

Gol Intelligent Airlines Inc.  
Form 20-F/A  
May 02, 2006

As filed with the Securities and Exchange Commission on May 2, 2006

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

**Washington, D.C. 20549**

**FORM 20-F/A**  
**(Amendment No. 1)**

**.. 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, 2005**

**OR**

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

**OR**

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

**Commission file number 001-32221**

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

(Exact name of Registrant as specified in its charter)

**Gol Intelligent Airlines Inc.**

(Translation of Registrant's name into English)

**The Federative Republic of Brazil**

(Jurisdiction of incorporation or organization)

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04630-000 São Paulo, São Paulo

Federative Republic of Brazil

(+55 11 5033-4200)

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

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

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

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

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

None

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

None

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

109,448,497  
86,524,136

Shares of Common Stock  
Shares of Preferred Stock

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

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

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

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

Large accelerated Filer

Accelerated Filer

Non-accelerated Filer

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

Item 17  Item 18

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



**EXPLANATORY NOTE**

This Amendment No. 1 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005, as filed with the Securities and Exchange Commission on March 20, 2006 (the 2005 Form 20-F ), is being filed solely to correct a typographical error in Exhibits 13.1 and 13.2 to the 2005 Form 20-F by making reference to the fiscal year ended December 31, 2005, rather than the fiscal year ended December 31, 2004, in the certifications pursuant to Section 906 of the U.S. Sarbanes Oxley Act of 2002.

Other than the foregoing items, and amendments to the Exhibit Index in Item 19 to refer to the corrected exhibits, no part of the 2005 Form 20-F is being amended, and the filing of this Amendment No. 1 should not be understood to mean that any other statements in the 2005 Form 20-F are true or complete as of any date subsequent to March 20, 2006.

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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* to refer to Gol Transportes Aéreos S.A. and *we*, *us* and *our* to refer to the Registrant and Gol together, except where the context requires otherwise. References to *preferred shares* and *ADSs* refer to non-voting preferred shares of the Registrant and American 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. GAAP* refers to generally accepted accounting principles in the United States, and *Brazilian GAAP* refers to generally accepted accounting principles in Brazil, which are accounting principles derived from Law No. 6,404 of December 15, 1976, as amended and supplemented, or the Brazilian corporation law and the rules of the CVM.

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

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

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



**PRESENTATION OF FINANCIAL AND OTHER DATA**

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

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

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

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

**SPECIAL NOTE ABOUT FORWARD-LOOKING STATEMENTS**

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

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

The words believe, may, will, aim, estimate, continue, anticipate, intend, expect and similar words are intended to identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, the effects of future regulation and the effects of competition. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. In light of

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the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

**PART I**

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

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION**

**A. Selected Financial Data**

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

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

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

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

Year Ended December 31,					
2001	2002	2003	2004	2005	2005

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(in thousands)

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

## Year Ended December 31,

	2001	2002	2003	2004	2005	2005
	(in thousands)					
Earnings (loss) per share, basic(1)	R\$ (0.06)	R\$ 0.36	R\$ 1.07	R\$ 2.14	R\$ 2.66	US\$ 1.14
Earnings (loss) per share, diluted(1)	R\$ (0.06)	R\$ 0.36	R\$ 1.07	R\$ 2.13	R\$ 2.65	US\$ 1.13
Weighted average shares used in computing earnings (loss) per share, basic (in thousands)(1)	56,000	98,268	164,410	179,731	192,828	192,828
Weighted average shares used in computing earnings (loss) per share, diluted (in thousands)(1)	56,000	98,268	164,410	180,557	193,604	193,604
Earnings (loss) per ADS, basic(2)	R\$ (0.06)	R\$ 0.36	R\$ 1.07	R\$ 2.14	R\$ 2.66	US\$ 1.14
Earnings (loss) per ADS, diluted(2)	R\$ (0.06)	R\$ 0.36	R\$ 1.07	R\$ 2.13	R\$ 2.65	US\$ 1.13
Dividends paid per share	R\$	R\$	R\$ 0.16	R\$ 0.32	R\$ 0.60	US\$ 0.26
Dividends paid per ADS(2)	R\$	R\$	R\$ 0.16	R\$ 0.32	R\$ 0.60	US\$ 0.26

## As of December 31,

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

## Year Ended December 31,

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

## Year Ended December 31,

	2001	2002	2003	2004	2005	
<b>Operating Data (unaudited):</b>						
Revenue passengers (in thousands)		2,085	4,847	7,324	9,215	13,000
Revenue passenger kilometers (in millions)		1,256	3,156	4,835	6,289	9,740
Available seat kilometers (in millions)		2,091	5,049	7,527	8,844	13,246
Load-factor		60.1%	62.5%	64.2%	71.1%	73.5%
Break-even load factor		61.5%	59.8%	50.8%	52.5%	56.4%
Aircraft utilization (block hours per day)		11.1	12.3	12.8	13.6	13.9

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	R\$ 115	R\$ 140	R\$ 195	R\$ 210	R\$ 201
Average fare	17.8	20.4	27.7	29.8	26.1
Yield per passenger kilometer (cents)	10.7	12.7	17.8	21.2	19.1
Passenger revenue per available seat kilometer (cents)	11.0	13.4	18.6	22.2	20.1
Operating revenue per available seat kilometer (cents)	10.9	12.2	14.1	15.7	15.5
Operating expense per available seat kilometer (cents)	8.8	9.0	9.9	10.5	9.4
Operating expense less fuel expense per available seat kilometer (cents)	24,727	52,665	75,439	87,708	122,683
Departures	68	144	207	240	336
Departures per day	16	22	25	36	45
Destinations served	613	628	659	689	721
Average stage length (kilometers)	7.7	15.3	21.6	22.3	34.3
Average number of operating aircraft during period	1,134	2,072	2,453	3,307	5,456
Full-time equivalent employees at period end	77,850	164,008	264,402	317,444	476,725
Fuel liters consumed (in thousands)	13.2%	48.7%	57.9%	76.4%	81.3%
Percentage of sales through website during period	81.6%	72.1%	74.1%	83.6%	88.7%
Percentage of sales through website and call center during period					

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

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

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

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

## Exchange Rates

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

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

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

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



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

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

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

Source: Central Bank

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

### B. Capitalization and Indebtedness

Not applicable.

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

Not applicable.

### D. Risk Factors

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

### Risks Relating to Brazil

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

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

- interest rates;
- currency fluctuations;

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

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

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

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

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

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

Substantially all of our passenger revenue and cargo revenue and temporary investments are denominated in *reais*, and a significant part of our operating expenses, such as fuel, aircraft and engine maintenance services, aircraft rent payments and aircraft insurance, are denominated in, or linked to, U.S. dollars. We maintain U.S. dollar-denominated deposits and maintenance reserve accounts under the terms of our aircraft operating leases. For the year ended December 31, 2005, 53% of our operating expenses were either denominated in or linked to the U.S. dollar.

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In addition, the purchase price of the 67 737-800 Boeing Next Generation aircraft for which currently we have placed firm purchase orders and the 34 737-800 Boeing Next Generation aircraft for which we currently have purchase options are denominated in U.S. dollars. While in the past we have generally adjusted our fares in response to, and to alleviate the effect of, depreciations of the *real* and increases in the price of jet fuel and have entered into hedging arrangements to protect us against the effects of such developments, there can

be no assurance we will be able to continue to do so. To the extent we are unable to adjust our fares or effectively hedge against any such depreciation or increases in jet fuel prices, this may lead to a decrease in our profit margins or to operating losses caused by increases in U.S. dollar-denominated costs, increases in interest expense or exchange losses on unhedged fixed obligations and indebtedness denominated in foreign currency. We had total U.S. dollar-denominated future operating lease payment obligations of US\$385.6 million (including long-term vendor payables) and no other U.S. dollar-denominated indebtedness at December 31, 2005. We may incur substantial amounts of U.S. dollar-denominated operating lease or financial obligations, fuel costs linked to the U.S. dollar and U.S. dollar-denominated indebtedness in the future. At December 31, 2005, we had a short-term hedging program in place for a majority of our U.S. dollar-denominated operating lease obligations, our U.S. dollar-linked jet fuel expenses and our interest rate exposure.

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

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

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

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

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

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

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

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Law No. 11,182, enacted on September 27, 2005 and modified by the Provisional Measure No. 269, of December 15, 2005, created the National Civil Aviation Agency (Agência Nacional de Aviação Civil, or ANAC), a regulatory agency that will be linked, but not subordinated, to the Ministry of Defense and will

operate as an independent agency for an indefinite term. ANAC will principally have the authority to: (i) regulate, inspect and supervise services rendered by Brazilian and foreign airlines operating in Brazil, (ii) grant concessions, permits and authorizations for air transport operations and airport infrastructure services after conducting a bidding process, (iii) represent the Brazilian government before international civil aviation organizations, (iv) control, register and inspect civil aircraft, and (v) carry out a mandate under articles 48 and 49 of Law No. 11,182 to ensure that air transportation services are provided under free enterprise principles.

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

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

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

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

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

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

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





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

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

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

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

Because we have a limited operating history, having commenced operations in January 2001, it may be difficult to evaluate our prospects and an investment in the ADSs and our preferred shares. Our prospects are uncertain and must be considered in light of the risks, uncertainties and difficulties frequently encountered by companies with a limited operating history. Our performance will depend upon a number of factors, including our ability to:

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

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

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

Our growth strategy involves expanding the number of markets we serve and increasing the frequency of flights to the markets we currently serve. Increasing the number of markets we serve and our flight frequencies depend on our ability to identify the appropriate geographic markets upon which to focus and to gain suitable airport access and route approval in these markets. There can be no assurance that the new markets we enter will provide passenger traffic that is sufficient to make our operations in those new markets profitable. Three of the airport facilities from which we operate, Santos Dumont in Rio de Janeiro, Congonhas in São Paulo, and Pampulha in Belo Horizonte, are highly congested and passenger processing is at or near maximum capacity. Five of the airports from which we operate, Juscelino Kubitschek in Brasília, Santos Dumont, Congonhas, Guarulhos International Airport in Guarulhos and Pampulha, are subject to slot restrictions limiting the number of landings and take-offs at these airports and when they can be made. Any condition that would prevent or delay our access to airports or routes that will be vital to our growth strategy, including the ability to process more

passengers or the imposition of flight capacity restrictions or our inability to maintain our existing slots, and obtain additional slots, in the Juscelino Kubitschek, Santos Dumont, Congonhas, Guarulhos and Pampulha airports, could constrain the expansion of our operations. In addition, the introduction and expansion of flights between Brazil and other South American destinations outside of Brazil requires the availability of flight capacity under, and compliance with, the criteria set forth in bi-lateral treaties governing cross-border air travel that have been negotiated between Brazil and other South American countries. To the extent that there is no available capacity or we cannot comply with the criteria contained in these treaties, our plans to introduce additional flights between Brazil and other South American destinations outside of Brazil could be constrained. In addition, our plans to further expand our operations into other South American countries could be adversely affected by political, economic and social conditions in those countries.

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

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

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

Having significant fixed payment obligations could:

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

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

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

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We currently finance our aircraft through operating leases. As a result of our firm purchase orders to purchase 67 Boeing 737-800 Next Generation aircraft, in the future we expect to own a portion of our fleet as well as continue to lease aircraft through long-term operating leases. The firm purchase orders represent a significant financial commitment for us. While we expect that a preliminary commitment to us from the Export- Import Bank of the United States to provide guarantees covering approximately 85% of the aggregate purchase

price for the firm purchase order aircraft will assist us in obtaining low-cost financing for the purchase of the firm purchase order aircraft, we may be required to use our own cash resources for the remaining 15% of the aggregate purchase price for the firm purchase order aircraft. As of December 31, 2005, we had approximately R\$869.0 million of cash, cash equivalents and short-term investments in overnight deposits and deposit certificates of highly-rated Brazilian banks and marketable securities, mainly highly-rated Brazilian government bonds. If the value or liquidity of these investments were to decrease, or we do not have sufficient cash resources, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would have an adverse impact on the execution of our growth strategy and business and could have an adverse impact on our results of operations.

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

Fuel costs, which have recently been at historically high levels, constitute a significant portion of our total operating expenses, accounting for approximately 39.5% of our operating expenses for the year ended December 31, 2005. Historically, international and local fuel prices have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. In the event of an international or local fuel supply shortage, our fuel prices may increase.

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

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

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

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

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



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

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

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

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

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

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

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

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

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



We depend on automated systems to operate our business, including our computerized airline ticket sales system, our telecommunication systems and our website. Unlike our competitors, which issue traditional paper tickets to some or all of their passengers, we issue only paperless tickets. Our website and ticket sales system

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

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

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

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

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

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

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

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

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

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

because a substantial portion of both business and leisure airline travel is discretionary, the industry tends to experience adverse financial results during general economic downturns. Any prolonged general reduction in airline passenger traffic may adversely affect our business and results of operations.

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

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

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

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

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

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

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

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The 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 only material assets consist of the shares of Gol, an offshore finance subsidiary, cash and cash equivalents and short-term investments. The Registrant owns all of Gol's common and preferred shares, except for five common shares and three Class B preferred shares of Gol that are held by members of Gol's board of directors for eligibility purposes. Our principal executive offices are located at Rua Tamoios 246, Jardim Aeroporto, 04630-000 São Paulo, SP, Brazil, and our general telephone number is +55 11 5033-4200. The telephone number of our investor relations department is +55 11 5033-4393. Our website address is [www.voegol.com.br](http://www.voegol.com.br) and our website is available in Portuguese, Spanish and English. Investor information can be found on our website under the caption "Investor Relations." Information contained on our website is not incorporated by reference in, and shall not be considered a part of, this annual report.

###### **Capital Expenditures**

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

##### **B. Business Overview**

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

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

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

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

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

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

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

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



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

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

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

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

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

## **Our Competitive Strengths**

Our principal competitive strengths are:

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

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*Efficient use of aircraft.* During 2005, our aircraft utilization totaled an average of 13.9 block hours per day, the highest aircraft utilization rate in the Brazilian domestic airline industry, according to the DAC,

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

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

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

*Flexible and efficient operating approach.* We always seek the most cost-effective way of providing our services to our customers without compromising quality and safety. We constantly evaluate our operations to see if sensible cost-savings opportunities exist. As a result, we outsource the work that can be done properly and more efficiently by third parties and we internalize the functions that our employees can do more cost-efficiently. We have arrangements on competitive terms with third-party contractors at certain airports for aircraft and baggage handling, and call center customer services. We get competitive rates for these services by negotiating multi-year contracts at prices that are fixed or subject only to periodic increases linked to inflation. With our phased maintenance system, we are able to perform maintenance work every day without sacrificing aircraft revenue time and to schedule preventive maintenance with more regularity and around the utilization of our aircraft, which helps to maintain high levels of block hours per day and reduce costs. We are among the very few airlines in the world having maintenance technicians

capable of executing our phased maintenance system. Furthermore, we are in the final phase of building a state-of-the-art aircraft maintenance center at the airport of Confins in the State of Minas Gerais. Although not complete, the maintenance center is already operational, enabling us to internalize aircraft heavy maintenance work to reduce maintenance costs. We plan to internalize other services that are currently outsourced if we believe we can better control the quality and efficiency of these services.

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

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

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

***We Have a Strong Financial Position.*** We have focused on maintaining a strong financial position with significant cash balances and a low debt to capitalization ratio. As of December 31, 2005, we had R\$106.3 million of cash and cash equivalents, R\$762.7 million of short-term investments, R\$564.0 million of accounts

receivable and R\$408.8 million of U.S. dollar denominated deposits for aircraft leasing and aircraft engine maintenance contracts, representing a total of R\$1,841.8 million. As of December 31, 2005, our debt to capitalization ratio was 2.9%. In 2005, we received the award for the Best Financial Management in 2004, from Isto é Dinheiro magazine.

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

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

## **Our Strategy**

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

***To Expand Our Customer Base by Offering Services to High-Demand or Overpriced Routes.*** When planning the growth of our business, we will continue to establish bases, select our routes and build the frequency of our service based upon the extent and type of demand in the regions we serve in Brazil and other South American countries. In particular, we expect to increase our focus on business travelers from medium-sized companies, a growing customer base that tends to be more price sensitive, by closely monitoring the routes and flight frequencies that best serve their travel needs and increasing our marketing efforts directed at this segment of our customer base. For example, in response to the high volume of business travelers between Brazil's primary financial centers, served by the Congonhas airport in São Paulo, and Santos Dumont airport in Rio de Janeiro, we have increased our flight frequency on this route from five flights per day when we began

transporting passengers in January 2001 to 24 in 2002, 28 in 2003, 36 during 2005 and 50 flights per day as of December 31, 2005. We are also very focused on stimulating demand and capturing market share in both the leisure and visiting friends and relatives market segments. For example, in response to a perceived demand for late evening flights linking São Paulo and Rio de Janeiro to allow travelers to avoid the need for overnight stays, we added night flight services between the two cities in December 2003 and to other cities in Brazil later on. Our night flights generated load factors higher than that of our other flights. We will continue to carefully evaluate opportunities to meet demand for leisure travel by expanding flight frequencies on existing routes, expanding successful night flight services and adding additional routes that contribute to our network and for which we perceive a market demand, such as daytime flights to and from Guarulhos airport in São Paulo, Brazil's largest airport.

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

***To Continue to Reduce Low Operating Costs and Improve Operating Efficiency.*** Continuing to reduce our operating costs per available seat kilometer is a key to increasing profitability. Our revenues per aircraft in 2005 were US\$33.2 million, which are the highest in the low cost carrier industry according to publicly available data. Our CASK of 6.6 US\$ cents was 22% lower than our closest competitor in the domestic market. We aim to remain one of the lowest cost airlines in the world. We have worked toward achieving this goal by assembling a new fleet of single-class aircraft that is capable of safely and reliably accommodating a high utilization rate, incurs low maintenance costs and is fuel-efficient. We are also working to achieve this goal by using our aircraft efficiently, concentrating on minimizing our turnaround times at airports and increasing our number of daily flights per aircraft. We will also continue to utilize technological innovations wherever possible to reduce our distribution costs and improve our operating efficiency. We expect to benefit from economies of scale and reduce our average cost per available seat kilometer as we add additional aircraft to an established and efficient operating infrastructure. Our system of phased maintenance allows us to perform maintenance work every day without sacrificing aircraft revenue time, to better determine the timing of heavy maintenance so as to help maximize aircraft utilization and to further reduce our maintenance costs. We will continue internalizing of our aircraft maintenance in our new Aircraft Maintenance Center in Confins, in the State of Minas Gerais. By purchasing up to 101 new Boeing 737-800 Next Generation aircraft, we will further reduce the average age of our fleet and therefore increase operating efficiency and lower our operating costs.

***To Keep Our Customer Service Offering Simple and Convenient.*** We believe that we are perceived by our customers as providing excellent value at reasonable fares and acting as a catalyst for changing the way the Brazilian airline industry works. In addition to offering low fares, our strategy is to make flying a simpler, more convenient experience. We have achieved this objective largely through the elimination of unnecessary extras and common-sense applications of technology. We encourage our customers to use the internet not only to make reservations, but also to make many of the arrangements from the comfort of their home or office that they would otherwise have to make at crowded airports or airline ticket offices, such as checking-in and changing their seat

assignments. We provide free shuttle service between airports and drop-off zones on selected routes. We offer customers single-class, pre-assigned seating flights, do not overbook our flights and have designated female lavatories. Our strategy will be to continue to seek ways to make the Gol brand signify simplicity and convenience in the minds of air travelers.

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

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

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

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

Source: INFRAERO

## Routes and Schedules

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Our aircraft fly to various points on our route network linking our destinations. A significant portion of our route network is concentrated in highly populated areas in Brazil and the southern cone of South America , where numerous major business centers are located. We generally offer direct flights between these primary business centers, which enables many of our business travelers to fly with us directly to their destinations. However, after directly connecting high-density cities along the primary business routes, our aircraft often make multiple stops to other destinations. In this way, each aircraft has a daily flight plan that includes stops at multiple destinations throughout our network. We integrate the flight plans of our aircraft to provide maximum flexibility and connectivity at each stop, so that passengers have numerous connection options to reach their final destination. We believe this model of flight scheduling has helped us to more frequently serve a greater number of cities, generate higher load factors and stimulate demand for air travel in new markets, while also enabling us to increase aircraft utilization and provide our customers with more destination options. Having implemented this



variation on the point to point approach successfully in Brazil, we have started adding international destinations to our flight plans in 2005, offering Brazilian and international passengers further destination options via direct flights or with one or more stops in a cost-efficient and practicable fashion. As an example, with our flight from Cordoba, Argentina to Porto Alegre, Brazil, some passengers clear customs in Porto Alegre, which is quick and simple because Porto Alegre is not a traditional hub for international traffic. For some passengers, Porto Alegre is their final destination. Continuing passengers will have access to 19 destinations in Brazil with two or fewer additional stops.

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

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

#### **Customer Value**

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

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

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

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

Based on feedback from our customers, we believe we are meeting and exceeding their service expectations, as more than nine out of every ten passengers are satisfied with Gol, would fly again with Gol and consider Gol

to be an innovative, modern and practical company. With regard to our service to Buenos Aires, 83% of our Argentine passengers said they were very satisfied or satisfied with our services. The survey conducted between April and July 2005 by *Pesquisas Inteligentes* confirmed our success in the Argentine market after just eight months of service to Buenos Aires, our first international destination.

## Safety

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

## Sales and Distribution

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

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

For the year ended December 31, 2005, 81.3% of our passenger revenues, whether directly to the customer or to travel agents, were made via the internet, making us one of the worldwide industry leaders in this area, as compared to 12.1% of our passenger revenues through call centers and airport sales counters and 6% of our total sales made through the GDS, respectively. The remaining 0.6% of our passenger revenues for the year ended December 31, 2005 were through other distribution systems. To illustrate the importance of continuing to focus on increasing internet-based ticket sales directly to our customers, it costs an average of approximately R\$2.11 for each ticket sale made directly to a customer through our website. By comparison, internet ticket sales through travel agents cost an average of approximately R\$3.95 per sale, call center ticket sales cost an average of approximately R\$4.56 per sale and GDS ticket sales cost an average of approximately R\$11.27 per sale.

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



24 hours a day. As a result of this emphasis on virtual distribution, we have become one of the largest and leading e-commerce businesses in South America in terms of revenue from internet-based sales.

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

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

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

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

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

We also use innovative promotions to stimulate demand for air travel. For example, we first offered our night flights in December 2003 as a measure designed to attract customers who may not have previously considered air travel as an option due to their price sensitivity and also to generate revenues from our aircraft at times they would otherwise have remained idle. These flights proved to be extremely popular among customers, achieving an average load factor of 90%, and we decided to offer them on a permanent basis. In 2004, we introduced our *Brasil mais perto*, or Brazil is closer , campaign, which featured very low internet-based fares for weekend travel and we also offered promotional prices for certain customer segments, such as senior citizens and children. We believe that the high number of visits to our website, which averaged 1,000,000 visitors per month during 2005, are in part the result of the customer interest created by our promotions. By offering campaigns with low promotional prices, we stimulate our customers to search for opportunities to fly Gol.



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

## Awards

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

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

## Pricing

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

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

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

### **Yield Management**

Yield management involves the use of historical data and statistical forecasting models to produce knowledge about our markets and guidance on how to compete in them to maximize our operating revenues.



Yield management and pricing form the backbone of our revenue generation strategy and they are also strongly linked to our route and schedule planning and our sales and distribution methods. Our yield management practices enable us not only to react quickly in response to market changes but also to anticipate and help shape market changes. For example, our yield management is instrumental in helping us to identify times and the routes for which we offer promotions. By offering lower fares for seats that our yield management indicates would otherwise remain unsold, we capture additional revenue and also stimulate customer demand.

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

### **Competition**

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

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

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

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

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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	2001	2002	2003	2004	2005
Gol(1)	4.7%	11.8%	19.4%	22.3%	27.3%
TAM	33.1%	34.9%	33.1%	35.8%	43.5%
Varig Group(2)	39.8%	39.3%	33.7%	31.1%	26.7%
Others(3)	22.4%	14.0%	13.8%	10.8%	2.5%

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

- (1) Began operations in January 2001.
- (2) Varig Group includes Varig, Rio Sul and Nordeste.
- (3) Includes Transbrasil (ceased operations in December 2001) and VASP (ceased operations in December 2003), among others.

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

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

### Aircraft

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

	Number of		Average Term of Lease	Average Age	Seating
	Aircraft	Operating			
	Total	Lease	Remaining (Years)	(Years)	Capacity
Boeing 737-800	8	8	3.64	4.00	177

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Boeing 737-700	22	22	3.62	5.94	144
Boeing 737-300	12	12	2.33	16.75	141

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

We have placed firm purchase orders with The Boeing Company for 67 737-800 Next Generation aircraft and we have options to purchase an additional 34 737-800 Next Generation aircraft. Currently, we have 11 firm

purchase orders for aircraft deliveries scheduled in 2006, 13 in 2007, 10 in 2008, 11 in 2009, 8 in 2010 and 14 after 2010. With these firm purchase orders and purchase options, we expect to further reduce our financing costs. In addition, by purchasing aircraft, we expect to be able to maintain our young fleet of aircraft going forward, increase fuel and operating efficiency and reduce maintenance costs.

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

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

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

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

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

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

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

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runways and will enable us to fly with our Boeing 737-800 Next Generation aircraft to the airport of Santos Dumont in Rio de Janeiro, an important link to highly profitable routes in Brazil.

We currently lease all of our aircraft under long-term operating lease agreements that have an average remaining term of 42 months. We believe that leasing a portion of our aircraft fleet provides us with flexibility to adjust our fleet size if we consider it to be in our best interests to do so. We make monthly rental payments, some of which are based on floating rates, but are not required to make termination payments at the end of our leases. Under our operating lease agreements, we do not have purchase options and we are required to maintain maintenance reserve accounts and to return the aircraft in the agreed condition at the end of the lease term. Title to the aircraft remains with the lessor. We are responsible for the maintenance, servicing, insurance, repair and

overhaul of the aircraft during the term of the lease. As of December 31, 2005, our operating leases had terms of up to 96 months from the date of delivery of the relevant aircraft. Currently, 5 of our aircraft leases expire in 2006, 7 in 2007, 5 in 2008, 15 in 2009 and 8 in 2010.

## **Maintenance**

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

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

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

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

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

## **Facilities**

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

extension of the concession term.

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

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

## Fuel

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

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



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

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

## Insurance

We maintain passenger liability insurance in an amount consistent with industry practice and we insure our aircraft against losses and damages on an all risks basis. We are required by the DAC to maintain insurance coverage for general liability against terrorist acts or acts of war with a minimum amount of US\$600 million. We are in compliance with this requirement. We have obtained all insurance coverage required by the terms of our leasing agreements. We believe our insurance coverage is consistent with airline industry standards in Brazil and is appropriate to protect us from material loss in light of the activities we conduct. No assurance can be given, however, that the amount of insurance we carry will be sufficient to protect us from material loss.

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

## Social Responsibility and Cultural Sponsorship

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

## Industry Overview

Since air transportation has historically been affordable only to the higher income segment of Brazil's population, resulting in a comparatively low level of air travel, we believe that the low-cost, low-fare business model has the potential to significantly increase the use of air transportation in Brazil. According to the DAC, there were 31.1 million domestic enplanements and 4.9 million international enplanements in Brazil in 2004, out of a total population of approximately 181 million, according to the Brazilian Geographical and Statistical

Institute (*Instituto Brasileiro de Geografia e Estatística IBGE*). In contrast, according to the U.S. Department of Transportation, the United States had 628.5 million domestic enplanements and 133.5 million international enplanements in 2004, out of a total population of approximately 293 million, according to the latest U.S. census figures.

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

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

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

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

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

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

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

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

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

Sources: (1) DAC Anuário de Transporte Aéreo 2004

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

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

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

### Trends in Brazilian Civil Aviation Market

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

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

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

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

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

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

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

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

On September 27, 2005, President Luis Inácio Lula da Silva approved Law No. 11,182 relating to the creation of the National Civil Aviation Agency, or ANAC, which will replace DAC as the primary civil aviation authority. According to Law No. 11,182, ANAC will be responsible for organizing civil aviation within a coherent system (coordinating and supervising air transportation service and aviation and ground infrastructure) and for modernizing the regulation of Brazilian aviation operations. ANAC will be linked, but not subordinated, to the Ministry of Defense and will operate as an independent agency for an indefinite term. ANAC will principally have the authority to (i) regulate, inspect and supervise services rendered by Brazilian and foreign airlines operating in Brazil, (ii) grant concessions, permits and authorizations for air transport operations and airport infrastructure services after conducting a bidding process, (iii) represent the Brazilian government before international civil aviation organizations and (iv) control, register and inspect civil aircraft. Furthermore, Law

No. 11,182 promotes private enterprise in civil aviation. In accordance with articles 48 and 49, passenger transportation is intended to be provided by the private sector on a competitive basis. In accordance with Section 7 of Law No. 11,182, ANAC shall be implemented and commence its activities within 180 days as of September 28, 2005. However, it is necessary that the Brazilian Government issue a decree setting forth the organizational structure of the agency as well as its internal regulatory regime.

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

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

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

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

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

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

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

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

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



*Concession for Air Transportation Services*

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

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

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

*Import of Aircraft into Brazil*

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

*Registration of Aircraft*

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

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

### *Route Rights*

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

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

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

### *Slots Policy*

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

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

### *Airport Infrastructure*

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

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

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

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

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

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

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

Source: INFRAERO

#### Pricing

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

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the DAC. Such reference fares index curves are based on industry average operating costs, according to DAC calculations.

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

*Civil Liability*

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

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

*Environmental Regulations*

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

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

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

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

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

### *Pending Legislation*

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



### *Cape Town Convention*

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

### **C. Organizational Structure**

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

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

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

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

None.

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

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

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

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worldwide. Our long-term business objective is to become the largest Brazilian airline and to bring affordable air travel to all significant destinations in South America.

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

Gol was incorporated in August 2000 and began transporting passengers in January 2001 with six single-class Boeing 737-700 Next Generation aircraft serving five cities in Brazil. By the end of 2005, we were operating 42 single-class Boeing 737 Next Generation aircraft serving 43 cities in Brazil, one in Argentina and one in Bolivia. We have flown over 36 million passengers since commencing operations and 13 million in 2005, an increase of 41% to the number of passengers flown in 2004. According to the DAC, Brazil's civil aviation authority, our share of the domestic market based on revenue passenger kilometers grew from 11.8% in 2002 to

19.4% in 2003, 22.3% in 2004 and 27.3% in 2005. The increase in our fleet size and flight frequencies, entry into new markets and new customer segments have been primarily accountable for yearly increases in our revenues (40.0% between 2003 and 2004 and 36.1% between 2004 and 2005) and operating costs (30.8% between 2003 and 2004 and 47.9% between 2004 and 2005).

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

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

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

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

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

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

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

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

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

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

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

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

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



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

<u>At Period Ended</u>	<u>Cities Served</u>	<u>Number of Departures</u>	<u>Operating Aircraft(1)</u>
March 31, 2001	7	3,771	6
June 30, 2001	10	5,493	7
September 30, 2001	11	6,540	9
December 31, 2001	16	8,923	10
March 31, 2002	16	9,791	15
June 30, 2002	20	13,040	15
September 30, 2002	20	13,880	16
December 31, 2002	21	15,954	19
March 31, 2003	24	17,349	21
June 30, 2003	25	18,298	21
September 30, 2003	25	19,685	22
December 31, 2003	28	20,107	22
March 31, 2004	28	20,825	22
June 30, 2004	28	20,838	22
September 30, 2004	30	22,299	23
December 31, 2004	36	23,746	27
March 31, 2005	37	25,513	30
June 30, 2005	41	28,750	34
September 30, 2005	42	32,237	38
December 31, 2005	45	34,192	42

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

### A. Operating Results

#### Revenues

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

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

Year Ended December 31,

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

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