Gol Intelligent Airlines Inc.
Form 20-F
April 11, 2012

As filed with the Securities and Exchange Commission on April 11, 2012

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, 2011**

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)

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

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

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

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

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

The number of outstanding shares of each class of stock of Gol Linhas Aéreas Inteligentes S.A. as of December 31, 2011:

137,032,734	**Shares of Common Stock**
133,357,270	**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 x 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 x

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 x 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 x	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 x	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 x

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Presentation of Financial and Other Data

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

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2011 was R$1.876 to US$1.00, which was the commercial rate for the purchase of U.S. dollars in effect on December 31, 2011, 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. See "Item 5. Operating and Financial Review and Prospects – A. Operating Results – Webjet Acquisition." All information in this annual report reflects the acquisition of Webjet, which is still subject to CADE's approval, unless otherwise indicated.

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:

- "Revenue passengers" represents the total number of paying passengers flown on all flight segments.
- "Revenue passenger kilometers" represents the numbers of kilometers flown by revenue passengers.

- "Available seat kilometers" represents the aircraft seating capacity multiplied by the number of kilometers the seats are flown.

- "Load factor" represents the percentage of aircraft seating capacity that is actually utilized (calculated by dividing revenue passenger kilometers by available seat kilometers).

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- "Breakeven load factor" is the passenger load factor that will result in passenger revenues being equal to operating expenses.

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

- "Block hours" refers to the elapsed time between an aircraft's leaving an airport gate and arriving at an airport gate.

- "Yield per passenger kilometer" represents the average amount one passenger pays to fly one kilometer.

- "Passenger revenue per available seat kilometer" represents passenger revenue divided by available seat kilometers.

- "Operating revenue per available seat kilometer" represents operating revenues divided by available seat kilometers.

- "Average stage length" represents the average number of kilometers flown per flight leg.

- "Operating expense per available seat kilometer" represents operating expenses divided by available seat kilometers.

Cautionary Statements about Forward-Looking Statements

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

- general economic, political and business conditions in Brazil and in other South American 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;

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- 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 inter 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, 2011, 2010 and 2009; and

- Summary financial information derived from our audited consolidated financial statements not included herein as of and for the year ended December 31, 2008 and 2007.

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, 2011 have been translated into U.S. dollars at the commercial market rate in effect on December 31, 2011 as reported by the Central Bank of R$1.876 to US$1.00.

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Summary Financial Information

	Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2011**
			(in thousands)			
Income Statement Data:						
Operating revenues:						
Passenger	R$4,566,691	R$5,890,104	R$5,306,530	R$6,277,657	R$6,713,029	US$3,578,755
Cargo and other	374,293	516,089	718,852	701,790	826,279	440,494
Total operating revenues	**4,940,984**	**6,406,193**	**6,025,382**	**6,979,447**	**7,539,308**	**4,019,249**
Operating expenses:						
Salaries	(799,344)	(983,783)	(1,100,953)	(1,252,402)	(1,560,436)	(831,878)
Aircraft fuel	(1,898,840)	(2,630,834)	(1,813,104)	(2,287,410)	(3,060,665)	(1,631,658)
Aircraft rent	(525,785)	(645,089)	(650,683)	(555,662)	(505,058)	(269,249)
Sales and marketing	(367,866)	(588,735)	(364,551)	(367,757)	(402,568)	(214,611)
Landing fees	(273,655)	(338,370)	(312,637)	(331,882)	(395,249)	(210,710)
Aircraft and traffic servicing	(348,732)	(422,177)	(381,721)	(430,521)	(484,642)	(258,365)
Maintenance, materials and repairs	(339,281)	(388,030)	(417,212)	(422,950)	(434,181)	(231,464)
Depreciation and amortization	(62,548)	(125,127)	(142,853)	(281,604)	(395,807)	(211,007)
Other operating expenses	(315,068)	(372,696)	(428,376)	(351,464)	(633,634)	(337,794)
Gain on bargain purchase	-	-	-	-	88,428	47,141
Total operating expenses	**(4,931,119)**	**(6,494,841)**	**(5,612,090)**	**(6,281,652)**	**(7,783,812)**	**(4,149,596)**
Income (loss) from operations before income (expense)	9,865	(88,648)	413,292	697,795	(244,504)	(130,346)
Interest expense	(182,618)	(269,278)	(288,112)	(297,256)	(414,430)	(220,935)
Financial income (expense), net	373,636	(837,116)	630,956	(14,043)	(341,484)	(182,047)
Income (loss) before income taxes and social contribution	200,883	(1,195,042)	756,136	386,496	(1,000,418)	(533,328)
Income taxes	(33,595)	(44,305)	134,696	(172,299)	248,880	132,679
Net income (loss)	**167,288**	**(1,239,347)**	**890,832**	**214,197**	**(751,538)**	**(400,649)**
Basic earnings (loss) per share [(1)]:	0.842	(6.160)	3.916	0.798	(2.78)	(1.48)
Diluted earnings (loss) per share [(1)]:	0.842	(6.160)	3.914	0.796	(2.78)	(1.48)
Weighted average number of outstanding shares in relation to basic earnings (loss) per share (in thousands)[(1)]	198,609	201,193	227,472	268,564	270,376	270,376
Weighted average number of outstanding shares in relation to diluted earnings (loss) per share (in thousands)[(1)]	198,657	201,193	227,583	268,954	270,376	270,376
Basic earnings per ADS [(1)]	0.842	(6.160)	3.916	0,798	(2.78)	(1.48)
Diluted earnings per ADS[(1)]	0.842	(6.160)	3.914	0,796	(2.78)	(1.48)
Dividends declared per share (net of withheld income tax) [(1)]	1.25	0.18	0.70	0.19	-	-
Dividends declared per ADS (net of withheld income tax) [(1)]	1.25	0.18	0.70	0.19	-	-

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	As of December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2011**
Balance Sheet Data:			**(in thousands)**			
Cash and cash equivalents	R$573,121	R$169,330	R$1,382,408	R$1,955,858	R$1,230,287	US$655,873
Short-term investments	820,343	245,585	40,444	22,606	1,009,068	537,940
Trade receivables[(2)]	903,061	344,927	519,308	303,054	354,134	188,791
Deposits	641,164	731,374	855,569	715,377	630,599	336,176
Total assets	7,486,412	7,131,865	8,720,120	9,063,847	10,655,141	5,680,318
Short-term debt	891,543	967,452	591,695	346,008	1,552,440	827,615
Shareholders' equity	2,392,448	1,071,608	2,609,986	2,929,169	2,205,911	1,175,984

	Year Ended December 31,					
	2007	**2008**	**2009**	**2010**	**2011**	**2011**
Other Financial Data:			**(in thousands except percentages)**			
Operating margin[(3)]	0.02%	(1.4)%	6.9%	10.00%	(3.2)%	(3.2)%
Net cash provided by (used in) operating activities	R$(141,488)	R$151,700	R$457,259	R$723,897	R$(602,520)	US$(321,207)
Net cash provided by (used in) investing activities	(190,339)	40,650	5,422	(279,459)	(469,168)	(250,116)
Net cash provided by (used in) financing activities	617,484	(611,301)	769,238	139,900	354,547	189,011

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Summary Operational Data

	Year Ended December 31				
	2007	**2008**	**2009**	**2010[7]**	**2011[6]**
Operating Data[5]:					
Revenue passengers (in thousands)	23,689	25,664	28,410	32,915	36,220
Revenue passenger kilometers (in millions)	22,670	25,308	25,669	30,649	34,415
Available seat kilometers (in millions)	34,349	41,107	40,355	45,937	50,127
Load-factor	66.0%	61.6%	63.6%	66.7%	68.7%
Break-even load-factor	65.9%	62.5%	59.2%	60.0%	70.9%
Aircraft utilization (block hours per day)	13.8	12.1	11.6	12.9	13.0
Average fare	198	262	191	191	185
Yield per passenger kilometer (cents)	20.1	23.3	20.7	20.5	19.5
Passenger revenue per available seat kilometer (cents)	13.3	14.3	13.1	13.7	13.4
Operating revenue per available seat kilometer (cents)	14.4	15.6	14.9	15.2	15.0
Operating expense per available seat kilometer (cents)	14.4	15.8	13.9	13.7	15.5
Operating expense less fuel expense per available seat kilometer (cents)	8.9	9.4	9.4	8.7	9.4
Departures	237,287	268,540	273.602	295,160	314,190
Departures per day	650	736	750	811	861
Destinations served	66	59	59	59	63
Average stage length (kilometers)	960	933	890	907	908
Average number of operating aircraft during period	88.6	106.4	108.7	112.3	133.6
Full-time equivalent employees at period end	15,722	15,911	17.963	18,776	20,525
Fuel liters consumed (in thousands)	1,177,300	1,364,719	1,291,412	1,465,299	1,591,917
Percentage of sales through website during period [4]	90.0%	92.4%	92.4%	88.1%	88.4%
Percentage of sales through website and call center during period	98.9%	99.2%	98.7%	95.1%	94.5%

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(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 2010 reflects the new methodology, whereas information for 2007 and 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 International Civil Aviation Organization (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. ANAC has stated that it will republish information for 2008 at a later date.

(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 2010 reflects the new DCA manual, whereas information for 2007 and 2008 was calculated pursuant to the manual and may not be fully comparable.

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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.

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	Average for Period [1]	Low	High
		(*reais* per U.S. dollar)		
Year				
2007	1.771	1.948	1.733	2.156
2008	2.337	1.836	1.559	2.500
2009	1.741	1.994	1.702	2.422
2010	1.666	1.759	1.655	1.881
2011	1.876	1.675	1.535	1.902
2012 (through March 2012)	1.822	1.770	1.702	1.868

	Month-End	Average for Month [2]	Low	High
		(*reais* per U.S. dollar)		
Month				
October 2011	1.688	1.767	1.688	1.880
November 2011	1.811	1.790	1.727	1.894
December 2011	1.876	1.837	1.783	1.876
January 2012	1.739	1.790	1.739	1.868
February 2012	1.709	1.718	1.702	1.738
March 2012	1.822	1.795	1.715	1.833

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.

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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 2011, the base interest rate (SELIC) in Brazil varied between 19.25% p.a. and 8.75% p.a. Inflation and the Brazilian government's measures to

fight it, principally through the Central Bank, have had and may have significant effects on the Brazilian economy and our business. Tight monetary policies with high interest rates may restrict Brazil's growth and the availability of credit. Conversely, more lenient government and Central Bank policies and interest rate decreases may trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect our business. In addition, we may not be able to adjust the fares we charge our customers to offset the effects of inflation on our cost structure.

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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 39.3% of our operating expenses for the year ended December 31, 2011. 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 2012 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 on December 31, 2011, the exchange rate was R$1.876 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.

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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, 2011, 51.8% 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 91 firm purchase orders outstanding as of December 31, 2011, the 10 purchase rights and the 40 Boeing 737 Next Generation aircraft for which we currently have purchase options are denominated in U.S. dollars. At the end of 2011, 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$2,269,5 million and R$3,511.6 million regarding other U.S. dollar-denominated liabilities and indebtedness at December 31, 2011. 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 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. The policies of the ANAC and 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, and other airports are 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.”

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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."

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

Current rules regarding slots distribution at Congonhas Airport, which favors us, require that 80% of new slots are assigned to airlines already operating in that airport. New proposed rules, which are under public hearing, may reduce that percentage. 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 operation.

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.

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$7.1 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.

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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 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, 2011, we had commitments of R$15,780 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, 2011, we had R$4,655.7 million in short- and long-term indebtedness, excluding our perpetual bonds in the amount of R$335.8 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.

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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.

Agreements on a common approach between export credit agencies of the United States and the European Union on offering export credits for commercial aircraft are likely to increase our aircraft financing costs.

In 2010, the Export-Import Bank of the United States ("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 (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. While subject to modification, the exposure fees paid by us on applicable aircraft are likely to increase. The amount of any such increase will depend upon the credit risk assigned to us by the participating export-agencies pursuant to the protocols of the ASU. In addition, we will no longer be able to finance the amortization payments of loans guaranteed by Ex-Im Bank with SOAR loan facilities. These developments are likely to increase our financing costs and may negatively affect our results of operation and our credit rating, which would further negatively affect our financing costs.

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 91 firm purchase orders for Boeing 737-800 Next Generation aircraft outstanding as of December 31, 2011, 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 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. As of December 31, 2011, we had R$2,348.5 million of cash, cash equivalents, 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. If either Boeing or CFM International were unable to perform its contractual obligations, we would have to find another supplier for a similar type of aircraft or engines.

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

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

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When Boeing or CFM release new aircraft or engines to replace the Boeing 737-700/800 Next Generation aircraft or the CFM engines used on our aircraft the market value of our aircraft and engines may decrease, which would negatively affect the value of our assets and could result in us recording impairment charges. In addition, if other manufacturers release new aircraft that is more appealing to the market or customers, 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 also reduce the market value of aircraft and would adversely affect our operational costs and results of operation.

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.

Temporary or permanent shortages of skilled labor, or mismanagement of our scheduling systems, could disrupt our business.

Our business depends significantly upon the availability of skilled labor, including hiring, training and retaining qualified pilots, co-pilots and other key employees. We may not be able to compete for skilled labor with airlines in other growing markets, or domestically and may be unable to hire or retain pilots and other key crew members. Training a pilot requires many years of extensive flight hours, including a significant amount of hours in flight simulators. If our pilots or key crew members leave our company, we may not be able to find suitable replacements, losing our investment in training and increasing the probability of disruptions in our business caused by shortages of skilled labor.

In addition, restrictions on flight hours for our pilots and crew members or mismanagement of our scheduling systems in light of our high daily aircraft utilization rate may cause temporary shortages of skilled labor and could disrupt our business, harm our reputation and adversely affect our results of operation.

Our flights are subject to seasonality and this may increase volatility and affect our results of operation.

Revenues and profits from our flights reach their highest levels during the Brazilian summer and winter vacation periods, in January and July, respectively, and during the last two weeks of December, during the holiday season. Therefore the first and fourth quarters of each year are the most relevant in terms of passengers transported. In light of

our high proportion of fixed costs, this seasonality tends to cause variations in our operational income from quarter to quarter and may increase volatility and affect our results of operation.

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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 and tests. Our ability to meet these financial ratios and tests can be affected by events beyond our control and we cannot assure that we will meet those tests, especially given the lower yield environment in which the industry currently operates. Failure to meet or satisfy any of these covenants, financial ratios or financial tests 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, 2011, we were not in compliance with certain financial covenants under our debentures in the amount of R$1,088.4 million and our IFC loan. In March 2012, the Company received waivers through June 2012 from the debenture holders (Bank of Brazil and Bradesco). 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, 2011, we had reported approximately R$2.1 billion of tax loss carryforward 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 carryforward to offset taxes payable up to 30% of the taxable profit for each year. Thus, despite having balance tax loss carryforward 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.

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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 53.1% of the aggregate market capitalization of the BM&FBOVESPA S.A. Bolsa de Valores, Mercadorias & Futuros ("BM&FBOVESPA") as of December 31, 2011. The top ten stocks in terms of trading volume accounted for 49.7%, 49.7% and 53.6% of all shares traded on the BM&FBOVESPA in 2009, 2010 and 2011, 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.

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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. Investor information can be found on our website www.voegol.com.br/ir. Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this annual report.

Capital Expenditures

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

B. Business Overview

We are one of the largest low-cost low-fare airlines in the world, according to IATA, in terms of passengers transported in 2011, and the largest low-cost low-fare airline in Latin America providing frequent service on routes connecting all of Brazil's major cities and from Brazil to major cities in South America and selected tourist destinations in the Caribbean. With our young and standardized operating fleet of 123 GOL Boeing 737-700/800 and 24 Webjet Boeing 737-300 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 and Caribbean destinations. Our strategy is to increase the size of the market by attracting new passengers as well as to diversify our revenue portfolio through our consolidated flight network, a modern aircraft fleet, targeted marketing and our loyalty program *Smiles* (one of the largest loyalty programs in Latin America with more than 8.2 million members and more than 180 partners), a variety of attractive ancillary businesses such as our air cargo services (*Gollog*), and through a variety of payment mechanisms designed to make the purchase of our tickets easier for customers in lower income classes. Passenger transportation revenues represented 89% and ancillary revenues (cargo and other) represented 11% of our net revenues of R$7,539.3 billion in 2011.

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As of March 31, 2012, we offered approximately 900 daily flights to 63 destinations connecting the most important cities in Brazil as well as key destinations in Argentina, Barbados, Bolivia, Chile, Paraguay, Uruguay, Venezuela and the Caribbean region. As of March 31, 2011, Webjet offered approximately 1,000 weekly flights to 16 Brazilian cities. We strategically focus on the Brazilian and South American markets, and will continue to carefully evaluate opportunities to continue growing by increasing the frequency of flights to our existing high-demand markets and adding new routes in these markets (for example, in the Caribbean region), all of which can be reached with our Boeing 737 Next Generation (NG) aircraft.

Our Competitive Strengths

We Have a Strong Market Position Based on Slots at the Most Important Airports in Brazil. Since the VRG acquisition, we have been the carrier with the most flights connecting the busiest airports in Brazil: Congonhas 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 the year ended December 31, 2011 was R$9.4 cents. We believe that our CASK for the year ended December 31, 2011, adjusted for the average number of kilometers flown per flight, or adjusted by stage length, was over the year 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, 2011, our operating fleet of 123 GOL Boeing 737-700/800 aircraft and 24 Webjet Boeing 737-300 was one of Latin America's largest and youngest fleets, with an average age of 7.0 and 18.0 years, respectively. We plan to continue keeping our operating fleet exclusively comprised of Boeing 737-800 and 737-700 NG aircraft. Having a standardized fleet reduces inventory costs, as it requires fewer spare parts, and reduces the need to train our pilots to operate different types of aircraft. It also simplifies our maintenance and operations processes.

- *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. 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 Have a Strong Liquidity and Cash Position. We believe that a strong liquidity and cash position is key to our success. Our strong balance sheet increases our capacity to establish partnerships, negotiate with suppliers and to mitigate impacts of financial markets volatility on our results, to strengthen our financial resilience and to ensure the execution of our growth strategy. We have a strong cash position (composed by cash and cash equivalents, current and non-current restricted cash and short term investments) which as of December 31, 2011 represented 31.1% of our last twelve months' operating revenues. We are also committed to not having any significant financial debt (excluding finance leases) coming due within any three-year horizon. In this view we believe that a stronger cash position, combined with our operating cash flow generation will further improve our operating flexibility in order to allow us to

rapidly respond to market changes.

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 and are attracting new groups of air travelers in our markets. We estimate that, on average, approximately 5% to 10% of the customers on our flights are either first-time flyers or have not flown for more than a year.

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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. Our Varig brand is widely known in the Brazilian and Latin American markets in which we operate.

We Have One of the Largest Loyalty Programs in Latin America. Since the VRG acquisition, we have a loyalty program (*Smiles*), which is available to all our passengers and which we consider a strong relationship tool. The *Smiles* loyalty program serves as a source of revenue for us, as it enables us to sell miles directly to corporate clients for marketing purposes or utilize them for co-branded credit cards. It supports partnerships with more than 180 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 8.2 million members at December 31, 2011.

We Are One of the Largest E-commerce Companies in Brazil. Our effective use of technology helps us to keep our costs low and our operations highly scalable and efficient. We seek to keep our distribution channels streamlined and convenient so as to allow our customers to interact with us via the Internet. In 2011, we booked 88.5% of our ticket sales through a combination of our website and application programming interface, or API, systems, 6.0% through our call center and 5.5% through Global Distribution System, or GDS. In addition, our customers can check in online and through web-enabled cell phones. As a result of our emphasis on low-cost distribution channels, in 2011 we were one of the largest e-commerce companies in Brazil and Latin America, with R$7.0 billion in net ticket sales through the internet, more than any other airline and publicly-held e-commerce company in Brazil. Our platform also has strong traffic statistics, with more than five million visitors per month. We enjoy significant cost savings associated with automated ticket sales, which also makes the selection of travel options more convenient for our customers.

We Have High Corporate Governance Standards and Proven Management. Our corporate governance practices go beyond those of most issuers in the transportation industry and emerging markets issuers. We have four independent board members, including the chairman of our board of directors. We will also have one board member who wil be 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 home appliances and consumer products. This experience has helped us to develop the most effective elements of our low-cost model and we expect will help us to further penetrate the Brazilian middle class and to generate ancillary revenues.

Our Strategies

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

Capitalize on Our Strong Market Position in Brazil and Latin America. We intend to capitalize on our strong market position, with our 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 that are, or we expect to become, profitable and fit into our flight network. In addition, we

believe that the airline industry may experience further consolidation in the future and therefore partnerships and alliances are key success factors. In this environment we intend to play a leading role and strengthen our position as a long-term player.

Improve Operating Efficiency and Financial Resilience. Continuing to reduce our operating expense per available seat kilometer is key to increased profitability. We aim to maintain our position as one of the lowest cost airlines in the world. We intend to further reduce the average age of our fuel-efficient fleet, while optimizing the size of our fleet to ensure high utilization rates. In 2011, our aircraft utilization rate was 13.0 block-hours per day, compared to 12.9 block-hours per day in 2010 and 11.6 block-hours per day in 2009.

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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. We expect to benefit from economies of scale and reduce our average cost per available seat kilometer as we add aircraft to an established and efficient operating infrastructure.

We have a strong balance sheet and we seek to continuously set financial targets in order to further improve our financial resilience to support our growth strategy. We currently seek to maintain a cash position equivalent to more than 25% of our net revenues recorded in the trailing twelve-month period, and to extend our financial commitments, avoiding significant debt maturities in a three-year range.

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 Caribbean. We are committed to providing air travel to a wide range of travelers. We will continue to popularize air travel, making low-fare flights more accessible to a larger portion of the population, including all types of business travelers, through the following measures:

- *Stimulating Demand.* Our widely available service is designed to popularize air travel and stimulate demand, particularly from fare-conscious leisure travelers and small-to mid-size business travelers who might otherwise use alternative forms of transportation or not travel at all. 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.

- *Expanding our network*. We will continue to carefully evaluate opportunities to meet demand for leisure travel by offering more seats at lower fares for advance purchases, expanding flight frequencies on existing routes and adding additional routes that contribute to our network and for which we perceive a market demand primarily in Brazil. In addition, by offering flights to selected South American and Caribbean destinations with connections integrated in our network, we will create opportunities for incremental traffic, feeding our network and increasing our overall load factor and supporting our strategy of expanding our network and stimulating demand for our services.

- *Overhubbing*. We estimate that between 40% and 45% of our passengers are connecting to other flights operated by us and, as a result, we may expand our network by 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.

- *Increasing market penetration.* In March 2011, we launched three small and low cost points of sale under the *Voe Gol* brand in main bus and subways terminals (Itaquera, Sé and Luz) allowing customers to not only buy tickets, but also to change and cancel their reservations and obtain information, with full customer support. In 2011, we opened 3 more stores under the Voe GOL brand in São Paulo and launched 4 more kiosks at main bus and subway terminals across Brazil: Tatuapé (São Paulo), Central do Brasil (Rio de Janeiro), Estação Mercado (Porto Alegre) and Piedade (Salvador).

Expand our 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 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 also seek to evaluate partnerships with financial institutions, retail chain-stores, car rental

and insurance companies. We believe that these agreements will generate passenger and ancillary revenues by feeding our route network and strengthening the *Smiles* loyalty program. In December 2010, we entered into a strategic MRO (maintenance, repair and operations) partnership agreement with Delta Air Lines, Inc., or Delta, to be performed by Delta TechOps, the maintenance division of Delta. Delta TechOps will provide certain engine overhaul, aircraft maintenance and maintenance consulting services and will also assist us with our efforts to secure FAA (Federal Aviation Administration) certification for our maintenance center. We will assist Delta with certain line maintenance services for Delta aircraft with extended ground time in Brazil. By the end of 2011 we had 71 interline agreements and 7 code-share agreements. We have code-share agreements with: Delta Airlines, Iberia, KLM, Air France, Qatar Airways, Copa Airlines and American Airlines.

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

- *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 2011.

- *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, and we were the first airline in Brazil to allow passengers to check-in entirely by mobile phone and the first to permit check-in on domestic flights via iPhone for passengers without checked baggage, simplifying customers' traveling.

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 40.0% and 45.0% 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 South American and Caribbean destinations, and with stops integrated in our network, we create opportunities for incremental traffic, feeding our network and increasing our overall load factor and our competitive advantage and supporting our strategy of expanding our network and stimulating demand for our services.

We have been increasing the number of flights to and through the major Brazilian airports and prudently adding more routes to Caribbean destinations, which we expect to give us additional growth opportunities in the Brazilian and international markets. 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 1 million within a 200 km radius.

As of March 2012, we offered over 900 daily flights to 63 destinations connecting the most important cities in Brazil as well as the main destinations in Argentina, Barbados, Bolivia, Chile, Paraguay, Uruguay, Venezuela and the Caribbean Region.

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 on-line sales, check-in, seat assignment and flight change and cancellation services;

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- 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); and
- iPhone application for check-in, electronic boarding pass and *Smiles* account management.
- in-flight entertainment (GOL no ar) through passengers' personal communications devices.

We seek to achieve punctual operations, which are of primary importance to our customers. According to our internal data, which are corrected for delays out of our control and pre-advised changes in flight schedules, our average punctuality rate for 2011 was 87.2%, as compared to 88.9% in 2010.

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 holidays season.

Generally, the revenues from and profitability of our flights reach their highest levels during the January (summer) and July (winter) vacation periods and in the final two weeks of December during the Christmas holiday season. The week during which the annual Carnival celebrations take place in Brazil is generally accompanied by a decrease in load factors. Given our high proportion of fixed costs, this seasonality is likely to cause our results of operations to vary from quarter to quarter.

Smiles Loyalty Program.

We have a loyalty program (*Smiles*), which we consider as a strong relationship tool and which is available to all our passengers. We intend to increase the *Smiles* penetration through creating marketing initiatives and additional benefits to our customers (*e.g.*, double miles promotions and the launch of several miles redemption options, allowing

our customers to use part of their miles to complete the payment) increasing and establishing partnerships with affiliated credit cards or using services and products at partner establishments. There are four tiers in our *Smiles* program (*Diamond*, *Gold*, *Silver* and *Blue*) and qualification for a particular tier is based on the miles flown. The *Smiles* program serves as a source of revenue for us, since we can sell miles directly to corporate clients for marketing purposes or utilize them for co-branded credit cards. It maintains partnerships with hotel chains, car rental companies, restaurants, insurance companies, publishers and schools and also maintains a partnership with some of Brazil and South America's largest banks and credit card companies. We expect that, through these partnerships, our customers could use their miles accumulated under the *Smiles* program to fly to international destinations in North America, Europe and Asia. In 2010, we implemented the technological platform using the Oracle Siebel system which allows us to link the loyalty programs of the companies with which we have partnerships and also optimizing control of miles issued. The *Smiles* program had over 8.2 million members and more than 180 partners at the end of 2011.

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Ancillary Revenues and Gollog Cargo Transportation

Ancillary revenues includes revenues from our Gollog services as well as baggage excess and ticket change fees, buy on board and travel insurance revenues are an increasingly important part of our revenues. The further development and growth of our Gollog services is part of our strategy.

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

We plan to integrate the *Smiles* and *Gollog* platforms into our air travel portal to further provide 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 via the Internet. The Gollog system provides online access to air waybills and allows customers to track their shipment from any computer with Internet access. Our 63 destinations throughout Brazil, South America and the Caribbean provide access to multiple locations in the region. With our capacity of approximately 900 daily flights, operated by 123 Boeing 737-700/800 aircraft, in addition to a fleet of 269 vehicles, we can guarantee quick and reliable delivery. Packages are shipped in the freight hold of our passenger aircraft.

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, 2011 we had an operational fleet of 147 operational aircraft and a total fleet of 150.

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

		At December 31,	
Operating Fleet	**Seats[(1)]**	**2010**	**2011**
B737-300[(1)]	141	-	24
B737-700 NG	144	40	42
B737-800 NG	177	15	20
B737-800 NG Short-Field Performance	187	55	61
B767-300/200	218	4	-
Sub Total	**–**	**114**	**147**

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Non-Operating Fleet	Seats[1]	At December 31, 2010	2011
B737-300[1]	141	3	-
B737-700 NG	144	2	-
B737-800 NG	177	4	-
B767-300/200[2]	218	2	3
Sub Total	-	11	3
Total	-	125	150

(1) All B737-300 aircraft result from the acquisition of Webjet. Two of these aircraft were undergoing routine maintenance on December 31, 2011.

(2) Two B767-300/200 aircraft were in the final process of being transferred to Delta Airlines and a third 767 aircraft is sub-leased to a U.S. airline.

In 2011, we announced the delivery of the first Next Generation 737-800 equipped with the new Sky Interior standard. In line with our strategy of combining the renovation of our fleet with disciplined growth in our seat supply, we concluded the following initiatives in 2011: We received nine aircraft based on lease contracts (six finance lease contracts and three operating lease contracts), excluding the addition of Webjet's fleet. In the same period, we returned eight aircraft: (i) four Boeing 737-300 aircraft (grounded and in the final stages of return as of December 31, 2011) ; (ii) three Boeing 767-300 aircraft; and (iii) one Boeing 737-700.

As of December 31, 2011, of our total 150 aircraft: 99 were under operating leases, 45 were under finance leases and 6 were owned by us. Webjet's leased aircraft are scheduled to be returned between 2012 and 2013.

The average age of our operating fleet of 123 Boeing 737-700/800 aircraft for GOL and 24 Boeing 737-300 for Webjet as of December 31, 2011, was 7.0 years and 18.0 years, respectively. The average daily utilization rate of our operating fleet in 2011 was 13.0 block hours (12.9 block hours in 2010).

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 following table sets forth our year-end projected operating fleet through 2016:

Operating Fleet Plan	2012	2013	2014	2015	2016
B737-700 NG	38	32	35	32	30
B737-800 NG *	89	103	113	113	124
Total	127	135	148	145	154

* Includes SFP aircraft (Short Field Performance)

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

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

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

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In addition to being cost-efficient, the Boeing 737-700/800 Next Generation aircraft are equipped with advanced technology that promotes flight stability, providing a more comfortable flying experience for our customers. We use a single type of aircraft to preserve the simplicity of our operations. As a result, the introduction of any new aircraft type to our fleet will only be done if, after careful consideration, we determine that such a step will reduce our operating costs. Most of our leased Boeing 737-800 Next Generation aircraft are equipped with blended winglets and all Boeing 737-800 Next Generation aircraft from our purchase order will be equipped with winglets, which reduce our fuel and maintenance costs. Our experience with the new winglets has shown operating fuel consumption reductions from 3% to 5%. In addition, the winglets improve airplane performance during take-off and landing on short runways. The new Boeing 737-800 NG aircraft will be delivered with short-field performance (SFP) with technical modifications that we expect to significantly improve flight performance, the ability to operate non-stop flights, reduce noise during take-off and to enable us to fly with our Boeing 737-800 Next Generation aircraft to the airport of Santos Dumont in Rio de Janeiro, an important link to the most important routes in Brazil.

At the end of 2011, we leased 99 of our 150 aircraft under operating lease agreements that have an average remaining term of 42 months. We believe that leasing our aircraft fleet under operating leases provides us with flexibility to adjust our fleet size. We make monthly rental payments, some of which are based on floating rates. We but are not required to make termination payments at the end of our leases. Under our operating lease agreements, we do not have purchase options and for some of our lease agreements we are required to maintain maintenance reserve deposits and to return the aircraft and engine in the agreed condition at the end of the lease term. Title to the aircraft remains with the lessor. We are responsible for the maintenance, servicing, insurance, repair and overhaul of the aircraft during the term of the lease. As of December 31, 2011, our operating leases had terms of up to 149 months from the date of delivery of the relevant aircraft.

At the end of 2011, we had 45 aircraft acquired under our firm purchase order with Boeing under finance lease arrangements that had an average remaining term of 105 months.

Sales and Distribution

Our customers can purchase tickets directly from us through a number of different channels, such as our website including our Booking Web Services (BWS), 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, 2011, 88.5% of our passenger revenues, whether directly to the customer or through travel agents, were booked via the Internet, making us one of the worldwide industry leaders in this area. In the same period, 6.0% 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, respectively.

Our customers can purchase tickets indirectly through travel agents, who are a widely-used travel service resource in Brazil and South America, Europe, North America and other regions. For the year ended December 31, 2011, travel agents provide us with more than 10,000 distribution outlets throughout these regions.

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

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

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. Strategically, the additional passenger inflows generated from those partnerships aim to improve revenues at low incremental costs.

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At December 31, 2011, we had code share agreements with American Airlines, Delta, Iberia, Air France, KLM, Copa Airlines and Qatar Airways. The code share agreement with American Airlines expires in August 2012. We have a frequent flyer tie between our *Smiles* program and the code share partners enabling travelers to accrue and redeem miles between our *Smiles* and each of the partners (however, the partnerships are not integrated among themselves). In addition, passengers are able to connect with Gol operated flights within Brazil, marketed as a code-share partner flight. We intend to enter into similar agreements with other long haul airlines serving or intending to serve Brazil.

At December 31, 2011 we had interline agreements with 71 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 and allow its customers to utilize a single ticket, and to check their baggage through to the customers final destination. Interline agreements differ from code sharing agreements in that code sharing agreements usually refer to numbering a flight with the airline's code (abbreviation) even though the flight is operated by another airline. This provides for better marketing and customer recognition of the links between the airlines.

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 percent 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 the 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 service 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. The capital increase is still subjected to approval by our board of directors.

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, the Caribbean and South America, and GOL to add its code to Delta's flights between Brazil and the United States, and from the U.S. to other destinations, thereby increasing the number of flight options for clients 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 400 destinations in over 70 countries served by GOL and Delta;

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- 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;

- 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 three to five years. The warranties on the aircraft we received in 2011 under our firm purchase order

with Boeing will start expiring in 2015.

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 room 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.

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

Fuel and Hedge

Our fuel costs totaled R$3,060.7 million in 2011, representing 39.3% of our operating expenses for the year. In 2011, 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 2011, 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-term periods, and are adjusted weekly or more frequently as conditions require. Our hedging practices are executed by our internal risk management committee and overseen by the risk policies committee of our board of directors. The risk policies committee of our board of directors meets quarterly or more often, if called, and its main responsibilities are to assess the effectiveness of our hedging policies, recommend amendments when and where appropriate and establish its views regarding fuel price trends. We use risk management instruments that have a high correlation with the underlying assets so as to reduce our exposure. We require that all of our risk management instruments be liquid so as to allow us to make position adjustments and have prices that are widely disclosed. We also avoid concentration of credit and product risk. We have not otherwise entered into arrangements to guarantee our supply of fuel and we cannot provide assurance that our hedging program is sufficient to protect us against significant increases in the price of fuel.

As of December 31, 2011, we had hedged 34% on average for our projected fuel requirements for 2012. We also have an interest hedge program and we had hedge 58% of our anticipated aircraft finance leases to be contracted in 2012 and 2013. The fuel hedge is based on call options, swap and collar contracts, and the financial financing hedges are based on forward swap contracts.

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

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	Year Ended December 31,	
	2010	2011
Liters consumed (in thousands)	1,465,299	1,591,917
Total cost (in thousands)	R$ 2,287,410	R$3,060,665
Average price per liter	R$1.56	R$1.92
% change in price per liter	11.5%	23.2%
Percent of operating expenses	36.4%	39.3%

We continuously invest in initiatives to reduce fuel consumption. Between 2008 and 2011 we reduced our fuel consumption per flight hour from 2.91 to 2.80. 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 44 aircraft by the end of 2011. 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 the Air Accident Prevention Program of the ANAC and we have installed the Flight Operations Quality Assurance System, which maximizes proactive prevention of incidents through the systematic analysis of the flight data recorder system. All of our aircraft are also equipped with Maintenance Operations Quality Assurance, a troubleshooting program that monitors performance and aircraft engine trends. The Brazilian civil aviation market follows the highest recognized safety standards in the world. We are also an active member of the Flight Safety Foundation, a foundation for the exchange of information about flight safety. In June 2009, we created the office of Safety Officer which reports directly to our board of directors and whose main goal is to oversee flight safety and report directly to our highest management level.

Environmental Sustainability

In 2010, we prepared, for the first time, 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.

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

As the growth in the Brazilian airline sector evolves, we may face increased competition from our primary competitors and charter airlines as well as other entrants into the market that reduce their fares to attract new passengers in some of our markets.

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

Domestic Market Share[1]— Scheduled Airlines	**2007**	**2008**	**2009**	**2010**	**2011**
GOL	43.0%	42.4%	41.9%	37.1%	34.6%
Webjet[2]	1.1%	3.6%	4.4%	5.0%	5.9%
TAM	48.8%	50.4%	45.4%	44.1%	41.0%
Azul	-	0.0%	3.8%	7.6%	9.6%
Others	7.1%	3.6%	4.4%	6.3%	9.0%

Source: Advanced Comparative Data (Dados Comparativos Avançados) 2007—2011

(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 2010 reflects the new methodology, whereas information for 2007 and 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. ANAC has stated that it will republish information for 2008 at a later date.

(2) On October 3, 2011, we acquired Webjet.

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.

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International

As we expand our international services in South America and the Caribbean, our pool of competitors will increase and we will face competition from Brazilian and South American airlines that are already established in the international market and that participate in strategic alliances and code sharing arrangements. In addition, non-Brazilian airlines may decide to enter or increase their schedules in the market for routes between Brazil and other South American and Caribbean countries.

Industry Overview

Since air transportation has historically been affordable only to the higher income segment of Brazil's population, resulting in a comparatively low level of air travel, we believe that the low-cost, low-fare business model has the potential to significantly increase the use of air transportation in Brazil. According to ICAO, Brazil is the third largest domestic aviation market in the world and, according to the ANAC, there were 79.0 million domestic enplanements and 9.0 million international enplanements on Brazilian carriers in Brazil in 2011, 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 640 million domestic enplanements and 96 million international enplanements in 2011, out of a total population of approximately 308.7 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 65% of the its total demand for domestic air travel in 2011, which we believe is significantly higher than the business travel portion of domestic air travel in the global aviation sector. According to data collected from the ANAC, flights between Rio de Janeiro and São Paulo accounted for 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 68.3% and 72.6% of all domestic passenger traffic through INFRAERO airports in terms of arrivals and departures in 2009 and 2010, respectively.

In light of economic growth, the domestic market has significantly increased in the last years from 66 million in 2003 to more than 105 million in 2011, according to FGV and IBGE, due to increased passenger volumes and both the soccer confederations and world cup scheduled for 2013 and 2014, respectively, in Brazil and the summer Olympics scheduled for 2016 in Rio de Janeiro, the Brazilian airport infrastructure will need substantial improvements.

In 2009 the 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. This proposal may be accepted by the Brazilian Government and become a draft bill during 2012.

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, and other airports are 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 had stable growth in revenue passenger kilometers. From 1970 to 2009 domestic revenue passenger kilometers grew at a compound annual rate of 8.9%. In the past 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.

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From 2000 to 2011, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 10.2%, versus a compound annual growth rate in available industry domestic capacity, in terms of available seat kilometers, of 8.5% . Domestic industry load factors, calculated as revenue passenger kilometers divided by available seat kilometers, have averaged 64.7% over the same period. The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	2006	2007	2008	2009	2010	2011
	(in millions, except percentages)					
Available Seat Kilometers	55,608	64,597	72,841	86,471	102,643	115,926
Available Seat Kilometers Growth	10.8%	16.2%	12.8%	18.7%	18.9%	12.9%
Revenue Passenger Kilometers	39,802	44,446	47,838	56,864	70,306	81,359
Revenue Passenger Kilometers Growth	12.3%	11.7%	7.4%	18.9%	23.6%	15.7%
Load Factor	71.6%	68.8%	65.5%	65.8%	68.8%	70.2%

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 2010 reflects the new methodology, whereas information for 2007 and 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. ANAC has stated that it will republish information for 2008 at a later date.

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.

Regulation of the Brazilian Civil Aviation Market

The Brazilian Aviation Authorities and Regulation Overview

Air transportation services are considered a public service and are subject to extensive regulation and monitoring by the CONAC and the ANAC. Air transportation services are also regulated by the Brazilian Federal Constitution and the Brazilian Aeronautical Code. The Brazilian civil air transportation system is controlled by several authorities. The ANAC is responsible for the regulation of the airlines, the DECEA is responsible for airspace control and INFRAERO is responsible for airport administration.

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

In March 2011, the Civil Aviation Secretary (*Secretaria de Aviação Civil*), or SAC, was created to supervise civil aviation in Brazil. The Civil Aviation Secretary oversees the 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.

The ANAC is currently responsible for guiding, planning, stimulating and supporting the activities of public and private civil aviation companies in Brazil, and also regulates flying operations generally and economic issues affecting air transportation, including matters relating to air safety, certification and fitness, insurance, consumer protection and competitive practices.

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.

The CONAC is an advisory body of the President of Brazil and its upper level advisory board is composed of the Minister of Defense, the Minister of Foreign Affairs, the Minister of Treasury, the Minister of Development, Industry and International Trade, the Minister of Tourism, the Minister Chief of the Civil Cabinet, the Minister of Planning, Budget and Management, the Minister of Justice, the Minister of Transportation and the Commandant of the Air Force. The CONAC has the authority to establish national civil aviation policies that may be adopted and enforced by the High Command of Aeronautics and by the ANAC. The CONAC establishes guidelines relating to the proper representation of Brazil in conventions, treaties and other actions related to international air transportation, airport infrastructure, the granting of supplemental funds to be used for the benefit of airlines and airports based on strategic,

economic or tourism-related aspects, the coordination of civil aviation, air safety, the granting of air routes and concessions, as well as permission for the provision of commercial air transportation services.

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

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

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

Route Rights

Domestic routes. For the granting of new routes and changes to existing ones, the ANAC evaluates the actual capacity of the airport infrastructure where such route is or would be operated. In addition, route frequencies are granted subject to the condition that they are operated on a frequent basis. Any airline's route frequency rights may be terminated if the airline (a) fails to begin operation of a given route for a period exceeding 15 days, (b) fails to maintain at least 75% of flights provided for in its air transportation schedule (*Horário de Transporte Aéreo*), or HOTRAN, for any 90-day period or (c) suspends its operation for a period exceeding 30 days. The ANAC approval of new routes or changes to existing routes is given in the course of an administrative procedure and requires no changes to existing concession agreements.

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

International routes. In general, requests for new international routes, or changes to existing routes, must be filed by each interested Brazilian airline that has been previously qualified by the ANAC to provide international services, with the SRI (International Relations Superintendence of the 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 the ANAC 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, the ANAC has the authority to approve Brazilian airlines to operate new routes, subject to the airline having filed studies satisfactory to the ANAC demonstrating the technical and financial viability of such routes and fulfilling certain conditions in respect of the concession for such routes. Any airline's international route frequency rights may be terminated if the airline fails to maintain at least 80% of flights provided for in its air transportation schedule HOTRAN for any 180-day period or suspends its operation for a period exceeding 180 days.

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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.

Slots Policy

Domestic. Under Brazilian law, a domestic slot is a concession of the ANAC, which is reflected in the airline's HOTRAN. Each HOTRAN represents the authorization for an airline to depart from and arrive at specific airports within a predetermined timeframe. Such period of time is known as an "airport slot" and provides that an airline can operate at the specific airport at the times established in the HOTRAN. An airline must request an additional slot from the ANAC with a minimum of two months' prior notice.

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

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

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

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

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

Current rules regarding slots distribution at Congonhas Airport, which favors us, require that 80% of new slots be assigned to airlines already operating in that airport. New proposed rules, which are under public hearing, may reduce that percentage.

Airport Infrastructure

INFRAERO, a state-controlled corporation, is in charge of managing, operating and controlling federal airports, including control towers and airport safety operations.

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Smaller, regional airports may belong to states or municipalities within Brazil and, in such cases, are often managed by local governmental entities. At most important Brazilian airports, INFRAERO performs safety and security activities, including passenger and baggage screening, cargo security measures and airport security.

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

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

Of the 66 Brazilian airports managed by INFRAERO, approximately 13 airports are receiving infrastructure investments and upgrades. The airport upgrade plan does not require contributions or investments by the Brazilian airlines and is not expected to be accompanied by increases in landing fees or passenger taxes on air travel.

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, and other airports are expected to be privatized in the future.

The airports auctioned were:

	Cumbica (Guarulhos)	**Viracopos (Campinas)**	**Juscelino Kubitschek (Brasília)**
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$ 1.770 million 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: - new terminal with capacity for at least 7 million additional passengers per year	Construction of: - new terminal with capacity for at least 5.5 million additional passengers per year	Construction of: - 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 maneuver	Expansion of the runway for aircraft maneuver	Expansion of the runway for aircraft maneuver

Source: Civil Aviation Secretary (*Secretaria de Aviação Civil*) or SAC.

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These airports represented approximately 30% of total Brazilian passengers transported in 2011, including domestic and international traffic, according to ANAC.

Concession for Air Transportation Services

According to the Brazilian Federal Constitution, the Brazilian government is responsible for public services related to airspace as well as airport infrastructure, and may provide these services directly or through third parties under concessions or authorizations. According to the Brazilian Aeronautical Code and regulations issued by the CONAC, the application for a concession to operate regular air transportation services is subject to a license granted by the ANAC to operate an airline and to explore regular air transportation services. The applicant is required by the ANAC to have met certain economic, financial, technical, operational and administrative requirements in order to be granted such license. Additionally, a concession applicant must be an entity incorporated in Brazil, duly registered with the Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro*), or RAB, must have a valid airline operating certificate (*Certificado de Homologação de Empresa de Transporte Aéreo*), or CHETA, and must also comply with certain ownership restrictions. See "—Restrictions to the Ownership of Shares Issued by Concessionaires of Air Transportation Services." The ANAC has the authority to revoke a concession for failure by the airline to comply with the terms of the Brazilian Aeronautical Code, the complementary laws and regulations and the terms of the concession agreement.

Our concession was granted on January 2, 2001 by the High Command of Aeronautics of the Ministry of Defense. The concession agreement can be terminated if, among other things, we fail to meet specified service levels, cease operations or declare bankruptcy.

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

Import of Aircraft into Brazil

The import of civil or commercial aircraft into Brazil is subject to prior 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 the ANAC. A certificate of registration attributes Brazilian nationality to the aircraft and is evidence of its enrollment with the competent aviation authority. A certificate of airworthiness is generally valid for six years from the date of the ANAC's inspection and authorizes the aircraft to fly in Brazilian airspace, subject to continuing compliance with certain technical requirements and conditions. The registration of any aircraft may be cancelled if it is found that the aircraft is not in compliance with the requirements for registration and, in particular, if the aircraft has failed to comply with any applicable safety

requirements specified by the ANAC or the Brazilian Aeronautical Code.

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

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

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

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- the voting shares have to be nominative and non-voting shares cannot be converted into voting shares;

- prior approval of the Brazilian aviation authorities is required for any transfer of shares, regardless of the nationality of the investor, which results in the change of the company's corporate control, causes the assignee to hold more than 10% of the company's capital stock or represents more than 2% of the company's capital stock;

- the airline must file with the ANAC, in the first month of each semester, a detailed shareholder chart including a list of shareholders, as well as a list of all share transfers effected in the preceding semester; and

- based on its review of the airline's shareholder chart, the ANAC has the authority to subject any further transfer of shares to its prior approval.

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

Environmental Regulation

Brazilian airlines are subject to various federal, state and municipal laws and regulations relating to the protection of the environment, including the disposal of materials and chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities. The non-compliance with such laws and regulations may subject the violator to administrative and criminal sanctions, in addition to the obligation to repair or to pay damages caused to the environment and third parties. As far as civil liabilities are concerned, Brazilian environmental laws adopt the strict 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

Ex-Im Bank has recently 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 delivered on or after January 1, 2011, or under firm contracts entered into after April 30, 2007. While subject to modification, the exposure fees paid by Gol on applicable aircraft are likely to increase. The amount of any such increase will depend upon the credit risk assigned to us by the participating export-agencies pursuant to the protocols of the ASU. In addition, we will no longer be able to finance the amortization payments of loans guaranteed by Ex-Im Bank with SOAR loan facilities for the new aircraft contracted from 2012.

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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 five subsidiaries: VRG, which also owns Webjet, and three offshore finance subsidiaries Gol Finance Cayman and GAC Inc., which owns 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, 2011, we have 45 Boeing 737s classified as finance lease aircraft and six Boeing 737-300s owned by Webjet. 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 maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We have three hangars in our Aircraft Maintenance Center, with a capacity to perform maintenance on 120 aircraft per year, and we 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 14 to our financial statements as of and for the year ended December 31, 2011.

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 2011, 89% of our revenues were derived from passenger fares, and the remaining 11% 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.

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Cargo revenue is recognized when transportation is provided. Other ancillary revenue consists primarily of ticket change fees, excess baggage charges, interest on installment sales and other incidental services. Passenger revenues are based upon our capacity, load factor and yield. Our capacity is measured in terms of available seat kilometers, which represents the number of seats we make available on our aircraft multiplied by the number of kilometers the seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing revenue passenger kilometers by available seat kilometers. Yield is the average amount that one passenger pays to fly one kilometer.

The following table demonstrates our main operating performance indicators in 2010 and 2011:

	Year Ended December 31,	
	2010(1)	**2011**
Operating Data:		
Load-factor	66.7%	68.7%
Break-even load-factor	60.0%	70.9%
Aircraft utilization (block hours per day)	12.9	13.0
Yield per passenger kilometer (cents)	20.5	19.5
Passenger revenue per available seat kilometer (cents)	13.7	13.4
Operating revenue per available seat kilometer (cents)	15.2	15.0
Number of departures	295,160	314,190
Operating aircraft at period end	114	127

(1) 2010 operating data were recalculated in accordance with the current DCA Manual.

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

We generate most of our revenue from ticket sales through our website, and we are one of the largest and leading e-commerce companies in Brazil in terms of net sales through the Internet.

The ANAC and the aviation authorities of the other countries in which we operate may influence our ability to generate revenues. In Brazil, the ANAC approves the concession of slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new aircraft. Our ability to grow and to increase our revenues is dependent on the receipt of approvals for new routes, increased frequencies and additional aircraft from the ANAC.

Operating Expenses

We seek to lower our operating expenses by operating a standardized fleet with a single-class of service, having one of the newest fleets in the industry, utilizing our aircraft efficiently, using and encouraging low-cost ticket sales and distribution processes. The main components of operating expenses include those related to aircraft fuel, aircraft rent, aircraft maintenance, sales and marketing, and salaries, wages and benefits provided to employees, including provisions for our profit sharing plan.

Our aircraft fuel expenses are higher than those of low-cost airlines in the United States and Europe because the Brazilian infrastructure to produce, transport and store fuel is expensive and underdeveloped, especially in the north and northeast regions of the country. In addition, taxes applicable to the sale of jet fuel are high and are passed along to us. Our aircraft fuel expenses are variable and fluctuate based on global oil prices. Since global oil prices are U.S. dollar-based, our aircraft fuel costs are also linked to fluctuations in the exchange rate of the *real* versus the U.S. dollar. In 2011, fuel expenses represented 39.3% of our total operating expenses, as compared to 36.4% in 2010. 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. We currently enter into short-term arrangements to hedge against increases in oil prices and foreign exchange fluctuations.

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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 21 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 7.0 years for 123 GOL Boeing 737-700/800 and 18.0 years for 24 Webjet Boeing 737-300 at December 31, 2011 and most of the parts on our aircraft are under multi-year warranties, our aircraft have required a low level of maintenance and therefore we have incurred low maintenance expenses. Our aircraft are covered by warranties that have an average term of three to five years. The warranties on the aircraft we received in 2010 under our firm purchase order with Boeing will start expiring in 2014. 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 88.5% of our consolidated sales through our website and API systems in the year ended December 31, 2011 and 88.1% in 2010, including internet sales through travel agents. For these reasons, we believe that we have an advantage compared to industry peers in sales and marketing expenses and expect this advantage will remain in the future.

Salaries, wages and benefits paid to our employees include annual cost of living adjustments and provisions made for our profit sharing plan. We have no seniority-related increases in these costs due to our salary structure. We believe that we have an advantage compared to industry peers in salaries, wages and benefits expenses due to generally lower labor costs in Brazil as compared to other countries. We believe that these advantages will continue to exist in the future.

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

Webjet Acquisition

On October 3, 2011, we acquired Webjet for an adjusted price of R$43,4 million and assumed a net debt of R$214 million. Webjet's operations were consolidated into our financial statements as from October 3, 2011. Webjet's operating expense per available seat kilometer (CASK) ex-fuel for the year ended December 31, 2010 was R$7.3 cents which represents the lowest CASK ex-fuel in the Brazilian domestic aviation industry. As of December 31, 2011, Webjet had a total fleet of 24 Boeing 737-300 with an average age of 18 years, of which 18 aircraft were leased and 6 are owned by Webjet. Webjet's leased aircraft are scheduled to be returned between 2012 and 2013. The acquisition is still subject to regulatory approval. For more information about the Webjet acquisition, see note 12 to our consolidated financial statements.

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Brazilian Economic Environment

As a company with most of its operations currently in Brazil, we are affected by general economic conditions in the country. While our growth since 2001 has been primarily driven by our expansion into new markets and increased flight frequencies, we have also been affected by macroeconomic conditions in Brazil. Our growth outpaced that of our primary competitors because of strong demand for our lower fare service. In 2011, we grew 14.1% in terms of revenue passenger kilometers in the domestic market and considering both international and domestic market 12.3%. The relatively lower consolidated growth rate compared to the domestic market is due to fierce domestic competition during the first half of 2011, which stimulated the Brazilian aviation industry. 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 seven years of operations, we believe that our revenues are highly correlated with the *real*/U.S. dollar exchange rate and jet fuel prices because *real* fluctuations and increases in jet fuel prices are generally incorporated into the fare structures of Brazilian airlines. In 2011, 51.8% of our operating expenses (including aircraft fuel) are denominated in, or linked to, U.S. dollars and therefore vary with the *real*/U.S. dollar exchange rate. We believe that our foreign exchange and fuel hedging programs protect us against short-term swings in the *real*/U.S. dollar exchange rate and jet fuel prices. Overall, we believe that the combination of our revenue stream, with its correlation to movements in the *real*/U.S. dollar exchange rate, and short-term hedges on the U.S. dollar-linked portion of our expenses, will mitigate the adverse effect on our operating expenses of abrupt movements in the *real*/ U.S. dollar exchange rate.

Inflation has also had, and may continue to have, effects on our financial condition and results of operations. In 2011, 79.4% 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.

	December 31,		
	2009	**2010**	**2011**
Real growth in gross domestic product	(0.2)%	7.5%	2.7%
Inflation (IGP-M)[1]	(1.7)%	11.30%	5.1%
Inflation (IPCA)[2]	4.3%	5.9%	6.5%
CDI rate[3]	9.9%	9.7%	11.6%
LIBOR rate[4]	0.25%	0.30%	0.58%
Depreciation (appreciation) of the *real* vs. U.S. dollar	(25.5)%	(4.3)%	12.6%
Period-end exchange rate—US$1.00	R$1.7412	R$1.6662	R$1.8758
Average exchange rate—US$1.00[5]	R$1.9946	R$1.7593	R$1.6746
Period-end West Texas intermediate crude (per barrel)	US$79.36	US$91.40	U$98.83
Period-end Increase (decrease) in West Texas intermediate crude (per barrel)	(77.9)%	15.2%	8.1%
	US$62.09	US$79.63	US$95.11

West Texas Intermediate crude (average per barrel during period)			
Average Increase (decrease) in West Texas Intermediate crude (per barrel)	(37.8)%	28.2%	19.5%

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.

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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 rotable 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 rotable 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 its aircraft, the Company primarily has relied upon actual experience with the same or similar aircraft types and recommendations from Boeing, the manufacturer of the Company’s aircraft. Aircraft estimated useful lives are based on the number of “cycles” flown (one-take-off and landing). The Company has made a conversion of cycles into years based on both its historical and anticipated future utilization of the aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to the Company’s maintenance program, changes in utilization of the aircraft (actual cycles during a given period of time), governmental regulations related to aging aircraft, and changing market prices of new and used aircraft of the same or similar types. The Company evaluates its estimates and assumptions each reporting period and, when warranted, adjusts these estimates and assumptions. These adjustments are accounted for on a prospective basis through depreciation and amortization expense, as required by IFRS.

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 31 December 2010 and 2009, no impairment on

property, plant and equipment assets was recognized. As of 31 December 2011, we recognized an amount of R$50.7 million of impairment of fixed assets. See note 14 to our financial statements included elsewhere herein.

Lease accounting. Aircraft lease agreements are accounted as either operating or capital leases (finance leases). When the risks and benefits of the lease are transferred to us, as lessee, the lease is classified as capital lease. Capital leases are accounted as an acquisition obtained through a financing, with the aircraft recorded as a fixed asset and a corresponding liability recorded as a 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 de risks and benefits to us are classified as operating leases. Operating lease payments are accounted as a rent, and the lease expense is recognized when incurred through the straight line method.

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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 of the asset, the difference is recognized as a loss immediately. When the sale gives rise to a gain it is recognized up to the fair value, the excess is deferred and amortized throughout the term of the lease. When the sale results in a loss and the carrying amount is not greater than fair value, the loss is deferred if compensated by future lease payments. If the carrying amount is greater than fair value it is written down to fair value, and if there is still a loss it is deferred if compensated by future lease payments.

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

Goodwill and Intangible Assets. We have allocated goodwill and intangible assets with indefinite lives acquired through business combinations for the purposes of impairment testing to a single cash-generating unit, the operating subsidiary VRG. Goodwill is tested for impairment annually by comparing the carrying amount to the recoverable amount of the cash-generating unit level that has been measured on the basis of its value-in-use, by applying cash flow projections in the functional currency based on the Company's approved business plan covering a five-year period followed by the long-term growth rate of 3.5%. The pre-tax discount rate applied to the cash flow projections is 17.68%. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure the recoverable amount. Assumptions in the Company's impairment evaluations are consistent with internal projections and operating plans. Airport operating rights were acquired as part of the acquisition of VRG were capitalized at fair value at that date and are not amortized. Those rights are considered to have indefinite useful lives due to several factors and considerations, including requirements for necessary permits to operate within Brazil and limited slot availability in the most important airports in terms of traffic volume. VRG tradenames were acquired as part of the VRG acquisition and were capitalized at fair value at that date. The tradenames are considered to have an indefinite useful life (and are not amortized) due to several factors and considerations, including the brand awareness and market position, customer recognition and loyalty and the continued use of the VARIG tradenames. The carrying values of the airport operating rights and tradenames are reviewed for impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that carrying values may not be recoverable. Costs related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately and amortized over a period not exceeding five years on a straight-line basis. The carrying value of these intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. The Company assesses at each balance sheet date whether intangibles with indefinite useful lives are impaired using discounted cash flow analyses, which considers the creditworthiness of the issuer of the security, as further described in Note 15 to our financial statements. As of December 31, 2011, 2010 and 2009 no impairment on goodwill and other intangible assets was recognized.

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*). We expect to finalize the valuation of certain assets, including intangible assets and liabilities, as well as the effect of deferred taxes until October 2, 2012. 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 in the Guarulhos and Santos Dumont airports, which are 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.

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Derivative Financial Instruments. The Company accounts for derivative financial instruments in accordance with IAS 39. In executing the risk management program, management uses a variety of financial instruments, to protect against sharp changes in market prices and to mitigate the volatility of its expenditures related to these prices. The Company does not hold or issue derivative financial instruments for speculative purposes.

Derivative financial instruments are initially recognized at fair value and subsequently the change in fair value is recorded in profit or loss, unless the derivative meets the strict criteria for 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 the exposure to fluctuations in cash flow that are attributable to a particular risk associated with an asset or liability recognized regarding an operation that is highly likely to occur or to an exchange rate risk for an unrecognized firm commitment, 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, the Company designates and formally documents the item covered by the hedge, as well as the objective of the hedge and the risk policy strategy. Documentation includes identification of the hedge instrument, the item or transaction to be protected, the nature of the risk to be hedged and how the entity will determine the effectiveness of the hedge instrument in offsetting exposure to variations in the fair value of the item covered or the cash flows attributable to the risk covered. The purpose is that such hedge instruments will be effective in offsetting the changes in fair value or cash flows and they are constantly appraised to determine if they really have been effective throughout the entire period for which they have been designated.

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

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

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.

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

	2010	**2011**
	(in thousands of *reais*)	
Beginning of year	446,530	456,666
Addition of Webjet's deposits	-	59,679
Amounts paid in	206,151	118,063
Reimbursement of expense incurred	(191,500)	(220,280)
Replacement by letters of credit	(4,515)	(45,854)
Exchange variation	-	(10,130)
End of year	**456,666**	**358,144**

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 either when transportation is provided or when the unused ticket expires. Tickets sold but not yet used are recorded as advance ticket sales that represents primarily deferred revenue for tickets sold for future travel dates. We recognize a portion of advance ticket sales as revenue based on historical data relating to the percentage of tickets sold and not 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, the Company operates a frequent flyer program, ("*Smiles* Program") that provides travel and other awards to members based on accumulated mileage credits. The obligations assumed under the *Smiles* Program were valued at the acquisition date at estimated fair value that represents the estimated price the Company would pay to a third party to assume the obligation for miles expected to be redeemed under the *Smiles* Program. The 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.

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

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 increase, for operating costs such as jet fuel prices, leasing expenses and etc. Our business plan is revised annually in order to revaluate 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.

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Results of Operations

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, and is still subject to regulatory approval, 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.

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

	Year Ended December 31,	
	2010	2011
Income Statement Data:	(in thousands of *reais*)	
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)
Income (loss) before income taxes and social contribution	386,496	(1,000,418)
Income taxes	(172,299)	248,880
Net loss (income)	214,197	(751,538)

Operating Revenue

Oerating 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:

		Year Ended December 31,	
Operating Revenue	**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.

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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:

	Year Ended December 31,		
Operating Expenses (in thousands of *reais*)	**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%
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%
Total operating expenses	**(6,281,652)**	**(7,783,812)**	**23.9%**

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.

	Year Ended December 31		
Operating Expenses per Available Seat Kilometer Breakdown (%)	**2010**	**2011**	**Chg bps**
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%

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	Year Ended December 31		
Operating Expenses per Available Seat Kilometer (in cents of *reais*)	**2010**	**2011**	**Chg %**
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)	(0.80)	0.3%
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)	(1.09)	41.1%
Operating Expenses per available seat kilometer (CASK)	**(13.67)**	**(15.53)**	**13.6%**
CASK excluding fuel expenses	**(8.70)**	**(9.42)**	**8.4%**

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) the impact of a 6.5% pay raise for our 2012 payroll accounting in December 2011; and (v) 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 (ii) 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 0.3%, 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.

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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 80.3% from R$351.4 million in 2010 to R$633,634 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 results 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.

	Year Ended December 31		
Financial Result (in thousands of *reais*)	**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%

Net financial results	**(311,299)**	**(755,914)**	**142.8%**

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).

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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 a 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$751.3 million in 2011, versus a net income of R$214.2 million in 2010.

Year 2010 Compared to Year 2009

Our results of operations in 2010 were affected by the following key drivers:

Strong growth in domestic market: In 2010, the improved economic scenario in Brazil and South America as a whole, especially from the consumer confidence point of view and the expansion of the country’s emerging middle class, which led to a greater number of people opting for air transport, were the main factors for the increase in domestic demand. As a result we grew 17.0% as compared to 2009 in terms of revenue passenger kilometers in the domestic market.

Implementation of new cost reduction initiatives: We have completed our fleet renewal plan in 2010, with the return of the remaining 11 Boeing 737-300 aircraft. This will benefit future years with a reduction of approximately R$9 million per quarter of leasing expenses. We will replace more aircraft with new Boeing 737-800 and 700s NGs aircraft that will provide lower cost of inventories and spare parts, less fuel consumption and lower crew training costs. We also have implemented several measures for cost reduction resulting in a reduction of other operating expenses, including: the implementation of the Shared Services Center, the adoption of zero based budgeting methodology and investments linked to IT improvements of internal controls systems in order to improve operational efficiency. Our high aircraft utilization rate of 12.9 block hours per day in 2010, an increase of 10.4% compared to the 11.6 block hours per day recorded in 2009, also contributed to dilute fixed costs.

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We present in the following table information regarding our results of operations in IFRS in 2010 and 2009.

	Year Ended December 31,	
	2009	2010
Income Statement Data:	(in thousands of *reais*)	
Operating revenues:		
Passenger	5,306,530	6,277,657
Cargo and other	718,852	701,790
Total operating revenues	6,025,382	6,979,447
Operating expenses:		
Salaries	(1,100,953)	(1,252,402)
Aircraft fuel	(1,813,104)	(2,287,410)
Aircraft rent	(650,683)	(555,662)
Sales and marketing	(364,551)	(367,757)
Landing fees	(312,637)	(331,882)
Aircraft and traffic servicing	(381,721)	(430,521)
Maintenance, materials and repairs	(417,212)	(422,950)
Depreciation and amortization	(142,853)	(281,604)
Other operating expenses	(428,376)	(351,464)
Total operating expenses	(5,612,090)	(6,281,652)
Income (loss) from operations before financial income (expenses)	413,292	697,795
Interest expense	(288,112)	(297,256)
Financial income (expense), net	630,956	(14,043)
Income (loss) before income taxes and social contribution	756,136	386,496
Income taxes	134,696	(172,299)
Net loss (income)	890,832	214,197

We had operating income of R$697.8 million in 2010 compared to R$413.2 million in 2009. Our operating margin was 10.0% in 2010, and 6.9% in 2009. We reported net income in 2010 of R$214.2 million compared to R$890.8 million for 2009. Income before income tax was R$386.5 million in 2010 compared to R$756.1 million in 2009.

Operating Revenues. Operating revenues increased 15.8% to R$6,979.5 million in 2010 as compared to 2009 as a result of the increased demand for domestic flights emerging from the Brazilian middle class due to the positive macroeconomic scenario, in addition to our: (i) dominant position and increased frequency between the Brazilian leading airports; (ii) high operating quality indices (punctuality, regularity, client service and safety); (iii) dynamic fare management, which combines the strengthening quarterly yields with stimulation demand for leisure travelers; (iv) growth of the *Smiles* mileage program and; (vi) focus on short-haul flights in a range of three hours or less, benefiting business travelers. Our consolidated demand increased 19,4%. Our domestic market demand increased by 17.0%, while international market demand increased 48.7% as a result of our international network expansion with the introduction of new routes in the Southern Cone and Caribbean regions and the introduction of new regional destinations in Brazil in addition to markets operated by our new regional airline partners. The higher demand was partially offset by a 0.9% decrease in yields to R$20.5 cents in 2010 from R$20.7 cents in 2009 due to a variety of factors: (i) a more stable capital markets scenario, (ii) lower selling expenses in the domestic market due to a gradual decrease during 2009 of commissions paid to travel agencies in the domestic market (valid for all players in the

industry) which were fully extinguished in February 2010, (iii) the upturn in economic activity and consumer confidence, reflected in increased demand for leisure trips that consequently, generate larger forward bookings; (iv) an increase in the average stage length by 1.9% and; (v) lower U.S. dollar and WTI oil price volatility.

Our load factor increased 3.1 percentage points from 63.6% in 2009 to 66.7% in 2010, mainly due to lower increase in available seat kilometers by 13.8% compared to the increase of 19.4% in revenue passenger kilometers.

Our ancillary revenues, composed by cargo and others revenues, decreased 2.4% from R$718.9 million in 2009 to R$701.8 million in 2010, representing 10.1% of our total net revenues, mainly due to the decrease in no-show fee and tickets rescheduling revenue and due to revenues of R$48.1 million in 2009 related to image rights and rental of our *Smiles* client database as part of the co-branded credit card contract.

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Operating Expenses. Operating expenses per available seat kilometer decreased 1.7% from R$13.91 cents in 2009 to R$13.67 cents in 2010, primarily due to the (i) increased available seats kilometers by 13.8%; (ii) 10.4% increase in aircraft utilization; (iii) 1.9% extension of the average stage length, offset by an increase of 10.8% in fuel cost from R$4.49 cents to R$4.98 cents per available seat kilometers. Operating expenses per available seat kilometer excluding fuel decreased 7.6% from R$9.41 cents to R$8.70 cents in 2010, mainly due to lower aircraft rent, maintenance, sales and marketing and other operating expenses; offset by the additional costs arising from the fleet renewal carried out in 2010 to return eleven Boeing 737-300 aircraft and the maintenance expenses for reactivation of five Boeing 767, four for long-haul international charter and one for sub-leasing operations.

Our breakeven load factor increased 0.8 percentage points to 60.0% in 2010 compared to 59.2% in 2009, primarily due to (i) higher fuel cost per liter; (ii) 0.9% decline in yields and; (iii) a 3.1 percentage points increase in load factor.

The breakdown of our operating expenses on a per available seat kilometer basis for 2010 compared to 2009 is as follows.

	Year Ended December 31,	
	2009	**2010**
	(cost per available seat kilometer in R$ cents)	
Operating expenses:		
Salaries	2.73	2.73
Aircraft fuel	4.49	4.98
Aircraft rent	1.61	1.21
Sales and marketing	0.90	0.80
Landing fees	0.77	0.72
Aircraft and traffic servicing	0.95	0.93
Maintenance materials and repairs	1.03	0.92
Depreciation and amortization	0.35	0.61
Other operating expenses	1.06	0.77
Total operating expenses	**13.91**	**13.67**
Cost per flight hour	**9.41**	**8.70**

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 2010 reflects the new methodology. 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. ANAC has stated that it will republish information for 2008 at a later date.

Salaries, wages and benefits increased 13.8%, or R$151.4 million, due to (i) a 6% partial cost of living increase on salaries effected in December 2010; (ii) higher constituted provisions for employee profit sharing based on the stock option plan and; (iii) a 4.5% increase in the number of employees from 17,963 in 2009 to 18,776 in 2010, especially in the operational, airport and call center areas, in turn fueled by the need to adjust to the growth in our operations and the growth of 15.8% in passengers transported. Salaries, wages and benefits per available seat kilometer decreased

0.1% due to the same reasons, although diluted by the increase in available seat kilometers in 2010.

Aircraft fuel expense increased 26.2%, or R$ 474.3 million, primarily due to a 22.4% increase in average oil (WTI) prices, 3.4% increase in fuel consumption due to the growth in the operations and higher number of average operating aircraft (from 108 in 2009 to 111 in 2010). Aircraft fuel expense per available seat kilometer increased 10.8% due to the same reasons, although diluted by the increase in available seat kilometers in 2010.

Aircraft rent, which we incur in U.S. dollars, decreased 14.6%, or R$ 95.0 million, due to a 11.7% average depreciation of the U.S. dollar against *real* and a 18.2% increase in the total fleet under finance leases from 33 in 2009 to 39 in 2010. Aircraft rent per available seat kilometer decreased 25.0%, due to the same reasons, although emphasized by an increase in available seat kilometers in 2010.

Sales and marketing expense increased 0.9%, or R$ 3.2 million, resulting from (i) additional advertising expenses in order to revitalize our *Smiles* mileage program; (ii) advertising expenses from a new institutional campaign and; (iii) higher commissions paid to credit card administrators due to the increase in direct sales, partially offset by the elimination of ticket sales commissions for travel agents as of the beginning of February 2010. Sales and marketing per available seat kilometer decreased 11.4% due to the increase in available seat kilometers in 2010.

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Landing fees increased 6.2%, or R$19.3 million, mainly due to a 7.9% increase in departures. Landing fees per available seat kilometer decreased 6.7% due to the increase in available seat kilometers in 2010.

Aircraft and traffic servicing expense increased 12.8%, or R$48.8 million, primarily due to an increase in the average operating fleet (from 108 in 2009 to 111 in 2010), increased handling expenses as a result of increased arrivals and departures and additional IT and consulting services related to (i) the implementation of the new budget planning method (zero base budget), (ii) the Shared Service Center aiming to improve the quality and productivity of our operations, (iii) the migration of our *Smiles* system from IBM to Oracle (Siebel) and (iv) the improvement of internal software (related to check-in developments, buy on board services and wireless entertainment service). Aircraft and traffic servicing expense per available seat kilometer decreased 1.5% due to the same reasons, although diluted by the increase in available seat kilometers in 2010.

Maintenance, materials and repairs increased 1.4%, or R$5.7 million, due to increase in scheduled aircraft maintenance events during the year, reflecting the larger average operating fleet and expenses related to the fleet renovation and standardization program, with return of eleven remaining Boeing 737-300 and reactivation of five Boeing 767 to long-haul international charters and sub-leasing operations. Maintenance, materials and repairs per available seat kilometer decreased 10.9% primarily due to the increase in available seat kilometers in 2010.

Depreciation and amortization increased 97.1% or R$138.8 million, due primarily to (i) the higher number of aircraft under finance leases (from 33 in 2009 to 39 in 2010); (ii) a change in 2010 in the estimate for the depreciation of maintenance costs for engines under finance leases, which now have a 5-year depreciation period, whereas the remaining items continue to depreciate over 25 years. Depreciation and amortization per available seat kilometer increased 73.2% due to the same reasons, although diluted by the increase in available seat kilometers in 2010.

Other operating expenses (mainly comprising accommodation, crew travel and accommodation, direct passenger expenses, equipment leasing and general and administrative expenses) decreased 18.0%, or R$76.9 million, due to several factors: (i) more efficient controls over general and administrative expenses (telephone, water, gas and electricity), as well as losses of inventories, uniforms and other inputs in the operational bases, (ii) gains from the automation of our internal systems (inventories, accounts, billing, legal affairs and accounts receivable), which led to better controls over provisions and reduction in general and administrative expenses; (iii) optimization of our route network; (iv) fewer flight cancellations; and (v) greater volume of IT equipment under finance leases, reducing expenses from equipment rentals. Other operating expenses per available seat kilometer decreased 27.4% due to the same reasons, although emphasized by the increase in available seat kilometers in 2010.

Financial Income (Expense). Financial expense in 2010 totaled R$311.3 million compared to a financial income of R$342.8 million in 2009, mainly as a result of: (i) lower non-cash foreign exchange variation gains on our assets and liabilities of R$661.7 million due to the impact of the 4.3% appreciation of the *real* against the U.S. dollar during 2010 (compared to a 25.5% appreciation in 2009); (ii) higher interest expenses related to the increase in our indebtedness with the issue of senior notes in July 2010 and debentures in September 2010; (iii) partially offset by the R$33.9 million increase of interest revenue due to the higher cash position since the end of 2009.

Income Taxes. Our income taxes totaled R$172.3 million in 2010, compared to an income tax benefit of R$134.7 million in 2009, mainly as a result of higher current income tax in 2010 due to higher taxable income basis calculated in accordance with Brazilian corporation law (No. 6,404/76) and higher deferred income tax expense caused by: (i) temporary differences arising mainly from the exchange variation on financial leasing operations which generate deferred income tax liabilities; (ii) recognition in 2009 of deferred income tax credits resulting from tax

losses generated by VRG acquisition and; (iii) tax credits from temporary differences recorded in 2009 based on expectations for future taxable income.

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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 2011, we used R$602.5 million in cash from our operating activities reflecting the decrease in our operating profitability. In 2010 and 2009, net cash provided by operating activities was R$723.9 million and R$457.3 million, respectively. Cash flows used in operating activities for 2011 were driven by R$751.5 million in net loss, plus noncash depreciation and amortization expense of R$395.8 million, noncash interest on loans of R$414.4 million, noncash exchange variation loss of R$400.1 million, a R$123.7 million increase in accounts receivable, R$1,011.5 million short-term investments used for trading, a R$66.1 million increase in deposits, an increase of R$305.0 million in interest paid and a decrease of R$77.3 million in prepaid expenses and recoverable taxes. Cash flows associated with derivative financial instruments, which are also classified as operating cash flows, generated net inflows of R$19.5 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. In 2009, we generated R$457.3 million cash from our operating activities, mainly driven by our net income of R$890.8 million, and partially offset by the decrease in accounts receivable of R$182.0 million and a decrease in deposits of R$124.2 million.

In 2011 our operating cash flows were affected by an increase of R$66.1 million related to the requirement under the terms of certain of our aircraft operating lease agreements that we establish maintenance reserve deposit accounts for our aircraft that must be funded at specified levels. As of December 31, 2011, we had R$630.5 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. Net cash used in investing activities was R$469.2 million primarily due to the payment for the acquisition of Webjet (net of cash acquired) of R$33.9 million and of property and equipment, including spare parts and aircraft modifications, investments in the expansion of Confins Maintenance Center and pre-delivery deposits for the acquisition of Boeing 737 aircraft. During 2011, capital expenditures were R$279.8 million, especially due to pre-delivery deposits for the acquisition of Boeing 737 aircraft. In 2010 capital expenditures were R$230.5 million mainly related to pre-delivery deposits for the acquisition of Boeing 737 aircraft.

Financing Activities. Net cash generated from financing activities totaled R$354.5 million in 2011 and consisted primarily of capital we raised in our issuance of our 5th series of debentures in the amount of R$500 million maturing in 2017 that we used as working capital, to pay suppliers, and in 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, as compared to net cash generate from financing activities of R$769.2 million in 2009, mainly due to receipt of net proceeds from a follow-on offering of common and preferred shares in the amount of R$600.3 million concluded in October 2009 and receipt of net proceeds from a rights offering in the amount of R$203.5 million concluded in the second quarter of 2009.

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 have a strong balance sheet, especially our cash position which as of December 31, 2011 was equivalent to 31.1% of our trailing twelve months' operating revenues and already surpasses our initial target of at least 25% of the trailing twelve months' operating revenues. This position also covers 1.5 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.

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

	At December 31,		
	2010	**2011**	***% Change***
	(in millions of *reais*)		
Real Denominated	**2,316.1**	**2,702.6**	**16.7%**
Cash and Cash Equivalents	1,955.9	1,230.3	(37.1%)
Short-Term Investments and Short- and Long-Term Restricted Cash	57.1	1,118.2	1,858.3%
Short-term Receivables	303.1	354.1	16.8%
Foreign Exchange Denominated	**323.7**	**365.1**	**12.8%**
Advances for acquisition of aircraft	323.7	365.1	12.8%
Total Cash Deposits	**2,639.8**	**3,067.7**	**16.2%**

As of December 31, 2011, cash and cash equivalents, short-term investments and short- and long-term restricted cash were R$2,702.6 million, comprised by R$1,230.3 million in cash and cash equivalents balance, R$1,009.1 million in short-term investments representing immediate liquid financial assets and R$109.1 million in restricted cash. The increase in total cash deposits, as compared to 2010 is mostly due to several measures in 2011 towards increasing our liquidity such as (i) our 5th debenture issuance in the amount of R$500 million, which was used to finance working capital and pay suppliers; (ii) the equity investment of R$182 million made by Delta Air Lines; and (iii) an issuance of R$200 million related to Webjet's refinancing, which allowed us a greater flexibility in the management of Webjet's cash flow.

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 2011, we had increased volume of short-term receivables as compared to 2010, due to an increase in the volume of advance ticket sales.

As of December 31, 2011, we had R$365.1 million deposited with Boeing as advances for aircraft acquisitions, an increase of 12.8% as compared to December 31, 2010, mainly due to the higher number of aircraft delivered in 2011 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 2010.

As a result, our total cash deposits was R$3,067.7 million as of December 31, 2011 as compared to R$2,639.8 million at December 31, 2010.

Indebtedness

The following table sets forth our loans and financings at December 31, 2011 and 2010:

	At December 31,		
	2010	**2011**	**% Change**
	(in millions of *reais*)		
Loans and Financing	1,709.4	2,535.2	48.3%
Aircraft Finance Lease	1,680.1	2,056.3	22.4%
Interest	53.7	64.1	19.4%

Perpetual Bonds	297.9	335.8	12.7%
Total Loans and Financing	**3,741.1**	**4,991.4**	**33.4%**

As of December 31, 2011, our total debt was R$4,991.4 million, with an average term of 7.3 years (excluding perpetual notes) and an average interest rate of 12.3% for obligations in local currency and of 6.2% for U.S. dollar denominated obligations. Excluding our perpetual bonds, which have no maturity date, total loans and financing totaled R$4,655.7 million at December 31, 2011, with a negative foreign exchange effect due to the depreciation of the *real* against the U.S. dollar of 12.6% between 2011 and 2010. The increase compared to 2010 was also impacted by: (i) the 5th issuance of debentures in the amount of R$500 million issued in June 2011; (ii) the higher number of aircraft under financial leasing (average of 42 in 2011 versus 35 in 2010); and (iii) the incorporation of Webjet's debt in our balance sheet from October 3, 2011.

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Loans and Financing

The following table sets forth our short- term and long-term loans as of December 31, 2010 and 2011:

	At December 31,		
	2010	**2011**	**% Change**
Short-Term Debt	**(in millions of *reais*)**		
Local Currency	**65.0**	**1,215.1**	**1769.4%**
BNDES- loan	14.4	8.4	-41.7%
BNDES-Safra loan[(2)]	27.5	30.0	8.9%
BDMG loan[(3)]	3.4	3.6	6.6%
Debentures IV **	-	595.1	100.0%
Debentures V**	-	493.3	100.0%
Santander	-	40.7	100.0%
Citibank	-	19.4	100.0%
Industrial CDB	-	1.2	100.0%
Interest	19.7	23.4	18.8%
Foreign Currency (U.S.Dollars)	**281.0**	**337.3**	**20.0%**
Working Capital	83.8	95.9	100.0%
Aeroturbine	-	4.6	100.0%
IFC loan[(4)]	13.9	31.2	124.5%
FINIMP[(5)]	2.7	3.1	15.0%
Finance Lease	146.6	161.8	10.3%
Interest	34.0	40.7	19.7%
Total Short-Term Debt	**346.0**	**1,552.4**	**348.6%**
Long-Term Debt			
Local Currency	**700.5**	**264.7**	**-62.2%**
BNDES loan [(1)]	8.4	-	-100.0%
BNDES-Safra loan [(2)]	70.9	42.8	-39.6%
BDMG loan [(3)]	27.3	25.9	-5.4%
Safra	-	196.0	100.0%
Debentures IV **	593.9	-	-100.0%
Foreign Currency (U.S. Dollars)	**2,396.7**	**2,838.5**	**18.4%**
IFC loan [(4)]	27.8	-	-100.0%
Senior Notes	835.4	944.0	13.0%
Finance Lease	1,533.5	1,894.5	23.5%
Total Long-Term Debt	**3,097.2**	**3,103.2**	**0.2%**
Total Loans Ex-Perpetual Bonds	**3,443.2**	**4,655.6**	**35.2%**
Perpetual Bonds** *	297.9	335.8	12.7%
Total Loans - including Perpetual Bonds	**3,741.1**	**4,991.4**	**33.4%**

*** We reclassified our 4th and 5th debenture issuances in the total amount of R$1,088.5 million from long term to short term debt due to covenant non-compliance as further described in "Covenant Compliance" and "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.

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Aircraft Finance Leases

The following table sets forth our aircraft finance lease as of December 31, 2010 and 2011:

	As of December 31,		
	2010	**2011**	**% Change**
Short-Term Debt (Foreign Currency - U.S. Dollars)	**(in millions of *reais*)**		
Finance Lease	146.6	161.8	10.4%
Total Short-Term Debt (Foreign Currency - U.S. Dollars)	**146.6**	**161.8**	**10.4%**
Long-Term Debt (Foreign Currency - U.S. Dollars)			
Finance Lease	1,533.5	1,894.5	23.5%
Total Long-Term Debt (Foreign Currency - U.S. Dollars)	**1,533.5**	**1,894.5**	**23.5%**
Total Aircraft Finance Lease	**1,680.1**	**2,056.3**	**22.4%**

On December 31, 2011, aircraft finance lease debt totaled R$2,056.3 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, 2011 totaled R$1,552.4 consisting of aircraft finance lease of R$161.8 million, interest of R$64.1 million and loans of R$1,326.5 million.

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

	Maturity	**Contractual Interest**	**Effective Interest p.a.**	**Currency**
BNDES	Jul/12	TJLP +2.65%	8.66%	*Real*
BNDES-Safra	Out/14	TJLP +5.5%	11.50%	*Real*
BDMG	Mar/18	IPCA +6%	8.05%	*Real*
Debentures IV	Sep/15	118.0% of CDI	12.95%	*Real*
Debentures V	Jun/17	120.0% of CDI	13.18%	*Real*
Industrial CDB	Mar/12	CDI +6.17%	11.58%	*Real*
Santander	Out/12	11.63%	11.63%	*Real*
Citibank	Dec/12	11.33%	11.33%	*Real*
Safra	Dec/15	125% of CDI	14.50%	*Real*
Finimp	Set/12	Libor +1.80%	2.69%	U.S. dollar
Aeroturibe	Dec/12	-	-	U.S. dollar
Working Capital	Mar/12	3.42%	12.95%	U.S. dollar
IFC Loan	Jul/13	Libor +3.75%	4.54%	U.S. dollar
Senior Notes 2017	Apr/17	7.50%	7.50%	U.S. dollar
Senior Notes 2020	Jul/20	9.25%	9.25%	U.S. dollar
Perpetual Bonds	n/a	8.75%	8.75%	U.S. dollar

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

	2012	2013	2014	2015	2016	After 2016	Without maturity date	Total
					(in R$ millions)			
Real Denominated	**1,191.7**	**99.3**	**85.4**	**70.0**	**4.4**	**5.6**	**-**	**1,456.4**
Debentures IV	*595.1*	**-**	**-**	**-**	**-**	**-**	**-**	*595.1*
Debentures V	*493.3*	**-**	**-**	**-**	**-**	**-**	**-**	*493.3*
BNDES loan - Safra	*30.0*	***27**.8*	*15.0*	**-**	**-**	**-**	**-**	*72.8*
Safra	**-**	*64.8*	*65.6*	*65.6*	-	-	-	*196.0*
Santander								