Operator:

Good afternoon, ladies and gentlemen. At this time we would like to welcome everyone to GOL Airline's 2Q06 results conference call. Today with us we have Mr. Richard Lark, Executive Vice President, Finance & CFO.

We would like to inform you that this event is being recorded, and all participants will be in a listen-only mode during the company's presentation. After GOL's remarks, there will be a question and answer session for industry analysts. At that time, further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Today's live webcast, including both audio and slide show, may be accessed through GOL's website at www.voegol.com.br/ir. The slide show presented by management today is available on the website, in the Investor Relations section.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities litigation reform act of 1996. Forward-looking statements are based on the beliefs and assumptions of GOL management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events, and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of GOL, and could cause results to differ materially from those expressed in such forward looking statements.

Now, I will turn the conference over to Mr. Richard Lark, who will begin the presentation. Mr. Lark, you may begin your conference.

Richard Lark:

Good Morning. First of all, I would like to welcome you to GOL's 2Q06 results conference call. Junior is not with us today, as last night at 9 p.m. he became a father for the third time with the birth of his third daughter; dad, mom and the new baby are doing just fine.

In this quarter – if we start the presentation on slide #2 – we reaffirmed our "virtuous cycle", which creates the necessary conditions for the popularization of air travel in Brazil and South America.

Moving to slide #3, entitled "Highlights." The 2Q06 represented another quarter of profitable growth for GOL. Our net income in the first quarter was R$ 106.7 million in US GAAP.

GOL maintained its high margins, as indicated by our 19% pre-tax income margin sustained by our constant focus on low costs, high productivity and intelligent yield management.

Our position as the lowest cost provider in the Brazilian air transportation market, and as a global leader in profitability, remains unchanged. GOL remains committed to providing high quality passenger transportation services and driving fares lower to create further demand and stimulate demand, what we call the “GOL Effect”.

In the 2Q06, the addition of new aircrafts to the fleet permitted a 50% expansion in capacity and the addition of 62 new daily flight frequencies. Higher capacity and a 3.3 p.p. increase in load factor, to 75.9%, contributed to a 57.3% year-over-year growth in RPKs, resulting in a higher domestic market share, which reached approximately 35% at the end of 2Q06. We are focused on continuing to reduce our costs, so we can lower our fares further and continue to increase demand for our services.

Slide #4 in the webcast presentation shows the recent additions to our fleet and base network. We added five 737s in the 2Q, and ended the quarter with a fleet of 50 aircraft. We plan to finish the 3Q with 56 737 aircraft in the fleet. We plan to expand our network with new markets in Brazil and South America and additional flight frequencies, supported by our fleet expansion of new Boeing 737-800NGs. During the second quarter, we added one new market, bringing our total number of airports served to 50, which is ahead of plan.

Please move to slide #5 in the webcast presentation. On this slide, you can observe our capacity and network expansion in a more detailed manner. During the quarter, GOL operated an average of 48 aircraft, which was an increase of 50% over 2Q05, and 11.6% over 1Q06.

When compared to the same quarter of the previous year, our capacity expanded 50.4% in terms of ASK volume, to 4.6 billion, and RPKs increased 57.3%, to 3.5 billion. When compared to 1Q06, ASKs increased 6.9% and RPKs were 14.9% higher.

Such capacity expansion permitted GOL to reach 500 flights per day at the end of the June quarter.

Moving on to slide #6, our net revenues in 2Q06 grew by 50.1% to R$ 844.0 million, when compared to the same period in the previous year. Higher capacity, in conjunction with higher productivity, played an important role in 2Q06 revenue growth. GOL increased its productivity as a result of higher aircraft utilization, at 13.9 block hours per day during the quarter, and a higher average stage length, which increased 14.7% year-over-year.

The ability to provide low fares has been a key factor to overall revenue growth. As the lowest-cost provider of passenger air transportation in South America, GOL stimulates demand with low fares, and has increased the number of passengers traveling by air.

A 9.6% increase in average fares, combined with a 14.7% increase in average stage length resulted in a yield decline of 4.7% vs. the 2Q05, to 22.3 cents of Real.

Lower yields resulted in revenues per available seat kilometer, or RASK, of 18.2 cents of Real, remaining flat vs. 2Q05. Compared to 1Q06, yields decreased 17.5%, and RASK decreased 8.5%. The weaker than expected yield environment in the quarter was also influenced by competitive factors which have affected the entire industry in the short-term.

On slide #7, you will observe that while yields decreased 4.7% in the year-over-year comparison, we reduced total CASK by approximately 1%, which, combined with the 50.4% ASK expansion, resulted in a 42.3% growth in EBITDAR, amounting to R$ 221.6 million. EBITDAR is an indicator of operating results before accounting for aircraft ownership expenses, such as aircraft rent.

Total CASK (at R$ 15.3 cents of Real) decreased 0.14 cents of Real, due to strict fuel management practices, increased scale and productivity, an increased average stage length, lower sales and marketing expenses, lower aircraft rent, and the 11.7% appreciation of the Brazilian Real against the USD, partially offset by increases in scheduled maintenance expenses.

Jet fuel expenses decreased 1.9% over the previous year's quarter per ASK, despite an 11% increase in the jet fuel price per liter, due to improved fuel consumption, an increased stage length and the results of our hedges. It is worth highlighting that, in the year-over-year comparison, the 11.7% appreciation of the Brazilian currency offset a large portion of the increase in the international price for crude oil (driven by a 33% increase in the price of WTI and a 30% increase in Gulf Coast jet fuel prices), meaning that GOL has been less impacted than its low-cost peers by the increase in international fuel prices.

GOL's non-fuel CASK (at 9.20 cents of Real) showed a slight reduction during the quarter, decreasing 0.2%. The strength of the Brazilian Real has not only kept our jet fuel expenses increases lower than our low-cost peers, but has also helped us reduce our other US dollar-denominated expenses, as well as US dollar-denominated disbursements, such as advances for aircraft acquisition.

On the next slide, slide #8, we show our net financial results. Financial income in the quarter increased R$ 11.1 million to R$ 53.1 million, principally due to financial gains related to fuel hedge results recorded as financial income and higher investment income on cash balances. Our financial expenses increased R$ 7.7 million to R$ 24.5 million, due to a planned increase in long-term debt. Our net financial results for the quarter were R$ 28.6 million.

On the next slide, slide #9, we show a comparison of the effects of net income between the two quarters. In the second quarter of 2006, net income was a record R$ 106.7 million, representing a 12.6% net income margin, and a 45.4% growth over the second quarter of 2005.

Running down the main differences, as already highlighted, net revenues increased R$ 281.8 million. Jet fuel costs increased by R$ 91.2 million, due to 54.8 million more liters consumed and 11% higher jet fuel prices, but reduced 1.9% per ASK due to improved fuel consumption and hedging.

Commercial expenses increased by R$ 25 million overall, related to higher sales volumes, but decreased by 12.5% per ASK, due to reductions in commissions and an increase in ticket sales on GOL's website, which reached 82% during the quarter, and this is partially offset by increases in institutional marketing activities.

Labor expenses increased R$ 33.7 million overall and 6% per ASK, due to a 6% cost of living increase on salaries. The number of employees increased 80.6%, related to planned capacity expansion.

Other operating expenses increased by a total of R$ 84.8 million, principally due to an increase in maintenance expenses of 114.7% per ASK, and a 35.9% per ASK increase in aircraft and traffic servicing, offset principally by a 21.8% reduction in aircraft rent per ASK and a 5.7% reduction in other operating expenses per ASK. Main expenses were scheduled maintenance of five aircraft engines, use of spare parts inventory and repair of rotable materials. As mentioned, net financial results increased R$ 3.5 million in the quarter.

These were the main impacts on net income. A more comprehensive breakdown and explanation of our expenses can be found in our earnings release that you have already received and that you may access on our website at www.voegol.com.br/ir.

In 2Q06, earnings were R$ 0.54 per share, or US$ 0.25 per ADS, and represented a 42.1% growth in EPS and a 56.3% growth in earnings per ADS over 2Q05.

A net quarterly dividend payment of R$ 27.2 million, representing approximately 14 cents of Real per PN, or 6.4 cents per ADR in USD, was approved at the June 16, Board Meeting for payment on August 15, 2006 to shareholders of record on June 20, 2006.

On slide #10 we show our cash flow for the second quarter of 2006. At the end of 2Q06, our cash balance was approximately R$ 1.3 billion. During the quarter, cash balances increased R$ 342.5 million.

Operating cash flow was a positive R$ 2.1 million, mainly due to increased earnings from operations, offset by a decrease in accounts payable, a net increase in deposits for aircraft maintenance and a decrease in other liabilities. GOL currently has US$ 195 million on deposit with lessors for future aircraft maintenance.

Investing activities used R$ 152.1 million of cash, consisting primarily of R$ 98.9 million of advances for aircraft acquisition and R$ 49.9 million of acquisition of property and equipment. GOL currently has US$ 240 million in pre-delivery deposits with Boeing for future aircraft acquisitions. Cash provided by financing activities during the quarter was R$ 492.5 million, consisting primarily of R$ 565.9 million increase in long-term financing, partially offset by R$ 73.6 million in dividends paid.

Moving to slide #11, GOL strengthened its capitalization in the quarter with the closing of three long-term debt financings. On April 5, 2006, GOL completed a debt capital markets issuance of US$ 200 million 8.75% perpetual notes, with no fixed maturity and callable by GOL after five years. The issue was assigned credit ratings of Ba2 by Moody's and BB by Fitch. Proceeds will be used to finance fleet expansion.

In June 2006, GOL closed a R$ 75.7 million six-year loan with the BNDES (the Brazilian National Economic and Social Development Bank) with an interest rate of 2.65% over the long-term borrowing rate. Proceeds will be primarily used to finance the construction of the GOL Aircraft Maintenance Center and other IT investments.

Also in June 2006, GOL entered into a US$ 50 million seven-year loan with the International Finance Corporation (IFC), the private sector arm of the World Bank Group, at a rate of 1.875% over LIBOR. Proceeds will be used to finance spare parts inventory and working capital.

The proceeds from the BNDES and IFC financings will be funded in July. Our cash balances plus interest income and retained earnings will be the primary funding sources for future aircraft acquisition.

On slide #12 we show the relative performance of GOL in the US and Brazilian stock markets. In 2006, through July 18, our ADSs have outperformed the American Stock Exchange Airline Index by 11.7% and outperformed the Tier 1 LCCs by 39.9%. Our PN shares have underperformed the Bovespa Index by 6.9% in the same period. Our average daily trading volume in 2006 has been approximately US$ 28.9 million on the NYSE and R$ 9.1 million on the Bovespa. GOL is one of the most liquid airline stocks and one of the most liquid Brazilian stocks, being part, since May 2006 of the IBrX-50 index on the Bovespa.

On slide #13, we show that our industry-leading growth and profit margins continue to be a benchmark for the global airline industry. Our P/E multiple is a significant discount to the other leading low-cost airlines, despite our superior earnings growth rate and profit margins, which are among the highest in the industry worldwide.

Transitioning to slide #14, we show our current fleet plan for the next six years. The addition of twelve more Boeing 737 aircraft to our fleet in 2006 will allow an approximate 45% expansion in seat capacity for the full year.

By the end of 2006 we expect to have 62 fully-operational 737 aircraft. By the end of 2012, we plan to have a fleet of 96 aircraft, primarily 737-800s, representing a 10.4% compound average growth rate in seats over the next six years.

The incorporation of new 737-800s into the fleet is projected to produce substantial cost savings. The reduction in the average age of GOL's fleet from 7.3 years in 2006 to 4.8 years by the end of 2007 will contribute to lower our maintenance expenses.

On slide #15 we have some images of GOL’s new 737-800NG aircraft, which are shown here in tests, and which will start to join our fleet next week. The new larger aircraft have short-field landing capabilities, which will permit landings of this larger aircraft in airports with shorter runways, such as the Santos Dumont airport, in Rio, which is one of the busiests airports in Brazil. As GOL transitions to newer aircraft with a 25% larger seat capacity, fuel-economizing winglets, and lower financial costs, we expect to reduce CASK by approximately 4%. These cost savings will allow us to continue to drive fares down and further stimulate demand.

On slide #16 we have some recent pictures of GOL’s new Aircraft Maintenance Center, at the Confins Airport in the State of Minas Gerais, which is equipped with the state-of-the-art technology in aircraft maintenance. When fully-operational next month, we expect to be able to achieve significant reductions in our maintenance costs and increase our aircraft utilization.

On slide #17 we can see GOL’s next international destination, Santiago de Chile. With a population of 5 million inhabitants, Santiago concentrates nearly one-third of Chile’s entire population and it is the most important city in the country and one of the most important financial centers in South America. We expect to begin operations in Santiago in mid-August, with daily flights between São Paulo and Santiago and Buenos Aires and Santiago. The Buenos Aires-Santiago route is the second most traveled intra-continental city-pair in South America after the São Paulo-Buenos Aires city-pair.

On slide #18 we review our guidance, one of the key elements of GOL’s disclosure process. GOL’s integrated approach to corporate disclosure contains three major elements - required financial reports, supplementary disclosures, and interactions with investors and intermediaries.

In the 3Q06, the scheduled addition of six new aircraft to our fleet will allow a 45% increase in available seat capacity over the same period of 2005. For the 3Q we expect a load factor in the range of 75 to 77% with yields in the range of 26 to 28 cents of Real. We expect a stable foreign exchange rate environment for the near term, supported by good economic fundamentals in the Brazilian economy. We expect that high oil prices will continue to impact our fuel costs. For the 3Q06, we expect non-fuel CASK in the range of 9 to 10 cents of Real.

Our guidance for 2006 is based on GOL’s planned capacity expansion and the strong demand for air transportation in Brazil, driven by strong Brazilian economic fundamentals and demand-stimulating low fares. We expect full-year load factors to be higher than expected, in the range of approximately 75%. Projections are for a 2006 full-year EPS in the range of R$ 3.90 to R$ 4.30, representing annual EPS growth of over 50%. For 2007, we expect to add at least 13 aircraft to the fleet and expand capacity by at least 30% to adequately serve demand and add new markets. We plan to continue to popularize air travel in South America throughout expansion, technological innovation, improved operating efficiency, strict cost management, and the lowest prices.

I will finish the presentation with slide #19, where we highlight our competitive strengths, which are essential to keep our successful business model and the "virtuous cycle". We count on our highly productive workforce and proven management to always deliver quality customer service with low fares and the lowest cost in the market to keep our strong brand and high profitability.

Having now concluded this brief presentation, we would like to thank you for your attention and turn the floor over for Q&A, during which we will be happy to respond to any questions you may have.

James Parker, Raymond James:

Good morning, Rich. Just a couple of questions, one regarding your Mexican joint venture that has been proposed. It appears their total of seven start-ups that are operating now, and we have not heard much from GOL on this. Do you still have plans to do the next [inaudible], and, if so, what is the status of your Mexican operation?

Richard Lark:

Good morning, Jim. We do not have yet the concession approvals to operate. With the recent elections in Mexico, you know, both prior to and immediately after the elections those things are more difficult or not legally possible; we still do have plans of going forward with our joint venture with our Mexican partners. Having said that, we also think that there is an advantage to getting a glimpse of both value proposition as well as cost structures of these other start-ups that you mentioned; that are recently started up really over the past seven months or so in the Mexican market, so we think that we have managed to see that.

Once we have a concession authorization, there will then be a process of three or four months after that to get the appropriate technical approvals, airline operating certificates and so on. But currently we do not have any news on that first part, which is the concession approval, so it is difficult to say exactly when we would start flights in the Mexican market, but certainly this point would not be in 2006, it could possibly be at the beginning of 2007.

James Parker:

Thanks. The second question has to do with Varig. What is the current status – we know this current status of Varig, but what would be the impact of the Volo Group investing in Varig, what would be the impact on GOL in terms of, are there any there any airport slots that you all would get, are there Varig aircraft that you think you may get? What is the impact of this Varig development on GOL?

Richard Lark:

Well, Jim, first I would say that there is not clarity on the situation in terms of what is exactly happening in there, nor do we have any knowledge of what their plans are there for that company. You know, in terms of our own plans, for both slots, routes and aircraft, they continue to be independent of that situation, and we have our fleet expansion planned this year, which does require leasing of new aircraft from lessors, and we have those needs arranged, and we also know where we want to grow in terms of routes and slots and areas, you know the process of awarding of slots, taking place on a regular basis as we speak.

I would say Varig has been cancelling flights and reducing capacity, which has put a lot of pressure on the overall system in the short-term, but we expect to grow both in terms of leasing aircraft, and this year we also have 11 aircraft arriving from our purchase order with Boeing, and as well to obtain approvals to operate routes and slots in the markets where we want to operate not just in Brazil, but also in the international markets where we are expanding.

Obviously, they are related in the sense that the continued downsizing of Varig puts a lot of pressure on the demand side of the equation, due to the reduction of their supply, and could potentially present opportunities to grow faster in the short-term. But again, we do not have any specific knowledge of what their plans are in the short-term.

James Parker:

OK, thank you.

Michael Linenberg, Merrill Lynch:

Yes, hey, Rich. Just to kind of follow-up on Varig, I know you have commented, you said that your plans are sort of independent of what they do. Now that they are proceeding to just operate the Rio-São Paulo shuttle over the next week, and then I guess their goal is to negotiate some of these aircraft and get them back into their fleet and ramp up. There are, obviously, valuable route authorities there that will be fellow for the time being, and the fact is it is probably not in Brazil's interest for those route authorities to lie dormant. Markets like Lima and Bogotá, which you have on your map, and I know some of these markets may be constrained by frequency, do you reconside growth into some of these international destinations? That can be profitably served by 737s.

Richard Lark:

Yes, the sure answer is yes, Michael, we do have plans. In August we are going to be launching our Santiago base, with a fair amount of flights, a couple of flights per day. And we also have detailed studies on a variety of other markets that can be reached by the 737 that you pointed out, in countries like Peru and Colombia, and so on. And so yes, those are in the plan, we know where we want to grow to expand profitably in those international markets, and I would say in the next 12 months we should definitely be expanding into those markets, but it is important to highlight that still in the short-term in 2006, the majority of our growth in capacity is planned for the Brazilian market.

Michael Linenberg:

But Rich, let's say, you know, Bogotá or Lima go unserved over the next couple of weeks, would you be prepared to maybe move some of the aircraft that were allocated for domestic into some of those international markets because the frequency is available and they are being unserved?

Richard Lark:

We can do that, the way we can do that is always as consistent with our network expansion model, in that we have a highly integrated route network, and we would not be doing direct flights from São Paulo to those markets, they would be extensions and add-ons to our existing route network. Yes, we have the potential to do that, we also have the ability to do that with the existing aircraft, which becomes a way for us to increase aircraft utilization; a lot of our international flights today…A fair amount of them are night flights, or the early morning flights, or later night flights or night flights; night owl flights, which are a way for us to also increase aircraft utilization.

So, if our international expansion was accelerated in those markets would follow that type of network model.

Michael Linenberg:

OK. Then turning to just another topic. You highlighted in your remarks about intense competition and how that impacted yields – can you give us some color on that? I mean, is that Varig sort of in their shrink mode trying to raise cash? Is that new carriers like OceanAir starting flying some bigger airplanes in some of the markets? What is going on there?

Richard Lark:

I think it is mainly related to promotional activities from the large carriers; the small carriers are still pretty small and have not had a big impact on that. What we saw in May and June was a lot of intense promotional activities from the big carriers, I think it is as simple as that.

Michael Linenberg:

OK. And then just lastly, I had a quick question on the frontpage of your press release. You talked about your own time arrivals being 98%, which is off the charts, but then your completion factor being 94%, which is not off the charts – is that right, or those numbers flip-flopped?

Richard Lark:

No, those are correct.

Michael Linenberg:

You are cancelling 6% of your schedule, is that…?

Richard Lark:

Well, not exactly. It is basically you complete them within a specific amount of time. What happens in the GOL network is that both sides of the equation, because we have such a highly integrated network, if there become some slippage in the system because of a weather event, or an air traffic control congestion or so on. Sometimes it makes more sense for us to reschedule those flights as opposed to create delays in the entire network, and so part of that relates to the way we manage the network, I guess maybe you would not see that in other airlines that have higher turn-around times or a little bit more slack in their network, we are still doing the 25-minute turn-around times, operating roughly 14 hours a day, at peak capacity.

But both of those numbers are in Brazilian market standards among the best, I think our punctuality during the quarter was the highest in the industry, we were the second best in the regularity.

Michael Linenberg:

98% on time is probably one of the best in the world, and that is within 15 minutes, right? Is that the standard?

Richard Lark:

Yes, that is right.

Michael Linenberg:

OK, great, thank you very much.

Marcelo Luna, Citigroup:

Good morning, Richard, this is Marcelo calling on behalf of Steve Trent. We have a couple of questions. The first one relates to maintenance. It would be great if you could comment on whether the whole of the maintenance expenses in the 2Q were expected, or if there was anything extraordinary that was not budgeted initially. And still related to that, how that compares with your expectations for maintenance in the remaining of the year? That is the first question.

Richard Lark:

Yes, the maintenance scheduled, the checks on the – keep in mind we have roughly two categories of maintenance, one is what we call the line maintenance, which happens everyday, a little bit everyday, and then we have structural maintenance, which deals with the air frames, the engines, landing gear, they are the big components of the aircraft. Because of our very high aircraft utilization, it has to be very tightly programmed, so, in the past, we have had some unexpected maintenance expenses, because when you do maintenance on a motor you might find a little bit extra work that needs to be done and so on.

But this maintenance in the 2Q was all previously scheduled maintenance. You project the maintenance events for the life of the aircraft when you are leasing the aircraft. The experience with the 737 aircraft we operate has been that the actual maintenance expenses have been less than initially projected, and it is a result of the aircraft technology specifically vs. what was originally expected, as well as around experience with operating the aircraft.

Going forward, this year we are more or less peaking in terms of average age of the fleet a lot of the aircraft we have now in 2006-07, some say 2008 also, will be going through the structural or the heavy maintenance, so maintenance expenses on overall basis, on an absolute value basis for the older or leased aircraft will increase, as in US GAAP maintenance is expensed incurred. Having said that, the same time we are bringing in over the next 14 months, we are bringing in approximately 23 or 24 brand new aircrafts, which will not be having any heavy structural maintenance expenses for a couple of years.

So, when looking on an ASK basis, there is really not a big effect on an ASK basis, also because we are increasing productivity, increasing stage length and sort of diluting those maintenance expenses over a larger base. But over the next couple of quarters, maintenance expense on an absolute basis will definitely increase, but it is important to keep in mind on an ASK basis there is not going to be a big effect.

Marcelo Luna:

Sure, thanks. The second question relates to airfares. We notice that the airfares recovered a little, you are talking about average increase of 9.7%, and it might be a little too early to say, but I was just wondering if you could talk about your expectations in terms of the fares for the remaining of the year, maybe GOL and your competitor have already been able to exercise some of the increased price in power as a result of the further scaling down of Varig, can you talk a little bit about the airfares for the remaining of 2006?

Richard Lark:

Sure. Fares, as you mentioned, fares, in a quarter over quarter comparison, increased, in our particular case, the stage length, or the passenger trip increased at a higher rate than the fares have increased. What we have seen in our service offering has been that the customers would prefer to pay lower fares, and for that they are willing to make connections. We have over 50% of our passengers that make connections on our network so as opposed to paying more for direct flights, they prefer to configure themselves through our network to get the lowest fare regardless of the connection.

Now that does not mean that there is not an opportunity for us to add more direct flights, there is, to the extent that customers are going to pay for having the direct flight, otherwise it does not make sense in a cost perspective.

So, there is of that phenomena happening where lower fares are stimulating demand, and customers placing more weight on the overall fares as opposed to quality or convenience of the direct flight. Another factor that has, on the fare side specifically, because we are not talking about yields, on the fare side specifically we have seasonality in our business, and 3Q-July is one of the highest traffic months of the year, because a lot of winter vacation travel; we expect a very strong demand environment for July and August and for most of the 3Q, and we expect that to continue to the end of the year.

So, on the demand side, combined with what is going on with capacity, we should support seasonality patterns consistent with what we have seen in the past. Having said that, the 2Q, there was higher promotional activity than expected. We do not necessarily expect that in 3Q, but we could see something similar in the September/October/November period, being a function of the competitive environment, but demand has been, it is higher than it has ever been in the Brazilian market, we have been growing rates in the range of 20%.

This year, year-to-date we are growing at a… Another year we are growing. industry overall demand growing at an excess of 20%, there has been a large increase in leisure passenger travel, and that will continue as long as there is still an offering of seats available at attractive fares. So, I would say we should expect to see similar seasonality patterns, but there is a larger leisure component traveling today in the market, as large as we have ever seen, and that leisure component is highly price sensitive.

So, if average fares were to come up substantially, there could be a slight reduction on the demand side, but also keep in mind that the fare classes are segmented, and our strategy is to grow and make an increasing number of seats available at lower fares, and we combine that with the yield management side of the equation, which is a function of basically matching supply and demand subject to competitive elements to always maximize RASK. So, we are going to always going to maximize RASK, given that side of the demand plus the competitive factors.

But we do expect some competitive pressures to continue, meaning promotional activity, price competition to continue through the rest of the year, although not as intense as we saw in the 2Q.

Marcelo Luna:

Great, thanks. And the last question relates to personnel – we noticed that there has been an increase in personnel in the 2Q, I was just wondering if you could tell us about the plans for the remaining of the year; we know that with the ambitious capacity expansion, that is something that will come together with the ASK expansion, but we just wanted to try to have a more clear idea of what your plans are in terms of increasing personnel.

Richard Lark:

The growth in personnel is purely function of the expansion of operations, and we generally have a three to four-monthly lead time on hiring and training people that are going to work in the aircraft and the airport bases. The administrative side of the equation is more or less fixed, and so that what we tend to have there is that is really a preview of what the capacity growth is. We had a big growth in the 2Q, and so that will get diluted or reduced to the extent that that capacity comes on.

Having said that, we are still going to be adding capacity for the following quarters. So we should expect to see those employee levels and employee cost to kind of track next quarter's fleet growth per couple of quarters, but it is a pure reflection of that. I mean, on an ASK basis, on an employee cost per ASK basis, our costs have remained pretty stable overtime in Reais, and we use that statistic as opposed to the number of employees per aircraft, because we think it is a better measure of the productivity of the workforce.

But there was a little bit of a blip in the 2Q given the fact that we are going to be adding six aircraft in the 3Q.

Marcelo Luna:

Great, thanks a lot, Richard.

Ray Neidl, Calyon:

Richard, I think what you have been saying is 2Q is normally your weakest quarter, but 2Q06 was weaker than normal because it was harder to pass on higher fuel cost because of more intense competition. But you are still maintaining that you can do operating margins for the year of 26-28. I am just wondering, on 2H06, what makes you think that price competition should ease, and you have to really be aggressive in the 2H06 probably producing operating margins of well over 28% up to 30%, if you are going to reach that yearly goal. Is that an accurate summary of the situation?

Richard Lark:

Yes, it is. It depends a lot on the 3Q, and it depends a lot on rational pricing and rational competitive environment, you know, there are structural limitations to how high loads can go, so if yields do not follow demand, everybody would basically be leaving a lot of revenues on the table unnecessarily, vis-à-vis what the models tell you can be charged the pricing. We saw a little bit of that in the 3Q of last year also, where we had loads go into the high 70s or pretty much 80%, and it could have supported a higher yielding environment.

I think that we are going see that even more magnified in 3Q on the demand side, I mean, we are doing loads in the month of July here already in the 80s, and yes, yields have recovered, there is… You know, we are up in the year-over-year comparison, but that will depend heavily on the competitive environment; and I would say that in a rational environment the yields could show as much as a 20%

increase in the sequential quarter, meaning 3Q06 to 2Q06 based on rational revenue management strategies on behalf of the industry. But a lot of that will depend on what happens in this particular quarter.

But I think all signs are indicating that it should be a better quarter than we saw in the 3Q05.

Ray Neidl:

I agree, it seems like you are pretty on solid grounds here as far as earnings go, but if for some reason the competitive landscape in Brazil does change a bit, with this new Varig plan, if these guys are successful and become a tougher competitor, that might put pressure on your margins and profitability going forward, and if that would happen, would that cause you to change your growth plans?

Richard Lark:

Growth? No. Growth plans no, not at all. As I said, our growth plans are based on where we want to profitably grow our business, our network, and we need the aircraft to do that. So, no. But the impact of what you are saying there could be lower than expected revenues due to suboptimal yield management, or suboptimal revenue management on behalf of the industry. But we plan to be maximizing RASK subject to the competitive environment, and maintaining load factors in the 3Q here in the mid, high 70s, and basically fill our plans in as profitable manner as possible.

Ray Neidl:

OK. And finally, can you just give us an update on the stock deal that you are supposed to do at the end of June, is that definitely yours, is that still pretty much coming?

Richard Lark:

Yes, we have not launched the offering. We have not found appropriate market conditions to launch the offering, so I would not say it is on hold, I would not say anything other than we just have not launched it yet, but we still do have plans of at the appropriate time that offer.

Ray Neidl:

Great. Thanks, Rich.

David Strine, Bear Stearns:

Thanks, good morning. Rich, a question on the guidance for both the remainder of 2006 and 2007. Are there any specific assumptions there with respect to the size of your competitors, and second, what stage length are you assuming in those periods?

Richard Lark:

There is no specific assumption on market share. We do not really manage based on market share. It is basically, it is a function of expected demand growth, and our own bottom-up analysis of where we can add to our network. Obviously, as we are going forward here, as GOL becomes larger, GOL ends up having a big influence on the overall market growth, and I think it is a good, interesting analysis if you kind of look back to the United States maybe in the 70s, and try to draw some parallels. We still only have 8 million consumers of passenger air transportation in Brazil; when GOL started was maybe 5.5 million. When we started we mapped out a strategy that the market could go to 20 million, so in our view we are just running along smoothly, maybe a little bit ahead of plan, but running along smoothly to the point where we can get to a market of 20 million consumers, at least 60 million, if not 70 million enplanements per year.

So, that is really what we are executing. Yes, there is a big focus on market share, there is a big focus on the pie, but the pie is expanding last year - this year at the rate 20%, which we think is a secular phenomena. In the second part of your question, on the stage length, 2007 would probably be a 3%-5% increase in stage length over 2006. A small increase in stage length, part of that relates to adding maybe a little bit more direct flights and then also the international flights, but stage length kind of in the range of 840 Km or so for 2007.

David Strine:

And then for the back half of 2006 still around 800 Km?

Richard Lark:

For the back half of 2006 stage length around, I would say, 800 Km yes for 4Q, but 3Q probably around 830 Km.

David Strine:

OK.

Richard Lark:

Because we said in the 3Q, in the high season, we adjust the network a bit to take advantage of the seasonal traffic. In our part of the world here there is a lot of people; in the colder part of Brazil and South America that want to go up to the Northeast of Brazil for the beaches and so on. So we add some more overall flights, or place in there some other stage lengths in the July-August period.

David Strine:

OK. And then a brief follow-up on something that Ray asked about, if I may. I think, in your response, with respect to how yields were behaving, I just wanted to be clear; did you mention that, sequentially, following the significant pull down in capacity from Varig that, on a sequential basis, yields began to take up about 20% and if nothing really changes that could be the pattern that we see through the 3Q?

Richard Lark:

Our models, based on what is happening currently show a potential increase. If you go sequentially 2Q-3Q the yields could be up as much as 20%, which I guess would be up roughly 8%-10% over the 3Q05.

David Strine:

All right. This one I will try to get a feel for I know there is no perfect answer, but in terms of swing factor on all the volatility that you are seeing from the Varig capacity; how would you quantify? Or can you? And how much is it affecting your ability to manage yield?

Richard Lark:

You mean in the competitive factor? Varig has a very small, it is important to keep in mind Varig has a very small portion of the overall capacity today and even a smaller portion of the… If you look at the seats share in the month of June they were around 12%-13% on seat share and 10%-11% on market share.

And they have been reducing capacity, so if you get to look at the, you know, the larger competitors and what they are doing on pricing to understand how that might go. In our particular case, in the case of GOL, we see there is demand to be able to, two rational revenue management strategies, to have yields in 3Q increase 20% on average over 2Q. But that is going to depend on what the other large airlines do in terms of their own revenue management strategies, which does not depend on us.

Pretty much since the end of the TAM-Varig code share back in May of last year, pricing has been determined by that dynamic. It has been determined by the Varig-TAM dynamic, which you could argue that before that, GOL had a much stronger influence in terms of being a price setter, or a price leader, and that has depended on other factors over the past year or so.

David Strine:

OK. So then since the more meaningful pullback in their capacity that occurred closer to the end of the quarter, that has not been the most or the major driver of the sequential yield performance.

Richard Lark:

You mean improving in July? Is that what you are referring to?

David Strine:

Correct.

Richard Lark:

The main factor on that is seasonality, increased demand. Better than expected demand, [inaudible] basically the supplying demand pulling that up. When we get to load factors, and industry load factors, they are also running in the high 70s in the month of July. So, there is an actual tension for yields to be going up, but we saw in 3Q05 a similar pattern with very good demand, but suboptimum pricing and so a lot of revenues were left on the table.

So, we have seen that here in the third week of July, things have been increasing as a function of the seasonality, and we want to see what happens in August and September, when a little bit of demand falls off from the July period, but our model shows very good demand and there is room for pricing to improve given the demand.

But, having said that, we are adding a lot of capacity in the 3Q06 and 4Q06 and we would like to see loads in the mid 70s, it would be a nice healthy way to get through the end of the year combined with healthy yields, but we can also see a situation in the 3Q where pricing is more aggressive than expected; we can have a situation where we will be operating at 80% loads for the quarter. We are always trying to maximize RASK in that environment, but I think that rational environment will depend less on us and more on what the other large airlines do.

David Strine:

OK. Thanks a lot and good luck this quarter.

Richard Lark:

Thanks.

Rodrigo Goes, UBS:

Hi, Richard. I was wondering if you could be commenting a little bit on this decision by VarigLog to focus on the Rio de Janeiro-São Paulo shuttle and pretty much stop everything else, which seems to me like it will put the burden on you and TAM for a little while. I guess it should not be too much of a burden, since I cannot imagine a lot of people buying Varig tickets nowadays, but do you plan to launch a formal complaint with the regulator?

What do you think the regulator will do? It seems like it is a bit unfair, but I do not know if they are going to be able to get away with this or not; what is your view on that one? And what do you think will happen with their remaining concession rights going for this season, losing part of them? It does not seem they are going to have enough planes to take care of all their concession rights. Do you expect to get them on a permanent basis? That was the first question.

Richard Lark:

Rodrigo, it is really difficult for me to comment on their plans, because we do not have clarity on that for us, from our perspective, so it is really difficult for me to comment on that as there has been a lot of back and forth on plans over the last couple of months and I would expect that there is still going to be a lot of back and forth going forward. So it is really difficult for me to comment on that.

But, in terms of the overall industry in terms of operational slots, there are rules with maintaining a minimum level of regularity, below which you lose slots. You cannot just sit on slots and not operate them, especially in an environment with such high demand in the industry; it becomes a public transportation problem in Brazil, so what happens there is going to depend on the regulator enforcement of what the rules are, which is also difficult for me to comment on.

Rodrigo Goes:

OK. In what refers to fuel, the impact of fuel hedges has reached numbers above line, is that correct?

Richard Lark:

On the operating side?

Rodrigo Goes:

Yes.

Richard Lark:

Yes, the majority of the fuel impact has been… I assume you are referring to hedging gains, is that what you are referring to?

Rodrigo Goes:

Yes.

Richard Lark:

Portions of our hedging gains are recognized in operating expenses and portions are in financial expenses and it depends on the FAS133 treatment of whether or not your hedges were being effective or not. In 2Q, extraordinarily, we had a little over R$ 16 million of gains that are in the financial income line. So, if you wanted to do a non-accounting calculation you could put those R$ 16 million up in the fuel line and calculate it differently, but in terms of what is in the operating line, I think that is a fair measure of the operating effects minus the hedge effects for the fuel in that quarter.

If the hedging gains were realized in the 2Q in the financial line related to the hedge positions that were there at the end of the quarter, they were hedges done for future consumption. And we realized a lot of gains on those, because we lost hedging accounting treatment on those hedges. It is economic, it is real It also has a cash effect, but I think it should be excluded from the operating margin calculations.

Rodrigo Goes:

OK. That is fair, thanks a lot.

Jamie Baker, JP Morgan:

Good morning, Richard. I guess this question continues on annoying us in, but if you throw our fuel expenses altogether, your margin did fall from the 1Q to the 2Q, despite another 400 basis points of fared market share decline. I realize there is seasonality from 1Q to 2Q, but last year the decline for you was about the same, yet fares was almost twice as big and they were not losing share as quickly. So, to the untrained eye this implies that Varig's difficulties have not even benefited you yet. Any thought on looking at it this way?

Richard Lark:

Well, a couple of comments; one is if you look at an USD basis most of the effects on the USD side… The correlations with the USD exchange rate and yields and revenues have remained pretty high, close to the 70% range. So, the pass through on the USD side has impacted the revenues side and we had an appreciation of the exchange rate of call it, you know, 12% quarter-over-quarter, and that acted as a downward pressure on… There was a benefit on costs that also acted as a downward pressure on the revenue side. What we did not really have in 2Q this year was, up until the end of the Varig-TAM codeshare last May, we still had very good correlations on the fuel side. We still had a 78% correlation with yields and fuel prices.

Pretty much since that period in time those correlations have been pretty much reduced to zero, which has important implications for hedging programs. But what we have not seen is the industry, pretty much in the past four months has – I recall it since June of last year, June-July last year to be more accurately – has not passed through the fuel effects, so we had a historically… It did not happen there. If you look at yields on a USD basis, yields year-on-year, quarter-over-quarter, on a USD basis, are up. You know the exchange rate of appreciation was greater than the yield reduction, but the fuel was not passed through.

So, I would say one point we should keep in mind, we have not benefited from the ability to pass through fuel cost increases since the end of the Varig-TAM code share. But, on the other side of the equation, what I would say is that there has been a substantial increase in the traveling public here in Brazil, which is what has been needed and required for a very long period of time, and that has only been made possible by having a larger number of seats available at more attractive rates.

We would like that trend to continue, we do not think it is appropriate for our business and for the overall industry growth to be that focused on increasing yields at this point. We think that it is much more important to be growing the size of the market, and in our particular case it is the capacity to be able to serve this larger market. We find that much more interesting than really trying to focus on this yield margin dynamic, so a lot of work that has been happening on the growth side has been volume without as much yields as we have seen in previous years.

But, given this trade-off here, we are pretty happy with the way things have been developing in terms of the overall volume growth, the new passenger creation growth, getting our installed capacity in terms of aircraft, and new bases. It is really the right time to be doing this now and not focused on… You know, if yields were to come up spectacularly here in the near term, the risk would be that all this growth could disappear, and we would be back to the situation where basically who is traveling in Brazil is just five million business travelers per year that can afford to be flying, which is not what the GOL model is all about.

I would just like to put that in the perspective. Obviously we are working really hard to control costs and we are going to have to work really hard to meet our objectives for this year and that involves being very careful about how we maximize RASK in the context of what is going on in the competitive environment, but it is tough.

The only thing I would link to the Varig situation was, when the Varig-TAM code share ended, financially what we see what happened was: we lost the pass through on the fuel side of the equation, but pretty much all the other economic characteristics that we had in our business model, including this very correlation with USD exchange rate we have maintained – and if you just look at the USD effects, yields if you will, and margins in USD terms are actually up in the year-over-year basis.

So there still has been the benefit of the exchange rate in our financial results has been present [inaudible] margin levels, and if you go back two years before our lowering in 2Q06, let's say 2Q04, but we were in a very different environment in 2004 than we are now, both in terms of exchange rate environment, as well as a competitive environment.

Jamie Baker:

OK, well that is helpful coloring. Secondly, and I apologize if I missed this before, but for the newly introduced 2007 guidance, what is your fuel cost assumption?

Richard Lark:

Yes, our fuel cost assumption behind that 2007 would be roughly 3%-4% decrease from 2006, but with an exchange rate assumption of around 2%-3% above, meaning a 2%-3% depreciation in the Real, sort of something in the R$ 2.25-2.30 range for 2007; that would put fuel kind of in the roughly somewhere between the R$ 1.65-1.70/L. But it is important to mention that the two things are linked there, meaning the exchange rate being linked to that.

Jamie Baker:

Yes, understood.

Richard Lark:

That is probably, to point out as well, a – at least from where we are seeing – that is a much more conservative assumption on oil prices than we are seeing in the market. You know, we are seeing projections for next year that get down to roughly US$ 45/barrel. We are using per barrel assumption much higher than that in our models. So, we might be erring on a very conservative side on the fuel price assumption.

Jamie Baker:

I would be curious to see who is forecasting US$ 45, but then let's hope they are right. Richard, thank s a lot. I appreciate it. Bye-bye.

Jander Medeiros, Pactual Bank:

Actually most of my questions have been answered already. Just one remaining question; it seems, Richard, that your yields and RASK have been a little bit more volatile than for competition. I mean, in 2Q05 and 2Q06 your yields and RASK dropped more than for competitors and the opposite happened for instance in 2H05, your yields and RASK went up by more than for competitors. So, do you believe this is a pattern for the next couple of quarters, the next couple of years? I mean, a little higher for let you yields come down in 2Q and coming up in the 2H of the year?

Richard Lark:

I would say two effects: one is that, I think if you look the other way around from a competitor's perspective, competitors have improved a bit the yield management practices, so they have closed the gap on yield management, you could argue I think between GOL and some of the other competitors. You know, we saw, up until the point you mentioned, GOL actually… Even though GOL has, I think, a perception as a discount airline, GOL is doing RASKs sometimes that are premium to competitors that… have a more premium value proposition.

And I think that gap to some extent has maybe been closed, I would say. We have seen the relative volatility from where we stand, no, we do not see a big change in terms of pricing for our products for customers. Perhaps what has been happening is that competitors have narrowed or [inaudible] the situation where, perhaps, they are able to get a premium over GOL on the yield side, as result of their yield management practices.

The other thing that we have seen in the first six months of this year has been an increase in the VFR – visitors friends and relatives – and leisure passenger market. The big growth that is happening is not because business travelers are traveling five times more than they were traveling before – yes, there is an increase in business traveler traffic –, but historically business travelers traffic tends to grow at 2x GDP, reflects economic growth and so on.

But what we have seen is a big growth in the VFR, call it the flexible passenger market as well as the leisure travel market, which is very exciting because that represents the increase of the costumer base, and we have been a big driver in that effort in terms of a lot of the expansion, a lot of the growth in capacity and the focus of popularizing air travel, and the market has benefited us and arguably that also has an effect on yields because the incremental growth, when you go from a 60% load factor to an 80% load factor, the incremental growth, while it is all net income positive [inaudible] at lower yields.

So, part of what is in there has been at very eye-growth of the leisure market in recent quarters vs. what we have seen in previous quarters, when we and everybody were pretty much just dealing with the business base, which I guess to put in your terms is probably the last volatile on the yield side. But keep in mind that the leisure travel market is much more price elastic whereas the business travelers are pretty much price inelastic, the leisure market has a very high elasticity to price, maybe as much as 3x.

So as that jump, if you will, in the leisure passenger costumer base happened, we can argue over the last 12 months substantially, that probably also explains what you are noticing there in the delta there when you compare us to our competitors.

Jander Medeiros:

Could you tell me how much those clients, I mean, VFRs, the leisure market represented in 2Q? I mean, the percentage of your travelers, an idea.

Richard Lark:

We are probably seeing as much as, if you take the first six months of this year, we are probably seeing 40% of our volumes are flexible plus leisure travelers. Leisure meaning obviously highly related to vacations and tourism, but it is important also highlighting of this flexible passenger market, these are people that are not traveling for vacations, they are traveling because they have to travel somewhere and they would go by car, bus or plane depending on the price point.

So, that overall, whereas in the past maybe we have seen 30% of flows being from that segment. That has probably gone in the 1H06 to 40%, maybe even as high as 45% of the total flows.

Jander Medeiros:

OK. Thank you very much, Richard.

Goncilo Mendes, Millennium Partners:

Hi, Rich. Could you talk a little bit about, given your cost advantage, why you do not explore other international markets like Europe and the United States?

Richard Lark:

Our route strategy today is based on the 737 aircraft, which has a range of, I will call it 5.5 hours max, so we do not have any aircraft appropriate for doing longer haul markets. In the studies we have done finding that interesting, it is very difficult, for a Brazilian company, to get a high level of aircraft utilization with a longhaul aircraft to the United States and Europe and the markets that are, you know, the other markets might seem logical, because, yes, you can fly 737 aircraft with one stop in Northern Brazil, from São Paulo to Miami; some of those closer markets are hyper competitive and very price sensitive, where it is very difficult to make – this in our analysis, in our models – interesting profit margins in those markets.

It does not mean that over year as the GOL network extends, that will present opportunities to enter into these other markets, but in our plans now it is not longhaul aircraft, it will always be with the shorthaul aircraft. To the extent that we could find a way to do that and make interesting profits out of that, we certainly will do it, but if I look through the next couple of years, that is not in the plans.

Goncilo Mendes:

Thank you.

Travis Anderson, Gilder Gagnon and Howe:

Hi, Richard, how are you? That comment on that US$ 45 oil number, that would mean a big bout of recession, so I am not sure I am in favor of it. But I was wondering whether you are honoring Varig tickets and what kind of pricing there is on those in terms if is that hurting your yields significantly or you are able to get some sort of supplemental price from those people, how does it work on there?

Richard Lark:

In the recent weeks we have been helping out and assisting, with the obligation we have as a provider of public transportation in Brazil, with transporting passengers on our flights. Obviously they run through existing flights and putting seats to help accommodate those passengers. It really has not been a big impact in terms of the overall numbers. I do not think we have had a day where it has been more than 300 passengers a day that we have been accommodating.

But, obviously, this is a sector thing, meaning that all the airlines helped out and that is one. Two is that in a normal course of business, airlines transport each other's passengers if you have a cancelled flight or a problem in the system, we accommodate each of those passengers on a normal basis, so there is a clearing system in Brazil where all the payments are settled.

Travis Anderson:

Have they been paying?

Richard Lark:

Yes, they have been operating in the system and they have been – current on obligations – they have been paying as agreed in the system. But I think it is important the first point, which for us it really has not been a big amount; it is a very tiny amount of liabilities there.

Travis Anderson:

OK. The other thing; on this change they announced today of dropping everything else but Rio de Janeiro-São Paulo and going to 36 round trips a day I am not sure, but I assume they have the slots for that?

Richard Lark:

Yes, they have their… I guess, sitting on their slots… They had their originals… I guess it could be part of the strategy, just trying to find where they want to shore up their network, they had in recent months migrated more their flights to Guarulhos, what I guess was meant to basically maximize their ability to do the last mile for passengers coming in on their international flights.

As I said before, it is tough for us to comment on that, because there is not a whole lot of clarity on what the specific plans are, I know there has been a lot comments in the press, but I think we have to wait and see what actually really does happen and what "de fato" really happens with what they are going to be doing there. We would just be speculating from our perspective.

Travis Anderson:

Right. Well, I think on the press release [inaudible], at least from the way it was transferred up here, they did say that their goal was to get back to all eighty aircraft and service, eventually. I do not remember if they gave the timeline or not, but it sounds like there might be a little more capacity overall than the market could handle if they do that over the next 12 months.

Richard Lark:

Well, keep in mind as well the rules of our capacity expansion here, I mean, the only thing that has been really changed in recent times is you can import an aircraft without specific route approvals, but you can just park them in your garage. It does not necessarily mean that they are going to be flying those, any company that would announce a capacity for plan is going to be flying those, so that is subject to route approvals and how the regulator is going to deal with authorizing that and supply/demand management. So, it is hard to speculate on the probability that actually occur.

Travis Anderson:

So, they have to get approval to go back and operate routes that they were previously operating?

Richard Lark:

It is not as simple as that, Travis. Yes, if you have a route that you have the route authorization for and you are…

Travis Anderson:

But they have not been flying for the last six months or so…

Richard Lark:

That is the thing: not flying of the last six months that is [inaudible]. With the regularity rules they way they are, if you are not operating a route or slot for a period of a couple of months you would lose that if somebody else requests it. And so, a lot of it is going to turn on how the regulator approaches that aspect. We are not allowed to sit on, get capacity approvals for routes and not operate them.

You have to operate them within a very short period of time of getting the capacity approval. What has changed in recent times is you can import aircraft without having the specific route approvals and that was done to facilitate… This is very difficult, as you know, to go out and get an aircraft, sign an agreement and not know exactly if you can actually bring it into Brazil or not, so that was [inaudible] to allow, to make a little but easier to source aircraft, but it does not mean that you have got a route approval for that. With regards to existing routes, that has kind of to be sorted out by the regulator specifically what is going to happen there.

It is not a reasonable assumption to think there is going to be six [inaudible] aircraft flying around route [inaudible] over the next couple of months here. To accept that would happen I think it will be a much more gradual process; we do not see the regulator interested in creating a huge distortion in terms of supply and demand, given all the good work they have done over the last couple of years.

People have short memories, but if you go back four, even as long as three years ago the industry was struggling to have a 60% overall load factor, which was still below overall industry breakeven. Over the past two or three years, capacity has been managed to correct those [inaudible] for the most part today overall industry load factors have been tracking head of breakeven load factors, and that has brought back financially [inaudible] to a sector that, for many years, was subject to huge losses unless you had super-low costs. And we do not see anybody wanting to undo all that good work that has been done over the last three years in terms of creating a healthy…

All the strengthening, they are not as strong as they need to be yet, industry, which is as [inaudible] Brazilian economy and so on. So we think it will still be managed within that umbrella of controlled monitored capacity expansion, so that the industry is not put back into the situation we had if we go back four, five or six years, but there has been a transition in terms of the regulatory authority. Over the first part of this year there has been this industry transformation which has been happening in terms of the competitor environment.

But I go back to what I said in the beginning, for us the details are not really clear enough to be able to understand exactly what could potentially play out here in the short term. I think we have to wait until [inaudible] and understand a little bit better exactly what the intentions of the new owner, [inaudible], is of that company; what exactly their intentions are vs. what has been discussed in the press, because there has been a lot of anxiety over that situation.

Travis Anderson:

Right, but as a political scenic I would expect their maximum leverage is from now towards the election.

Richard Lark:

Yes, probably something to be said there. I mean, it is an election year in Brazil, in October and there is a lot of jobs there at Varig, and the government in its capacity is concerned, about passengers transportation and about jobs. The passenger transportation aspect is going smoothly and there is the job issue as well. I think you are right, there is that aspect to be dealt with, but our assumption here is that there is still going to be efforts to try to manage the overall industry and the sound way as possible to keep it financially healthy and strengthening, because we are still not entirely out of the woods in terms of the overall financial strength of the airline sector in Brazil.

Travis Anderson:

OK. Thanks.

Fabio Zagatti, HSBC:

Hello, good morning, Richard. I do not know if we are running out of time, but if you do not mind I can leave my questions to the Portuguese conference call, what do you think?

Richard Lark:

Up to you, Fabio.

Fabio Zagatti:

OK. So I will do these couple of quick questions. As a follow-up on Varig, what would be the plans if the guys from VarigLog wanted the company to become an LLC with the brand Varig? I see you maintained your guidance for 2006 and showed us your estimate for 2007; do you predict in these years anything regarding this possibility of competition base on your model? And let me do this in a different way; could you disclose what sort of market share you expect to have by 2007 year-end?

Richard Lark:

I do not have a model that works based on market share; our revenue projections are based on what we expect to be happening in the markets that we operate and based on our plans in terms of building the route network, you know, routes in those markets, very detailed model of analysis. Market share is an outcome of that and there is a lot of data that shows basically that, one of the key motors of the market growth today is also getting a large portion of incrementally new passengers, but we do not make any assumptions on what these other guys may want to try to do.

At the end of the day we just stay focused on having the lowest cost possible, which are going to be facilitated a lot by our business plan over the next couple of years, heavily dependent in the new aircraft we are going to be operating and then continue our network and route management strategies, revenue management strategies. It is not an input necessarily what is going to be happening on market share and things like that.

Fabio Zagatti:

OK, but would you be surprised? Or would you get back and change plans if next week the guys from VarigLog disclosed that they are following the LLC model?

Richard Lark:

If we did our planning on that Fabio, we would have stopped operating in January 2001, because this is a weekly or monthly phenomena in the business. The answer is no. As I said, our capacity planning, our business planning does not depend on those types of events.

Fabio Zagatti:

OK, Richard. And if you allow me another one if you do not mind, what is the idea behind the conversion of part of Junior's ON shares into PN? I would totally understand if you do not feel comfortable to disclose this as this is his reasoning, but do you have anything to share with us?

Richard Lark:

No, it is already disclosed. GOL is very transparent in terms of, especially the controlling shareholder level. Over the last couple of months they have gone through a restructuring of their holdings for a variety of reasons, which has to do with their own particular situations, tax planning, things like that, it had nothing to do with GOL.

Fabio Zagatti:

OK, so he is keeping the shares even after conversion, right?

Richard Lark:

That is correct, yes.

Victor Felles, ICATU:

Hello, Richard. I would like to ask, you mentioned before that your yields were permanently exchange rate linked since they are not fuel linked and my question is: if this exchange rates go up, I mean, depreciation of Real in Brazil, would you be raising the fares? And a complementary question to that, if, by any chance, market demand does not meet your expectations for the following year, would you lower yields further to meet that demand?

Richard Lark:

[inaudible] same question. The first part of your question was… Well, it is hard a question of being linked, it is a question of correlations, because the cost structure of our business is over 50% USD denominated or USD linked, since there is an impact of the exchange rate on the cost side of the equation. Historically that has produced a varied correlation with USD exchange rates in the order of 70%-80% as the industry passes on those exchange rate effects from their cost phase to their revenues side of the equation. And so, yes, given that the cost base is still going to continue to be highly USD related, we expect that correlation will continue.

Historically the same phenomena has happened on the fuel side; what happened in the last six months of last year has continued, has been extremely volatile or… Ahead of expectation increases in fuel have not been fully passed on to fares and therefore the correlations have been very poor. I am sorry, the second part of your question was?

Victor Felles:

If demand does not meet your expectations for the following year, I mean, you are going to end up with a whole bunch of aircraft with low utilization rates. Would you then lower yields to higher your utilization rates or to use these aircraft?

Richard Lark:

What you are saying is almost impossible. If anything, it's the other way around, [inaudible] we are not going to end up with a bunch of aircraft sitting around; our business plan in terms of capacity growth, you know, supply growth in our business is based on specific markets, specifically routes where we add those aircraft on an incremental basis and it is done together with the demand requirements. We have the ability to… A better way to answer your question would be the following: if there were an event that happened in Brazil that, for some reason, drastically reduced air traffic demand, how could we deal with that? How could we reduce the capacity?

It would basically just be a function of letting leased aircraft expire and return to lessors. We have majority of our order with Boeing, the delivery of those aircrafts are, basically synched with expiration of leases. So, as opposed to renewing leases or to releasing aircraft, or getting other leased aircraft in addition to our purchased order we can simply not do that portion and the fleet would naturally reduce.

But that would always be calibrated very closely. Historically what we have been doing has been constantly increasing and we have a very an increasingly greater need for aircraft that is based on the percent of our expectations of demand, our analysis of demand. But your question on the fare side is actually kind of the opposite; we are not on a situation of lowering fares to fill empty aircraft.

What we would adjust, we would adjust the denominator there basically, we would adjust the ASKs that you have out there through the overall number of aircraft you have in your fleet. We would not be reducing utilization. No one would be reducing fares simply to fill aircraft. As I understand that phenomena happens in a lot of markets around the world, but our business operating model does not work that way, does not permit that.

Victor Felles:

OK.

Richard Lark:

We do have a flexibility to adjust the denominator, because we have such high growth in the number of aircraft, you know, one per month, some months two per month. It is fairly easy for us to reduce capacity should we need to do that. Having said that, our situation that we see is actually opposite, we foresee greater needs to increase capacity to effectively serve the demand that is going to be out there on a profitable basis. But I understand the base of your question, because you I think you do see in a lot of markets, such as the United States in the past, I guess in the ability of companies to be flexible on their fleet.

Keep in mind as well we operate in a market which has a very low penetration of air travel and what you would see in a scenario where industry was reducing capacity, you would actually see a situation of increasing yields if you could try to understand that, because in a situation of reducing capacity where demand is falling off, that demand being the flexible and the leisure travel, that just would increase the relative proportion of business travelers flying in the market, which are price insensitive.

So, the overall mix in terms of yields would actually increase in that market, which is why I say in the scenario you are highlighting there would actually be the opposite. Fares and yields would actually be increasing in the phase of a shrinking market, if you can understand that logic. And that is because we still deal with a very small market, which is still very heavy in business travelers.

Fabio Felles:

OK, great.

Richard Lark:

Thank you.

Fabio Felles:

Thank you.

Operator:

Thank you, since there are no further questions I would now like to turn the floor back to Mr. Lark for any closing remarks.

Richard Lark:

Well, thank you very much for your attention today and your interest in GOL. We will remain committed to our goal of making air travel simple and more convenient and an accessible experience for everyone, of creating value for shareholders and employees. GOL is popularizing air travel in South America and Brazil through the expansion of our business, innovation in our quality services, operating efficiency, cost management and competitive low prices. At GOL, our slogan is "Here, everyone can fly." If you have any additional questions, feel free to contact our investor relations department. You can also visit the investor relations section of our website at www.voegol.com.br/ir.

Thank you very much and have a nice day.

Operator:

Thank you, this thus concludes today's GOL's conference call. You may now disconnect your line and have a wonderful day.