a) and (b) 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.

#### *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.

### ***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; 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.

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 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.

At duly called and convened meetings, our shareholders are empowered to take any action regarding our business. Shareholders have the exclusive right, during our annual shareholders meetings required to be held within 120 days of the end of our fiscal year, to approve our financial statements and to determine the allocation of our net income and the distribution of dividends related to the fiscal year immediately preceding the meeting. The members of our board of directors are generally elected at annual shareholders meetings. However, according to Brazilian corporation law, they can also be elected at extraordinary shareholders meetings. At the request of shareholders holding a sufficient number of shares, a fiscal council can be established and its members elected at any shareholders meeting.

An extraordinary shareholders meeting may be held concurrently with the annual shareholders meeting and at other times during the year. Our shareholders may take the following actions, among others, exclusively at shareholders meetings:

- election and dismissal of the members of our board of directors and our fiscal council, if the shareholders have requested the set up of the latter;
- approval of the aggregate compensation of the members of our board of directors and board of executive officers, as well as the compensation of the members of the fiscal council, if one has been established;
- amendment of our bylaws;
- approval of our merger, consolidation or spin-off;
- approval of our dissolution or liquidation, as well as the election and dismissal of liquidators and the approval of their accounts;
- granting stock awards and approval of stock splits or reverse stock splits;

- approval of stock option plans for our management and employees, as well as for the management and employees of other companies directly or indirectly controlled by us;

- approval, in accordance with the proposal submitted by our board of directors, of the distribution of our net income and payment of dividends;
- authorization to delist from the Level 2 of Differentiated Corporate Governance Practices and to become a private company, except if the cancellation is due to a breach of the Level 2 regulations by management, and to retain a specialized firm to prepare a valuation report with respect to the value of our shares, in any such events;
- approval of our management accounts and our financial statements;
- approval of any primary public offering of our shares or securities convertible into our shares; and
- deliberate upon any matter submitted by the board of directors.

### ***Anti-Takeover Provisions***

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, officers and members of our fiscal committee 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 BM&FBOVESPA 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 BM&FBOVESPA Arbitration Chamber and rules.

### ***Going Private Process***

Pursuant to our bylaws, we may become a privately-held company only if we, our controlling shareholders or our group of controlling shareholders make a public tender offer for all outstanding shares.

According to the Level 2 regulations and our bylaws, the minimum price of the shares in the public tender offer required to be made in case we go private shall be equivalent to the economic value determined in the appraisal report prepared by a specialized and independent company, with renowned expertise, to be selected at the annual shareholders meeting from among the three companies suggested by the board of directors.

In addition to the requirements set out in the Level 2 regulations and our bylaws, according to the Brazilian corporation law, our registration as a publicly held company with shares traded on stock exchanges will be canceled only if we or our direct or indirect controlling shareholders make a public tender offer for the total outstanding shares in the market (which may be the same tender offer required by Level 2 regulations and our bylaws), at a fair value, for a price at least equal to our evaluation, determined based on the following criteria, separately or jointly adopted: stockholders equity book value, stockholders equity at market price, discounted cash flow, multiple comparisons, market price of our shares or any other criteria accepted by the CVM. Shareholders holding at least 10% of our outstanding shares may require our management to review the price offered for the shares, and in this event our

management shall call a special shareholders` meeting to determine whether to perform another valuation using the same or a different valuation method. Such request must be made within 15 days following the disclosure of the price to be paid for the shares in the public tender offer, and shall be duly justified. The shareholders who make such request, as well as those who vote in its favor, shall reimburse us for any costs involved in preparing the new valuation if the valuation price is lower than or equal to the original valuation price. If the new valuation price is higher than the original valuation price, the public tender offer must be made at the new valuation price.

### ***Delisting from Differentiated Corporate Governance Practices Level 2***

We may, at any time, delist our shares from the Level 2 segment, provided that this is approved by shareholders representing the majority of our voting share capital at an annual shareholders' meeting and that we provide written notice to the BM&FBOVESPA at least 30 days in advance. If we decide to delist from the Level 2 segment, in order to make our shares available to be traded outside the Level 2 segment, our controlling shareholders must conduct a public tender offer for the acquisition of our shares within the legal timeframe, based on the economic value calculated in the appraisal report prepared by a specialized and independent company, to be selected at an annual shareholders' meeting from among three companies suggested by the board of directors. The public tender offer notice must be communicated to the BM&FBOVESPA and immediately disclosed to the market after the shareholders' meeting during which the delisting was approved. If the delisting from the Level 2 segment is a result of the cancellation of our registration as a publicly held company, our controlling shareholders must follow the other requirements applicable to going private.

The delisting from the Level 2 segment does not imply the cancellation of the trading of our shares on the BM&FBOVESPA.

If our share control is transferred within the 12 months subsequent to the delisting from the Level 2, the selling controlling shareholder and the buyer shall offer to our other shareholders the acquisition of their shares at the price and conditions provided to the controlling shareholder selling the shares, adjusted for inflation.

After delisting from the Level 2 segment, we may not request the listing of our shares in the Level 2 segment for two years subsequent to the cancellation, except if there is a change of our share control after delisting from the Level 2 segment.

### ***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 BM&FBOVESPA 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.

### **Aircraft General Terms Agreement between The Boeing Company and VRG Linhas Aéreas S.A.**

In 2004, we entered into an agreement, as amended, 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.

### **Commercial Sale Promise Agreement between Petrobrás Distribuidora S.A. and VRG Linhas Aéreas S.A.**

In 2001, we entered into a commercial sale promise agreement for the purchase of fuel from Petrobrás, which was renewed July 7, 2006. We agreed to purchase fuel exclusively from Petrobrás in all of the airports where Petrobrás maintains aircraft fueling facilities. Petrobrás, in turn, agreed to provide us with all of our fuel needs in the supplying airports.

### **Reservation Services and Software License Use Agreement between Navitaire Inc. and VRG Linhas Aéreas S.A.**

On May 1, 2004, we entered into an agreement, as amended and updated, with Navitaire Inc. for host reservation services and obtained a license to use the Navitaire software to provide reservation services to Gol customers. Navitaire 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.

## **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. 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](#).

## **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 non-Brazilian holder.

This discussion is based on Brazilian law as currently in effect, which are subject to change, possibly with retroactive effect, and to differing interpretations. Any change in such law may change the consequences described below. Each non-Brazilian holder should consult his or her own tax adviser concerning the Brazilian tax consequences of an investment in the preferred shares or ADSs.

*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 of preferred shares will not be subject to Brazilian withholding income tax, provided that such amounts are related to profits earned after January 1, 1996.

*Taxation of Gains.* According to Law No. 10,833, enacted on December 29, 2003, capital gains realized on the disposition of assets located in Brazil by a non-Brazilian holder are subject to taxation in Brazil, regardless of whether the sale or the disposition is made by a non-Brazilian holder to another non-Brazilian resident or to a Brazilian resident.

With respect to the disposition of preferred shares, as they are assets located in Brazil, the non-Brazilian holder will be subject to income tax on the gains assessed, following the rules described below, regardless of whether the disposition is conducted in Brazil or with a Brazilian resident.

With respect to the ADSs, arguably the gains realized by a non-Brazilian holder on the disposition of ADSs to another non-Brazilian resident are not taxed in Brazil, based on the argument that ADSs would not constitute assets located in Brazil for purposes of Law No. 10,833/03. However, we cannot assure you how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Brazilian Holder on the disposition of ADSs to another non-Brazilian resident. As a result, gains on a disposition of ADSs by a non-Brazilian holder to Brazilian resident, or even to non-Brazilian holder in the event that courts determine that ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described ahead. 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-Brazilian holder, the form by which such non-Brazilian holder has registered its investment with 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 Low or Nil Tax 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. In some circumstances, there may be arguments to sustain that such taxation is not applicable in the case of a non-Brazilian holder that is a 2,689 Holder (as defined below) and is not resident in a Low or Nil Tax 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 Central Bank.

Gains assessed on the disposition of the preferred shares carried out on the Brazilian stock exchange (which includes the transactions carried out on the organized over-the-counter market) are:

- exempt from income tax, when assessed by a non-Brazilian holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution No. 2,689/00 ( 2,689 Holder ) and (2) is not resident in a Low or Nil Tax Jurisdiction; or
- subject to income tax at a rate of 15% in any other case, including the gains assessed by a non-Brazilian holder that is not a 2,689 Holder or is a resident in a Low or Nil Tax Jurisdiction. 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 a resident of a Low or Nil Tax Jurisdiction, or yet where local regulations impose restrictions on disclosure of share ownership and identity of beneficiary holders which, in this case, is subject to income tax at a rate of 25%. If these gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with intermediation, the withholding income tax of 0.005% shall also be applicable and can be offset against the eventual income tax due on the capital gain.

In the case of a redemption of preferred shares or ADSs or a capital reduction by a Brazilian corporation, the positive difference between the amount received by the non-Brazilian holder and the acquisition cost of the preferred shares or ADSs redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the rate of 15%, or 25%, as the case may be.

As a general rule, the gains realized as a result of a disposition transaction of preferred shares or ADSs is the difference between the amount realized on the sale or exchange of the shares and their acquisition cost.

There can be no assurance that the current preferential treatment for non-Brazilian holder of ADSs and 2,689 Holder of preferred shares 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 income tax. Any gain on the sale or assignment of preemptive rights relating to preferred shares or the ADSs by a non-Brazilian holder will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of preferred shares.

*Distributions of Interest on 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 as an alternative to making individual distributions. 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 the deduction of social contribution on profits and before taking such distribution and the provision 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 holders, including non-Brazilian holders of ADSs, are subject to Brazilian income withholding tax at the rate of 15%, or 25% in case of a resident of a Low or Nil Tax Jurisdiction. 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.

#### *Low or Nil Taxation Jurisdictions.*

On June 24, 2008, Law No. 11,727 introduced the concept of "privileged tax regime", considered as such the tax regime that (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out a substantial economic activity in the country or dependency or (b) contingent to the non-exercise of a substantial economic activity in the country or dependency; or (iii) does not tax or that taxes the income generated abroad at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out. We have been advised that the best interpretation of Law No. 11,727/08 should lead us to conclude that the new concept of "privileged tax regime" would be applicable solely for purposes of transfer pricing rules in export and import transactions. However, due to the recent enactment of this Law, we are unable to ascertain whether or not the privileged tax regime concept will be extended to the concept of Low or Nil Taxation Jurisdiction. The provisions of Law No. 11,727/08 that refer to the "privileged tax regime" came into effect on January 1, 2009.

#### **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 the non-Brazilian holder to individuals or entities resident or domiciled within such states in Brazil. There are non-Brazilian stamp, issue, registration or similar taxes or duties payable by a non-Brazilian holder of preferred shares or ADSs.

#### **Tax on foreign exchange transactions**

Pursuant to Decree No. 6,306/07, 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 by a non-Brazilian holder in the preferred shares and ADSs may be subject to the Tax on Foreign Exchange Transactions, or IOF/Exchange. Although the current applicable rate for almost all foreign currency exchange transactions is 0.38%, the exchange transactions for the inflow and the outflow of funds by non-Brazilian holders for investment in the Brazilian financial and capital markets are subject to the IOF/Exchange Tax at the respective rates of 2% and 0%. In any case, the Brazilian Government is permitted to increase at any time the rate to a maximum of 25%, but only in relation to future transactions.

#### **Tax on Bonds and Securities Transactions**

Pursuant to Decree 6,306/07, the Tax on Bonds and Securities Transactions ( IOF/Bonds ) may be imposed on any transactions involving bonds and securities even if the transactions are performed on a Brazilian stock exchange. As a general rule, the rate of this tax is currently 0% but the Brazilian government may increase such rate up to 1.5% per day, but only with respect to future transactions.

#### **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 depository 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 United States 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 U.S. 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;
- U.S. Holders whose functional currency is not the United States dollar;
- United States expatriates;
- U.S. Holders that hold our preferred shares or ADSs as part of a hedge, straddle, conversion or other integrated transaction; or
- U.S. 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 [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 or 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 (or any other entity taxable as a partnership for United States federal income tax purposes) holds preferred shares or ADSs, the United States federal income tax treatment of a partner will generally depend upon the status of the partner and upon the activities of the partnership. A partnership that holds our preferred shares or ADSs and partners in such partnerships should consult their own tax advisors regarding the United States federal income tax consequences of the purchase, ownership and disposition of our preferred shares or ADSs.

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 United States 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 payments 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 U.S. Holder's adjusted tax basis will be treated as capital gain and will be long-term capital gain if 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 United States federal income tax purposes.

A U.S. Holder will be entitled, subject to a number of complex limitations and conditions (including a minimum holding period requirement), 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 income taxes paid or accrued 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. For purposes of the United States foreign tax credit limitation, foreign source income is separated into different baskets, and the credit for foreign taxes on income in any basket is limited to the United States federal income tax allocable to such income. Dividends paid with respect to our preferred shares or ADSs should generally constitute [passive category income](#) for most U.S. Holders. Holders are urged to consult their tax advisors regarding

the availability of the foreign tax credit in their particular circumstances. The United States 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 United States Treasury and certain exceptions for short-term and hedged positions, the United States dollar amount of dividends received by certain U.S. Holders (including individuals) prior to January 1, 2011 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 will 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 United States dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depositary (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 United States 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, exchange or other taxable 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, exchange or other taxable 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 sale, exchange or other taxable disposition of a preferred share or ADS 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 above under Material Brazilian Tax Considerations 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 income taxes paid or accrued 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. In determining whether a foreign corporation is a PFIC, a pro rata portion of the income and assets of each corporation in which it owns, directly or indirectly, at least 25% interest (by value) is taken into account. 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 United States federal income tax liability and form filing requirements) with respect to (a) any gain realized on the sale, exchange 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 that we are a PFIC generally must file IRS Form 8621. U.S. Holders should also be aware that recently enacted legislation may broaden the current IRS Form 8621 filing requirements or impose an additional annual filing requirement for United States persons owning shares of a PFIC. The legislation does not describe what information would be required to be included in either situation, but grants the Secretary of the United States Treasury power to make this determination. U.S. Holders should consult their own tax advisors regarding the application of the PFIC rules to our preferred shares or ADSs and the application of the recently enacted legislation to their particular situation. U.S. Holders should also consult their own tax advisors regarding the application of the PFIC rules to our preferred shares and ADSs and the application of the recently enacted legislation to their particular situation.

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 PFIC rules, constitute marketable stock as defined in United States 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 adjusted 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 determined to be a PFIC, a U.S. Holder may be treated as indirectly holding any subsidiary of ours that is itself a PFIC (a lower-tier PFIC) and may be subject to the PFIC rules on indirect distributions or sales of the lower-tier PFIC, even if the U.S. Holder does not receive of the proceeds of such distribution or sales. In addition, a mark-to-market election with respect to preferred shares or ADSs would not apply to any lower-tier PFIC, and a U.S. Holder would not be able to make such a mark-to-market election in respect of its indirect ownership interest in that lower-tier PFIC. Consequently, the PFIC rules could apply with respect to income of a lower-tier PFIC, the value of which would already have been taken into account indirectly via mark-to-market adjustments in respect of preferred shares or ADSs.

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 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 of United States federal income tax at a current maximum rate of 28% unless the U.S. 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.

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 timely furnished to the IRS. 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 timely filing a refund claim with the IRS.

In addition, U.S. Holders should be aware that recently enacted legislation imposes new reporting requirements with respect to the holding of foreign financial assets, including stock of foreign issuers, if the aggregate value of all of such assets exceeds \$50,000. U.S. Holders should consult their own tax advisors regarding the application of the information reporting rules to our common shares and the application of the recently enacted legislation to their particular situation.

### ***Other Brazilian taxes***

You should note that any Brazilian IOF/Exchange Tax or IOF/Bonds tax may not be treated as a creditable foreign tax for United States federal income tax purposes, although you may be entitled to deduct such taxes, subject to applicable limitations under the Code. You should consult your tax advisors regarding the United States federal income tax consequences of these taxes.

## **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 100 F 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 depositary 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 depositary 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 depositary will mail copies of those notices, reports and communications to you if we ask the depositary 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, the *real*/U.S. dollar exchange rate and interest rates. The Company purchases jet fuel at prevailing market prices, but seeks to manage market risk through execution of a documented hedging program. The Company incurs a portion of its costs and operating expenses in U.S. dollars. The Company has interest rate risk in its floating rate leases and debt obligations. The company operates 127 aircraft, 94 of which were under operating leases and 33 were under finance leases. However, fixed rate leases are not considered market sensitive financial instruments and, therefore, are not included in the interest rate sensitivity analysis below.

### **Aircraft Fuel**

Our results of operations are affected by changes in the price of aircraft fuel required to operate our aircraft fleet. To manage the price risk, we utilize crude oil and heating 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, 2009, we had crude oil derivative contracts outstanding for up to 2,183 barrels of oil. The fair value of such contracts was R\$18.6 million. If the price of fuel increased by 10% in relation to the average 2009 price, based on expected fuel consumption in 2009, such an increase would result in an increase to aircraft fuel expense of approximately R\$193.5 million in 2010, 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, 2009, we had outstanding currency futures contracts. The fair value of such contracts was R\$1.0 million. As a measure of our market risk with respect to our foreign currency exposure, an increase in aircraft and engine maintenance expense, aircraft operating lease payments and aircraft insurance from a hypothetical 10% depreciation of the *real* against the U.S. dollar would be approximately R\$296.1 million, not considering our derivative contracts.

**Interest Rates**

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 short-term investment balances. At December 31, 2009, 14% of our aircraft rental expenses had floating interest rates. A hypothetical 10% increase in market interest rates as of December 31, 2009 would increase our aircraft rental and interest expense by approximately R\$0.3 million. A hypothetical 10% decrease in market interest rates as of December 31, 2009 would decrease our interest income by approximately R\$0.3 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 and short-term investment balances at December 31, 2009.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES****D. American Depositary Shares**

In the United States, our preferred shares trade in the form of ADS. 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.

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.

**Fees and Expenses**

The following table summarizes the fees and expenses payable by holders of ADRs:

<i>Persons depositing preferred shares or ADR holders must pay:</i>	<i>For:</i>
US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance of ADSs, including issuances resulting from a distribution of preferred shares or rights or other property
	Cancellation of ADSs for the purpose of withdrawal, including if the deposit agreement terminates
US\$0.02 (or less) per ADS (to the extent not prohibited by the rules of any stock exchange on which the ADSs are listed for trading)	Any cash distribution to you
A fee equivalent to the fee that would be payable if securities distributed to you had been preferred shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR holders
US\$0.02 (or less) per ADS per calendar year (to the extent the depositary has not collected a cash	Depositary services

distribution fee of \$.02 per ADS during the year)

Registration or transfer fees	Transfer and registration of preferred shares on our preferred share register to or from the name of the depositary or its agent when you deposit or withdraw preferred shares.
Expenses of the depositary in converting foreign currency to U.S. dollars	
Expenses of the depositary	Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)
Taxes and other governmental charges the depositary or the custodian have to pay on any ADR or preferred share underlying an ADR, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by the depositary or its agents for servicing the deposited securities	No charges of this type are currently made in the Brazilian market

### **Payment of Taxes**

The depositary may deduct the amount of any taxes owed from any payments to you. It may also sell deposited securities, by public or private sale, to pay any taxes owed. You will remain liable if the proceeds of the sale are not sufficient to pay the taxes. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any proceeds, or send to you any property, remaining after it has paid the taxes.

### **Reimbursement of Fees**

The Bank of New York Mellon, as depositary, has agreed to reimburse us for expenses we incur that are related to establishment and maintenance expenses of the ADS program. The depositary has agreed to reimburse us for our continuing annual stock exchange listing fees. The depositary has also agreed to pay the standard out-of-pocket maintenance costs for the ADRs, which consist of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of United States federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls. It has also agreed to reimburse us annually for certain investor relationship programs or special investor relations promotional activities. In certain instances, the depositary has agreed to provide additional payments to us based on any applicable performance indicators relating to the ADR facility. There are limits on the amount of expenses for which the depositary will reimburse us, but the amount of reimbursement available to the Company is not necessarily tied to the amount of fees the depositary collects from investors.

The depositary collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The depositary collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The depositary may collect its annual fee for depositary services by deduction from cash distributions or by directly billing investors or by charging the book-entry system accounts of participants acting for them. The depositary may generally refuse to provide fee-attracting services until its fees for those services are paid.

**Reimbursement of Fees Incurred in 2009**

From January 1, 2009 until the date of this annual report, the Company received from the depositary US\$100,000 for standard out-of-pocket maintenance costs for the ADRs (consisting of the expenses of postage and envelopes for mailing annual and interim financial reports, printing and distributing dividend checks, electronic filing of U.S. Federal tax information, mailing required tax forms, stationery, postage, facsimile, and telephone calls), any applicable performance indicators relating to the ADR facility, underwriting fees and legal fees.

