Associação Brasileira das Empresas Aéreas

ABEAR

OUTLOOK 2012

SUMMARY

INTRODUCTION

The Brazilian air transport industry has more than 90 years of existence and its domestic market is one of the largest in the world. In fact, our domestic market currently occupies the third position in the world with a considerable potential for further growth.

Since the creation of ABEAR in 2012, we have been talking about the great leap of this industry in Brazil in the last twelve years, a period in which the number of passengers has almost tripled. The deregulated airfare policy adopted in 2002 allowed for a vertiginous drop in the average air ticket prices. This drop in prices, in association of the increased income of the population, led to the social inclusion of an extraordinary number of Brazilians who are now using airlines for their trips.

It is, therefore, necessary to make some considerations regarding the figures shown up to now in order to understand the size of this industry and the opportunities being offered thereby.

It is the daily task of ABEAR to gather and organize the large volume of data generated by its associated airlines and carefully process them.

We also think that it is of paramount importance to make this information available to the society, making it aware of what our industry produces and enriching the public debate about it.

Although a little late, we have launched the 2012 Outlook. The 2013 Outlook issue is expected to be available in the coming months.

This document contains data and analyses that will provide some insight for a better understanding of aviation in Brazil – nowadays a mass transport system – as well as will help us forecast for the next few years the achievements that, together, we could accomplish in the last decade.

We are certainly not short of challenges!

Eduardo Sanovicz
President of ABEAR

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ABEAR AND ITS ASSOCIATED

Created in August 2012 with the mission of stimulating the habit of flying in Brazil, ABEAR has supported actions and programs designed to foster the growth of Brazilian civil aviation on a consistent and sustainable basis, both for passenger and cargo transportation. Our association currently represents more than 99% of the Brazilian domestic air transport market, including its founding members (AVIANCA, AZUL, GOL and TAM), as well as its recent members (TAM CARGO and TAP).

Focused on comfort in the domestic aviation market, AVIANCA was the first airline to be awarded the ANAC's – Agência Nacional de Aviação Civil (National Civil Aviation Agency) – "A" Class certificate in Brazil for its aircraft seat spacing and for being the only domestic airline to offer this spacing for 100% of its seats. The company offers its passengers distinguished comfort, premium differentiated cattering and entertainment. With 4 thousand employees, 39 aircraft and 176 daily flights, AVIANCA operates to/from 24 airports in Brazil. In 2013, AVIANCA carried 6.2 million passengers and expects to carry 7.4 million in 2014.

Its successful growth is the result of the investments announced in 2010 – R$ 2.7 billion by 2016 – in the expansion of its operations by purchasing new aircraft, modernizing its technological platform, hiring more employees for the various areas and offering differentiated services.

From 2008 to 2012, the company tripled its operations, revenue and share in the Brazilian domestic market. It reached the remarkable milestone of 84% growth in 2012 and 37% in 2013. Last year, the company recorded the highest passenger load-factor in the market, an average 82%, showing the correctness of its business model.

"Our objective is to create the conditions for an increasing number of Brazilians to be able to fly with comfort, differentiated services, cattering and entertainment at fair prices. For this year and the coming years, we shall keep the same positioning and providing the same differentiated services", says José Efromovich, Chairman of AVIANCA.

Azul

AZUL Linhas Aéreas Brazileiras was founded by David Neeleman following the proposal of offering differentiated services, connecting cities that have not been served by other Brazilian airlines. AZUL started its operations in 2008 with a capital stock of US$ 200 million. Thus, it became the most capitalized airline (in the start up) in the history of world aviation. The company ordered 40 aircraft and entered into a purchase option for other 36, all of them of the Embraer's E-jet aircraft family.

The inaugural flights of AZUL connected the cities of Campinas and Salvador and, after only eight months of operation, the company had already reached the milestone of 1 million passengers carried.

Four months later, AZUL had already carried 2 million passengers.

This figure doubled once again in July 2010.

In early 2009, the company launched its "Tudo Azul" (in English, "All Blue), its rewarding program. In the following year, its Azul Crédito (in English, Azul Credit) was created for the payment of tickets in installments, either using credit card, bank slip, direct charge to the customer's checking account or bank check. AZUL CARGO was created in August of the same year, initially with routes to the Northeast.

Another important chapter in the history of AZUL was written on May 28, 2012. David Neeleman, Chairman of AZUL Airlines, together with Renan Chieppe and José Mário Caprioli, chairman of the board and chief executive officer, respectively, of TRIP Linhas Aéreas, a major regional aviation company in South America, announced the execution of an investment agreement to merge the two companies. As a result of this agreement, AZUL TRIP S.A. was created as a new holding company.

This association helped strengthen the company and consolidate its position in the Brazilian market, where it already enjoyed a reputation of being an airline that allies competitiveness with a high quality standard of service.

The new company has recorded expressive results: the two companies together provide their services to 16.44% of the Brazilian market; their fleet add to 134 aircraft (89 Embraer jets and 45 ATR turboprop aircraft) , which operates more than 860 daily flights – approximately 30% of all daily take-offs in Brazil, serving 103 Brazilian cities. Their personel reaches approximately 9.7 thousand employees.

Upon being created, GOL Linhas Aéreas Inteligentes already broke paradigms: it was the first airline in Brazil to implement the low cost, low fare model, which eliminates excesses and offers affordable prices to passengers. By its inception in 2001, the airline has innovated the Brazilian air transport market by concentrating sales and providing check-in over the Internet.

Three years after its foundation, the company started its activities as a public company. After undertaking the share control of VRG Linhas Aéreas S.A, the company carried out its Initial Public Offering (IPO) and started its international operations with flights to Argentina. In 2005, it became the only company to operate in all Brazilian State capitals and expanded its international activities with a flight to Santa Cruz de la Sierra, Bolivia.

In the year that followed, the company inaugurated its aircraft maintenance center at the Confins Airport in Minas Gerais. The new center allowed the company to implement the phase maintenance system, which consists in daily overhauls of the aircraft before their first flight. Such action optimizes the daily average utilization, because it prevents aircraft from remaining grounded for more than five days, which is a common practice when the traditional maintenance procedures are followed.

According to the International Air Transport Association (IATA), GOL is one of the largest low-cost airlines in the world and the largest company of this type in Latin America.

With a young fleet of 140 Boeing 737 Next Generation aircraft, the company operates the country's widest domestic flight network.

GOL follows the strategy of keeping a lean cost structure, which has helped it to continue its market expansion, attracting new passengers. In addition, it diversifies its revenues by operating a consolidated flight network, a modern aircraft fleet, a marketing plan targeted at the Smiles Loyalty Program, with more than 9.5 million members and 215 commercial partners, as well as a large range of attractive secondary businesses such as the air transport services (GOLlog).

Since September 2013, GOL has been recording a daily frequency of more than 900 flights to 65 domestic destinations and 10 international destinations in South America, the Caribbean and the United States.

Founded by Captain Rolim Adolfo Amaro in 1976 under the name of TAM - Transportes Aéreos Regionais, the company that originated TAM Linhas Aéreas was born with the commitment of offering its customers differentiated services at competitive prices. In the beginning of its operations, the company served cities in hinterland of the States of São Paulo, Paraná and Mato Grosso.

In the 1980's, the management strategy adopted by Captain Rolim has led TAM to a growth period that started with the arrival of the Fokker-27 aircraft to replace the company's old two-engine planes. In 1981, TAM reached the milestone of one million passengers carried. However, its most remarkable achievement was in 1986, with the acquisition of the airline Votec. This allowed TAM to expand its network and extend its activities to the North and Midwest regions of the country.

In the 1990's TAM added the Fokker-100 jets to its fleet and inaugurated a new stage in regional aviation. In six years, it was already operating in the whole domestic territory. In 1996, TAM acquired Lapsa, a former Paraguayan state-owned airline and created TAM Mercosur (headquartered in Asunción, Paraguay).

Two years later, it launched its first international flight on the São Paulo-Miami route. In the following year, it crossed the Atlantic and started operating also to Paris, in partnership with Air France.

In the year 2000, the company started a new expansion program in its operations, with the purchase of aircraft and the expansion of the

number of destinations served. In the following years, TAM consolidated its operations, particularly in the international markets, by increasing the frequency of flights and launching new routes to important cities in South America, Europe and the United States.

In 2012 it became a member of the LATAM Group Airlines, a holding that includes LAN Airlines and its affiliates in Peru, Argentina, Colombia and Ecuador; LAN Cargo and its branches; TAM S.A. and its branches TAM Linhas Aéreas S.A., including the business units; Transportes Aéreos del Mercosur S.A. (TAM Airlines, headquartered in Paraguay); and Multiplus S.A.

Currently, TAM is part of one of the largest airline groups in the world in terms of air service network, serving more than 135 destinations in 22 countries. To accomplish to this task this business group has more than 52 thousand employees, 29 thousand of them being TAM employees, as well as a fleet of 322 aircraft including aircrafts manufactured by Airbus (A319, A320, A321, A330 e A340) and Boeing (B767 e B777).

TAM CARGO

TAM Cargo is the air cargo company of the LATAM Airlines Group in Brazil, handling the air transport of cargo, express and special deliveries. TAM Cargo and ABSA, a former subsidiary of LAN in Brazil, merged their operations in 2013. This merge made cargo transportation more effective and multifaceted, thus meeting local dimensions and requirements.

Now, TAM Cargo operates direct flights to 42 Brazilian airports, collecting cargo in more than 400 cities for delivery to more than 4 thousand locations all over Brazil. The company has 51 cargo terminals, being 42 of them located at airports. It operates with four cargo aircraft and 172 passenger aircrafts of TAM Linhas Aéreas.

In Brazil, the company's cargo unit uses the distribution points (hubs) of São Paulo/Guarulhos, Rio de Janeiro/Galeão, Brasília, Manaus and Campinas.

The cargo transportation business of LATAM Airlines Group is made up of LAN CARGO, MasAir, LAN CARGO Colombia and TAM Cargo. Together, they serve 165 destinations over the world in 27 countries.

TAP PORTUGAL

A STAR ALLIANCE MEMBER

Brazil is a very important market to TAP, because it offers opportunities to the company in its most diverse regions. As a result, the expansion strategy followed by the company is focused on the diversification of gateways for the creation of new flights that establish direct connections with Europe.

TAP offers convenient direct flights to all Europe, departing from 10 Brazilian cities: Belo Horizonte, Brasília, Campinas, Fortaleza, Natal, Porto Alegre, Recife, Rio de Janeiro, Salvador and São Paulo.

It offers 77 weekly flights between Brazil and Lisbon, with excellent connecting flights to more than 49 European destinations, strengthening its absolute leadership in passenger and cargo transportion between Europe and Brazil.

As of June 2014, TAP will start operating flights from Lisbon to Manaus and Belém, totaling 12 flights to Brazil and a weekly frequency of 80 flights.

OUTLOOK 2012 – METHODOLOGY

This document is based on domestic and foreign data sources. The most used data source was that of the International Civil Aviation Organization (ICAO), an organization that is member of the United Nations. This choice was due to the comprehensiveness of the information available from that source and the methodological uniformity adopted for processing the data coming from the various countries.

It should be remembered that the ICAO data is collected from information supplied by the aeronautical authorities of each country (in Brazil, ANAC – Agência Nacional de Aviação Civil [National Civil Aviation Agency]), as set forth in Article 67 of the International Civil Aviation Convention, the 1944 Chicago Convention, enacted in Brazil by Decree 21.713, of 1946.

The broad use of references from other countries allowed us to place the verifications of the Brazilian reality under a global perspective of the air transport industry. Accordingly, the analysis of different aspects of the domestic passenger air transport in Brazil has been broadly compared to what happens in other countries, providing the reader with a better understanding of the phenomenon covered.

There may be minor divergences regarding the statistical data disclosed by other sources.

Such divergences may be considered as normal and fall within acceptable technical limits. They usually result from differences between the ascertainment criteria used and the revisions regularly made by the statistic systems of each source.

In order to ensure coherence in presentation of the findings, an attempt was made, where applicable, to follow the organization principles adopted by ICAO for its database.

BASIC STATISTICS AND FINANCIAL STATEMENTS

The total number of employees and aircraft remained stable in 2012, whereas the industry offer in the Brazilian market (offered seats-kilometers) increased by 3% and the corresponding demand (carried passengers-kilometers) increased by 7%. The number of passengers carried in the domestic market increased by 8%, reaching 89.5 million passengers.

Proportional variations occurred in the other operating statistical data related to the offer of services, such as the number of take-offs, flown hours, etc., showing that the air transport industry productivity increased significantly in 2012 as far as it refers to human resources and operating assets.

However, the industry recorded a negative result of 14% of its revenues reflecting a significant increase in its operating costs caused by increased fuel costs (commented elsewhere in this document). However, the average airfares (measured by the average yield per carried passenger-kilometer) remained almost unchanged, as a consequence of the strong competition prevailing in this industry. As a result, the aggregate balance sheet of the ABEAR member airlines has been somewhat dampened.

The scenario thus characterized is typical of industries with strong competition. There are few economic sectors where a significant demand growth, an expressive productivity increase, explosive cost increase and price stability live together. Whatever the reason may be, this is not a peculiarity of the air transport industry in Brazil. It is rather a structural characteristic of this industry all over the world (See International Air Transport Association – IATA, "Vision 2050", 2011). These aspects will be shown in further detail in the following pages.

2012 FLEET AND EMPLOYEES

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2012

	ABSA*	AVIANCA	AZUL/ TRIP	GOL	TAM	ABEAR Total	Other companies	Brazil Total
Pilots e co-pilots	75	335	1,528	1,823	2,394	**6,155**	257	6,412
Air stewards	-	549	1,668	3,692	5,952	**11,861**	130	11,991
Maintenance personnel	66	310	1,228	2,921	3,392	**7,971**	145	8,062
Airport and staff employees	265	2,049	4,751	9,221	17,702	**24,767**	643	25,410
Total	406	3,243	9,175	17,657	29,440	**50,700**	1,175	51,875

*Currently TAM CARGO (ABSA was the name of the airline at the time).

Sources: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency); International Civil Aviation Organization – ICAO; air companies.

FLEET AS OF DECEMBER 31, 2012

Type of aircraft	ABSA*	AVIANCA	AZUL/ TRIP	GOL	TAM	ABEAR Total	Other companies	Brazil Total
BOEING 767 200 F	1					**1**		1
BOEING 767 300 F	3					**3**		3
BOEING 737 300				19		**19**		19
BOEING 737 700				37		**37**		37
BOEING 737 800				88		**88**		88
AIRBUS A318		7				**7**		7
AIRBUS A319		4			31	**35**		35
AIRBUS A320		7			86	**93**		93
AIRBUS A321					9	**9**		9
FOKKER F28		14				**14**		14
AIRBUS A330 200					20	**20**		20
AIRBUS A340 500					2	**2**		2
BOEING 767 300				3	3	**6**		6
BOEING 777 300					8	**8**		8
ATR 42			21			**21**		21
ATR 72			29			**29**	6	35
ERJ 170			9			**9**		9
ERJ 190			27			**27**		27
ERJ 195			32			**32**		32
Others							14	14
Total	4	32	118	147	159	**460**	20	480

* Currently TAM CARGO (ABSA was the name of the airline at the time).

Sources: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency); International Civil Aviation Organization – ICAO; air companies.

2011 FLEET AND EMPLOYEES

NUMBER OF EMPLOYEES AS OF DECEMBER 31, 2011

	ABSA*	AVIANCA	AZUL/ TRIP	GOL	TAM	ABEAR Total	Other companies	Brazil Total
Pilots e co-pilots	71	290	1,280	1,869	2,863	**6,373**	282	6,655
Air stewards	-	433	1,456	3,748	6,345	**11,982**	226	12,208
Maintenance personnel	58	440	856	3,060	3,375	**7,789**	203	7,992
Airport and staff employees	247	1,472	4,470	10,104	16,349	**32,642**	692	33,334
Total	376	2,635	8,062	18,781	28,932	**58,786**	1,403	60,189

* Currently TAM CARGO (ABSA was the name of the airline at the time).

Sources: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency); International Civil Aviation Organization – ICAO; ABEAR associates.

FLEET AS OF DECEMBER 31, 2011

Type of aircraft	ABSA*	AVIANCA	AZUL/ TRIP	GOL	TAM	ABEAR Total	Other companies	Brazil Total
BOEING 767 200 F						**0**		0
BOEING 767 300 F	4					**4**		4
BOEING 737 300				24		**24**	2	26
BOEING 737 700				43		**43**		43
BOEING 737 800				80		**80**		80
AIRBUS A318		5				**5**		5
AIRBUS A319		3			34	**37**		37
AIRBUS A320		4			89	**93**		93
AIRBUS A321					9	**9**		9
FOKKER F28		14				**14**		14
AIRBUS A330 200					20	**20**		20
AIRBUS A340 500					2	**2**		2
BOEING 767				3	3	**6**		6
BOEING 777 300					4	**4**		4
ATR 42			23		5	**28**		28
ATR 72			20			**20**		20
ERJ 170			9			**9**		9
ERJ 190			20			**20**		20
ERJ 195			28			**28**		28
Others		5	1			**6**	35	41
Total	4	31	101	150	166	**452**	37	489

* Currently TAM CARGO (ABSA was the name of the airline at the time).

Sources: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency); International Civil Aviation Organization – ICAO; air companies.

BASIC STATISTICS – 2012

2012		Revenue passengers carried	Revenue passenger-km	Available Seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. speed (km/h)
ABSA*												
Domestic	Regular	-	-	-	-	76,232	5,215	2,660	1,961	7,838	177	665
	Non-regular	-	-	-	-	6,726	567	352	1,611	889	152	638
	Total	-	-	-	-	82,958	5,782	3,012	1,920	8,727	174	663
International	Regular	-	-	-	-	45,240	5,671	1,457	3,892	7,672	316	739
	Non-regular	-	-	-	-	5,935	795	212	3,750	1,084	307	733
	Total	-	-	-	-	51,174	6,466	1,669	3,874	8,756	315	738
Total		-	-	-	-	134,132	12,248	4,681	2,617	17,483	224	701
AVIANCA												
Domestic	Regular	4,688,865	4,634,012	5,863,402	79%	15,059	47,252	51,850	911	89,750	104	526
	Non-regular	9,071	5,576	8,349	67%	492	78	133	583	167	75	465
	Total	4,697,936	4,639,588	5,871,751	79%	15,551	47,330	51,983	910	89,917	104	526
International	Regular	12,103	52,152	64,631	81%	1	-	-	-	-	-	-
	Non-regular	10,497	7,919	10,365	76%	0	699	1,440	485	2,003	83	349
	Total	22,600	60,071	74,996	80%	1	699	1,440	485	2,003	83	349
Total		4,720,536	4,699,659	5,946,747	79%	15,552	48,029	53,423	899	91,921	103	523
AZUL/TRIP												
Domestic	Regular	15,670,101	12,313,125	16,273,223	76%	7,867	165,061	262,323	629	366,562	84	450
	Non-regular	486,074	358,433	522,220	69%	52	7,852	11,349	692	17,101	90	459
	Total	16,156,175	12,671,558	16,795,443	75%	7,919	172,914	273,672	632	383,663	84	451
International	Regular	-	-	-	0%	0	-	-	-	-	-	-
	Non-regular	-	-	-	0%	0	-	-	-	-	-	-
	Total	-	-	-	0%	0	-	-	-	-	-	-
Total		16,156,175	12,671,558	16,795,443	75%	7,919	172,914	273,672	632	383,663	84	451

* Currently TAM CARGO (ABSA was the name of the airline at the time).

2012		Revenue passengers carried	Revenue passenger-km	Available Seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. speed (km/h)
GOL												
Domestic	**Regular**	33,915,950	32,660,349	45,817,606	71%	120,990	270,976	321,040	844	438,953	82	617
	Non-regular	141,609	135,970	249,747	54%	78	1,490	1,555	958	2,377	92	627
	Total	34,057,559	32,796,318	46,067,353	71%	121,068	272,466	322,595	845	441,330	82	617
International	**Regular**	2,633,526	2,559,875	4,016,685	64%	3,824	22,165	13,830	1,603	29,850	130	743
	Non-regular	131,089	117,098	256,100	46%	-	1,407	571	2,464	1,720	181	818
	Total	2,764,615	2,676,973	4,272,785	63%	3,824	23,572	14,401	1,637	31,570	132	747
Total		36,822,174	35,473,291	50,340,138	70%	124,892	296,038	336,996	878	472,900	84	626
TAM												
Domestic	**Regular**	32,176,555	35,067,697	47,645,936	74%	158,539	276,770	277,497	997	489,145	106	566
	Non-regular	388,463	412,232	580,026	71%	590	3,457	3,542	976	5,997	102	576
	Total	32,565,018	35,479,929	48,225,962	74%	159,128	280,227	281,039	997	495,142	106	566
International	**Regular**	4,297,267	23,484,929	28,845,208	81%	88,185	123,933	23,901	5,185	162,466	408	763
	Non-regular	34,709	164,088	260,409	63%	541	1,239	309	4,010	1,686	327	735
	Total	4,331,976	23,649,017	29,105,617	81%	88,726	125,172	24,210	5,170	164,152	407	763
Total		36,896,994	59,128,946	77,331,579	76%	247,854	405,400	305,249	1,328	659,294	130	615

BASIC STATISTICS – 2011

2011		Revenue passengers carried	Revenue passenger-km	Available Seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. speed (km/h)
ABSA*												
Domestic	Regular	-	-	-	0%	87,702	4,747	2,264	2,097	7,097	188	669
	Non-regular	-	-	-	0%	3,748	212	91	2,330	309	204	686
	Total	-	-	-	0%	91,450	4,959	2,355	2,106	7,406	189	670
International	Regular	-	-	-	0%	74,442	6,897	1,782	3,870	9,259	312	745
	Non-regular	-	-	-	0%	7,450	777	205	3,789	1,033	302	752
	Total	-	-	-	0%	81,892	7,674	1,987	3,862	10,292	311	746
Total		-	-	-	0%	173,341	12,633	4,342	2,909	17,698	245	714
AVIANCA												
Domestic	Regular	3,083,351	2,547,265	3,213,666	79%	11,921	30,114	38,921	774	60,962	94	494
	Non-regular	9,091	9,696	11,743	83%	28	95	90	1,053	165	110	573
	Total	3,092,442	2,556,961	3,225,410	79%	11,949	30,114	38,921	774	60,962	94	494
International	Regular	-	-	-	-	348	-	-	-	-	-	-
	Non-regular	45,503	34,371	41,887	82%	0	307	422	728	665	95	462
	Total	45,503	34,371	41,887	82%	348	307	422	728	665	95	462
Total		3,137,945	2,591,331	3,267,296	79%	12,297	30,421	39,343	773	61,627	94	494
AZUL/TRIP												
Domestic	Regular	11,053,808	9,564,997	12,553,968	76%	5,598	133,805	201,952	663	285,798	85	468
	Non-regular	314,093	177,408	247,878	72%	23	6,198	9,995	620	13,861	83	447
	Total	11,367,901	9,742,405	12,801,847	76%	5,621	133,805	201,952	663	285,798	85	468
International	Regular	-	-	-	-	-	-	-	-	-	-	-
	Non-regular	-	-	-	-	-	-	-	-	-	-	-
	Total	-	-	-	-	-	-	-	-	-	-	-
Total		11,367,901	9,742,405	12,801,847	76%	5,621	133,805	201,952	663	285,798	85	468

* Currently TAM CARGO (ABSA was the name of the airline at the time).

2011		Revenue passengers carried	Revenue passenger-km	Available Seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. speed (km/h)
GOL												
Domestic	Regular	36,564,759	34,386,741	49,085,921	70%	127,400	294,542	343,190	858	574,529	100	513
	Non-regular	551,877	613,386	1,020,171	60%	1,873	6,044	5,990	1,009	11,059	111	547
	Total	37,116,636	35,000,127	50,106,092	70%	129,273	300,586	349,180	861	585,588	101	513
International	Regular	1,502,917	2,515,897	3,891,929	65%	5,402	21,528	13,787	1,561	35,724	155	603
	Non-regular	70,636	254,665	495,531	51%	45	2,441	825	2,959	3,468	252	704
	Total	1,573,553	2,770,562	4,387,459	63%	5,447	23,969	14,612	1,640	39,192	161	612
Total		38,690,189	37,770,690	54,493,551	69%	134,720	324,555	363,792	892	624,780	103	519
TAM												
Domestic	Regular	30,355,548	32,814,897	47,793,585	69%	159,216	278,746	290,811	959	497,646	103	560
	Non-regular	526,703	699,961	949,230	74%	1,060	5,428	5,036	1,078	9,149	109	593
	Total	30,882,251	33,514,858	48,742,815	69%	160,276	278,746	290,811	959	497,646	103	560
International	Regular	4,187,857	22,908,657	28,068,305	82%	54,585	121,243	23,114	5,245	158,549	412	765
	Non-regular	52,911	289,458	413,963	70%	996	1,858	377	4,929	2,391	380	777
	Total	4,240,768	23,198,115	28,482,268	81%	55,581	123,101	23,491	5,240	160,940	411	765
Total		35,123,019	56,712,973	77,225,083	73%	215,857	401,847	314,302	1,279	658,586	126	610

BASIC ESTATISTICS

2012/2011 VARIATION

		Revenue passengers carried	Revenue passenger-km	Available Seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. speed (km/h)
ABSA*												
Domestic	Regular	-	-	-	-	-13%	10%	17%	-6%	10%	-6%	-1%
	Non-regular	-	-	-	-	79%	167%	287%	-31%	188%	-26%	-7%
	Total	-	-	-	-	-9%	17%	28%	-9%	18%	-8%	-1%
International	Regular	-	-	-	-	-39%	-18%	-18%	1%	-17%	1%	-1%
	Non-regular	-	-	-	-	-20%	2%	3%	-1%	5%	1%	-2%
	Total	-	-	-	-	-38%	-16%	-16%	0%	-15%	1%	-1%
Total		-	-	-	-	-23%	-3%	8%	-10%	-1%	-8%	-2%
AVIANCA												
Domestic	Regular	52%	82%	82%	0	26%	57%	33%	18%	47%	11%	7%
	Non-regular	0%	-42%	-29%	16	1662%	-18%	48%	-45%	1%	-32%	-19%
	Total	52%	81%	82%	0	30%	57%	34%	18%	47%	10%	7%
International	Regular	-	-	-	-	-100%	-	-	-	-	-	-
	Non-regular	-77%	-77%	-75%	6	-	127%	241%	-33%	201%	-12%	-24%
	Total	-50%	75%	79%	2	-100%	127%	241%	-33%	201%	-12%	-24%
Total		50%	81%	82%	0	26%	58%	36%	16%	49%	10%	6%
AZUL/TRIP												
Domestic	Regular	42%	29%	30%	-1	41%	23%	30%	-5%	28%	-1%	-4%
	Non-regular	55%	102%	111%	-3	124%	27%	14%	12%	23%	9%	3%
	Total	42%	30%	31%	-1	41%	29%	36%	-5%	34%	-1%	-4%
International	Regular	-	-	-	0	-	-	-	-	-	-	-
	Non-regular	-	-	-	0	-	-	-	-	-	-	-
	Total	-	-	-	0	-	-	-	-	-	-	-
Total		42%	30%	31%	-1	41%	29%	36%	-5%	34%	-1%	-4%

* Currently TAM CARGO (ABSA was the name of the company at the time).

Variation 2012/2011		Revenue passengers carried	Revenue passenger-km	Available Seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. speed (km/h)
GOL												
Domestic	Regular	-7%	-5%	-7%	1	-5%	-8%	-6%	-2%	-24%	-18%	20%
	Non-regular	-74%	-78%	-76%	-6	-96%	-75%	-74%	-5%	-79%	-17%	15%
	Total	-8%	-6%	-8%	1	-6%	-9%	-8%	-2%	-25%	-18%	20%
International	Regular	75%	2%	3%	-1	-29%	3%	0%	3%	-16%	-17%	23%
	Non-regular	86%	-54%	-48%	-6	-100%	-42%	-31%	-17%	-50%	-28%	-16%
	Total	76%	-3%	-3%	0	-30%	-2%	-1%	0%	-19%	-18%	22%
Total		-5%	-6%	-8%	1	-7%	-9%	-7%	-2%	-24%	-18%	21%
TAM												
Domestic	Regular	6%	7%	0%	5	0%	-1%	-5%	4%	-2%	3%	1%
	Non-regular	-26%	-41%	-39%	-3	-44%	-36%	-30%	-9%	-34%	-7%	-3%
	Total	5%	6%	-1%	5	-1%	1%	-3%	4%	-1%	3%	1%
International	Regular	3%	3%	3%	0	62%	2%	3%	-1%	2%	-1%	0%
	Non-regular	-34%	-43%	-37%	-7	-46%	-33%	-18%	-19%	-29%	-14%	-5%
	Total	2%	2%	2%	0	60%	2%	3%	-1%	2%	-1%	0%
Total		5%	4%	0%	3	15%	1%	-3%	4%	0%	3%	1%

BASIC STATISTICS – CONSOLIDATED

2012		Revenue passengers carried	Revenue passenger-km	Available seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. Speed (km/h)
ABEAR Total												
Domestic	Regular	86,451,471	84,675,182	115,600,168	73%	378,686	765,275	915,370	836	1,392,248	91	550
	Non-regular	1,025,217	912,211	1,360,341	67%	7,938	13,444	16,931	794	26,531	94	507
	Total	87,476,688	85,587,393	116,960,509	73%	386,624	778,718	932,301	835	1,418,779	91	549
International	Regular	6,942,896	26,096,956	32,926,524	79%	137,250	151,769	39,188	3,873	199,988	306	759
	Non-regular	176,295	289,105	526,874	55%	6,476	4,140	2,532	1,635	6,493	154	638
	Total	7,119,191	26,386,061	33,453,398	79%	143,725	155,909	41,720	3,737	206,481	297	755
Total		94,595,879	111,973,454	150,413,907	74%	530,349	934,628	974,021	960	1,625,260	100	575
Other companies												
Domestic	Regular	2,494,005	820,837	1,401,328	59%	573	25,083	47,994	523	139,877	175	179
	Non-regular	539,636	580,041	920,996	63%	1,881	7,422	8,702	853	14,430	99	514
	Total	3,033,641	1,400,878	2,322,324	60%	2,454	32,505	56,696	573	154,307	163	211
International	Regular	-1,135,804	-31,717	-123,740	-	-	-	-	-	-	-	-
	Non-regular	-59,277	85,572	105,242	81%	-	-	-	-	-	-	-
	Total	-1,195,081	53,855	-18,499	-291%	-	-	-	-	-	-	-
Total		1,838,560	1,454,732	2,303,826	63%	2,454	32,505	56,696	573	154,307	163	211
Brazil Total												
Domestic	Regular	88,945,476	85,496,019	117,001,496	73%	379,259	790,357	963,364	820	1,532,125	95	516
	Non-regular	1,564,853	1,492,252	2,281,337	65%	9,819	20,865	25,633	814	40,961	96	509
	Total	90,510,329	86,988,271	119,282,833	73%	389,078	811,223	988,997	820	1,573,087	95	516
International	Regular	5,807,092	26,065,239	32,802,784	79%	137,250	151,515	39,320	3,853	206,022	314	735
	Non-regular	117,018	374,677	632,116	59%	6,476	4,120	1,486	2,772	5,963	241	691
	Total	5,924,110	26,439,916	33,434,899	79%	143,725	155,635	40,806	3,814	211,985	312	734
Total		96,434,439	113,428,187	152,717,732	74%	532,803	966,858	1,029,803	939	1,785,071	104	542

2011		Revenue passengers carried	Revenue passenger-km	Available seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. Speed (km/h)
ABEAR Total												
Domestic	Regular	81,057,466	79,313,900	112,647,140	70%	391,837	741,954	877,138	846	1,426,032	98	520
	Non-regular	1,401,764	1,500,451	2,229,023	67%	6,732	17,977	21,202	848	34,543	98	520
	Total	82,459,230	80,814,351	114,876,163	70%	398,569	748,210	883,219	847	1,437,399	98	521
International	Regular	5,690,774	25,424,554	31,960,234	80%	134,777	149,668	38,683	3,869	203,532	316	735
	Non-regular	169,050	578,494	951,380	61%	8,491	5,383	1,829	2,943	7,557	248	712
	Total	5,859,824	26,003,048	32,911,614	79%	143,267	155,051	40,512	3,827	211,089	313	735
Total		88,319,054	106,817,399	147,787,777	72%	541,836	903,261	923,731	978	1,648,488	107	548
Other companies												
Domestic	Regular	1,081,210	690,223	1,067,168	65%	12,097	26,929	53,894	500	64,996	72	414
	Non-regular	31,258	17,803	28,140	63%	9,446	4,368	5,062	863	8,245	98	530
	Total	1,112,468	708,027	1,095,308	65%	21,543	43,019	74,077	581	96,416	78	446
International	Regular	70,531	303,580	413,031	74%	62	3,132	725	4,320	4,276	354	732
	Non-regular	1,361	1,380	2,250	61%	8,418	456	268	1,701	745	167	612
	Total	71,892	304,960	415,281	73%	8,480	3,588	993	3,613	5,021	303	715
Total		1,184,360	1,012,986	1,510,590	67%	30,023	46,607	75,070	4,194	101,437	81	459
Brazil Total												
Domestic	Regular	82,138,676	80,004,123	113,714,309	70%	403,934	768,883	931,032	826	1,491,028	96	516
	Non-regular	1,433,022	1,518,254	2,257,163	67%	16,178	22,346	26,264	851	42,787	98	522
	Total	83,571,698	81,522,378	115,971,472	70%	420,112	791,228	957,296	827	1,533,815	96	516
International	Regular	5,761,305	25,728,134	32,373,265	79%	134,839	152,800	39,408	3,877	207,808	316	735
	Non-regular	170,411	579,874	953,630	61%	16,909	5,839	2,097	2,785	8,302	238	703
	Total	5,931,716	26,308,008	33,326,895	79%	151,748	158,639	41,505	3,822	216,110	312	734
Total		89,503,414	107,830,385	149,298,366	72%	571,859	949,868	998,801	951	1,749,925	105	543

BASIC ESTATISTICS – CONSOLIDATED

2012/2011 VARIATION

		Revenue passengers carried	Revenue passenger-km	Available seats-km	Load Factor	Tons of load carried	Kilometers flown (000)	Take-offs	Avg. stage (km)	Hours flown	Avg. duration (min)	Avg. Speed (km/h)
ABEAR Total												
Domestic	Regular	7%	7%	3%	3	-3%	3%	4%	-1%	-2%	-6%	6%
	Non-regular	-27%	-39%	-39%	0	18%	-25%	-20%	-6%	-23%	-4%	-3%
	Total	6%	6%	2%	3	-3%	4%	6%	-1%	-1%	-61%	5%
International	Regular	22%	3%	3%	0	2%	1%	1%	0%	-2%	-3%	3%
	Non-regular	4%	-50%	-45%	-6	-24%	-23%	38%	-44%	-14%	-38%	-10%
	Total	21%	1%	2%	0	0%	1%	3%	-2%	-2%	-5%	3%
Total		7%	5%	2%	2	-2%	3%	5%	-2%	-1%	-6%	5%
Other companies												
Domestic	Regular	131%	19%	-31%	-6	-95%	-7%	-11%	5%	115%	142%	-57%
	Non-regular	1626%	3158%	3173%	0	-80%	70%	72%	-1%	75%	2%	-3%
	Total	173%	98%	112%	-4	-89%	-24%	-23%	-1%	60%	109%	-53%
International	Regular	-1710%	-110%	-130%	-	-100%	-100%	-100%	-100%	-100%	-100%	-100%
	Non-regular	-4455%	6103%	4577%	20	-100%	-100%	-100%	-100%	-100%	-100%	-100%
	Total	-1762%	-82%	-104%	-365	-100%	-100%	-100%	-100%	-100%	-100%	-100%
Total		55%	44%	53%	-	-92%	-30%	-24%	-86%	52%	101%	-54%
Brazil Total												
Domestic	Regular	8%	7%	3%	3	-6%	3%	3%	-1%	3%	-1%	0%
	Non-regular	9%	-2%	1%	-2	-39%	-7%	-2%	-4%	-4%	-2%	-2%
	Total	8%	7%	3%	3	-7%	3%	3%	-1%	3%	-1%	0%
International	Regular	1%	1%	1%	0	2%	-1%	0%	-1%	-1%	-1%	0%
	Non-regular	-31%	-35%	-34%	-2	-62%	-29%	-29%	0%	-28%	1%	-2%
	Total	0%	1%	0%	0	-5%	-2%	-2%	0%	-2%	0%	0%
Total		8%	5%	2%	2	-7%	2%	3%	-1%	2%	-1%	0%

FINANCIAL STATEMENTS – ABEAR AIRLINES

INCOME STATEMENT – 2012

REVENUES	USD (000)	BRL (000)	
Sales of air tickets	12,216,355.4	23,870,758.4	83%
Excess Baggage	120,000.6	234,481.3	1%
Cargo	494,250.1	965,764.6	3%
Mail bag	0.0	0.0	0%
Pax Charter	7,783.6	15,209.2	0%
Cargo Charter	503,710.2	984,249.8	3%
Non-scheduled Flight Revenues	116,356.5	227,360.6	1%
Misc. Operating Revenues	1,229,790.9	2,403,011.4	8%
	14,688,247.4	**28,700,835.3**	**100%**
DIRECT COSTS			
Technical Crew Members	1,665,488.5	3,254,364.5	11%
Fuel	6,106,816.3	11,932,719.1	42%
Aircraft Insurance	37,218.0	72,723.9	0%
Aircraft Leasing	281,484.0	550,019.8	2%
Maintenance and Overhauls	958,301.4	1,872,521.0	7%
Deprec. and Amortizations	763,170.3	1,491,234.8	5%
Airport Charges	388,741.2	759,600.4	3%
Ancillary Navigation Charges	530,571.2	1,036,736.2	4%
Other Direct Costs	437,686.2	855,238.9	3%
	11,169,477.3	**21,825,158.6**	**76%**
INDIRECT COSTS			
Ground Organization	131.4	256.8	0%
Air Stewards	464,317.8	907,277.0	3%
Passenger services	844,329.3	1,649,819.5	6%
Other Indirect Costs	1,016,473.5	1,986,189.3	7%
	2,325,252.1	**4,543,542.6**	**16%**

OPERATING EXPENSES	USD (000)	BRL (000)	
Commissions	230,246.0	449,900.6	2%
General Management	1,049,752.7	2,051,216.8	7%
Other Operating Expenses	1,107,996.7	2,165,025.5	8%
	2,387,995.4	**4,666,143.0**	**16%**
TOTAL COSTS AND EXPENSES	**15,882,724.8**	**31,034,844.2**	**108%**
OPERATING FLIGHT INCOME	**(1,194,477.4)**	**(2,334,008.8)**	**-8%**
Interest on Debt	(346,929.0)	(677,899.2)	-2%
Interest on leasing	(113,552.2)	(221,881.0)	-1%
Capital Gains (Losses)	67,350.4	131,602.8	0%
Affiliated Companies	(2.6)	(5.0)	0%
Other Non-operating Revenues (Losses)	(460,441.6)	(899,703.0)	-3%
NET INCOME	**(2,048,052.3)**	**(4,001,894.2)**	**-14%**

Sources: International Civil Aviation Organization – ICAO; ABEAR associates.

FINANCIAL STATEMENTS

BALANCE SHEET – AS OF DEC 31, 2012

BALANCE SHEET	USD (000)	BRL (000)	
CURRENT ASSETS			
Cash, Bank Balances and Short Term Investments	988,529.4	2,053,373.3	8%
Checking Accounts and Receivables	1,299,538.1	2,699,400.5	10%
Other Current Assets	821,165.3	1,705,724.6	6%
	3,109,232.8	**6,458,498.4**	**24%**
SPECIAL FUNDS	**183,965.2**	**382,132.4**	**1%**
OPERATING EQUIPMENT AND PROPERTIES			
Owned Flight Equipment	1,155,194.8	2,399,570.7	9%
Flight Equipment - Depreciation Reserve	(435,753.5)	(905,147.3)	-3%
Owned Ground Equipment	1,005,418.5	2,088,455.2	8%
Owned Ground Equipment - Depreciation Reserve	(265,527.7)	(551,554.1)	-2%
Leased Flight Equipment	7,286,729.0	15,135,993.5	56%
Flight Equipment - Accumulated Amortization	(2,377,951.1)	(4,939,479.9)	-18%
Lands	5,068.1	10,527.5	0%
	6,373,178.1	**13,238,365.6**	**49%**
NON-OPERATING EQUIPMENT AND PROPERTIES			
Non-operating Equipment and Properties	840,703.2	1,746,308.6	6%
Provision for depreciation and amortization	(187,300.8)	(389,061.2)	-1%
	653,402.4	**1,357,247.5**	**5%**

	USD (000)	BRL (000)	
OTHER ASSETS			
Deferred	180,665.5	375,278.3	1%
Intangible Assets	1,108,709.2	2,303,010.7	8%
Investments in Associated Companies	311,355.2	646,747.0	2%
Other Assets	1,133,680.1	2,354,880.4	9%
	2,734,410.0	**5,679,916.40**	**21%**
TOTAL ASSETS	**13,054,188.5**	**27,116,160.4**	**100%**
CURRENT LIABILITIES			
Accounts, Passenger Balances and Notes Payable	2,581,418.1	5,362,121.8	20%
Transport to be made	1,328,036.1	2,758,596.6	10%
Other Current Liabilities	2,080,643.1	4,321,911.9	16%
	5,990,097.4	**12,442,630.3**	**46%**
LONG TERM LIABILITIES			
Long Term Debts	2,575,286.9	5,349,386.0	20%
Long Term Liabilities for Leased Properties	1,786,472.2	3,710,860.0	14%
Advance to Affiliated Companies	318,983.3	662,592.1	2%
Reserves	174,859.7	363,218.6	1%
Other Long Term Liabilities	2,126,622.1	4,417,419.4	16%
	6,982,224.2	**14,503,476.1**	**53%**
SHAREHOLDERS' EQUITY			
Capital Stock	2,303,236.4	4,784,282.6	18%
Superplus	386,220.3	802,256.8	3%
Retained Earnings	(2,607,589.8)	(5,416,485.4)	-20%
	81,866.9	**170,053.9**	**1%**
TOTAL LIABILITIES	**13,054,188.5**	**27,116,160.4**	**100%**

Sources: International Civil Aviation Organization – ICAO; ABEAR associates.

MAIN OPERATING INDICATORS

2012	Revenues Tickets/ pax-km-Yield Pax (R$/km)	Total Revenues/ seats-km - RASK (R$/km)	Revenues Tickets/ seats-km - PRASK (R$/km)	Total Revenues/ flight hour (R$/fh)	Total Revenues/ take-off (R$/dep)	Total Cost/ flight hour (R$/fh)	Break-Even - BELF %
ABEAR Total	0.2525	0.1908	0.1652	17,659.22	29,466.35	19,095.31	92%

SERVICE QUALITY

Consumer satisfaction surveys have repeatedly shown that on time flights and the small number of mishandled baggage are among the main attributes valued by air transport passengers. Thus, the quality assessment of the services provided by airlines must undergo a comparative assessment of the indicators related to these attributes.

As far as international flights are concerned, a flight arriving at its destination 15 or more minutes late is deemed as a delayed flight. There are no other criteria abroad to define on time flight.

In Brazil, however, on time flight is defined according to the following three criteria: flights delayed for or in excess of 15 minutes, 30 minutes or 60 minutes.

The United States are used as reference because their geographical dimensions have the same magnitude as those of Brazil and due to the availability of data on this matter.

As it can be seen from the chart on page 40, the on time departure rate of domestic flights in Brazil in 2012 (79%) was similar to this rate in the United States for the same year (82%).

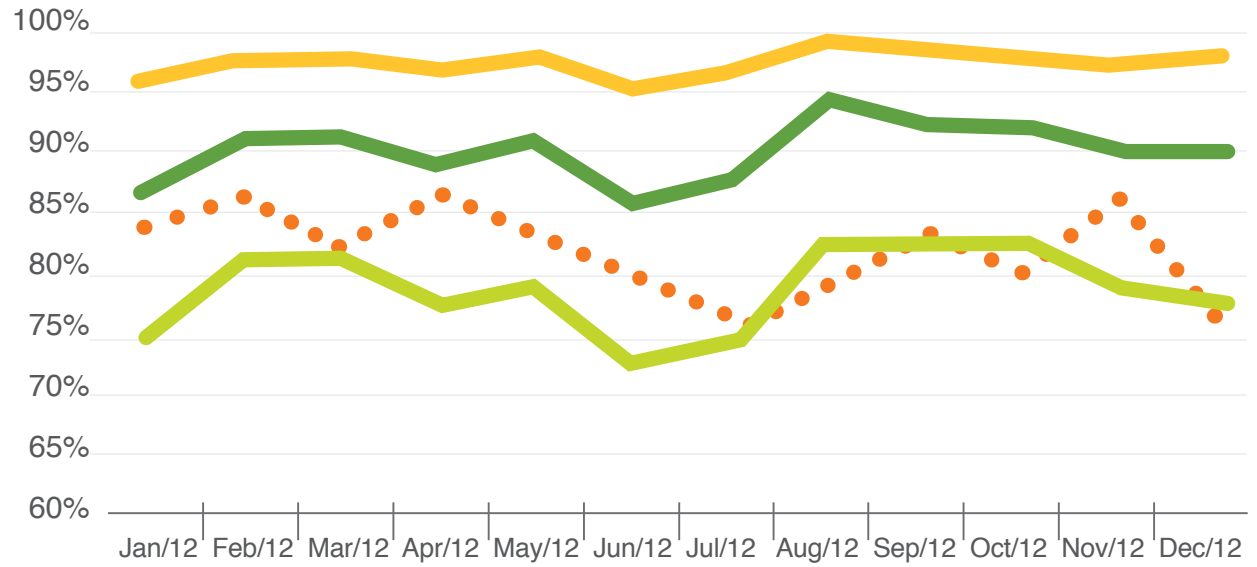
However, the role played by weather conditions as a justification for delays is rather different between Brazil (13%) and the United States (32%). As a result of the criteria differences between the two countries regarding other justifications for flight delays, a safe comparison between said reasons cannot yet be made.

However, it is possible to assume that, in Brazil, there is a larger number of reasons related to aeronautical infrastructure bottlenecks than in the United States.

Regarding mishandled baggage, statistics record a favorable situation in Brazil in 2012 (2.8 occurrences per 1,000 passengers) vis-à-vis the world average (8.8/1,000 passengers) and the European figures (9.4/1000 passengers). Brazil recorded slightly better figures than North America (3.1/1000 passengers). However, in 2012, Asia showed the best performance for this indicator (1.7/1000 passengers).

PUNCTUALITY

PUNCTUALITY RATES OF AIRLINES IN BRAZIL AND THE USA IN 2012*



Brazil punctuality rate 60 min
Avg: 97%

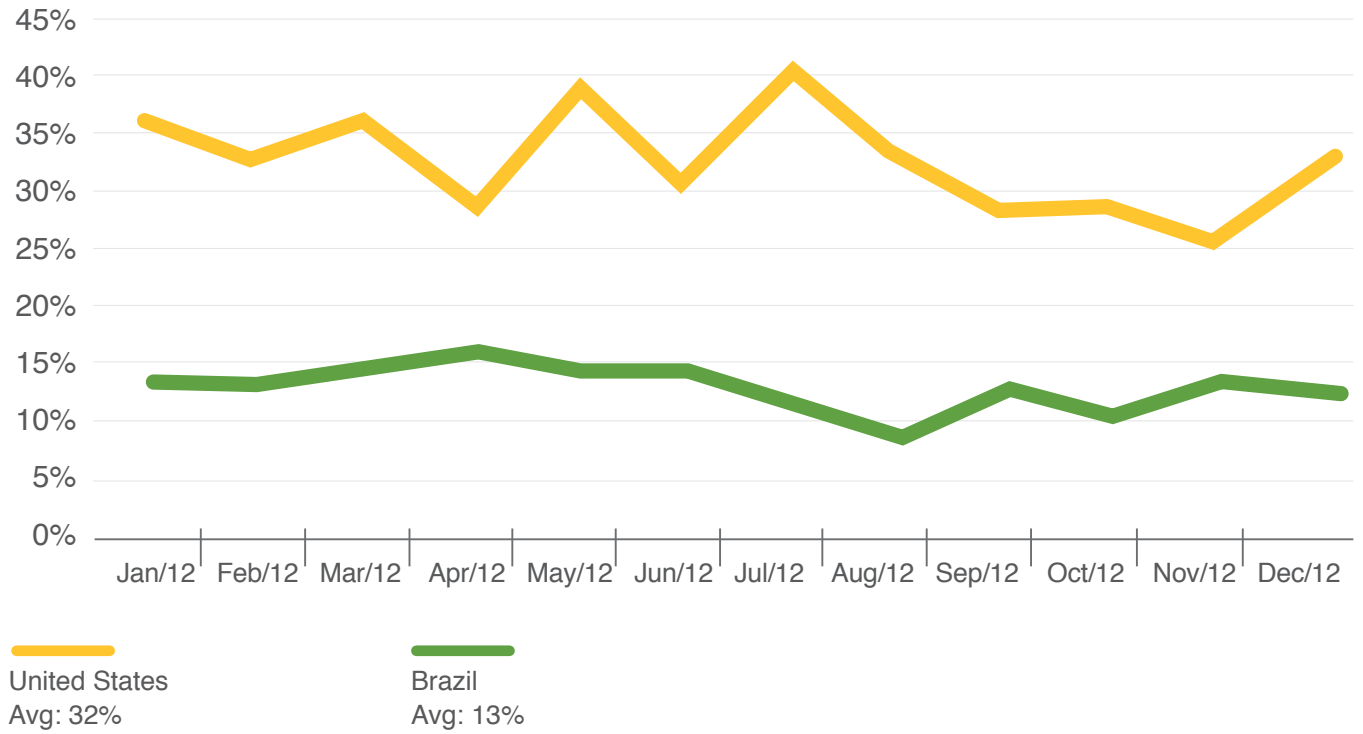
Brazil punctuality rate 30min
Avg: 90%

Brazil punctuality rate 15min
Avg: 79%

U.S. punctuality rate 15 min
Avg: 82%

* Brazilian punctuality rates refer to domestic flights. U.S. on time flights rates refer to domestic and international flights.
Sources: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency), US Department of Transportation – DOT.

DELAYS OVER 15 MINUTES CAUSED BY ADVERSE WEATHER CONDITIONS IN 2012*

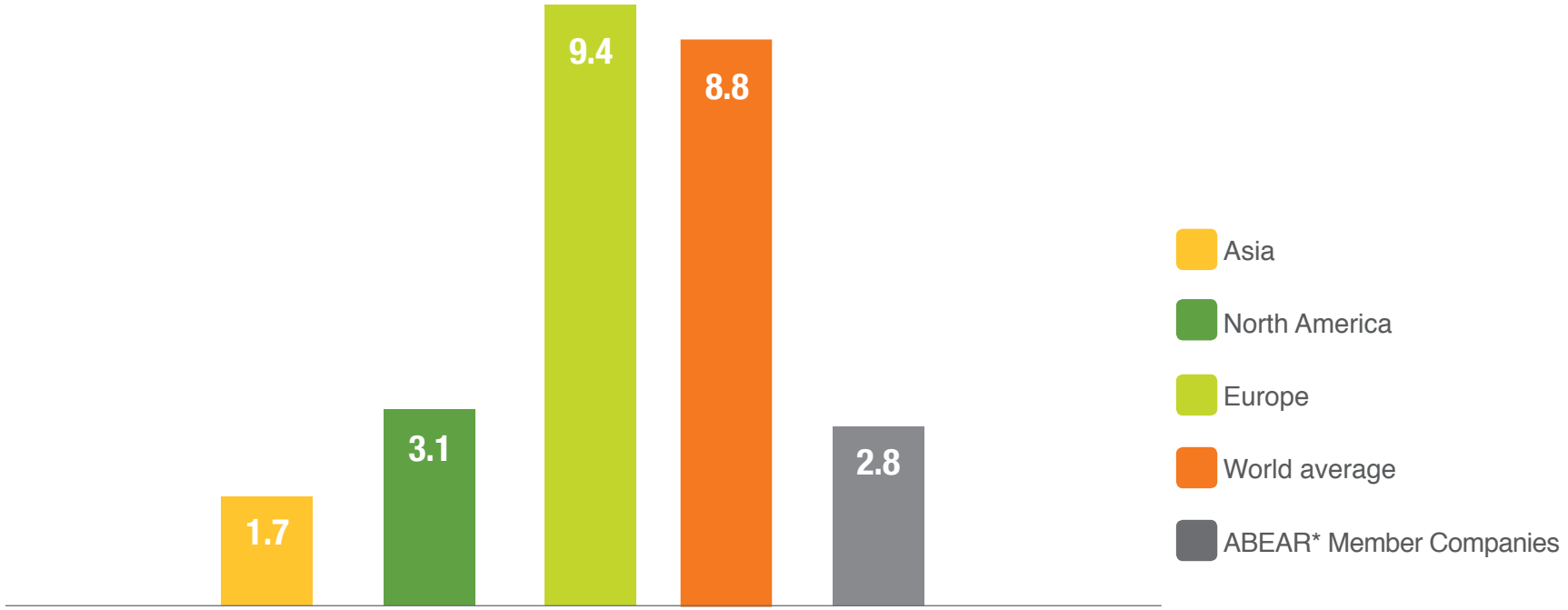


* Brazilian punctuality rates refer to domestic flights. U.S. on time flights rates refer to domestic and international flights.

Sources: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency), US Department of Transportation – DOT.

MISHANDLED AND DAMAGED BAGGAGE

MISHANDLED AND DAMAGED BAGGAGE PER 1,000 PASSENGERS BOARDED* – 2012



* ABEAR associates data refer to the number of open administrative proceedings. Data on airlines of other countries refers to the number of baggage items lost. Therefore, there may be slight variations according to the criteria being adopted.
Sources: Sita, ABEAR associates.

DOMESTIC PASSENGER AIR TRANSPORT MARKET IN BRAZIL

DEMAND ESTIMATES

The behavior of the domestic passenger air transport demand in Brazil is an excellent example of econometric modeling adjustment. In this case, the variables GDP and yield (average prices paid by revenue passenger/kilometer) explained 98.57% of the occurrences while 1.43% of them are explained by other variables that were not taken into account as well as unexplainable random factors. The long history of forty-two observations strengthens even more the conclusions derived from the econometric model.

The interpretation of the econometric model outlined here is that the domestic demand elasticity (in revenue passenger kilometer) with regard to the GDP is approximately 1.91. Thus, for each GDP percentage variation point, with the other conditions remaining constant, the air transport demand will, on average, vary 1.91 percentage point.

Regarding the yield, the domestic demand elasticity found is about -0.44. Thus, for a general and uniform variation of the industry prices of -1 percentage point, the demand will on average increase by 0.44 percentage point. Of course, this does not mean that if an airline unilaterally reduces its prices, its sales will be expected to increase in the above proportion.

Actually, according to the economic theory, if these circumstances should prevail, the demand for this airline will increase up to the limit of its physical capacity. It also must be clear that if price reductions capable of affecting just one segment of the demand are made (promotional fees targeted at the public that travels for tourism, for example), the demand variation will not occur in the same proportion as above.

In this manner, the demand elasticity concept for prices will apply to aggregated demand variations with regard to the uniform variation of the average prices.

The statistic trend model is developed in the same manner as the the econometric model. However, this

considers only time as an independent variable and disregards the other economic variables. Developing the statistical model is useful to check whether the econometric model has not led to some statistic trap.

In this case, the trend found fits especially the demand history, and the time variable was capable of explaining approximately 96.11% of the demand. This ascertainment, in turn, reinforces the conclusions drawn from the econometric modeling.

The following forecasts were based on expected independent variations - in this case GDP and yield.

The optimistic and pessimistic levels were calculated by adding and subtracting multiples of the standard deviation, which measurement is most commonly used to assess the inaccuracies inherent to the model estimates in relation to the findings. In this case, the range between the optimistic and pessimistic forecasts has been generated so that the probability of a future occurrence in this interval is 95%.

DOMESTIC MARKET SHARE

The domestic market share in the demand and offer in 2012 shown on the charts in the following pages reflects a significant increase in the AZUL/TRIP and AVIANCA market shares. However, the presence of these companies in the main Brazilian domestic markets is proportionally lower than their average share in the market as a whole. The exception in this case is the share of AVIANCA in the Congonhas-Santos Dumont market, which is relatively high (approximately 27%) as compared to its share in the Brazilian domestic market total (approximately 5%).

It is important to remark that the twenty largest Brazilian domestic markets correspond to about one third of the domestic boardings.

This reflects the very high regional concentration of the population and of the Brazilian GDP, which restricts the demand of this market, especially if it is measured by revenue passenger/ kilometer.

MARKET CONCENTRATION

It is often thought that the domestic air transport in Brazil is a very concentrated segment of this industry (that is, made up of a few service providers). An assessment of the degree of concentration in an industry (whatever it may be) is provided by the Herfindahl-Hirschman Index (HHI), whose construction and interpretation we explain below.

In order to check whether the assumption that there is a high concentration in the domestic air transport industry in Brazil is true, a statistic survey was carried out covering the twenty largest world markets for this industry, which correspond to 93% of the world demand.

The countries covered by this survey correspond to 78% of the world GDP.

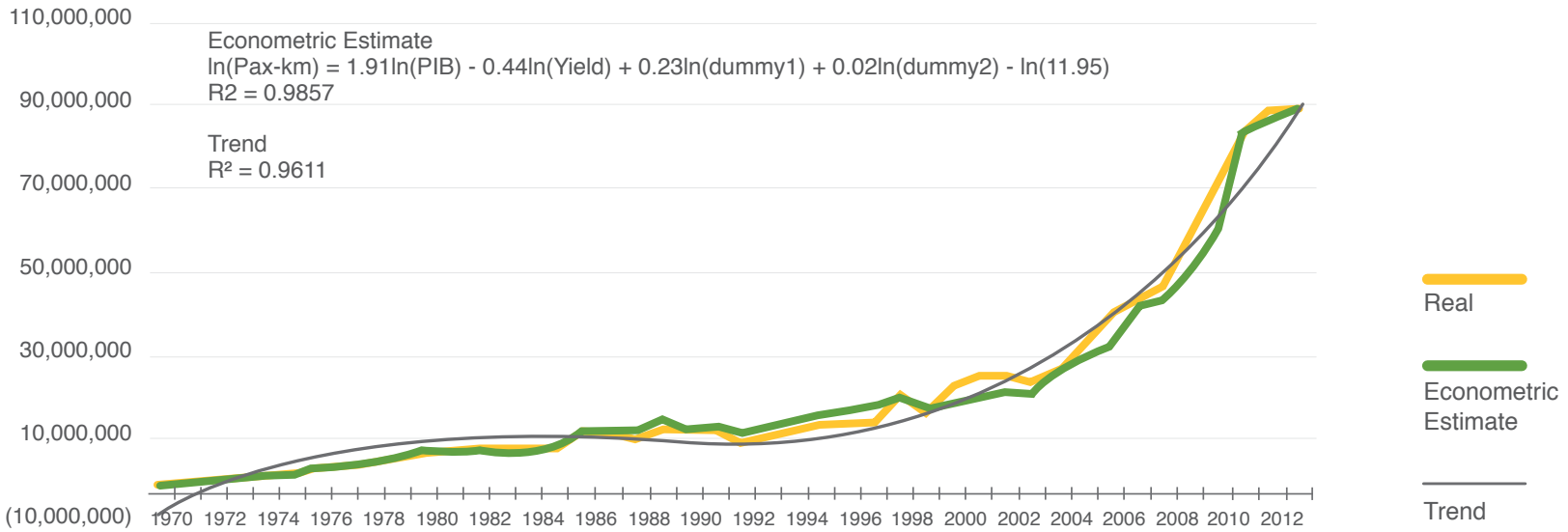
As it can be seen, market concentration in this industry in Brazil, as measured according to the HHI, is far below the median of the countries covered by the survey, even with the index for Brazil showing a moderate to high concen-

tration level (2694). The conclusion was that a high degree of concentration is an intrinsic feature of the air transport industry and that Brazil is among the less concentrated markets, even in case our survey includes the United States and China, countries with different peculiarities in relation to Brazil.

AIR TRANSPORT DEMAND

HISTORY AND STATISTIC MODELING

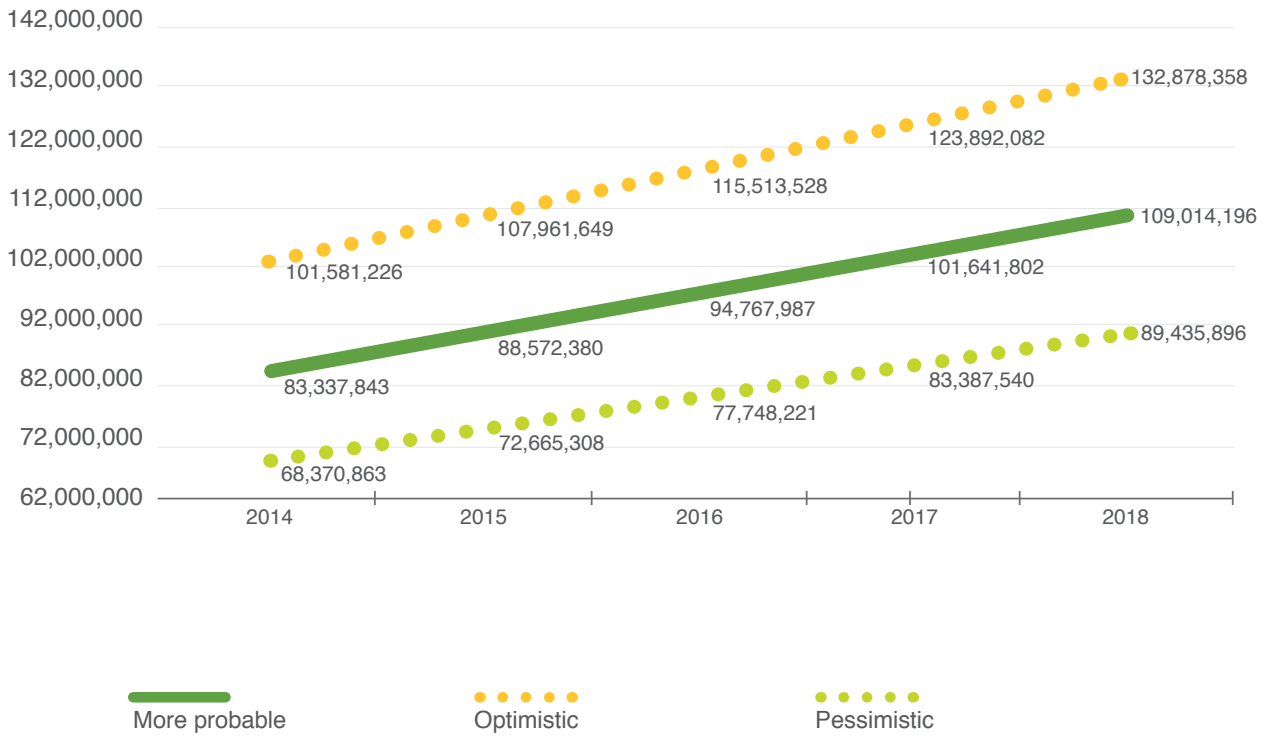
Passenger air transport demand in Brazil (pax-km 000) – Historic data



Sources: National Civil Aviation Agency – ANAC; DAC – Departamento de Aviação Civil (Civil Aviation Department)

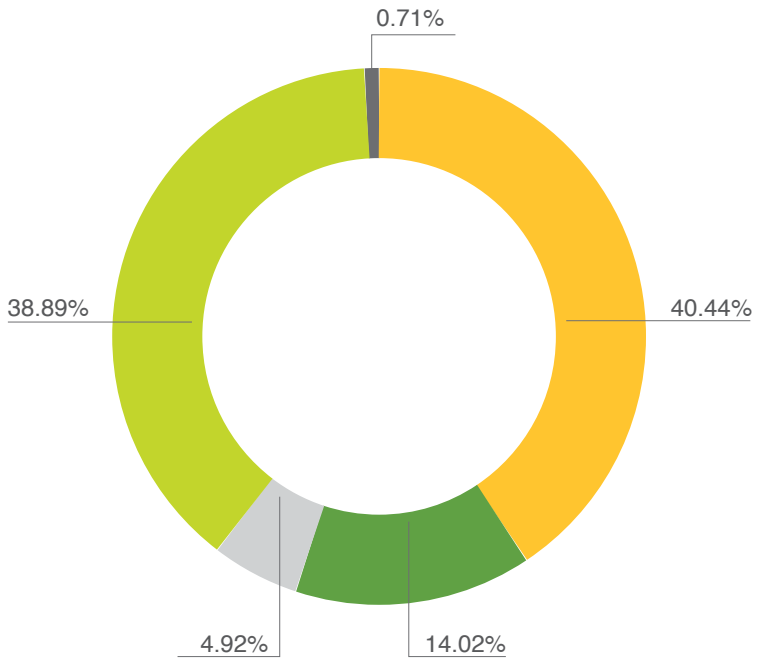
FORECASTS

Passenger air transport demand in Brazil (pax-km 000) – Forecasts

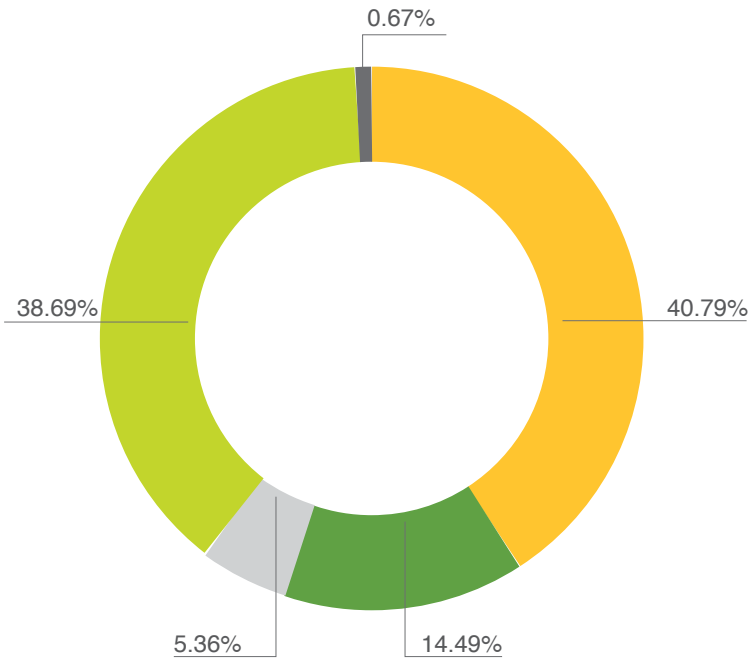


MARKET SHARE

OFFER (ASK) – CAPACITY SHARE 2012



DEMAND (RPK) – MARKET SHARE 2012



Source: ANAC – Agência Nacional de Aviação Civil (National Civil Aviation Agency)

MAIN BRAZILIAN DOMESTIC MARKETS

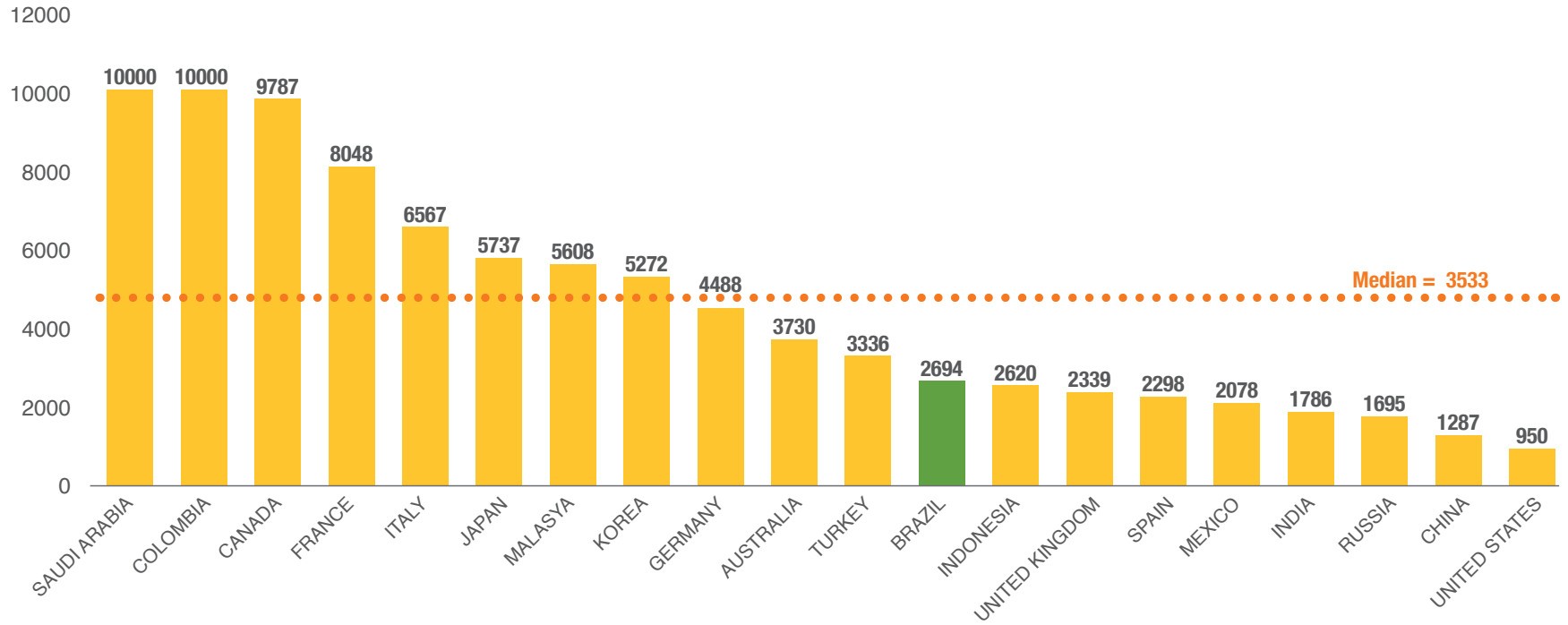
LARGEST MARKETS IN 2012, MARKET SHARE PER AIRLINE

Markets	Passengers carried *	Market share (CS) %			
		AVIANCA	AZUL/TRIP	GOL	TAM
São Paulo (Congonhas) - Rio de Janeiro (Santos Dumont)	3,855,601	14	-	43	43
São Paulo (Guarulhos) - Salvador	2,273,350	27	5	32	36
Brasília - São Paulo (Congonhas)	1,979,967	7	-	44	48
Recife - São Paulo (Guarulhos)	1,824,686	44	19	38	-
São Paulo (Guarulhos) - Porto Alegre	1,755,426	20	-	47	33
Porto Alegre - São Paulo (Congonhas)	1,469,184	-	-	45	55
Belo Horizonte (Confins) - São Paulo (Congonhas)	1,466,765	-	-	50	50
Fortaleza - São Paulo (Guarulhos)	1,453,733	21	-	29	50
Salvador - Rio de Janeiro (Galeão)	1,335,677	23	-	38	38
Curitiba - São Paulo (Congonhas)	1,299,319	-	-	50	50
Porto Alegre - Rio de Janeiro (Galeão)	1,241,525	8	-	50	42
Rio de Janeiro (Galeão) - São Paulo (Guarulhos)	1,224,854	12	-	47	41
São Paulo (Guarulhos) - Brasília	1,206,564	11	28	33	28
Rio de Janeiro (Santos Dumont) - Brasília	1,191,044	13	-	50	38
Brasília - Belo Horizonte (Confins)	1,188,944	8	23	31	38
São Paulo (Guarulhos) - Curitiba	1,134,958	-	28	33	39
Campinas - Rio de Janeiro (Galeão)	907,975	-	-	29	71
São Paulo (Guarulhos) - Belo Horizonte (Confins)	904,471	-	39	39	22
Belo Horizonte (Confins) - Rio de Janeiro (Santos Dumont)	898,869	-	39	39	22
Rio de Janeiro (Galeão) - Recife	894,178	9	-	45	45

* Considering routes in both directions.
Source: National Civil Aviation Agency – ANAC; ABEAR associates.

MARKET CONCENTRATION IN THE MAIN DOMESTIC MARKETS

HERFINDAHL-HIRSCHMAN INDEX - HHI*



* The HHI calculation was based on the number of passengers carried in 2012 in the world's twenty largest domestic markets, which corresponded to 93% of the world domestic demand
An HHI is defined by the sum of the squares of the market shares of the companies that operate in a certain market, expressed in percentage points. It varies from 1 to 10,000.

Interpretation:
An HHI below 100 indicates a highly competitive market;
An HHI below 1500 indicates a non-concentrated market;
An HHI between 1500 and 2500 indicates a moderate market concentration;
An HHI above 2500 indicates a high market concentration.

Source: International Civil Aviation Organization – ICAO.

DOMESTIC PASSENGER AIR TRANSPORT COST AND PRICES

The difficulty to obtain comprehensive data about the domestic markets of the different countries leads the comparative analysis to be based on samples. No matter how much careful the planning work and the data gathering are, an analysis based on samples is subject to higher potential error than an analysis based on the whole surveyed universe.

Even if this restriction is considered, the representativeness of the markets chosen and the data survey methodology used may lead to important conclusions.

To conduct a comparative study of the effective average prices in the world's twenty largest markets, five city pairs were selected in each country, the distance between them being as close to 1,000 km as possible.

In addition, measurements were taken in each case considering ticket purchase in advance of one, two, three and four weeks, which is the practice in this type of survey.

The results of the comparative survey are shown in the table and chart that follow. Based on those results, it is possible to conclude that:

1. The airfares in Brazil are equivalent to those of Russia and the United States and are significantly lower than those of China and Japan.

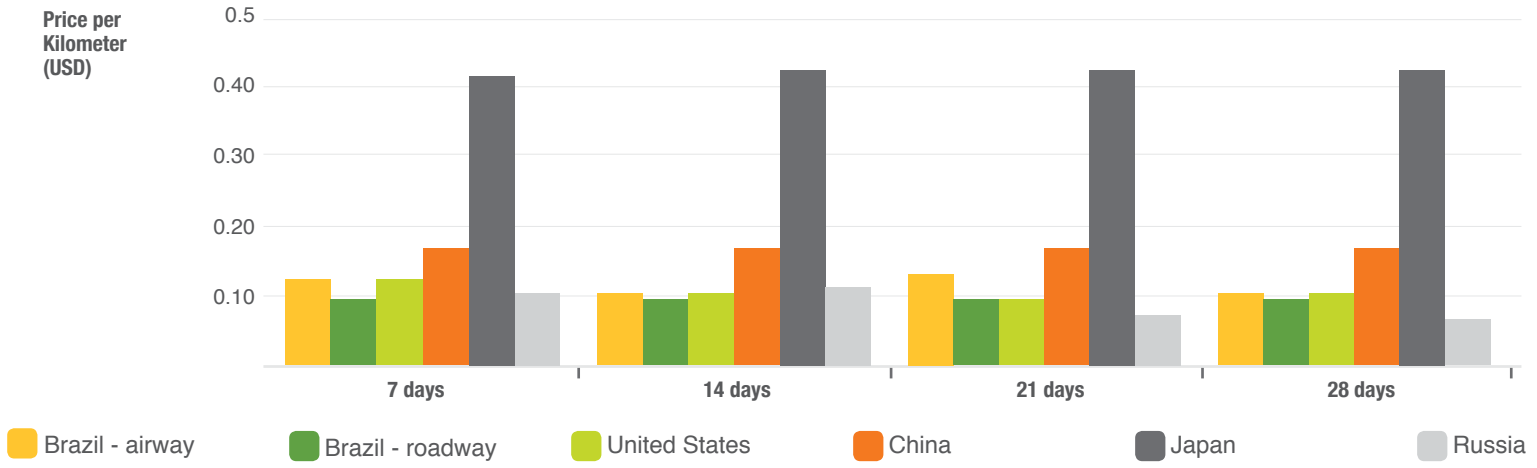
2. The airfares in Brazil are slightly higher than bus travel fares.

Out of all the costs involved, fuel is the one that recorded the greatest increases in 2012. The main cause for this increase was the oil increases in the world market. However, it should be pointed out that the breakdown of the aviation fuel prices shows a very high tax burden, which makes this input in Brazil to be among the highest in the world with prices

30% above the world average. (Approximate calculation based on the aviation fuel price average for international flights departing from Guarulhos and Galeão – USD 3.78 – in comparison to the average prices paid at the Madrid, Paris, London, Miami, Frankfurt and New York airports – USD 2.93 – as shown on the chart of page 60).

The evolution of costs and airfares paid in the passenger domestic air transport is shown on page 61. The chart highlights the 30% drop in the airfares from 1970 to 2012. This drop further increased in 2013. At the same time, fuel costs increased by 140% in the same period. The survival of air transport companies was possible due to their improved flight load factor and increased efficiency. This resulted in a 52% total cost increase against an IPCA inflation rate of 77%. (Translator's note: IPCA states for "Índice de Preços ao Consumidor Amplo", an official inflation rate index most commonly used in Brazil) Accordingly, the evolution of costs and airfares resulted in operating losses for the industry, with few precedents in history as we commented before.

DISTANCE-BASED PUBLIC SERVICE CHARGES FOR DOMESTIC TRANSPORT STAGES CLOSE TO 1,000 KM*

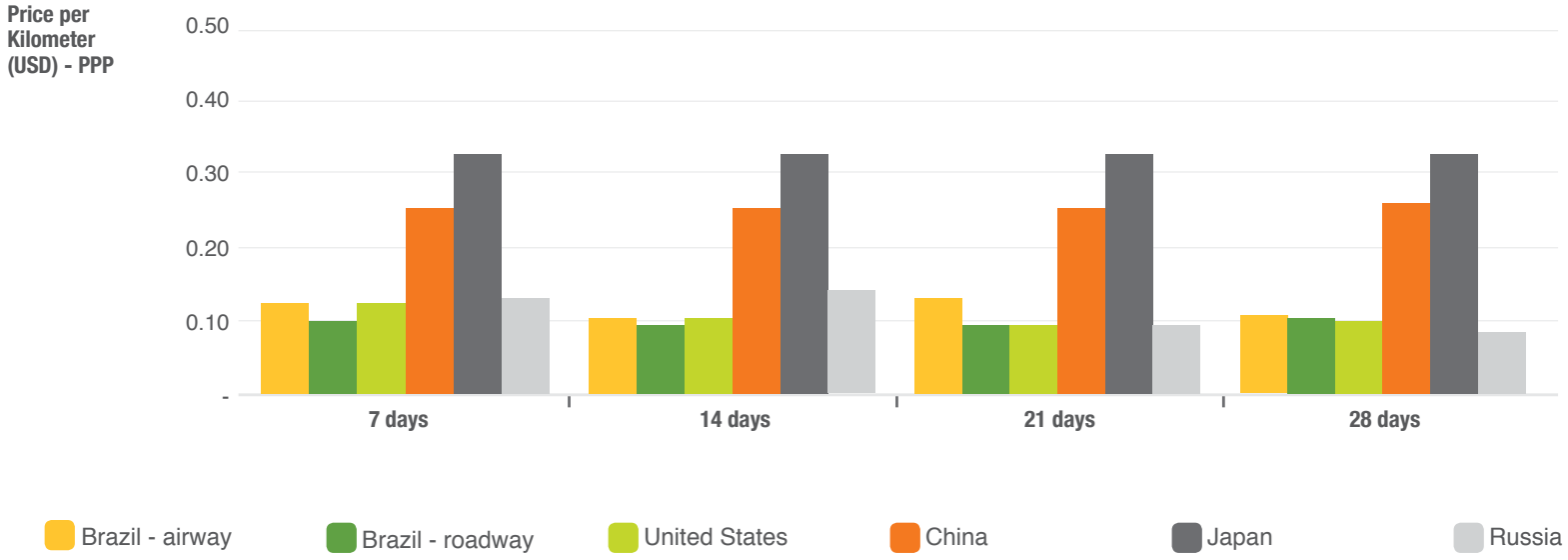


*2013 Data. Inclusion of such data in this edition was important for allowing an overall understanding of the air transport industry. No data are available for years prior to this survey.
Sources: ABEAR associates, Edreams and Busca Ônibus. Data gathered from October 16 to 21, 2013.

			ONE-WAY FARES (USD)				ONE-WAY FARES / DISTANCE (USD/KM)			
			PURCHASE IN ADVANCE							
	City pairs	Distance (km)	7 days min	14 days min	21 days min	28 days min	7 days min	14 days min	21 days min	28 days min
BRAZIL AIRWAY	BSB-GRU	851	202.51	165.23	174.44	167.53	0.1189	0.0970	0.1025	0.0984
	BSB-GIG	911	195.15	141.76	243.02	137.16	0.1071	0.0778	0.1334	0.0753
	CNF-CWB	843	126.11	100.34	100.34	100.34	0.0748	0.0595	0.0595	0.0595
	GRU-POA	864	201.59	189.17	215.40	197.91	0.1166	0.1094	0.1246	0.1145
	CNF-SSA	958	366.37	299.17	424.36	305.15	0.1913	0.1562	0.2216	0.1593
	AVG	885	218.35	179.13	231.51	181.62	0.1218	0.1000	0.1283	0.1014
BRAZIL ROADWAY	BSB-GRU	851	157.91	157.91	157.91	157.91	0.0927	0.0927	0.0927	0.0927
	BSB-GIG	911	127.95	127.95	127.95	127.95	0.0702	0.0702	0.0702	0.0702
	CNF-CWB	843	162.81	162.81	162.81	162.81	0.0965	0.0965	0.0965	0.0965
	GRU-POA	864	170.76	170.76	170.76	170.76	0.0988	0.0988	0.0988	0.0988
	CNF-SSA	958	211.21	211.21	211.21	211.21	0.1103	0.1103	0.1103	0.1103
	AVG	885	166.13	166.13	166.13	166.13	0.0937	0.0937	0.0937	0.0937
UNITED STATES	ATL-MIA	956	210.00	164.00	164.00	164.00	0.1098	0.0858	0.0858	0.0858
	CHI-NYC	1,147	188.00	183.00	183.00	280.00	0.0819	0.0797	0.0797	0.1220
	CLE-NYC	665	273.00	160.00	135.00	110.00	0.2054	0.1204	0.1016	0.0828
	DET-NYC	774	194.00	185.00	185.00	185.00	0.1253	0.1195	0.1195	0.1195
	LAX-SLC	949	208.00	191.00	166.00	147.00	0.1095	0.1006	0.0874	0.0774
	AVG	898	214.60	176.60	166.60	177.20	0.1264	0.1012	0.0948	0.0975
CHINA	PEK-SHA	1,075	335.00	353.00	353.00	353.00	0.1558	0.1642	0.1642	0.1642
	NKG-PEK	948	331.00	331.00	331.00	331.00	0.1746	0.1746	0.1746	0.1746
	CAN-SHA	1,175	347.00	349.00	349.00	410.00	0.1477	0.1485	0.1485	0.1745
	PEK-SZX	1,207	574.00	574.00	574.00	574.00	0.2378	0.2378	0.2378	0.2378
	HKG-SHA	1,230	283.00	257.00	259.00	253.00	0.1151	0.1045	0.1053	0.1029
	AVG	1,127	374.00	372.80	373.20	384.20	0.1662	0.1659	0.1661	0.1708
JAPAN	NGS-TYO	958	752.00	752.00	752.00	752.00	0.3927	0.3927	0.3927	0.3927
	KIX-NRT	492	435.00	435.00	435.00	435.00	0.4417	0.4417	0.4417	0.4417
	NRT-UKB	486	435.00	435.00	435.00	435.00	0.4475	0.4475	0.4475	0.4475
	FUK-NRT	941	710.00	710.00	710.00	710.00	0.3771	0.3771	0.3771	0.3771
	HIJ-NRT	697	596.00	596.00	596.00	596.00	0.4277	0.4277	0.4277	0.4277
	AVG	715	585.60	585.60	585.60	585.60	0.4173	0.4173	0.4173	0.4173
RUSSIA	DME-LED	668	92.00	92.00	92.00	92.00	0.0689	0.0689	0.0689	0.0689
	LED-KUF	1,400	249.00	249.00	159.00	159.00	0.0889	0.0889	0.0568	0.0568
	DME-KUF	821	283.00	283.00	203.00	203.00	0.1724	0.1724	0.1237	0.1237
	DME-KZN	718	187.00	187.00	94.00	71.00	0.1303	0.1303	0.0655	0.0495
	LED-KZN	1,221	156.00	224.00	132.00	113.00	0.0639	0.0917	0.0540	0.0463
	AVG	966	193.40	207.00	136.00	127.60	0.1049	0.1104	0.0738	0.0690

Sources: ABEAR associates, Edreams and Busca Ônibus. Data gathered in the period October 16 to 21, 2013.

DISTANCE-BASED PUBLIC SERVICE CHARGES FOR DOMESTIC TRANSPORT STAGES CLOSE TO 1,000 KM*

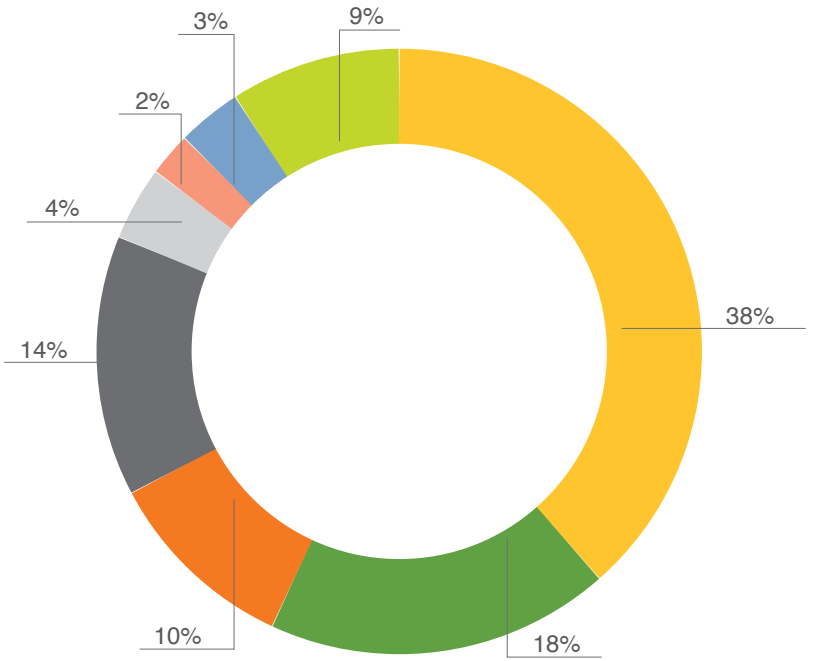


*2013 Data. Inclusion of such data in this edition was important for allowing an overall understanding of the air transport industry. No data are available for years prior to this survey.
Values adjusted according to the Purchasing Power Parity (PPP) rate published by the IMF - International Monetary Fund (October 2013).
Sources: ABEAR associates, Edreams and Busca Ônibus. Data gathered in the period October 16 to 21, 2013.

			ONE-WAY FARES (USD)				ONE-WAY FARES / DISTANCE (USD/KM)			
			PURCHASE IN ADVANCE							
	City pairs	Distance (km)	7 days	14 days	21 days	28 days	7 days	14 days	21 days	28 days
			min	min	min	min	min	min	min	min
BRAZIL AIRWAY	BSB-GRU	851	212.26	173.19	182.83	175.60	0.1247	0.1017	0.1074	0.1031
	BSB-GIG	911	204.54	148.58	254.71	143.76	0.1123	0.0816	0.398	0.0789
	CNF-CWB	843	132.18	105.17	105.17	105.17	0.0784	0.0624	0.0624	0.0624
	GRU-POA	864	211.30	198.27	225.77	207.44	0.1223	0.1147	0.1306	0.1200
	CNF-SSA	958	384.00	313.57	444.78	319.84	0.2005	0.1637	0.2323	0.1670
	AVG	885	228.86	187.76	242.65	190.36	0.1276	0.1048	0.1345	0.1063
BRAZIL ROADWAY	BSB-GRU	851	165.52	165.52	165.52	165.52	0.0972	0.0972	0.0972	0.0972
	BSB-GIG	911	134.11	134.11	134.11	134.11	0.0736	0.0736	0.0736	0.0736
	CNF-CWB	843	170.65	170.65	170.65	170.65	0.1012	0.1012	0.1012	0.1012
	GRU-POA	864	178.98	178.98	178.98	178.98	0.1036	0.1036	0.1036	0.1036
	CNF-SSA	958	211.38	221.38	221.38	221.38	0.1156	0.1156	0.1156	0.1156
	AVG	885	174.13	174.13	174.13	174.13	0.0982	0.0982	0.0982	0.0982
UNITED STATES	ATL-MIA	956	210.00	164.00	164.00	164.00	0.1098	0.0858	0.0858	0.0858
	CHI-NYC	1,147	188.00	183.00	183.00	280.00	0.0819	0.0797	0.0797	0.1220
	CLE-NYC	665	273.00	160.00	135.00	110.00	0.2054	0.1204	0.1016	0.0828
	DET-NYC	774	194.00	185.00	185.00	185.00	0.1253	0.1195	0.1195	0.1195
	LAX-SLC	949	208.00	191.00	166.00	147.00	0.1095	0.1006	0.0874	0.0774
	AVG	898	214.60	176.60	166.60	177.20	0.1264	0.1012	0.0948	0.0975
CHINA	PEK-SHA	1,075	506.42	533.64	533.64	533.64	0.2355	0.2482	0.2482	0.2482
	NKG-PEK	948	500.38	500.38	500.38	500.38	0.2639	0.2639	0.2639	0.2639
	CAN-SHA	1,175	524.56	527.59	527.59	619.80	0.2233	0.2245	0.2245	0.2638
	PEK-SZX	1,207	867.72	867.72	867.72	867.72	0.3595	0.3595	0.3595	0.3595
	HKG-SHA	1,230	427.82	388.51	391.53	382.46	0.1740	0.1580	0.1592	0.1555
	AVG	1,127	565.38	563.57	564.17	580.80	0.2512	0.2508	0.2511	0.2582
JAPAN	NGS-TYO	958	585.23	585.23	585.23	585.23	0.3056	0.3056	0.3056	0.3056
	KIX-NRT	492	338.53	338.53	338.53	338.53	0.3437	0.3437	0.3437	0.3437
	NRT-UKB	486	338.53	338.53	338.53	338.53	0.3483	0.3483	0.3483	0.3483
	FUK-NRT	941	552.54	552.54	552.54	552.54	0.2935	0.2935	0.2935	0.2935
	HIJ-NRT	697	463.83	463.83	463.83	463.83	0.3328	0.3328	0.3328	0.3328
	AVG	715	455.73	455.73	455.73	455.73	0.3248	0.3248	0.3248	0.3248
RUSSIA	DME-LED	668	114.24	114.24	114.24	114.24	0.0855	0.0855	0.0855	0.0855
	LED-KUF	1,400	309.20	309.20	197.44	197.44	0.1104	0.1104	0.0705	0.0705
	DME-KUF	821	351.42	351.42	252.08	252.08	0.2141	0.2141	0.1536	0.1536
	DME-KZN	718	232.21	232.21	116.73	88.16	0.1618	0.1618	0.0813	0.0614
	LED-KZN	1,221	193.71	278.15	163.91	140.32	0.0793	0.1139	0.0671	0.0574
	AVG	966	240.16	257.04	168.88	158.45	0.1302	0.1371	0.0916	0.0857

Sources: ABEAR associates, Edreams and Busca Ônibus. Data gathered in the period October 16 to 21, 2013.

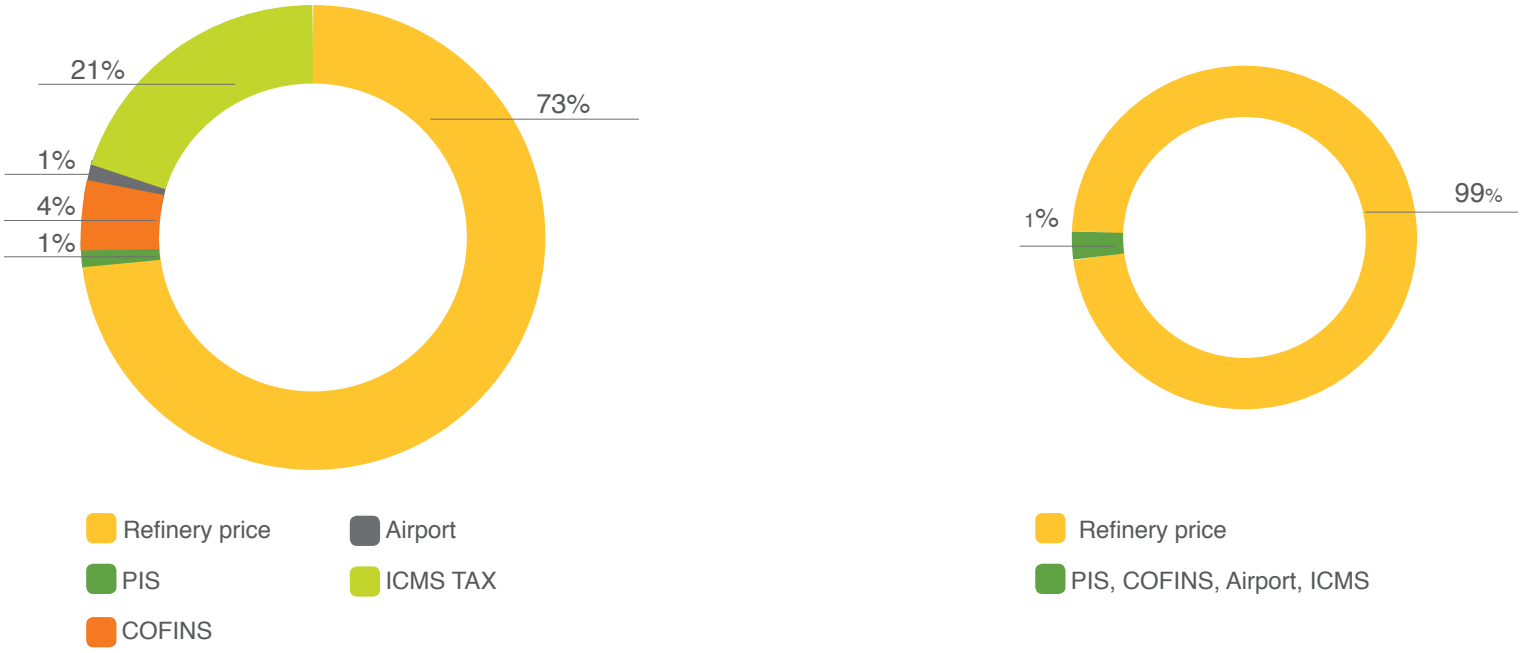
BREAKDOWN OF THE INDUSTRY COSTS IN 2012 - DOMESTIC



AVERAGE BREAKDOWN OF AVIATION FUEL COSTS – QAV – DOMESTIC

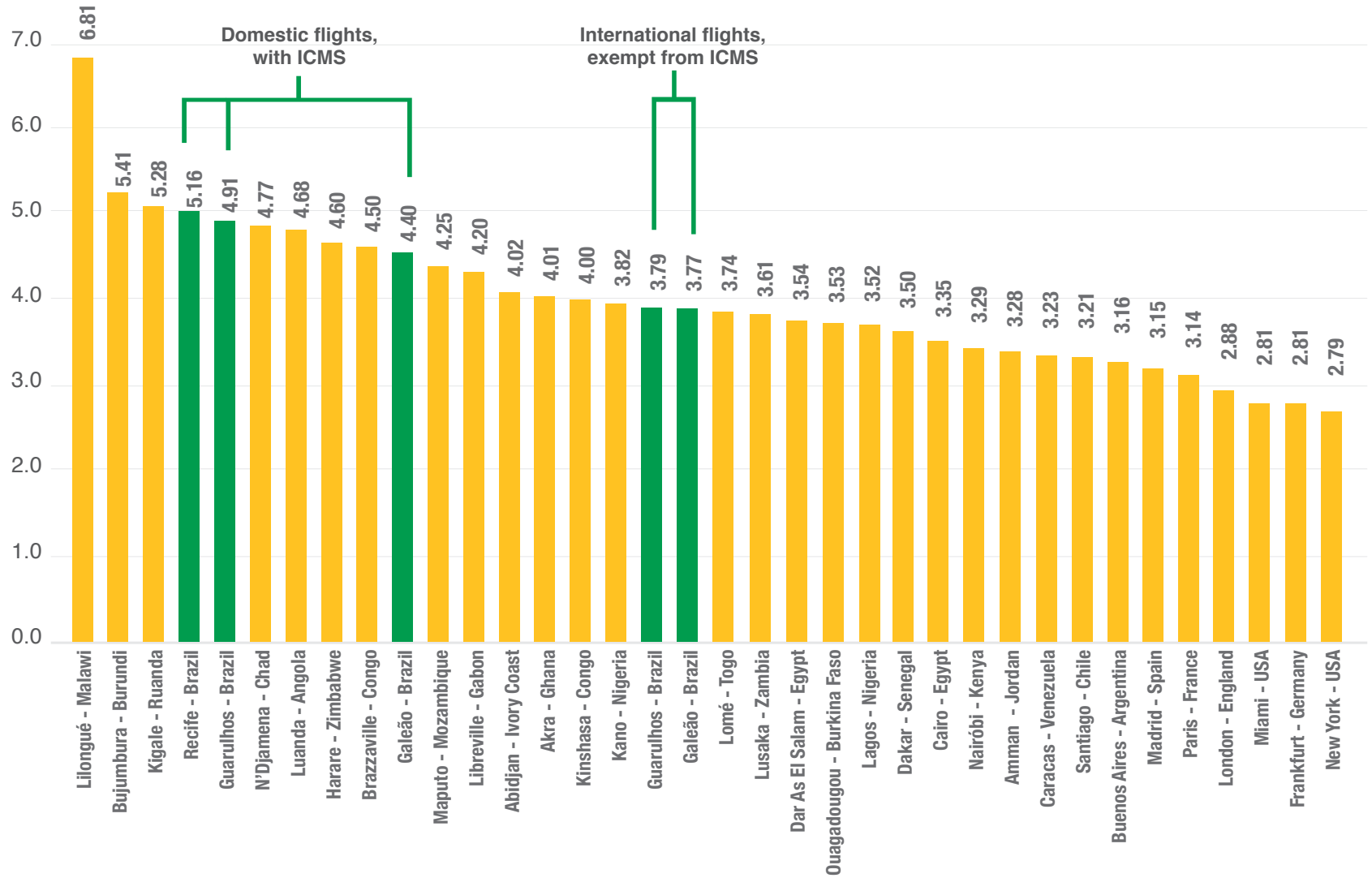
AVERAGE BREAKDOWN OF AVIATION FUEL COSTS - QAV - INTERNATIONAL

On average, the QAV final price paid by airlines
on international flights is lower than on domestic flights



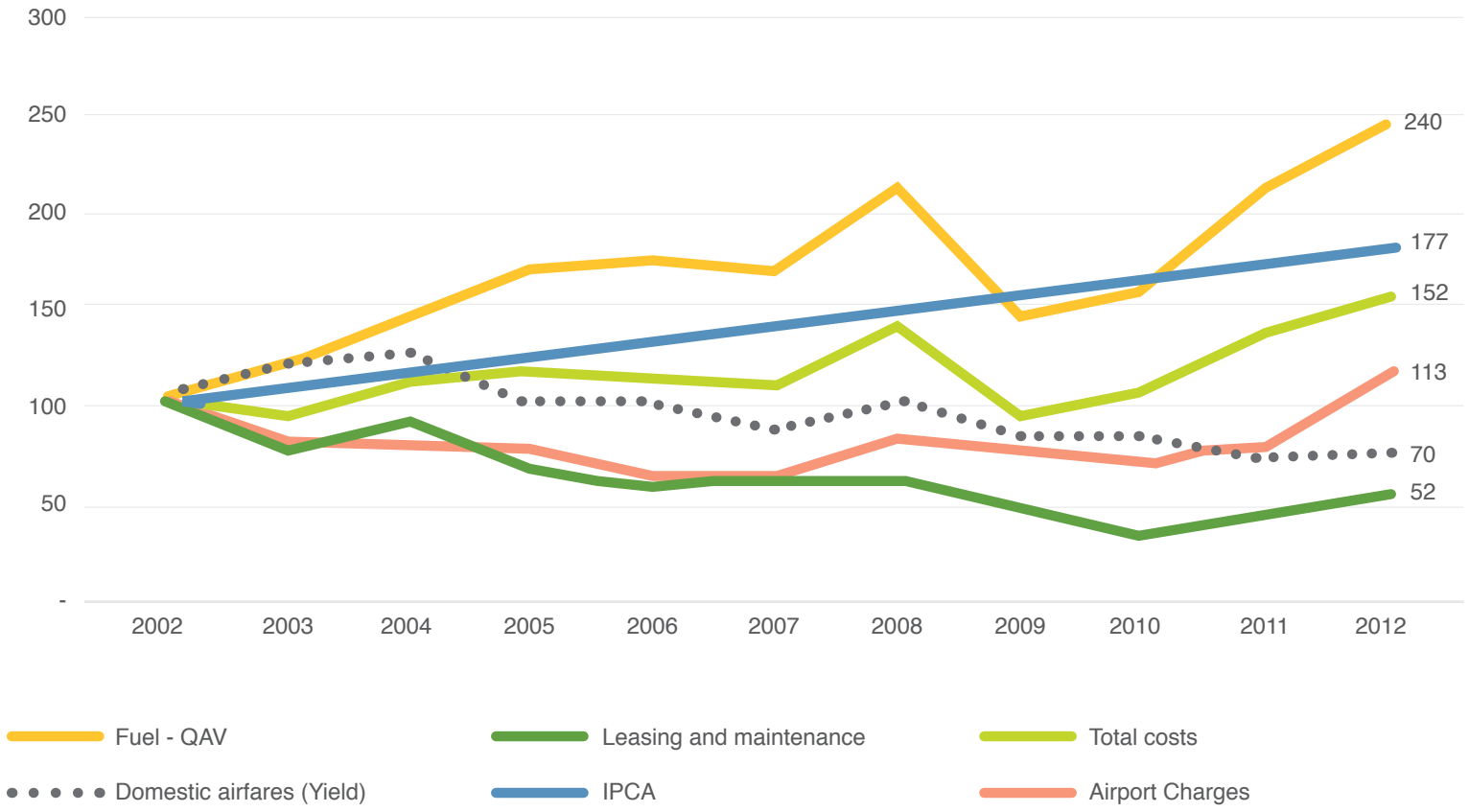
Simple arithmetical mean for the Brasília, Campinas, Manaus, Porto Alegre, Salvador and Curitiba airports.

AVIATION FUEL PRICE (IN US$ PER GALLON, AS OF APRIL 2013)



*2013 Data. Inclusion of such data in this edition was important for allowing an overall understanding of the air transport industry. No data are available for years prior to this survey.
Source: International Air Transport Association – IATA, Abril/2013.

EVOLUTION OF THE NOMINAL INDUSTRY COSTS - DOMESTIC



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www.anac.gov.br

Busca Ônibus
www.buscaonibus.com.br

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www.edreams.com

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International Air Transport Association (IATA) (Publications: "Benefits of Aviation" and "Vision 2050")
www.iata.org

International Civil Aviation Organization (ICAO)
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International Monetary Fund (IMF)
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www.sita.aero

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www.rita.dot.gov

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www.sec.gov.


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