Gol Intelligent Airlines Inc.
Form 20-F
April 22, 2008

As filed with the Securities and Exchange Commission on April 22, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

OR

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

OR

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

Commission file number 001-32221

Gol Linhas Aéreas Inteligentes S.A.

(Exact name of Registrant as specified in its charter)

Gol Intelligent Airlines Inc.

(Translation of Registrant s name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

Rua Gomes de Carvalho 1629
04547-006 São Paulo, São Paulo
Federative Republic of Brazil
(+55 11 3169 6800)

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

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

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, 2007:

202,300,255	**Shares of Common Stock**
94,709,463	**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 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-acceleratedFiler ¨

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

Item 17 ¨ Item 18 x

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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INTRODUCTION

In this annual report, we use the terms the Registrant to refer to Gol Linhas Aéreas Inteligentes S.A., Gol or GTA to refer to Gol Transportes Aéreos S.A., Varig or VRG refers to VRG Linhas Aéreas S.A., and we, us and our t to the Registrant and its consolidated subsidiaries together, except where the context requires otherwise. References to preferred shares and ADSs refer to non-voting preferred shares of the Registrant and American depositary shares representing those preferred shares, respectively, except where the context requires otherwise.

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

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

Revenue passengers represents the total number of paying passengers flown on all flight segments.

Revenue passenger kilometers represents the numbers of kilometers flown by revenue passengers.

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

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

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

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

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

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

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

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

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

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

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PRESENTATION OF FINANCIAL AND OTHER DATA

We make statements in this annual report about our competitive position and market share in, and the market size of, the Brazilian and 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 independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications. All industry and market data contained in this annual report is based upon the latest publicly available information as of the date of this annual report.

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

The consolidated financial statements included in this annual report have been prepared in accordance with U.S. GAAP in *reais* and reflect our financial condition and results of operations as if the Registrant had been incorporated and held all of the capital stock of GTA and VRG. See Item 10B. Memorandum of Articles of Association Description of Capital Stock General. We publish our consolidated financial statements in Brazil in accordance with Brazilian GAAP, which differs in certain significant respects from U.S. GAAP.

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2007 was R$1.771 to US$1.00, which was the commercial rate for the purchase of U.S. dollars in effect as of December 31, 2007, 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 such rates or at any other rate. See Exchange Rates for more detailed information regarding the translation of *reais* into U.S. dollars.

SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS

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

general economic, political and business conditions in Brazil and in other South American markets we serve;

management s expectations and estimates concerning our future financial performance and financing plans and programs;

our level of fixed obligations;

our capital expenditure plans;

inflation and fluctuations in the exchange rate of the real;

existing and future governmental regulations, including air traffic capacity controls;

increases in fuel costs, maintenance costs and insurance premiums;

changes in market prices, customer demand and preferences and competitive conditions;

cyclical and seasonal fluctuations in our operating results;

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defects or mechanical problems with our aircraft;

our ability to successfully implement our growth 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 word 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

The following table presents summary historical consolidated financial and operating data for us for each of the periods indicated. You should read this information in conjunction with our consolidated financial statements and related notes, and the information under Selected Financial Data and Item 5. Operating and Financial Review and Prospects. The consolidated financial statements and related notes included elsewhere in this annual report have been prepared in accordance with U.S. GAAP.

Solely for the convenience of the reader, *real* amounts as of and for the year ended December 31, 2007 have been translated into U.S. dollars at the commercial market rate in effect as of December 31, 2007 as reported by the Brazilian Central Bank of R$1.771 to US$1.00.

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	Year Ended December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2007**
			(in thousands)			
Net operating revenues:						
Passenger	R$1,339,191	R$1,875,475	R$2,539,016	R$3,580,919	R$4,566,691	US$2,578,158
Cargo and other	61,399	85,411	130,074	221,098	371,640	209,812
Total net operating revenues	1,400,590	1,960,886	2,669,090	3,802,017	4,938,331	2,787,970
Operating expenses:						
Salaries, wages and benefits	137,638	183,037	260,183	413,977	798,141	450,596
Aircraft fuel	308,244	459,192	808,268	1,227,001	1,898,840	1,072,004
Aircraft rent	188,841	195,504	240,876	292,548	515,897	291,253
Sales and marketing	191,280	261,756	335,722	414,597	367,866	207,681
Landing fees	47,924	57,393	92,404	157,695	273,655	154,494
Aircraft and traffic servicing	58,710	74,825	91,599	199,430	348,732	196,879
Maintenance, materials and repairs .	42,039	51,796	55,373	146,505	318,917	180,047
Depreciation	13,844	21,242	35,014	69,313	121,570	68,633
Other operating expenses	70,344	79,840	128,300	179,494	317,686	179,352
Total operating expenses	1,058,864	1,384,585	2,047,739	3,100,560	4,961,304	2,800,939
Operating income (loss)	341,726	576,301	621,351	701,457	(22,973)	(12,969)
Other income (expense):						
Interest expense	(20,910)	(13,445)	(19,383)	(66,378)	(142,390)	(80,387)
Financial income (expense), net	(56,681)	24,424	115,554	163,883	265,074	149,649
Income (expense) benefits before income taxes	264,135	587,280	717,522	798,962	99,711	56,293
Income taxes	(88,676)	(202,570)	(204,292)	(229,825)	2,802	1,582
Net income	R$175,459	R$384,710	R$513,230	R$569,137	R$102,513	US$57,875
Earnings per share, basic(1)	R$1.07	R$2.14	R$2.66	R$2.90	R$0.52	US$0.29
Earnings per share, diluted(1)	R$1.07	R$2.13	R$2.65	R$2.90	R$0.52	US$0.29
Weighted average shares used in computing earnings per share, basic (in thousands)(1)	164,410	179,731	192,828	196,103	198,609	198,609

Weighted average shares used in computing earnings per share, diluted (in thousands)(1)	164,410	180,557	193,604	196,210	198,657	198,657
Earnings per ADS, basic(2)	R$1.07	R$2.14	R$2.66	R$2.90	R$0.52	US$0.29
Earnings per ADS, diluted(2)	R$1.07	R$2.13	R$2.65	R$2.90	R$0.52	US$0.29
Dividends paid per share	R$0.16	R$0.32	R$0.60	R$0.92	R$1.40	US$0.79
Dividends paid per ADS(2)	R$0.16	R$0.32	R$0.60	R$0.92	R$1.40	US$0.79

	As of December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2007**
	(in thousands)					
Balance Sheet Data:						
Cash and cash equivalents	R$146,291	R$405,730	R$106,347	R$280,977	R$574,363	US$324,261
Short-term investments		443,361	762,688	1,425,369	858,438	484,637
Accounts receivable(3)	240,576	386,370	563,958	659,306	916,133	517,209
Deposits with lessors	180,916	289,416	408,776	537,835	589,665	332,900
Total assets	685,019	1,734,284	2,555,843	4,258,454	7,002,421	3,953,266
Short-term borrowings	38,906	118,349	54,016	128,304	496,788	280,465
Long-term debt				949,006	1,066,102	601,875
Shareholders equity	314,739	1,148,453	1,822,331	2,205,158	2,375,263	1,340,972

	Year Ended December 31,					
	2003	**2004**	**2005**	**2006**	**2007**	**2007**
	(in thousands, except percentages)					
Other Financial Data:						
Operating margin(4)	24.4%	29.4%	23.3%	18.4%	(0.5)%	(0.5)%
Net cash provided by (used in) operating activities	R$85,235	R$239,920	R$370,858	R$547,169	R$(154,278)	US$(87,102)
Net cash used in investing activities	(39,263)	(533,043)	(818,900)	(1,250,821)	(235,204)	(132,786)
Net cash provided by financing activities	90,867	552,562	148,659	878,282	682,868	385,520

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	Year Ended December 31,				
	2003	**2004**	**2005**	**2006**	**2007**
Operating Data (unaudited):					
Revenue passengers (in thousands)	7,324	9,215	13,000	17,447	23,690
Revenue passenger kilometers (in millions)	4,835	6,289	9,740	14,819	22,670
Available seat kilometers (in millions)	7,527	8,844	13,246	20,261	34,348
Load-factor	64.2%	71.1%	73.5%	73.1%	66.0%
Break-even load-factor	50.8%	52.5%	56.4%	59.6%	66.3%
Aircraft utilization (block hours per day)	12.8	13.6	13.9	14.2	13.8
Average fare	R$195	R$210	R$201	R$205	R$198
Yield per passenger kilometer (cents)	27.7	29.8	26.1	24.2	20.1
Passenger revenue per available seat kilometer (cents)	17.8	21.2	19.1	17.7	13.3
Operating revenue per available seat kilometer (cents)	18.6	22.2	20.1	18.8	14.4
Operating expense per available seat kilometer (cents)	14.1	15.7	15.5	15.3	14.4
Operating expense less fuel expense per available seat kilometer (cents)	9.9	10.5	9.4	9.3	8.9
Departures	75,439	87,708	122,683	164,696	237,287
Departures per day	207	240	336	451	650
Destinations served	25	36	45	55	66
Average stage length (kilometers)	659	689	721	832	960
Average number of operating aircraft during period	21.6	22.3	34.3	50.1	88.6
Full-time equivalent employees at period end	2,453	3,307	5,456	8,840	15,722
Fuel liters consumed (in thousands)	264,402	317,444	476,725	712,881	1,177,300
Percentage of sales through website during period	57.9%	76.4%	81.3%	81.6%	80.3%
Percentage of sales through website and call center during period	74.1%	83.6%	88.7%	92.4%	90.4%

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

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

(3) In managing our liquidity, we take into account our cash and cash equivalents, our short-term investments and our accounts receivable balances. Accounts receivable consist primarily of credit card receivables for purchased passenger tickets. We provide our customers with the option to pay in installments and therefore have to a limited extent a lag between the time that we pay our suppliers and the time that we receive payment for our services.

(4) Operating margin represents operating income divided by net operating revenues.

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Selected Information Regarding the Year Ended December 31, 2007

Our consolidated results for 2007 include the results of Varig since April 9, 2007, which limits the comparability of our results of operations in 2007 and 2006. The comparability of these periods is further reduced by our acquisition of Varig, its integration and investments in Varig in 2007, more specifically the development and implementation of Varig s business model in order to achieve cost savings and operating and financial efficiencies at Varig, which experienced losses in 2007 and in the periods before our acquisition. We are currently in the process of improving Varig s results and financial condition.

To better demonstrate the development of our results of operations and operating data on a comparable basis, we present in the following table certain consolidated financial and operating data and financial and operating data excluding Varig. Gol and Varig operate in the same segment (for a detailed discussion of our results of operations and financial condition in 2006 and 2007, see Item 5 below).

	As of and for the Year Ended December 31			
	2006		2007	
	(in thousands of *reais*, unless otherwise indicated)			
	Consolidated	Consolidated Excluding Varig	Varig	Consolidated
Income Statement Data				
Net operating revenues:				
Passenger	R$3,580,919	R$4,096,117	R$470,574	R$4,566,691
Cargo and other	221,098	287,503	84,137	371,640
Total net operating revenues	3,802,017	4,383,620	554,711	4,938,331
Operating expenses:				
Salaries, wages and benefits	413,977	650,123	148,018	798,141
Aircraft fuel	1,227,001	1,592,280	306,560	1,898,840
Aircraft rent	292,548	389,745	126,152	515,897
Sales and marketing	414,597	308,614	59,252	367,866
Landing fees	157,695	215,978	57,677	273,655
Aircraft and traffic servicing	199,430	258,492	90,240	348,732
Maintenance, materials and repairs	146,505	248,261	70,656	318,917
Depreciation	69,313	116,205	5,365	121,570
Other operating expenses	179,494	294,358	23,328	317,686
Total operating expenses	3,100,560	4,074,056	887,248	4,961,304
Operating income (loss)	701,457	309,564	(332,537)	(22,973)
Other Financial Data				
Operating margin(1)	18.4%	7.1%	(59.9)%	(0.5)%
Net cash provided by (used in) operating activities	R$547,169	R$242,822	R$(397,100)	R$(154,278)
Net cash used in investing activities	(1,250,821)	(142,024)	(93,180)	(235,204)
Net cash provided by financing activities	878,282	68,697	614,171	682,868

Other Data (unaudited):				
Revenue passengers (in thousands)	17,447	21,752	1,938	23,690
Revenue passenger kilometers (in millions)	14,819	19,966	2,704	22,670
Available seat kilometers (in millions)	20,261	29,198	5,150	34,348
Load-factor	73.1%	68.4%	52.5%	66.0%
Break-even load-factor	59.6%	63.6%	84.0%	66.3%
Aircraft utilization (block hours per day)	14.2	14.2	11.7	13.8
Average fare	R$205	R$194	R$247	R$198
Yield per passenger kilometer (cents)	24.2	20.5	17.4	20.1
Passenger revenue per available seat kilometer (cents)	17.7	14.0	9.1	13.3
Operating revenue per available seat kilometer (cents)	18.8	15.0	10.8	14.4
Operating expense per available seat kilometer (cents)	15.3	14.0	17.2	14.4
Operating expense less fuel expense per available seat kilometer (cents)	9.3	8.5	11.3	8.9
Departures	164,696	208,653	28,634	237,287
Departures per day	451	572	108	650
Destinations served	55	59	20	66
Average stage length (kilometers)	832	960	1,117	960
Average number of operating aircraft during period	50.1	74.4	14.2	88.6
Full-time equivalent employees at period end	8,840	12,424	3,298	15,722
Fuel liters consumed (in thousands)	712,881	974,400	202,900	1,177,300
Percentage of sales through website during period	81.6%	80.3%	8.8%	80.3%
Percentage of sales through website and call center during period	92.4%	90.5%	n/a	90.4%

(1) Operating margin represents operating income divided by net operating revenues.

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Exchange Rates

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

the commercial rate exchange market; and

the floating rate exchange market.

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

In March 2005, the National Monetary Council, dated March 4, 2005, consolidated the foreign exchange markets into one single foreign exchange market. All foreign exchange transactions are now carried out through institutions authorized to operate in the consolidated market and are subject to registration with the Central Bank s electronic registration system. Foreign exchange rates continue to be freely negotiated, but may be influenced by Central Bank intervention.

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

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

	Period-end	Average for Period	Low	High
		(reais per U.S. dollar)		
Year Ended				
December 31, 2003	2.889	3.060(1)	2.822	3.662
December 31, 2004	2.654	2.917(1)	2.654	3.205
December 31, 2005	2.341	2.412(1)	2.163	2.762
December 31, 2006	2.138	2.168(1)	2.059	2.371
December 31, 2007	1.771	1.930(1)	1.733	2.156
Month Ended				
September 2007	1.839	1.900	1.839	1.964
October 2007	1.744	1.801	1.744	1.828
November 2007	1.784	1.770	1.733	1.850
December 2007	1.771	1.786	1.762	1.823
January 2008	1.760	1.774	1.741	1.830
February 2008	1.683	1.728	1.672	1.768
March 2008	1.748	1.708	1.670	1.748
April 2008 (through April 15)	1.682	1.704	1.682	1.753

Source: Central Bank

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

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

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D. Risk Factors

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

Risks Relating to Brazil

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

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

interest rates;

currency fluctuations;

inflation;

liquidity of domestic capital and lending markets;

tax policies;

exchange controls and restrictions on remittances abroad, such as those that were briefly imposed in 1989 and early 1990; and

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

Uncertainty over whether the Brazilian government will implement changes in policies or regulations affecting these or other factors may contribute to heightened volatility in the Brazilian securities markets and of securities issued abroad by Brazilian companies.

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

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

in the exchange rate between the Brazilian currency and the U.S. dollar and other currencies.

The *real* depreciated against the U.S. dollar by 9.3% in 2000 and by 18.7% in 2001. In 2002, the *real* depreciated 52.3% against the U.S. dollar, due in part to political uncertainty surrounding the Brazilian presidential elections and the global economic slowdown. Although the *real* appreciated 11.8%, 8.7% and 20.7% against the U.S. dollar in 2005, 2006 and 2007, respectively, no assurance can be given that the *real* will not depreciate or be devalued against the U.S. dollar again. On April 15, 2008, the U.S. dollar/*real* exchange rate was R$1.682 per US$1.00. See ¯Exchange Rates.

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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, 2007, 48.7% of our operating expenses were either denominated in or linked to the U.S. dollar. In addition, the purchase price of the 101 737-800 Boeing Next Generation aircraft for which we had placed firm purchase orders as of December 31, 2007 and the 34 737-800 Boeing Next Generation aircraft for which we currently have purchase options are denominated in U.S. dollars. At the end of 2007, 69.2% 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, depreciations of the real and increases in the price of jet fuel and have entered into hedging arrangements to protect us against the effects of such developments, there can be no assurance we will be able to continue to do so. To the extent we are unable to adjust our fares or effectively hedge against any such depreciation or increases in jet fuel prices, this may lead to a decrease in our profit margins or to operating losses caused by increases in U.S. dollar-denominated costs, increases in interest expense or exchange losses on unhedged fixed obligations and indebtedness denominated in foreign currency. We had total U.S. dollar-denominated future operating lease payment obligations of US$2,088.1 million (including long-term vendor payables) and US$1,343.4 million other U.S. dollar-denominated indebtedness at December 31, 2007. We may incur substantial additional amounts of U.S. dollar-denominated operating lease or financial obligations and U.S. dollar-denominated indebtedness and be subject to fuel cost increases linked to the U.S. dollar. At December 31, 2007, we had a short-term hedging program in place for our U.S. dollar-denominated operating lease obligations, our U.S. dollar-linked jet fuel expenses and our interest rate exposure.

Historically, depreciations of the *real* relative to the U.S. dollar have also created additional inflationary pressures in Brazil, and future depreciations could negatively affect us. Depreciations generally curtail access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciations also reduce the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent of the market price of our preferred shares and, as a result, the ADSs.

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

Brazil has in the past experienced extremely high rates of inflation. Brazil s annual rate of inflation was 1.2% in 2005, 3.8% in 2006 and 7.8% in 2007 (as measured by *Índice Geral de Preços Mercado*, or the IGP-M). Inflation, and certain government actions taken to combat inflation, have in the past had significant negative effects on the Brazilian economy. Actions taken to curb inflation, coupled with public speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. Future Brazilian government actions, including interest rate decreases, intervention in the foreign exchange market and actions to adjust or fix the value of the *real* may trigger increases in inflation. If Brazil again experiences high inflation, we may not be able to adjust the fares we charge our customers to offset the effects of inflation on our cost structure. Inflationary pressures may also hinder our ability to access foreign financial markets or lead to government policies to combat inflation that could harm our business or adversely affect the market value of our preferred shares and, as a result, the ADSs.

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

The market value of securities of Brazilian companies is affected to varying degrees by economic and market conditions in other countries, including the United States, other Latin American and emerging market countries. Although economic conditions in such countries may differ significantly from economic conditions in Brazil,

investors reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in the United States or emerging markets 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.

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Risks Relating to Us and the Brazilian Airline Industry

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

The National Civil Aviation Agency (*Agência Nacional de Aviação Civil*, or ANAC) was created in 2005, by Law No. 11,182, replacing the Civil Aviation Department (*Departamento de Aviação Civil*, or DAC), an organization that was subordinated to the Air Force Command of the Ministry of Defense, and was responsible, prior to ANAC, for coordinating and supervising Brazilian civil aviation (coordinating and supervising air transportation services and aviation and ground infrastructure).

According to Law No. 11,182, ANAC is responsible for organizing civil aviation within a coherent system (coordinating and supervising air transportation service and aviation and ground infrastructure) and for modernizing the regulation of Brazilian aviation operations. ANAC is linked, but not subordinated, to the Ministry of Defense and operates as an independent agency for an indefinite term. ANAC principally has the authority to (i) regulate, inspect and supervise services rendered by Brazilian and foreign airlines operating in Brazil, (ii) grant concessions, permits and authorizations for air transport operations and airport infrastructure services, (iii) represent the Brazilian government before international civil aviation organizations and (iv) control, register and inspect civil aircraft.

Law No. 11,182 promotes private enterprises in civil aviation. Some recent resolutions enacted by ANAC have modified the agency s structure in order to decentralize its controlling function.

ANAC did not assume any of the current responsibilities of the Civil Aviation National Council (*Conselho de Aviação Civil* or CONAC), which will continue to set guidelines for regulation, control the development, and generally establish policy for the air transportation sector as a whole.

The importation of any new aircraft is subject to approval by the Commission for Coordination of Civil Air Transportation (*Comissão de Coordenação de Transporte Aéreo Civil*, or COTAC), a sub-department of ANAC.

In recent years, the DAC and since 2006 the ANAC have actively monitored developments in Brazil s airline market and have taken certain restrictive measures that have helped to restore greater stability to the industry. For example, the ANAC, together with the other Brazilian regulatory authorities, addressed overcapacity by establishing stricter criteria that must be met before new routes or additional flight frequencies are awarded. Our growth plans contemplate expanding into new markets, increasing flight frequencies and operating considerably more than our existing fleet. As such, our ability to grow generally depends on receiving the required authorizations from ANAC and COTAC. We cannot assure you that future authorizations will be granted to us. 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.

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

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

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 growth strategy.

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From the last quarter of 2006 through a large part of 2007, technical and operational problems in the Brazilian air traffic control management and systems led to extensive flight delays, higher than usual flight cancellations and airport congestions and negatively affected our punctuality and operating results. In addition, 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. If the measures taken by the Brazilian government and regulatory authorities do not prove sufficient or effective, air traffic control, airspace management and sector coordination-related difficulties might reoccur or worsen, which might have a material adverse effect on our business, our results of operations and our growth strategy.

We operate in a highly competitive industry.

Gol and Varig face intense competition on domestic routes in Brazil from scheduled airlines and charter airlines. The Brazilian aviation authorities may also permit 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. Gol and Varig may also face competition from international airlines as they introduce and expand flights between Brazil and other South American destinations. On South American routes, Gol and Varig compete with South American and international airlines with a larger international flight network and fleet and a larger market share than that of Gol and Varig.

Our existing competitors or new entrants into the markets in which we operate may undercut our fares, increase capacity on their routes in an effort to increase their market share or attempt to conduct low-fare or low-cost airline operations of their own. In any such event, we cannot assure you that our level of fares or passenger traffic would not be adversely affected and would not have an adverse impact on our business and results of operations.

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

Our growth strategy involves expanding the number of markets we serve and increasing the frequency of flights to the markets we currently serve. Increasing the number of markets we serve and our flight frequencies necessitates that we identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter will provide passenger traffic that is sufficient to make our operations in those new markets profitable.

Two of the airport facilities from which we operate, Santos Dumont in Rio de Janeiro and Congonhas in São Paulo, have limited landing slots available and airport capacity is at or near maximum capacity. Four of the airports from which we operate, Juscelino Kubitschek in Brasília, Santos Dumont, Congonhas and Guarulhos International Airport, are subject to slot restrictions limiting the number of landings and take offs at these airports and when they can be made. Any condition that would prevent or delay our access to airports or routes that are vital to our growth strategy, including the ability to process more passengers or the imposition of flight capacity restrictions or our inability to maintain our existing slots, and obtain additional slots, at the Juscelino Kubitschek, Santos Dumont, Congonhas and Guarulhos airports, would constrain the expansion of 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.

In addition, the introduction and expansion of flights between Brazil and other destinations outside of Brazil require the availability of flight capacity in compliance with, the criteria set forth in bilateral treaties between Brazil and other South American countries governing cross-border air travel. To the extent that there is no available capacity or we cannot comply with the criteria contained in these treaties, our plans to introduce additional flights between

Brazil and other destinations outside of Brazil could be constrained. In addition, our plans to further expand our operations into other South American countries would be adversely affected by political, economic and social conditions in those countries.

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

Our investment in Varig may not generate the expected benefits.

In the second quarter of 2007, we purchased VRG, a company with route and airport operating rights, the Varig brand and the Smiles mileage program. Varig s results of operations are highly sensitive to competitive conditions in the Brazilian domestic and international air travel markets. Varig has been historically significantly less profitable than Gol. Varig has experienced losses in recent periods and its losses may continue for an indeterminate period. Additionally, in case we do not receive or receive with delay the approval of the VRG acquisition by CADE, we may not be able to fully utilize potential operational, financial, tax and revenue synergies from the consolidated operations of Gol and Varig. We may not be able to achieve the cost savings and other improvements we seek at Varig, and our failure to do so would adversely affect our consolidated operating margins and results of operations.

We may be subject to increased litigation risks related to the operations of VRG s predecessor company.

Even though the Brazilian bankruptcy laws protect us from any risks related to the legal succession of VRG s predecessor company, we cannot foresee the number and amount of contingencies relating to lawsuits making claims related to that succession. After our acquisition of VRG, we experienced a significant increase in legal proceedings, especially proceedings related to labor claims of VRG s predecessor company. In 2007, more than 80% of our labor proceedings were related to VRG s predecessor company. We cannot foresee the outcome of these proceedings and the amounts of any additional probable disbursements, which may adversely affect our consolidated operating margins and results of operations. In addition, although we believe we have adequately recorded all of the probable contingencies related to the VRG acquisition, we cannot assure you that countries other than Brazil will recognize the protections we have under the Brazilian bankruptcy laws and that we will not be held responsible for liabilities of the former Varig group.

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

We have significant fixed costs, relating primarily to operating leases for our aircraft and engines, of which leases for four aircraft have floating-rate rent payments based on LIBOR or U.S. interest rates. As of December 31, 2007, we had commitments of R$8.2 billion to purchase 101 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, 2007 we had US$1,842.7 million in long-term indebtedness. We expect that we will incur additional fixed obligations and debt as we take delivery of the new aircraft and other equipment to implement our growth strategy.

Having significant fixed payment obligations could:

limit our ability to obtain additional financing to support expansion plans and for working capital and other purposes;

divert substantial cash flow from our operations to service our fixed obligations under aircraft operating leases and aircraft purchase commitments;

if LIBOR or U.S. interest rates increase, require us to incur significantly more lease or interest expense than we currently do; and

limit our ability to plan for or react to changes in our business and the airline industry and to general economic conditions.

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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.

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

We currently finance our aircraft principally through operating leases. As a result of our firm purchase orders to purchase 101 Boeing 737-800 Next Generation aircraft (as of December 31, 2007), in the future 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. In 2007, we financed and we intend to finance a portion of our new Boeing 737-800 NG aircraft with a commitment we received from the Export-Import Bank of the United States providing guarantees covering 85% of the aggregate purchase price for the firm purchase order aircraft. While we expect that the guaranty from the U.S. Export-Import Bank will assist us in obtaining low-cost financing for the purchase of the firm purchase order aircraft, we may be required to use our own cash resources for the remaining 15% of the aggregate purchase price for the firm purchase order aircraft. As of December 31, 2007, we had R$1,432.8 million of cash, cash equivalents and short-term investments in overnight deposits and deposit certificates of highly-rated Brazilian banks and marketable securities, mainly highly-rated Brazilian government bonds. If the value or liquidity of these investments were to decrease, or we do not have sufficient cash resources, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would have an adverse impact on the execution of our growth strategy and business and could have an adverse impact on our results of operations.

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

Fuel costs, which have recently been at historically high levels, constitute a significant portion of our total operating expenses, accounting for 38.3% of our operating expenses for the year ended December 31, 2007. Historically, international and local fuel prices have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. In the event of an international or local fuel supply shortage, our fuel prices may increase.

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

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

One of the key elements of our current business strategy is to save costs by operating a simplified aircraft fleet. After extensive research and analysis, we chose the Boeing 737-700/800 Next Generation aircraft and CFM 56-7B engines from CFM International to serve our short haul routes. In light of our firm purchase orders to purchase 101 Boeing 737-800 Next Generation aircraft as of December 31, 2007 and options to purchase an additional 34 Boeing

737-800 Next Generation aircraft, we expect to continue to rely on Boeing and CFM International into the foreseeable future. If either Boeing or CFM International were unable to perform their contractual obligations, we would have to find another supplier for a similar type of aircraft or engines. While we await the delivery of our new 737-800 Next Generation aircraft, we are currently using 28 Boeing 737-300 aircraft to help meet our short-term capacity needs caused by the VRG acquisition and by higher than expected demand for our air travel services in Brazil and South America experienced in 2006 and 2007.

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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, Boeing 737-300 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 its own investigation. Our business would also be significantly harmed if the public avoids flying on our aircraft due to an adverse perception of the Boeing 737-700/800 Next Generation aircraft, Boeing 737-300 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, Boeing 737-300 aircraft or the CFM engines.

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

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

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

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

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

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

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

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

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

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

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, Boeing 767 aircraft or the aircraft of any other Brazilian airline could cause negative public perceptions about us or the Brazilian air transport system are less safe or reliable than other airlines, which would harm our business and results of operations.

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

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

Risks Relating to the ADSs and Our Preferred Shares

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in

nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the 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 43.3% of the aggregate market capitalization of the BOVESPA as of December 31, 2007. The top ten stocks in terms of trading volume accounted for 51.0%, 46.4% and 41.5% of all shares traded on the BOVESPA in 2005, 2006 and 2007, respectively.

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

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

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

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

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

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

We may not be able to offer our preferred shares to U.S. holders of ADSs pursuant to preemptive rights granted to holders of our preferred shares in connection with any future issuance of our preferred shares unless a registration statement under the Securities Act is effective with respect to such preferred shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our preferred shares, and we cannot assure you that we will file any such registration statement. If such a registration statement is not filed and an exemption from registration does not exist, The Bank of New York, 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 GTA and VRG, three offshore finance subsidiaries, cash and cash equivalents and short-term investments. The Registrant owns all of

Gol s shares, except for shares held by members of Gol s boards of directors for eligibility purposes, and VRG s shares, through its wholly owned subsidiary GTI, except for one share held by one of its officers. Our principal executive offices are located at Rua Gomes de Carvalho 1629, 04547-006 São Paulo, SP, Brazil, and our general telephone number is +55 11 3169-6003. The telephone number of our investor relations department is +55 11 3169-6800. Our website address is www.voegol.com.br. Investor information can be found on our website under the caption Investor Relations. Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this annual report.

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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 world s leading low-cost carriers and one of South America s leading airlines. We serve the largest number of destinations in the Brazilian air passenger transportation market, with a 45% domestic market share and a 44% domestic seat capacity share at the end of 2007. We operate our passenger air transportation business through our subsidiaries GTA (which operates the Gol brand) and VRG (which operates the Varig brand).

Gol operates based on a low-cost, low-fare business model, with a single class of service in the Brazilian domestic market and South America. It is the fourth largest low-cost airline in the world, in terms of passengers transported in 2007 and the only low-fare low-cost airline providing frequent service on routes connecting all of Brazil s major cities and also to major cities in South America. Gol s affordable, reliable and simple service and its focus on markets that were either underserved or did not have a lower-fare alternative has led to a strong awareness of its brand and a rapid increase in its market share, while allowing it to maintain one of the lowest operating costs in the airline industry worldwide. Gol s vision is to be recognized as the airline that popularized high-quality, low-fare air transportation in South America.

Varig offers flights with single and dual class services to domestic and South American destinations. Varig s services focus on business travelers and emphasize business-oriented schedules and destinations, with differentiated onboard services and VIP lounges at principal airports. Varig offers the most legroom in a single class configuration of all Brazilian domestic airlines. On certain domestic and international routes, it also offers business/comfort class service. Varig focuses on competing in specific high-demand markets with comparable services at low prices. Varig s vision is to be recognized as the Brazilian airline that offers high quality air travel services to its customers.

Our Smiles loyalty program is one of the largest airline loyalty programs in Latin America. The *Smiles* program started in June 1994 and currently has over five million members.

For the year ended December 31, 2007 we had net revenues of R$4.9 billion and net income of R$102.5 million. During the same period, Gol contributed R$4,096.1 million in passenger revenues and Varig contributed R$470.6 million passenger revenues. Ancillary and other revenues represented 7.5% of our consolidated revenues.

Our strategy is to increase the size of the market by attracting new passengers through the combination of Gol s and Varig s flight networks, a modern aircraft fleet, targeted marketing, a variety of attractive ancillary businesses such as our loyalty program (*Smiles*), air cargo services (*Gollog*) and through a variety of payment mechanisms (including *Voe Fácil*) designed to make the purchase of our tickets easier for customers in lower income classes.

In April 2007, we acquired VRG in order to improve our position within the highly competitive Brazilian and Latin American passenger transportation industry over the long-term. VRG is a company formed from assets of the former Varig group, which sought bankruptcy protection in June 2005. Varig s route and airport operating rights permit us to expand our activities in Brazil and South America, while the acquisition also provided us the possibility of extending our services beyond South America to intercontinental markets. The combination of Gol and Varig created a Brazilian airline group with a large and broad passenger base. Varig operates primarily with a single-class service with increased travel comfort and the most legroom of any Brazilian airline, prioritizing corporate clients and business traveler destinations and schedules between the main economic centers of Brazil. On some flights, Varig offers a business/comfort class. Varig operates one of the largest airline loyalty programs in Latin America (*Smiles*). To

improve Varig s efficiency, in 2007, we increased our investment in fleet modernization, launched service to new markets and implemented our concepts of efficient administration, asset optimization, intensive use of technology, transparency, innovation and employee motivation. Varig s new and efficient operating model allows it to offer high standards of customer service at reduced costs. We expect to further integrate Gol s and Varig s operations after the acquisition is approved by the CADE, which approval we expect to receive in the first semester of 2008. The launch and integration of Varig s operations, however, has in 2007 and may in the near term lead result in lower profitability.

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Gol has flown over 77 million passengers since beginning operations in 2001 and, according to the ANAC, Brazil s civil aviation authority, our consolidated share of the domestic market, based on revenue passenger kilometers, grew from 4.7% in 2001 to 44.6% in December 2007. Our consolidated share of the international market served by Brazilian carriers, based on revenue passenger kilometers transported by Brazilian airlines, grew from 3.1% in 2005 (Gol s first full year operating international flights) to 28.8% in December 2007.

As of the end of 2007, Gol offered over 590 daily flights to 59 destinations connecting the most important cities in Brazil as well as the main destinations in Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay. As of that date, Varig offered over 115 daily flights to 12 destinations in Brazil, and to nine to international destinations in South America and Europe. In line with our objective of making VRG accretive to our consolidated business, we decided in 2008 to concentrate Varig s international route network in South America and discontinue service to other international destinations operated. Varig s status as a flag carrier permits us to explore future opportunities to operate in attractive international markets beyond South America.

We have kept our operating costs low principally by maintaining a simplified and modern aircraft fleet. We are dedicated to having a modern fleet, which we expect under our current fleet plan will have an average age of less than 6 years at the end of 2009. At December 31, 2007, our standardized fleet of Boeing 737 narrow body and 767 wide body aircraft had an average age of 9.0 years (7.0 years for Gol and 13.6 years for Varig), one of the lowest in South America. In 2007, our combined fleet grew 63%, including a 44% increase in Varig s fleet. As of the end of 2007, we operated 99 single-class Boeing 737 aircraft and seven dual-class Boeing 767 aircraft. As of that date, we had firm purchase orders with The Boeing Company for 101 737-800 Next Generation aircraft, and we have options to purchase an additional 34 737-800 Next Generation aircraft. Currently, we have nine firm purchase orders for aircraft deliveries scheduled in 2008, 15 in 2009, 16 in 2010, 12 in 2011 and 49 after 2011. To meet our capacity requirements, we took in 2007 delivery of 34 Boeing 737 aircraft (15 with Boeing s short field performance-SFP) under operating and finance leases with lease terms between one and twelve years and seven Boeing 767 aircraft under operating leases with lease terms between one and seven years.

We have a diversified revenue base, with customers ranging from business passengers traveling between densely populated cities in Brazil and internationally, to leisure passengers traveling to destinations throughout Brazil and to our international destinations. We carefully evaluate opportunities to continue the growth of our business through increasing the frequency of flights to our existing high-demand markets and adding new routes in Brazil and to South America.

We generate ancillary revenues from our branded businesses operating air cargo services (*Gollog*), frequent flyer program (*Smiles*) and installment payment mechanisms (*Voe Fácil*), which help stimulate demand. Each of these businesses attracts a specific customer segment, adds strong brand recognition to our business and creates customer loyalty. In 2007, these revenues represented 7.5% of our consolidated revenues, an increase of 68.1% as compared to 2006.

We were one of the first Latin American companies to give the relevant officer certifications under Section 404 of the U.S. Sarbanes Oxley Act of 2002 regarding internal controls over financial reporting. The 2007 certifications are included as Exhibits 12.1 and 12.2 to this Annual Report.

Our Competitive Strengths

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Our principal competitive strengths are:

We Keep Our Operating Costs Low. Gol s cost per available seat kilometer for the year ended December 31, 2007 was R$14.44 cents, or US$7.41 cents. We believe that Gol s cost per available seat kilometer for the year ended December 31, 2007, adjusted for the average number of kilometers flown per flight, was over the year the lowest in the domestic market, based upon our analysis of data collected from publicly available information. We have since the VRG acquisition reduced and intend to further reduce Varig s cost per available seat kilometer.

Our business model is based on and our low operating costs are the result of being innovative and using best practices adopted from leading low-cost carriers to improve our operating efficiency, including:

Efficient use of aircraft. During 2007, Gol s Boeing 737 aircraft and Varig s Boeing 737 and 767 aircraft averaged utilization of 14.2 and 11.7 block hours per day, respectively. Gol had the highest aircraft utilization rate in the South American airline industry, and among the highest worldwide, according to company public filings. We achieve high aircraft utilization rates by operating a new fleet that requires less maintenance down time, having a fast turnaround of our aircraft between flights and operating more flights per day per aircraft than our competitors on short haul routes. The fast turnaround time for our aircraft between flights, which averaged 38 minutes in 2007 in the domestic market, minimizes connection times for our passengers, and was affected by the industry-wide air traffic and airport bottlenecks experienced in the Brazilian airline industry during the year. Our aircraft flew seven domestic flight legs a day in 2007, the highest number of flight legs in the domestic market. As part of our aircraft utilization strategy, Gol introduced night flights on certain routes in December 2003 at very low fares to increase utilization, generate higher load factors and stimulate demand. Our night flights, which have generated a load factor higher than that of our other flights, have enabled us to make a portion of our fleet productive practically 24 hours per day. We also offer air cargo services on our flights to generate incremental revenue from space in the stronghold sections of our aircraft that would otherwise remain unutilized.

Operation of a young and simplified fleet. At December 31, 2007, our operating fleet of 99 Boeing 737 narrow body and 7 Boeing 767 wide body aircraft made up one of Latin America s largest and youngest fleets, with an average age of 9.0 years (7.0 years for Gol Boeing 737 aircraft and 13.6 years for Varig s Boeing 737 and 767 aircraft). We plan to return our Boeing 737-300 and 767-300 aircraft in 2008, and exclusively use Boeing 737 NG aircraft. Having a fleet with few aircraft types reduces inventory costs, as fewer spare parts are required, and reduces the need to train our pilots to operate different types of aircraft. In addition, keeping the number of types of aircraft we operate to a minimum simplifies our maintenance and operations processes. While our focus on having the lowest operating costs means that we will periodically review our fleet composition to ensure that it is achieving our low-cost goals, any decision we may make to introduce and maintain a new fleet type will be made only after carefully weighing the performance and profitability benefits of doing so against the emphasis we place on maintaining simplified operations. With our 101 firm purchase orders as of December 31, 2007, and purchase options of 34 additional Boeing 737-800 Next Generation aircraft, we expect to be able to further decrease the age of our fleet, and therefore increase efficiency and better control maintenance costs. We are able to serve all our markets in Brazil and South America with our Boeing 737 aircraft fleet.

Flexible and efficient operating approach. We always seek the most cost-effective way of providing our services to our customers without compromising quality and safety. We constantly evaluate our operations to see if sensible cost-savings opportunities exist. As a result, we outsource the work that can be done properly and more efficiently by third parties and we keep in-house the tasks that our employees can do more cost-efficiently. We get competitive rates for the outsourced services by negotiating multi-year contracts at prices that are fixed or subject only to periodic increases linked to inflation. With our phased maintenance system for Boeing 737 aircraft (which represented 93% of our combined fleet as of December 31, 2007) we are able to perform maintenance work every day without sacrificing aircraft revenue time and to schedule preventive maintenance with more regularity and around the utilization of our

aircraft, which helps to maintain high levels of block hours per day and reduce costs. Furthermore, our state-of-the-art aircraft maintenance center at the airport of Confins in the State of Minas Gerais enables us to internalize aircraft heavy maintenance work to reduce maintenance costs and we expect to expand it during 2008 to provide service to our expanding fleet and, in the future, to third party operators.

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Efficient use of distribution channels. Our effective use of technology helps us to keep our costs low and our operations highly scaleable and efficient. We seek to keep our distribution channels streamlined and convenient so as to allow our customers to interact with us via the Internet. In 2007, Gol booked a significant majority of its ticket sales through a combination of its website (80.3%) and its call center (10.1%) . In addition, our customers can check in for their flights online and by web-enabled cell phones. As a result of our emphasis on low-cost distribution channels, we were in 2007 one of the largest e-commerce companies in Brazil with R$4.3 billion in gross ticket sales on our website, more than any other airline company in Brazil. We enjoy significant cost savings associated with automated ticket sales, which makes the selection of travel options more convenient for our customers. We estimate that our distribution costs using our online ticket sales system is 77% lower than our distribution costs involving more traditional means, such as the Global Distribution System, or GDS. In addition, like other low-cost carriers, all travel on Gol flights is ticketless. The elimination of paper tickets saves paper costs, postage, employee time and back-office processing expenses. Also, Gol does not need to maintain physical ticket sales locations outside of airports. For the Varig brand, we rely on more traditional sales channels such as GDS, call centers and airport facilities. In 2007, Varig booked 8.8% of its sales on its website, which was re-launched in October 2007.

We Stimulate Demand for Our Services. We believe that through our differentiated services we provide the best value in our markets and create demand for air travel services. Gol s average fares are lower than the average fares of our domestic competitors. We identify and stimulate demand among both business and leisure passengers for air travel that is safe, convenient, simple and is a reasonably priced alternative to traditional air, bus and car travel. By combining low fares with simple and reliable service, Gol has successfully increased its market share, strengthened customer loyalty and is attracting a new group of air travelers in our markets. These new travelers did not previously consider air travel due to the higher prices and more complicated sales procedures that preceded our entry into the market. For example, Gol night flights, which are offered at highly competitive fares, have proven to be very successful, generating load factors higher than that of its other flights. We believe Gol night flights attract passengers who previously relied upon bus or car travel and who have now become air travel customers. We estimate that on average, approximately 6% of the customers on Gol s flights are either first-time flyers or have not flown for more than one year. The VRG acquisition gives us the ability to diversify our service offering, and it provides us opportunities to explore the opportunity to operate intercontinental flights in the future. We also stimulate demand for our ancillary businesses like *Gollog* and *Smiles*. We have developed and will further develop flexible payment mechanisms such as debit payments and long-term installment payments (*Voe Fácil*), with which we expect to increase our potential market and customer base to broader income classes and which enable us to further penetrate markets and customers. Our strong market position and strong brand recognition allow us to increasingly influence and stimulate this demand. Our firm order for 101 new Boeing 737-800NG aircraft as of December 31, 2007, which has an increased seat capacity of 187 passengers, will enable us to increase our capacity in the key markets in which we operate.

We Have Strong Brands that are Widely Recognized Among Consumers, Suppliers and Investors. 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 and reliable and distinguish Gol in Brazil s domestic airline industry on the basis of its modern and simplified approach to providing air travel services. The Varig brand is one of the best-known in our industry, with a history of over 80 years. In October 2007, we launched Varig s new visual identity as part of our strategy to use brand segmentation to better target all customer segments. The new Varig brand is intended to represent rational, value-oriented air travel service without excessive costs. Our *Smiles*, *Gollog* and *Voe Fácil* brands give us valuable customer recognition in various businesses and create a tool for brand diversification for us. Our success at promoting awareness of our brands has earned us recognition from our customers, suppliers, the investment community and the marketing industry in Brazil.

We Have a Strong Financial Position and Access to the Financial Markets. We have focused on maintaining a strong financial position with significant cash balances. As of December 31, 2007, we had R$574.4 million of cash

and cash equivalents, R$858.4 million of short-term investments, R$916.1 million of accounts receivable and R$589.7 million of U.S. dollar denominated deposits for aircraft leasing and aircraft engine maintenance contracts, representing a total of R$2,938.6 million. As of December 31, 2007, our debt to capitalization ratio was 57.9% . To finance our operations and capital expenditures, we issued in 2007 in the international markets US$225 million of senior notes due in 2017 and US$200 million of perpetual notes in 2006. We have long-term financings with the BNDES, the Banco de Desenvolvimento de Minas Gerais (BDMG), the International Finance Corporation (IFC),the Private Export Funding Corporation (PEFCO) and commercial banks as well as a committed aircraft pre-delivery payment (PDP) loan facility from eight banks.

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

We Have a Motivated Workforce and a Proven Management Team. We benefit from a highly motivated workforce that brings enthusiasm to air travel and a commitment to high standards of friendly and reliable quality service which we believe distinguishes us in our markets. We believe that the positive comments from our customers in satisfaction surveys is directly related to the priority our employees place on delivering top quality customer service. We invest significant time and resources into carefully developing the best training practices and selecting individuals to join our team who share our focus on ingenuity and continuous improvement. We conduct ongoing training programs that incorporate industry best practices and encourage strong and open communication channels among all of the members of our team so that we can continue to improve the quality of the services we provide. We also motivate our workforce by providing profit sharing to all our employees and stock options to our management employees. Our controlling shareholder has been operating in the Brazilian passenger transportation market for over 50 years, and our top managers have an average of approximately 25 years of experience in the Brazilian passenger transportation industries. This experience has helped us to develop the most effective elements of our low-cost model.

Our Strategy

We are committed to our strategy of profitable growth based on a highly efficient operating structure and high quality customer service, and offering the best in air travel: new, modern aircraft, frequent flights in major markets and an expanding integrated route system. We intend to remain focused on our low-cost business model while continuing to grow, innovate and provide the highest quality service through both our Gol and Varig brands. We intend to focus on flights to markets that offer attractive returns to us. In addition, we expect to further stimulate customer demand by continuing to offer differentiated air travel service while maintaining a high standard of quality and safety. We will strive to keep our operating costs low and continually pursue ways to make our operations more efficient. Our objectives are to provide the best travel value in the markets we serve, to encourage people to fly by making air travel accessible in our markets, and to further increase the size of the air travel market.

We will continue to evaluate opportunities to expand our operations by (i) adding additional flights to existing high-demand routes and night flight domestic routes, (ii) adding new domestic routes to where sufficient market demand exists or where we believe we can stimulate demand, (iii) expanding into other high-traffic centers in other South American countries, (iv) developing ancillary revenues in activities related to air transportation and (v) seeking opportunities to grow through acquisitions, joint ventures and airline partnerships, including code share and interline arrangements. The VRG acquisition provides us opportunities to explore synergies resulting from gains in efficiency, quality and competitiveness.

Gol s vision is to be recognized by 2010 as the airline that popularized high-quality, low-fare air transportation in South America. Varig s vision is to be recognized as the Brazilian airline that offers high quality passenger air travel services to its customers. The following are the key elements of our strategy:

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To Expand Our Customer Base by Offering Services on High-Demand Routes. In planning the growth of our business, we will continue to establish bases, select our routes and build the frequency of our service based upon the extent and type of demand in the regions we serve in Brazil and internationally. Gol is committed to popularizing air travel, making low-fare flights more accessible to a larger portion of the population, including business travelers from small and medium-sized companies, a growing customer base that tends to be price sensitive. Varig offers mostly direct flights, more legroom, differentiated on board service, VIP lounges and one of the largest airline loyalty programs in Latin America (*Smiles*), allowing us to increase our focus on corporate clients and business travelers. We will continue to carefully evaluate opportunities to meet demand for leisure travel by offering more seats at lower fares, expanding flight frequencies on existing routes, expanding successful night flight services and adding additional routes that contribute to our network and for which we perceive a market demand.

We believe that the same business model and route management techniques that we have successfully introduced in Brazil to help popularize air travel can also be used to capture market share and stimulate demand for air travel internationally, especially in South America. We are pursuing opportunities to offer flights on routes between Brazil and select cities in other South American markets where growth opportunities exist and where the new destinations fit into our integrated flight network. By offering these international flights with connections integrated in our network, we 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.

In recent years we entered into various partnerships in the form of code share and interline arrangements with a number of international airlines. We intend to further increase our international feeder network by entering into partnerships with large international air carriers or by joining a global airline alliance. These partnerships are crucial to the increase of our load factors. In addition, we expect the modernized New Skies reservation system to allow Gol the booking of tickets through code share arrangements, which should substantially increase our partnership options.

To Stimulate Demand. Gol s widely available low fares and low frills 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 have used alternative forms of transportation or would not have traveled at all. In addition, as part of our strategy to use brand segmentation to better target all customer segments. A key element of our strategy is our young fleet of new Boeing 737-800 aircraft with increased seat capacity, which allows Gol to distribute our operating costs over a higher number of available seat kilometers, therefore allowing it to offer more seats at lower fares. We will also continue to provide our customers with flexible payment mechanisms, such as debit payments, credit card installment payments and monthly installment payments in the form of direct credit. For example, we launched in November 2005 the Voe Fácil (Fly Easy) Gol Program, which allows qualifying customers to pay for airline tickets in up to 36 monthly installments as an innovative new way to purchase airline tickets, especially designed to make the purchase of our tickets easier for customers from lower income classes. At December 31, 2007, over 700,000 customers had registered for Gol s Voe Fácil program.

To Reduce Operating Costs and Improve Operating Efficiency. Continuing to reduce our operating costs per available seat kilometer is a key to increasing profitability. We aim to remain one of the lowest cost airlines in the world. We have worked toward achieving this goal by assembling a new fleet of young aircraft that is capable of safely and reliably accommodating a high utilization rate, incurs low maintenance costs and is fuel-efficient. We are also working to achieve this goal by using our aircraft efficiently, concentrating on minimizing our turnaround times at airports and maintaining a high number of daily flights per aircraft. We will also continue to utilize technological innovations wherever possible to reduce our distribution costs and improve our operating efficiency. We expect to benefit from economies of scale and reduce our average cost per available seat kilometer as we add aircraft to an established and efficient operating infrastructure. We are applying Gol s best business practices to Varig s operations, adjusted only in specific areas of Varig s service-oriented concept, like more legroom, differentiated onboard service, ticket distribution channels and the offering of VIP lounges. We have since the acquisition reduced and intend to

further reduce Varig s cost per available seat kilometer through fleet modernization, renegotiation of Varig s supplier agreements and other cost-reducing measures. With the VRG acquisition and the growth of our ancillary businesses *Gollog*, *Smiles*, *Voe Fácil* and *Gol Negócios*, we intend to further centralize certain administrative, maintenance and overhead cost and create synergies in efficiency, quality and competitiveness gains. Our system of phased maintenance for Boeing 737 aircraft allows us to perform maintenance work every day without sacrificing aircraft revenue time and to better set the timing of heavy maintenance so as to help maximize aircraft utilization and to further reduce our maintenance costs. By performing our structural aircraft maintenance in our new Aircraft Maintenance Center in Confins, in the State of Minas Gerais, we believe we achieve greater control over maintenance costs. We are currently expanding our Aircraft Maintenance Center in order to provide maintenance services to our growing fleet. With the acquisition of 101 new and fuel efficient Boeing 737-800 Next Generation aircraft (as of December 31, 2007) through 2014, we will further reduce the average age of our fleet, increase the number of available seat kilometers per aircraft and therefore increase operating efficiency and potentially lower our operating costs.

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To Offer Attractive Services to a Variety of Customer Segments. The main customer segments in the Brazilian airline industry are business travelers, representing 56% of the total travelers according to our internal data with the remainder being leisure travelers and occasional travelers who are more price sensitive. Our strategy is focused on all these groups, with Gol s business model being more suitable to the more price sensitive groups, and with Varig s business model being more attractive to business travelers, who value higher travel comfort and service levels and flight service during peak business hours. We believe that Gol is perceived by our customers as providing attractive, simple and convenient services, at excellent value at low fares and acting as a catalyst for changing the way the Brazilian airline industry works. In addition to offering low fares, our strategy is to make flying a simpler, more convenient experience. We have achieved this objective largely through the elimination of unnecessary extras and common-sense applications of technology. We encourage our customers to use the Internet not only to make reservations, but also to make many of the arrangements from the comfort of their home or office that they would otherwise have to make at crowded airports or airline ticket offices, such as checking in and selecting seat assignments. We provide free shuttle service between airports and drop-off zones on selected routes. Gol offers customers a single-class in the Brazilian domestic routes, pre-assigned seating flights, does not overbook flights and provides designated female lavatories. Gol s strategy will be to continue to seek ways to make the Gol brand signify simplicity and convenience in the minds of air travelers. Varig has the most legroom of any Brazilian airline in a single class service, offers a business/comfort class for certain routes, and emphasizes our friendly and multilingual flight attendants and VIP lounges. Varig s strategy is to offer rational, value-oriented passenger air transportation services without excessive costs.

To Make Varig s Operations Accretive to our Consolidated Business. We acquired VRG in order to improve our competitive position in the highly competitive Brazilian and international passenger transportation industry over the long term. We increased our investments in Varig and intend to further focus on the development of its business model, fleet modernization and integration with Gol s operations. Upon the approval of the acquisition by CADE, which we expect to receive in the first semester of 2008, we intend to further integrate Varig s and Gol s operations. We intend to operate Varig under a highly efficient business model derived from Gol s successful low cost model, but with a more business traveler-focused service. In line with our objective of making VRG accretive to our consolidated business, we decided in 2008 to concentrate Varig s international route network in South America and discontinue service to other international destinations. Varig s status as a flag carrier permits us to explore future opportunities to operate in attractive international markets beyond South America.

To Further Establish and Increase Our Ancillary Revenue Businesses. Our ancillary revenues are derived from the *Smiles*, *Gollog* and *Voe Fácil* businesses as well as ticket change fees, excess baggage charges and other incidental services. Ancillary revenue represents a significant, growing revenue stream and have grown from R$85.4 million in 2004 to R$371.6 million in 2007. We expect further growth in these businesses, which will provide us with ancillary revenue at low incremental cost. The *Smiles* frequent flyer program is one of Latin America s largest airline loyalty programs. We intend to increase the *Smiles* marketing and penetration through adding partnerships with affiliated credit cards or using services and products at partner establishments. Through *Gollog*, our cargo transportation service, we make efficient use of extra capacity in the stronghold of our aircraft by carrying cargo. The *Voe Fácil* (Fly Easy) program allows select customers to pay for airline tickets in up to 36 monthly installments, with interest. By increasing the Voe Fácil program penetration we believe that we will be able to stimulate demand for our tickets and increase our ancillary revenue business. 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 high load factors on our aircraft and the high volumes of customers using our website.

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Routes and Schedules

Gol s operating model is a highly integrated, multiple-stop route network that is a variation on the point-to-point model used by other successful low-cost carriers worldwide. The high level of integration of flights at selected airports permits us to offer frequent, non-stop flights at low fares between Brazil s most important economic centers and ample interconnections through our network linking city pairs through a combination of two or more flights with little connecting or stop-over time. Our network also allows us to increase our load factors on our strongest city pair routes by using the airports in those cities to connect our customers to their final destinations. This strategy increases our load factor by attracting customers traveling to secondary markets who prefer to pay lower fares even if this means making one or more stops before reaching their final destination. Over 40% of Gol s passengers connect or path 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 feasible to serve in the traditional point-to-point model, but that are feasible to serve when simply added as additional points on our multiple-stop route network. We do this by offering low-fare, early-bird or night (red-eye) flights to lower-traffic destinations, which are usually the first or last stops on our routes, allowing us to increase our aircraft utilization and generate additional revenues. By offering international flights wtá 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.

Varig mostly provides frequent point-to-point direct service on routes to main and central airports in and around major population centers and the most important economic centers in Brazil and South America. Its point-to-point model allows Varig to offer frequent, direct, non-stop services.

Our consolidated route network and our ability to further integrate our route networks offer us a large number of distribution options, and convenient frequencies to the clients within South America. We intend to manage Gol s and Varig s route networks as complementary and synergistic networks. Until the CADE approves our acquisition of VRG, we cannot, however, make use of all potential operational, cost and revenue synergies from the consolidated operations of Gol and Varig. After an approval by CADE, which we expect to receive in the first semester of 2008, we will be able to further integrate Gol s and Varig s networks and service offerings and offer attractive network connections between Gol s multiple stop network and Varig s point to point network, combined with access to the international destinations served in South America.

At December 31, 2007, Gol offered over 590 daily flights to 59 destinations connecting the most important cities in Brazil as well as the main destinations in Argentina, Bolivia, Chile, Paraguay, Peru and Uruguay. As of December 31, 2007, Varig offered over 115 daily flights to 14 destinations in Brazil, and to nine international destinations in South America and Europe: Buenos Aires, Bogotá, Caracas and Santiago, in South America and Frankfurt, London, Paris and Rome in Europe. In 2007, Gol inaugurated four new destinations, thereby increasing the number of destinations served to 59 (51 in Brazil). In 2007, Varig inaugurated four new destinations thereby increasing the number of destinations served to 23 (14 in Brazil). In the first half of 2008, we decided to reposition VRG s international route network to South American destinations and discontinue Varig s intercontinental flights to Frankfurt, London and Rome at the end of the first quarter, and flights to Madrid, Mexico City and Paris in the second quarter of 2008.

In addition to monitoring growing market demand for increased daily flight frequency on our existing routes, we also seek to offer services in markets with previously untapped demand. We are also pursuing opportunities to offer flights on routes between Brazil and select cities in other countries where favorable market opportunities exist using the same business model and route management techniques that have proven successful within Brazil. Since 2005, we have been increasing the number of flights to and through Guarulhos and Galeão, two international airports located in São Paulo and Rio de Janeiro, respectively, which we expect will give us additional growth opportunities in the Brazilian and international markets and more code share and interline agreement opportunities with international airlines.

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Our market positioning enables both Gol and Varig to successfully negotiate a number of arranged partnerships with supplementary major carriers worldwide. Strategically, these additional passenger inflows aim to improve revenues at lower costs. In 2005, Gol entered into its first code share agreement with Copa Airlines, and unilateral interline agreements include Varig, Air France, Delta Airlines, Continental Airlines, TAP Air Portugal and Aerolíneas Argentinas. Varig entered into multilateral interline agreements with 35 airlines as of December 2007, including Aeromexico, Alitalia, Air Europe, Air France, Copa, Delta Airlines, Iberia, JAL, KLM and TAP Air Portugal. 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 check-in with the baggage sent 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. Both the code share marketing carrier and code share operating carrier must have interline agreements with all other carriers in the itinerary to allow a single ticket to be issued. We are currently analyzing the viability of entering into a global airline alliance.

Customer Value and Service

Gol s and Varig s Passenger Transportation

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

ticketless travel;

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

online flight status service;

web-enabled cell phone ticket sales and check-in;

self check-in at kiosks at designated airports;

airport parking discounts;

designated female lavatories;

a choice between single-class, low frills, pre-assigned seating (Gol) and differentiated services with the most legroom in the domestic market and a loyalty program (Varig);

business-oriented, comfortable travel;

friendly and efficient in-flight service;

modern aircraft interiors;

quick turnaround times at airport gates; and

free or discounted shuttle services between airports and drop-off zones on certain routes.

We seek to achieve punctual operations, which are of primary importance to our customers. In 2007, the adverse industry environment in Brazil, airport congestions and changes in slot allocations made punctuality a challenge, even though we increased the scheduled time between flight legs and took further measures to improve punctuality. According to our internal data, which is corrected for delays out of our control and pre-advised changes in flight schedules, punctuality rates in 2007 were 98% for Gol and 96% for Varig.

According to ANAC data, which is not corrected for delays out of our control and pre-advised changes in flight schedules, Gol s and Varig s domestic punctuality statistics in 2007 averaged 50% and 77%, respectively. International punctuality statistics according to ANAC averaged 47% and 66% for Gol and Varig, respectively. These figures were lower than previous years, due in part to problems with the administration and coordination of the Brazilian air traffic control, which began in the fourth quarter of 2006 and continued throughout part of the year, and peaked with the restrictions placed at Congonhas airports after an accident of a competitor s aircraft at that airport in July 2007, which affected Gol, with its highly integrated multi-stop network, and Varig, with its largely Congonhas-based flight network.

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Gollog Cargo Transportation

In addition to our passenger service, we make efficient use of extra capacity in the stronghold of our aircraft by carrying cargo, through our cargo transport service Gollog. Gollog s success is the result of the unique service we offer to the market: the Electronic Air Waybill that can be completed via the Internet. The Gollog system provides online access to air waybills and allows customers to track their shipment from any computer with Internet access. Gol s 59 destinations and Varig s 23 destinations throughout Brazil and South America provide access to multiple locations in the region. Gol s over 590 daily flights and Varig s over 115 daily flights guarantee quick and reliable delivery. Packages are shipped in the cargo hold of Gol s and Varig s passenger aircraft. Gollog has two storage facilities one at Congonhas airport in São Paulo, and another at Cumbica airport in Guarulhos with 112 employees. Additionally, Gollog has 49 franchised branches and a fleet of 201 vehicles to collect and deliver cargo. In 2007, Gollog generated revenues of R$172 million and carried volume was 56,500 tons.

Smiles Loyalty Program

We have a loyalty program (*Smiles*) and is available for passengers flying Varig. We consider Varig s frequent flyer program as a strong relationship tool. Members may accumulate miles by flying on Varig s flights. We intend to increase the *Smiles* penetration through increasing and establishing partnerships with affiliated credit cards or using services and products at partner establishments. We believe that Varig s *Smiles* program can strengthen lines of communications with its passengers. There are four tiers in Varig s *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. It maintains partnerships with hotel chains, car rental companies, restaurants, insurance companies, publishers and schools and also maintains a partnership with some of Brazil and South America s largest banks and credit card companies. In 2007, the program offered a number of marketing promotions aimed at re-engaging its existing members and expanding its client base. The Smiles program had over five million members at the end of 2007.

Voe Fácil Installment Program

Gol launched in 2005 the *Voe Fácil* (Fly Easy) program, an innovative new way to purchase airline tickets, which allows selected customers based on their credit history to pay for airline tickets in up to 36 monthly installments. The program is especially designed for highly price-sensitive customers, many of which do not hold credit cards. Installment payments are a typical sales strategy in the Brazilian retail market and we are applying this sales technique to passenger transportation to increase our market and stimulate demand for our tickets. As of December 31, 2007, the Fly Easy Purchase Program has received over one million applications since its launch in 2005 and has issued more than 700,000 cards.

Sales and Distribution

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

Gol

Gol s low cost low fare business model utilizes website ticket sales as its main distribution channel. For the year ended December 31, 2007, 80.0% of Gol s passenger revenues, whether directly to the customer or through travel agents, were booked via the Internet, making Gol one of the worldwide industry leaders in this area. In the same period 10.3% of Gol s passenger revenues through call centers and airport sales counters, 8.3% through its BWS and 1.5% of its total sales were made through the GDS, respectively.

Gol 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. Travel agents provide Gol with more than 20,000 distribution outlets throughout these regions. For the year ended December 31, 2007, 66.4% of Gol s sales were to customers who purchased tickets indirectly from travel agents (78.7% of these sales were made on Gol s website, 6.7% through call centers and 2.2% by travel agents through a GDS system).

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GDSs allows us to 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 passenger traffic to our network.

To illustrate the importance of continuing to focus on increasing Internet-based ticket sales directly to Gol s customers, it costs an average of 22% less for each ticket sale made directly to a customer through our website compared to Internet ticket sales through travel agents, 54% less than a call center ticket sale and 78% less than a GDS ticket sale. The higher ticket sales costs for GDS ticket sales are partially offset by higher average fares for tickets booked through a GDS. Gol strongly promotes the use of its website because it is its most efficient distribution channel in terms of cost savings and customer convenience. By focusing on virtual distribution, Gol is able to streamline ticket sales and services and reduce the need to incur costs associated with more traditional distribution channels, such as physical ticket sale centers located outside of airports. In addition to being cost-effective, focusing on Internet distribution also provides Gol customers with high levels of convenience, as they are better able to interact with Gol when they want and how they want, in either Portuguese, English or Spanish. As a result of this emphasis on virtual distribution, we have become one of the largest and leading e-commerce businesses in South America in terms of revenue from Internet-based sales.

Varig

Due to its larger volume of operations with interline partnerships and international flights, Varig mainly uses the traditional distribution channel GDS, which is the system primarily used by travel agents for international destinations. In 2007, 75.1% of Varig s passenger revenues were to customers who purchased tickets indirectly from travel agents, mostly through GDS systems. For the same period, 8.8% of Varig s passenger revenues, whether directly to the customer or to travel agents, were made via the Internet. Varig s strategy is to increase sales through its website. It booked 12.3% of its sales on the web since the re-launch of its website on October 23, 2007.

Partnerships and Alliances

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 also entered into alliances with hotel chains and rental car service providers to offer our corporate customers the convenience of packaged transportation and accommodation arrangements. At the end of 2006, Gol launched in association with MasterCard and Banco do Brasil, its corporate credit card Gol Negócios targeting small and medium-size corporate enterprises. We will continue to focus on expanding Gol s base of cost-conscious, medium-sized corporate clients who serve as a source of recurring revenues. In addition, we believe Varig s increased travel comfort and frequent flyer program can attract premium passengers and can develop into a strong relationship that stimulates demand.

Another distribution channel of our services, which increases our load factors, are partnerships with international air carriers. Gol has entered into unilateral interline agreements with Varig, Air France, Delta Airlines, Continental Airlines, TAP Air Portugal, Aerolíneas Argentinas and COPA Airlines (code share since 2005) at Gol; and Varig had multilateral interline agreements with 35 airlines at Varig as of December 31, 2007. Until the approval of the VRG acquisition by CADE, we cannot, however, make use of all potential operational and revenue synergies from the consolidated operations of Gol and Varig.

Brands and Marketing

We use the Gol brand and the Varig brand as separate brands to better target all customer segments. As part of this strategy to use brand segmentation we re-launched the Varig brand officially in October 2007. While Gol s motto Here everyone can fly is linked to Gol s low cost-low fare service, we have positioned the Varig brand with the motto The

pleasure is in flying to emphasize Varig s service-oriented approach, with the most legroom in the Brazilian airline industry.

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We advertise primarily through cost-efficient media, including Internet websites, radio spots, local newspaper ads and billboards.

We also use innovative promotions to stimulate demand for air travel. We believe that the high number of visits to Gol s and Varig s websites, which averaged 4.4 million visitors per month during 2007, are in part the result of the customer interest created by our promotions. By offering campaigns with low promotional prices, Gol and Varig stimulate their customers to search for opportunities to fly Gol and Varig.

To increase our market and stimulate demand for our tickets, we will also continue to provide our customers with a variety of flexible payment mechanisms. We offer more than 20 payment options for online sales, such as credit card payments, debit payments and monthly installment payments.

Pricing

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

Under our operating model, we are keeping our operating costs low and we have designed our fare structure to balance our load factors and yields in a way that we believe will optimize profits from our flights. Gol s fares are below the average fares of its Brazilian competitors and Varig s fares are based on market demand. Our approach to more transparent and competitive pricing has lowered fares in many of the markets that we have entered. Consistent with airline industry market practice in Brazil, with the exception of our deeply discounted night flights or special offers and promotions, we do not have advance purchase restrictions, minimum stays or required Saturday night stayovers. In connection with our night flights, we set deeply discounted fares designed to compete with bus lines for travel to the same destinations. This approach has helped us to maximize our aircraft utilization rates to generate revenue during night hours. The night flights have also increased our customer base to include those who have previously only used other modes of transportation. Approximately one third of our fleet operates night flights on a daily basis.

We also adjust our pricing in accordance with changes in passenger volume stemming from imbalances in the direction of traffic, such as during the holiday season. These periods often create demand peaks that result in traffic flows that are weighted heavily in one direction, causing demand for seats in the other direction to be low. During these periods, we discount fares on the lower demand flights to stimulate traffic on those routes to help offset our fixed costs.

International tickets sold in Brazil are subject to a price range determined by and approval of the ANAC, except for international tickets to South American destinations, for which no approval but only registration with the ANAC is required. International tickets sold outside Brazil are priced based on market demand.

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.

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

Gol recently replaced its existing system and started using a modernized state of the art revenue management tool based on the Sabre Air Max RM platform, which is able to store, process and analyze data, and provides Gol information about the passenger true origin and destination details, giving us insights on our passenger flows, and allowing us to maximize revenue at the network level. This tool has a specific module for low cost carriers that is able to optimize revenue in a non-restricted fare environment, moving away from the traditional models of discrete demand among fare classes. Gol worked with Sabre to build this version of their product, and was its launch customer. Varig currently uses an in-house yield management system developed by its predecessor company, but we expect Varig to start using the modernized system utilized by Gol during the first semester of 2008.

Awards and Recognition

We have received a number of awards for areas such as service excellence, our website, technology, operations, finance, marketing, investor relations, and corporate responsibility. Recent highlights are:

Top Performer in Transport and Logistics in the *Valor 1000* publication in Brazil;

Best Performing Airline in the world in 2005 and 2006 by *Aviation Week and Space Technology*;

Most awarded Latin American Company in a survey by the *LatinFinance* magazine;

Best transportation company in Brazil, according to the *EXAME* magazine in Brazil in 2007 and the Best Brazilian company in 2004;

Most competitive airline in Latin America, according to rankings disclosed by *America Economia Magazine*;

Air Transport Worlds Market Leadership Award by *Air Transport World*;

No. 1 in the category of Disclosure Procedures in Latin America in two consecutive years and the top prize in the industry and top five ranking in Latin American websites for our investor relations website at the Ninth Annual IR Global Rankings in February 2007;

One of five Global High Performers in the transportation industry ranked on *Forbes Magazine* s annual list of the largest 2000 global companies;

One of the top shareholder-friendly companies in Brazil s aerospace, transportation & industrial sector ranked by the *Institutional Investor* magazine; and

Our Chief Executive Officer, Constantino de Oliveira Junior, ranked by *Institutional Investor* magazine as the number one CEO in Brazil s aerospace, transportation & industrial sector.

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Corporate Responsibility

Our values are based upon growth, respect and incentives for teamwork for our employees, and the fulfillment of our social and environmental obligations. We are committed to being a good corporate citizen in Brazil by participating in projects dedicated to improving the education, health and nutrition of the underprivileged portion of Brazil s population, particularly children.

In 2007, we contributed R$3.5 million to social and cultural activities and donated 5,495 tickets, with a value of over R$1.0 million, for charity and cultural purposes. We collected food and school supplies and sponsored cultural and educational projects, as well as environmental protection initiatives. In September and October 2007, we launched an innovative promotion for the AACD (*Associação de Assisténcia Crianca Deficiente*), in which we sold more than 200,000 tickets (corresponding to 9% of tickets sold in the period), and which generated revenues of R$2.0 million for the AACD. We are the largest individual sponsor of *Pastoral da Criança*, a non-governmental organization that has assisted in the health and education needs of more than 1.8 million children in Brazil from infancy to age six.

We also support other various governmental and non-governmental organizations, such as *Fundação Gol de Letra*, a foundation dedicated to educating underprivileged children and teenagers; *Projeto Felicidade*, a project that provides assistance to children with cancer; and *Projeto Solidariedade ao Nordeste*, a project that provides food donations to poor families in the northeastern region of Brazil. We sponsor numerous cultural and sports activities, such as theater plays and dance shows and sports events, to help promote travel and tourism in Brazil. In addition to making a difference for those in need, we also believe that our social responsibility and cultural sponsorship initiatives benefit us by enhancing our corporate image and promoting awareness of our brand.

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. Since the last quarter of 2006, technical and operational problems in the Brazilian civil aviation infrastructure, including air traffic control systems, airspace and airport infrastructure have adversely affected airline operations and may continue to adversely affect the industry. Since 2006, two major airline accidents have caused casualties in Brazil. See Industry Overview Trends and Recent Developments in Brazilian Civil Aviation Market below.

Various measures have been taken by the relevant governmental authorities and discussions are currently ongoing with a view to possible changes in the organizational structure of the aviation infrastructure system and to further improve safety in the industry. See Trends and Recent Developments in Brazilian Civil Aviation Market below.

Aircraft

A key element of our business model is to operate a young and simplified fleet. At the end of 2007, we had a total fleet of 111 Boeing aircraft, of which 106 aircraft were operating (31 Boeing 737-700 Next Generation aircraft, 41

Boeing 737-800 Next Generation aircraft, 27 Boeing 737-300 aircraft and 7 Boeing 767-300 ER aircraft) and 4 aircraft were in the process of being returned to lessors. We expect to return all our Boeing 737-300 and 767-300 aircraft during 2008 and intend to concentrate our fleet on Boeing 737-800 Next Generation aircraft for Gol and Boeing 737-700 Next Generation aircraft for Varig. We intend to operate 135 aircraft by the end of 2012. We are able to serve all our markets in Brazil and South America with our new Boeing 737 aircraft fleet.

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The composition of our fleet as of December 31, 2007 is more fully described below:

	Number of Aircraft		Average Term of Lease Remaining (Years)	Average Age (Years)	Seating Capacity
	Total	Operating Lease			
Gol Fleet Composition					
Boeing 737-800NG SFP*	24	11	9.7	0.7	178-187
Boeing 737-800NG	12	12	4.9	6.2	177
Boeing 737-700NG	30	28	3.6	7.7	144
Boeing 737-300	12	12	1.7	18.7	141
Varig Fleet Composition					
Boeing 737-800NG	7	7	7.0	6.1	177
Boeing 737-700NG	1	1	6.9	5.5	136
Boeing 737-300	16	16	3.7	17.5	136
Boeing 767-300	9	7	4.2	13.5	218

*SFP means short field performance

Each Boeing 737 aircraft in our fleet is powered by two CFM International Model CFM 56-7B22 engines, two CFM International Model CFM 56-7B24 engines, two 56-7B27B1 engines or two 56-3C1 engines. Gol s Boeing 737 narrow body fleet operates in a comfortable single-class layout while some of Varig s aircraft offer dual class service. Varig s Boeing 737 narrow body aircraft offer the most legroom of any Brazilian airline. Each Boeing 767 aircraft in our fleet is powered by either Pratt & Whitney PW4000 or GE CF6-80C2 engines.

The average age of our aircraft at December 31, 2007 was 9.0 years and the average age of our Boeing 737NG fleet, which represents 68% of our total fleet, was 5.1 years.

We took delivery of 15 Boeing 737-800 SFP aircraft, seven Boeing 737-800 and one Boeing 737-700 aircraft in 2007. In addition, to meet our requirements for aircraft to perform intercontinental flights, we took in 2007 delivery of seven Boeing 767-300 ER aircraft under operating leases between one and seven years. We have placed firm purchase orders with The Boeing Company for 101 737-800 Next Generation aircraft as of December 31, 2007 and we have options to purchase an additional 34 737-800 Next Generation aircraft. We have the ability to convert a portion of our firm purchase orders to 737-700 Next Generation aircraft. Currently, we have 9 firm purchase orders for aircraft deliveries scheduled in 2008, 15 in 2009, 16 in 2010, 12 in 2011 and 49 after 2011. With these firm purchase orders and purchase options, we expect to further reduce our operating and financial costs. In addition, by purchasing aircraft, we expect to be able to maintain our young fleet of aircraft going forward, increase fuel and operating efficiency and reduce maintenance costs.

The following table shows the historical and expected development of our fleet at December 31, 2007 and the expected development of our fleet until December 31, 2014:

Fleet Plan	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**

B737-300	28	0	0	0	0	0	0	0
B737-700 NG	31	40	40	40	40	40	40	40
B737-800 NG	19	31	21	15	11	4	0	0
B737-800 NG SFP	24	37	52	68	80	95	106	110
B767-300 ER	9	-	-	-	-	-	-	-
Total	**111**	**108**	**113**	**123**	**131**	**139**	**146**	**150**

Our new and simplified fleet structure allows us to maintain a cost-efficient operation by reducing maintenance and training costs, reducing spare parts inventory requirements and supporting high reliability and high aircraft utilization rates. The average daily utilization rate of our short haul aircraft between 2005 and 2007 was 13.8 block hours (13.4 block hours in 2007), which was the highest average utilization rate in Brazil and one of the highest utilization rates in the industry worldwide according to airline company public filings.

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The following table shows the average block hours of our aircraft per day, during the periods indicated:

	At December 31,		
	2005	**2006**	**2007**
Narrow body Fleet	13.8	14.2	13.4
Gol	13.8	14.2	14.2
Varig	-	-	10.8
Wide-body Fleet (Varig)	-	-	14.8

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

In addition to being cost-efficient, the Boeing 737-700/800 Next Generation aircraft are equipped with advanced technology that promotes flight stability, providing a more comfortable flying experience for our customers. Our focus on having low operating costs means that we will periodically review our fleet composition. As a result, our fleet composition may change over time if we conclude that adding other aircraft types would contribute to this goal. However, our approach to our fleet composition is based upon having a minimal number of different aircraft types to preserve the simplicity of our operations. As a result, the introduction of any new aircraft type to our fleet will only be done if, after careful consideration, we determine that such a step will reduce our operating costs. Since 2005, most of our leased Boeing 737-800 Next Generation aircraft have been 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 of over 3%. In addition, we expect the winglets to improve airplane performance during take-off and landing on short runways. The new Boeing 737-800NG 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 2007, we leased 98 of our 111 aircraft under operating lease agreements that have an average remaining term of 61 months. We believe that leasing our aircraft fleet under operating leases provides us with flexibility to adjust our fleet size if we consider it to be in our best interests to do so. We make monthly rental payments, some of which are based on floating rates, but are not required to make termination payments at the end of our leases. Under our operating lease agreements, we do not have purchase options and 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, 2007, our operating leases had terms of up to 120 months from the date of delivery of the relevant aircraft. Currently, 10 of our aircraft leases expire in 2008, 13 in 2009, 13 in 2010, 8 in 2011 and 67 after 2011. We expect to return the 28 737-300 aircraft

under operating leases during 2008. At the end of 2007, we had 13 aircraft acquired under our firm purchase order with Boeing under finance lease arrangements that had an average remaining term of 138 months.

Maintenance

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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 higher aircraft utilization rate and reduces maintenance costs. Heavy maintenance consists of more complex inspections and servicing of the aircraft that cannot be accomplished overnight. Heavy maintenance checks are performed following a pre-scheduled agenda of major overhauls defined by the aircraft s 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 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 2006 and 2007 under our firm purchase order with Boeing will start expiring in 2011.

We internalized heavy maintenance on our Boeing 737 aircraft in our new Aircraft Maintenance Center at the Tancredo Neves International Airport in Confins, in the State of Minas Gerais. The certification for the operation of the center authorizes maintenance services for Boeing 737-300s and Boeing Next Generation 737-700 and 800s. We use the new facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We are currently expanding our Aircraft Maintenance Center in order to ensure maintenance capacity while our fleet grows. We expect to be able to accommodate up to 10 of these aircraft at the same time. We have applied for the certification to provide services for Boeing 767-300 aircraft. We believe that the new maintenance facility will accommodate our recent and future fleet expansion, centralize our aircraft maintenance operations, provide cost savings and better enable us to determine the timing of the heavy maintenance so as to continue to maximize our aircraft utilization. Even though we do not intend to use Boeing 737-300 aircraft in our fleet going forward, we intend to keep offering maintenance services for this aircraft to third parties in our maintenance center.

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 NG phased maintenance philosophy, supported by extensive investments we made in personnel, material, tools and equipment.

We have also been certified by the ANAC under the Brazilian Aeronautical Certification Regulations to perform heavy maintenance services for third parties. We expect to utilize this certification, a potential source for ancillary revenues, only after the construction of an additional maintenance facility, currently contemplated to be finalized in 2008.

We employ approximately 2,500 maintenance professionals, including engineers, supervisors, technicians and mechanics, who perform maintenance in accordance with maintenance plans that are established by Boeing and are approved and certified by Brazilian aviation authorities.

Facilities

We have renewable concessions with terms varying from one to five years from INFRAERO to use and operate all of our facilities at each of the major airports that we serve. Our concession agreements for our terminals passenger

service facilities, which include check-in counters and ticket offices, operations support area and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the concession term. We offer VIP lounges to our customers in the major Brazilian airports that Varig serves.

Our primary corporate offices are located in São Paulo. Our commercial, operations, technology, finance and administrative staff is based primarily at our headquarters.

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We have concessions to use other airport buildings and hangars throughout Brazil, including a part of a hangar at Congonhas airport where we perform a portion of our aircraft maintenance. In addition, we have a maintenance center at the Tancredo Neves International Airport in Confins, in the State of Minas Gerais.

Fuel

Our fuel costs totaled R$1,898.8 million in 2007, representing 38.3% of our operating expenses for the year. In 2007, we consumed 1.2 billion liters of fuel. We purchase substantially all of our fuel from Petrobras Distribuidora S.A., a retail subsidiary of Petrobras, principally under an into-plane contract under which the supplier supplies fuel and also fills our aircraft tanks. In 2007, fuel prices under our contracts were re-set every 30 days and were composed of a variable and a fixed component. The variable component is defined by the refinery and follows international crude oil price fluctuations and the *real*/U.S. dollar exchange rate. The fixed component is a spread charged by the supplier and is usually a fixed cost per liter during the term of the contract. We currently operate a tankering program under which we fill the fuel tanks of our aircraft in regions where fuel prices are lower. We also provide our pilots with training in fuel management techniques, such as carefully selecting flight altitudes to optimize fuel efficiency.

Fuel costs are extremely volatile, as they are subject to many global economic and geopolitical factors that we can neither control nor accurately predict. Because international prices for jet fuel are denominated in U.S. dollars, our fuel costs, though payable in *reais*, are subject not only to price fluctuations but also to exchange rate fluctuations. We maintain a fuel and foreign exchange hedging program, based upon policies which define volume, price targets and instruments for multi-year periods, under which we enter into fuel and currency hedging agreements with various counterparties providing for price protection in connection with the purchase of fuel. Our hedging positions cover short-term periods, and are adjusted weekly or more frequently as conditions require. Our hedging practices are executed by our internal risk management committee and overseen by the risk policies committee of our board of directors. The risk policies committee of our board of directors meets quarterly to assess the effectiveness of our hedging policies and recommends amendments where appropriate. 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, 2007, we had hedged 29% and 7% of our projected fuel requirements for the first and second quarters of 2008, respectively.

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

	Year Ended December 31,			
	2004	**2005**	**2006**	**2007**
Liters consumed (in thousands)	317,444	476,725	712,881	1,177,300
Total cost (in thousands)	R$459,192	R$808,268	R$1,227,001	R$1,898,840
Average price per liter	R$1.43	R$1.65	R$1.70	R$1.64
% change in price per liter	16.3%	15.4%	3.0%	(3.5)%
Percent of operating expenses	33.2%	39.5%	39.6%	38.3%

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$1.0 billion. We are in compliance with this requirement. We have obtained all insurance coverage required by the terms of our leasing agreements. We believe our insurance coverage is consistent with airline industry standards in Brazil and is appropriate to protect us from material loss in light of the activities we conduct. No assurance can be given, however, that the amount of insurance we carry will be sufficient to protect us from material loss.

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

On September 29, 2006, one of our new Boeing 737-800 NG aircraft was involved in a mid-air collision with a private aircraft of ExcelAir. Our aircraft went down in the Amazon forest, leaving no survivors among the 148 passengers and six crew members. The ExcelAir aircraft, a new Embraer Legacy 135BJ, performed an emergency landing and all of its seven occupants were unharmed. We continue to cooperate fully with all regulatory and investigatory agencies to determine the cause of this accident. We believe that the costs to defend any claims and any potential liability exposure will be covered by insurance.

Competition

Domestic

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. Our consolidated domestic market share and seat share in December 2007 was 44.6 % and 44.2%, respectively. On a consolidated basis, we have the largest network of destinations served in Brazil and have a leading share of operating capacity in the most frequented airports throughout the country.

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. We believe that Gol s low-cost operating model and low fares combined with Varig s differentiated service model, enable us to compete favorably in all of these areas. See Our Competitive Strengths.

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.

We acquired VRG on April 9, 2007. In the domestic market, Varig operates with a single-class of service, with mainly direct flights between the main economic centers of Brazil. In compliance with applicable CADE requirements, we currently operate Gol and Varig as separate airlines until we get approval from the CADE for the acquisition. We expect to receive this approval during the first semester of 2008.

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 Scheduled Airlines	2003	2004	2005	2006	2007	12/07
Gol (Gol Transportes Aéreos)	19.4%	22.4%	25.9%	34.1%	39.6%	41.2%
Varig (VRG Linhas Aéreas)	-	-	-	-	3.5%	3.4%

Gol and Varig combined	-	-	-	-	43.1%	44.6%
TAM	33.0%	35.8%	41.3%	48.0%	48.9%	48.6%
Former Varig Group (Nordeste, Riosul, Varig)	33.6%	31.1%	25.5%	10.0%	-	-
Others	13.9%	10.8%	7.3%	8.0%	8.1%	6.8%

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Source: ANAC/DAC Annual Air Transportation Report (Anuário do Transporte Aéreo) Statistical Data 2002-2004. Advanced Comparative Data (Dados Comparativos Avançados) 2005 2007

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The following table sets forth the historical seat capacity on domestic routes, based on available seat kilometers, of the significant airlines in Brazil for each of the periods indicated:

Domestic Seat Share Scheduled Airlines	2003	2004	2005	2006	2007	12/07
Gol (Gol Transportes Aéreos)	18.1%	20.6%	24.8%	33.2%	39.1%	39.6%
Varig (VRG Linhas Aéreas)	-	-	-	-	4.5%	3.4%
Gol and Varig combined	-	-	-	-	43.6%	44.2%
TAM	34.2%	36.4%	41.7%	46.9%	47.7%	48.5%
Former Varig Group (Nordeste, Riosul, Varig)	32.5%	30.5%	26.0%	11.3%	-	-
Others	15.2%	12.6%	7.4%	8.6%	8.8%	7.4%

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Source: ANAC/DAC Annual Air Transportation Report (Anuário do Transporte Aéreo) Statistical Data 2002-2004. Advanced Comparative Data (Dados Comparativos Avançados) 2005 2007

Domestically, we also face competition from ground transportation alternatives, primarily interstate bus companies. In 2006, interstate bus companies transported over 136 million passengers, according to the National Ground Transportation Agency (*Agência Nacional de Transportes Terrestres*), and given the absence of meaningful passenger rail services in Brazil, travel by bus has traditionally been the only low-cost option for long-distance travel for a significant portion of Brazil s population. We believe that our low-cost business model and strong capitalization has given us flexibility in setting our fares to stimulate demand for air travel among passengers who in the past have traveled long distances primarily by bus. In particular, the highly competitive fares we have offered for travel on our night flights, which have often been comparable to bus fares for the same destinations, have had the effect of providing direct competition for interstate bus companies on these routes.

International

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

The long haul airline industry is substantially more competitive than short haul industry, with large international airlines as more experienced and larger competitors. To ensure an extensive international feeder network and increase competitiveness, airlines are dependent on partnerships and interline agreements, with regard to their international operations. In large countries like Brazil, the passenger feeder network is usually provided by domestic airlines, while in smaller countries, this function is often fulfilled by other international airlines. Partnerships and interline agreements between the airlines make air traveling for long haul passengers substantially more attractive. Partnerships and interline agreements among airlines date back to 1978 and the deregulation of the United States aviation market, but the main impulse for the importance of these partnerships came in the 1990s with the opening of the European markets.

On international routes, airlines compete primarily on the basis of routes, services, price and mileage and frequent flyer programs. Gol offers single class international flights to destinations in South America. Varig offers international services to South American destinations. In our international operations, we face competition from Brazilian airlines such as TAM, which operates flights to some of our international destinations as well as major international airlines that serve the markets in which we currently operate. Our consolidated international market share and seat share in December 2007 was 28.7% and 33.4% respectively. Brazilian airlines were responsible for approximately 30% of

international seat capacity offered in 2006 with the remainder offered by non-Brazilian airlines. In the first half of 2008, we decided to reposition VRG s international route network to South American destinations and discontinue Varig s intercontinental flights to Frankfurt, London and Rome at the end of the first quarter, and flights to Madrid, Mexico City and Paris in the second quarter of 2008.

The following table sets forth the historical market share of the major Brazilian airlines on international routes for each of the periods indicated.

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International Market Share Scheduled Airlines	2003	2004	2005	2006	2007	12/07
Gol (Gol Transportes Aéreos)	-	0.1%	2.1%	7.4%	14.2%	11.1%
Varig (VRG Linhas Aéreas)	-	-	-	-	13.1%	17.6%
Gol and Varig combined	-	-	-	-	26.3	28.7%
TAM	12.0%	14.5%	18.4%	37.5%	67.5%	70.0%
Former Varig Group (Nordeste, Riosul, Varig)	87.9%	85.4%	77.0%	50.2%	-	-
Others	0.1%	0.1%	2.5%	5.0%	5.3%	1.3%

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Source: ANAC/DAC Annual Air Transportation Report (Anuário do Transporte Aéreo) Statistical Data 2002-2004. Advanced Comparative Data (Dados Comparativos Avançados) 2005 2007

The following table sets forth the historical seat capacity of the major Brazilian airlines on international routes for each of the periods indicated.

International Seat Share Scheduled Airlines	2003	2004	2005	2006	2007	12/07
Gol (Gol Transportes Aéreos)	-	0.1%	2.3%	8.1%	15.5%	11.2%
Varig (VRG Linhas Aéreas)	-	-	-	-	16.2%	22.2%
Gol and Varig combined	-	-	-	-	31.7%	28.7%
TAM	12.7%	15.2%	18.9%	36.2%	62.8%	64.0%
Former Varig Group (Nordeste, Riosul, Varig)	87.3%	84.7%	76.4%	51.2%	-	-
Others	0.1%	0.1%	2.4%	4.5%	5.4%	2.7%

Industry Overview

Since air transportation has historically been affordable only to the higher income segment of Brazil s population, resulting in a comparatively low level of air travel, we believe that the low-cost, low-fare business model has the potential to significantly increase the use of air transportation in Brazil. According to the ANAC, there were 43.0 million domestic enplanements and 4.7 million international enplanements on Brazilian carriers in Brazil in 2006, out of a total population of approximately 188 million, according to the Brazilian Geographical and Statistical Institute (*Instituto Brasileiro de Geografia e Estatística IBGE*). In contrast, according to the U.S. Department of Transportation, the United States had 694 million domestic enplanements and 74 million international enplanements in 2006, out of a total population of approximately 303 million, based on the latest U.S. census figures.

Brazil is the fifth largest domestic aviation market in the world, covering a vast area (greater than the continental United States) and a population of approximately 188 million people (according to the Brazilian Geography and Statistics Institute (*Instituto Brasileiro de Geografia e Estatística*, or IBGE). Growth of the Brazilian commercial aviation industry is closely related to growth of Brazilian GDP. According to ANAC, the Brazilian commercial aviation industry transported 43.0 million passengers in the domestic market in 2006.

Most long-distance public travel services within Brazil are provided by interstate bus companies. In 2006, Brazil s domestic airline industry transported 43 million passengers, as compared to over 136 million passengers transported

by interstate bus companies in 2006, according to the National Ground Transportation Agency (*Agência Nacional de Transportes Terrestres*). Brazil has no meaningful interstate passenger rail services.

The business travel segment is the largest component of Brazilian air transportation demand and the most profitable in the market. According to company data, business travel represented, according to our internal data, 56% of the total demand for domestic air travel in 2007, 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 10.9% of all domestic passengers in 2006. The ten busiest routes accounted for 40.6% of all domestic air passengers in 2007 while the ten busiest airports accounted for 72.8% and 63.0% of all domestic passenger traffic through INFRAERO airports in terms of arrivals and departures in 2006 and 2007, respectively.

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

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After an accident at the São Paulo s Congonhas airport in July 2007, regulators imposed changes to that airport s operations in the beginning of October 2007. These changes limited operations to direct flights with a maximum stage length of 1,000 kilometers (1,500 kilometers in the period from December 1, 2007 to March 15, 2008), reduced slots per hour from 44 to 34 for regular flights, and reduced the operational length of the main runway from 1,940 meters to 1,640 meters. The restrictions resulted in a reduction in load factor and reduction in available seat kilometers. By the end of 2007, Congonhas airport represented 7.9% of total consolidated industry revenue, versus 11.6% at the end of 2006, and ranked fourth after the São Paulo Guarulhos, Rio de Janeiro Galeão and Brasilia airports.

The table below sets forth information about the ten busiest routes for air travel in Brazil during 2006 and 2005.

City Pair	Passengers		Route Market Share	
	2005	2006	2005	2006
São Paulo Rio de Janeiro(1)	4,609,027	4,596,903	12.2%	10.9%
São Paulo (Congonhas) Rio de Janeiro (Santos Dumont)	3,383,008	3,317,537	8.9%	7.9%
Rio de Janeiro (Galeão) São Paulo (Guarulhos)	771,676	678,378	2.0%	1.6%
São Paulo (Congonhas) Brasília	1,388,701	1,496,919	3.7%	3.6%
São Paulo (Congonhas) Curitiba	1,211,342	1,292,422	3.2%	3.1%
São Paulo (Congonhas) Porto Alegre	1,137,041	1,283,671	3.0%	3.0%
São Paulo (Congonhas) Confins	858,580	1,089,284	2.3%	2.6%
São Paulo (Cumbica) Salvador	827,273	1,025,257	2.2%	2.4%
Rio de Janeiro (Galeão) Salvador	634,378	780,677	1.7%	1.9%
São Paulo (Congonhas) Florianópolis	641,568	770,707	1.7%	1.8%
São Paulo (Cumbica) Recife	646,708	757,726	1.7%	1.8%

Source: DAC, from Anuário do Transporte Aéreo 2006

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

The scheduled domestic passenger airline industry in Brazil is primarily served by us and TAM. At the end of 2007, we and TAM accounted for 93% of both market and seat share of domestic regular routes, measured in terms of revenue passenger kilometers and seat kilometers.

Set forth in the table below is the number of passengers traveling by air between Brazil and other specified South American, North American and European countries during 2006, as well as the gross domestic product and population of each listed country.

Country	Enplanements(1) (in thousands)	Percentage of Total	GDP(2) (in billions of US$)	Population(3) (in millions)
South America	3,427,216	35.5%	1,958	328
Argentina	1,768,630	18.3%	214	39
Chile	593,289	6.1%	146	17
Uruguay	262,594	2.7%	19	3
Paraguay	229,362	2.4%	9	6
Peru	171,794	1.8%	93	28

Bolivia	150,583	1.6%	11	9
Colombia	135,056	1.4%	136	46
Venezuela	65,508	0.7%	182	27
North America	2,541,805	26.3%	14,500	332
Europe	3,679,518	38.1%	13,491	387
Total	**9,648,539**	**100%**	**29,949**	**1,096**

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Sources: (1) ANAC Anuário de Transporte Aéreo 2006

(2)World Development Bank Key Statistics, Figures as of 2006

(3)World Development Bank Key Statistics, Figures as of 2006

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To ensure an extensive international feeder network and increase competitiveness, airlines are dependent on partnerships, code share and interline agreements with regard to their long haul operations. In large countries like Brazil, the passenger feeder network is usually provided by domestic airlines, while in smaller countries, this function is often fulfilled by other international airlines. Partnerships, code shares and interline agreements between the airlines make air travel for long haul passengers substantially more attractive. The history of partnerships, code shares and interline agreements among airlines date back to 1978 and the deregulation of the United States aviation market, but the main impulse for the importance of these partnerships came in the 1990s with the opening of the European markets.

In 2007 we expanded our interline agreements and code shares, permitting us to capture additional traffic. As of December, 31 2007, Gol had a code share agreement with COPA Airlines and interline agreements with 35 airlines, including Aerolineas Argentinas, Air Europe, Air France, Continental Airlines and Delta Airlines. Until the approval of the acquisition by CADE, which we expect to receive in the first semester of 2008, we will not be able to integrate Varig s and Gol s operations. Until then, Gol was only permitted by the aviation authorities to enter into an interline agreement with Varig, allowing Varig to distribute international passengers throughout Gol s network in Brazil and South America. Upon the approval of the acquisition by CADE, we intend to further integrate Varig s and Gol s operations. Varig ended 2007 with 35 interline agreements, including interline agreements with Aeromexico, Alitalia, Air Europe, Air France, Copa, Delta Airlines, Iberia, JAL, KLM and TAP Air Portugal. We believe that our interline agreements and code shares generate domestic feeder traffic for our consolidated network.

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

Trends and Recent Developments in Brazilian Civil Aviation Market

Since 1970, Brazil has for the most part had stable growth in revenue passenger kilometers. From 1970 to 2007, domestic revenue passenger kilometers grew at a compound annual rate of 8.7% . In the past 37 years, the domestic market generally experienced year-over-year growth in revenue passenger kilometers except in times of significant economic or political distress, such as the petroleum crisis in the 1970s, the Brazilian sovereign debt crisis in the early 1980s and the economic and political distress in Brazil in the early 1990s.

From 1999 to 2007, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 9.1%, versus a compound annual growth rate in available industry capacity, in terms of available seat kilometers, of 6.1% . Domestic industry load factors, calculated as revenue passenger kilometers divided by available seat kilometers, have averaged 63.5% over the same period. The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	1999	2000	2001	2002	2003	2004	2005	2006	2007
	(In millions, except percentages)								
Available Seat Kilometers	40,323	41,437	45,008	47,109	41,927	43,034	50,182	55,608	64,771
Available Seat Kilometers Growth	5.8%	2.8%	8.6%	4.7%	(11.0)%	2.6%	11.5%	10.8%	16.5%
Revenue Passenger Kilometers	22,204	24,284	26,296	26,780	25,180	28,214	35,429	39,802	44,550
Revenue Passenger Kilometers Growth	(1.5)%	9.4%	8.3%	1.8%	(6.0)%	12.0%	19.4%	12.3%	11.9%
Load Factor	55.1%	58.6%	58.4%	56.8%	60.1%	65.6%	70.2%	71.6%	68.8%

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Source: DAC, for 1999 to 2002 from Anuário Estatístico; and for 2003 through 2007 from Dados Comparativos Avançados.

Historically, domestic airline industry revenue growth has generally surpassed Brazilian GDP growth. From 1998 to 2006, domestic airline industry revenue grew at a real compound annual growth rate of 17.6% (as adjusted by the IPCA inflation index) while Brazilian GDP has grown at a real compound annual growth rate of 2.4% over the same period, according to data from the ANAC and the Central Bank.

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The airline industry in Brazil is regulated pursuant to Law No. 7,565, of December 19, 1986, also known as the Brazilian Aeronautical Code, as well as extensive regulations issued by the High Command of Aeronautics of the Ministry of Defense (*Comando da Aeronáutica*), the CONAC, and, since March 2006, the ANAC, which replaced the DAC in its function. Although the Brazilian airline sector was deregulated in the early 1990s, the DAC and the ANAC have imposed varying degrees of regulation since that time, and are charged with guiding, planning, stimulating and supporting the activities of public and private civil aviation as well as implementing international rules and conventions that have already been adopted by the Brazilian government. The decisions of the CONAC and the ANAC at times significantly alter the regulatory environment for civil aviation. Decisions that change regulatory policy often correspond to major socio-economic events, such as the Persian Gulf War and the September 11, 2001 terrorist attacks, and we believe have been designed to shelter domestic carriers from major economic shocks. The ANAC monitors and reacts to ongoing developments in the air transportation sector to achieve multiple competing objectives. The ANAC often takes targeted action to address perceived constraints or challenges affecting civil aviation. The *ad hoc* policy initiatives of the DAC in the past, and of the CONAC, presently, have included moving to restrict or expand the supply of air transportation services, to increase or decrease the availability of new routes and slots, to curtail or encourage competition in air fares, and to facilitate an orderly cessation of the activities of financially unsound carriers. Currently, the ANAC imposes a series of restrictions and demands on the standards, safety, maintenance, regularity and quality of air carrier operations. Brazilian airlines are permitted to establish their own domestic fares. Domestic fares are followed by the ANAC in order to prevent airlines, which are public concessionaires, from operating in a way that is detrimental to their economic viability. The ANAC also monitors the concession of airport slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new aircraft. The regulatory environment relating to the Brazilian civil aviation market is evolving, and a number of new laws are being discussed in Congress and within various regulatory bodies that could change the way in which the industry is regulated. See Item 4. Business Overview Regulation of the Brazilian Civil Aviation Market.

On September 27, 2005, President Luiz Inácio Lula da Silva approved Law No. 11,182 relating to the creation of the National Civil Aviation Agency, or ANAC, which replaced DAC as the primary civil aviation authority. According to Law No. 11,182, ANAC is responsible for organizing civil aviation within a coherent system (coordinating and supervising air transportation service and aviation and ground infrastructure) and for modernizing the regulation of Brazilian aviation operations. ANAC is linked, but not subordinated, to the Ministry of Defense and operates as an independent agency for an indefinite term. ANAC principally has the authority to (i) regulate, inspect and supervise services rendered by Brazilian and foreign airlines operating in Brazil, (ii) grant concessions, permits and authorizations for air transport operations and airport infrastructure services, (iii) represent the Brazilian government before international civil aviation organizations and (iv) control, register and inspect civil aircraft. Furthermore, Law No. 11,182 promotes private enterprise in civil aviation. In accordance with articles 48 and 49, passenger transportation is intended to be provided by the private sector on a competitive basis. In accordance with Section 7 of Law No. 11,182, and with Section 4 of the Decree No. 5,731, issued on March 20, 2006, and that set forth the organizational structure of the agency as well as its internal regulatory regime.

Recent Major Airline Accidents in Brazil

In 2006 and 2007, two major accidents have caused casualties in Brazil:

On September 29, 2006, one of our new Boeing 737-800 NG aircraft was involved in a mid-air collision with a private aircraft of ExcelAir. Our aircraft went down in the Amazon forest, leaving no survivors among the 148 passengers and six crew members. The ExcelAir aircraft, a new Embraer Legacy 135BJ, performed an emergency landing and all of its seven occupants were unharmed.

On July 17, 2007, a TAM Airbus 320 crashed upon landing at Congonhas airport in São Paulo. There were no survivors among the 163 passengers, 18 TAM employees and six crew members on board of the aircraft. There were

12 additional fatalities in a TAM Express facility into which the aircraft collided. The total number of fatalities was 199.

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Regulation of the Brazilian Civil Aviation Market

The Brazilian Aviation Authorities and Regulation Overview

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

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

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

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

INFRAERO, a state-controlled corporation reporting to the High Command of Aeronautics, is in charge of managing, operating and controlling federal airports, including control towers and airport safety operations. See Airport Infrastructure below.

The CONAC is an advisory body of the President of Brazil and its upper level advisory board is composed of the Minister of Defense, the Minister of Foreign Affairs, the Minister of Treasury, the Minister of Development, Industry and International Trade, the Minister of Tourism, the Minister Chief of the Civil Cabinet 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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In the last quarter of 2006, various technical and operational problems in the Brazilian air traffic control system and a lack of coordination between the various regulatory authorities in Brazil led to increased flight delays, higher than usual flight cancellations and airport congestions. Several measures have been taken by the Brazilian Federal Government, specifically by ANAC and the CONAC, in order to improve the coordination between the authorities, improve safety standards in the air transport sector and to address recent technical and operational problems affecting the Brazilian civil aviation infrastructure. Among other measures, administrative changes were made at the ANAC to improve the coordination between the ANAC and the other regulator bodies. In addition, ANAC has reassigned responsibility for aircraft inspections to regional units in order to enhance the effectiveness of inspections. ANAC has also enacted regulations providing for administrative disciplinary proceedings in which ANAC may impose stronger sanctions varying from fines and suspension of authorizations to the appointment of a trustee to manage the operator. Additional regulations have authorized the president of ANAC to take actions in urgent matters without seeking the prior approval of the other members of ANAC, which may be consulted after the fact.

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

The 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 from 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 (Superintendency of International Relations of the ANAC, which, based on the provisions of the applicable bilateral agreement and general policies of the Brazilian aviation authorities, submits the request to the ANAC for approval. International transit 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 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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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, which serves São Paulo in Brazil is a coordinated airport and has slot restrictions. As the slots at the Congonhas airport are fully utilized, the ANAC is unable to grant the right to new slots to airlines to operate in this airport. If new slots become available, the ANAC must grant 20% of those slots to companies not already operating at that airport.

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

Recently, the ANAC approved new regulations for the allocation of slots to domestic airlines. The 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 airports that operate at full capacity (coordinated airports). Additionally, such regulation also establishes the rules permitting transfers of slots between concessionaires.

International. Currently, the main international airports which are controlled, or slotted , are Heathrow in London, Frankfurt Main, Charles de Gaulle in Paris, Narita in Tokyo and John F. Kennedy in New York. In these airports, obtaining authorization to take-off or land depends on slot availability, which is created when an operator gives up its slot.

Twice a year, during winter and summer in the northern hemisphere, conferences are held among airlines, airports and slot coordinators (the majority of which are non-governmental), where the requests of airlines for slots for the upcoming season are discussed. Maintenance by the airlines of the current slots or the granting of new slots depends on historic operations of the airlines, according to the International Air Transport Association (IATA).

The granting and suspension of slots depends on the historical data of the airline and its punctuality and regularity. The major issue of airspace congestion at the controlled airports makes flight delays intolerable. In the event that our flights are delayed, we are subject to fines or cancellation of operations.

Airport Infrastructure

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

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

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

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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.

In January 2007, INFRAERO announced its intention to invest approximately R$1.8 billion in the Brazilian airport system until 2010. Among the projects underway is the construction of a new control tower at Congonhas airport in São Paulo, in addition to the recent investment that modernized the passenger terminal and the improvements of the main and auxiliary runways. Infraero commenced investments in a third runway for the Guarulhos airport in São Paulo, and is currently analyzing the construction of a third terminal for this airport. Also INFRAERO is investing in the Curitiba airport (extension of runway and cargo terminal), the Porto Alegre airport (runway extensions and construction of a new logistics center), and in a capacity increase of the international airport of Brasilia.

Of the 67 Brazilian airports managed by INFRAERO, approximately 20 airports are receiving infrastructure investments and upgrades. The airport upgrade plan does not require contributions or investments by the Brazilian airlines and is not expected to be accompanied by increases in landing fees or passenger taxes on air travel.

The table below sets forth the number of passengers at the ten busiest airports in Brazil during 2006 and 2007:

Airport	**Thousands of Passengers (Inbound and Outbound)**	
	2006	**2007**
São Paulo Congonhas	18,459	18,796
São Paulo Guarulhos	15,689	15,265
Brasília	9,670	11,120
Rio de Janeiro Galeão	8,741	10,353
Salvador	5,411	5,932
Recife	3,954	4,445
Porto Alegre	3,847	4,340
Belo Horizonte Confins	3,728	4,188
Rio de Janeiro Santos Dumont	3,553	3,907
Curitiba	3,532	3,614

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Source: INFRAERO

The airports that we use internationally have their own rules and regulations regarding their airport use and infrastructure, which we are subject to.

Concession for Air Transportation Services

According to the Brazilian Federal Constitution, the Brazilian government is responsible for public services related to airspace as well as airport infrastructure, and may provide these services directly or through third parties under concessions or permissions. According to the Brazilian Aeronautical Code and regulations issued by the High Command of Aeronautics, the application for a concession to operate regular air transportation services is subject to

the ANAC having granted to the applicant a license 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 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.

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

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

Import of Aircraft into Brazil

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

Registration of Aircraft

The registration of aircraft in Brazil is governed by the Brazilian Aeronautical Code. Under the Brazilian Aeronautical Code, no aircraft is allowed to fly in Brazilian airspace, or land in or take off from Brazilian territory, without having been properly registered. In order to be registered and continue to be registered in Brazil, an aircraft must have a certificate of registration (*certificado de matrícula*) and a certificate of airworthiness (*certificado de aeronavegabilidade*), both of which are issued by the RAB after technical inspection of the aircraft by the 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.

Civil Liability

The Brazilian Aeronautical Code and the Warsaw Convention limit the liability of an aircraft operator for damages caused to third parties during its air and ground operations, or resulting from persons or things ejected out of the aircraft. Brazilian courts, however, have occasionally disregarded these limitations by awarding damages purely based on the Brazilian Consumer Protection Code, which does not expressly provide for limitations on the amount of such awards.

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

Environmental Regulations

Brazilian airlines are subject to various federal, state and municipal laws and regulations relating to the protection of the environment, including the disposal of materials and chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities. The non-compliance with such laws and regulations may subject the violator to administrative and criminal sanctions, in addition to the obligation to repair or to pay damages caused to the environment and third parties. As far as civil liabilities are concerned, Brazilian environmental laws adopt the strict liability regime. Moreover, pursuant to Brazilian environmental laws and regulations, the piercing of the corporate veil of a company may occur in order to ensure enough financial resources to the recovery of damages caused against the environment. For example, according to a ANAC ordinance, the operation of scheduled commercial flights to and from the Congonhas airport is subject to a noise curfew from 11:00 p.m. to 6:00 a.m. because of its proximity to residential areas in São Paulo. Our scheduled flights to Congonhas airport are in full compliance with the noise curfew limits.

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We are in the process of formalizing our quality and environmental management systems (EMS), with the objective of certifying them to international standards. We are conducting planning for these activities, including preparing the necessary documentation, various operating procedures, as well as establishing organizational responsibilities and monitoring protocols. 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.

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

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

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

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

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

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

The Registrant holds substantially all of the shares of Gol and Varig, 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.

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Brazilian Bankruptcy Law

In 2005, the Brazilian government enacted a new bankruptcy law, providing a new set of rules for bankruptcy in Brazil. The reform was motivated by the need to enhance the chances of restructuring distressed businesses and credit recovery.

The major changes introduced by the new bankruptcy law include the possibility of extra-judicial and judicial restructurings. In essence, debtors are able to negotiate with creditors the repayment of debts, including any necessary corporate restructurings under the protection of the law.

Using the extra-judicial recovery procedures, borrowers in distress will be allowed to negotiate restructuring directly with creditors without judicial interference. In case of an agreement, the restructuring plan is binding on all creditors (tax and labor claims are not subjected to extra-judicial reorganization), provided it is approved by the majority of a company s creditors and ratified by the competent Bankruptcy Court. In case the plan is rejected by creditors or not confirmed by the Bankruptcy Court, the debtor may submit a new out-of-court reorganization plan or may file for judicial reorganization.

Through judicial restructuring, the debtor may present a restructuring plan to the Court, which, if opposed by its creditors, will be submitted to a General Meeting of Creditors. Judicial reorganization binds all pre-petition credits (even those not yet due), except for tax credits. The plan can be approved, amended or rejected. In case of rejection, the debtor shall be declared bankrupt.

The judicial recovery may be implemented by means of one or more transactions, for example any change of control, granting of special terms and conditions to the payment of the obligations, replacement of the debtor s management and partial sale of assets, as the case may be.

Among the innovations of the new Brazilian bankruptcy law is the change in the ranking of claims, which should follow the following priority order: (i) labor-related claims, limited to an amount equivalent to 150 minimum salaries per creditor, and workplace accident claims; (ii) claims guaranteed by security interest, limited to the value of the encumbered asset; (iii) tax claims, except for tax fines; (iv) claims with special privileges; (v) claims with general privileges; (vi) unsecured claims; (vii) contractual penalties and fines for breach of criminal or administrative law, including tax fines; and (viii) subordinated claims.

Also, the new bankruptcy law facilitates the recovery of Companies and provides a more favorable legal environment to financial institutions and to the capital markets participants providing credit and liquidity and, consequently, benefit the Brazilian economy as a whole by reducing lenders risks in credit transactions.

The new legal regime reduces the creditors risks by prioritizing, in case of a bankruptcy proceeding, the payment of secured claims (debts guaranteed by security interest over real estate or commodities) over tax claims. The limitation of the amount designated for the payment of labor claims (which ranks as the first claim in the priority order) also tends to favor financial institutions and investors providing credit and, accordingly, reducing the risk of credit operations and the cost of funds.

VRG is a company formed from assets and rights of the Isolated Productive Unit (UPI) of the former Varig group, which sought bankruptcy protection on June 17, 2005. Old Varig underwent a judicial restructuring, according to the new bankruptcy law. The UPI was created in the Bankruptcy Recovery Plan of the former Varig group (including the airlines Varig, Rio Sul and Nordeste, together, the Recovering Companies). Under the Brazilian Bankruptcy Law of 2005, the UPI was created and sold free of liabilities of any nature (civil, labor, tax, pension, etc.).

With the acquisition, we fully assumed the obligation to assure that VRG completes, in the strictest terms, all of the terms of the above mentioned bidding rules for the judicial auction.

Due to the recency of the new bankruptcy law, there is no judicial or regulatory guidance or consolidated experience with regard to the application of this law. We believe that the law protects us from bankruptcy-related claims of creditors of the former Varig group in Brazil. Other countries, however, may or may not recognize the protection granted to us under this law. See Risk Factors We may be subject to increased litigation risks related to the operations of the former Varig group.

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Pending Legislation

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

Cape Town Convention

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

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

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

C. Organizational Structure

The Registrant is a holding company, which owns directly or indirectly shares of six subsidiaries: GTA; GTI S.A., which owns VRG; three offshore finance subsidiaries Gol Finance Cayman and GAC Inc., which owns Sky Finance. Gol and Varig are the Registrant s operating subsidiaries, under which we conduct our business. Gol Finance, GAC Inc. and Sky Finance are off-shore companies established for the purpose of facilitating cross-border transactions.

D. Property, Plant and Equipment

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

ITEM 4A. Unresolved Staff Comments

None.

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ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

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

We are one of the world s leading low-cost carriers and one of South America s leading airlines. We serve the largest number of destinations in the Brazilian air passenger transportation market, with a 45% domestic market share and a 44% domestic seat capacity share at the end of 2007. We operate our passenger air transportation business through our subsidiaries GTA (which operates the Gol brand) and VRG (which operates the Varig brand).

Gol operates based on a low-cost, low-fare business model, with a single class of service in the Brazilian domestic market and South America. It is the fourth largest low-cost airline in the world, in terms of passengers transported in 2007 and the only low-fare low-cost airline providing frequent service on routes connecting all of Brazil s major cities and also to major cities in South America. Gol s affordable, reliable and simple service and its focus on markets that were either underserved or did not have a lower-fare alternative has led to a strong awareness of its brand and a rapid increase in its market share, while allowing it to maintain one of the lowest operating costs in the airline industry worldwide. Gol s vision is to be recognized as the airline that popularized high-quality, low-fare air transportation in South America.

Varig offers flights with single and dual class services to domestic and South American destinations. Varig s services focus on business travelers and emphasize business-oriented schedules and destinations, with differentiated onboard services and VIP lounges at principal airports. Varig offers the most legroom in a single class configuration of all Brazilian domestic airlines. On certain domestic and international routes, it also offers business/comfort class service. Varig focuses on competing in specific high-demand markets with comparable services at low prices. Varig s vision is to be recognized as the Brazilian airline that offers high quality air travel services to its customers.

For the year ended December 31, 2007 we had net revenues of R$4.9 billion and net income of R$102.5 million. During the same period, Gol contributed R$4,096.1 million in passenger revenues and Varig contributed R$470.6 million passenger revenues. Ancillary and other revenues represented 7.5% of our consolidated revenues.

Our strategy is to increase the size of the market by attracting new passengers through the combination of Gol s and Varig s flight networks, a modern aircraft fleet, targeted marketing, a variety of attractive ancillary businesses such as our loyalty program (*Smiles*), air cargo services (*Gollog*) and through a variety of payment mechanisms (including *Voe Fácil*) designed to make the purchase of our tickets easier for customers in lower income classes.

A. Operating Results

Revenues

We derive our revenues primarily from transporting passengers on our aircraft. In 2007, 92.5% of our revenues were derived from passenger fares, and the remaining 7.5% 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 is recognized either when transportation is provided or when the ticket expires unused. Cargo revenue is recognized when transportation is provided. Other revenue consists primarily of our frequent flyer program (*Smiles*), charter services, 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.

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

	Year Ended December 31,		
	2005	**2006**	**2007**
Consolidated			
Capacity (in available seat kilometers, in millions)	13,246	20,261	34,348
Operating Revenue per available seat kilometers (in R$ cents)	20.2	18.8	14.4
Load factor	73.5%	73.1%	66.0%
Yield (in R$ cents)	R$26.1	R$24.2	R$20.1
Growth in passenger revenues per available seat kilometer	19.2%	(9.6)%	(24.7)%
Gol			
Capacity (in available seat kilometers, in millions)	13,246	20,261	29,198
Operating Revenue per available seat kilometers (in R$ cents)	20.2	18.8	15.0
Load factor	73.5%	73.1%	68.4%
Yield (in R$ cents)	R$26.1	R$24.2	R$20.5
Growth in passenger revenues per available seat kilometer	19.2%	(9.6)%	(20.4)%
Varig			
Capacity (in available seat kilometers, in millions)	-	-	5,150
Operating Revenue per available seat kilometers (in R$ cents)	-	-	10.8
Load factor	-	-	52.5%
Yield (in R$ cents)	-	-	R$17.4
Growth in passenger revenues per available seat kilometer	-	-	na

The following table sets forth geographic information for net operating revenues by market, as compiled based on passenger and cargo transportation provided by origin to final destination for Gol and origin to first destination for Varig:

	2006	%	2007	%
	(thousands of *reais*)		*(thousands of reais)*	
Domestic	3,684,154	96.9	4,518,573	91.5
International	117,863	3.1	419,758	8.5
Total	3,802,017	100.0	4,938,331	100.0

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

In 2007, our consolidated revenue per available seat kilometer decreased by 24.9% from R$17.7 cents in 2006 to R$13.3 cents mainly due to a decrease in consolidated yield of 16.9% from R$24.2 cents in 2006 to R$20.1 cents. Our yield decreased mainly due to a 15.4% increase in stage length. Our load factors decreased by 7.1 percentage points from 73.1% in 2006 to 66.0% in 2007.

Our ancillary revenues are an increasingly important part of our revenue composition. In 2007, our ancillary and other revenue increased 68.1% from R$221.1 million in 2006 to R$371.6 million in 2007 representing 7.5% of our total revenues. Our cargo transportation activities (*Gollog*) increased 36.5% from R$126 million in 2006 to R$172 million in 2007, Varig s *Smiles* loyalty program and *Voe Fácil* accounted for R$58.6 million and R$4.4, respectively.

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.

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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.

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

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

Operating Expenses

Gol has lower operating expenses than other airlines because we operate a simplified fleet with a single-class of service, have one of the newest fleets in the industry, utilize our aircraft efficiently, use and encourage low-cost ticket sales and distribution processes. We are applying Gol s low cost business model to Varig s operations, adjusted only in specific areas like more legroom, differentiated onboard service and ticket distribution channels, and the offering of VIP lounges. Based on this model, we have since the acquisition significantly reduced and intend to further reduce Varig s costs per available seat kilometer.

The main components of operating expenses include those related to aircraft fuel, aircraft rent, aircraft maintenance, sales and marketing, and salaries, wages and benefits provided to employees, including provisions for our profit sharing plan.

Our aircraft fuel expenses are higher than those of low-cost airlines in the United States and Europe because there is only one significant supplier of jet fuel in Brazil and taxes applicable to the sale of jet fuel are very high and are passed along to us. Our aircraft fuel expenses are variable and fluctuate based on global oil prices. From January 1, 2002 to December 31, 2007, the price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, increased by 9.3% from US$66.09 per barrel to US$72.23 per barrel. Since global oil prices are U.S. dollar-based, our aircraft fuel costs are also linked to fluctuations in the exchange rate of the real versus the U.S. dollar. We currently enter into short-term arrangements to hedge against increases in oil prices and foreign exchange fluctuations. We believe that we have an advantage compared to industry peers in Brazil in aircraft fuel expenses because we mainly use Boeing 737 New Generation aircraft that are more fuel efficient than other aircraft in the industry. We expect these advantages to improve in the future due to the increase of our fleet of fuel efficient new Boeing 737-800 Next Generation aircraft.

Our aircraft rent expenses are in U.S. dollars and have increased in line with the expansion of our operations. We also use short-term arrangements to hedge against exchange rate exposure related to our lease payment obligations. In addition, leases for nine 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.

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Our maintenance, material and repair expenses consist of light (line) and scheduled heavy (structural) maintenance of our aircraft. Maintenance and repair expenses, including overhaul of aircraft components, are charged to operating expenses as incurred. Our aircraft have required a low level of maintenance and therefore we have incurred low maintenance expenses, because the average age of our fleet was 9.0 years (Gol s fleet with an average age of 7.0 years and Varig fleet with an average age of 13.6 years) at December 31, 2007 and most of the parts on our aircraft are under multi-year warranties. Our aircraft are covered by warranties that have an average term of three to five years. The warranties on the aircraft we received in 2007 under our firm purchase order with Boeing will start expiring in 2012. Based on scheduled maintenance events, we experienced an increase in maintenance expenses in 2007. We expect our maintenance expenses to further increase due to the expiration of certain of our multi-year warranties and an increase in scheduled maintenance events in the near future. 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. In 2006, we completed our new Aircraft Maintenance Center in Confins, in the State of Minas Gerais. The certification of the center authorizes 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 and intend to expand its capacity to also serve Varig s Boeing 767 aircraft. 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 reservations systems and agents, fees paid to credit card companies and advertising. Our distribution costs are lower than those of other airlines in Brazil on a per available seat kilometer basis because a higher proportion of our customers' purchase tickets from us directly through our website instead of through traditional distribution channels, such as ticket offices, and we have comparatively fewer sales made through higher cost global distribution systems. Gol generated 81.3%, 81.6% and 80.0% of its consolidated passenger revenues through its website in the years ended December 31, 2005, 2006 and 2007, respectively, 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 increase as the number of our employees grows and include annual cost of living adjustments and provisions made for our profit sharing plan. We have no seniority-related increases in these costs due to our salary structure. 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 and due to higher work productivity of our employees as compared to airlines in the Brazilian market. 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.

During the period between 2005 and December 31, 2007, our break-even load factor, which is the passenger load factor that will result in operating revenues being equal to operating expenses, increased from 56.4% to 66.3% . This increase has been primarily due to decrease in yield and revenues per available seat kilometer, partially offset by the spreading of fixed costs over a greater number of available seat kilometers which benefits also our cost per available seat kilometer.

Growth of Our Operations

The following table demonstrates the growth of our operations, on a quarterly basis since 2005:

At Period Ended	Cities Served	Number of Departures	Operating Aircraft
March 31, 2005	37	25,513	30
June 30, 2005	41	28,750	34
September 30, 2005	42	32,237	38
December 31, 2005	45	34,192	42
March 31, 2006	49	36,516	45
June 30, 2006	50	39,043	50
September 30, 2006	53	42,514	54
December 31, 2006	55	46,623	65
March 31, 2007	56	50,458	67
June 30, 2007	62	61,013	88
September 30, 2007	63	61,160	94
December 31, 2007	65	64,656	106

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Brazilian Economic Environment

As a company with substantially all of its operations currently in Brazil, we are affected by general economic conditions in the country. While our growth since 2001 has been primarily driven by our expansion into new markets and increased flight frequencies, we have also been affected by macroeconomic conditions in Brazil. Our growth outpaced that of our primary competitors because of strong demand for our lower fare service. In 2007, we grew 53.0% in terms of revenue passenger kilometers. We believe the rate of growth in Brazil is important in determining our future growth capacity and our results of operations.

Our results of operations are affected by currency fluctuations. A total of 91.5% 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. 48.7% 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. 51.3% of our operating expenses (excluding aircraft fuel) are denominated in *reais*, and the suppliers and service providers of these expense items generally attempt to increase their prices to reflect Brazilian inflation.

Since 2004, the macroeconomic indicators in Brazil have consistently improved.

During 2005, Brazil s GDP increased 2.3% and the country achieved a trade surplus of US$44.8 billion. Inflation in 2005, as measured by the IGP-M, was 1.2% and 5.7% as measured by the IPCA. Interest rates continued to be high, with the CDI rate at the end of 2005 equaling an annualized rate of 18.0% . In 2005, the *real* appreciated by 11.8% against the U.S. dollar, reflecting continued investor confidence. On December 31, 2005, the U.S. dollar/*real* exchange rate was R$2.341 per US$1.00.

During 2006, Brazil s GDP increased 2.9% and the country achieved a trade surplus of US$46.1 billion. Inflation in 2006, as measured by the IGP-M, was 3.8% and 3.1% as measured by the IPCA. The Brazilian Central Bank s year-end inflation target for each of 2007 and 2008 is 4.5%, based on the IPCA index, within a band of 2 percentage points. Interest rates continued to be high, with the CDI rate at the end of 2006 equaling an annualized rate of 13.2% . In 2006, the *real* appreciated by 8.7% against the U.S. dollar, reflecting continued investor confidence. On December 31, 2006, the U.S. dollar/*real* exchange rate was R$2.138 per US$1.00. In November 2006, Luiz Inácio Lula da Silva was reelected as president of Brazil for a second term of four years.

In 2007, Brazil s GDP increased 5.4% and the country achieved a trade surplus of US$40.0 billion. Inflation in 2007, as measured by the IGP-M, was 7.7% and 4.5% as measured by the IPCA. Interest rates declined during 2007. At December 31, 2006 the CDI rate was an annualized rate of 13% and at December 31, 2007, the annualized rate was 11%. In 2007, the *real* appreciated by 11% against the U.S. dollar, reflecting continued investor confidence. On December 31, 2007, the U.S. dollar/*real* exchange rate was R$1.771 per US$1.00. Brazil finished 2007 with US$180 billion in currency reserves.

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

	December 31,		
	2005	**2006**	**2007**
Real growth in gross domestic product	2.3%	2.9%	5.4%
Inflation (IGP-M)(1)	1.2%	3.8%	7.7%
Inflation (IPCA)(2)	5.7%	3.1%	4.5%
CDI rate(3)	18.0%	13.2%	11.1%
LIBOR rate(4)	4.5%	5.4%	4.7%
Depreciation (appreciation) of the *real* vs. U.S. dollar	(13.4)%	(9.5)%	(20.7)%
Period-end exchange rate US$1.00	R$2.3407	R$2.1380	R$1.7713
Average exchange rate US$1.00(5)	R$2.4125	R$2.1499	R$1.9483
West Texas intermediate crude (per barrel)	US$61.04	US$61.05	US$96.00
Year end Increase (decrease) in West Texas intermediate crude (per barrel)	40.5%	0.02%	57.2%
West Texas intermediate crude (average per barrel during period)	US$56.59	US$66.09	US$72.23
Average Increase (decrease) in West Texas intermediate crude (per barrel)	36.3%	16.8%	9.3%

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Sources: Fundação Getúlio Vargas, the Central Bank and Bloomberg

(1) Inflation (IGP-M) is the general market price index measured by the Fundação Getúlio Vargas.

(2) Inflation (IPCA) is a broad consumer price index measured by the Instituto Brasileiro de Geografia e Estatística.

(3) The CDI rate is average of inter-bank overnight rates in Brazil (accumulated for period-end month, annualized).

(4) Three-month U.S. dollar LIBOR rate as of the last date of the period. The LIBOR rate is the London inter-bank offer rate, which is the rate applicable to the short-term international inter-bank market.

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

Critical Accounting Policies and Estimates

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

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

Goodwill and Intangible Assets. We account for goodwill and other intangible assets using SFAS No. 142 (SFAS 142), Goodwill and Other Intangible Assets. Under this standard, goodwill is tested for impairment annually by comparing the book value to the fair value at the reporting unit level and indefinite-lived intangibles are tested individually, at least annually, by reviewing the individual book values compared to the fair value. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure fair value. Assumptions in our impairment evaluations are consistent with internal projections and operating plans.

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Revenue Recognition and Loyalty Program. Passenger revenue is recognized either when transportation is provided or when the ticket expires unused. Tickets sold but not yet used are recorded as air traffic liability. Air traffic liability primarily represents tickets sold for future travel dates and estimated refunds and exchanges of tickets sold for past travel dates. A small percentage of tickets (or partial tickets) expire unused. We estimate the amount of future refunds and exchanges, net of forfeitures, for all unused tickets once the flight date has passed. These estimates are based on historical data and experience. Estimated future refunds and exchanges included in the air traffic liability account are constantly evaluated based on actual refund and exchange activity to validate the accuracy of our revenue recognition method with respect to forfeited tickets. Revenue from the shipment of cargo is recognized when transportation is provided. Other revenue includes charter services, ticket change fees and other incidental services, and is recognized when the service is performed. Our revenues are net of certain taxes, including state value-added and other state and federal taxes that are collected from customers and transferred to the appropriate government entities. Such taxes in 2007, 2006 and 2005 were R$191.2 million, R$149.8 million and R$109.0 million, respectively.

Varig operates a frequent flyer program, Smiles, that provides travel and other awards to members based on accumulated mileage credits. The obligation assumed under the Smiles program was valued at the acquisition date at the estimated fair value that represents the estimated price we would pay to a third party to assume the obligation for miles expected to be redeemed under the Smiles program. Outstanding miles earned by flying Varig or distributed by its non-airline partners (such as banks, credit card issuers and e-commerce companies) were revalued using a weighted-average per-mile equivalent ticket value, taking into account such factors as differing classes of service and domestic and international ticket itineraries, which can be reflected in awards chosen by Smiles program members.

The sale of passenger tickets by Varig includes air transportation and mileage credits. Varig s sales of miles to business partners include marketing and mileage credits. Varig uses the deferred revenue model to account for its obligation for miles to be redeemed based upon the equivalent ticket value of similar fares. Varig accounts for all miles earned and sold as separate deliverables in a multiple element revenue arrangement as prescribed by FASB Emerging Issues Task Force Issue No. 00-21 (EITF 00-21), Revenue Arrangements with Multiple Deliverables. Varig uses the residual method and defers the portion of the sales proceeds that represent the estimated fair value of the award and recognize that amount as revenue when the award is provided. The excess of sale proceeds over the fair value of the award is recognized as air transportation revenue or other revenue (for marketing), as applicable.

For miles that are inactive for a period of 36 consecutive months, it is Varig s policy to cancel all miles contained in those accounts at the end of the 36 month period of inactivity. The value associated with mileage credits that are estimated to be cancelled based upon inactivity is recognized as passenger revenue in proportion to actual mileage award redemptions over the period in which the redemptions occur.

Accounting for Long-lived Assets. The following table shows a breakdown of Company s long-lived asset groups along with information about estimated useful lives and residual values of these groups:

	Estimated Useful Life	Estimated Residual Value
Aircraft and engines	20 years	20%
Ground property and equipment	5 to 10 years	0%

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 GAAP.

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When appropriate, the Company evaluates its long-lived assets for impairment. 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. While the airline industry as a whole has experienced many of these indicators, the Company has continued to operate all of its aircraft, generate positive cash flow, and produce profits. Consequently, the Company has not identified any impairments related to its existing aircraft fleet. The Company will continue to monitor its long-lived assets and the airline operating environment.

The Company believes it unlikely that materially different estimates for expected lives, expected residual values, and impairment evaluations would be made or reported based on other reasonable assumptions or conditions suggested by actual historical experience and other data available at the time estimates were made.

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

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

Our outstanding derivative contracts are designated as cash flow hedges for accounting purposes. While outstanding, these contracts are recorded at fair value on the balance sheet with the effective portion of the change in their fair value being recorded in other comprehensive income. All changes in fair value that are considered to be effective, as defined, are recorded in Accumulated other comprehensive income until the underlying exchange exposure is realized and fuel is consumed. Changes in fair value that are not considered to be effective are recorded to other gains and losses in the income statement. See Note 2 of our financial statements for further information on SFAS 133 and financial derivative instruments.

Stock options. We account for stock-based compensation under the fair value method in accordance with SFAS 123(R), Share-Based Payment, which superseded APB Opinion No. 25, Accounting for Stock Issued to Employees , after December 2005. However, SFAS 123(R) requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. The Company has adopted SFAS 123(R) in the first quarter of 2006 using the modified prospective method, which provides that compensation cost is recognized in the financial statements for new awards and to awards modified, repurchased or cancelled after the required effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered that are outstanding as of the required effective date is recognized as the requisite service is rendered on or after the required effective date. See Note 2 of our financial statements for further information on SFAS 123(R).

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. The amount of aircraft and engine maintenance deposits expected to be utilized in the next twelve months is classified in Current Assets. 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.

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In determining whether it is probable maintenance deposits will be used to fund the cost of maintenance events, the Company conducts the following analysis at the inception of the lease, on an annual and quarterly basis and whenever events or changes in circumstances indicate that amounts may not be recoverable, to evaluate potential impairment of this balance:

At the time of delivery of each aircraft under lease, the Company evaluates the aircraft s condition, including the airframe, the engines, the auxiliary power unit and the landing gear.

The Company projects future usage of the aircraft during the term of the lease based on its business and fleet plan.

The Company estimates the cost of performing all required maintenance during the lease term. These estimates are based on the extensive experience of its management and industry available data, including historical fleet operating statistic reports published by engine suppliers.

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. Additionally, some of our lessors are agreeing for us to replace the deposits with letters of credit and use the deposited funds to settle other amounts owed under the leases. Upon this amendment of the lease, we reevaluate the appropriateness of the lease accounting and reclassify the affected deposits as Other Deposits. We intend to pursue additional lease amendments. Many of our new aircraft leases do not require maintenance deposits.

Based on the foregoing analysis, management believes that the amounts reflected on the consolidated balance sheet as Aircraft and Engine Maintenance Deposits are probable of recovery. There has been no impairment of our maintenance deposits. A summary of activity in the Aircraft and Engine Maintenance Deposits is as follows:

	2005	**2006**	**2007**
	(in thousands of *reais*)		
Beginning of year	266,532	386,193	263,647
Amounts paid in	119,661	118,308	113,942
Reimbursement of expense incurred	-	(24,739)	(47,437)
Reclassified to Other Deposits	-	(216,115)	(7,798)
End of year	386,193	263,647	322,354

The estimated maintenance reserve deposits to be paid to the lessors and the estimated amounts to be charged to maintenance expense that will be reimbursed from the deposits, based on currently scheduled maintenance are set forth in the following table:

	2008	**2009**	**2010**	**2011**	**2012**
	(in thousands of *reais*)				
Estimated Reserve Deposits	74,735	40,099	40,099	18,505	18,505
Estimated Reserve Reimbursements	65,471	50,773	37,399	26,159	25,654

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These estimates are subject to significant variation, including, among others, the actual cost to complete the maintenance, timing of the maintenance, aircraft cycles impacting the timing, and the imposition of potential new maintenance requirements.

With respect to non-refundable aircraft and engine maintenance deposits, an alternative method of accounting exists, under which such deposit payments would be accounted for as additional rental and recorded as rental expense. The choice of our method of accounting for non-refundable maintenance deposit payments, as opposed to expensing the payments when made, results in recognizing less expenses in the earlier years of the leases than in the later years (potentially substantially so) even though the use of and benefit from the aircraft does not vary correspondingly over the term of the lease. We have chosen our current policy because under the terms of our leases the maintenance deposits are required to provide assurance to the lessors that the maintenance, which is our responsibility, will be performed, and are not additional rental. We have concluded our policy is preferable.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 157. This statement, among other things, defines fair value, establishes a framework for measuring fair value and expands disclosure about fair value measurements. SFAS 157 intends to eliminate the diversity in practice associated with measuring fair value as caused by the application of existing accounting pronouncements. SFAS 157 emphasizes that fair value is a market-based measurement and thus, should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows: (1) observable inputs such as quoted prices in active markets, (2) inputs other than the quoted prices noted above that are observable either directly or indirectly and (3) unobservable inputs in which there is little or no market data and requires the reporting entity to develop its own assumptions. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Upon adoption, the provisions of SFAS 157 are to be applied prospectively with limited exceptions. The Company is currently evaluating the potential impact, if any, that the adoption of SFAS 157 will have on consolidated financial position and results of operations. Based on our preliminary analysis, we do not expect a significant impact of the adoption of SFAS 157 on our results of operations and financial condition.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 allows entities the option to measure eligible financial instruments at fair value as of specified dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. If the fair value option is elected for an instrument, the Statement specifies that all subsequent changes in fair value for that instrument shall be reported in earnings. We are currently evaluating the potential impact, if any, that the adoption of SFAS 159 will have on its results of operations or consolidated financial position.

In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No 141 (revised 2007), Business Combination, which replaces FASB Statement No. 141, Business Combinations. This Statement retains the fundamental requirements in Statement 141 that the acquisition method of accounting (which Statement 141 called the purchase method) be used for all business combinations, but is broader in scope. It also provides, among other things, new guidance in defining the acquirer in a business combination, determination of the acquisition date, recording a step acquisition, and measurement of value of a non-controlling interest in the acquiree company. This Statement applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. An entity may not apply it before that date. The effective date of this Statement is the same as that of the related FASB Statement No. 160, Noncontrolling Interests in Consolidated Financial Statements. The Company will apply such pronouncement on a prospective basis for each new business combination.

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In December 2007, the Financial Accounting Standards Board (FASB) issued SFAS No 160, Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51, which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008 (that is, January 1, 2009, for entities with calendar year-ends). Earlier adoption is prohibited. The effective date of this Statement is the same as that of the related Statement 141(R). This Statement shall be applied prospectively as of the beginning of the fiscal year in which this Statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently evaluating the impact of such new pronouncement in its consolidated financial statements.

For a further description of our accounting policies and recent accounting pronouncements, see note 3 to our consolidated financial statements.

Results of Operations

The following table sets forth certain components of our income for the years ended December 31, 2007, 2006 and 2005.

	Year Ended December 31,			
	2005	**2006**	**2007**	**2007**
		(In thousands)		
Net operating revenues:				
Passenger	R$2,539,016	R$3,580,919	R$4,566,691	US$2,578,158
Cargo and other	130,074	221,098	371,640	209,812
Total net operating revenues	2,669,090	3,802,017	4,938,331	2,787,970
Operating expenses:				
Salaries, wages and benefits	260,183	413,977	798,141	450,596
Aircraft fuel	808,268	1,227,001	1,898,840	1,072,004
Aircraft rent	240,876	292,548	515,897	291,253
Sales and marketing	335,722	414,597	367,866	207,681
Landing fees	92,404	157,695	273,655	154,494
Aircraft and traffic servicing	91,599	199,430	348,732	196,879
Maintenance, materials and repairs	55,373	146,505	318,917	180,047
Depreciation	35,014	69,313	121,570	68,633
Other operating expenses	128,300	179,494	317,686	179,352
Total operating expenses	2,047,739	3,100,560	4,961,304	2,800,939
Operating income	621,351	701,457	(22,973)	(12,969)
Other expenses:				
Interest expense	(19,383)	(66,378)	(142,390)	(80,387)
Financial income (expense), net	115,554	163,883	265,074	149,649
Income before income taxes	717,522	798,962	99,711	56,293
Income taxes (expense) benefit	(204,292)	(229,825)	2,802	1,582

Net income	R$513,230	R$569,137	R$102,513	US$57,875
Earnings per share and ADS, basic[1]	R$2.66	R$2.90	R$0.52	US$0.29
Earnings per share and ADS, diluted[1]	R$2.65	R$2.90	R$0.52	US$0.29
Weighted average shares used in computing earnings per share, basic (in thousands)[1]	192,828	196,103	198,609	198,609
Weighted average shares used in computing earnings per share, diluted (in thousands)[1]	193,604	196,210	198,657	198,657
Earnings per ADS, basic[2]	R$2.66	R$2.90	R$0.52	US$0.29
Earnings (loss) per ADS, diluted[2]	R$2.65	R$2.90	R$0.52	US$0.29

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

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

Year 2007 Compared to Year 2006

Our consolidated results for 2007 include the results of Varig since April 9, 2007, which limits the comparability of our results of operations in 2007 and 2006. The comparability of these periods is further reduced by our acquisition of Varig, its integration and investments in Varig in 2007, more specifically the development and implementation of Varig s business model in order to achieve costs savings and operating and financial efficiencies of Varig, which experienced losses in 2007 and in the periods before our acquisition. We are currently in the process of the improving Varig s results and financial condition. In addition, our results of operations in 2007 were negatively affected by developments in the Brazilian airline industry, which caused increased flight times, increased ground times, and suboptimal network and revenue management. In particular, the regulatory restrictions placed on São Paulo s Congonhas airport after a major accident of a competitor s aircraft in July 2007, resulted in network adjustments that reduced load factors and increased ground times, particularly at Varig. Varig s results were particularly affected, due to the high concentration of its network of flights in Congonhas airport. Additionally, air passenger demand was negatively affected during the disturbances resulting from the continuation of industry-wide delays and bottlenecks caused by problems with Brazilian air traffic control since the last quarter of 2006, which extended into the first half of 2007 and negatively affected our results in 2007.

We present in the following table information regarding our results of operations in 2007 on a consolidated basis, and the results of operations of Gol and Varig individually. For a description of the accounting treatment of the Varig acquisition, see note 4 to our consolidated financial statements.

	2006	Year Ended December 31, 2007		
	Consolidated	Consolidated excluding Varig	Varig	Consolidated
		(In thousands)		
Net operating revenues:				
Passenger	R$3,580,919	R$4,096,117	R$470,574	R$4,566,691
Cargo and other	221,098	287,503	84,137	371,640
Total net operating revenues	3,802,017	4,383,620	554,711	4,938,331
Operating expenses:				
Salaries, wages and benefits	413,977	650,123	148,018	798,141
Aircraft fuel	1,227,001	1,592,280	306,560	1,898,840
Aircraft rent	292,548	389,745	126,152	515,897
Sales and marketing	414,597	308,614	59,252	367,866
Landing fees	157,695	215,978	57,677	273,655
Aircraft and traffic servicing	199,430	258,492	90,240	348,732
Maintenance, materials and repairs	146,505	248,261	70,656	318,917
Depreciation	69,313	116,205	5,365	121,570
Other operating expenses	179,494	294,358	23,328	317,686

Total operating expenses	3,100,560	4,074,056	887,248	4,961,304
Operating income	701,457	309,564	(332,537)	(22,973)

We had operating losses of R$23.0 million in 2007, compared to operating income of R$701.5 million in 2006, and our operating margin in 2007 was a negative 0.5%, compared to 18.4% in 2006. We reported net income for the year 2007 of R$102.5 million compared to net income of R$569.1 million for 2006. Income before income tax was R$99.7 million in 2007 compared to R$799.0 million in 2006.

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Net Operating Revenues. Net operating revenues, increased 29.9%, or R$1,136.3 million, due primarily to a 27.5% increase in passenger revenues to R$4,566.7 million. Increased passenger revenues resulted primarly from a 53% increase in revenue passenger kilometers, which was due to a 69.5% increase in departures, a 3.4% decrease in average fares and an increase in the average number of aircraft in service from 50.1 to 88.6. The increase in revenue passenger kilometers was partially offset by a 16.6% decrease in our yield mainly due to a 15.4% increase in average stage length, a competitive pricing environment and a 7.1 point decrease in our load factor from 73.1% to 66.0% in 2007. Net operating revenues excluding Varig increased 15.3% to R$4,383.6 million. Varig s revenues, which were consolidated into our results of operations as from April 9, 2007, totaled R$554.7 million. In 2007, our cargo and other operating revenue increased 68.1% to R$371.6 million. In 2007, Gollog transported 56.5 million tons compared to 41.2 tons transported in 2006.

Consolidated revenue passenger kilometers increased 53.0% from 14,819 million in 2006 to 22,670 million in 2007. Gol s revenue passenger kilometers increased 34.7% from 14,819 million in 2006 to 19,966 million in 2007. Varig revenue passenger kilometers totaled 2,704 million from April 9, 2007 to December 31, 2007. Our consolidated revenue passenger kilometers growth in 2007 was driven by a 44.1% increase in departures and a 15.4% increase in stage length. The increase in consolidated revenue passenger kilometers was partially offset by a 7.1 percentage point decrease in our consolidated load factor to 66.0%, primarily due to the regulatory restrictions placed on São Paulo s Congonhas airport which required network adjustments that reduced load factors, and the launch of new international flights to Europe. Gol s load factor in 2007 was 68.4% and Varig s load factor was 52.5% from April 9, 2007 to December 31, 2007.

Consolidated average fares decreased 3.4% from R$205 to R$198 and yields decreased 16.6% to R$20.14 cents per passenger kilometer, mainly due to a 15.4% increase in aircraft stage length and a competitive pricing environment. Consequently, consolidated operating revenues per available seat kilometer decreased 23.4% to R$14.38 cents in 2007, compared to R$18.77 cents in 2006.

Operating capacity, or consolidated available seat kilometers, increased 69.5% from 20,261 million in 2006 to 34,348 million in 2007. Gol s available seat kilometers increased 44.1% from 20,261 million in 2006 to 29,198 million in 2007 and Varig had 5,150 available seat kilometers from April 9, 2007 to December 31, 2007. Operating capacity increased due to scheduled capacity increases, represented by the addition of 38.5 average consolidated aircraft in 2007 (from 50.1 to 88.6 average aircraft) and high aircraft utilization at 13.8 block hours per day for Gol and 11.7 block hours per day for Varig.

The 69.5% increase in consolidated capacity, represented by available seat kilometers, facilitated the addition of 102 new daily flight frequencies (including 12 night flights), 4 new domestic destinations and 1 international destination for Gol in 2007, as well as 48 new daily flight frequencies for Varig.

During 2007, total consolidated domestic seat and market share average 43.6% and 43.1%, respectively. Gol s domestic seat and market share averaged 39.1% and 39.6%, respectively. Varig s domestic seat and market share averaged 4.5% and 3.5%, respectively. Through its regular international flights to destinations in South America, Gol achieved an increase in year over year international market share to 14.3% (share of Brazilian airlines flying to international destinations) in the same period. Varig s international market share through its regular flights to destinations in South America and Europe was 13.1% . In 2007 18.1% of our consolidated revenue passenger kilometers were related to international passenger traffic.

Operating Expenses. Total consolidated cost per available seat kilometer, in 2007, decreased 5.6% to R$14.44 cents, primarily due to the use of additional larger, more fuel efficient and winglet equipped aircraft, lower sales and marketing expenses, a 9.1% decrease in average fuel expenses per available seat kilometer and lower aircraft rent expenses per available seat kilometer, partially offset by lower productivity in the period due to increased flight times

and ground times related to delays and bottlenecks caused by problems with Brazilian air traffic control in the first half of the year and by regulatory restrictions placed on São Paulo s Congonhas airport. Total cost per available seat kilometer in 2007, excluding Varig, was R$13.95 cents, 8.8% lower than in 2006. Consolidated operating expenses per available seat kilometer excluding fuel decreased by 3.6% to R$8.92 cents. Excluding Varig, operating expenses per available seat kilometer was R$8.5 cents, 8.6% lower than in 2006.

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Total consolidated operating expenses increased 60.0%, reaching R$4.9 billion. Operating expenses excluding Varig were R$4.1 billion, representing an increase of 31.2%, due primarily to the operation of an average 24.3 additional aircraft during 2007, leading to an increase in flight departures during the period and an increase in the average number of liters of jet fuel consumed, an increase in salaries expenses, increased air traffic servicing expenses, higher maintenance expenses, expenses related to fleet modernization and the expansion of our operations. The R$671.8 million increase in fuel expenses was due to a 65.1% increase in fuel consumption resulting from an expansion of operations, partially offset by the addition of larger, more fuel efficient and winglet equipped aircraft to the fleet, a reduction of 3.5% in average fuel prices per liter in 2007 which benefited from 10.5% appreciation of the *real* against the U.S. dollar during 2007.

Aircraft utilization, a key factor in keeping our operating costs low, was affected negatively in 2007 by the low utilization of Varig s fleet. Varig s fleet had low utilitization, at 11.7 block hours per day, due to its older fleet, the start-up of its operations, and the restrictions placed on flight operations from Congonhas airport after the accident of a competitor s Airbus aircraft, which particularly affected Varig s domestic operations, given the high concentration of flights at this airport. Gol s aircraft utilization was maintained at 14.2 block hours per day in 2007.

Our breakeven load factor increased 6.7 percentage points to 66.3% in 2007 compared to 59.6% in the 2006, mainly due to lower yields and higher consolidated operating cost.

The following table demonstrates our main financial and operating performance indicators on a consolidated basis and demonstrating Gol and Varig data segregated in 2007. Gol and Varig operate in the same segment.

	Year Ended December 31,		**Percent**
	2006	**2007**	**Change**
Financial and Operating Data (unaudited):			
Load-factor	**73.1%**	**66.0%**	**(7.1)pp**
Varig	-	52.5%	**-**
Consolidated excluding Varig	73.1%	68.4%	**(4.7)%**
Break-even load-factor	**59.6%**	**66.3%**	**6.7%**
Varig	-	84.0%	**-**
Consolidated excluding Varig	59.6%	63.6%	**4.0%**
Aircraft utilization (block hours per day)	**14.2**	**13.8**	**(2.8)%**
Varig	-	11.7	**-**
Consolidated excluding Varig	14.2	14.2	**0.0%**
Yield per passenger kilometer (cents)	**24.2**	**20.1**	**(16.8)%**
Varig	-	17.4	**-**
Consolidated excluding Varig	24.2	20.5	**(15.2)%**
Passenger revenue per available seat kilometer (cents)	**17.7**	**13.3**	**(24.9)%**
Varig	-	9.1	**-**
Consolidated excluding Varig	17.7	14.0	**(20.7)%**
Operating revenue per available seat kilometer (cents)	**18.8**	**14.4**	**(23.4)%**
Varig	-	10.8	**-**
Consolidated excluding Varig	18.8	15.0	**(20.1)%**
Operating expense per available seat kilometer (cents)	**15.3**	**14.4**	**(5.9)%**
Varig	-	17.2	**-**
Consolidated excluding Varig	15.3	14.0	**(8.8)%**
	9.3	**8.9**	**(4.3)%**

Operating expense less fuel expense per available seat kilometer (cents)			
Varig	-	11.3	**-**
Consolidated excluding Varig	9.3	8.5	**(8.6)%**

The breakdown of our operating expenses on a per available seat kilometer basis for 2007 compared to 2006 is as follows (percent changes are based on unrounded numbers). Gol and Varig operate in the same segment.

	Year Ended December 31,		**Percent Change**	**Percentage of Net Revenues**
	2006	**2007**		**2007**
	(cost per available seat kilometer in R$ cents)			
Operating expenses:				
Salaries, wages and benefits	**2.04**	**2.32**	**13.7%**	**16.1%**

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	Year Ended December 31,		Percent Change	Percentage of Net Revenues
	2006	2007		2007
	(cost per available seat kilometer in R$ cents)			
Varig	N/A	2.87	N/A	26.7%
Consolidated excluding Varig	2.04	2.23	9.1%	14.8%
Aircraft fuel	**6.06**	**5.51**	**-9.1%**	**38.5%**
Varig	N/A	5.95	N/A	55.3%
Consolidated excluding Varig	6.06	5.45	-10.0%	36.3%
Aircraft rent	**1.44**	**1.50**	**4.2%**	**10.4%**
Varig	N/A	2.45	N/A	22.7%
Consolidated excluding Varig	1.44	1.33	-7.3%	8.9%
Sales and marketing	**2.05**	**1.07**	**-47.8%**	**7.4%**
Varig	N/A	1.15	N/A	10.7%
Consolidated excluding Varig	2.05	1.06	-48.4%	7.0%
Landing fees	**0.78**	**0.79**	**1.3%**	**5.5%**
Varig	N/A	1.12	N/A	10.4%
Consolidated excluding Varig	0.78	0.74	-5.2%	4.9%
Aircraft and traffic servicing	**0.98**	**1.01**	**3.1%**	**7.0%**
Varig	N/A	1.75	N/A	16.3%
Consolidated excluding Varig	0.98	0.89	-9.7%	5.9%
Maintenance materials and repairs	**0.72**	**0.93**	**29.2%**	**6.5%**
Varig	N/A	1.37	N/A	12.7%
Consolidated excluding Varig	0.72	0.85	18.1%	5.7%
Depreciation	**0.34**	**0.35**	**2.9%**	**2.4%**
Varig	N/A	0.10	N/A	1.0%
Consolidated excluding Varig	0.34	0.40	17.1%	2.7%
Other operating expenses	**0.89**	**0.92**	**3.4%**	**6.4%**
Varig	N/A	0.45	N/A	4.2%
Consolidated excluding Varig	0.89	1.01	13.3%	6.7%
Total operating expenses	**15.30**	**14.39**	**-5.9%**	**100.1%**
Varig	N/A	17.23	N/A	159.9%
Consolidated excluding Varig	15.30	13.95	-8.8%	92.9%
Cost per flight hour	**14.8**	**14.7**	**-0.9%**	**-**
Varig	N/A	18.4	N/A	-
Consolidated excluding Varig		14.1	-5.1%	-
Break-even load factor	**59.6%**	**66.3%**	**6.7p.p.**	**-**
Varig	N/A	84.0%	N/A	-
Consolidated excluding Varig	59.6%	63.6%	4.0 p.p.	-

Salaries, wages and benefits increased 92.8%, or R$384.2 million, due to a 77.9% increase in the number of full-time equivalent employees which increased from 8,840 at December 31, 2006 to 15,722 (of which 3,298 were

Varig s employees), the internalization of our call center services (representing 1,027 employees) and a 5% cost of living increase of salaries in December 2006. Salaries, wages and benefits per available seat kilometer increased 13.7% due to a 4.1% increase in headcount on a per seat kilometer basis, and lower productivity due to increased flight times, ground times and man hours related to bottlenecks covered by problems with Brazilian air traffic control in the first half of the year and regulatory restrictions placed on Congonhas airport. Salaries, wages and benefits per available seat kilometer excluding Varig increased 9.1% .

Aircraft fuel expense increased 54.8%, or R$671.8 million, primarily due to a 65.1% increase in the liters of fuel consumed, or 464 million liters, partially off set by a decrease in average fuel price per liter of 3.8% and by an improvement in fuel efficiency of the fleet due to additional 15 larger, more fuel efficient winglet equipped 737-800 SFP aircraft. Aircraft fuel consumed per available seat kilometer decreased 9.1% due primarily to the use of more fuel efficient aircraft partially offset by the effect of an increase in flight hours related to bottlenecks caused by problems with Brazilian air traffic control and congestion around the São Paulo airports. The decrease in average fuel price per liter in 2007 was primarily due to the 10.5% appreciation of the *real* against the U.S. dollar, partially offset by the effect of a 9.3% increase in average international crude oil (WTI) prices and a 9.8% increase in average Gulf Coast jet fuel prices. As of December 31, 2007, we had hedged 29% and 7% of our projected fuel requirements for 1Q08 and 2Q08, respectively.

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Aircraft rent, which we incur in U.S. dollars, increased 76.3%, or R$223.3 million, due to an increase in the average size of our fleet from 50.1 aircraft to 88.6, partially offset by the 10.5% appreciation of the *real* versus the U.S. Dollar during the year and amortized net gains of R$23.2 million on sale-leaseback transactions for 12 737-800 aircraft during 2006 and 2007 (amortized over the term of the leases). Aircraft rent per available seat kilometer increased 4.2% due to a lower aircraft utilization rate, which decreased to 13.8 block hours per day compared to 14.2 block hours in 2006 due to lower aircraft utilization in Varig s operations, partially offset by 69.5% more available seat kilometers and the 10.5% appreciation of the *real* versus the U.S. Dollar during the year. Aircraft rent per available seat kilometer excluding Varig decreased 7.3% .

Sales and marketing expense decreased 11.3%, or R$46.7 million, primarily due a reduction in sales commissions resulting from the reduction in travel agency commissions and a reduction in publicity and advertising expenses, especially in the period after the accident of a competitor s Airbus aircraft in July 2007. We booked a majority of Gol ticket sales through the website (80.3%) and our call center (10.1%) . Travel agents accounted for 67.4% of our sales in 2007, 69.0% of which were made through the Internet. Sales and marketing per available seat kilometer decreased 47.8%, primarily due to a reduction of marketing activities in the first nine months of 2007, and, to a lesser extent, an increase in direct non-commissioned ticket sales to 32.6% of our total ticket sales. Sales and marketing per available seat kilometer excluding Varig decreased 48.4% .

Landing fees increased 74.9%, or R$116.0 million, due to a 21% increase in the domestic landing tariffs effected in June 2006, a 51.1% increase in the number of departures and an 101.4% increase in landings at international airports (which have higher tariffs). Landing fees per available seat kilometer increased 1.3% due to the increase in landing fee rates and an increase in landings at international airports (which have higher tariffs), partially offset by increased average stage length of 15.4%, and a higher aircraft utilization rate (9.6% more available seat kilometers per aircraft).

Aircraft and traffic servicing expense increased 74.9%, or R$149.3 million, primarily due to an increase in our operations from 55 to 66 airports served, an increase in third party services in the amount of R$149.0 million and a 44.1% increase in departures. Aircraft and traffic servicing per available seat kilometer increased 3.1%, mainly due to the increase in consulting and third party services related to technology and systems implementation and higher ground handling services expenses, mainly due to the increase in international destinations (with relatively higher ground handling costs), partially offset by a 15.4% increased average stage length.

Maintenance, materials and repairs increased to R$318.9 million in 2007 compared to R$146.5 million in 2006, due to an additional 38.5 average aircraft in operation, R$122.0 million in scheduled maintenance on 39 engines mainly on our Boeing 737-300 aircraft, repair of rotable parts, in the amount of R$48.4 million, and the use of spare parts inventory, in the amount of R$53.8 million. Maintenance, materials and repairs per available seat kilometer increased 29.2% primarily due to a higher number of scheduled maintenance events, partially offset by a 10.5% appreciation of the *real* against the U.S. dollar. Maintenance, materials and repairs per available seat kilometer excluding Varig increased 18.1% .

Depreciation increased 75.4%, or R$52.3 million, due primarily to an increase in our inventory of aircraft spare parts and, to a lesser extent, an increase in technology equipment resulting from the expansion of our operations. It was also impacted by the addition of 13 new Boeing 737-800 NG aircraft which entered the fleet between the fourth quarter 2006 and the fourth quarter 2007, and two Boeing 737-700 plus four Boeing 767-300 aircraft classified as capital leases during 2006 and 2007. Depreciation per available seat kilometer increased 2.9% due to an increase to R$1.7 billion in fixed assets subject to depreciation and an increase of R$31.3 million related to depreciation of the new aircraft.

Other operating expenses increased 77.0%, or R$138.2 million, due to an increase in travel expenses and lodging for flight crews due to cancelled flights, direct passenger expenses and allowance for doubtful accounts. Other

operating expenses per available seat kilometer increased 3.4% due to a 10.4% increase in direct passenger expenses, cancelled flights and flight crew lodging per available seat kilometer, partially offset by a decrease in insurance expenses. Insurance expenses, at R$0.13 cents per available seat kilometer or R$44.4 million, decreased 12.7%, due to a reduction in average premium rates and a 10.5% appreciation of the *real* against the U.S. Dollar.

Other Income (Expense). Net financial income increased R$25.2 million. Interest expense increased R$76.0 million primarily due to an increase in long-term debt and a higher amount of short-term working capital debt related to increased operations. Interest income increased R$115.9 million primarily due to higher average cash and short-term investments during 2007, and was partially offset by a 3.3 percentage point reduction in average interest rates in Brazil (as measured by the CDI rate).

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Income Taxes. The effective income tax rate was a negative 2.8% in 2007 as compared to 28.8% in 2006. In 2007, due to the tax loss carryforwards of Varig, R$113.9 million of deferred income taxes were recorded, offsetting the R$111.1 million of current income tax expense resulting in a tax benefit of R$2.8 million for the year. The tax loss carryforwards are not subject to expiration. However, there is a limitation of 30% of the carryforward amount that can be utilized each year. The company has a history of profitability and our current level of income is sufficient to generate taxable income to allow the utilization of the deferred tax assets. The utilization of deferred tax assets depending on our level of taxable income can be accelerated by means of tax planning strategies.

Year 2006 Compared to Year 2005

Our net income for the year 2006 increased to R$569.1 million from R$513.2 million for 2005, an increase of R$55.9 million.

We had an operating income of R$701.5 million, an increase of R$80.1 million over 2005, and our operating margin was 18.4%, a decrease of 4.8 percentage points from 2005. Income before income tax increased 11.4% to R$799.0 million.

Net Operating Revenues. Net operating revenues increased 42.4%, or R$1,132.9 million, due primarily to a 41% increase in passenger revenues of R$1,042.0 million. Increased passenger revenues resulted primarily from a 52.6% increase in revenue passenger kilometers, which was due to a 36.1% increase in departures, a 2.0% increase in our average fares based on strong underlying demand for air transportation services and an increase in the average number of aircraft in service from 34.3 to 50.1. The increase in revenue passenger kilometers was partially offset by a 7.6% decrease in our yield mainly due to a 15.2% increase in our average stage length, a competitive pricing environment and a 0.4 point decrease in our load factor from 73.5% in 2005 to 73.1% in 2006. Cargo and other revenue increased by R$91.0 million due primarily to increases in revenues from our cargo service operations.

Operating Expenses. Operating expenses increased 51.4%, or R$1,052.8 million, due primarily to the operation of an average of 16 additional aircraft during 2006, leading to an increase in flight departures during the period and an increase in the average number of liters of jet fuel consumed and an increase in cost per liter of jet fuel consumed, an increase in salaries expenses, aircraft and traffic servicing expenses and maintenance, materials and repair expenses. To a large extent, changes in operating expenses for airlines are driven by changes in capacity, or available seat kilometers. Operating capacity increased by 53.4% to 20,261 million available seat kilometers due to scheduled capacity increases and high aircraft utilization at 14.2 block hours per day. Operating expenses per available seat kilometer decreased 0.9% to R$15.3 cents primarily due to the use of additional larger, more fuel efficient and winglet equipped aircraft, a reduction in aircraft rent and sales and marketing expenses and a 0.7% decrease in fuel expense on a per available seat kilometer basis and the spreading of our fixed costs over a larger fleet, despite an increase in aircraft and traffic servicing expenses, increased depreciation and an increase in landing fees, each on a per seat kilometer basis.

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The breakdown of our operating expenses on a per available seat kilometer basis for 2006 compared to 2005 is as follows (percent changes are based on unrounded numbers):

	Year Ended December 31,		Percent Change	Percentage of Net Revenues
	2005	2006		2006
	(cost per available seat kilometer in R$ cents)			
Operating expenses:				
Salaries, wages and benefits	1.96	2.04	4.1%	10.9%
Aircraft fuel	6.10	6.06	-0.7%	32.3%
Aircraft rent	1.82	1.44	-20.9%	7.5%
Sales and marketing	2.53	2.05	-19.0%	10.9%
Landing fees	0.70	0.78	11.4%	4.1%
Aircraft and traffic servicing	0.69	0.98	42.0%	5.2%
Maintenance, materials and repairs	0.42	0.72	71.4%	3.9%
Depreciation	0.26	0.34	30.8%	1.8%
Other operating expenses	0.96	0.89	-7.3%	4.7%
Total operating expenses	15.46	15.30	-0.9%	81.6%
Cost per flight hour	R$14.77	R$14.82		
Break-even load factor	56.4%	59.6%	5.7%	

Salaries, wages and benefits increased 59.1%, or R$153.8 million, due to a 6.0% cost of living increase on salaries in December 2005 and a 62% increase in the number of full-time employees, to 8,840, related to planned capacity expansion. Salaries, wages and benefits per available seat kilometer increased 4.1% due to a 5.6% increase in headcount on a per seat kilometer basis, partially offset by increased productivity.

Aircraft fuel expense increased 51.8%, or R$418.7 million, primarily due to a 49.6% increase in the liters of fuel consumed, or 236.3 million liters, and an increase in fuel price per liter of 4.1%, partially offset by an improvement in fuel efficiency of the fleet due to additional larger, more fuel efficient winglet equipped 737-800 SFP aircraft. Aircraft fuel per available seat kilometer decreased 0.7% due primarily to the use of more fuel efficient aircraft and a 10.7% appreciation of the *real* against the U.S. Dollar during the year, a factor influencing the determination of Brazilian jet fuel prices. As of December 31, 2006, we had hedged 87%, 75% and 21% of our projected fuel requirements for the first, second and third quarters of 2007, respectively.

Aircraft rent, which we incur in U.S. dollars, increased 21.5%, or R$51.7 million, due to an increase in the average size of our fleet from 34.3 aircraft to 50.1, partially offset by the appreciation of the *real* versus the U.S. Dollar during the year and amortized gains of R$16.0 million on sale-leaseback transactions for eight 737-800 aircraft during 2006 (amortized over the term of the leases). Aircraft rent per available seat kilometer decreased 20.9% due to a high aircraft utilization rate, which increased to 14.2 block hours per day compared to 13.9 block hours in 2005, and the 10.7% appreciation of the *real* versus the U.S. Dollar during the year.

Sales and marketing expense increased 23.5%, or R$78.9 million, primarily due to higher bookings and costs associated with the opening of new bases and higher credit card fees resulting from increased passenger revenues. We booked a majority of our ticket sales through our website (81.6%) and our call center (10.8%) . Travel agents accounted for 69.6% of our sales in 2006, 81.0% of which through the Internet. Sales and marketing per available seat kilometer decreased 19.0%, primarily due to a suspension of marketing activities during the fourth quarter in memoriam of the victims of the Flight 1907, and, to a lesser extent, an increase in direct non-commissioned ticket sales to 30.4% of our total ticket sales.

Landing fees increased 70.7%, or R$65.3 million, due to a 36.1% increase in the number of departures and a 21.0% increase in average landing fee rates. This increase in domestic landing fee rates in 2006 was substantially higher than the average increases in prior years. Landing fees per available seat kilometer increased 11.4% due to the increase in landing fee rates and an increase in landings at international airports (which have higher rates), partially offset by increased average stage length of 15.2%, and a higher aircraft utilization rate.

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Aircraft and traffic servicing expense increased 117.7%, or R$107.8 million, primarily due to an increase in our operations from 45 to 55 airports served, an increase in third party services in the amount of R$33.4 million and a 36.1% increase in departures. Aircraft and traffic servicing per available seat kilometer increased 42.0%, mainly due to the increase in third party services related to technology and systems implementation and higher ground handling services expenses, mainly due to the increase in international destinations (with relatively higher ground handling costs), partially offset by an increased average stage length and higher aircraft utilization.

Maintenance, materials and repairs increased 164.6%, or R$91.1 million, due to 16 average additional aircraft in operation as well as the scheduled maintenance of 23 engines, in the amount of R$77.1 million, mainly on our Boeing 737-300 aircraft, repair of rotable materials, in the amount of R$34.3 million, and the use of spare parts inventory, in the amount of R$20.1 million. Maintenance, materials and repairs per available seat kilometer increased 71.4% primarily due to a higher number of scheduled maintenance services, partially offset by a 10.7% appreciation of the *real* against the U.S. Dollar.

Depreciation increased 98.0%, or R$34.3 million, due primarily to an increase in our inventory of aircraft spare parts and, to a lesser extent, an increase in technology equipment resulting from the expansion of our operations and the addition of five new aircraft subject to depreciation to our fleet. Depreciation per available seat kilometer increased 30.8% due to an increase to R$185.5 million in fixed assets subject to depreciation and an increase of R$0.9 million related to depreciation of three new 737-800 NG aircraft which entered t