

Gol Intelligent Airlines Inc.  
Form 20-F  
April 30, 2013

As filed with the Securities and Exchange Commission on April 30, 2013

**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, 2012**

**OR**

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

**OR**

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

Commission file number 001-32221

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

(Exact name of Registrant as specified in its charter)

**Gol Intelligent Airlines Inc.**

(Translation of Registrant's name into English)

**The Federative Republic of Brazil**

(Jurisdiction of incorporation or organization)

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(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, 2012:

**143.858.204**

**Shares of Common Stock**

**134.858.582**

**Shares of Preferred Stock**

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

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  
International Accounting Standards  
Board

Other

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

## Table of Contents

<u>Presentation of Financial and Other Data</u>	1
<u>Cautionary Statements about Forward-Looking Statements</u>	2
<u>ITEM 1.</u>	3
<u>ITEM 2.</u>	3
<u>ITEM 3.</u>	3
<u>A.</u>	3
<u>B.</u>	7
<u>C.</u>	7
<u>D.</u>	7
<u>ITEM 4.</u>	17
<u>A.</u>	17
<u>B.</u>	18
<u>C.</u>	43
<u>D.</u>	43
<u>ITEM 4A.</u>	43
<u>ITEM 5.</u>	44
<u>A.</u>	44
<u>B.</u>	63
<u>C.</u>	69
<u>D.</u>	69
<u>E.</u>	69
<u>F.</u>	69
<u>ITEM 6.</u>	70
<u>A.</u>	70
<u>B.</u>	73
<u>C.</u>	74
<u>D.</u>	76
<u>E.</u>	77
<u>ITEM 7.</u>	77
<u>A.</u>	77
<u>B.</u>	78
<u>C.</u>	79
<u>ITEM 8.</u>	79
<u>A.</u>	79
<u>B.</u>	84
<u>ITEM 9.</u>	84
<u>A.</u>	84
<u>B.</u>	85
<u>C.</u>	86
<u>D.</u>	90
<u>E.</u>	90
<u>F.</u>	90
<u>ITEM 10.</u>	90
<u>A.</u>	90

<u>B.</u>	<u>Memorandum and Articles of Association</u>	<u>91</u>
<u>C.</u>	<u>Material Contracts</u>	<u>99</u>
<u>D.</u>	<u>Exchange Controls</u>	<u>99</u>
<u>E.</u>	<u>Taxation</u>	<u>100</u>
<u>F.</u>	<u>Dividends and Paying Agents</u>	<u>108</u>
<u>G.</u>	<u>Statement by Experts</u>	<u>108</u>
<u>H.</u>	<u>Documents on Display</u>	<u>108</u>
<u>I.</u>	<u>Subsidiary Information</u>	<u>109</u>
<u>ITEM 11.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>109</u>
<u>ITEM 12.</u>	<u>Description of Securities other than Equity Securities</u>	<u>110</u>
<u>A.</u>	<u>American Depositary Shares</u>	<u>110</u>
<u>ITEM 13.</u>	<u>Defaults, Dividend Arrearages and Delinquencies</u>	<u>112</u>
<u>ITEM 14.</u>	<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>	<u>112</u>
<u>ITEM 15.</u>	<u>Controls and Procedures</u>	<u>112</u>
<u>ITEM 16.</u>	<u>[Reserved]</u>	<u>113</u>
<u>ITEM</u>		
<u>16A.</u>	<u>Audit Committee Financial Expert</u>	<u>113</u>
<u>ITEM</u>		
<u>16B.</u>	<u>Code of Ethics</u>	<u>113</u>
<u>ITEM</u>		
<u>16C.</u>	<u>Principal Accountant Fees and Services</u>	<u>113</u>
<u>ITEM</u>		
<u>16D.</u>	<u>Exemptions from the Listing Standards for Audit Committees</u>	<u>114</u>
<u>ITEM</u>		
<u>16E.</u>	<u>Purchases of Equity Securities by the Issuer and Affiliated Purchasers</u>	<u>114</u>
<u>ITEM</u>		
<u>16F.</u>	<u>Change in Registrant’s Certifying Accountant</u>	<u>114</u>
<u>ITEM</u>		
<u>16G.</u>	<u>Corporate Governance</u>	<u>114</u>
<u>ITEM 17.</u>	<u>Financial Statements</u>	<u>117</u>
<u>ITEM 18.</u>	<u>Financial Statements</u>	<u>117</u>
<u>ITEM 19.</u>	<u>Exhibits</u>	<u>117</u>
<u>Signature</u>		<u>122</u>

## 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, 2012 was R\$2.044 to US\$1.00, which was the commercial rate for the purchase of U.S. dollars in effect on December 31, 2012, 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 operating results of Webjet Linhas Aéreas S.A., or Webjet, are consolidated in our financial statements as from October 3, 2011. All information in this annual report reflects the acquisition of Webjet, unless otherwise indicated. On November 23, 2012, we began the process of winding up Webjet’s activities and the consequent discontinuation of its brand. See “Item 5. Operating and Financial Review and Prospects – A. Operating Results – Webjet.”

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. 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:

- “Aircraft utilization” represents the average number of block-hours operated per day per aircraft for the total aircraft fleet.

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- “Available seat kilometers” or “ASK” represents the aircraft seating capacity multiplied by the number of kilometers flown.
- “Average stage length” represents the average number of kilometers flown per flight.
- “Block-hours” refers to the elapsed time between an aircraft’s leaving an airport gate and arriving at an airport gate.

- “Breakeven load factor” is the passenger load factor that will result in passenger revenues being equal to operating expenses.
- “Load factor” represents the percentage of aircraft seating capacity that is actually utilized (calculated by dividing revenue passenger kilometers by available seat kilometers).
- “Operating expense per available seat kilometer” or “CASK” represents operating expenses divided by available seat kilometers.
- “Operating expense excluding fuel expense per available seat kilometer” or “CASK - ex fuel” represents operating expenses less fuel expense divided by available seat kilometers.
- “Operating revenue per available seat kilometer” or “RASK” represents operating revenues divided by available seat kilometers.
- “Passenger revenue per available seat kilometer” represents passenger revenue divided by available seat kilometers.
- “Revenue passengers” represents the total number of paying passengers flown on all flight segments.
- “Revenue passenger kilometers” or “RPK” represents the numbers of kilometers flown by revenue passengers.
- “Yield per passenger kilometer” or “yield” represents the average amount one passenger pays to fly one kilometer.

### **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, U.S. and Caribbean markets we serve;
- the effects of global financial markets and economic crises;
- 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 are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, 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 present in this section the following summary financial data:

- Summary financial information derived from our audited consolidated financial statements included herein as of and for the years ended December 31, 2012, 2011 and 2010; and
- Summary financial information derived from our audited consolidated financial statements not included herein as of and for the year ended December 31, 2009 and 2008.

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, 2012 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2012 as reported by the Central Bank of R\$2.044 to US\$1.00.

## Summary Financial Information

	Year Ended December 31,					
	2008	2009	2010	2011	2012	2012
	(in thousands)					
<b>Income Statement Data:</b>						
Operating revenues:						
Passenger	R\$5,890,104	R\$5,306,530	R\$6,277,657	R\$6,713,029	R\$7,159,987	US\$3,503,786
Cargo and other	516,089	718,852	701,790	826,279	943,572	461,743
<b>Total operating revenues</b>	<b>6,406,193</b>	<b>6,025,382</b>	<b>6,979,447</b>	<b>7,539,308</b>	<b>8,103,559</b>	<b>3,965,529</b>
Operating expenses:						
Salaries	(983,783)	(1,100,953)	(1,252,402)	(1,560,436)	(1,569,670)	(768,128)
Aircraft fuel	(2,630,834)	(1,813,104)	(2,287,410)	(3,060,665)	(3,742,219)	(1,831,279)
Aircraft rent	(645,089)	(650,683)	(555,662)	(505,058)	(644,031)	(315,161)
Sales and marketing	(588,735)	(364,551)	(367,757)	(402,568)	(426,582)	(208,751)
Landing fees	(338,370)	(312,637)	(331,882)	(395,249)	(559,421)	(273,756)
Aircraft and traffic servicing	(422,177)	(381,721)	(430,521)	(484,642)	(528,737)	(258,741)
Maintenance, materials and repairs	(388,030)	(417,212)	(422,950)	(434,181)	(417,990)	(204,546)
Depreciation and amortization	(125,127)	(142,853)	(281,604)	(395,807)	(519,631)	(254,285)
Other operating expenses	(372,696)	(428,376)	(351,464)	(633,634)	(600,891)	(294,050)
Gain on bargain purchase	-	-	-	88,428	-	-
<b>Total operating expenses</b>	<b>(6,494,841)</b>	<b>(5,612,090)</b>	<b>(6,281,652)</b>	<b>(7,783,812)</b>	<b>(9,009,172)</b>	<b>(4,408,697)</b>
Income (loss) from operations before income (expense)	(88,648)	413,292	697,795	(244,504)	(905,613)	(443,168)
Interest expense	(269,278)	(288,112)	(297,256)	(414,430)	(453,731)	(222,036)
Financial income (expense), net	(837,116)	630,956	(14,043)	(341,484)	(225,478)	(110,339)
Income (loss) before income taxes and social contribution	(1,195,042)	756,136	386,496	(1,000,418)	(1,584,822)	(775,543)
Income taxes	(44,305)	134,696	(172,299)	248,880	71,907	35,188
<b>Net income (loss)</b>	<b>(1,239,347)</b>	<b>890,832</b>	<b>214,197</b>	<b>(751,538)</b>	<b>(1,512,915)</b>	<b>(740,355)</b>
Basic earnings (loss) per share <sup>(1)</sup> :	(6.160)	3.916	0.798	(2.78)	(5.61)	(2.75)
Diluted earnings (loss) per share <sup>(1)</sup> :	(6.160)	3.914	0.796	(2.78)	(5.61)	(2.75)
Weighted average number of outstanding shares in relation to basic earnings (loss) per share (in thousands) <sup>(1)</sup>	201,193	227,472	268,564	270,376	269,869	269,869
Weighted average number of outstanding shares in relation to diluted earnings (loss) per share (in thousands) <sup>(1)</sup>	201,193	227,583	268,954	270,376	269,869	269,869
Basic earnings per ADS <sup>(1)</sup>	(6.160)	3.916	0.798	(2.78)	(5.61)	(2.75)
Diluted earnings per ADS <sup>(1)</sup>	(6.160)	3.914	0.796	(2.78)	(5.61)	(2.75)
Dividends declared per share (net of withheld income tax) <sup>(1)</sup>	0.18	0.70	0.19	-	-	-
Dividends declared per ADS (net of withheld income tax) <sup>(1)</sup>	0.18	0.70	0.19	-	-	-

<b>Balance Sheet Data:</b>	<b>As of December 31,</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>
	<b>(in thousands)</b>					
Cash and cash equivalents	R\$169,330	R\$1,382,408	R\$1,955,858	R\$1,230,287	R\$775,551	US\$379,521
Short-term investments	245,585	40,444	22,606	1,009,068	585,028	286,287
Trade receivables <sup>(2)</sup>	344,927	519,308	303,054	354,134	325,665	159,366
Deposits	731,374	855,569	715,377	630,599	657,196	321,603
Total assets	7,131,865	8,720,120	9,063,847	10,655,141	9,027,098	4,417,469
Short-term debt	967,452	591,695	346,008	1,552,440	1,719,625	841,510
Shareholders' equity	1,071,608	2,609,986	2,929,169	2,205,911	732,828	358,614

<b>Other Financial Data:</b>	<b>Year Ended December 31,</b>					
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2012</b>
	<b>(in thousands except percentages)</b>					
Operating margin <sup>(3)</sup>	(1.4)%	6.9%	10.00%	(3.2)%	-11.2%	-11.2%
Net cash provided by (used in) operating activities	R\$151,700	R\$457,259	R\$723,897	R\$(602,520)	R\$133,293	US\$65,228
Net cash provided by (used in) investing activities	40,650	5,422	(279,459)	(469,168)	(590,443)	(288,937)
Net cash provided by (used in) financing activities	(611,301)	769,238	139,900	354,547	(4,381)	(2,144)

*Summary Operational Data*

<b>Operating Data<sup>(5):</sup></b>	<b>Year Ended December 31</b>				
	<b>2008</b>	<b>2009</b>	<b>2010<sup>(7)</sup></b>	<b>2011<sup>(6)</sup></b>	<b>2012</b>
Revenue passengers (in thousands)	25,664	28,410	32,915	36,220	39,164
Revenue passenger kilometers (in millions)	25,308	25,669	30,649	34,461	36,390
Available seat kilometers (in millions)	41,107	40,355	45,937	50,373	51,836
Load-factor	61.6%	63.6%	66.7%	68.4%	70.2%
Break-even load-factor	62.5%	59.2%	60.0%	70.6%	78.0%
Aircraft utilization (block hours per day)	12.1	11.6	12.9	13.0	12.1
Average fare	262	191	191	185	183
Yield per passenger kilometer (cents)	23.3	20.7	20.5	19.5	19.7
Passenger revenue per available seat kilometer (cents)	14.3	13.1	13.7	13.4	13.8
Operating revenue per available seat kilometer (cents)	15.6	14.9	15.2	15.0	15.6
Operating expense per available seat kilometer (cents)	15.8	13.9	13.7	15.5	17.4
Operating expense less fuel expense per available seat kilometer (cents)	9.4	9.4	8.7	9.4	10.2
Departures	268,540	273,602	295,160	314,190	348,578
Departures per day	736	750	811	861	955
Destinations served	59	59	59	63	65

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Average stage length (kilometers)	933	890	907	908	877
Average number of operating aircraft during period	106.4	108.7	112.3	133.6	130.8
Full-time equivalent employees at period end	15,911	17,963	18,776	20,525	17,726
Fuel liters consumed (in thousands)	1,364,719	1,291,412	1,465,299	1,591,917	1,655,421
Percentage of sales through website during period <sup>(4)</sup>	92.4%	92.4%	88.1%	88.4%	88.8%
Percentage of sales through website and call center during period	99.2%	98.7%	95.1%	94.5%	94.5%

(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 (loss) before financial results divided by operating revenues.

(4) Considering sales through our website and API (*application programming interface*) systems.

(5) In October 2010, ANAC changed its calculation method for monthly traffic information and republished information for periods since January 2009. All operating data for 2009 and thereafter reflects the new methodology, whereas information for 2008 was calculated pursuant to the old methodology and may not be fully comparable. According to ANAC, the changes were designed to align data with the concepts adopted by the ICAO. The change was necessary because Brazil has joined the ICAO's statistical program and supplies the latter's database with several industry data. Changes in the methodology refer to the calculation of ASK (seat supply) and the classification of domestic legs in international flights, which are now considered to be part of the domestic market.

(6) Information regarding revenue passengers, aircraft utilization, average fare, departures, departures per day, average stage length, average number of operating aircraft, fuel liters consumed, percentage of sales through website and percentage of sales through website and call center include data for Webjet as of and including October 1, 2011.

(7) ANAC has published revised available seat kilometers and revenue passenger kilometers data for 2009 and 2010. All operating data for 2009 and thereafter reflects the new DCA manual, whereas information for 2008 was calculated pursuant to the old manual and may not be fully comparable.

## Exchange Rates

Brazil's foreign exchange system allows the purchase and sale of currency and the international transfer of *reais* by any person or legal entity, regardless of 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. Most recently, the *real* was R\$1.566 per US\$1.00 in August 2008. Primarily as a result of the crisis in the global financial markets, the *real* depreciated 31.9% against the U.S. dollar and reached R\$2.337 per US\$1.00, at year end 2008. In 2009 and 2010, the *real* appreciated against the U.S. dollar and reached R\$1.666 per US\$1.00 at year end 2010. During 2011 the *real* depreciated and on December 31, 2011, the exchange rate was R\$1.876 per US\$1.00. During 2012, the *real* continued to depreciate and on December 31, 2012, the exchange rate was R\$2.044 per US\$1.00.

The Central Bank has intervened occasionally to combat 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 following tables present the selling rate, expressed in *reais* to the U.S. dollar (R\$/US\$), for the periods indicated:

Period-End	Low	High
------------	-----	------

**Average for  
Period <sup>(1)</sup>  
(*reais* per U.S. dollar)**

<b>Year</b>				
2008	2.337	1.836	1.559	2.500
2009	1.741	1.994	1.702	2.422
2010	1.666	1.759	1.655	1.881
2011	1.876	1.675	1.535	1.902
2012	2.044	1.955	1.702	2.112
2013 (through April 26 2013)	2.000	1.999	1.953	2.047

<b>Month</b>	<b>Month-End</b>	<b>Average for Month <sup>(2)</sup> (<i>reais</i> per U.S. dollar)</b>	<b>Low</b>	<b>High</b>
October 2012	2.031	2.030	2.022	2.038
November 2012	2.107	2.068	2.031	2.107
December 2012	2.044	2.078	2.044	2.112
January 2013	1.988	2.018	1.988	2.047
February 2013	1.975	1.975	1.975	1.975
March 2013	2.014	1.983	1.953	2.019
April 2013 (through April 26)	2.000	2.002	1.974	2.024

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 has intervened 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 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; and

- other political, social and economic developments in or affecting Brazil.

***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.

***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 2012, the base interest rate (SELIC) in Brazil varied between 19.25% p.a. and 7.25% 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.

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

***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 42% of our operating expenses for the year ended December 31, 2012. 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.

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

Events resulting from prolonged instability in the Middle East or other oil-producing regions or the suspension of production by any significant producer, may result in substantial price increases, adverse exchange rates, or the

unavailability of adequate supplies and adversely affect our profitability. In addition, the same effect may be caused by natural disasters or other large unexpected disrupting events in regions with significant consumption of other energy sources. No assurances can be given about trends in fuel prices, and average fuel prices for the 2013 fiscal year or for future years may be significantly higher than current prices.

***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 debt costs, operating results and financial condition and would affect our growth and investment plans. These factors could also negatively affect our ability to obtain financing on acceptable terms and our liquidity generally.

***Exchange rate instability may materially and 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. Most recently, the *real* was valued as high as R\$1.566 per US\$1.00 in August 2008. Primarily as a result of the crisis in the global financial markets, the *real* depreciated 31.9% against the U.S. dollar and reached R\$2.337 per US\$1.00, at year end 2008. In 2009 and 2010, the *real* appreciated against the U.S. dollar and reached R\$1.666 per US\$1.00 at year end 2010. Driven principally by the European financial crisis, during 2011 the *real* depreciated and at year end 2011, the exchange rate was R\$1.876 per US\$1.00. In 2012, the *real* continued to depreciate, primarily due to a slowdown in the Brazilian economy and government efforts to keep the exchange rate at current levels. At December 31, 2012, the exchange rate was R\$2.044 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 an 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 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, 2012, 54% of our operating expenses were either denominated in or linked to the U.S. dollar. In addition, the purchase price of the Boeing 737 Next Generation aircraft for which we had 155 firm purchase orders outstanding as of December 31, 2012, is denominated in U.S. dollars. At the end of 2012, 70% 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 short-term effects of such developments, there can be no assurance we will be able to continue to do so. In addition, there is no effective hedging alternative for

medium- and long-term depreciation of the *real*. To the extent we are unable to adjust our fares or effectively hedge against any such developments, this may lead to a material decrease in our profit margins or to material 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\$3,033.7 million and R\$3,637.4 million regarding other U.S. dollar-denominated liabilities and indebtedness at December 31, 2012. 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.

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.

***Changes to Brazilian rules regarding slots distribution, fare restrictions and fees associated with civil aviation may adversely affect our business and results of operations.***

In February 2013, ANAC announced a series of public hearings to discuss proposed changes to rules governing the allocation of slots at Brazilian airports, which would consider operational efficiency (punctuality and regularity data) as the main determinant for the allocation of slots.

Also in February 2013, the Civil Aviation Secretary, or SAC, announced a new proposal focused specifically on slot distribution rules at Congonhas airport. Current rules governing the allocation of slots at Congonhas Airport, which favor us, require that 80% of new slots are assigned to airlines already operating in that airport. SAC's proposal alters current regulations by taking into account operational efficiency as a principal determinant for slot allocation at Congonhas airport, as well as domestic market (main cities) and regional market share as complementary factors.

The new proposals, which are under public hearing, may change the current slot allocation criteria and as a result reduce our number of slots at Brazil's main airports. As of the date of this document, no decision has been made regarding these proposals. If there is a change in the rule regarding slots redistribution we could be negatively affected by higher competition in this airport from new competitors.

In 2010, ANAC approved the deregulation of international airfares for flights departing from Brazil to the U.S. and Europe, gradually removing the prior minimum fares. In addition, in 2010 the National Civil Aviation Council (*Conselho de Aviação Civil*), or CONAC, approved the continuity of bilateral agreements providing for open skies policies with other South American countries and a new open skies policy with the United States. In March, 2011 Brazil also signed an open skies agreement with Europe. The agreements with the United States and Europe are expected to be in operation by 2015 and 2014, respectively. These regulations increase competition in the market and may negatively affect our results of operations.

Until 2010, landing and navigation fees charged in Brazilian airports were similar in all airports independent of whether they were busy or not. In 2011, the Brazilian government increased landing and navigation fees at the busiest airports as compared to less busy airports and at peak hours. As a result, secondary hubs and off-peak flights may benefit in light of the differences in fees for the airlines that choose to operate in these airports or times. Changes in landing, navigation or other fees have in the past and may continue to increase our CASK, lower our efficiency and profitability and may provide other market players with a cost or operational advantage.

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

Brazilian aviation authorities monitor and influence the developments in Brazil's airline market. For example, the National Civil Aviation Agency (*Agência Nacional de Aviação Civil*), or ANAC, addressed overcapacity by establishing strict criteria that must be met before new routes or additional flight frequencies were awarded. ANAC has more recently set minimum turnaround times. ANAC's policies as well as those of other aviation supervisory authorities may negatively affect our operations.

The Brazilian congress is currently discussing 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, fines and the

increase of limits to foreign ownership in voting stock of Brazilian airlines from 20% to 49%. 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 for presidential approval. If the Brazilian civil aviation framework changes in the future, or ANAC implements increased restrictions, our growth plans, our business and results of operations could be adversely affected. If the limits to foreign ownership in or influence on Brazilian airlines are increased, our current or new competitors may increase their financial strength and may have a competitive advantage over us, which would negatively affect our business and results of operations.

In August 2011 the Brazilian government privatized the new Natal airport, which will have its construction completed and further operation by the winners of the privatization auction. In February 2012, the Brazilian government privatized the Guarulhos, Brasília and Campinas international airports, which will be operated by the winners of the privatization auction for periods of 20 to 30 years. In December 2012, the Brazilian government announced its intention to privatize the Galeão (in Rio de Janeiro) and Confins (Belo Horizonte) airports by September 2013, and other airports are also expected to be privatized in the near future. 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, especially regarding operational efficiencies and costs, as well as airport and other fees, on our business and results of operations. See “Item 4. Information on the Company – B. Business Overview - Regulation of the Brazilian Civil Aviation Market – Airport Infrastructure.”

Changes to the Brazilian civil aviation regulatory framework may change the competitive dynamics of our industry and may adversely affect our operations, see “–We operate in a highly competitive industry.”

***As a result of significant losses in 2011 and 2012, our financial condition has been materially weakened.***

We incurred significant losses in 2011 and 2012 which have materially weakened our financial condition. We had net losses of R\$752 million in 2011 and \$1,513 million in 2012. These losses were mainly a factor of increased operating expenses that we do not control, including: an increase of 45% in average aircraft fuel prices, an average depreciation of the *real* of 13%, which affects a significant part of our operating expenses, and an increase of 71% in average airport fees during the period.

Although we have taken a number of steps to reduce the effects of these increased operating expenses, such as reducing capacity and focusing on more profitable routes, we cannot assure you that such measures will be sufficient to offset the effects of these increased expenses, that these expenses will not continue to increase and, if they continue to increase, that we will be able to pass on these increases to our customers or otherwise compensate for the increases, which would materially and adversely affect our results of operations.

***We are highly leveraged and may be unable to reduce our leverage ratios over time.***

We are highly leveraged, which means we have a large amount of indebtedness in relation to our equity. As of December 31, 2012, we had approximately R\$5,191 million of consolidated indebtedness as compared to a shareholders’ equity of R\$733 million. This increased leverage is a result of our recent significant losses. See “—As a result of significant losses in 2011 and 2012, our financial condition has been materially weakened” above.

In addition, as a result of our increased leverage, our credit ratings were downgraded. Credit ratings affect the cost and other terms upon which we are able to obtain funding. Credit rating agencies regularly evaluate us and their ratings of our long-term debt are based on a number of factors, including our financial strength. We cannot assure you that credit rating agencies will not downgrade our credit ratings any further, even in the absence of new losses.

Our substantial indebtedness or any further downgrades to our credit ratings could adversely affect our ability to obtain new financings or refinance our existing indebtedness on terms that are favorable to us or at all and could also make us more vulnerable to the impact of unexpected events or to the deterioration of the operating environment (such as a significant increase in operating expenses).

Our increased leverage could also affect our ability to comply with the restrictive covenants contained in certain of our existing debt agreements, which, among other things, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or our prospects. See “—Certain of our debt agreements contain



financial covenants and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows” below.

In addition, our strategy to strengthen our cash position, and as a result reduce our leverage over time, may not be successful, which could further emphasize the risks described above.

***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. Infraero has announced a list of investments in major Brazilian airports of approximately R\$7.0 billion to be implemented between 2011 and 2014.

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.

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, Campinas, Salvador, Confins and São Paulo (Guarulhos) international airports, 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.

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

We face intense competition on domestic routes in Brazil from existing scheduled airlines and charter airlines and potential 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 U.S. and Caribbean destinations.

Our existing competitors or potential new entrants into the markets in which we operate may be financially stronger than us. They 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, emulating our strategy. 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 or that our competitive advantage would not be reduced.

***Further consolidation in the Brazilian and global airline industry framework may adversely affect our business and results of operations.***

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. To the extent we act as consolidators, we may not be able to successfully integrate the business and operations of companies acquired, governmental approvals may be delayed,

costs of integration and fleet renovation may be greater than anticipated and synergies may not meet our expectations, our costs may increase and our operational efficiency may be reduced, all of which would negatively affect our business and results of operations and may distract our management.

In the event we do not act as a consolidator our competitors may increase their scale, diversity and financial strength and may have a competitive advantage over us, which would negatively affect our business and results of operations. Consolidation in the airline industry and changes in international alliances will continue to affect the competitive landscape in the industry and may result in the formation of airlines and alliances with increased financial resources, more extensive global networks and reduced cost structures.

***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. As of December 31, 2012, we had commitments of R\$32,462.5 million 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, 2012, we had R\$4,825.4 million in short- and long-term indebtedness, excluding our perpetual bonds in the amount of R\$365.8 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 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 155 firm purchase orders for Boeing 737-800 Next Generation aircraft outstanding as of December 31, 2012, 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 Export-Import Bank of the United States, or Ex-Im Bank, providing guarantees covering 85% of the aggregate purchase price for the firm purchase order aircraft. While we expect that the guaranty from the Ex-Im 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.

In 2010, the Ex-Im Bank 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, or the ASU, sets forth minimum guarantee premium rates applicable to aircraft to be delivered on or after January 1, 2013, or under firm contracts entered into after December 31, 2010 and also changes the maximum amount that may be financed.

In light of our current credit ratings and the introduction of the ASU, we expect our minimum guaranty premium rate applicable to aircraft delivered on or after January 1, 2013 will increase substantially from a previous rate of 4%. In addition, the Ex-Im Bank may not guarantee this increased amount to be financed, which could cause us to have to seek other more expensive financing alternatives or use our own cash resources to finance the additional amount.

As of December 31, 2012, we had R\$1,585.1 million of cash, cash equivalents, short and long term restricted cash, short-term investments in overnight deposits and deposit certificates of highly-rated Brazilian banks and marketable securities, mainly Brazilian government bonds and short- and long-term 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.

***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 and have made a purchase order for 60 Boeing 737 Max-7/8 aircraft (the newest generation of our current aircraft and still under development), to be delivered starting 2018. 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, including the Boeing 737 Max-7/8 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 ANAC in the event of any actual or perceived mechanical, design or other problems while 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.

In addition to Boeing, other manufacturers have also released new aircraft that when delivered and operational may be more appealing to the market or customers, in which case we may be forced to deviate from our one-aircraft fleet policy, thereby losing the benefits of operating only one type of aircraft, which could reduce the market value of aircraft and would adversely affect our operational costs and results of operation.

***We have made purchase orders for new aircraft that is still being developed, any project delays or operational difficulties would adversely affect our operational costs and results of operation.***

In 2012 Boeing and CFM released new aircraft and engines, the Boeing 737 Max-7/8 and LEAP-1B engines, to replace the Boeing 737-700/800 Next Generation aircraft engines used on these aircraft any project delays or operational difficulties would adversely affect our operational costs and results of operation.

In addition, when these aircraft and engines are delivered and operational it may cause the market value of our aircraft and engines to decrease, which would negatively affect the value of our assets and could result in us recording impairment charges.

***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, our scheduling system 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, scheduling 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.***

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.

***Certain of our debt agreements contain financial covenants and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.***

Certain of our existing debt agreements contain restrictions and covenants and require the maintenance or satisfaction of specified financial ratios. Our ability to meet these financial ratios can be affected by events beyond our control and we cannot assure that we will meet those ratios, especially given the lower yield environment in which the industry currently operates. Failure to meet or satisfy any of these covenants, financial ratios could result in an event of default under these and other agreements, as a result of cross-default provisions. If we are unable to comply with our debt covenants, we could be forced to seek waivers. We cannot guarantee that we will be successful in obtaining any waivers or renewing existing waivers. As of December 31, 2012, we were not in compliance with certain financial covenants under our Debentures IV and V. Although on February 1, 2013 we obtained a waiver approval from the debenture holders for the December 31, 2012 and June 30, 2013 measurement dates, according to IFRS, because we did not receive the waiver by December 31, 2012, we reclassified our debentures in the amount of R\$1,091.0 million from long-term debt to short-term debt as a result of this non-compliance. For our financial statements for the first quarter of 2013 we will again reclassify this amount as long-term. The first measurement after the waived periods will be based on our financial statements as of and for the year ended December 31, 2013.. See “Item 5. Operating and Financial Review and Prospects–B. Liquidity and Capital Resources–Indebtedness–Covenant Compliance” and note 19 to our financial statements for more information. If we are unable to renew these and/or receive other waivers, a large portion of our debt could be subject to acceleration. While we believe such eventuality to be remote, should it come to pass, we may need to renegotiate, restructure or refinance our indebtedness, seek additional equity capital or sell assets, which may materially and adversely affect us.

***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 an outbreak of the H1N1 virus



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.

Natural disasters may affect and disrupt our operations. For example, in 2011, a volcanic eruption in Chile had a prolonged adverse effect on air travel, halting flights in, Argentina, Chile, Uruguay and the southern part of Brazil for several days. As a result, our operations to and from these regions were temporarily disrupted, including certain aircraft being grounded in the affected regions. Any natural disaster that affects air travel in the regions in which we operate could have a material adverse impact on our business and results of operation.

***Our ability to use tax loss carryforwards to offset future taxable income is subject to limitation.***

As of December 31, 2012, we had reported approximately R\$1,056.3 billion of tax loss carryforwards and negative basis of social contribution mainly as a result of the acquisition of VRG in 2007 and Webjet in 2011 and accumulated losses. Under Brazilian tax laws we may only use our tax loss carryforwards to offset taxes payable up to 30% of the taxable profit for each year. Thus, despite having a balance tax loss carryforwards we may have to pay higher taxes in case we reach the compensation limits for any given year that we are entitled to use under Brazilian tax laws.

***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 Law No. 6,404 of December 15, 1976, as amended, or 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, and securities issued by airlines in particular, may substantially limit your ability to sell the preferred shares underlying the ADSs at the price and time you desire.***

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented 52% of the aggregate market capitalization of the BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias & Futuros (“BM&FBOVESPA”) as of December 31, 2012. The top ten stocks in terms of trading volume accounted for 49.7%, 53.6% and 47% of all shares traded on the BM&FBOVESPA in 2010, 2011 and 2012, respectively.

In addition, 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.



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

According to our by-laws, we must pay our shareholders at least 25% of our annual net income as dividends, as determined and adjusted under Brazilian corporation 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 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 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 foreign capital registration.

If you attempt to obtain your own electronic 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 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, Citibank, N.A., 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 carriers in the world, according to the International Air Transport Association, or IATA, in terms of passengers transported in 2012, and the largest low-cost carrier in Latin America. We provide frequent service on routes connecting all of Brazil's major cities and from Brazil to major cities in South America and selected tourist destinations in the Caribbean and the U.S. With our young and standardized operating fleet of 125 Boeing 737-700/800s, or Boeing 737 aircraft, we serve the most comprehensive network 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, other South American countries and select destinations in the Caribbean and the U.S. Our strategy is to increase our market share by attracting new passengers and business travelers as well as to diversify our revenue portfolio through our consolidated flight network, a modern aircraft fleet, targeted marketing and our loyalty program *Smiles* (one of the largest loyalty programs in Latin America with more than 9.0 million members and 150 partners, as of December 31, 2012), a variety of attractive ancillary businesses (cargo and other) such as our air cargo services (*Gollog*), and various payment mechanisms designed to make the purchase of our tickets easier for customers in lower income classes. Passenger transportation revenues represented 88% and ancillary revenues represented 12% of our net revenues of R\$8,103.6 million in 2012.

As of March 31, 2013, we offered approximately 970 daily flights to 65 destinations connecting the most important cities in Brazil as well as key destinations in Argentina, Bolivia, Paraguay, Uruguay, Venezuela, the U.S. and the Caribbean region. 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 to new markets with high potential (for example, in the U.S. and 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 2007, we have been the carrier with the most flights connecting the busiest airports in Brazil: Congonhas and Guarulhos (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 strong yields achieved mostly from business travelers.

***We Keep Our Operating Costs Low.*** Our operating expense per available seat kilometer (CASK) ex-fuel for 2012 was R\$10.2 cents. We believe that our CASK for 2012, adjusted for the average number of kilometers flown per flight, or adjusted by stage length, was the lowest in the domestic market and among Latin American 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, 2012, our operating fleet of 125 Boeing 737 aircraft was one of Latin America's largest and youngest fleets, with an average age of 7.2 years. Having a young fleet reduces fuel costs due to the more advanced technologies incorporated in newer aircraft. We plan to keep our operating fleet exclusively comprised of Boeing 737 aircraft, until the arrival of our newly ordered Boeing 737

Max-7/8 aircraft (the newest generation of our current aircraft), which we expect will be delivered beginning in 2018. 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.

- *State of the art maintenance.* We carry out heavy maintenance on our Boeing 737 aircraft internally at our IOSA (IATA Operational Safety Audit) certified Aircraft Maintenance Center at the Tancredo Neves International Airport located in Confins, in the State of Minas Gerais. Since April 2012, our Aircraft Maintenance Center has also been certified by ANAC to provide conventional and electrostatic painting, weighing and recalibration services for aircraft owned or operated by other airlines. With our system of phased maintenance for our Boeing 737 fleet, we are able to perform maintenance work every day without sacrificing aircraft revenue time, and schedule preventative maintenance with more regularity and without interrupting the utilization of our aircraft, which further dilutes fixed costs.

- *We have one of the largest e-commerce platforms in Brazil.* Our effective use of technology helps 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 2012, we booked 88.8% of our ticket sales through a combination of our website and application programming interface, or API, systems, 5.7% through our call center and 5.5% through Global Distribution System, or GDS. In addition, our customers can check in using kiosks, online and through mobile devices, which in December 2012 represented 55% of all check-ins, an increase of 12.0 p.p. versus December 2011.

***We Have One of the Largest Loyalty Programs in Latin America.*** Since the VRG acquisition in April 2007, we have had a loyalty program (*Smiles*), which is available to all our passengers and which we consider a strong relationship tool. As of January 2013 our *Smiles* program was effectively segregated into a separate entity and we are analyzing a potential initial public offering of *Smiles*. See “—Smiles Loyalty Program—Segregation of the Smiles Program.” The *Smiles* loyalty program has partnerships with more than 150 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 9.0 million members at December 31, 2012.

***We Stimulate Demand for Our Service.*** We believe that through our differentiated services we create demand for air travel services. 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. As a consequence, we have been able to attract new groups of air travelers in our markets.

***We Have 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* and *Gollog* brands and our website provide valuable customer recognition in various businesses and create a tool for brand diversification for us.

***We Have High Corporate Governance Standards and Proven Management.*** We have three independent board members and one board member who is nominated by Delta Air Lines Inc., or Delta, pursuant to our partnership agreement. Our top managers have broad experience in many sectors of the Brazilian economy, including air and ground transportation, telecommunications 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 further penetrate the Brazilian middle-class and generate ancillary revenues.

## **Our Strategies**

Our strategy is to capitalize on our competitive advantages to achieve sustainable growth, 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 widespread brand recognition, the greatest number of routes and highest frequencies between the most important airports in Brazil, our consolidated flight network and our *Smiles* loyalty program, to increase penetration across all segments of travelers. We will focus on Brazilian operations and selected South American destinations. We will also consider new routes to foreign markets with high growth potential (for example,



in the U.S. and Caribbean region), that are, or we expect to become, profitable and fit into our flight network and may be reached with our current Boeing 737 aircraft. In addition, we believe that the airline industry may experience further consolidation in the future and therefore believe that establishing partnerships and alliances with other airlines will be a key factor to our success. In this environment we intend to play a leading role in the Latin American airline industry and to strengthen our position as a long-term player in the face of potential consolidations of the industry.

**Improve Operating Efficiency.** Reducing our operating expense per available seat kilometer and adjusting capacity are key to improving our profitability. We aim to maintain our position as one of the lowest cost airlines in the world. We intend to adjust our strategy to focus on more profitable routes and to further reduce the average age of our fuel-efficient fleet, to ensure we are responsive to current market conditions while maintaining high utilization rates. Our aircraft utilization rate was 12.1 block-hours per day in 2012, as compared to 13.0 block-hours per day in 2011 and to 12.9 block-hours per day in 2010.

We seek 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.

**Strengthen our Cash Position.** We seek to strengthen our balance sheet and meet financial targets that will allow us to improve our financial resilience, which we believe will facilitate the implementation of our growth strategy and increase our capacity to establish partnerships, negotiate with suppliers and mitigate the impact of volatility in the financial markets on our results. We currently seek to maintain an adequate cash position and to lengthen the maturity profile of our financial liabilities, avoiding the concentration of significant debt maturities over the next three years.

**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, South America, and the U.S. and Caribbean. We are committed to providing air travel to a wide range of travelers. We will continue to offer products across all traveler segments, offering convenient and flexible alternatives to business travelers while still making low-fare flights more accessible to a larger portion of the population, through the following measures:

- **Increased focus on business travelers.** We intend to maintain our high punctuality, 87% and 94% in 2011 and 2012, respectively, and regularity, 95% in both 2011 and 2012, rates along with our network with the most flights connecting the busiest airports in Brazil, which are all key drivers in the purchase decision of business travelers. In addition, we offer higher-rate fares that allow flexibility to reschedule or cancel tickets with little advance notice and no additional costs, higher mileage multiplier in our Smiles program and, in São Paulo – Rio de Janeiro shuttle flights, comfort seats. In March 2013 we implemented a new route network designed to better meet the needs of business travelers by offering yet more convenient flight times and connections.
- **Stimulating demand.** Our widely available service is also 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. The Brazilian middle class has grown significantly in the last few years, from 66 million in 2003 to 105 million in December 2011, according to *Fundação Getúlio Vargas*, or FGV, and the Brazilian Geographical and Statistical Institute (*Instituto Brasileiro de Geografia e Estatística*), or IBGE.
- **Overhubbing.** We estimate that between 40% and 50% of our passengers are connecting to other flights operated by us and, as a result, we may expand our network by adding capacity or creating new direct flights between two given cities, avoiding the need to connect through a third city. This may also help us to increase our flights and the number of passengers we transport despite current limitations on slot availability in Brazil's busiest airports.

**Strengthen our Smiles Program.** We intend to further strengthen our *Smiles* program by increasing interaction with members and adding perceived value to its members through the following initiatives:

- *Separate entity.* On December 21, 2012, we approved the segregation of the activities related to our *Smiles* loyalty program, which began to be conducted by Smiles S.A., a recently incorporated subsidiary, as of January 1, 2013. We believe that segregating the *Smiles* program will allow us to have a fully dedicated management team to pursue all business opportunities from the growth of this market in Brazil.

- **New Products.** In 2012, we launched, among others: (i) an online platform allowing members to redeem tickets in partner airlines through our website; (ii) miles purchase program, creating an alternative for members to supplement their balance and adding to our revenues; and (iii) *Smiles Shopping*, a platform through which clients can use miles to acquire not only air tickets, but also approximately 300,000 new product and service options distributed through several partners.
- **Partnerships.** Fostering existing and new partnerships with large international airlines, in the form of code-share arrangements, financial institutions, retail chain-stores, car rental and insurance companies, among others, offer our *Smiles* members more opportunities to earn and redeem miles.
- **Expand our airline partnerships.** We believe we have the best platform to expand our customer base in the markets in which we operate through partnerships. We intend to strengthen our existing airline 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. We have a strategic MRO (maintenance, repair and operations) partnership agreement with Delta TechOps, the maintenance division of Delta. Delta TechOps provides certain engine overhaul, aircraft maintenance and maintenance consulting services and is also assisting us with our efforts to secure FAA (Federal Aviation Administration) certification for our maintenance center. We assist Delta with certain line maintenance services for Delta aircraft with extended ground time in Brazil. As of December 31, 2012, we had 65 interline agreements and 6 code-share agreements, with: Delta Airlines, Iberia, KLM, Air France, Qatar Airways and Copa Airlines.

**Further Innovate, Establish and Increase Our Ancillary Revenue Businesses.** Our ancillary revenues are derived from *Gollog*, ticket change fees, excess baggage charges and other services. We expect further growth in these businesses, which will provide us with additional revenue at low incremental cost by:

- **Focusing on express delivery services.** Through *Gollog*, our cargo transportation service, we make efficient use of extra capacity in our aircraft by carrying cargo. With a comprehensive service portfolio, express delivery accounted for approximately 25% of our cargo revenue in 2012.
- **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. For example, in June 2009, we introduced the sale of beverages and food on board (buy on board) in Brazil, generating ancillary revenue without increasing our cost structure or fare price. As of December 31, 2012 we offered buy on board service on more than 50% of our flights. In addition, in 2012, we introduced the sale of comfort seats (rows in which the middle seat is blocked) in the Rio-São Paulo route, which are available at an additional fee.

## **Airline Business**

### ***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. Between 40% and 50% 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, off-peak, 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 destinations in South America, the United States and the Caribbean (using our current Boeing 737 aircraft), 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 and U.S. destinations, which we expect to give us additional growth opportunities in the Brazilian and international markets. In addition, we consider expanding to potential new destinations in Latin America in regions with medium density, represented by airports with a population of up to one million within a 200 km radius.

As of March 2013, we offered over 970 daily flights to 65 destinations connecting the most important cities in Brazil as well as the main destinations in Argentina, Bolivia, Paraguay, Uruguay, the United States, Venezuela and the Caribbean region.

On October 26, 2012 we began selling tickets for daily flights from São Paulo and Rio de Janeiro to Miami and Orlando, with stops in Santo Domingo, in the Dominican Republic. These flights commenced on December 15, 2012 and are operated by our standardized fleet of Boeing 737 aircraft.

### ***Services***

#### *Passenger Transportation*

We recognize that we must offer excellent services to our corporate and leisure customers. We pay particular attention to the details that help to make for a pleasant, complication-free flying experience, including:

- ticketless travel;
- convenient online sales, check-in, seat assignment and flight change and cancellation services;
- high frequency of flights between Brazil's most important airports;
- low cancellation and high on time performance rates of our flights;
- 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);

- iPhone application for check-in, electronic boarding pass and *Smiles* account management; and
- in-flight entertainment (*Gol in the air*) provided through passengers' personal communications devices.

We seek to achieve punctual operations, which are of primary importance to our customers. According to internal data, corrected for delays out of our control and pre-advised flight schedule changes, our average punctuality rate for 2012 was 87%, as compared to 94% in 2011.

We experience greater passenger demand during the summer and winter vacation periods, in January and July, respectively, and during the last two weeks of December, during the holiday season.

In general, flight revenues and profitability reach peak levels during the January (summer) and July (winter) vacation periods and in the final two weeks of December, during the Christmas holiday season. Conversely, we often witness a decrease in load factors during the week in which annual Carnival celebrations take place in Brazil. Given our high proportion of fixed costs, this seasonality is likely to cause our results of operations to vary from quarter to quarter.

*Ancillary Revenues and Gollog Cargo Transportation*

Ancillary revenues include revenues from our Gollog services as well as baggage excess and ticket change fees. Buy-on-board and travel insurance fees are also becoming an increasingly important part of this revenue. Further development and growth of our Gollog services is a key part of our strategy to increase ancillary revenue.

We are constantly evaluating opportunities to generate additional ancillary revenue 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 plan to integrate the *Smiles* and *Gollog* platforms into our air travel portal to provide further convenience and simplicity to our customers.

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 online. The Gollog system provides online access to air waybills and allows customers to track their shipment from any computer with Internet access. Our 65 destinations throughout Brazil, South America, the United States and the Caribbean provide access to multiple locations in each region. With our capacity of approximately 970 daily flights, operated by 125 Boeing 737-700/800 aircraft, in addition to a fleet of 147 vehicles, we can guarantee quick and reliable delivery.

Our express delivery products – Gollog VOO CERTO, Gollog EXPRESS, Gollog DEZ HORAS and Gollog DOC – were developed to meet the growing demand for door-to-door deliveries, defined deadlines and additional optional services. 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.

*Aircraft Fleet*

On December 31, 2012, we had an operational fleet of 125 aircraft and a total fleet of 147.

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

<b>Operating Fleet</b>	<b>Seats<sup>(1)</sup></b>	<b>At December 31,</b>	
		<b>2011</b>	<b>2012</b>
B737-300 <sup>(1)</sup>	141	24	-
B737-700 NG	144	42	37
B737-800 NG	177	20	16
B737-800 NG Short-Field Performance	187	61	72
<b>Sub Total</b>	<b>-</b>	<b>147</b>	<b>125</b>

<b>Non-Operating Fleet</b>	<b>Seats<sup>(1)</sup></b>	<b>At December 31,</b>	
		<b>2011</b>	<b>2012</b>



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B737-300 <sup>(1)</sup>	141	-	19
B767-300/200	218	3	3
<b>Sub Total</b>	-	3	22
<b>Total</b>	-	<b>150</b>	<b>147</b>

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(1) All B737-300 aircraft result from the acquisition of Webjet. See “—Non-operating Fleet” below.

As of December 31, 2012, of our total 147 aircraft: 96 were under operating leases, 45 were under finance leases and six were owned by us.

As of December 31, 2012, our operating leases had an average remaining term of 65 months and original total terms of up to 144 months from the date of delivery of the relevant aircraft.

As of December 31, 2012, our finance leases had an average remaining term of 96 months and we had purchase options for 39 of our aircraft under finance leases.

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, but we 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.

In line with our strategy of combining the renovation of our fleet with disciplined growth in our seat supply, in 2012 we received seven aircraft based on operating lease contracts and also returned four aircraft under operating lease contracts.

#### *Operating Fleet*

The average age of our operating fleet of 125 Boeing 737-700/800 aircraft as of December 31, 2012, was 7.2 years. The average daily utilization rate of our operating fleet in 2012 was 12.1 block hours as compared to 13.0 block hours in 2011.

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. All Boeing 737-800 NG Short-Field Performance are equipped with an upgrade thrust plug in each engine, which allows it to operate as a CFM 56-7B27/B3 engine with 27,000 lbs.

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 and 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. As such, we plan to continue keeping our operating fleet exclusively comprised of Boeing 737-700/800 aircraft, until the arrival of our newly ordered Boeing 737 Max-7/8 aircraft (the newest generation of our current aircraft) which we expect will be delivered starting 2018.

Most of our 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.

In 2011, we announced the delivery of the first Next Generation 737-800 equipped with the new Sky Interior standard and since then all our new aircraft are equipped with this standard.

*Non-operating Fleet*

As of December 31, 2012, we had a non-operating fleet composed of 19 B737-300 aircraft, resulting from the acquisition of Webjet, and three B767-300, all of which were grounded at the time.

Of the 19 B737-300, 13 aircraft are leased and in the process of being returned. As of March 31, 2013 we had already returned three such aircraft and expect to complete the return of the remaining aircraft by the end of 2013. In addition, six B737-300 aircraft are owned by Webjet and we plan to sell according to market conditions.

Two of the B767-300 aircraft were in the final process of being transferred to Delta Airlines, of which one was transferred in January 2013 and the other we expect will be transferred by May 2013, and the third B767-300 aircraft is grounded. The lease agreement for this aircraft expires in December 2014 and we do not expect to be able to transfer this aircraft prior to such date.

*Fleet Plan*

The following table sets forth our year-end projected operating fleet through 2017:

<b>Projected Fleet Plan</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
B737-700/800 NG*	136	137	140	140	140
B767-300**	1	-	-	-	-
Total	137	137	140	140	140

\* Includes SFP aircraft (Short Field Performance)

\*\*Non-operational aircraft (grounded). See “—Non-operational Fleet” above.

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

In 2012, we announced a purchase order for 60 Boeing 737 Max-7/8 aircraft (the newest generation of our current aircraft and still under development), to be delivered starting 2018.

*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), our call center, at airport ticket counters and, to a lesser extent, GDS.

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, 2012, 88.8% of our passenger revenues, whether directly from the customer or through travel agents, were booked online, making us a global leader in this area. In the same period, 5.7% of our passenger revenues were booked through call centers, airport sales counters, and our BWS and 5.5% of our total sales were made through the GDS.

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, 2012, travel agents provide us with more than 30.000 distribution outlets throughout these regions.

GDS 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.

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 a UATP card issuer we are able to maintain a closer relationship with our corporate customers.

## *Partnerships and Alliances*

### *General*

Our strong 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. Additional passenger inflows generated by these strategic partnerships help improve revenues at low incremental costs.

At December 31, 2012, we had code-share agreements with Delta, Iberia, Air France, KLM, Copa Airlines and Qatar Airways. Our *Smiles* program is linked to the various frequent flyer programs of our code-share partners, enabling travelers to accrue and redeem miles between the programs (however, the partnerships are not integrated among themselves). In addition, passengers of our partner airlines are able to connect to 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, 2012, we had interline agreements with 65 airlines, including Korean 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. This type of agreement allows passengers to utilize a single ticket and to check their baggage through to the passengers' final destination. Interline agreements differ from code-share agreements in that code-share agreements usually refer to numbering a flight with the airline's code (abbreviation) even though the flight is operated by another airline. These agreements provide for better marketing and customer recognition of the links between the airlines.

In February 2011, we entered into a strategic MRO (maintenance, repair and operations) partnership agreement with Delta TechOps, the maintenance division of Delta, which will provide overhaul service for approximately 50% of our CFM 56-7 engines, maintenance for parts and components on our fleet of Boeing 737NG aircraft and also, consulting services related to maintenance workflow planning, materials and facility optimization and tooling support. Delta TechOps will also assist us with our efforts to secure FAA (Federal Aviation Administration) Certification. In addition, we will assist Delta with certain line maintenance services for Delta aircraft with extended ground time in Brazil.

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 agencies and insurance providers to offer our corporate customers the convenience of the combination of transportation and accommodation arrangements.

### *Delta Investment and Commercial Agreements*

On December 7, 2011 our controlling shareholder and Delta entered into an investment agreement providing for the sale of 8,300,455 preferred shares in the form of ADSs owned by our controlling shareholder to Delta at a price per share equivalent to R\$22.00, or the Delta Investment. Our controlling shareholder used the entire net proceeds from the sale of preferred shares to Delta to subscribe for new common and preferred shares in a rights offering issued by us at the same price per share paid by Delta.

Our controlling shareholder further agreed to elect a Delta representative to our board of directors as long as Delta holds at least 50% of the ADSs acquired in the investment, among other conditions. Delta agreed, for a period of 12 months, not to sell the acquired ADSs (lockup) and not to acquire any further Gol shares, including in the form of

ADSs (standstill), without our consent.

In the context of the Delta Investment, we entered into a long-term commercial agreement with Delta that included exclusivity provisions designed to strengthen the operational cooperation and synergies between the two companies, including:

- an increase in the scope of the code-share agreement (flight sharing), subject to the relevant approvals, allowing Delta to use its code for more Gol flights in Brazil, South America, the U.S. and the Caribbean, and Gol to add its code to Delta's flights between Brazil and the United States, and from the U.S. to other destination, thereby increasing the number of flight options for passengers of both airlines and expanding our geographical reach;

- the optimization of connecting services in order to increase the attractiveness of the companies' joint services, facilitating flight connections and cargo and passenger movement among the nearly 380 destinations in over 60 countries served by Gol and Delta;
- the increase in passenger comfort by aligning services and benefits for members of both the *Smiles* and SkyMiles mileage programs;
- joint commercial and promotional activities, encouraging both airlines' sales forces to cooperate in Brazil, the United States and, eventually, in other countries;
- the exploration of synergies in passenger services, maintenance, VIP lounges and logistical support; and
- the transfer of the lease of the two remaining Boeing 767 aircraft in our fleet and their spare parts to Delta.

### ***Pricing***

Brazilian airlines are permitted to establish their own domestic fares without previous government approval. Airlines are free to offer price discounts or follow other promotion activities. Airlines must submit, 30 days after the end of each month, a file containing fares sold and quantity of passengers for each fare amount, for all markets. This file lists regular fares and excludes all contracted, corporate and private fares. The objective is to monitor the average market prices. The procedure same applies for international fares. The only difference is that all fares sold for interline itineraries are also excluded from the file sent to 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 48 months for products and parts and 12 years for structural components. The warranties on the aircraft we received in 2012 under our firm purchase order with Boeing will start expiring in 2016.

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 have three hangars in our Aircraft Maintenance Center, with a capacity to perform maintenance on 120 aircraft per year, and we have available space to build more hangars in the future if needed. 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 human resources, material, tools and equipment.

We have also entered into a strategic MRO (maintenance, repair and operations) partnership agreement with Delta TechOps, the maintenance division of Delta, in order to provide overhaul service for approximately 50 percent of our CFM 56-7 engines, maintenance for parts and components on our fleet of Boeing 737 NG aircraft and also, consulting services related to maintenance workflow planning, materials and facility optimization and tooling support. Delta TechOps will also assist us with our efforts to secure FAA (Federal Aviation Administration) Certification. In addition, we will assist Delta with certain line maintenance services for Delta aircraft with extended ground time in Brazil.

We have been certified by ANAC under 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 and Hedge***

Our fuel costs totaled R\$3,742.2 million in 2012, representing 42% of our operating expenses for the year. In 2012, we purchased substantially all of our fuel from Petrobras Distribuidora S.A., a retail subsidiary of Petrobras, principally under an into-plane contract under which the supplier supplies fuel and also fills our aircraft tanks. In 2012, 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 hedging program, based upon policies which define volume, price targets and instruments, 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- and long-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 monthly 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, 2012, we had hedged 11% on average for our projected fuel requirements for 2013. We also have an interest hedge program and we have hedged 44% of the leases for aircraft to be delivered in 2013 and 2014. The fuel hedge is based on call options, swap and collar contracts, and the interest hedge is based on forward swap contracts.

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



	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2012</b>
Liters consumed (in thousands)	1,591,917	1,655,421
Total cost (in thousands)	R\$3,060,665	R\$3,742,219
Average price per liter	R\$1.92	R\$2.26
% change in price per liter	23.2%	18.0%
Percent of operating expenses	39.3%	41.5%

We continuously invest in initiatives to reduce fuel consumption. Between 2008 and 2012 we reduced our fuel consumption per flight hour from 2.91 to 2.85. For example, we started using Aircraft Communications Addressing and Reporting System, or ACARS, in 2010. ACARS is a system that permits real-time digital transmission, via satellite, of important flight data between aircraft and our bases, allowing routes and flight times to be automatically updated. We had installed ACARS in 67 aircraft by the end of 2012. We decided to increase ACARS coverage and create the CCD (Digital Communications Center) within the Operational Control area, which started operating in May 2011. The Center is responsible for monitoring aircraft in real time, as well as streamlining operations and managing various flight data. We also started using GPS Landing System in January 2010 and we expect 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.

### ***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 ANAC's Air Accident Prevention Program 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***

Since 2010, we have been preparing an Annual Sustainability Report based on Global Reporting Initiative (GRI) guidelines, an international standard for reporting economic, social and environmental performance. By adopting these parameters, we are reinforcing our accountability with various stakeholders through added transparency and credibility.

We also 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: we have reduced costs by decreasing the necessity of flying our aircraft overseas to be

serviced. We also treat all of the effluents generated in our facilities and are committed to the reuse of water. The Maintenance Center was designed to comply with environmental responsibility requirements and all of the conditions imposed by the environmental licenses and current legislation.

- We were the first Brazilian airline selected to join the Sustainable Aviation Fuel Users Group (SAFUG), an international aviation biofuel research group, and we participate in biofuel feasibility tests.
- We have a partnership agreement with the Fuel and Carbon Services Division of GE Aviation, which envisages the creation of studies and systems to reduce fossil fuel consumption and green house gas emissions.

**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 ANAC to maintain insurance coverage for general liability against terrorist acts or acts of war with a minimum amount of US\$800 million. 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 the recently-formed LATAM Airlines Group, or LATAM, the result of a June 2012 merger between TAM Airlines of Brazil and LAN Airlines of Chile. LATAM 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:

**Domestic Market Share<sup>(1)</sup>— Scheduled**

<b>Airlines</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Gol	42.4%	41.9%	37.1%	35.6%	34.4%
Webjet <sup>(2)</sup>	3.6%	4.4%	5.0%	5.9%	-
LATAM <sup>(3)</sup>	50.4%	45.4%	44.1%	40.5%	43.7%
Azul	-	3.8%	7.6%	9.8%	10.5%
Trip	1.1%	1.8%	2.7%	4.2%	4.5%
Others	2.5%	2.7%	3.5%	4.0%	6.9%

Source: December Advanced Comparative Data (Dados Comparativos Avançados), 2008—2012

(1) In October 2010, ANAC changed its calculation method for monthly traffic information and republished information for periods since January 2009. All operating data for 2009 and thereafter reflects the new methodology, whereas information for 2008 was calculated pursuant to the old methodology and may not be fully comparable. According to ANAC, the changes were designed to align data with the concepts adopted by the ICAO. The change was necessary because Brazil has joined the ICAO’s statistical program and supplies the latter’s database with several industry data. Changes in the methodology refer to the calculation of ASK (seat supply) and the classification of domestic legs in international flights, which are now considered to be part of the domestic market.

- (2) On October 3, 2011, we acquired Webjet.
- (3) Known as TAM Airlines prior to its June 2012 merger with LAN Airlines of Chile.
- (4) In May 2012, Azul acquired TRIP.

Until 2010, landing and navigation fees charged in Brazilian airports were similar in all airports independent of whether they were busy or not. In 2011, the Brazilian government increased landing and navigation fees at the busiest airports as compared to less busy airports and at peak hours. As a result, secondary hubs and off-peak flights may benefit in light of the differences in fees for the airlines that choose to operate in these airports or times.

Domestically, we also face competition from ground transportation alternatives, primarily interstate bus companies. 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, the United States and the Caribbean, our pool of competitors will increase and we will face competition from Brazilian, U.S. and South American airlines that are already established in the international market and that participate in strategic alliances and code-share arrangements. In addition, non-Brazilian airlines may decide to enter or increase their schedules in the market for routes between Brazil and other South American, U.S. and Caribbean destinations.

### **Smiles Loyalty Program**

#### *Segregation of the Smiles Program*

On December 21, 2012, we approved the segregation of the activities related to our Smiles loyalty program, or the Smiles program, previously managed by us, and which began to be conducted by Smiles S.A., or Smiles, a recently incorporated subsidiary, as of January 1, 2013. On April 25, 2013, Smiles priced an initial public offering (IPO) in which it issued a number of common shares equivalent to 40% of its total capital for R\$1.0 billion. The proceeds of this IPO will be used entirely for the purchase by Smiles of advanced tickets from us at a discount rate equivalent to between 140% and 150% of the CDI. This IPO is subject to customary closing conditions and we expect it will close on May 2, 2013.

#### *General Atlantic Investment Agreement*

On April 5, 2013, we entered into an investment agreement with General Atlantic Service Company LLC., or General Atlantic, providing for an investment by General Atlantic in Smiles. Under this agreement, G.A. Smiles Participações S.A., or G.A. Smiles, an affiliate of General Atlantic, purchased in the IPO a number of Smiles common shares equivalent to R\$400.0 million, equivalent to 15.8% of Smiles total capital. G.A. Smiles also agreed to not sell or otherwise transfer these Smiles common shares for a period of nine months following the closing of this offering.

In connection with G.A. Smiles' investment, on April 23, 2013, we entered into a shareholders agreement granting G.A. Smiles the right to appoint one member of Smiles' board of directors and certain veto rights regarding: amendments to the Operational Agreement or the Miles and Tickets Purchase Agreement (as defined below), certain related party transactions in excess of R\$2.0 million, and certain advance ticket purchases. On April 24, 2013, we granted G.A. Smiles an option, exercisable within 12 months of the IPO, to purchase from us an additional number of Smiles common shares equivalent to 20% of G.A. Smiles' initial investment, at the same price per share set in the IPO as adjusted by the CDI.

### *Overview*

Smiles is one of the largest coalition loyalty programs in Brazil, with over 9 million members as of December 31, 2012. Its business model is based on developing a coalition loyalty program consisting of a single platform for accumulating and redeeming miles through a broad network of commercial and financial partners.

The Smiles program was originally launched by Varig in 1994 as a frequent flyer program and was acquired by us in 2007, together with other assets of the Varig business. Beginning in 2008, the Smiles program, which had been essentially inactive for years, underwent a complete restructuring and revitalization. In 2010, we continued with the Smiles program restructuring and, since then, the program has gained significant market share. The Smiles program has been transformed from a stand-alone program to a coalition loyalty program.



Currently, Smiles allows members to accumulate miles through: (1) flights with us and our international partners, (2) the main Brazilian commercial banks, including through co-branded credit cards issued by Bradesco and Banco do Brasil and (3) a broad network of more than 150 retail partners, including Petrobras Distribuidora, the largest fuel distributor in Brazil, among others. We are Smiles' primary redemption partner but members may also redeem miles to purchase products and services from commercial partners.

The agreements that govern our commercial relationship with Smiles allow unrestricted access to seats on our flights.

***Products and Services***

Smiles' main business is the sale of miles. Its commercial partners purchase miles to distribute to Smiles program members when members purchase products or services from these partners. Members accumulate miles, which are redeemed in exchange for rewards, which in turn are acquired from commercial partners.

Smiles earns revenue mainly by (1) selling miles to its commercial partners and (2) providing loyalty program management services to commercial partners, including our loyalty program.

To become eligible to earn miles, individuals enroll in the Smiles program through its website. Members have a single account for accumulating and redeeming miles, and are not required to transfer miles or pay additional redemption fees.

A Smiles program account permits members to accumulate miles by purchasing products or using services offered by any of its commercial partners. Members may redeem and convert their miles into travel or non-travel rewards. Current policy is to cancel all miles in member accounts when they expire, which varies from three to five years.

In addition to selling miles, Smiles manages our loyalty program and intends to expand its loyalty program management services to its other commercial partners.

#### *Miles Redemption*

Travel rewards represented the majority of redemptions as of December 31, 2012. However, with the option of redeeming miles through Smiles Shopping, a platform through which redemption commercial partners offer a variety of reward products, we expect that the proportion of reward redemptions for products other than airline travel will increase.

#### *Miles Sales to Members and Smiles and Money*

Smiles was the first Brazilian loyalty program to sell miles to members to allow them to add miles to their account balances in order to facilitate redemption of higher value rewards. Currently, members may purchase miles through its website. Miles purchases are automatically credited to member accounts and can later be used for reward tickets or rewards through Smiles Shopping.

Smiles and Money allows members to redeem rewards using a combination of miles and money. We believe that Smiles and Money and miles sales encourages member engagement, as it expands access to rewards.

#### *Commercial Partners*

As of the date of this offering memorandum, the Smiles network of commercial partners is composed of over 150 companies, including more than 120 partners from which members may earn miles and 30 partners from which members may redeem rewards. Its partners span various industries and include airlines, financial institutions, travel agencies, hotels, car rental companies, food and non-food retailers, gas stations, bookstores, car manufacturers, real estate developers, media companies, drugstores, restaurants and parking lot operators, among others.

- *Airlines.* We are the single most important commercial partner in terms of miles and rewards volumes. We purchase miles from Smiles to distribute to our passengers. Additionally, Smiles has agreements with our airline partners, which are currently Qatar Airways, Delta, Air France, KLM, and in the near future will include Iberia.
- *Financial Institutions.* Smiles has commercial partnership agreements with 22 Brazilian and international financial institutions, including the five largest Brazilian commercial banks in terms of total assets as of September 2012, according to the Central Bank. Smiles sells miles to these commercial partners, which distribute them proportionately to credit card spending by cardholders who are Smiles program members. Smiles also sells miles for co-branded credit cards issued by Bradesco and Banco do Brasil.
- *Travel Companies, Hotels and Car Rental Agencies.* Currently, Smiles has approximately 40 commercial partnership agreements with well known domestic and international travel companies, hotels and car rental companies. These partners include Unidas Locadora de Veículos Ltda. (a Brazilian car rental company), Hilton HHonors Worldwide LLC, Marriott International, Starwood Hotels and Resorts Worldwide, Inc, Atlântica Hotels International (Brasil) Ltda, and Sauípe S.A. (a tourism complex in Brazil), whose agreement with us is in the final stages of negotiation. This network allows Smiles program members to accumulate miles at a variety of locations

worldwide and throughout the course of their travels.

- *Brazilian Retailers and Distributors.* Smiles has commercial agreements with approximately 40 important Brazilian retailers, including Petrobras Distribuidora S.A. (a fuel distributor), Camisaria Colombo (a menswear retail chain), Polishop (a domestic electronics and merchandise retailer), Cybelar (an electronics and furniture store chain), NET Serviços de Comunicação S.A. (a telecommunications provider), the newspapers Jornal o Globo and Jornal Valor Econômico, JAC Motors, Kawasaki Motores do Brasil Ltda, B2W – Companhia Global do Varejo (Brazil's largest e-commerce company), Sociedade Comercial e Importadora Hermes S.A. (a Brazilian retailer), Editora Abril S.A. (one of the largest Brazilian publishing companies) and Walmart.com.

### *Competition*

Smiles faces the following types of competition in Brazil: (i) frequent flyer programs, (ii) the loyalty programs of financial institutions and similar entities and (iii) other loyalty programs in general. The first group includes Multiplus, the current market leader, and other players such as the Tudo Azul program. The second group includes a variety of large financial institutions and similar entities that have their own loyalty programs, such as the SuperBônus Program of Banco Santander (Brasil) S.A., the Bradesco Loyalty Card Program of Banco Bradesco S.A., the Sempre Presente Program of Banco Itaú Unibanco S.A. and the American Express Membership Rewards Program. The majority of these programs allow members to transfer accumulated reward points to programs like Smiles. The third group of competitors includes companies such as Dotz and Netpoints, among others.

There is currently no publicly available data on the loyalty industry in Brazil. However, information disclosed by Multiplus suggests that they have approximately a 74% market share and Smiles has a 26% market share, excluding other smaller industry players.

If foreign loyalty programs such as Aeroplan or Air Miles enter the Brazilian market, Smiles may face additional competition. However, entry of foreign loyalty programs would also present new opportunities for commercial partnerships.

### *Agreements with Smiles*

#### *Operating Agreement*

On December 28, 2012, we entered into an operating agreement with Smiles, or the Operating Agreement, that establishes the terms and conditions of our relationship. This agreement went into effect on January 1, 2013, when Smiles began to manage and operate the Smiles program.

The Operating Agreement established the terms of the transfer of Smiles program management to Smiles. In the context of the transfer, we divided reward costs as follows: the cost of rewards redeemed with legacy miles (i.e., those earned through December 31, 2012) is supported by us, while the cost of rewards redeemed with new miles (i.e., those earned beginning January 1, 2013) is supported by Smiles.

Pursuant to the Operating Agreement, the Smiles program will be our sole loyalty program. We are currently Smiles' sole partner in the air transportation industry, but Smiles is free to establish new partnerships in this industry with our prior authorization. We may require Smiles to enter into a partnership agreement with new partners in the air transportation industry or with a global alliance of airlines in the event we become a party to one.

We have a preference to enter into partnerships in certain segments, such as travel agencies (including on-line travel agencies), rental cars and travel insurance. However, Smiles may establish partnerships in these industries with our prior authorization.

Outside of the air transportation industry and certain segments in the travel industry, Smiles does not need to inform or request our authorization to establish partnerships. We may establish partnerships outside the air transportation industry as long as such partnerships do not involve miles or benefits accumulation in a frequent flyer program other than the Smiles program.

The 20-year Operating Agreement will be automatically renewed for successive five-year periods if neither party objects at least two years prior to its expiration. If a party is given notice of non-renewal, it may terminate the

Operating Agreement early by providing written notification to the other party six months prior to the termination date.

We pay Smiles a monthly fee for managing our frequent flyer program. This fee will be adjusted on each anniversary of the Operating Agreement in accordance with our gross monthly miles purchases. For 2013, the management fee will be 6.0% of gross miles sales. After 2013, this fee will remain between 3.5% and 6.0%, depending on our gross miles purchases.

### *Miles and Tickets Purchase Agreement*

On December 28, 2012, we entered into a miles and tickets purchase agreement with Smiles, or the Miles and Tickets Purchase Agreement, that establishes the terms and conditions of our purchases of miles and our sales of tickets.

In order to govern pricing and availability of reward tickets and satisfy customer demand, the agreement establishes three seating classes: standard, commercial and promotional for ticketing purposes.

- *Standard seats:* Pricing will take into account the variation of the economic cost of the fare over the last 12 months and the characteristics of each route. The economic cost is equivalent to the sum of (i) the opportunity cost of not selling a ticket to a traveler when the flight is full – or displacement; (ii) the opportunity cost of a passenger redeeming a reward ticket who would have purchased the ticket using cash, had he or she not had available miles – or dilution; and (iii) the direct cost that we incur in transporting an additional passenger on a given flight – or marginal cost. The availability of standard seating on planes is limited and controlled by us, although Smiles is assured a minimum aggregate number of standard seats out of total seats on all flights.
- *Commercial seats:* Pricing is subject to the same price and/or discount applied by us to third parties (subject to the conditions and characteristics of each product). The availability of commercial seats on flights is unrestricted, but limited to the capacity of the flight, pursuant to applicable restrictions.
- *Promotional seats:* Pricing is determined by an established discount table agreed upon by us and Smiles on a case-by-case basis, which may be revised, suspended or revoked at any time at our discretion. There is no minimum availability obligation for promotional seats.

The price that we pay for miles will be calculated based on the economic cost specified above, minus a portion of the breakage rate, which is the expected percentage of miles that will expire without being redeemed.

Pursuant to the Miles and Tickets Purchase Agreement, any material change to our miles accumulation policy must be discussed in advance by a loyalty committee whose members will be appointed by Smiles and us, proportionally. Smiles must notify us of material changes to miles redemption policy relating to reward tickets and hold discussions of such changes in the loyalty committee. The loyalty committee will be an advisory committee with no decision-making power.

Smiles may sell miles directly to its clients, subject to certain limits on miles sold per client and per period, minimum prices and the length of redemption periods.

The 20-year Miles and Tickets Purchase Agreement will be automatically renewed for successive five-year periods if neither party objects at least two years prior to its expiration. If a party is given notice of non-renewal, it may terminate the agreement early by providing written notification to the other party six months prior to the termination date.

The parties will annually review the contract's compliance conditions according to certain parameters established in the agreement, and may amend these conditions in order to reestablish the originally agreed-upon economic balance. In extraordinary circumstances, the parties may also amend the agreement in the event of significant changes to (i) the economic cost of flights (including changes in the average occupancy rate of our flights or ticket prices); (ii) our destinations; or (iii) applicable law or regulation.

### *Back Office Services Agreement*

On December 28, 2012, we entered into a back office services agreement with Smiles, or the Back Office Services Agreement, that contains the terms, conditions and levels of certain services to be provided to Smiles by us. These services will be provided in connection with certain back office activities including controllership, accounting, internal controls and auditing, finance, information technology, call center, human resources, inventory and legal matters.

The three-year Back Office Services Agreement will be automatically renewed for successive three-year periods if neither party objects 12 months prior to its expiration. Smiles may terminate portions of the Back Office Services Agreement at any time by providing prior written notice to us.

### *Corporate Governance*

We will amend Smiles' by-laws to provide that certain related party transactions will require the approval of an independent committee or all members of its board of directors. These related party transactions include: amendments to the Operational Agreement or the Miles and Tickets Purchase Agreement and certain advance ticket purchases, among other transactions.

### **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 a low-cost low-fare business model has the potential to significantly increase the use of air transportation in Brazil. According to ICAO, Brazil is the third largest domestic aviation market in the world and, according to ANAC, there were 92 million domestic enplanements and 9.1 million international enplanements on Brazilian carriers in Brazil in 2012, out of a total population of approximately 195 million, according to IBGE. In contrast, according to the U.S. Department of Transportation, the United States had 650 million domestic enplanements and 99 million international enplanements in 2012, out of a total population of approximately 315 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 around 70% of the its total demand for domestic air travel in 2012, which we believe is significantly higher than the business travel portion of domestic air travel in the global aviation sector. According to the latest data collected by ANAC, flights between Rio de Janeiro and São Paulo accounted for 6.2% of all domestic passengers in 2010. The ten busiest routes accounted for 22.2% of all domestic air passengers in 2010, while the ten busiest airports accounted for 70% and 73% of all domestic passenger traffic through INFRAERO airports in terms of arrivals and departures in 2011 and 2010, respectively.

In light of economic growth, the consumer domestic market (A, B and C classes) has significantly increased in the last years, from 66 million in 2003 to more than 105 million in 2012, according to FGV and IBGE. Due to increased passenger volume, in addition to the upcoming Soccer Confederations Cup (2013), World Cup (2014) and Summer Olympic Games (2016) in Brazil, domestic airport infrastructure will require substantial improvements.

In 2009, CONAC proposed to the Brazilian government a change to the regulatory limit of foreign ownership in Brazilian airline companies from 20% to 49% or higher, however, we are unable to anticipate if and when there will be a final decision on the matter.

In August 2011, the Brazilian government privatized the new Natal airport, which will have its construction completed and further operation by the winners of the privatization auction. In February 2012, the Brazilian government privatized the Guarulhos, Brasília and Campinas international airports, which will be operated by the winners of the privatization auction for periods of 20 to 30 years. In December 2012, the Brazilian government announced its intention to privatize the Galeão (in Rio de Janeiro) and Confins (Belo Horizonte) airports by September 2013, and other airports are also expected to be privatized in the near future. See “–Regulation of the Brazilian Civil Aviation Market–Airport Infrastructure” below.

### **Brazilian Civil Aviation Market Evolution**



Since 1970, Brazil has for the most part experienced 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 40 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 2000 to 2012, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 10.8%, versus a compound annual growth rate in available industry domestic capacity, in terms of available seat kilometers, of 8.8%. Domestic industry load factors, calculated as revenue passenger kilometers divided by available seat kilometers, averaged 65.4% over the same period. The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	2008	2009	2010	2011	2012
		(in millions, except percentages)			
Available Seat Kilometers	72,841	86,471	102,643	116,046	119,227
Available Seat Kilometers Growth	12.8%	18.7%	18.9%	13.7%	2.7%
Revenue Passenger Kilometers	47,838	56,864	70,306	81,426	86,953
Revenue Passenger Kilometers Growth	7.4%	18.9%	23.6%	16.0%	6.8%
Load Factor	65.5%	65.8%	68.8%	70.2%	72.9%

*Source: ANAC, Dados Comparativos Avançados.*

Note: In October 2010, ANAC changed its calculation method for monthly traffic information and republished information for periods since January 2009. All operating data for 2009 and thereafter reflects the new methodology, whereas information for 2008 was calculated pursuant to the old methodology and may not be fully comparable. According to ANAC, the changes were designed to align data with the concepts adopted by the ICAO. The change was necessary because Brazil has joined the ICAO's statistical program and supplies the latter's database with several industry data. Changes in the methodology refer to the calculation of ASK (seat supply) and the classification of domestic legs in international flights, which are now considered to be part of the domestic market.

The 2012 traffic figures reflect the industry's current trend of controlling domestic supply through the main airlines, in response to the new cost level, as well as the sluggish growth of Brazil's economy.

In 2010, Brazil was the third largest market in domestic revenue passenger kilometers and according to ANAC, in 2011, the Brazilian aviation industry showed the strongest market growth in the world. According to IATA, global domestic air travel markets expanded 4% in 2012 in terms of RPK; China led global domestic markets growth, followed by Brazil in second place.

## **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 CONAC and 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. ANAC is responsible for the regulation of the airlines, whereas 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.

In March 2011, the SAC (*Secretaria de Aviação Civil*) was created to supervise civil aviation in Brazil. The Civil Aviation Secretary oversees ANAC and INFRAERO and reports directly to the Brazilian President. SAC is also responsible for implementation of the airport infrastructure concession plan and the development of strategic planning for civil aviation.

In August 2011, the National Commission of Airport Authorities (*Comissão Nacional de Autoridades Aeroportuárias*) or CONAERO, was created as a commission of SAC to coordinate the different entities and public agencies related to airports. This commission shall have a normative role in the search for efficiency and security in airports operations.

CONAERO is composed by representatives of the following entities: (i) SAC, which chairs the commission; (ii) Department of Administration of the Presidency; (iii) Agriculture, Livestock and Supplies Ministry; (iv) Defense Ministry; (v) Finance Ministry; (vi) Justice Ministry; (vii) Planning, Budget and Administration Ministry; (viii) Health Ministry; and (ix) ANAC.

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.

The Department of Air Space Control (*Departamento de Controle do Espaço Aéreo*), or DECEA, reports indirectly to the Brazilian Minister of Defense which 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 Civil Aviation Secretary, is in charge of managing, operating and controlling federal airports, including control towers and airport safety operations. See “Airport Infrastructure” below.

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 Planning, Budget and Management, the Minister of Justice, the Minister of Transportation and the Commandant of the Air Force. CONAC has the authority to establish national civil aviation policies that may be adopted and enforced by the High Command of Aeronautics and by ANAC. 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 sets forth 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.

In February 2009, the Brazilian 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 consumer issues, as well as to inspect, review and evaluate 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, 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. 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 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 ANAC to provide international services, with the SRI (International Relations Superintendence of ANAC), which, based on the provisions of the applicable bilateral agreement and general policies of the Brazilian aviation authorities, will submit a non-binding recommendation to ANAC's president, who will decide on approval of the request. 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, ANAC has the authority to approve Brazilian airlines to operate new routes, subject to the airline having filed studies satisfactory to 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.



In 2010, ANAC approved the deregulation of international airfares for flights departing from Brazil to the U.S. and Europe, gradually removing the prior minimum fares. Also in 2010, CONAC approved the continuity of bilateral agreements providing for open skies policies with other South American countries and a new open skies policy with the United States. In March 2011, Brazil also signed an open skies agreement with Europe. The agreements with the United States and Europe are expected to be in operation by 2015 and 2014, respectively.

#### *Slots Policy*

*Domestic.* Under Brazilian law, a domestic slot is a concession of 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 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 may begin operations there. Although it is difficult to obtain a slot in Congonhas airport, on March 8, 2010, ANAC reallocated 202 idle Congonhas' slots. 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 among other airline companies already in operation at Congonhas, 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, including Brasília's International Airport and São Paulo's International Airport in Guarulhos, have limited their number of slots per day due to airport infrastructure limitations.

ANAC has imposed schedule restrictions on 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 taken certain measures to minimize recent technical and operational problems at São Paulo's airports, including the redistribution of air traffic from Congonhas Airport to the International Airport in Guarulhos. CONAC has also 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, 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, ANAC enacted a regulation providing that the minimum ground time for aircraft between landing and take-off must be 40 minutes at São Paulo's International Airport in Guarulhos, the international airport of Rio de Janeiro (Galeão) and at Brasília's 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.

In February 2013, ANAC announced a series of public hearings to discuss proposed changes to rules governing the allocation of slots at Brazilian airports, which would consider operational efficiency (punctuality and regularity data)

as the main determinant for the allocation of slots.

Also in February 2013, the Civil Aviation Secretary, or SAC, announced a new proposal focused specifically on slot distribution rules at Congonhas airport. Current rules governing the allocation of slots at Congonhas Airport, which favor us, require that 80% of new slots are assigned to airlines already operating in that airport. SAC's proposal alters current regulations by taking into account operational efficiency as a principal determinant for slot allocation at Congonhas airport, as well as domestic market (main cities) and regional market share as complementary factors. Neither ANAC's nor SAC's proposal had been approved as of the date of this document. See "Item 3. Key Information—D. Risk Factors—Changes to Brazilian rules regarding slots distribution, fare restrictions and fees associated with civil aviation may adversely affect our business and results of operations."



*Airport Infrastructure*

INFRAERO, a state-controlled corporation, 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 areas and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the concession term.

Of the 63 Brazilian airports managed by INFRAERO at the end of 2012, approximately 30 were 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.

Until 2010, landing and navigation fees charged in Brazilian airports were similar in all airports independent of whether they were busy or not. In 2011, the Brazilian government increased landing and navigation fees at the busiest airports as compared to less busy airports and at peak hours.

In August 2011, the Brazilian government privatized the new Natal airport, which will have its construction completed and further operation by the winners of the privatization auction. In February 2012, the Brazilian government privatized the Guarulhos, Brasília and Campinas international airports, which will be operated by the winners of the privatization auction for periods of 20 to 30 years;

The airports auctioned were:

	<b>Cumbica (Guarulhos)</b>	<b>Viracopos (Campinas)</b>	<b>Juscelino Kubitschek (Brasília)</b>
City	São Paulo	São Paulo	Brasília
Grant	R\$ 16.2 billion	R\$ 3.8 billion	R\$ 4.5 billion
Concession term	20 Years	30 Years	25 Years
Minimum investment	R\$ 4.7 billion	R\$ 8.7 billion	R\$ 4.7 billion
Additional fee	10% of Annual Gross Revenue - R\$ 1.77 billion during the concession	5% of Annual Gross Revenue - R\$ 649 Million during the concession	2% of Annual Gross Revenue - R\$107 million during the concession
Estimated investment for the World Cup	R\$ 1.38 billion	R\$ 873.1 million	R\$ 626.5 million
Mandatory improvements for the World Cup	Construction of:	Construction of:	Construction of:

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|--|--|--|
| - new terminal with capacity for at least 7 million additional passengers per year | - new terminal with capacity for at least 5.5 million additional passengers per year | - new terminal with capacity for at least 2 million additional passengers per year |
| - apron area for 32 aircraft   | - apron area for 35 aircraft   | - apron area for 24 aircraft   |
| - 2,200 parking spaces   | - 4,500 parking spaces   | - 2,400 parking spaces   |
| - Expansion of the runway for aircraft maneuvering                                 | - Expansion of the runway for aircraft maneuvering                                   | - Expansion of the runway for aircraft maneuvering                                 |

Source: SAC

These airports represented approximately 30% of total Brazilian passengers transported in 2012, including domestic and international traffic, according to ANAC.

In December 2012, the Brazilian government announced its intention to privatize the Galeão (in Rio de Janeiro) and Confins (Belo Horizonte) airports by September 2013, and other airports are also expected to be privatized in the near future.

#### *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 CONAC, the application for a concession to operate regular air transportation services is subject to a license granted by ANAC to operate an airline and to explore regular air transportation services. The applicant is required by 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 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 certification of the aircraft by ANAC. 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 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 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 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 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, 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 and joint liability regime. In this regard we may be liable for violations by third parties hired to dispose of our waste. 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.

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*

The Brazilian congress is currently discussing 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, fines and the increase of limits to foreign ownership in voting stock of Brazilian airlines from 20% to 49% or higher. 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 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.

### *Aircraft Financing by Export Credit Agencies*

In 2010, the Ex-Im Bank agreed on a common approach with European export-credit agencies on offering export credits for commercial aircraft. Among other things, the new ASU sets forth minimum guarantee premium rates applicable to aircraft to be delivered on or after January 1, 2013, or under firm contracts entered into after December 31, 2010 and also changes the maximum amount that may be financed.

In light of our current credit ratings and the introduction of the ASU, we expect our minimum guarantee premium rate applicable to aircraft delivered on or after January 1, 2013 will increase substantially from a previous rate of 4%. The Ex-Im Bank has not yet informed us if it will guarantee this increased amount to be financed, which could cause us to have to seek other more expensive financing alternatives or use our own cash resources to finance the additional amount.

### *Aircraft Repossession*

The Cape Town treaty is an international treaty intended to standardize transactions involving movable property. The treaty creates international standards for registration of ownership, security interests (liens), leases and conditional sales contracts, and various legal remedies for default in financing agreements, including repossession and the effect of particular states' bankruptcy laws. As of February 2012, the convention had been ratified by 50 countries, including Brazil.

## **C. Organizational Structure**

The Registrant is a holding company, which owns directly or indirectly shares of six subsidiaries: (i) VRG, which also owns (ii) Webjet, (iii) Smiles, and three offshore finance subsidiaries, (iv) Gol Finance Cayman and (v) GAC Inc., which owns (iv) Sky Finance II. VRG is the Registrant's operating subsidiary, under which we conduct our business. Gol Finance, GAC Inc. 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. As of December 31, 2012, we have 45 Boeing 737s classified as finance lease aircraft. We own a state-of-the-art Aircraft Maintenance Center in Confins, in the State of Minas Gerais. The certification of our aircraft maintenance center authorizes airframe maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We have three hangars at our Aircraft Maintenance Center, with a capacity to perform maintenance on six aircraft simultaneously and painting services on one additional aircraft. We also have room to build more hangars in the future if needed. 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 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 17 to our financial statements as of and for the year ended December 31, 2012.

## **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 2012, 88% of our revenues were derived from passenger fares, and the remaining 12% 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 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 operating performance indicators in 2011 and 2012:

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2012</b>
Operating Data:		
Load-factor	68.4%	70.2%
Break-even load-factor	70.6%	78.0%
Aircraft utilization (block hours per day)	13.0	12.1
Yield per passenger kilometer (cents)	19.5	19.7
Passenger revenue per available seat kilometer (cents)	13.4	13.8
Operating revenue per available seat kilometer (cents)	15.0	15.6
Number of departures	314,190	348,578
Operating aircraft at period end	127	125

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 combined are imposed at rates of 3.65% of passenger revenues.

We generate most of our revenue from ticket sales through our website, and we have one of the largest e-commerce platforms in Brazil.

ANAC and the aviation authorities of the other countries in which we operate may influence our ability to generate revenues. In Brazil, 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 increase revenues is dependent on receiving approval for new routes, increased frequencies and additional aircraft from 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 on 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 2012, fuel expenses represented 41.5% of our total operating expenses, as compared to 39.3% in 2011. 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 and increased to US\$91.40 at the end of 2010. At year end 2011 the price per barrel was US\$98.83 and at year end 2012 the price per barrel was US\$91.82. We currently enter into short-term arrangements to hedge against increases in oil prices and foreign exchange fluctuations.

Our aircraft rent expenses are in U.S. dollars and have increased in line with the expansion of our operations. We use short-term arrangements to hedge against exchange rate exposure related to our lease payment obligations. In addition, leases for seven 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 7.2 years for 125 Boeing 737-700/800 aircraft at December 31, 2012, 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 48 months for products and parts and 12 years for structural components. The warranties on the aircraft we received in 2012 under our firm purchase order with Boeing will start expiring in 2016. 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 88.8% of our consolidated sales through our website and API systems in the year ended December 31, 2012 and 88.5% in 2011, 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. In addition, recently, the government reduced the airlines payroll tax effective as of 2013. 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.

### **Webjet**

On November 23, 2012, we began the process of winding up Webjet's activities and the consequent discontinuation of its brand. The first step adopted was to cease all Webjet flights. Webjet's passengers were absorbed by us and we became responsible for all air transport and associated services for these passengers. We estimate the return of all 13 Webjet's Boeing 737-300 aircraft under operating lease agreements by the end of 2013. As a result, we recognized additional costs of approximately R\$140 million in the fourth quarter of 2012 in connection with Webjet's wind up. However, we expect that these measures will improve operational efficiency as of 2013.

### **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. In 2012, we shrank 3.8% in terms of revenue passenger kilometers in the domestic market (considering Webjet pro-forma data for 2011). This decrease was primarily due to a 5.4% domestic capacity reduction in the same period in response to Brazil's economic slowdown in 2012 and to a new industry-wide cost structure in place since 2011, caused by higher fuel costs, new exchange rate levels and additional airport fees. 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 materially 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 eight 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 2012, 54% 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 partially 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 2012, 79% 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.

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>2010</b>	<b>December 31, 2011</b>	<b>2012</b>
Real growth in gross domestic product	7.5%	2.7%	0.9%
Inflation (IGP-M) <sup>(1)</sup>	11.3%	5.1%	7.8%
Inflation (IPCA) <sup>(2)</sup>	5.9%	6.5%	5.8%
CDI rate <sup>(3)</sup>	9.7%	11.6%	8.4%
LIBOR rate <sup>(4)</sup>	0.30%	0.58%	0.84%
Depreciation (appreciation) of the <i>real</i> vs. U.S. dollar	(4.3)%	12.6%	16.7%
Period-end exchange rate—US\$1.00	R\$1.666	R\$1.876	R\$2.044
Average exchange rate—US\$1.00	R\$1.759	R\$1.675	R\$1.955
Period-end West Texas intermediate crude (per barrel)	US\$91.40	US\$98.83	US\$91.82
Period-end Increase (decrease) in West Texas intermediate crude (per barrel)	15.2%	8.1%	(7.1)%
Average period West Texas Intermediate crude (per barrel)	US\$79.63	US\$95.11	US\$94.27
Average period increase (decrease) in West Texas Intermediate crude (per barrel)	28.2%	19.5%	(0.9)%

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.
- (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.

*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.

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 variation on debts 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 our aircraft, we have primarily relied upon actual experience with the same or similar types of aircraft and recommendations from Boeing, the manufacturer of our aircraft. Aircraft estimated useful lives are based on the number of “cycles” flown (one-take-off and landing). We have made a conversion of cycles into years based on both our historical and anticipated future utilization of the aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to our 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. We evaluate estimates and assumptions each reporting period and, when warranted, adjust these estimates and assumptions. These adjustments are accounted for on a prospective basis through depreciation and amortization expense, as required by IFRS.

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. As of December 31, 2010, no impairment on property, plant and equipment assets was recognized. As of December 31, 2011, we recognized an amount of R\$50.7 million of impairment of fixed assets, for more details see note 17 to our financial statements. As of December 31, 2012, no impairment on property, plant and equipment assets was recognized.

*Lease accounting.* Aircraft lease agreements are accounted for 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 a capital lease. Capital leases are accounted for as an acquisition of the asset through a financing, with the aircraft recorded as a fixed asset and a corresponding liability recorded as a debt. 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 the risks and benefits to us are classified as operating leases. Operating lease payments are accounted for 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 asset, the price and the cost of the sale. If the fair value of the asset is less than its carrying amount, the difference is immediately recognized as a loss. When the sale gives rise to a gain it is recognized up to the fair value, with the excess 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 our approved business plan covering a five-year period followed by



the long-term growth rate of 3.5%. The pre-tax discount rate applied to the cash flow projections is 11.63%. 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 our impairment evaluations are consistent with internal projections and operating plans. Airport operating rights acquired as part of the acquisition of VRG and Webjet 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. 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. 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. We assess 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 18 to our financial statements. As of December 31, 2011 and 2010 no impairment on goodwill and other intangible assets was recognized. As of December 31, 2012 we recognized an impairment of R\$56.8 million on VARIG tradename, we evaluated it under the new perspectives of its use and, therefore, the future economic benefit generated by it, as further described in Note 18 to our financial statements.

*Business Combination.* We have accounted for business combinations using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, based on the fair value on the acquisition date. Costs directly attributable to the acquisition are accounted for as expenses when incurred. The assets acquired and liabilities assumed were measured at fair value, classified and allocated according to the contractual terms, economic circumstances and relevant conditions on the acquisition date. Goodwill is measured as the excess of consideration transferred in relation to net assets acquired at fair value. If the consideration is lower than the fair value of net assets acquired, the difference should be recognized as a gain in the income statement. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. On October 3, 2011, we acquired the total capital of Webjet, through our subsidiary VRG, for an adjusted price of R\$43.4 million. This acquisition was accounted by the acquisition method in accordance with IFRS 3R and the gain on bargain purchase of R\$88.4 million was recorded in our income statement for the year ended December 31, 2011 under other operating revenues (expenses), not taxable as it is related to a permanent difference, according to the Brazilian transition tax regime (*Regime Tributário de Transição – RTT*). On October 2, 2012, we completed the valuation of assets and liabilities acquired, including intangible assets, as well as the effect of deferred taxes and concluded that no further adjustments to the provisional allocation held on October 3, 2011 were needed. The gain on bargain purchase generated by the acquisition of Webjet is related to the recognition of the value of intangible assets not recorded on Webjet's financial statements, represented by rights of use of slots in the Guarulhos and Santos Dumont airports, which are two of the busiest airports in Brazil, and which value is a consequence of the significant demand growth anticipated in the next few years and our expectation for recovery of operation profitability in these airports. In the context of winding up of Webjet's operations, we have retained all of Webjet's capacity in these airports.

*Derivative Financial Instruments.* We account for derivative financial instruments in accordance with IAS 39. In executing our risk management program, management uses a variety of financial instruments to protect against sharp changes in market prices and to mitigate the volatility of its expenditures related to these prices. We do 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 cash flow hedge accounting.

For hedge accounting purposes, according to IAS 39, the hedge instrument is classified as a: (i) cash flow hedge when it protects against exposure to fluctuations in cash flows 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, and (ii) fair value hedge when it protects from the results of a change in the fair value of a recognized liability, or a part thereof, that could be attributed to exchange risk.

At the beginning of a hedge transaction, we designate and formally document 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.

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 designation as a hedge is revoked, amounts previously recognized in equity are recognized in profit or loss.

We measure 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).

*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.

We follow IAS 16 - "Property, Plant and Equipment", and perform the capitalization of the costs relating to engine overhauls. This practice establishes that costs on major maintenance (including replacement parts and labor) should be capitalized only when there is an extension of the estimated useful life of the engine. Such costs are capitalized and depreciated until the next stop for major maintenance. The expense recognized directly in the income statement refers to maintenance costs of other aircraft components or even maintenance of engines that do not extend their useful life.

During the quarter ended June 30, 2011 we changed the classification of maintenance deposits from a non-monetary to a monetary asset, as since 2011 transactions involving these assets occurred substantially through receipts of funds, according to renegotiations conducted with the lessors. These transactions are recognized as exchange variation expense.

In addition, we have agreements with some lessors to replace the deposits by letters of credit, enabling us to use these funds in other expenditures relating to our lease agreements.

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:

	<b>2011</b>	<b>2012</b>
	<b>(in thousands of reais)</b>	
Beginning of year	456,666	358,144
Addition of Webjet's deposits	59,679	-
Amounts paid in	118,063	149,456
Reimbursement of expense incurred	(220,280)	(214,491)
Replacement by letters of credit	(45,854)	-
Exchange variation	(10,130)	33,958
<b>End of year</b>	<b>358,144</b>	<b>327,067</b>

Our fleet plan contemplates the replacement of some operating leases with finance lease agreements, in line with our plan to further standardize our fleet with 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 finance 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.* Passenger revenue is recognized when transportation is provided. Tickets sold but not yet used are recorded as advance ticket sales that represent primarily deferred revenue for tickets sold for future travel dates. We recognize a portion of advance ticket sales as revenue based on historical data relating to the percentage of tickets sold that are not going to be used prior to the expiration date ("breakage"). The balance of deferred revenue is then reviewed on a monthly basis based on actual tickets that have expired and adjusted when necessary.

*Mileage Program.* Since the acquisition of VRG, we operate a frequent flyer program (*Smiles*) 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 fair value of mileage credits, net of estimated non-use of miles (breakage) is determined by the weighted average according to (i) the average amount charged per seat by VRG to airlines that participate in the loyalty program divided by the average amount of miles required to issue a ticket using miles and (ii) the average sale price of miles sold to airlines that participate in the loyalty program *Smiles*. This fair value is updated every six months.

*Share-Based Payments.* We measure the fair value of equity-settled transactions with employees at the grant date using the Black & Scholes 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 prospectively over the remaining vesting period of the instrument.

*Provisions.* Provisions are recognized when we have 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 we expect 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.

Aircraft and engines return provision: in aircraft operating leases, we are contractually required to return the equipment in a predefined level of operational capability, as a result we recognize a provision based on the aircraft return costs as set forth in the agreement. The aircraft's return provisions costs are estimated based on expenditures incurred in aircraft reconfiguration (interior and exterior), license and technical certification, painting, and other costs, according to the return agreement. Engine return provisions are estimated based on an evaluation and minimum contractual conditions that the equipment should be returned to the lessor, considering not only the historical costs incurred, but also the equipment conditions at the time of the evaluation.

Onerous contracts provision: present obligations resulting from onerous contracts are recognized and measured as provisions. An onerous contract is entered into when unavoidable costs to meet the obligations assumed under the contract exceed the economic benefits that are expected to be received over the contract term. The provision for onerous contracts refers to losses on operating lease agreements of out-of-service aircraft. The provision corresponds to the net amount between the present value of the installments of the respective leases and the expected revenue from the use of such aircraft through operation or subleases, where applicable. The assumptions used are estimates and the settlement of these transactions may result in amounts significantly different from those recorded.

Insurance provision: we maintain insurance coverage in amounts we consider adequate to cover potential claims, in light of the nature of business, and in accordance with contractual and regulatory requirements.

Others provisions: are substantially related to lawsuits and are provisioned for losses considered probable in our judgment, related to labor, civil and tax matters. Tax lawsuits are presented under tax obligations.

*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 increases, 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.

In December, 31, 2012, tax credits arising from tax losses carryforwards and negative social contribution basis were valued based on the reasoned expected generation of future taxable income of the parent company and its subsidiaries, subject to legal limitations.

Projected future taxable income on tax losses carryforwards and negative social contribution are prepared based on business plans reviewed annually and approved by our Board of Directors. Such projections reflect changes in the economic scenario, market changes and also decisions of the Administration, including the following assumptions: (i) in the long-term scenario we will keep the strategy adopted in 2012 of rationalization of domestic supply. Based on this strategy, we have observed an increase load factors in line with a flat yield ratio; (ii) we continue with our ancillary revenue growth plan, such as the sale of special seats and buy-on-board; (iii) concerning the costs, the main change was the new level of personnel expenditure reached in 2012. Layoffs that occurred during the year, became the basis of the projection for a more efficient operation, contributing to manage costs; and (iv) our plans include the arrival of new aircraft Boeing 737-MAX, announced in 2012. From 2018 the new aircraft will contribute to an even more efficient operation in terms of fuel consumption.

## **Results of Operations**

### ***Year 2012 Compared to Year 2011***

In 2012, our total revenue passenger kilometers (RPK) increased by 5.6% as compared to 2011, mainly due to the consolidation of Webjet's fleet and route network since the last quarter of 2011. On the other hand, Gol's total RPK (including Webjet figures) decreased by 3.8% as compared to 2011, mainly due to the slowing of Brazil's economy as measured by year-over-year GDP growth.



Demand in Brazil, as measured in revenue passenger kilometers (RPK), increased by 2.7% in 2012 when compared to 2011. International demand in revenue passenger kilometers was stable in the same period and capacity in Brazil, as measured by available seat kilometers (ASK), increased by 2.7%. These modest growth figures reflect a reduction of flights in our route network, an industry-wide response to new cost levels, sluggish Brazilian GDP growth and a changing focus towards route profitability. In the fourth quarter of 2012, domestic supply fell by 5.1% as compared to the same period in 2011. The fourth quarter, traditionally a period of increased travel, experienced its first decrease in supply since 2003.

During the course of 2012, we concentrated on adapting our operations to the current macroeconomic scenario, becoming a more efficient airline by adjusting domestic capacity and focusing on established, profitable routes. In the second half of 2012, this strategy began to yield results, such as a 4.0 percentage points increase in load factor and a 6.0% increase in passenger revenue per available seat kilometer (PRASK) over second half of 2011 figures. Also in the second half of 2012, our pro-forma domestic supply fell by 6.5% as compared to the same period in 2011 (including Webjet's 2011 figures), contributing to a 4.0 percentage points increase in the domestic load factor.

In 2012, our domestic supply decreased by 5.4% as compared to 2011 (including Webjet's 2011 pro-forma figures). Domestic demand (considering Webjet's figures for 2011) decreased by 3.8%, due to our strategy of increased route efficiency implemented during 2012. In the international market, our demand and capacity decreased by 2.6% and 5.0%, respectively, primarily due to the discontinuation of flights to Bogotá, Colombia, and the winding down of international charter flights using Boeing 767 aircraft, partially offset by new international routes to Santo Domingo (Dominican Republic), Miami and Orlando.

In the same period, our total demand and capacity (considering Webjet's figures for 2011) experienced decreases of 3.7% and 5.4%, respectively, primarily in response to new industry cost levels and sluggish Brazilian GDP growth.

The table below presents certain data from our results of operations for the periods indicated:

	<b>Year Ended December 31,</b>	
	<b>2011</b>	<b>2012</b>
	<b>(in millions of reais)</b>	
<b>Income Statement Data</b>		
Operating revenues		
Passenger	6,713.0	7,160.0
Cargo and other	826.3	943.6
<b>Total operating revenues</b>	<b>7,539.3</b>	<b>8,103.6</b>
Operating expenses		
Salaries, wages and benefits	(1,560.4)	(1,569.7)
Aircraft fuel	(3,060.7)	(3,742.2)
Aircraft rent	(505.1)	(644.0)
Sales and marketing	(402.6)	(426.6)
Landing fees	(395.2)	(559.4)
Aircraft and traffic servicing	(484.6)	(528.7)
Maintenance, materials and repairs	(434.2)	(418.0)
Depreciation and amortization	(395.8)	(519.6)
Other operating expenses	(633.6)	(600.9)
Gain on bargain purchase	88.4	-
<b>Total operating expenses</b>	<b>(7,783.8)</b>	<b>(9,009.2)</b>
<b>Loss from operations before financial income (expense)</b>	<b>(244.5)</b>	<b>(905.6)</b>
Interest expense	(414.4)	(453.7)

Financial income (expense), net	(341.5)	(225.5)
Loss before income taxes and social contribution	<b>(1,000.4)</b>	<b>(1,584.8)</b>
Income taxes	248.9	71.9
Net loss	<b>(751.5)</b>	<b>(1,512.9)</b>

**Operating Revenue**

Operating revenue increased by 7.5%, from R\$7,539.3 million in 2011 to R\$8,103.6 million in 2012:

Operating Revenue	Year Ended December 31,		
	2011	2012	Chg. %
	(in millions of reais, except percentages)		
Operating revenue	7,539.3	8,103.6	7.5%
Passenger	6,713.0	7,160.0	6.7%
Cargo and other	826.3	943.6	14.2%

Passenger operating revenues increased by 6.7% from R\$6,713.0 million in 2011 to R\$7,160.0 million in 2012. This variation was primarily due to the consolidation of Webjet's net revenue in 2012, 1.8 percentage points increase in load factors and 1.0% increase in yields between the periods. Consolidated passenger revenue per ASK increased by 3.6% year-over-year.

Cargo and other revenue or "ancillary revenue" (cargo, flight booking, excess baggage, on board sales, etc.) increased by 14.2% from R\$826.3 million in 2011 to R\$943.6 million in 2012, accounting for 11.6% of net revenue in 2012, primarily due to: (i) the consolidation of Webjet's ancillary revenue; (ii) the 17.5% increase in revenue from fees for flight rebooking, no-show, passenger services and ticket cancellations; (iii) the 27% increase in excess baggage revenue; and (iv) an increase of approximately 2% in cargo revenue, which accounted for approximately 4% of the Company's total gross revenue. Consolidated ancillary revenue per ASK increased by 11.0% year-over-year.

On a unit basis, revenue per available seat kilometer (RASK) increased by 4.5% from R\$15.0 cents in 2011 to R\$15.6 cents in 2012.

### Operating Expenses

Operating expenses increased 15.7% from R\$7,783.8 million in 2011 to R\$9,009.2 million in 2012, primarily due to: (i) the consolidation of Webjet's operating expenses; (ii) additional expenses of R\$140 million related to the winding up of Webjet's activities recorded in the fourth quarter of 2012; (iii) impairment of R\$56.8 million on VARIG tradename.; (iv) consistently high jet fuel prices during the course of 2012 (in reais approximately 18% greater than 2011); (v) a 17% average depreciation of the real against the U.S. dollar; and (iv) increased landing and navigation assistance fees resulting from new fee calculation methodologies introduced by Infraero.

The following table sets forth our total operating expenses for the periods indicated:

Operating Expenses	Year Ended December 31,		
	2011	2012	Chg. %
	(in millions of reais, except percentages)		
Salaries	(1,560.4)	(1,569.7)	0.6%
Aircraft fuel	(3,060.7)	(3,742.2)	22.3%
Aircraft rent	(505.1)	(644.0)	27.5%
Sales and marketing	(402.6)	(426.6)	(5.9)%
Landing fees	(395.3)	(559.4)	41.5%
Aircraft and traffic servicing	(484.6)	(528.7)	9.1%
Maintenance, materials and repairs	(434.2)	(418.0)	(3.7)%
Depreciation and amortization	(395.8)	(519.6)	31.3%
Other operating expenses	(633.6)	(600.9)	(5.1)%

Gain on bargain purchase	88.4	-	(100.0)%
<b>Total operating expenses</b>	<b>(7,783.8)</b>	<b>(9,009.2)</b>	<b>15.7%</b>

On a per unit basis, our operating expense per available seat kilometer (CASK) increased by 12.5% from R\$15.45 cents in 2011 to R\$17.38 cents in 2012, mainly due to R\$124 million of additional provisions (see note 11 to our financial statements included elsewhere herein) and other additional expenses related to logistics and passenger re-accommodation due to the end of Webjet's Operations (for a total of R\$140 million), impairment of R\$56.8 million on VARIG tradename, higher CASK from fuel, aircraft rent, landing fees, and depreciation and amortization. The increase in CASK was partially offset by the 2.9% growth in supply (ASK). Operating expenses per available seat kilometer excluding fuel (CASK Ex-fuel) increased 8.4% from R\$9.38 cents in 2011 to R\$10.16 cents in 2012, mainly due to the extra costs related to the winding up of Webjet's activities, impairment on VARIG tradename, higher expenses with aircraft rent, landing fees, and depreciation and amortization.

The following table sets forth certain of our operating expenses per available seat kilometer as a percentage of total operating expenses, for the periods indicated.

Operating Expenses per Available Seat Kilometer Breakdown	Year Ended December 31,		
	2011	2012	Chg %
Fuel	39.3%	41.5%	2.2%
Personnel	20.0%	17.4%	(2.6)%
Rent	6.5%	7.1%	0.6%
Maintenance	5.6%	4.6%	(1.0)%
Other	28.6%	29.3%	(0.7)%

The following table sets forth certain of our operating expenses per available seat kilometer for the periods indicated:

Operating Expenses per Available Seat Kilometer	Year Ended December 31,		
	2011	2012	Chg %
	<b>(in cents of reais, except percentages)</b>		
Salaries	(3.10)	(3.03)	(2.2)%
Aircraft fuel	(6.08)	(7.22)	18.8%
Aircraft rent	(1.00)	(1.24)	23.9%
Sales and marketing	(0.84)	(0.82)	(1.9)%
Landing fees	(0.78)	(1.08)	37.5%
Aircraft and traffic servicing	(0.96)	(1.02)	6.0%
Maintenance, materials and repairs	(0.86)	(0.81)	(6.4)%
Depreciation and amortization	(0.79)	(1.00)	27.6%
Other operating expenses	(1.04)	(1.16)	11.2%
<b>Operating expenses per available seat kilometer (CASK)</b>	<b>(15.45)</b>	<b>(17.38)</b>	<b>12.5%</b>
<b>CASK excluding fuel expenses</b>	<b>(9.38)</b>	<b>(10.16)</b>	<b>8.4%</b>

Aircraft fuel expenses increased by 22.3% from R\$3,060.7 million in 2011 to R\$3,742.2 million in 2012, largely due to the 18% increase in the price of jet fuel in *reais*, as well as the 3.6% consolidated increase in fuel consumption due to the consolidation of Webjet's fleet and the 17% average period depreciation of the *real* against the U.S. dollar. In per-available seat kilometer terms, aircraft fuel costs increased by 18.8%, due to the same reasons, although diluted by the increase in available seat kilometers in the year-over-year comparison.

Salaries remained almost stable, increasing 0.6%, from R\$1,560.4 million in 2011 to R\$1,569.7 million in 2012, due to the addition of a full year of Webjet employees on our payroll, largely offset by a 13.6% year-over-year decrease in our workforce, in line with our strategy of reducing capacity in Brazil's domestic market, partially compensated with the impact of a 6.0% salary increase for 2013 on payroll expenses. In per available seat-kilometer terms, salaries, wages and benefits decreased by 2.2%, due to these same reasons mentioned above in addition to the increase in available seat kilometers in the year-over-year comparison.

Aircraft rent increased by 27.5%, from R\$505.1 million in 2011 to R\$644.0 million in 2012, due to the greater average number of aircraft under operational leasing contracts (99 in 2012 as compared to 86 in 2011), combined with the 17% average period depreciation of the *real* against the U.S. dollar, given that most aircraft leasing costs are denominated in U.S. dollars. In per available seat kilometer terms, aircraft rent increased by 24.3%, due to the same

reasons, although diluted by the increase in available seat kilometers in the year-over-year comparison.

Sales and marketing expenses remained almost stable, decreasing 5.9%, from R\$402.6 million in 2011 to R\$426.6 million in 2012, due to the decrease in sales between the periods. The expense was partially offset by the increase by approximately 35% year-over-year in purchase of mileage points of international partners, mainly due to the establishment of more complex relationships with mileage partners and the implementation of an online platform to redeem partners' air tickets through the *Smiles* website. . In per available seat kilometer terms, sales and marketing expenses decrease 1.9%, due to the same reasons, although diluted by the increase in available seat kilometers in the year-over-year comparison.

Landing fees increased by 41.5% from R\$395.2 million in 2011 to R\$559.4 million in 2012, due to: (i) the negative impact of the new landing and navigation fee calculation methodology introduced by Infraero during the course of 2011; (ii) the 6.9% increase in the number of departures as a result of the consolidation of Webjet's operations; and (iii) the 17% average period depreciation of the *real* against the U.S. dollar, which had an adverse impact on international landing fees. In per-available seat-kilometer terms, these fees increased by 37.5%, due to the same reasons, although diluted by the increase in available seat kilometers in 2012.

Aircraft and traffic servicing expenses increased by 9.1% from R\$484.6 million in 2011 to R\$528.7 million in 2012, mainly due to: (i) the 6.9% increase in the number of arrivals and departures, mainly as a result of the consolidation of Webjet's operations, as operational volume affects expenses from handling, collection and forwarding, among others; and (ii) the 17.0% average period depreciation of the *real* against the U.S. dollar, which had an adverse impact on the Company's international operations. In per available seat-kilometer terms, these costs increased by 6.0% in the same period, due to the same reasons, although diluted by the increase in available seat kilometers in the year-over-year comparison.

Maintenance, materials and repairs decreased by 3.7% from R\$434.2 million in 2011 to R\$418.0 million in 2012, due to: (i) a reduced number of engine removals; (ii) a decline in average unit engine maintenance cost as a result of the benefits from a complete year of the maintenance agreement entered into with Delta Tech Ops in 2011; and (iii) the effects of expenses related to the return of three Boeing 767s in the second quarter of 2011 that did not occur in 2012. The decrease was partially offset by the consolidation of Webjet's maintenance expenses and the 17% average period depreciation of the *real* against the U.S. dollar, given that most maintenance expenses are U.S. dollar-denominated. In per available seat-kilometer terms, maintenance, materials and repairs decreased by 6.4%, due to the same reasons, although emphasized by the increase in available seat kilometers in the year-over-year comparison.

Depreciation and amortization expenses increased by 31.3% from R\$395.8 million in 2011 to R\$519.6 million in 2012, mainly due to the: (i) higher average number of aircraft under finance leases (45 in 2012 versus 42 in 2011); (ii) addition of six Boeing 737-300 aircraft owned by Webjet; (iii) increase in the depreciation of estimated aircraft reconfiguration costs which will be incurred when the aircraft are returned; and (iv) costs from improvements related to major engine maintenance established in the contracts. In per available seat-kilometer terms, depreciation and amortization increased by 27.6%, due to the same reasons, although diluted by the increase in available seat kilometers in 2012.

Other operating expenses (mainly crew travel and accommodation, direct passenger expenses, equipment leasing and general and administrative expenses) increased 10.2% from R\$545.2 million in 2011 (including gain on bargain purchase of R\$88.4 million in 2011) to R\$600.9 million in 2012 due to: (i) additional expenses related to the winding up of Webjet's activities recorded in the fourth quarter of 2012; (ii) impairment of R\$56.8 million on VARIG tradename; (iii) the 6.9% increase in take-offs; and (iv) the 17% average period depreciation of the *real* against the U.S. dollar. This was partially offset by: (i) R\$90 million in additional expenses recorded in 2011 (contractual penalty of approximately R\$25 million from the early return of three Boeing 767s, expense of R\$10.0 million from the termination of an agreement with a baggage-handling provider, expenses of R\$5.0 million due to flight cancellations

and delays due to volcanic ash from an eruption in Chile and additional expenses of R\$50.0 million associated with system improvements and developments and the optimization of the route network and a provision for an insurance reimbursement); (ii) impairment losses of R\$51 million related to VRG and Webjet's fixed assets and; (iii) an expense of \$ 21.7 million related to the revision of the criteria used to calculate contributions for PIS and COFINS recorded in 2011; and (iv) the gain on bargain purchase of R\$88.4 million recorded in 2011. In per available seat-kilometer terms, other operating expenses decreased by 25.2%, due to the same reasons, although emphasized by the increase in available seat kilometers in the year-over-year comparison.



## Net Financial Result

Our net financial expense decreased by 11.6% from R\$755.9 million in 2011 to R\$668.0 million in 2012 primarily as a result of the gain on derivative instruments and lower expenses related to exchange variation, partially offset by an increase in other financial expenses and interest on loans due to the average period depreciation of the *real* against the U.S. dollar, given that most of our debt is denominated in foreign currency.

Financial Result	Year Ended December 31,		
	2011	2012	Chg. %
	(in millions of reais)		
Interest on short- and long-term debt	(414.4)	(453.7)	9.5%
Exchange rate changes, net	(398.9)	(284.6)	(28.7)%
Derivative net results	(52.4)	50.3	(196.0)%
Investment funds	147.5	99.3	(32.7)%
Other financial expenses	(37.7)	(90.5)	140.3%
<b>Net financial results</b>	<b>(755.9)</b>	<b>(679.2)</b>	<b>(10.1)%</b>

Interest on loans increased by 9.5% in 2012 as compared to the 2011, due to: (i) interest on approximately R\$230 million in additional net funding; (ii) an 8.9% year-over-year increase in the period-end *real* to U.S. dollar exchange rate (which adversely affected our dollar-denominated debt (equivalent to 70% of our total debt as of December 31, 2012); and (iv) the greater average number of aircraft under finance leases (45 in 2012 as compared to 42 in 2011);

Exchange variation decreased by 28.7% in 2012 as compared to 2011, mainly due to lower exchange volatility in 2012 than in 2011, when the *real* depreciated from R\$1.56/US\$ at the end of the second quarter to R\$1.85/US\$ at the end of the third quarter, adversely affecting our financial liabilities in the period. The exchange rate volatility has a direct impact on foreign-currency-denominated financial assets and liabilities.

Investment funds decreased by 32.7% in 2012 as compared to 2011, mainly due to a lower volume of cash invested between the periods and a reduction in the SELIC rate, given that most of our cash investments are pegged to the CDI interbank rate (directly correlated with the SELIC rate).

In 2012, we recognized derivative financial instruments net gain of R\$50.3 million. As of December 31, 2012, we had derivative positions in place to hedge approximately 21%, 9%, 7%, 7% and 6% of our estimated jet fuel consumption for the first, second, third, and fourth quarters of 2013 and after that until the first quarter of 2015, respectively.

Other operating expenses increased by 140.3%, from R\$37.7 million in 2011 to R\$90.5 million in 2012, mainly due to: (i) the consolidation of Webjet's other financial expenses; (ii) expense of R\$8.1 million in connection with waiver fees paid to holders of our 4th and 5th debenture issues recorded in the first quarter of 2012; (iii) a loss of R\$11.1 million in escrow deposits related to the acquisition of Webjet; and (iv) other financial expenses totaling approximately R\$6.0 million related to adjustments to the present value of Webjet's liabilities.

## Income Tax

Income tax expenses decreased by 71.1%, from a credit of R\$248.9 million in 2011 to a credit of R\$71.9 million in 2012, mainly due to the recognition of a valuation allowance on carryforward tax losses.

## Income (Loss) For The Period

As a result of the foregoing, we had net losses of R\$1,512.9 million in 2012, versus net losses of R\$751.5 million in 2011.

*Year 2011 Compared to Year 2010*

In 2011, our revenue passenger kilometers (RPK) increased by 12.3% as compared to 2010, mainly due to the incorporation of Webjet's fleet and route network in the last quarter of 2011, increased load factors in light of reduced fares as a result of the fierce competition generated by the substantial increase in supply (ASK) in the Brazilian airline industry especially during the first half of 2011, and the growth of demand among the emerging Brazilian middle class in 2011.

Demand in Brazil, as measured in revenue passenger kilometers (RPK) increased by 15.7% in 2011 when compared to 2010. International demand in revenue passenger kilometers increased by 11.9% over the same period. The total increase in demand, which slowed during the second half of 2011 as compared to the first half of 2011, was mainly due to: (i) reduction in domestic yields; (ii) the stronger macroeconomic scenario in Brazil and Latin America; (iii) the average depreciation of the U.S. dollar against the *real*, which allowed us to increase international market performance; and (iv) the growth of demand among the emerging Brazilian middle class.

In 2011, we maintained our conservative approach to adding capacity (in ASK). The supply on our total route network increased by only 9.1% as compared to 2010, leading to a 4.8% decline in our yields when comparing these same periods. On the other hand, our total demand increased by 12.3%, 1.3 times greater than our supply growth. As a result, we recorded a load factor of 68.7% in our total network, 1.9 percentage points higher than 2010. We increased our fleet utilization from 12.9 block hours/day in 2010 to 13.0 block hours/day in 2011.

Our results of operations, especially in the second half of 2011, were negatively impacted by: (i) higher fuel expenses due to the increase of global oil prices; (ii) the depreciation of the end of period *real* against the U.S. dollar, which negatively affected our operating expenses, our financial expenses in U.S. dollar-denominated debt and the amount of U.S. dollar-denominated debt as expressed in *reais*; (iii) reduced yields due to competition during the first half of 2011; (iv) additional expenses in 2011, especially, related to return of 3 Boeing 767 and (v) the increase of landing fees due to the impact of new landing and navigation fees methodology established by Infraero at the leading airports under its concession during 2011.

The results of operations of Webjet, which we acquired in the last quarter of 2011 are consolidated in our results of operations for the year ended December 31, 2011, as from October 3, 2011. See note 12 of our financial statement.

We present in the following table information regarding our results of operations in 2011 and 2010.

	<b>Year Ended December 31,</b>	
	<b>2010</b>	<b>2011</b>
	<b>(in thousands of <i>reais</i>)</b>	
Income Statement Data:		
Operating revenues:		
Passenger	6,277,657	6,713,029
Cargo and other	701,790	826,279
Total operating revenues	6,979,447	7,539,308
Operating expenses:		
Salaries, wages and benefits	(1,252,402)	(1,560,436)
Aircraft fuel	(2,287,410)	(3,060,665)
Aircraft rent	(555,662)	(505,058)
Sales and marketing	(367,757)	(402,568)
Landing fees	(331,882)	(395,249)
Aircraft and traffic servicing	(430,521)	(484,642)
Maintenance, materials and repairs	(422,950)	(434,181)
Depreciation and amortization	(281,604)	(395,807)
Other operating expenses	(351,464)	(633,634)
Gain on bargain purchase	-	88,428
Total operating expenses	(6,281,652)	(7,783,812)
Income (loss) from operations before financial income (expense)	697,795	(244,504)
Interest expense	(297,256)	(414,430)
Financial income (expense), net	(14,043)	(341,484)

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Income (loss) before income taxes and social contribution	386,496	(1,000,418)
Income taxes	(172,299)	248,880
Net Income (loss)	214,197	(751,538)

## Operating Revenue

Operating revenue increased by 8.0%, from R\$6,979.4 million in the year ended December 31, 2010 to R\$7,539.3 million in the year ended December 31, 2011:

Operating Revenue	Year Ended December 31,		
	2010	2011	Chg. %
	(in thousands of reais)		
Operating Revenue	6,979,447	7,539,308	8.0%
Passenger	6,277,657	6,713,029	6.9%
Cargo and other	701,790	826,279	17.7%

Passenger operating revenues increased by 6.9% from R\$6,277.7 million in 2010 to R\$6,713.0 million in 2011. This variation was due to the 1.9 percentage point increase in our load factor, partially offset by a 4.8% decline in yields.

Ancillary revenue, composed by cargo and other revenues, increased by 17.7% from R\$701.8 million in 2010 to R\$826.3 million in 2011, accounting for 11.0% of our net revenue in the year ended December 31, 2011, primarily due to: (i) a 18.0% increase in cargo revenue, accounting for approximately 4.0% of total net revenue (versus approximately 3.5% in 2010); (ii) an increase of up to 35% in no-show and ticket change fees, fueled by higher passenger volume when comparing the two periods; and (iii) a 4.8% growth in revenue from the *Smiles* mileage program. The ancillary revenue growth was partially offset by the decrease in volume of charter flights principally performed with Boeing 767 aircraft.

On a unit basis (RASK), the 8.0% increase in operating net revenues was offset by a 9.1% increase in available seat kilometers, and, as a result, revenue per available seat kilometer decreased by 1.0% from R\$15.2 cents in 2010 to R\$15.0 cents in 2011.

## Operating Expenses

Operating expenses increased 23.9% from R\$6,281.7 million in 2010 to R\$7,783.8 million in 2011, due to: (i) a 33.8% increase in aircraft fuel expenses; (ii) a 24.6% growth in salaries expenses; (iii) increased variable costs due to higher operational volume (airport fees, hotels, handling, aircraft cleaning, landing fees, navigational assistance and other expenses); (iv) expenses associated with the return of three Boeing 767 aircraft; (v) the new landing and navigation fee methodology established by Infraero at the leading airports under its concession during 2011; (vi) expenses from the international restrictions brought about as a result of the Puyehue volcanic eruption in Chile; (vii) additional expenses associated with system improvements and developments and the optimization of the route network and a provision for an insurance reimbursement; and (viii) higher depreciation and amortization expenses as further explained below. The increase was partially offset by R\$88.4 million from the gain bargain purchase on the acquisition of Webjet (for more details, see Note 12 to our financial statements included elsewhere herein). The following table sets forth our total operating expenses for the period indicated:

Operating Expenses (in thousands of reais)	Year Ended December 31,		
	2010	2011	Chg. %
Salaries	(1,252,402)	(1,560,436)	24.6%
Aircraft fuel	(2,287,410)	(3,060,665)	33.8%
Aircraft rent	(555,662)	(505,058)	(9.1)%
Sales and marketing	(367,757)	(402,568)	9.5%
Landing fees	(331,882)	(395,249)	19.1%
Aircraft and traffic servicing	(430,521)	(484,642)	12.6%

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Maintenance, materials and repairs	(422,950)	(434,181)	2.7%
Depreciation and amortization	(281,604)	(395,807)	40.6%
Other operating expenses	(351,464)	(633,634)	80.3%
Gain on bargain purchase	-	88,428	100%
<b>Total operating expenses</b>	<b>(6,281,652)</b>	<b>(7,783,812)</b>	<b>23.9%</b>

On a per unit basis, our operating expense per available seat kilometer (CASK) increased by 13.6% from R\$13.7 cents in 2010 to R\$15.5 cents in 2011, mainly due to higher CASK from fuel, personnel, landing fees, depreciation and amortization and other expenses. The increase in CASK was partially offset by the 9.1% growth in supply (ASK).

The following tables set forth certain of our operating expenses per available seat kilometer as a percentage of total operating expenses, each for the period indicated.

<b>Operating Expenses per Available Seat Kilometer Breakdown (%)</b>	<b>Year Ended December 31</b>		
	<b>2010</b>	<b>2011</b>	<b>Chg bps</b>
Fuel	36.4%	39.3%	2.9%
Personnel	19.9%	20.0%	0.1%
Rent	8.8%	6.5%	(2.4)%
Maintenance	6.7%	5.6%	(1.2)%
Other	28.1%	28.6%	0.5%

<b>Operating Expenses per Available Seat Kilometer (in cents of reais)</b>	<b>Year Ended December 31</b>		
	<b>2010</b>	<b>2011</b>	<b>Chg %</b>
Salaries	(2.73)	(3.11)	14.2%
Aircraft fuel	(4.98)	(6.11)	22.6%
Aircraft rent	(1.21)	(1.01)	(16.7)%
Sales and marketing	(0.80)	(0.84)	4.8%
Landing fees	(0.72)	(0.79)	9.1%
Aircraft and traffic servicing	(0.93)	(0.97)	3.8%
Maintenance, materials and repairs	(0.92)	(0.87)	(5.9)%
Depreciation and amortization	(0.61)	(0.79)	28.8%
Other operating expenses	(0.77)	(1.04)	35.2%
<b>Operating Expenses per available seat kilometer (CASK)</b>	<b>(13.67)</b>	<b>(15.53)</b>	<b>13.6%</b>
<b>CASK excluding fuel expenses</b>	<b>(8.70)</b>	<b>(9.42)</b>	<b>8.4%</b>

Aircraft fuel expenses increased by 33.8% from R\$2,287.4 million in 2010 to R\$3,060.7 million in 2011, largely due to: (i) a 19.5% increase in the average international WTI oil price; and (ii) the 8.6% growth in fuel consumption as a result of the 10.6% increase in the number of hours flown. Increased fuel expenses were partially offset by the average 4.8% period depreciation of the U.S. dollar against the *real*. In per-available seat kilometers terms, aircraft fuel costs increased by 22.6%, due to the same reasons but partially diluted by the increase in ASK.

Salaries increased by 24.6%, from R\$1,252.4 million in 2010 to R\$1,560.4 million in 2011, due to: (i) the impact of a 8.75% pay raise for our 2011 payroll; (ii) the increase in flight crew bonuses due to the 10.6% increase in the numbers of hours flown; (iii) training expenses due to the hiring of approximately 400 co-pilots during 2011; (iv) 9.3% workforce increase due to the Webjet acquisition in October 2011. In per available seat-kilometer terms, salaries, wages and benefits increased by 14.2%, due to the same reasons but partially diluted by the increase in ASK.

Aircraft rent decreased by 9.1% from R\$555.6 million in 2010 to R\$505.1 million in 2011, due to: (i) the lower number of aircraft under operating leases (an average of 86 in 2011 versus an average of 89 in 2010); (ii) the return of three Boeing 767s which had a higher leasing cost; and (iii) the average 4.8% period depreciation of the U.S. dollar

against the *real*. The expense was partially offset by the incorporation of 14 Boeing 737-300 from Webjet in our fleet since October 3, 2011. In per available seat-kilometer terms, aircraft rent decreased by 16.7%, due to the same reasons emphasized by the increase in ASK.

Sales and marketing expenses increased by 9.5% from R\$367.8 million in 2010 to R\$402.6 million in 2011, due to the higher expenses with sales incentives in light of the increase in sales volume, partially offset by the elimination of ticket sale commissions for travel agents as of February 2010. In per available seat-kilometer terms, sales and marketing expenses decreased 4.8%, due to the same reasons but partially diluted by the increase in ASK.



Landing fees increased by 19.1% from R\$331.9 million in 2010 to R\$395.2 million in 2011, due to: (i) the increase in landings fees expenses due to the impact of new landing and navigation methodology established by Infraero at the leading airports under its concession during 2011; and (ii) the 6.4% increase in the number of landings. The landing fees expense was partially offset by the 4.8% period depreciation of the average U.S. dollar against the *real* with an impact on international landing fees. In per-available seat-kilometer terms, these fees increased by 9.1%, due to the same reasons but partially diluted by the increase in ASK.

Aircraft and traffic servicing expenses increased by 12.6% from R\$430.5 million in 2010 to R\$484.6 million in 2011, mainly due to: (i) the increase in handling expenses due to higher passenger volume (increase of 6.4% in number of departures) and the impact of pay raises on the cost of these services; (ii) additional IT expenses due to investments in technological improvements such as remote check-in and the new *Smiles* system; and (iii) additional consulting services. In per available seat-kilometer terms, these costs increased by 3.8% in the same period, due to the same reasons but partially diluted by the increase in ASK.

Maintenance, materials and repairs increased by 2.7% from R\$423.0 million in 2010 to R\$434.2 million in 2011, due to expenses related with the return of three Boeing 767s, partially offset by the average 4.8% period depreciation of the U.S. dollar against the *real*, given that most of these expenses are in foreign currency and the expenses related to the fleet renewal in 2010, not incurred in 2011. In per available seat-kilometer terms, the maintenance, materials and repairs decreased by 5.9%, due to the same reasons but magnified by the increase in ASK.

Depreciation and amortization expenses increased by 40.6% from R\$281.6 million in 2010 to R\$395.8 million in 2011, mainly due to: (i) the higher average number of aircraft under finance leases (an average of 42 in 2011 versus an average of 35 in 2010); and (ii) an increase in the depreciation of estimated reconfiguration costs for aircraft and an increase in contractually established costs associated with improvements in major engine overhauls. In per available seat-kilometer terms, depreciation and amortization increased by 28.8%, due to the same reasons but partially diluted by the increase in ASK.

Other operating expenses (mainly crew travel and accommodation, direct passenger expenses and general and administrative expenses) increased 55.1% from R\$351.4 million in 2010 to R\$545.2 million in 2011 due to: (i) a contractual penalty of approximately R\$25 million from the early return of three Boeing 767s; (ii) increase of approximately R\$20.0 million in variable expenses directly linked to passenger volume (crew travel, accommodation, meals, transportation and direct passenger expenses) due to the 6.4% growth in the number of landings; (iii) expenses of R\$5.0 million due to flight cancellations and delays, mainly due to the restrictions on international flights in the Southern cone region for most of June due to volcanic ash from an eruption in Chile; (iv) expense of R\$10.0 million from the termination of an agreement with a baggage-handling provider in order to obtain commercial benefits and future savings from the new provider, besides other penalties related to contracts termination during 2011; (v) additional expenses of R\$50.0 million associated with system improvements and developments and the optimization of the route network and a provision for an insurance reimbursement; (vi) increase in expenses from the redemption of miles for use in international partner airlines; (vii) R\$51.5 million for impairment of the fleet and spare parts from Gol and Webjet's fleet; (viii) revision of the criteria used to calculate contributions for PIS and COFINS in the last quarter of 2011, which generated an expense of R\$24.0 million; and (ix) provision of R\$26.0 million for the anticipated return of 14 Boeing 737-300 aircraft from Webjet. The result was partially offset by R\$88.0 million of bargain purchase gain in Webjet's acquisition. In per available seat-kilometer terms, other operating expenses increased by 41.1%, due to the same reasons but partially diluted by the increase in ASK.



## Net Financial Result

Our net financial expense increased by 142.8% from R\$311.3 million in 2010 to R\$755.9 million in 2011 primarily as a result of the negative impact of R\$476.4 million due to an 18.8% depreciation of the *real* against the dollar in the third quarter as compared to the second quarter on the Company's financial result, given that most of our debt is denominated in foreign currency.

Financial Result (in thousands of reais)	Year Ended December 31		
	2010	2011	Chg. %
Interest on short- and long-term debt	(297,256)	(414,430)	39.4%
Exchange rate changes, net	46,549	(398,897)	956.9%
Derivative net Results	(117,022)	(52,425)	-55.2%
Investments funds	103,906	147,508	42.0%
Other financial expenses	(47,476)	(37,670)	-20.7%
<b>Net financial results</b>	<b>(311,299)</b>	<b>(755,914)</b>	<b>142.8%</b>

Interest on short- and long-term debt increased by 39.4% in 2011 as compared to 2010, due to: (i) additional interest on loans from the senior notes issued in July 2010 maturing in 2020; (ii) additional interest on loans from the R\$600 million debenture issue in September 2010; (iii) additional interest on loans from the R\$500 million debenture issue in June 2011; (iv) the larger number of aircraft classified under finance leases (an average of 42 in 2011 versus an average of 35 in 2010); and (v) the 12.6% depreciation of the *real* against the dollar between the periods (exchange rate of the end of the period), which had a negative impact on interest payments on foreign-currency debt (70.0% of our total debt at December 31, 2011).

Exchange rate changes, net generated a loss of R\$398.9 million in 2011 versus a gain of R\$46.0 million in 2010 due to the depreciation of the *real* versus the U.S. dollar, especially in the third quarter of 2011, which had a direct impact on foreign-currency-denominated financial assets and liabilities and by the recognition of an exchange variation expense of R\$10.5 million due to the reclassification of maintenance deposits from "non-monetary assets" to "monetary assets" since the second quarter of 2011, partially offset by the reduced U.S. dollar exposure of our debt (70% in 2011, versus 76% in 2010).

In 2011, we recognized derivative financial instruments net loss of R\$52.4 million. As of December 31, 2011, we had derivative positions in place to hedge approximately 48%, 41%, 27% and 20% of our estimated jet fuel consumption for the first, second, third, and fourth quarters of 2012, respectively.

Investments funds increased by 42.0% in 2011 as compared to 2010 due to financial gains from increased investments of our cash position composed by cash and cash equivalents, short investments and current and noncurrent restricted cash, which is already equivalent to 31.1% of our last 12-months operating revenue.

Other financial expenses decreased by 20.7% from R\$47.5 million in 2010 to R\$37.3 million in 2011, due to a R\$38.0 million expense from the discounts granted to CVC in 2010. The expense was partially offset by a R\$10.4 million expense from the recognition of the adjustment to present value of future obligations related to aircraft returns and higher expenses from banking commissions generated by the debenture issue in June 2011, senior notes issued in July 2010 and the debentures issued in September 2010 (recognized in the income statement along the debt's maturity period).

## Income Tax

Income tax generated a credit of R\$248.9 million in 2011 compared to an expense of R\$172.3 million in 2010. The variations were mainly due to credits taxes from VRG tax loss carryforwards and negative basis of social contribution, the depreciation of the *real* against the U.S. dollar between the periods, which generated a temporary reduction difference on the exchange variation of financial leasings, contributing to the credit recorded in the deferred income tax line. In addition, there was an decrease in taxable income, generating an expense of R\$5.8 million under current income tax.

**Income (Loss) For The Period**

As a result of the foregoing, we had net losses of R\$751.5 million in 2011, versus a net income of R\$214.2 million in 2010.

## B. Liquidity and Capital Resources

### 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 2012, we generated R\$133.3 million in cash from our operating activities reflecting the decrease in our operating profitability. In 2011 net cash used by operating activities was R\$602.5 million and net cash provided in 2010 was R\$723.9 million. Cash flows generated by operating activities for 2012 were driven by R\$1,512.9 million in net loss, plus noncash depreciation and amortization expense of R\$519.6 million, noncash interest on loans of R\$268.4 million, noncash exchange variation loss of R\$279.5 million, a R\$22.8 million decrease in accounts receivable, R\$424.0 million short-term investments used for trading, a R\$18.2 million decrease in deposits, an interest payments of R\$374.8 million and prepaid expenses and recoverable taxes of R\$106.2 million. Cash flows associated with derivative financial instruments, which are also classified as operating cash flows, generated net outflows of R\$37.8 million in 2012 and net outflows of R\$42.3 million in 2011. In 2010, we generated R\$723.9 million cash from our operating activities, mainly driven by our net income of R\$214.2 million.

As of December 31, 2012, we had R\$327.1 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.* In 2012, net cash used in investing activities was R\$590.4 million. During 2012, acquisition of fixed assets were R\$454.2 million, primarily improvements related to major engine maintenance established in lease agreements and pre-delivery deposits for the acquisition of Boeing 737 aircraft. During 2011, acquisition of fixed assets were R\$279.8 million, especially due to pre-delivery deposits for the acquisition of Boeing 737 aircraft. In 2010, acquisition of fixed assets were R\$230.5 million, mainly related to pre-delivery deposits for the acquisition of Boeing 737 aircraft.

*Financing Activities.* Net cash used in financing activities totaled R\$4.4 million in 2012 and consisted primarily of R\$312.4 in funding operations during the year and R\$17.3 million of sale of stocks held in treasury. These proceeds were partially offset by R\$334.7 million outflows of debts and aircraft lease payments. Net cash generated from financing activities totaled R\$354.5 million in 2011 and consisted primarily of capital we raised from our issuance of our 5<sup>th</sup> series of debentures in the amount of R\$500 million maturing in 2017 that we used as working capital, to pay suppliers, and from the investment of R\$182 million made by Delta Airlines in our capital. These proceeds were partially offset by the prepayment of working capital lines, other debt maturing in the next couple of years to reduce refinancing risk in the short term, and payments of aircraft finance leases. Net cash generated from financing activities totaled R\$139.9 million in 2010.

### Liquidity

In managing our liquidity, we take into account our cash and cash equivalents, short-term investments and short- and long-term restricted cash 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 seek to have a strong balance sheet, and our cash position as of December 31, 2012 was equivalent to 20% of our trailing twelve months' operating revenues, reaching our initial target of at least 20% of the trailing twelve months' operating revenues. This position also covers 0.9 times our short-term debt, which we believe currently is an appropriate level of liquidity. We are also committed to having no significant financial debt maturities (excluding finance leases) coming due within any three-year horizon.

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

	2011	At December 31, 2012	% Change
	(in millions of reais)		
<b><i>Real Denominated</i></b>	<b>2,450.0</b>	<b>1,521.2</b>	<b>(37.9)%</b>
Cash and Cash Equivalents	1,092.8	450.3	(58.8)%
Short-Term Investments and Short- and Long-Term Restricted Cash .	1,018.0	763.5	(25.0)%
Short-term Receivables	339.2	307.5	(9.3)%
<b><i>Foreign Exchange Denominated</i></b>	<b>612.1</b>	<b>864.9</b>	<b>41.3%</b>
Cash and Cash Equivalents	137.5	325.3	136.6%
Short-Term Investments	100.2	46.1	(54.0)%
Short-term Receivables	14.9	18.2	22.1%
Advances for acquisition of aircraft	359.5	475.3	32.2%
<b>Total</b>	<b>3,062.1</b>	<b>2,386.2</b>	<b>(22.1)%</b>

As of December 31, 2012, cash and cash equivalents, short-term investments and short- and long-term restricted cash were R\$1,585.1 million, comprised by R\$775.6 million in cash and cash equivalents balance, R\$585.0 million in short-term investments representing immediate liquid financial assets and R\$224.5 million in restricted cash. The decrease in total cash deposits, as compared to 2011 is mostly due to the decrease in our operating profitability.

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 2012, we had decreased volume of short-term receivables as compared to 2011, due to a decline in sales volume between the periods as a result of the slowdown in the Brazilian economy.

As of December 31, 2012, we had R\$475.3 million deposited with Boeing as advances for aircraft acquisitions, an increase of 32.2% as compared to December 31, 2011, mainly due to the higher number of aircraft delivered in 2012 with the deposit returned to us and the higher 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 2011.

As a result, our total cash deposits were R\$2,386.2 million as of December 31, 2012 as compared to R\$3,062.1 million at December 31, 2011.

### **Indebtedness**

The following table sets forth our loans and financings at December 31, 2012 and 2011:

	2011	At December 31, 2012	% Change
	(in millions of reais)		
Loans and Financing	2,535.2	2,718.6	7.2%
Aircraft Finance Lease	2,056.3	2,052.5	(0.2)%
Interest	64.1	54.3	(15.3)%
Perpetual Bonds	335.8	365.8	8.9%
<b>Total Loans and Financing</b>	<b>4,991.4</b>	<b>5,191.2</b>	<b>4.0%</b>

As of December 31, 2012, our total debt was R\$5,191.2 million, with an average term of 6.5 years (excluding perpetual notes) and an average interest rate of 10.2% for obligations in local currency and of 6.7% for U.S. dollar denominated obligations. Excluding our perpetual bonds, which have no maturity date, total loans and financing totaled R\$4,825.4 million at December 31, 2012, with a negative foreign exchange effect due to the depreciation of the *real* against the U.S. dollar of 8.9% between 2011 and 2012. The increase compared to 2011 was also impacted by new net funding operations in 2012.



*Loans and Financing*

The following tables sets forth our short- term and long-term loans as of December 31, 2011 and 2012:

	2011	At December 31, 2012	% Change
	(in millions of reais)		
<b>Short-Term Debt</b>			
<b>Local Currency</b>	<b>1,215.1</b>	<b>1,356.8</b>	<b>11.7%</b>
Working Capital	-	191.8	(100.0)%
BNDES- loan	8.4	3.1	(63.0)%
BNDES-Safra loan <sup>(2)</sup>	30.0	29.9	(0.3)%
BDMG loan <sup>(3)</sup>	3.6	6.4	77.8%
Debentures IV **	595.1	596.4	0.2%
Debentures V**	493.3	494.5	0.2%
Santander	40.7	-	(100.0)%
Citibank	19.4	14.0	(27.8)%
Industrial CDB	1.2	-	(100.0)%
Banco IBM	-	6.7	100%
Interest	23.4	14.0	(40.2)%
<b>Foreign Currency (U.S. Dollars)</b>	<b>337.3</b>	<b>362.8</b>	<b>7.6%</b>
Working Capital	95.9	-	(100.0)%
JP Morgan	-	73.6	(100.0)%
Aeroturbine	4.6	-	100.0%
IFC loan <sup>(4)</sup>	31.2	17.0	(45.5)%
FINIMP <sup>(5)</sup>	3.1	24.2	680.6%
Finance Lease	161.8	207.7	28.4%
Interest	40.7	40.3	(1.0)%
<b>Total Short-Term Debt</b>	<b>1,552.4</b>	<b>1,719.6</b>	<b>10.7%</b>
<b>Long-Term Debt</b>			
<b>Local Currency</b>	<b>264.7</b>	<b>196.8</b>	<b>(25.6)%</b>
BNDES loan <sup>(1)</sup>	-	11.1	(100.0)%
BNDES-Safra loan <sup>(2)</sup>	42.8	13.9	(67.5)%
BDMG loan <sup>(3)</sup>	25.9	20.1	(22.4)%
Banco IBM	-	20.5	(100.0)%
Safra	196.0	131.2	(33.1)%
Debentures IV **	-	-	-
<b>Foreign Currency (U.S. Dollars)</b>	<b>2,838.5</b>	<b>2,909.0</b>	<b>2.5%</b>
JP Morgan	-	33.7	(100.0)%
Senior Notes	944.0	1,030.4	9.2%
Finance Lease	1,894.5	1,844.9	(2.6)%
<b>Total Long-Term Debt</b>	<b>3,103.2</b>	<b>3,105.8</b>	<b>0.1%</b>
<b>Total Loans Ex-Perpetual Bonds</b>	<b>4,655.6</b>	<b>4,825.4</b>	<b>3.6%</b>
Perpetual Bonds***	335.8	365.8	8.9%
<b>Total Loans - including Perpetual Bonds</b>	<b>4,991.4</b>	<b>5,191.2</b>	<b>4.0%</b>

\*\* We reclassified our 4<sup>th</sup> and 5<sup>th</sup> debenture issuances in the total amount of R\$1,091.9 million from long term to short term debt due to covenant non-compliance as further described in “—Covenant Compliance” and “Item 3. Key

*Information—D. Risk Factors—Certain of our debt agreements contain financial covenants and any default under such debt agreements may have a material adverse effect on our financial condition and cash flows.”*

*\*\*\* No maturity term bonds*

(1) Credit line with Banco Nacional de Desenvolvimento Econômico e Social (the Brazilian Development Bank), or BNDES, used to finance the development of our Confins maintenance center.

(2) Credit line with BNDES used to finance the modernization of engines.

(3) Credit line with Banco de Desenvolvimento de Minas Gerais (Minas Gerais State Development Bank) used to finance the development of our Confins maintenance center.

(4) Credit line with International Finance Corporation used to finance spare parts.

(5) Credit line with Banco do Brasil used to finance import of rotables parts.

*Aircraft Finance Leases*

The following table sets forth our aircraft finance lease as of December 31, 2011 and 2012:

	<b>2011</b>	<b>As of December 31, 2012</b>	<b>% Change</b>
<b>Short-Term Debt (Foreign Currency - U.S. Dollars)</b>		<b>(in millions of reais)</b>	
Finance Lease	161.8	207.7	28.3%
<b>Total Short-Term Debt (Foreign Currency - U.S. Dollars)</b>	<b>161.8</b>	<b>207.7</b>	<b>28.3%</b>
<b>Long-Term Debt (Foreign Currency - U.S. Dollars)</b>			
Finance Lease	1,894.5	1,844.9	-2.6%
<b>Total Long-Term Debt (Foreign Currency - U.S. Dollars)</b>	<b>1,894.5</b>	<b>1,844.9</b>	<b>-2.6%</b>
<b>Total Aircraft Finance Lease</b>	<b>2,056.3</b>	<b>2,052.5</b>	<b>-0.2%</b>

On December 31, 2012, aircraft finance lease debt totaled R\$2,052.5 million, including aircraft finance lease paid in monthly installments with funds generated from our operations. Financial expenses related thereto are booked as financial expenses in the income statement.

Total short-term debt at December 31, 2012 totaled R\$1,719.3 consisting of aircraft finance lease of R\$207.7 million, interest of R\$54.3 million and loans of R\$1,457.6 million due to reclassification of our debentures in the amount of R\$1,091.9 million from long-term debt to short-term debt as a result of we were not in compliance with certain financial covenants related to our Debentures IV and V on December 31, 2012.

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>
BNDES	jul/17	TJLP + 1.40%	10.72%	<i>Real</i>
BNDES-Safra	oct/14	TJLP + 5.5%	11.46%	<i>Real</i>
BDMG	mar/18	IPCA + 6.0%	10.71%	<i>Real</i>
Debentures IV	sep/15	118.0% of CDI	11.09%	<i>Real</i>
Debentures V	jun/17	120.0% of CDI	10.64%	<i>Real</i>
Citibank	jun/13	CDI + 4.75%	7.19%	<i>Real</i>
Safra	dec/15	125% of CDI	3.34%	U.S. dollar
Finimp – B. Brasil (I)	mar/13	Libor + 2.9%	3.66%	U.S. dollar
Finimp – B. Brasil (II)	jun/13	1.10% + 0.4%	3.66%	U.S. dollar
Finimp – Bic Banco	nov/13	4.2% p.y.	3.66%	U.S. dollar
Working capital	mar/12	3.417%	-	U.S. dollar
IFC Loan	jul/13	Libor + 3.750%	5.84%	U.S. dollar
Senior Notes 2017	apr/17	7.50%	7.70%	U.S. dollar
Senior Notes 2020	jul/20	9.25%	9.65%	U.S. dollar
Perpetual Bonds	n/a	8.75%	8.75%	U.S. dollar



The following table sets forth our payment schedule for our loans and financings (excluding aircraft financings):

	2013	2014	2015	2016	After 2016	Without Maturity	Total
<b>Real Denominated</b>	<b>1,343.8</b>	<b>92.6</b>	<b>79.4</b>	<b>13.4</b>	<b>11.5</b>	-	<b>1,540.7</b>
Working Capital	191.8	-	-	-	-	-	191.8
BDMG	6.4	5.0	4.7	4.7	5.8	-	26.6
BNDES	3.1	3.1	3.1	3.1	1.8	-	14.2
BNDES-Safra	29.9	13.9	-	-	-	-	43.8
IBM	6.7	5.5	5.5	5.6	3.9	-	27.2
Citibank	14.0	-	-	-	-	-	14.0
Safra	-	65.1	66.1	-	-	-	131.2
Debentures IV and V	1,091.9	-	-	-	-	-	1091.0
<b>Foreign Currency Denominated</b>	<b>114.8</b>	<b>33.7</b>	-	<b>1,030.4</b>	-	<b>365.8</b>	<b>1,544.6</b>
IFC	17.0	-	-	-	-	-	17.0
Finimp	24.2	-	-	-	-	-	24.2
J.P. Morgan	73.6	33.7	-	-	-	-	107.3
Senior Notes 2017	-	-	-	429.1	-	-	429.1
Senior Notes 2020	-	-	-	601.2	-	-	601.2
Perpetual Bonds	-	-	-	-	-	365.8	365.8
<b>Total*</b>	<b>1,458.6</b>	<b>126.3</b>	<b>79.4</b>	<b>1,043.7</b>	<b>11.5</b>	<b>365.8</b>	<b>3,085.3</b>

\* excluding interest expenses and finance leases.

For further information on our financing activities, see note 19 to our consolidated financial statements as of December 31, 2012.

### ***Covenant Compliance***

Our long term financings (excluding the perpetual bonds and aircraft financing) in the aggregate amount of R\$1,260.9 million at December 31, 2012 contain customary covenants and restrictions, including but not limited to those that require us to maintain defined debt liquidity and interest expense coverage ratios.

On December 31, 2012, our financings with IFC and Debentures IV and V had the following restrictive covenants: (i) net debt / EBITDAR below 4.0 times, (ii) current assets / current liabilities of at least 1.5 times, (iii) net debt/ EBITDA below 3.5 times and (iv) debt coverage ratio (ICD) of at least 1.3 times.

On the same date our measurements for each of the restrictive covenants were: (i) net debt / EBITDAR of 32.3 times, (ii) current assets / current liabilities of 0.5 times, (iii) net debt/ EBITDA of (10.2) times and (iv) debt coverage ratio (ICD) of (2.0) times, mainly due to the negative accumulated EBITDA.

As such, we did not meet the minimum levels for covenants involving EBITDA and EBITDAR. However, we have obtained waivers providing for the suspension of these covenants for all financings, as described below:

*IFC*: we received a waiver from IFC excusing covenant compliance through the end of 2012 in connection with an agreement to prepay this financing on January 15, 2013, six months prior to its originally scheduled maturity of July

2013. We repaid IFC on January 15, 2013.

*Debentures IV and V:* on February 1, 2013 we obtained a waiver approval from the debenture holders for the December 31, 2012 and June 30, 2013 measurements. However, according to IFRS and because we did not receive the waiver by December 31, 2012, we reclassified our debentures in the amount of R\$1,091.0 million from long-term debt to short-term debt as a result of this non-compliance. For our financial statements for the first quarter of 2013 we will again reclassify this amount as long-term. The first measurement after the waived periods will be based on our financial statements as of and for the year ended December 31, 2013.

## Other Financing Sources and Measures

We did not declare dividends for the fiscal years 2012 and 2011. We declared dividends of R\$50.9 million for the fiscal year 2010.

On December 21, 2011, in order to implement the Delta Investment, our board of directors approved a capital increase of up to R\$295.8 million, equivalent to up to 6,825,470 common shares and 6,619,765 preferred shares at a subscription price of R\$22.00 per share, with a minimum aggregate subscription amount of R\$182.6 million. Our controlling shareholder subscribed for 6,825,469 common shares and 1,474,986 preferred shares, using the funds received from Delta to pay for those shares. On August 13, 2012, our board of directors approved this capital increase, with the cancellation of 5,118,453 shares that were left unsubscribed.

On December 21, 2012 our board of directors approved the sale of our preferred shares held in treasury, in light of the termination of our stock repurchase program commenced on September 8, 2011. The maximum term for the sale of these preferred shares was February 13, 2013 and 1,577,500 preferred shares held in treasury were sold at market prices.

## 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 137 aircraft by the end of 2014. As of December 31, 2012, we had 155 outstanding firm purchase orders with The Boeing Company for 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\$1,316.8 million in 2013 and US\$1,341.0 million in 2014, US\$1,332.1 million in 2015, US\$1,380.8 million in 2016 and US\$10,515.2 million beyond 2016. We expect to meet our pre-delivery deposits by using long term loans from private financial institutions guaranteed by first tier financial institutions and capital markets financing 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 Ex-Im Bank 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 Ex-Im Bank supported financing, local development bank funding and sale and leaseback transactions.

In 2010, the Ex-Im Bank agreed on a common approach with European export-credit agencies on offering export credits for commercial aircraft. Among other things, the new ASU sets forth minimum guarantee premium rates applicable to aircraft to be delivered on or after January 1, 2013, or under firm contracts entered into after December 31, 2010 and also changes the maximum amount that may be financed.

In light of our current credit ratings and the introduction of the ASU, we expect our minimum guaranty premium rate applicable to aircraft delivered on or after January 1, 2013 will increase substantially from a previous rate of 4%. The Ex-Im Bank has not yet informed us if it will guaranty this increased amount to be financed, which could cause us to have to seek other more expensive financing alternatives or use our own cash resources to finance the additional amount.





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Finance leases	<b>2,475.8</b>	304.6	319.1	309.6	300.8	277.9		<b>963.8</b>
Short-term debt	<b>1,511.9</b>	1,511.9						
Long-term debt	<b>1,626.7</b>	-	126.2	79.4	13.4	470.4	365.8	<b>571.4</b>
<b>Total non-derivative financial instruments</b>	<b>8,648.1</b>	<b>2,537.2</b>	<b>966.0</b>	<b>747.8</b>	<b>606.6</b>	<b>1,010.2</b>	<b>365.8</b>	<b>2,414.5</b>
<b>Derivative financial instruments</b>								
Fuel derivative	<b>12.9</b>	5.8	7.1					
Foreign exchange derivative								
Interest rate swaps	<b>(54.7)</b>	(54.7)						
<b>Total derivative financial instruments</b>	<b>(41.8)</b>	<b>(48.9)</b>	<b>7.1</b>					
<b>Aircraft commitments</b>								
Pre-delivery deposits	<b>4,046.5</b>	283.7	389.0	444.9	146.7	171.7		<b>2,610.5</b>
Aircraft purchase commitments	<b>32,462.5</b>	2,690.8	2,740.3	2,722.1	2,821.7	1,640.8		<b>19,846.9</b>
<b>Total aircraft commitments</b>	<b>36,509.0</b>	<b>2,974.5</b>	<b>3,129.3</b>	<b>3,167.0</b>	<b>2,968.4</b>	<b>1,812.5</b>		<b>22,457.4</b>
<b>Total</b>	<b>45,115.3</b>	<b>5,462.8</b>	<b>4,102.4</b>	<b>3,914.8</b>	<b>3,574.9</b>	<b>2,822.8</b>	<b>365.8</b>	<b>24,871.9</b>

## **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, human resources and corporate governance, financial policies and risk committees, comprised of members of our board of directors and non-board members. We also have an accounting, 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 human resources 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 8 members, 3 of whom qualify as independent based upon New York Stock Exchange criteria. The board of directors meets an average of 5 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 expires in April 2014. 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>
Constantino de Oliveira Junior	44	Chairman
Henrique Constantino	41	Vice-Chairman
Antonio Kandir*	59	Director
Joaquim Constantino Neto	48	Director
Luiz Kaufmann*	68	Director
Edward H. Bastian	55	Director
Ricardo Constantino	50	Director
Richard F. Lark*	46	Director

\* Denotes an independent director

*Constantino de Oliveira Junior* has been a member of Gol's board of directors since the Company was founded in 2001 and is currently the chairman of the board of directors. He was also Gol's Chief Executive Officer from 2001 until 2012. 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. Between 1994 and 2000 he served as director in passenger land transportation company. 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. He is also member of our human resources and corporate governance committee, financial policy committee and risk committee.

*Henrique Constantino* has been a member of our board of directors since March 2004 and became our vice-chairman of the board in June 2010. 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 human resources and corporate governance committee.

*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 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 (PhD) 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.

*Joaquim Constantino Neto* has been a member of our board of directors since March 2004. He has been the chief operations officer of the Comporte group since 1994. From 1984 to 1990, he was in charge of operations of Empresas Reunidas Paulista de Transportes Ltda. Since 1990 to the present, he has been the President of Breda Serviços, a bus transportation company.

*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. Mr. Kaufmann has presided over several companies such as Aracruz Celulose S.A., Medial Saúde, Kroton Educacional, 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 risk committee, financial policy committee and audit committee and our audit committee financial expert as defined by the current SEC rules.

*Edward H. Bastian* has been a member of our board of directors since April 2012. Mr. Bastian was appointed pursuant to our partnership agreement with Delta Air Lines, Inc., or Delta. He has been President of Delta since 2007 and previously held the positions of Vice Chief Executive Officer and Controller in 1998 and Chief Financial Officer in 2005. Since February 2010, Mr. Bastian has been also a member of Delta's board of directors. Between 2008 and 2009, Mr. Bastian was the Chief Executive Officer of Northwest Airlines. Mr. Bastian also worked for PepsiCo and Frito-Lay and was partner at PricewaterhouseCoopers in New York. Mr. Bastian is also a member of the board of directors of Habitat for Humanity and Woodtruff Arts Center, both based in Atlanta. Mr. Bastian holds bachelor's degree in business administration from St. Bonaventure University, class of 1979

*Ricardo Constantino* has been a member of our board of directors since March 2004. He has been the chief technical and maintenance officer of the Comporte group since 1994. Mr. Ricardo Constantino Neto is also a member of the board of directors of BRVias S.A. and Providência S.A.

*Richard F. Lark*, 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 the founder and managing partner of Endurance Capital Partners, a private equity management firm (member of Anbima and ABVCAP), and a member of the board of directors of Global Aviation S.A.. 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 the Kellogg Institute for International Studies and Associação Vida Jovem, and served as president of the American Society of São Paulo. Mr. Lark holds a Master in Business Administration degree from the UCLA Anderson School of Management and bachelor degrees in finance and business economics and philosophy from the University of Notre Dame. He is a Portfolio Manager authorized by the CVM and an associate of the Brazilian Institute of Corporate Governance (IBGC). Mr. Lark is a member of our financial policy committee, risk policies committee and accounting, tax and financial statement policies subcommittee. Mr. Lark 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.

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 Volluto, 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 2014.

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Paulo Kakinoff	38	President and Chief Executive Officer
Adalberto Cambaúva Bogsan	47	Vice President – Technical
Edmar Prado Lopes Neto	48	Investor Relations Officer

*Paulo Kakinoff* is currently our President and Chief Executive Officer and was a member of our Board of Directors from 2010 to 2012. Mr. Kakinoff was until June 2012, the CEO of Audi Brasil and vice president of the Brazilian Automobile Importers Association (*Associação Brasileira de Importadores de Veículos Automotores – ABEIVA*). He was also a member of the board of directors of Volkswagen Participações Ltda. (Finance Services of Volkswagen Group in Brasil) from March 2011 until June 2012. Mr. Kakinoff has 18 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 a member of our human resources and corporate governance committee, financial policy committee and risk committee.

*Adalberto Cambauva Bogsan* has been an officer since October 2010. He joined us in April 2002 and served as the line captain of the Boeing 737-300 aircraft, assistant of head of Operations, head of Operations and Operational Control departments. He is also a well-experienced captain, with more than 13,000 flying hours, Mr. Bogsan is specifically qualified in airline management and holds an MBA from the Fundação Getúlio Vargas (FGV). Mr. Bogsan started his career at the Brazilian airline Rio-Sul from 1988 to 2002, where he served in as captain of several aircraft models, and also served as instructor for 8 years and was captain instructor and flight inspector of Boeing 737-300/500 Next Generation aircraft when he left that airline.

*Edmar Prado Lopes Neto* has been an officer since July 2012 and is also our finance director. Mr. Lopes Neto has been in the Company since 2011, when he joined as Capital Markets Officer. Mr. Lopes Neto worked at Organizações Globo for 13 years, having served as Net Serviços de Comunicação S.A.'s Treasury Officer from 1998 to 2005 and as the Roberto Marinho Foundation's Planning Manager. Mr. Lopes Neto is a member of our financial policy committee and the accounting, tax and financial statements policy subcommittee. With more than 25 years' experience in the financial area, Mr. Lopes Neto has worked for national and multinational companies and graduated in Civil Engineering from the Universidade Federal do Rio de Janeiro.

## 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, 2012, 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\$18.8 million.

## **Stock Option Plan and Restricted Share Plan**

Our stock option plan was approved by our shareholders on December 9, 2004 and amended on April 30, 2010 and October 19, 2012. On October 19, 2012 our shareholders also approved a restricted share plan. Both plans are valid for 10 years. The plans are aimed at promoting our interests by encouraging management employees to contribute substantially to our success, by motivating them with stock options and restricted shares. The plans are managed by both our human resources and corporate governance committee and our board of directors.

Participants in the plans are selected by the human resources and corporate governance committee, provided that they have been either president or vice-president, for both plans, or other selected employees, for the restricted share plan. The stock options to be granted under the stock option plan confer rights related only to our preferred shares and the restricted shares awarded are all preferred shares. The number of outstanding options granted and restricted shares combined may not, at any time, exceed 5% of our shares. The human resources 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.

The vesting period of the stock options is five years for the options granted until 2009, vesting 20% each year, and three years for the options granted since 2010, vesting 20% in the first year, 30% in the second year and 50% in the third year. Restricted shares awarded vest after three years.

In case of termination of our legal relationship with the option holder, with or without cause (except in the case of permanent disability or death) all options that have been granted to the participant, and which were not yet exercisable, automatically expire. Options already vested on the termination date may be exercised within 90 days, in case of termination without cause, or on the termination date, in case of termination with cause or at the beneficiary's request.

In case of termination of our legal relationship with the award beneficiary without cause (except in the case of permanent disability or death), restricted shares awarded and not yet unrestricted, vest proportionally to the number of months elapsed since the award date, and, in case of termination with cause or at the beneficiary's request, all restricted shares awarded and not yet vested automatically expire.

In 2009, we issued 1,142,473 stock options, of which only 652,998 were outstanding on December 31, 2010 after the cancellation of 530,480 stock options due to the departure of their respective holders from the company, the exercise of 175,668 stock options and the complementary grant of 216,673 stock options in 2010 under the 2009 plan. These stock options were issued at a weighted average exercised price of R\$10.52 per share. In 2010, we issued 2,774,640 stock options, of which only 2,593,938 were outstanding on December 31, 2010, after the cancellation of 170,786 stock options due to the departure of their respective holders from the company and the exercise of 9,916 stock options. These stock options were issued at a weighted average exercised price of R\$20.65 per share. On December 20, 2010, our board of directors approved the granting of 2,722,444 options at the price of R\$27.83 per share for the year 2011. In 2011, we issued stock options of up to 49,836 at a weighted average exercise price of R\$15.10 per share. The total number of options granted in the last three years, excluding the 2,366,605 options cancelled and the 235,420 options exercised, is 4,189,357, or 1.5% of our total shares and 3.1% of the total preferred shares. On November 11, 2012 our board of directors approved the granting of 778,912 stock options and 589,304 restricted share awards.

## **C. Board Practices**

Currently, our board of directors is comprised of 8 members. The terms of our current directors will expire on April 2014. 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 2012, 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, human resources and corporate governance, financial policy and risk 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 Richard F. Lark, 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.

*Financial Policies Committee.* Our financial policies committee is responsible for: (i) reviewing and adopting actions for protection of our cash flow, balance sheet, profits and losses against volatility in fuel prices, exchange rates, domestic and international interest rates; (ii) assessing periodically the effectiveness of all the actions contemplated in item (i) and recommending changes, as necessary; (iii) preparing and approving our corporate finance policies, as well as monitoring and reviewing the effectiveness and implementation thereof; (iv) reviewing, from time to time, our investment plan and the financial plan, as well as recommending the necessary transactions to our board of directors; (v) reviewing, from time to time, the impact of our investment plan and of the financing plan on our capital structure and the consequences thereof on our income, as well as recommending the necessary changes to our board of directors; and (vi) setting out parameters with a view to keeping the desired capital structure and liquidity, besides monitoring the application thereof and approving the policies to be adopted in the subsequent quarter. The financial policies committee is comprised of five members, appointed by our board of directors which are our: chief executive officer, chief financial officer and three directors, for terms of office of one year, reelection being permitted. The financial policies committee currently consists of , Constantino de Oliveira Júnior, Edmar Prado Lopes Neto, Paulo Sergio Kakinoff, Richard F. Lark and Luiz Kaufmann.

*Risk Committee.* Our risk committee is responsible for: (i) reviewing and approving our risk policies, as well as monitoring and analyzing their implementation; (ii) reviewing, from time to time, the impacts on assets, especially regarding exposure to U.S. dollars and fuel, as well as recommending the necessary transactions to our board of directors; (iii) reviewing, from time to time, our revenues and expenses, focusing on the impact to our income, and recommending necessary actions to our board of directors; and (iv) preparing, approving and evaluating the risk policies used by us in the short- and long-term, and approving the policies to be used and to monitor their implementation. The risk committee is comprised of up to five members, appointed by our board of directors, whether

they are directors or not, for terms-of-office of one year, reelection being permitted. The risk committee currently consists of Paulo Sergio Kakinoff, Constantino de Oliveira Júnior, Richard F. Lark and Luiz Kaufmann.

*Human Resources and Corporate Governance Committee.* The human resources 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 six members elected by our board of directors for a one-year term, with the right to re-election, comprising the chairman and the vice-chairman of the board of directors, three members of the board of directors, two outside specialists and the management and human resources officer. The human resources and corporate governance committee currently consists of Constantino de Oliveira Júnior, Álvaro de Souza and Henrique Constantino, Paulo Sergio Kakinoff, Betânia Tanure de Barros and Paulo César Aragão.

*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, Edmar Prado Lopes Neto, Charles B. Holland and Marcos da Cunha Carneiro.

#### **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, 2012, we had 17,676 active employees. We invest significant resources promoting the well being of our employees. In 2012, we spent R\$ 522.3 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 February 2011, we launched the *Gol Institute* located in our Confins Maintenance Center, in the state of Minas Gerais, aiming to provide technical training, promoting social inclusion and improving the learning of the professionals in the aviation sector. We expect to reduce the cost and average time of training for mechanics and co-pilots.

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 other regional aviation unions represent ground employees of air transportation companies. Approximately 13% 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 March 2013, a total of 778,912 stock options were granted to our management and employees under this plan. On November 11, 2012 our board of directors approved the granting of 778,912 stock options and 589,304 restricted share awards, granting the beneficiaries thereof the right to receive restricted shares, under the terms of the Restricted Shares 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 1.5% of our preferred stock. See "Item 7A. Major Shareholdings and Related Party Transactions—Major Shareholders." Fundo de Investimento em Participações Volluto 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 and Restricted Share 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, 2012, 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 143,858,204 common shares and 134,858,582 preferred shares outstanding as of December 31, 2012.

	Common Shares		Preferred Shares		Total Shares	
	Shares	(%)	Shares	(%)	Shares	(%)
Fundo de Investimento em Participações Volluto <sup>(1)</sup>	143,858,188	100.0%	31,007,810	23.0%	174,865,998	62.7%
Executive officers and directors	16	0.0%	1,997,110	1.5%	1,997,126	0.7%
Treasury shares	—	—	2,396,725	1.8%	2,396,725	0.9%
Delta Air Lines Inc	—	—	8,300,455	6.2%	8,300,455	3.0%
Fidelity Investments	—	—	7,033,500	5.2%	7,033,500	2.5%
Wellington Management Company	—	—	14,160,618	10.5%	14,160,618	5.1%
Free Float	—	—	69,962,364	51.9%	69,962,364	25.1%
<b>Total</b>	<b>143,858,204</b>	<b>100.0%</b>	<b>134,858,582</b>	<b>100.0%</b>	<b>278,716,786</b>	<b>100.0%</b>

(1) Fundo de Investimento em Participações Volluto (formerly named 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, at December 31, 2012, 57.9% of our free float was traded in the United States.

During 2012, our executive officers did not exercise stock options.

On December 21, 2011, in order to implement the Delta Investment, our board of directors approved a capital increase of up to R\$295.8 million, equivalent to up to 6,825,470 common shares and 6,619,765 preferred shares at a subscription price of R\$22.00 per share, with a minimum aggregate subscription amount of R\$182.6 million. Our controlling shareholder subscribed for 6,825,469 common shares and 1,474,986 preferred shares, using the funds received from Delta to pay for those shares. On August 13, 2012, our board of directors approved this capital increase, with the cancelation of 5,118,453 that were left unsubscribed.

### **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. The transportation agreement with Expresso União Ltda expired in September 2012 and the agreement with Breda Serviços expires in May 2013. We had operating agreements with Serviços Gráficos Ltda for graphic services, which expired in July 2012. We also have a contract with related party Vaud Participações S.A to provide executive administration and management services, which expires in October 2014. We were, until August 2012, 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.

We also hold contracts for the operation of the Gollog franchise in Passos/MG through the related party União Transporte de Encomendas e Comércio de Veículos Ltda., expiring in December, 2015.

In 2011 and 2012, we made total payments of R\$11.1 million and R\$10.6 million, respectively, under these operating agreements.

### **Contracts Account Opening UATP (Universal Air Transportation Plan) to Grant Credit Limit**

In September 2011, we signed contracts with Pássaro Azul Taxi Aéreo Ltda. and Viação Piracicabana Ltda. The purpose of these contracts was the opening of UATP (Universal Air Transportation Plan) accounts, where we grant

credits of R\$20,000 to Pássaro Azul Taxi Aéreo Ltda. and R\$40,000 to Viação Piracicabana Ltda. for utilization in the UATP system. This system can be utilized to make payments for the contracting of domestic and international airline services with all participating members. We use the UATP system that is operated and maintained by the international airline industry and seek to simplify billing and facilitate the payment of air travel and other related services.

#### **Engine Maintenance Agreement with Delta TechOps**

In February 2011, we entered into a strategic MRO (maintenance, repair and operations) partnership agreement with Delta TechOps, the maintenance division of Delta, one of our shareholders, which provides overhaul service for approximately 50% of our CFM 56-7 engines, maintenance for parts and components on our fleet of Boeing 737 NG aircraft and also, consulting services related to maintenance workflow planning, materials and facility optimization and tooling support. In 2012, total expenses under this agreement was R\$86.5 million.

### 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 the large part linked to the routine demands related to the rights of consumers. As of December 31, 2012, we were parties in 18,667 judicial lawsuits and administrative proceedings, including 12,686 civil claims, and 5,981 labor claims. 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 12,170 civil proceedings arising from the normal course of our business, which includes flight delays or cancellations and baggage loss or damage, and 516 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. As of December 31, 2012, we had established provisions to address these risks in the total amount of R\$38.5 million.

We are party to approximately 2,447 labor proceedings arising from the normal course of our business, which includes overtime, hazardous work premium, health exposure allowance and differences in salary, and 3,534 labor proceedings against Varig S.A. in which plaintiffs claim we would be a successor in interest of Varig S.A. At December 31, 2012, we have established provisions to address these risks in the total amount of R\$54.5 million.

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. The estimated aggregated amount of the ongoing lawsuits related to the non-levy of ICMS tax on said imports is R\$217.3 million as of December 31, 2012, adjusted for inflation, not including later payment charges. Based on our legal counsel’s opinion and supported by similar lawsuits with favorable decisions to taxpayers by the Superior Court of Justice (STJ) and Supreme Federal Court (STF) in the second quarter of 2007, we understand that the likelihood of loss is remote, and thus did not recognize provisions for these amounts. Although the outcome of these lawsuits and proceedings cannot be anticipated, our management, based on the opinion of its outside legal counsel, understand that the final decisions on these lawsuits will not have any material adverse impact on our financial position, operating results, and cash flows.

In 2007, we commenced an arbitration before the International Chamber of Commerce against the sellers of VRG and their controlling shareholders relating to a purchase price adjustment. In January 2011, the arbitral tribunal ruled in our favor and granted us an award of R\$93.0 million plus interest and costs against the sellers of VRG and their controlling shareholders. We have initiated enforcement proceedings to collect the award amount in U.S. federal courts. The sellers of VRG and their controlling shareholders are contesting the enforcement proceedings. We

believe that the chance of success in the enforcement proceedings is possible.

We are questioning the applicability of certain provisions regarding the calculation and rates of social contribution taxes (PIS and COFINS) in Brazil. As of December 31, 2012, we had no provisions constituted for these lawsuits and judicial deposits of R\$37.8 million. As of December 31, 2011, we had provisions of R\$105.2 million and judicial deposits of R\$77.5 million related to these lawsuits.

On October 10, 2012, the Brazilian Antitrust Authority, or CADE, approved, without restrictions, the acquisition of Webjet Linhas Aéreas S.A., or Webjet, by VRG. The approval was subject to the execution of a term of undertaking (*Termo de Compromisso de Desempenho*) among VRG, Webjet and CADE whereby we have agreed to maintain a minimum regularity rate of 85% on scheduled flights from the Santos Dumont airport, in Rio de Janeiro. We retained all of the VRG and Webjet capacity in this airport.

On December 7, 2012, a Rio de Janeiro labor court issued an injunction requiring that we rehire all 850 Webjet employees we had laid off on November 23, 2012. On March 4, 2013, after several attempts to negotiate with the union, we laid off these employees for a second time and the labor court issued an injunction requiring us to rehire them again subject to a daily penalty for non-compliance. We are pursuing alternatives to reverse this injunction. If we are required to rehire all 850 Webjet's employees, we will have to pay base salaries and benefits to these employees (which includes crew, pilots, co-pilots and maintenance employees).

For further information on our legal proceedings and contingencies, see note 24 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 IFRS.

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 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 for 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 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 registration in its own name that will permit the conversion and remittance of such payments. See "Item 10.B. Memorandum of Articles of Association—Description of Capital Stock—Regulation of Foreign Investment and Exchange Controls."

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 1997, 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 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") or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Brazilian holder. 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 IFRS 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 Low or Nil Tax Jurisdiction or where applicable local laws impose restrictions on the disclosure of the shareholding composition or

the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Brazilian holder (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 2009 we distributed R\$185.8 million to our shareholders, equivalent to a payment of R\$0.70 per share or ADS. In 2010 we declared R\$50.9 million to our shareholders, equivalent to a payment of R\$0.19 per share or ADS. In 2011 and 2012, we did not distribute dividends.

### ***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 Citibank, N.A., 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, 2012, the ADSs represented 38.6% of our preferred shares and 57.9% 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:

	<b>Low</b>	<b>US\$ per ADS High</b>	<b>Average<sup>(1)</sup></b>
<b>2008</b>			
<b>Annual</b>	3.06	23.94	11.51
<b>2009</b>			
<b>Annual</b>	2.88	15.59	7.44
<b>2010</b>			
<b>Annual</b>	10.62	18.55	16.63
<b>2011</b>			
<b>Annual</b>	5.18	16.17	10.67
First quarter	12.52	16.17	14.15
Second quarter	11.34	14.12	12.89
Third Quarter	5.56	13.18	8.27
Fourth Quarter	5.18	8.82	7.45
<b>2012</b>			

<b>Annual</b>	3.87	9.04	5.66
First quarter	6.50	9.04	7.62
Second quarter	3.87	6.62	4.97
Third Quarter	4.01	5.94	4.85
Fourth Quarter	3.87	9.04	5.66
<b>Last Six Months</b>			
October 2012	4.98	6.29	5.39
November 2012	4.53	5.32	4.86
December 2012	4.81	6.56	5.39
January 2013	6.36	7.61	6.97
February 2013	6.16	7.38	6.82
March 2013	5.95	7.47	6.79
April 2013 (through April 26)	5.32	6.90	5.99

*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<sup>(1)</sup></b>
<b>2008</b>			
<b>Annual</b>	6.90	42.40	20.02
<b>2009</b>			
<b>Annual</b>	6.58	27.34	14.13
<b>2010</b>			
<b>Annual</b>	19.70	30.40	24.34
<b>2011</b>			
<b>Annual</b>	9.12	26.56	17.41
First quarter	20.54	26.56	23.19
Second quarter	17.65	22.1	20.22
Third Quarter	9.12	20.30	13.25
Fourth Quarter	9.67	15.70	13.19
<b>2012</b>			
<b>Annual</b>	7.73	15.19	10.87
First quarter	11.93	15.19	13.36
Second quarter	7.73	12.04	9.71
Third Quarter	8.14	12.17	9.78
Fourth Quarter	9.42	13.05	10.66
<b>Last Six Months</b>			
October 2012	10.10	12.80	10.87
November 2012	9.42	10.80	10.04
December 2012	9.96	13.05	11.08
January 2013	12.57	15.00	14.10
February 2013	12.13	14.66	13.44
March 2013	11.75	14.58	13.26
April 2013 (through April 26)	10.86	13.81	11.95

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*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 aftermarket 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 2012, the aggregate market capitalization of the BM&FBOVESPA was equivalent to R\$2.5 trillion and the 10 largest companies listed on the BM&FBOVESPA represented 51.8% of the total market capitalization of all listed companies. In contrast, as of December 2012, the aggregate market capitalization of the NYSE was US\$14.1 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 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 foreign capital registration on your own name. 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, as amended, 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 corporation law and the CVM regulations, we must also observe the following disclosure requirements:

- we must disclose our consolidated financial statements at the end of each quarter (except for the last quarter 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;
- we must, no later than four months after the end of the fiscal year: disclose our financial statements and consolidated financial statements in accordance with 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, as well as the proposal for distribution or other use of net income, and 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: disclose our quarterly information translated into English.

CVM Rule No. 480 provides for periodical information that shall be submitted to the market. For instance the submission of the following documents: (i) financial statements, (ii) standard form and (iii) *Formulário de Referência*, a new annual report that replaces IAN.

The *Formulário de Referência* shall be annually presented until the fifth month following the termination of the fiscal year. Additionally whenever the company decides to make a public offering an updated *Formulário de Referência* shall be filed. In addition, category A issuers, which includes us, shall always update its *Formulário de Referência* within seven business days from the occurrence of one of the following events:

- (i) change of any of company's managers or member of the Audit Committee;
- (ii) change of the corporate capital of the company;

- (iii) issuance of securities;
- (iv) change of the rights and advantages of the issued securities;
- (v) change of the majority shareholder or variation in its position equal or superior to five percent (5%);
- (vi) whenever a shareholder achieves a participation equal or superior to five percent (5%) of shares of the same class, considering that the issuer known it;
- (vii) change or disclosure of new projections or estimates;
- (viii) consolidation, merger of shares, merger and spin-off involving the company;
- (ix) execution, change or termination of shareholders agreement; or
- (x) file for reorganization or petition for bankruptcy.

CVM 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. It 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.

In addition, all information that shall be disclosed jointly with the call notice for General Shareholders Meetings of public held companies must be made available to shareholders through the CVM website and that the following documents shall be disclosed at least with thirty (30) in advance of the Annual Shareholders Meeting:

- (i) the management report on the corporation's affair and major administrative events of the last fiscal year;
- (ii) copies of the accounts and financial statements;
- (iii) the opinion of the independent auditors, if any;
- (iv) comments of the managers in the terms provided in the Section ten (10) of the *Formulário de Referência*; and
- (v) the Audit Committee report, if any.

#### **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. On May 5, 2010 our board of directors approved a capital increase, in the amount of R\$119.0 million, with the issuance of 4,883,756 shares, of which 3,833,076 were common shares and 1,050,680 were preferred shares. During 2010 and 2011, our executive officers exercised stock options for an aggregate of 173,374, and 49,836 preferred shares, respectively. During 2012, our executive officers did not exercise any stock options. As of December 31, 2012, our capital structure consisted of 143,858,204 common shares and 134,858,582 preferred shares, each with no par value. We are a stock corporation (*sociedade anônima*) incorporated under the laws of Brazil.

On December 21, 2011, in order to implement the Delta Investment, our board of directors approved a capital increase of up to R\$295.8 million, equivalent to up to 6,825,470 common shares and 6,619,765 preferred shares at a subscription price of R\$22.00 per share, with a minimum aggregate subscription amount of R\$182.6 million. Our controlling shareholder subscribed for 6,825,469 common shares and 1,474,986 preferred shares, using the funds received from Delta to pay for those shares.

#### *Issued Share Capital*

Under our by-laws, our authorized capital as of December 31, 2012 was R\$4.0 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 Low or Nil Tax Jurisdiction, which is defined under Brazilian tax laws as a country or location or other jurisdiction that does not impose tax or where the maximum income tax rate is lower than 20%.

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. 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 and a custodian 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, 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 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 registration has been obtained 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 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 registration for five business days after such exchange, following which such holder must seek to obtain its own 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.

If the shareholder does not qualify under Resolution 2,689 by registering with the CVM and the Central Bank and appointing a representative and a custodian 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 a Low or Nil Tax 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 Corporation 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 shareholder's 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***

Citibank, N.A., 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 399 Park Avenue, New York, New York 10043.



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 Petrobras 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 Petrobras, which was renewed July 7, 2006. We agreed to purchase fuel exclusively from Petrobras in all of the airports where Petrobras maintains aircraft fueling facilities. Petrobras, in turn, agreed to provide us with all of our fuel needs in the supplying airports.

#### **Reservation Services and Software License Use Agreement between 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 our 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 depository and on the assumption that each obligation in the deposit agreement among us, Citibank, N.A., as depository, 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. This discussion does not address all Brazilian tax considerations that may be applicable to any particular non-Brazilian holder and, therefore, 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 should not be considered as giving rise to a capital gain subject to Brazilian income tax, provided that on the receipt of the underlying preferred shares, the non-Brazilian holder complies with the regulatory rules 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 and/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 are determined by the difference between the amount realized on the sale or exchange of the shares or ADSs 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 dividend 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 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 withholding income tax at the rate of 15%, or 25% in case of a resident of a Low or Nil Tax Jurisdiction or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Brazilian holder. 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.*

Law No. 9,779, dated as of January 1, 1999 states that, except for limited prescribed circumstances, income derived from transactions by a person resident or domiciled in a Low or Nil Tax Jurisdiction will be subject to withholding income tax at the rate of 25%. A Low or Nil Tax Jurisdiction is generally considered to be a country or other jurisdiction which does not impose any income tax or which imposes such tax at a maximum rate lower than 20%. Under certain circumstances, non-transparency rules are also taken into account for determining whether a country or other jurisdiction is a Low or Nil Tax Jurisdiction. In addition, 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 consider that the best interpretation of Law No. 11,727/08 that the new concept of "privileged tax regime" would be applicable solely for purposes of transfer pricing and thin capitalization rules. 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 although the Brazilian tax authorities appear to agree with our position, in view of the provisions of the recently introduced Normative Ruling No. 1,037, dated as of June 4, 2010, which presents two different lists (Low or Nil Tax Jurisdictions – taking into account the non-transparency rules – and privileged tax regimes).

Notwithstanding the above, we recommend that you consult your own tax advisors regarding the consequences of the implementation of Law No. 11,727, Normative Ruling No. 1,037 and of any related Brazilian tax law or regulation concerning Low or Nil Tax Jurisdictions or "privileged tax regimes."

**Other Relevant Brazilian Taxes**

There are no Brazilian federal inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of preferred shares or ADSs by a non-Brazilian holder. Gift and inheritance taxes, however, may be 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. Currently applicable rate for most foreign currency exchange transactions is 0.38%. Effective as of December 1, 2011, currency exchange transactions carried out for the inflow of funds in Brazil for investment made by a foreign investor (including a non-Brazilian holder, as applicable) are subject to IOF/Exchange at (i) 0% rate in case of variable income transactions carried out on the Brazilian stock, futures and commodities exchanges, as well as in the acquisitions of shares of Brazilian publicly-held companies in public offerings or subscription of shares related to capital contributions, provided that the issuer company has registered its shares for trading in the stock exchange (ii) 0% for the outflow of resources from Brazil related to these type of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market. Furthermore, the IOF/Exchange is currently levied at a 0% rate on the withdrawal of ADSs into shares. 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. The rate of IOF/Bonds applicable to transactions involving preferred or common shares is currently zero. In particular, the IOF/Bonds levies at a rate of 1.5% on the transfer of shares traded on the Brazilian stock exchange with the purpose of the issuance of depositary receipts to be traded outside Brazil. 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 must be registered with the Central Bank. Such registration allows the remittance from Brazil of any proceeds of distributions on the shares, and amounts realized with respect to disposition of such shares. The registered capital for preferred shares purchased in the form of ADSs or purchased in Brazil, and deposited with the depositary in exchange for ADSs will be equal to their purchase price (in U.S. dollars) to the purchaser. The registered capital for preferred shares that are withdrawn upon surrender of ADSs, as applicable, will be the U.S. dollar equivalent of the average price of preferred shares, as applicable, on a Brazilian stock exchange on which the greatest number of such preferred shares, as applicable, was sold on the day of withdrawal. If no preferred shares, as applicable, were sold on such day, the registered capital will refer to the average price on the Brazilian stock exchange on which the greatest number of preferred shares, as applicable, were sold in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar value of the preferred shares, as applicable, is determined on the basis of the average 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 Central Bank registration, 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 U.S. federal income tax consequences of purchasing, holding and disposing of our preferred shares or ADSs. This discussion applies only to beneficial owners of ADSs or preferred shares that are “U.S. Holders,” as defined below. This discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing final, temporary and proposed Treasury Regulations, administrative pronouncements by the U.S. 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 summary does not describe any state, local or non-U.S. tax law considerations, or any aspect of U.S. federal tax law (such as the estate tax, gift tax or the Medicare tax on net investment income) other than income taxation. U.S. Holders should consult their own tax advisors regarding these matters.

This discussion does not purport to address all U.S. 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;
- regulated investment companies;
- real estate investment trusts;
- banks or other financial institutions;
- investors liable for alternative minimum tax;
- partnerships and other passthru entities;
- U.S. Holders whose functional currency is not the U.S. dollar;
- U.S. 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 U.S. federal income tax purposes. Please see the discussion under “Passive foreign investment company rules” below. Further, 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 U.S. 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, for U.S. federal income tax purposes, you are:

- 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, any state thereof or the District of Columbia;

- an estate the income of which is subject to U.S. 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 U.S. 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 U.S. person).

If a partnership (or any other entity taxable as a partnership for U.S. federal income tax purposes) holds preferred shares or ADSs, the U.S. 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 U.S. federal income tax consequences of the purchase, ownership and disposition of our preferred shares or ADSs.



For U.S. federal income tax purposes, a U.S. Holder of an ADS will generally be treated as the beneficial owner of the preferred shares represented by the ADS. However, see the discussion below under –"Distribution on preferred shares or ADSs" regarding certain statements made by the U.S. Treasury concerning depository arrangements.

***Distributions on preferred shares or ADSs***

Cash distributions (including amounts withheld to pay Brazilian withholding taxes and distributions of notional interest 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 U.S. 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 U.S. 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 U.S. 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 U.S. foreign tax credit limitation. For purposes of the U.S. 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 U.S. 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 U.S. Treasury has expressed concern that intermediaries in connection with depository arrangements may be taking actions that are inconsistent with the claiming of foreign tax credits by U.S. 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 U.S. corporate shareholders. Subject to the above-mentioned concerns by the U.S. Treasury and certain exceptions for short-term and hedged positions, the U.S. dollar amount of dividends received by certain U.S. Holders (including individuals) after December 31, 2012 with respect to the ADSs will be subject to taxation at a maximum rate of 20% 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, (ii) the U.S. Holder meets the holding period requirement for the ADSs (generally more than 60 days during the 121-day period that begins 60 days before the ex-dividend date), and (iii) 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 PFIC 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 (for our 2012 taxable year), nor do we expect them to be (for our 2013 taxable year), shares of a PFIC for U.S. federal income

tax purposes.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares (to the extent not represented by ADSs) will be treated as qualified dividends, because the preferred shares are not themselves listed on a U.S. exchange. In addition, the U.S. Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or preferred stock and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. Holders of ADSs and preferred shares should consult their own tax advisors regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

The amount of any cash distribution paid in Brazilian currency will equal the U.S. dollar value of the distribution, calculated by reference to the exchange rate in effect at the time the distribution is received by the depository (in the case of ADSs) or by the U.S. Holder (in the case of preferred shares held directly by such U.S. Holder), regardless of whether the payment is in fact converted to U.S. dollars at that time. A U.S. Holder should not recognize any foreign currency gain or loss in respect of such distribution if such Brazilian currency is converted into U.S. dollars on the date received. If the Brazilian currency is not converted into U.S. dollars on the date of receipt, however, gain or loss may be recognized upon a subsequent sale or other disposition of the Brazilian currency. Such foreign currency gain or loss, if any, will be U.S.-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 U.S. 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 U.S. 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 U.S. 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 U.S.-source income or loss for U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. federal income tax at the highest tax rate in effect for that year and (d) the interest charge generally applicable to underpayments of U.S. federal income tax would be imposed in respect of the tax attributable to each prior year in which 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 U.S. 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 U.S. 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.

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 U.S. 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 U.S.-related financial intermediaries to a U.S. Holder are subject to information reporting and may be subject to backup withholding of U.S. 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 U.S. 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 U.S. 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 U.S. 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 U.S. 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 four 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. We have a fleet of 149 aircraft, 98 of which were under operating leases, 45 were under finance leases and 6 were owned by us. 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. All existing contracts settle on a monthly basis and we do not purchase or hold derivative instruments for trading purposes. At December 31, 2012, we had oil derivative contracts outstanding to hedge 11% of our expected fuel consumption in from January 2013 to January 2015 and the fair value of such contracts was R\$13 million. If the aircraft fuel price had increased by 10% in relation to the average 2012, the fuel expense would have increased R\$368 million. If the price had decreased by 10%, the expense would have decreased R\$368 million. We acquire substantially all of our fuel 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 to protect against a possible depreciation of the *real* in relation to the U.S. dollar. At December 31, 2012, we had U.S. dollar currency derivative contracts outstanding to hedge 16% of our expected operational expenses linked to the U.S. dollar in 2013. As a measure of our market risk with respect to our foreign currency exposure, a hypothetical 10% depreciation of the *real* against the U.S. dollar would have resulted in an increase in expenses of aircraft and engine maintenance, aircraft operating lease payments and aircraft insurance of R\$479 million in 2012. A hypothetical 10% appreciation of the *real* against the U.S. dollar would have resulted in a decrease of R\$479 million in such expenses.

**Interest Rates**

Our earnings are affected by changes in interest rates due to the impact those changes have on interest expense from variable-rate leasing contracts. At December 31, 2012, leases for seven aircraft had floating-rate rent payments. A hypothetical 10% increase in international market interest rates in 2012 would have resulted in an increase in our aircraft financial leasing expenses of approximately R\$1.0 million. A hypothetical 10% decrease in market interest rates in 2012 would have resulted in a decrease in our aircraft financial leasing expenses of approximately R\$1.0 million. These amounts are determined considering the effects of the hypothetical international interest rates on our variable-rate leasing contracts at December 31, 2012.

**ITEM 12. Description of Securities other than Equity Securities**

**A. 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 Citibank, N.A., 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:

### *Persons depositing preferred shares or ADR holders mustFor:*

<p><i>pay:</i> US\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)</p>	<p>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</p>
<p>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)</p>	<p>Any cash distribution to you</p>
<p>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</p>	<p>Distribution of securities distributed to holders of deposited securities which are distributed by the depositary to ADR holders</p>
<p>US\$0.02 (or less) per ADS per calendar year (to the extent the depositary has not collected a cash distribution fee of \$0.02 per ADS during the year)</p>	<p>Depositary services</p>
<p>Registration or transfer fees</p>	<p>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.</p>
<p>Expenses of the depositary in converting foreign currency to U.S. dollars</p>	
<p>Expenses of the depositary</p>	<p>Cable, telex and facsimile transmissions (when expressly provided in the deposit agreement)</p>
<p>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</p>	<p>As necessary</p>
<p>Any charges incurred by the depositary or its agents for servicing the deposited securities</p>	<p>No charges of this type are currently made in the Brazilian market</p>

## 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

Citibank, N.A., 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 2012**

During 2012 we received US\$413,900 from the depositary 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.

## **PART II**

### **ITEM 13. Defaults, Dividend Arrearages and Delinquencies**

None.

### **ITEM 14. Material Modifications to the Rights of Security Holders and Use of Proceeds**

None.

### **ITEM 15. Controls and Procedures**

*Disclosure Controls and Procedures.* The Registrant maintains controls and procedures designed to ensure that it is able to collect the information it is required to disclose in the reports it files with the SEC, and to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Based on an evaluation of the Registrant's disclosure controls and procedures as of the end of the period covered by this report conducted by the Registrant's management, with the participation of the chief executive and chief financial officers, after evaluating together with other members of management the effectiveness of our disclosure controls and procedures (as defined in the U.S. Securities Exchange Act of 1934 under Rule 13a-15(e)) have concluded that our disclosure controls and procedures are effective to ensure that the Registrant is able to collect, process and disclose the information it is required to disclose in the reports it files with the SEC within the required time periods.

*Management's Report on Internal Control over Financial Reporting.* Management of the Registrant is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. The Registrant's internal control over financial reporting is designed to provide reasonable assurance to the Registrant's management and board of directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements.



Management assessed the effectiveness of the Registrant’s internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework. Based on this assessment, management believes that, as of December 31, 2012, the Company’s internal control over financial reporting is effective based on those criteria.

*Attestation Report of the Independent Registered Public Accounting Firm.* The effectiveness of internal controls over financial reporting as of December 31, 2012 has been audited by Deloitte Touche Tohmatsu Auditores Independentes, or Deloitte, the independent registered public accounting firm who also audited the Company’s consolidated financial statements for the year then ended. Deloitte’s report on the Company’s internal controls over financial reporting is included herein.

*Changes in internal control over financial reporting.* There was no change in our internal control over financial reporting that occurred in the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**ITEM 16. [Reserved]**

**ITEM 16A. Audit Committee Financial Expert**

Our board of directors has determined that Luiz Kaufmann, a member of our audit committee, is an “audit committee financial expert” as defined by current SEC rules and meets the independence requirements of the SEC and the NYSE listing standards. For a discussion of the role of our audit committee, see “Item 6C. Board Practices—Audit Committee.”

**ITEM 16B. Code of Ethics**

Our board of directors has adopted a Code of Ethics applicable to our directors, officers and employees, including our principal executive officer and principal financial officer. The Code of Ethics can be found at [www.voegol.com.br](http://www.voegol.com.br) under the heading “Investor Relations.” Information found at this website is not incorporated by reference into this document.

**ITEM 16C. Principal Accountant Fees and Services**

The following table sets forth by category of service the total fees for services performed by our principal accountants during the fiscal years ended December 31, 2012 and 2011. Deloitte has been our principal accountant during the fiscal years ended December 31, 2012 and 2011.

	2011	2012
	(in reais)	
Audit Fees	3,429,104	5,130,722
Audit-Related Fees	1,094,516	1,618,509
Tax Fees	-	
All Other Fees	-	
<b>Total</b>	<b>4,523,620</b>	<b>6,749,231</b>

**Audit Fees**



Audit fees include the audit of our consolidated annual financial statements and internal controls, the audit of our IFRS financial statements, review of our quarterly reports and required statutory audits and regulatory filings such as the *formulário de referência*.

**Audit-Related Fees**

Audit-related fees include fees for the preparation and issuance of comfort letters in connection with our senior notes offering, due diligence and the audits regarding the segregation of the Smiles program as a separate entity in 2012 and assurance of our sustainability report.

In 2011 and 2012, audit-related fees for services performed by our principal accountant amounted to R\$1.1 million and R\$1.6 million, respectively.

#### **Tax Fees**

There were no tax advisory services provided by our principal accountant in 2011 and 2012.

#### **All Other Fees**

There were no other fees.

#### **Pre-Approval Policies and Procedures**

Our audit committee approves all audit, audit-related services, tax services and other services provided by Deloitte. Any services provided by our principal accountant that are not specifically included within the scope of the audit must be pre-approved by the audit committee in advance of any engagement. Pursuant to Rule 2-01 of Regulation S-X, audit committees are permitted to approve certain fees for audit-related services, tax services and other services pursuant to a *de minimis* exception prior to the completion of an audit engagement. In 2012 and 2011, none of the fees paid to Deloitte were approved pursuant to the *de minimis* exception.

#### **ITEM 16D. Exemptions from the Listing Standards for Audit Committees**

None.

#### **ITEM 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers**

None

#### **ITEM 16F. Change in Registrant's Certifying Accountant**

None

#### **ITEM 16G. Corporate Governance**

##### **Significant Differences between our Corporate Governance Practices and NYSE Corporate Governance Standards**

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different than the standards applied to U.S. listed companies. Under the NYSE rules, we are required only to: (a) have an audit committee or audit board, pursuant to an applicable exemption available to foreign private issuers, that meets certain requirements, as discussed below, (b) provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules, and (c) provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies. The discussion of the significant differences between our corporate governance practices and those required of U.S. listed companies follows below.

##### ***Majority of Independent Directors***

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the absence of a material relationship between the director and the listed company. Brazilian law does not have a similar requirement. Under Brazilian law, neither our board of directors nor our management is required to test the independence of directors before their election to the board. However, both the Brazilian Corporation law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of the Brazilian Corporation law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE test for director independence. The Brazilian Corporation law requires that our directors be elected by our shareholders at a general shareholders' meeting. All of our directors are elected by our controlling shareholder and five of our directors represent our controlling shareholder.

### ***Executive Sessions***

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. The Brazilian Corporation law does not have a similar provision. According to the Brazilian Corporation law, up to one-third of the members of the board of directors can be elected from management. There is no requirement that non-management directors meet regularly without management. As a result, the non-management directors on our board do not typically meet in executive session.

### ***Fiscal Committee***

Under the Brazilian corporation law, the *Conselho Fiscal*, or fiscal committee, is a corporate body independent of management and external auditors. The fiscal committee may be either permanent or non-permanent, in which case it is appointed by the shareholders to act during a specific fiscal year. A fiscal committee is not equivalent to, or comparable with, a U.S. audit committee. The primary responsibility of the fiscal committee is to review management's activities and a company's financial statements, and to report its findings to a company's shareholders. The Brazilian corporation law requires fiscal committee members to receive as remuneration at least 10% of the average annual amount paid to a company's executive officers. The Brazilian corporation law requires a fiscal committee to be composed of a minimum of three and a maximum of five members and their respective alternates.

Under the Brazilian corporation law, 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 2012, our shareholders did not request the election of a fiscal committee.

### ***Audit Committee***

NYSE rules require that listed companies have an audit committee that (i) is composed of a minimum of three independent directors who are all financially literate, (ii) meets the SEC rules regarding audit committees for listed companies, (iii) has at least one member who has accounting or financial management expertise and (iv) is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. However, as a foreign private issuer, we need only to comply with the requirement that the audit committee meet the SEC rules regarding audit committees for listed companies to the extent compatible with Brazilian corporation law. 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.

### ***Nomination/Corporate Governance and Compensation Committees***

NYSE rules require that listed companies have a nominating/corporate governance committee and a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities. Required responsibilities for the nominating/corporate governance committee include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. Required responsibilities for the compensation committee include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board non-chief executive officer compensation, incentive-compensation and equity-based plans.

We are not required under applicable Brazilian law to have a nomination/corporate governance committee or compensation committee. Under the Brazilian Corporation law, the total amount available for compensation of our directors and executive officers and for profit-sharing payments to our executive officers is established by our shareholders at the annual general meeting. The board of directors is then responsible for determining the individual compensation and profit-sharing of each executive officer, as well as the compensation of our board and committee members. In making such determinations, the board reviews the performance of the executive officers, including the performance of our chief executive officer, who typically excuses himself from discussions regarding his performance and compensation.

Our human resources 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 human resources officer. The human resources and corporate governance committee currently consists of Constantino de Oliveira Júnior, Álvaro de Souza and Henrique Constantino, Paulo Sergio Kakinoff, Betânia Tanure de Barros and Paulo César Aragão.

#### ***Shareholder Approval of Equity Compensation Plans***

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions thereto, with limited exceptions. Under the Brazilian Corporation law, shareholders must approve all stock option plans. In addition, any issuance of new shares that exceeds our authorized share capital is subject to shareholder approval.

#### ***Corporate Governance Guidelines***

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We have not adopted any formal corporate governance guidelines beyond those required by applicable Brazilian law. We have adopted and observe a disclosure policy, which requires the public disclosure of all relevant information pursuant to guidelines set forth by the CVM, as well as an insider trading policy, which, among other things, establishes black-out periods and requires insiders to inform management of all transactions involving our securities.

#### ***Code of Business Conduct and Ethics***

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Applicable Brazilian law does not have a similar requirement. We have adopted a Code of Ethics and Conduct applicable to our officers, directors and employees worldwide, including at the subsidiary level. We believe this code addresses the matters required to be addressed pursuant to the NYSE rules. For a further discussion of our Code of Ethics and Conduct, see "Item 16B. Code of Ethics."

#### ***Internal Audit Function***

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control. Our

internal audit and compliance department was created in 2004 under the supervision of our chief financial officer and our audit committee and is responsible for our compliance with the requirements of Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal control over financial reporting. The internal audit and compliance department reports to our chief executive officer and the audit committee.

## ITEM 16H. Mine Safety Disclosure

Not applicable.

## PART III

### ITEM 17. Financial Statements

See “Item 18. Financial Statements.”

### ITEM 18. Financial Statements

See our consolidated financial statements beginning on Page F-1.

### ITEM 19. Exhibits

- 1.1 \* By-laws of the Registrant (English translation).
- 2.1 Form of Amended and Restated Deposit Agreement among the Registrant, Citibank, N.A., as depositary, and the Holders from time to time of American Depositary Shares issued thereunder, including the form of American Depositary Receipts, incorporated herein by reference from our Registration Statement on Form F-6, filed August 2, 2011.
- 8.1 \* List of Subsidiaries.
- 10.1 Agreement, dated as of April 12, 2007, between the Registrant and Petrobras Distribuidora S.A., including Amendments 1 and 2 thereto, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.
- 10.2 Amendment 3 to Agreement, dated as of December 8, 2011, between the Registrant and Petrobras Distribuidora S.A, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2011, as filed on April 11, 2012.
- 10.3 \* Amendment 4 to Agreement, dated as of April 25, 2012, between the Registrant and Petrobras Distribuidora S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.4 \* Amendment 5 to Agreement, dated as of June 25, 2012, between the Registrant and Petrobras Distribuidora S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.5 Navitaire Hosted Services Agreement, dated May 1, 2004, between Navitaire Inc. and Gol Transportes Aéreos S.A., including amendments 1 through 7 thereto, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2006, as filed on February 28, 2007.
- 10.6 Amendment No. 8 to Navitaire Hosted Services Agreement dated as of June 11, 2007, between Navitaire Inc. and Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2007, as filed on April 22, 2008.
- 10.7 Amendment No. 9 to Navitaire Hosted Services Agreement dated as of August 20, 2007, between Navitaire Inc. and Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2007, as filed on April 22, 2008.
- 10.8 Amendment No. 10 to Navitaire Hosted Services Agreement dated as of August 27, 2007, between Navitaire Inc. and Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2007, as filed on April 22, 2008.





- 10.9 Amendment No. 11 to Navitaire Hosted Services Agreement dated as of April 24, 2008, between Navitaire Inc. and Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- 10.10 Amendment No. 12 to Navitaire Hosted Services Agreement dated as of April 24, 2008, between Navitaire Inc. and Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- 10.11 Amendment No. 13 to Navitaire Hosted Services Agreement dated as of May 5, 2008, between Navitaire Inc. and Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- 10.12 Amendment No. 14 to Navitaire Hosted Services Agreement dated as of October 1, 2008, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- 10.13 Amendment No. 15 to Navitaire Hosted Services Agreement dated as of October 1, 2008, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- 10.14 Amendment No. 16 to Navitaire Hosted Services Agreement dated as of October 1, 2009, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2009, as filed on March 31, 2010.
- 10.15 Amendment No. 17 to Navitaire Hosted Services Agreement dated as of February 1, 2010, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2009, as filed on March 31, 2010.
- 10.16 Amendment No. 18 to Navitaire Hosted Services Agreement dated as of March 15, 2010, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.
- 10.17 Amendment No. 19 to Navitaire Hosted Services Agreement dated as of June 25, 2010, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.
- 10.18 Amendment No. 20 to Navitaire Hosted Services Agreement dated as of November 1, 2010, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.
- 10.19 Amendment No. 21 to Navitaire Hosted Services Agreement dated as of March 1, 2011, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2011, as filed on April 11, 2012.
- 10.20 \* Amendment No. 22 to Navitaire Hosted Services Agreement dated as of February 1, 2012, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.



- 10.21 \* Amendment No. 23 to Navitaire Hosted Services Agreement dated as of February 5, 2012, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.22 \* Amendment No. 24 to Navitaire Hosted Services Agreement dated as of February 5, 2012, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.23 \* Amendment No. 25 to Navitaire Hosted Services Agreement dated as of September 1, 2012, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.24 \* Amendment No. 26 to Navitaire Hosted Services Agreement dated as of December 24, 2012, between Navitaire Inc. and VRG Linhas Aéreas S.A., as successor of Gol Transportes Aéreos S.A. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.25 Aircraft Purchase Agreement, dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed June 1, 2004, as amended on June 17, 2004 and June 23, 2004, File No. 333-116054.
- 10.26 Supplemental Aircraft Purchase Agreement No. 1 dated as of July 16, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.27 Supplemental Aircraft Purchase Agreement No 2 dated as of January 20, 2005 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.28 Supplemental Aircraft Purchase Agreement No. 3 dated as of January 7, 2005 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.29 Supplemental Aircraft Purchase Agreement No. 4 dated as of March 24, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Registration Statement on Form F-1, filed March 28, 2004, as amended on April 11, 2005 and April 26, 2005, File No. 333-123625.
- 10.30 Supplemental Agreement No. 5 dated July 25, 2005 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2005, as filed on March 20, 2006 and as amended on May 2, 2006.
- 10.31 Supplemental Agreement No. 6 dated August 26, 2005 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2005, as filed on March 20, 2006 and as amended on May 2, 2006.
- 10.32 Supplemental Agreement No. 7 dated October 18, 2005 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2005, as filed on March 20, 2006 and as amended on May 2, 2006.



- 10.33 Supplemental Agreement No. 8 dated February 19, 2006 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2005, as filed on March 20, 2006 and as amended on May 2, 2006.
- 10.34 Supplemental Agreement No. 9 dated March 6, 2006 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2005, as filed on March 20, 2006 and as amended on May 2, 2006.
- 10.35 Supplemental Agreement No. 10 dated October 19, 2006 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.36 Supplemental Agreement No. 11 dated October 24, 2006 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2006, as filed on February 28, 2007.
- 10.37 Supplemental Agreement No. 12 dated February 8, 2007 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2007, as filed on April 22, 2008.
- 10.38 Supplemental Agreement No. 13 dated December 17, 2007 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2007, as filed on April 22, 2008.
- 10.39 Supplemental Agreement No. 14 dated September 20, 2008 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2008, as filed on May 8, 2009.
- 10.40 Supplemental Agreement No. 15 dated April 30, 2008 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2009, as filed on March 31, 2010.
- 10.41 Supplemental Agreement No. 16 dated September 24, 2008 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2009, as filed on March 31, 2010.
- 10.42 Supplemental Agreement No. 17 dated October 28, 2009 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company, incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2009, as filed on March 31, 2010.
- 10.43 Supplemental Agreement No. 18 dated July 8, 2010 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.

- 10.44 Supplemental Agreement No. 19 dated September 17, 2010 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.
- 10.45 Supplemental Agreement No. 20 dated February 11, 2011 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company., incorporated herein by reference from our Annual Report on Form 20-F for the year ended December 31, 2010, as filed on April 8, 2011.
- 10.46 \* Supplemental Agreement No. 21 dated October 1, 2012 to Purchase Agreement dated as of May 17, 2004 between Gol Transportes Aéreos S.A. and The Boeing Company. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 10.47 \* Aircraft Purchase Agreement, dated as of October 1, 2012 between GAC Incorporated and The Boeing Company. Certain portions of this exhibit have been omitted from the public filing and were separately filed with the Commission with a request for confidential treatment.
- 12.1 \* Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
- 12.2 \* Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
- 13.1 \* Section 1350 Certification of Chief Executive Officer.
- 13.2 \* Section 1350 Certification of Chief Financial Officer.
- \* Filed herewith.

**Signature**

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on Form 20-F on its behalf.

GOL LINHAS AÉREAS INTELIGENTES S.A.

By: */s/ Paulo Kakinoff*  
Name: Paulo Kakinoff  
Title: Chief Executive Officer

GOL LINHAS AÉREAS INTELIGENTES S.A.

By: */s/ Edmar Prado Lopes Neto*  
Name: Edmar Prado Lopes Neto  
Title: Principal Financial Officer

Dated: April 30, 2013



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

*Consolidated Financial Statements for the Years Ended December 31, 2012 and 2011 and  
Independent Auditor's Report*

Deloitte Touche Tohmatsu Auditores Independentes

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**GOL LINHAS AÉREAS INTELIGENTES S.A.**

Consolidated Financial Statements

December 31, 2012 and 2011

(In thousands of Brazilian Reais)

Contents

<u>Independent Auditor's Report</u>	<u>F-4</u>
Consolidated financial statements for the years ended December 31, 2012 and 2011	
<u>Consolidated statement of financial position</u>	<u>F-8</u>
<u>Consolidated statements of operations</u>	<u>F-10</u>
<u>Consolidated statements of comprehensive income (loss)</u>	<u>F-11</u>
<u>Consolidated statements of changes in equity</u>	<u>F-12</u>
<u>Consolidated statements of cash flows</u>	<u>F-13</u>
<u>Notes to the financial statements</u>	<u>F-14</u>

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*Gol Linhas Aéreas  
Inteligentes S.A.*

*Consolidated Financial Statements  
for the Year Ended December 31, 2012 and 2011*

*and Report of Independent Registered Public Accounting Firm*

Deloitte Touche Tohmatsu Auditores Independentes

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Gol Linhas Aéreas Inteligentes S.A.

São Paulo - SP, Brazil

We have audited the accompanying consolidated statement of financial position of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries (the “Company”) as of December 31, 2012 and 2011, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company’s Management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States) - PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries as of December 31, 2012 and 2011, and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2012, in conformity with International Financial Reporting Standards - IFRS as issued by the International Accounting Standards Board - IASB.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) - PCAOB, the Company’s internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - COSO, and our report, dated March 25, 2013, expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/DELOITTE TOUCHE TOHMATSU

Auditores Independentes

São Paulo, Brazil

March 25, 2013

F-4

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*Gol Linhas Aéreas  
Inteligentes S.A.*

*Internal Control over Financial Reporting  
for the Year Ended December 31, 2012 and 2012*

*and Report of Independent Registered Public Accounting Firm*

Deloitte Touche Tohmatsu Auditores Independentes

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

Gol Linhas Aéreas Inteligentes S.A.

São Paulo, Brazil

We have audited the internal control over financial reporting of Gol Linhas Aéreas Inteligentes S.A. and subsidiaries (the “Company”) as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - COSO. The Company’s Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States) - PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included: obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s Board of Directors, Management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with International Financial Reporting Standards – IFRS as issued by the International Accounting Standards Board - IASB. A company’s internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with International Financial Reporting Standards – IFRS as issued by the International Accounting Standards Board - IASB, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission - COSO.

F-6

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We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) - PCAOB, the consolidated statement of financial position of the Company as of December 31, 2012, and related consolidated statements of operations, comprehensive income, shareholders' equity and cash flows for the year then ended. Our report, dated March 25, 2013, expressed an unqualified opinion on those consolidated financial statements.

/s/DELOITTE TOUCHE TOHMATSU

Auditores Independentes

São Paulo, Brazil

March 25, 2013

F-7

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**GOL LINHAS AÉREAS INTELIGENTES S.A.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011**

(In thousands of Brazilian reais - R\$)

<b>ASSETS</b>	<b>Note</b>	<b>12/31/2012</b>	<b>12/31/2011</b>
Current			
Cash and cash equivalents	3	775,551	1,230,287
Short-term investments	4	585,028	1,009,068
Restricted cash	5	7	8,554
Trade receivables	6	325,665	354,134
Inventories	7	138,039	151,023
Recoverable taxes	8	110,999	212,998
Prepaid expenses	9	62,328	93,797
Deposits	10	2,575	35,082
Rights on derivative transactions	28	10,696	4,213
Other receivables		68,921	39,147
Assets held for sale	11	8,174	-
		<b>2,087,983</b>	<b>3,138,303</b>
Noncurrent assets			
Deposits	10	654,621	595,517
Restricted cash	5	224,517	100,541
Prepaid expenses	9	35,456	44,964
Deferred taxes	8	433,353	323,284
Other receivables		5,438	14,399
Property, plant and equipment	16	3,885,799	3,890,470
Intangible assets	17	1,699,931	1,783,957
		<b>6,939,115</b>	<b>6,753,132</b>
Total assets		<b>9,027,098</b>	<b>9,891,435</b>

The accompanying notes are an integral part of these financial statements.

F-8

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**GOL LINHAS AÉREAS INTELIGENTES S.A.****CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF DECEMBER 31, 2012 AND 2011**

(In thousands of Brazilian reais - R\$)

LIABILITIES	Note	12/31/2012	12/31/2011
Current liabilities			
Short term debt	18	<b>1,719,625</b>	1,552,440
Trade payables		<b>480,185</b>	414,563
Salaries, wages and benefits		<b>207,518</b>	250,030
Tax obligations	22	<b>73,299</b>	76,736
Tax and landing fees		<b>240,739</b>	190,029
Advance ticket sales	19	<b>823,190</b>	744,743
Dividends payable	24	<b>7</b>	584
Mileage program	20	<b>124,905</b>	71,935
Advances from customers	21	<b>93,595</b>	30,252
Provisions	23	<b>179,950</b>	75,568
Liabilities from derivative transactions	28	<b>56,752</b>	115,432
Other payables		<b>61,928</b>	73,353
		<b>4,061,693</b>	3,595,665
Noncurrent liabilities			
Long term debt	18	<b>3,471,550</b>	3,439,008
Provisions	23	<b>299,880</b>	231,182
Mileage program	20	<b>364,307</b>	214,779
Tax obligations	22	<b>47,597</b>	112,935
Other payables		<b>49,243</b>	91,955
		<b>4,232,577</b>	4,089,859
Shareholders' equity	24		
Capital		<b>2,499,689</b>	2,316,500
Advance for future capital increase		<b>-</b>	182,610
Capital reserves		<b>61,387</b>	60,263
Share issuance costs		<b>(145,279)</b>	(145,279)
Share-based compensation		<b>79,255</b>	68,602
Treasury shares		<b>(35,164)</b>	(51,377)
Other comprehensive income		<b>(68,582)</b>	(79,268)
Accumulated losses		<b>(1,658,478)</b>	(146,140)
		<b>732,828</b>	2,205,911
Total liabilities and shareholders' equity		<b>9,027,098</b>	9,891,435

The accompanying notes are an integral part of these financial statements.

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F-9

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**GOL LINHAS AÉREAS INTELIGENTES S.A.****INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010**

(In thousands of Brazilian reais – R\$, except basic / diluted loss per share)

	Note	12/31/2012	Consolidated 12/31/2011	12/31/2010
Operating revenues				
Passenger		<b>7,159,987</b>	6,713,029	6,277,657
Cargo and other		<b>943,572</b>	826,279	701,790
	25	<b>8,103,559</b>	7,539,308	6,979,447
Operating expenses				
Salaries		<b>(1,569,670)</b>	(1,560,436)	(1,252,402)
Aircraft fuel		<b>(3,742,219)</b>	(3,060,665)	(2,287,410)
Aircraft rent		<b>(644,031)</b>	(505,058)	(555,662)
Aircraft insurance		<b>(26,875)</b>	(31,921)	(47,757)
		<b>(423,682)</b>		
Sales and marketing			(402,568)	(367,757)
Landing fees		<b>(559,421)</b>	(395,249)	(331,882)
Aircraft and traffic servicing		<b>(528,737)</b>	(484,642)	(430,521)
Maintenance materials and repairs		<b>(417,990)</b>	(434,181)	(422,950)
Depreciation and amortization		<b>(519,631)</b>	(395,807)	(281,604)
Other operating expenses		<b>(576,916)</b>	(601,713)	(303,707)
Gain on bargain purchase		-	88,428	-
Total operating expenses		<b>(9,009,172)</b>	(7,783,812)	(6,281,652)
Income (Loss) from operations before financial income (expenses)		<b>(905,613)</b>	(244,504)	697,795
Finance result				
Financial income	26	<b>370,214</b>	477,524	183,907
Financial expenses	26	<b>(764,852)</b>	(834,541)	(541,755)
Exchange rate changes, net	26	<b>(284,571)</b>	(398,897)	46,549
		<b>(679,209)</b>	(755,914)	(311,299)
Income (Loss) before income tax and social contribution		<b>(1,584,822)</b>	(1,000,418)	386,496
Current		<b>(6,553)</b>	(5,791)	(53,855)

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Deferred		<b>78,460</b>	254,671	(118,444)
	8	<b>71,907</b>	248,880	(172,299)
Net income (loss)		<b>(1,512,915)</b>	(751,538)	214,197
Weighted average number of outstanding shares in relation to basic earnings (loss) per share (in thousands)	15	<b>269,869</b>	270,376	268,564
Basic earnings (loss) per share	15	<b>(5.606)</b>	(2.780)	0.798
Diluted earnings (loss) per share	15	<b>(5.606)</b>	(2.780)	0.796

The accompanying notes are an integral part of these financial statements.

F-10

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**GOL LINHAS AÉREAS INTELIGENTES S.A.**

## STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011, AND 2010

(In thousands of Brazilian reais – R\$, except basic / diluted loss per share)

	12/31/2012	Consolidated 12/31/2011	12/31/2010
Net income (Loss) for the year	<b>(1,512,915)</b>	(751,538)	214,197
Other comprehensive income (loss)			
Available for sale financial assets	-	362	(2,497)
Cash flow hedges	<b>16,191</b>	(136,992)	18,035
Income tax	<b>(5,505)</b>	46,289	(5,283)
	<b>10,686</b>	(90,341)	10,255
Total comprehensive income (loss) for the year	<b>(1,502,229)</b>	(841,879)	224,452

Transactions shown in comprehensive income for the years ended on December 31, 2012, 2011 and 2010 are provided below:

	Financial assets available for sale	Cash flow hedges	Consolidated Income tax	Total comprehensive income (loss)
<b>Balance on December 31, 2009</b>	2,135	(1,995)	678	818
Realized losses (gains) from financial instruments transferred to the income	(1,648)	20,571	(6,694)	11,929
Fair value variation	-	(2,536)	862	(1,674)
<b>Balance on December 31, 2010</b>	487	16,040	(5,454)	11,073
Realized losses (gains) from financial instruments transferred to the income	(487)	19,464	(6,617)	12,360
Fair value variation	-	(155,607)	52,906	(102,701)
<b>Balance on December 31, 2011</b>	-	(120,103)	40,835	(79,268)
	-	<b>(4,733)</b>	<b>1,609</b>	<b>(3,124)</b>



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Realized losses (gains) from financial instruments transferred to the income				
Fair value variation	-	20,924	(7,114)	13,810
<b>Balance on December 31, 2012</b>	-	<b>(103,912)</b>	<b>35,330</b>	<b>(68,582)</b>