Gol Intelligent Airlines Inc.
Form 20-F
April 30, 2018

As filed with the Securities and Exchange Commission on April 30, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017

OR

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

OR

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

Commission file number 001-32221

Gol Linhas Aéreas Inteligentes S.A.

(Exact name of Registrant as specified in its charter)

Gol Intelligent Airlines Inc.

(Translation of Registrant's name into English)

The Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

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

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

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

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None

The number of outstanding shares of each class of stock of Gol Linhas Aéreas Inteligentes S.A. as of December 31, 2017:

2,863,682,710 **Shares of Common Stock**

265,899,432 **Shares of Preferred Stock**

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

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

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

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes ¨ No ¨

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

Large accelerated Filer ¨	Accelerated Filer x	Non-accelerated Filer ¨

Indicate by check mark which basis of accounting the Registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ¨	International Financial Reporting Standards as issued by the International Accounting Standards Board x	Other ¨

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the Registrant has elected to follow.

Item 17 ¨ Item 18 ¨

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

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Presentation of Financial and Other Data

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

We have translated some of the *real* amounts contained in this annual report into U.S. dollars. The rate used to translate such amounts in respect of the year ended December 31, 2017 was R$3.308 to US$1.00, which was the commercial rate for the sale of U.S. dollars in effect on December 31, 2017, as reported by the Central Bank. The U.S. dollar equivalent information presented in this annual report is provided solely for the convenience of investors and should not be construed as implying that the *real* amounts represent, or could have been or could be converted into, U.S. dollars at the above rate. See "Item 3A. Selected Financial Data—Exchange Rates" for more detailed information regarding the Brazilian foreign exchange system and historical data on the exchange rate of the *real* against the U.S. dollar.

In this annual report, we use the terms "the Registrant" to refer to Gol Linhas Aéreas Inteligentes S.A., and "Gol," "Company," "we," "us" and "our" to refer to the Registrant and its consolidated subsidiaries together, except where the context requires otherwise. The term GLA refers to Gol Linhas Aéreas S.A., a wholly owned subsidiary of the Registrant. The term "VRG" refers to VRG Linhas Aéreas S.A. – the company formed from assets of the former Varig group, which we acquired in April 2007, and which is now called GLA. References to "preferred shares" and "ADSs" refer to non-voting preferred shares of the Registrant and American depositary shares representing those preferred shares, respectively, except where the context requires otherwise.

The phrase "Brazilian government" refers to the federal government of the Federative Republic of Brazil, and the term "Central Bank" refers to the Brazilian Central Bank (*Banco Central do Brasil*). The term "Brazil" refers to the Federative Republic of Brazil. The terms "U.S. dollar" and "U.S. dollars" and the symbol "US$" refer to the legal currency of the United States. The terms "*real*" and "*reais*" and the symbol "R$" refer to the legal currency of Brazil. We make statements in this annual report about our competitive position and market share in, and the market size of, the Brazilian and international airline industries. We have made these statements on the basis of statistics and other information from third party sources, governmental agencies or industry or general publications that we believe are reliable. Although we have no reason to believe any of this information or these reports are inaccurate in any material respect, we have not independently verified the competitive position, market share and market size or market growth data provided by third parties or by industry or general publications. All industry and market data contained in this annual report are from the latest publicly available information.

Certain figures included in this annual report have been rounded. Accordingly, figures shown as totals in certain tables may not be an arithmetic sum of the figures that precede them.

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

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

"Available seat kilometers" or "ASK" represents the aircraft seating capacity multiplied by the number of kilometers flown.

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

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

"Breakeven load factor" is the passenger load factor that will result in passenger revenues equaling operating expenses.

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

"Low-cost carrier" refers to airlines with a business model focused on a single fleet type, low cost distribution channels and a highly efficient flight network.

"Operating expense per available seat kilometer" or "CASK" represents operating expenses divided by available seat kilometers, which is the generally accepted industry metric to measure operational cost-efficiency.

"Operating expense excluding fuel expense per available seat kilometer" or "CASK ex-fuel" represents operating expenses less fuel expense, divided by available seat kilometers.

"Operating revenue per available seat kilometer" or "RASK" represents operating revenue divided by available seat kilometers.

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

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

"Revenue passenger kilometers" or "RPK" represents the number of kilometers flown by revenue passengers.

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

Cautionary Statements about Forward-Looking Statements

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

- general economic, political and business conditions in Brazil, South America and the Caribbean;
- the effects of global financial markets and economic crises;
- management's expectations and estimates concerning our financial performance and financing plans and programs;
- our level of fixed obligations;
- our capital expenditure plans;
- our ability to obtain financing on acceptable terms;
- our ability to service our debt;
- inflation and fluctuations in the exchange rate of the *real*;
- changes to existing and future governmental regulations, including air traffic capacity controls;

- fluctuations in crude oil prices and its effect on fuel costs;
- increases in fuel costs, maintenance costs and insurance premiums;
- changes in market prices, customer demand and preferences, and competitive conditions;
- cyclical and seasonal fluctuations in our operating results;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our strategy;

- developments in the Brazilian civil aviation infrastructure, including air traffic control, airspace and airport infrastructure; and

- future terrorism incidents, cyber-security threats or related activities affecting the airline industry.

The words “believe,” “may,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “intend,” “expect” and similar words are inter identify forward-looking statements. Forward-looking statements include information concerning our possible or assumed results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities and the effects of regulation and of competition. Forward-looking statements are valid only as of the date they were made, and we undertake no obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, events or other factors. In light of the risks and uncertainties described above, the forward-looking events and circumstances discussed in this annual report might not occur and are not guarantees of future performance.

PART I

ITEM 1. Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2. Offer Statistics and Expected Timetable

Not applicable.

ITEM 3. Key Information

A. Selected Financial Data

We present in this section the following summary financial data:

- Summary financial information derived from our audited consolidated financial statements included herein as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015; and

- Summary financial information derived from our audited consolidated financial statements not included herein as of December 31, 2015 and as of and for the years ended December 31, 2014 and 2013.

The following tables present summary consolidated financial and operating data for us for each of the periods indicated:

Summary Financial Information

	Year Ended December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2017[(1)]**
Statements of Operations	(in thousands of R$, except per share/ADS information)					(in thousands of US$)
Operating revenue:						
Passenger	8,122,161	9,045,831	8,583,388	8,671,442	9,185,805	2,776,846
Cargo and other	834,051	1,020,383	1,194,619	1,195,893	1,390,217	420,259
Total operating revenue	**8,956,212**	**10,066,214**	**9,778,007**	**9,867,335**	**10,576,022**	**3,197,105**
Operating expenses:						
Salaries	(1,333,462)	(1,374,096)	(1,580,531)	(1,656,785)	(1,708,111)	(516,358)
Aircraft fuel	(3,610,822)	(3,842,276)	(3,301,368)	(2,695,390)	(2,887,737)	(872,956)
Aircraft rent	(699,193)	(844,571)	(1,100,086)	(996,945)	(939,744)	(284,082)
Landing fees	(566,541)	(613,153)	(681,378)	(687,366)	(664,170)	(200,777)
Aircraft, traffic and mileage servicing	(354,730)	(431,974)	(678,075)	(753,497)	(874,736)	(264,430)
Passenger service expenses	(330,776)	(414,518)	(481,765)	(461,837)	(437,045)	(132,118)
Sales and marketing	(516,059)	(667,372)	(617,403)	(555,984)	(590,814)	(178,601)
Maintenance, materials and repairs	(460,805)	(511,045)	(603,925)	(593,090)	(368,719)	(111,463)
Depreciation and amortization	(560,966)	(463,296)	(419,691)	(447,668)	(505,425)	(152,789)
Other operating expenses	(256,869)	(396,481)	(493,621)	(320,948)	(610,310)	(184,495)
Total operating expenses	**(8,690,223)**	**(9,558,782)**	**(9,957,843)**	**(9,169,510)**	**(9,586,811)**	**(2,898,069)**
Equity results	-	(2,490)	(3,941)	(1,280)	544	164
Income (loss) before financial expense, net and income taxes	**265,989**	**504,942**	**(183,777)**	**696,545**	**989,755**	**299,200**
Financial income (expense), net	(919,216)	(1,457,622)	(3,263,323)	664,877	(918,759)	(277,739)
Profit (loss) before income taxes	**(653,227)**	**(952,680)**	**(3,447,100)**	**1,361,422**	**70,996**	**21,462**
Income taxes	(71,363)	(164,601)	(844,140)	(259,058)	307,213	92,870
Net income (loss)	**(724,590)**	**(1,117,281)**	**(4,291,240)**	**1,102,364**	**378,209**	**114,332**
Attributable to non-controlling interests	71,957	128,888	169,643	252,745	359,025	108,532
Attributable to equity holders of Gol	**(796,547)**	**(1,246,169)**	**(4,460,883)**	**849,619**	**19,184**	**5,799**

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	As of December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2017[1]**
	(in thousands of R$)					(in thousands of US$)
Balance Sheet Data:						
Cash and cash equivalents	1,635,647	1,898,773	1,072,332	562,207	1,026,862	310,418
Restricted cash	254,456	331,550	735,404	168,769	268,047	81,030
Short-term investments	1,155,617	296,824	491,720	431,233	955,589	288,872
Trade receivables	324,821	352,284	462,620	760,237	936,478	283,095
Sub-total	**3,370,541**	**2,879,431**	**2,762,077**	**1,922,446**	**3,186,976**	**963,415**
Deposits	847,708	793,508	1,020,074	1,188,992	1,163,759	351,801
Total assets	10,638,448	9,976,647	10,368,397	8,404,355	10,004,748	3,024,410
Short-term debt	440,834	1,110,734	1,396,623	835,290	1,162,872	351,533
Long-term debt	5,148,551	5,124,505	7,908,303	5,543,930	5,942,795	1,796,492
Total equity	1,218,500	(332,974)	(4,322,440)	(3,356,751)	(3,068,946)	(927,735)
Capital stock	2,501,574	2,618,748	3,080,110	3,080,110	3,082,802	931,923

	Year Ended December 31,					
	2013	**2014**	**2015**	**2016**	**2017**	**2017[1]**
Earnings per Share and Other Information:	(in R$)					(in US$)
Basic income (loss) per preferred share[2]	(2.88)	(4.48)	(14.76)	2.46	0.06	0.02
Basic income (loss) per common share[2]	(0.08)	(0.13)	(0.42)	0.07	0.00	0.00
Basic income (loss) per share[3]	(2.88)	(4.48)	(14.76)	2.45	0.06	0.02
Basic income (loss) per ADS [2][4]	(5.76)	(8.96)	(29.53)	4.91	0.11	0.03
Diluted income (loss) per preferred share[2]	(2.88)	(4.48)	(14.76)	2.45	0.06	0.02
Diluted income (loss) per common share[2]	(0.08)	(0.13)	(0.42)	0.07	0.00	0.00
Diluted income (loss) per share[3]	(2.88)	(4.48)	(14.76)	2.45	0.05	0.02
Diluted income (loss) per ADS[2][4]	(5.76)	(8.96)	(29.53)	4.90	0.11	0.03
Weighted average number of outstanding shares in relation to basic income (loss) per preferred share (in thousands)	132,780	134,151	158,285	202,261	204,664	204,664
Weighted average number of outstanding shares in relation to basic income (loss) per common share (in thousands)	5,035,037	5,035,037	5,035,037	5,035,037	4,981,350	4,981,350
Weighted average number of outstanding shares in relation to basic income (loss) per share (in thousands)[3]	276,638	278,009	302,143	346,119	346,988	346,988
Weighted average number of outstanding ADSs in relation to basic income (loss) per share (in thousands)[3][4]	138,319	139,005	151,072	173,060	173,494	173,494
Weighted average number of outstanding shares in relation to diluted income (loss) per preferred share (in thousands)	132,780	134,151	158,285	202,608	207,278	207,278
Weighted average number of outstanding shares in relation to diluted income (loss)	5,035,037	5,035,037	5,035,037	5,035,037	4,981,350	4,981,350

per common share (in thousands)						
Weighted average number of outstanding shares in relation to diluted income (loss) per share (in thousands)(3)	276,638	278,009	302,143	346,465	349,602	349,602
Weighted average number of outstanding ADSs in relation to diluted income (loss) per share (in thousands)(3)(4)	138,319	139,005	151,072	173,233	174,801	174,801
Dividends declared per preferred share (net of withheld income taxes)	-	-	-	-	-	-

	Year Ended December 31,					
	2013	2014	2015	2016	2017	2017[1]
	(in thousands of R$ except percentages)					(in thousands of US$)
Other Financial Data:						
EBITDA[5]	826,955	968,238	235,914	1,144,213	1,495,180	451,989
EBITDA margin[6]	9.2%	9.6%	2.4%	11.6%	14.1%	14.1%
Operating margin[7]	3.0%	5.0%	(1.9)%	7.1%	9.4%	9.4%
Total liquidity[8]	3,370,541	2,879,431	2,762,077	1,922,446	3,186,976	963,415
Net cash flows from (used in) operating activities	403,881	1,129,192	(599,467)	(21,067)	672,753	203,372
Net cash flows from (used in) investing activities	(318,936)	(431,610)	(1,259,157)	592,089	(559,805)	(169,228)
Net cash flows from (used in) financing activities	807,162	(309,584)	750,190	(1,062,783)	359,673	108,728

Summary Operational Data

	Year Ended December 31				
	2013	2014	2015	2016	2017
Operating Data:					
Operating aircraft at period end	141	139	142	121	119
Total aircraft at period end	150	144	144	130	119
Revenue passengers carried (in thousands)[9]	36,306	39,749	38,868	32,623	32,380
Revenue passenger kilometers (RPKs) (in millions)[9]	34,684	38,085	38,410	35,928	37,230
Available seat kilometers (ASKs) (in millions) [9]	49,633	49,503	49,744	46,329	46,694
Load-factor[9]	69.9%	76.9%	77.2%	77.5%	79.7%
Break-even load-factor	67.8%	73.1%	78.1%	72.1%	72.3%
Aircraft utilization (block hours per day)	11.2	11.5	11.3	11.2	12.1
Average fare (R$)	224	228	221	265	284
Passenger revenue yield per RPK (R$ cents)	23.4	23.8	22.4	24.1	24.7
Passenger revenue per ASK (R$ cents)	16.4	18.3	17.3	18.7	19.7
Operating revenue per ASK (R$ cents)	18.0	20.3	19.7	21.3	22.7
Operating expense per ASK (R$ cents)	17.5	19.3	20.0	19.8	20.5
Operating expense less fuel expense per ASK (R$ cents)	10.2	11.6	13.4	14.0	14.4
Departures	316,466	317,594	315,902	261,514	250,654
Departures per day	867	870	866	717	687
Destinations served	65	71	68	63	64
Average stage length (kilometers)	897	912	933	1,043	1,094
Active full-time equivalent employees at period end	16,319	16,875	16.472	15,261	14,532
Fuel liters consumed (in millions)	1,512	1,538	1,551	1,392	1,379
Average fuel expense per liter	2.39	2.50	2.13	1.94	2.09

(1) Translated for convenience using the U.S. dollar selling rate as reported by the Central Bank of R$3.308 to US$1.00 as of December 31, 2017.

(2) Adjusted to reflect the one to 35 stock split of our common shares on March 23, 2015 and that since that date our preferred shares are entitled to receive dividends per share in an amount 35 times the amount of dividends per share paid to holders of our common shares in order to account for the split of our common shares. Our preferred shares are not entitled to any fixed dividend preferences. See "Item 9. The Offer and Listing—C. Markets—Corporate Governance Practices" for further details.

(3) Common shares divided by 35 to calculate weighted average number of shares, to reflect the ratio of 35 common shares for each preferred share. This is not a measure of financial performance recognized under Brazilian GAAP or IFRS, nor should it be considered an alternative to numbers calculated per preferred share and per common share. We believe that calculations per share provide useful information as they equalize the common share economic rights and number of shares to those of our preferred shares.

(4) Adjusted to reflect the November 2017 ratio change of one ADS to two preferred shares. See "Item 12. Description of Securities other than Equity Securities—A. American Depositary Shares."

(5) We calculate EBITDA as net income (loss) plus financial income (expense), net, income taxes and depreciation and amortization. EBITDA is not a measure of financial performance recognized under Brazilian GAAP or IFRS, nor should it be considered an alternative to net income (loss) as a measure of operating performance, or an alternative to operating cash flows, or as a measure of liquidity. EBITDA is not calculated using a standard methodology and may not be comparable to the definition of EBITDA or similarly titled measures used by other companies. As financial income (expense), net, income taxes and depreciation and amortization are not considered in the calculation of EBITDA, we believe that our EBITDA provides an indication of our general economic performance, without giving effect to interest rate or exchange rate fluctuations, changes in income and social contribution tax rates or depreciation and amortization.

(6) EBITDA divided by net revenue.

(7) Operating margin represents operating income (loss) before financial results and income taxes divided by operating revenue.

(8) Total liquidity is the sum of cash and cash equivalents, restricted cash, short-term investments and trade receivables.

(9) Source: National Civil Aviation Agency (*Agência Nacional de Aviação Civil*), or ANAC.

Reconciliation of Net Income (Loss) to EBITDA and EBITDAR	**Year Ended December 31,**					
	2013	**2014**	**2015**	**2016**	**2017**	**2017[(1)]**
	(in thousands of R$ except as otherwise indicated)					(in thousands of US$)
Net income (loss)	(724,590)	(1,117,281)	(4,291,240)	1,102,364	378,209	114,332
(+) Income taxes	71,363	164,601	844,140	259,058	(307,213)	(92,870)
(+) Financial income (expense), net	919,216	1,457,622	3,263,323	(664,877)	918,759	277,739
(+) Depreciation and amortization	560,966	463,296	419,691	447,668	505,425	152,789
EBITDA[(2)]	826,955	968,238	235,914	1,144,213	1,495,180	451,989
(+) Aircraft rent	699,193	844,571	1,100,086	996,945	939,744	284,082
EBITDAR[(2)]	1,526,148	1,812,809	1,336,000	2,141,158	2,434,924	736,071
EBITDA/Aircraft Rent	1.2x	1.1x	0.2x	1.1x	1.6x	1.6x

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(1) Translated for convenience using the U.S. dollar selling rate as reported by the Central Bank of R$3.308 to US$1.00 as of December 31, 2017.

(2) We calculate EBITDA as net income (loss) plus financial income (expense), net, income taxes and depreciation and amortization. EBITDAR is calculated as net income (loss) plus financial income (expense), net, income taxes, depreciation and amortization and aircraft rent expenses. EBITDA and EBITDAR are not measures of financial performance recognized under Brazilian GAAP or IFRS, nor should they be considered as alternatives to net income (loss) as measures of operating performance, or as alternatives to operating cash flows or as measures of liquidity. EBITDA and EBITDAR are not calculated using a standard methodology and may not be comparable to the definition of EBITDA or EBITDAR or similarly titled measures used by other companies. As financial income (expense), net, income taxes and depreciation and amortization are not considered in the calculation of EBITDA and EBITDAR, we believe that our EBITDA and EBITDAR provide an indication of our general economic performance, without giving effect to interest rate or exchange rate fluctuations, changes in income and social contribution tax rates or depreciation and amortization.

Exchange Rates

Brazil's foreign exchange system allows the purchase and sale of foreign currency and the international transfer of *reais* by any person or legal entity, regardless of amount, subject to certain regulatory procedures.

During the last decade, the Brazilian currency has experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies.

The Central Bank has intervened occasionally to mitigate volatility in foreign exchange rates. We cannot predict whether the Central Bank or the Brazilian government will continue to allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise.

The following tables present the U.S. dollar selling rate, expressed in *reais* (R$/US$), for the periods indicated:

	Period-End	**Average[(1)]**	**Low**	**High**
		(R$ per US$)		
Year				
2013	2.343	2.161	1.953	2.446
2014	2.656	2.353	2.197	2.740

2015	3.905	3.339	2.575	4.195
2016	3.259	3.483	3.119	4.156
2017	3.308	3.193	3.051	3.381
2018 (through April 25, 2018)	3.504	3.278	3.139	3.504

	Month-End	Average[1]	Low	High
	(R$ per US$)			
Month				
October 2017	3.276	3.191	3.131	3.280
November 2017	3.262	3.259	3.214	3.292
December 2017	3.308	3.291	3.232	3.333
January 2018	3.162	3.211	3.139	3.270
February 2018	3.245	3.242	3.173	3.282
March 2018	3.324	3.279	3.225	3.338
April 2018 (through April 25, 2018)	3.504	3.395	3.310	3.504

Source: Central Bank

(1) Represents the average of the exchange rates during the period.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Investment in the ADSs or our preferred shares involves a high degree of risk. You should carefully consider the risks described below, as well as the other information in this annual report, before making an investment decision. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of the ADSs could decline due to any of these risks or other factors, and you may lose all or part of your investment.

Risks Relating to Brazil

The Brazilian government has exercised, and continues to exercise, significant influence over the Brazilian economy, and such involvement, along with general political and economic conditions, could adversely affect us and the trading price of our ADSs, our preferred shares and our debt instruments.

The Brazilian government has frequently intervened in the Brazilian economy and has occasionally made drastic changes in policy and regulations. The Brazilian government's actions to control inflation and affect other policies and regulations have involved, among other measures, increases in interest rates, changes in tax and social security policies, price controls, currency exchange and remittance controls, devaluations, capital controls and limits on imports. Our business, financial condition, results of operations and the trading price of the preferred shares and the ADSs may be adversely affected by changes in policy or regulations at the federal, state or municipal level involving or affecting factors such as:

- interest rates;
- currency fluctuations;
- monetary policies;
- inflation;
- liquidity of capital and lending markets;
- tax and social security policies;
- labor regulations;
- energy and water shortages and rationing; and
- other political, social and economic developments in or affecting Brazil.

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian companies.

After two years of economic contraction, Brazil's gross domestic product, or GDP, grew by 1.0% in 2017, as compared to (3.5)% in 2016, (3.5)% in 2015, 0.5% in 2014 and 3.0% in 2013.

Our results of operations and financial condition have been, and will continue to be, affected by the weakness of the Brazilian GDP. Developments in the Brazilian economy may affect Brazil's growth rates and, consequently, the use of our products and services.

Political instability may adversely affect our business and results of operations and the price of our preferred shares and our debt instruments.

Brazilian markets have been experiencing heightened volatility due to uncertainties derived from the ongoing *Lava Jato* investigation, which is being conducted by the Federal Prosecutor's Office, and its impact on the Brazilian economy and political environment. Numerous members of the Brazilian government and of the legislative branch, as well as senior officers of large state-owned and private companies have been convicted of political corruption of officials accepting bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. Profits from these kickbacks financed the political campaigns of political parties that were unaccounted for or not publicly disclosed, and served to further the personal enrichment of the recipients of the bribery scheme. As a result, a number of senior politicians, including congressmen and officers of the major state-owned and private companies in Brazil, resigned or have been arrested.

The ultimate outcome of these investigations is uncertain, but they have already had an adverse impact on the image and reputation of the implicated companies, and on the general market perception of the Brazilian economy. The development of those unethical conduct cases has and may continue to adversely affect our business, financial condition and results of operations and the trading price of our preferred shares and ADSs.

In addition, the Brazilian economy continues to be subject to the effects of the impeachment of President Dilma Rousseff on August 31, 2016. Vice President Michel Temer was sworn in as the new President of Brazil until the next presidential election in October 2018, but political uncertainty has remained. We cannot predict the effects of these recent developments and the current ongoing political uncertainties on the Brazilian economy.

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

The market value of securities of Brazilian issuers is affected by economic and market conditions in other countries. Although economic conditions in those countries may differ significantly from economic conditions in Brazil, investors' reactions to developments in other countries may have an adverse effect on the market value of securities of Brazilian issuers. Crises in the United States, the European Union or emerging market countries may diminish investor interest in securities of Brazilian issuers, including ours. This could adversely affect the trading price of our securities, and could also make it more difficult for us to gain access to the capital markets and finance our operations on acceptable terms, or at all.

Recently, the Brazilian market experienced heightened volatility due to, among other factors, uncertainty regarding U.S. monetary policy and Great Britain's exit from the European Union, increased aversion to risk in emerging countries, and uncertainties regarding macroeconomic and political conditions.

Government efforts to combat inflation may hinder the growth of the Brazilian economy and could harm us.

Historically, Brazil has experienced high inflation rates. Inflation and certain actions taken by the Central Bank to curb it have had significant negative effects on the Brazilian economy. After the implementation of the *Plano Real* in 1994, the annual rate of inflation in Brazil decreased significantly, as measured by the National Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA. Inflation measured by the IPCA index was 10.7%, 6.3% and 3.0% in 2015, 2016 and 2017, respectively.

The base interest rate for the Brazilian banking system is the Central Bank's Special System for Settlement and Custody (*Sistema Especial de Liquidação e Custódia*) rate, or SELIC rate. On December 31, 2015, 2016 and 2017, the SELIC rate was 14.25%, 13.65% and 7.00% respectively.

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

Any further downgrading of Brazil's credit rating could adversely affect the trading price of our preferred shares, ADSs and notes.

Credit ratings affect investors' perceptions of risk and, as a result, the yields required on debt issuances in the financial markets. Rating agencies regularly evaluate Brazil and its sovereign ratings, taking into account a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness and the prospect of change in these factors.

Standard & Poor's downgraded Brazil's credit rating in February 2016, from BB-plus to BB with a negative outlook, citing a worsening credit situation. In January 2018, Standard & Poor's lowered its rating to BB-minus with a stable outlook in light of doubts regarding this year's presidential election and pension reform efforts. In February 2016, Moody's downgraded Brazil's ratings to below investment grade, to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's debt service in a negative or low growth environment, in addition to challenging political dynamics. Fitch downgraded Brazil's credit rating in May 2016 to BB with a negative outlook, which it maintained in 2017 and downgraded to BB- in February 2018. As a result of these credit rating downgrades, the trading prices of debt and equity securities of Brazilian issuers were negatively affected. Continuation of current Brazilian fiscal policies and political and economic uncertainty could lead to further ratings downgrades, which could heighten investors' perception of risk and, as a result, increase the cost of debt issuances and adversely affect the trading price of our securities.

Risks Relating to Us and the Brazilian Airline Industry

Exchange rate instability may materially and adversely affect us and the market price of the ADSs, our preferred shares and our debt instruments.

The Brazilian currency has, during the last decades, experienced frequent and substantial variations in relation to the U.S. dollar and other foreign currencies. In 2015, the *real* depreciated 47.0% against the U.S. dollar, reaching R$3.905 per US$1.00 by the end of 2015. In 2016, the *real* appreciated against the U.S. dollar, reaching R$3.259 per US$1.00 by the end of 2016. As of December 31, 2017, the exchange rate was R$3.308 per US$1.00. There can be no assurance that the *real* will not depreciate further against the U.S. dollar.

Nearly 85% of our passenger revenue and other revenue are denominated in *reais* and a significant part of our operating expenses, such as fuel, aircraft and engine maintenance services, aircraft rent and aircraft insurance, are denominated in, or linked to, U.S. dollars. For the year ended December 31, 2017, 43.8% of our operating expenses were either denominated in or linked to the U.S. dollar. The majority of our operating assets are denominated in U.S. dollars. As a consequence, at December 31, 2017, R$6,069.3 million (or 85.4%) of our indebtedness was denominated in U.S. dollars and we had a total of R$5,304.7 million in non-cancelable U.S. dollar-denominated future operating lease payments.

We are also required to maintain U.S. dollar-denominated deposits and maintenance reserve deposits under the terms of some of our aircraft operating leases. We may incur substantial additional amounts of U.S. dollar-denominated operating leases or financial obligations and U.S. dollar-denominated indebtedness and be subject to fuel cost increases linked to the U.S. dollar. While in the past we have generally adjusted our fares in response to, and to alleviate the effect of, depreciation of the *real* and increases in the price of jet fuel (which is priced in U.S. dollars) and have entered into hedging arrangements to protect us against the short-term effects of such developments, there can be no assurance we will be able to continue to do so.

Depreciation of the *real* against the U.S. dollar creates inflationary pressures in Brazil and causes increases in interest rates, which negatively affects the growth of the Brazilian economy as a whole, curtails access to foreign financial markets and may prompt government intervention, including recessionary governmental policies. Depreciation of the *real* against the U.S. dollar has also, as in the context of an economic slowdown, led to decreased consumer spending, deflationary pressures and reduced growth of the economy as a whole. On the other hand, appreciation of the *real* relative to the U.S. dollar and other foreign currencies could lead to a deterioration of the Brazilian foreign exchange current accounts, as well as dampen export-driven growth. Depending on the circumstances, either depreciation or appreciation of the *real* could materially and adversely affect us.

Depreciation of the *real* also reduces the U.S. dollar value of distributions and dividends on the ADSs and the U.S. dollar equivalent of the market price of our preferred shares and, as a result, the ADSs.

We may not be able to maintain adequate liquidity and our cash flows from operations and financings may not be sufficient to meet our current obligations.

Our liquidity, cash flows from operations and financings have been and may be negatively affected by the exchange rate environment, fuel prices and economic conditions in Brazil on the demand for air travel. Recent cost cutting measures, such as capacity reduction and the liquidity improving measures we adopted may not be sufficient to offset these effects. As of December 31, 2017, our total short and long term debt was R$7,105.7 million.

Certain of our debt agreements contain covenants that require the maintenance of specified financial ratios. Our ability to meet these financial ratios and other restrictive covenants may be affected by events beyond our control and we cannot assure that we will meet those ratios. Failure to comply with any of these covenants could result in an event of default under these agreements and others, as a result of cross default provisions. If we were unable to comply with our debt covenants, we would be forced to seek waivers. We cannot guarantee that we will be successful in meeting our covenants, and if we are unable to meet our covenants, in obtaining or renewing any waivers.

The airline industry is particularly sensitive to changes in economic conditions and continued negative economic conditions would likely continue to adversely affect us and our ability to obtain financing on acceptable terms.

Our operations and the airline industry in general are particularly sensitive to changes in economic conditions. Unfavorable economic conditions in Brazil, a constrained credit market and increased business operating costs have reduced spending on both leisure and business travel as well as cargo transportation. The slowdown in Brazilian economy and political instability has adversely affected industries with significant spending in travel, including government, oil and gas, mining and construction. In addition, reduced spending on business travel also affects the quality of demand, reducing the number of higher yield tickets we can sell, which, for example, negatively affected our results of operations in 2015 and 2016. Unfavorable economic conditions can also affect our ability to raise fares to counteract increased fuel, labor and other costs. Any of these factors may negatively affect us.

Unfavorable economic conditions, a significant decline in demand for air travel or continued instability of the credit and capital markets could also result in pressure on our debt costs, operating results and financial condition and would affect our growth and investment plans. These factors could also negatively affect our ability to obtain financing on acceptable terms and liquidity generally.

Substantial fluctuations in fuel costs would harm us.

Historically, international and local fuel prices have been subject to wide price fluctuations based on geopolitical issues and supply and demand. The price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, affects our fuel costs and constitutes a significant portion of our total operating expenses. In 2014, the average price per barrel of West Texas Intermediate crude oil was US$93.04 and fuel costs represented 40% of our operating expenses. Average prices decreased in 2015 to US$48.80 and in 2016 to US$43.31 and increased in 2017 to US$50.85. Fuel costs represented 33%, 29% and 30% of our operating expenses for the years ended December 31, 2015, 2016 and 2017, respectively.

Although we enter into hedging arrangements to reduce our exposure to fuel price fluctuations and have historically passed on the majority of fuel price increases by adjusting our fare structure, the price and availability of fuel cannot be predicted with any degree of certainty. Our hedging activities and fares adjustments may not be sufficient to protect us fully from fuel price increases.

Substantially all of our fuel is supplied by one source, Petrobras Distribuidora S.A., or Petrobras Distribuidora. If Petrobras Distribuidora is unable or unwilling to continue to supply fuel at the times and in the quantities that we require we may not be able to find a suitable replacement or to purchase fuel at the same cost, in which case we would be adversely affected. See "Item 4. Information on the Company—B. Business Overview—Airline Business—Fuel."

Changes to the Brazilian civil aviation regulatory framework, including rules regarding slot distribution, fare restrictions and fees associated with civil aviation, may adversely affect us.

Brazilian aviation authorities monitor and influence the developments in Brazil's airline market. For example, airport services are regulated by ANAC and in many cases still managed by the Brazilian Airport Infrastructure Company (*Empresa Brasileira de Infraestrutura Aeroportuária*), or INFRAERO, a government-owned corporation. ANAC addressed overcapacity in the system in 2014 by establishing strict criteria that must be met before new routes or additional flight frequencies are awarded. ANAC policies as well as those of other aviation supervisory authorities have in the past negatively affected our operations and these effects may reoccur. In July 2014, ANAC published new rules governing the allocation of slots in coordinated/slotted airports, including Congonhas and Guarulhos, which are the two main airports for the city of São Paulo. In 2016, additional airports became subject to these rules, including Brasília in Distrito Federal and Galeão and Santos Dumont in Rio de Janeiro. ANAC considers operating history and efficiency (on-time performance and regularity) as the main criteria for the allocation of slots. Under these rules on-time performance and regularity are assessed twice per year, following the IATA summer and winter calendars, between April and September and between October and March. Minimum on-time performance and regularity targets for each series of slots in a season are 80% and 90%, respectively, at Congonhas airport (São Paulo) and 75% and 80%, respectively, for all other main airports. Airlines forfeit slots used below the minimum criteria in a season. Forfeited slots are redistributed first to new entrants, which includes airlines that operate fewer than five slots in the affected airport in the given weekday, and subsequently to all airlines operating in that airport based on their share of slots. We cannot foresee these and other changes to the Brazilian civil aviation regulatory framework, which could increase our costs and change the competitive dynamics of our industry and could adversely affect our operations, including as discussed in "—We operate in a highly competitive industry."

Technical and operational problems in the Brazilian civil aviation infrastructure*, *including air traffic control systems*, *airspace and airport infrastructure may have a material adverse effect on us.

We are dependent on improvements in the coordination and development of Brazilian airspace control and airport infrastructure, which, mainly due to the large growth in civil aviation in Brazil in recent years, require substantial improvements and government investments.

If the measures taken and investments made by the Brazilian government and regulatory authorities do not prove sufficient or effective, air traffic control, airspace management and sector coordination-related difficulties might reoccur or worsen, which might have a material adverse effect on us.

Slots at Congonhas airport in São Paulo, the most important airport for our operations and busiest one in Brazil, are fully utilized on weekdays. The Santos-Dumont airport in Rio de Janeiro, a highly utilized airport with half-hourly shuttle flights between São Paulo and Rio de Janeiro also has certain slot restrictions. Several other Brazilian airports, for example, the Brasília, Campinas, Salvador, Confins and São Paulo (Guarulhos) international airports, have limited the number of slots per day due to infrastructural limitations at these airports. Any condition that would prevent or delay our access to airports or routes that are vital to our strategy or our inability to maintain our existing slots, and obtain additional slots, could materially adversely affect our operations. In addition, we cannot assure that any investments will be made by the Brazilian government in the Brazilian aviation infrastructure (by expanding additional or developing new airports) to permit our growth.

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

We have significant costs, relating primarily to leases for our aircraft and engines. As of December 31, 2017, we had commitments of R$45,090.4 million (US$13,630.7 million) to purchase additional 120 Boeing aircraft through 2028, based on aircraft list prices, although the actual price payable by us for the aircraft should be lower due to supplier discounts. We expect that we will incur additional fixed obligations and debt as we take delivery of the new aircraft and other equipment to implement our strategy.

These significant fixed payment obligations:

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

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

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

- could limit our ability to react to changes in our business, the airline industry and general economic conditions.

Our ability to make scheduled payments on our fixed obligations will depend on our operating performance and cash flow, which will in turn depend on prevailing economic and political conditions and financial, competitive, regulatory, business and other factors, many of which are beyond our control. In addition, our ability to raise our fares to compensate for an increase in our fixed costs may be limited by competition and regulatory factors.

We operate in a highly competitive industry.

We face intense competition on all routes we operate from existing scheduled airlines, charter airlines and potential new entrants in our market. Competition from other airlines has a relatively greater impact on us when compared to our competitors because we have a greater proportion of flights connecting Brazil’s busiest airports, where competition is more intense. In contrast, some of our competitors have a greater percentage of flights connecting less busy airports, where there is no or only reduced competition.

The Brazilian airline industry also faces competition from ground transportation alternatives, such as interstate buses. In addition, the Brazilian government and regulators could give preference to new entrants and existing competitors when granting new and current slots in Brazilian airports, to promote competition.

Existing and potential new competitors have in the past and may again undercut our fares or increase capacity on their routes in an effort to increase their market share of business traffic (high value-added customers). In any such event, we cannot assure you that our level of fares or passenger traffic would not be adversely affected.

Further consolidation in the Brazilian and global airline industry framework may adversely affect us.

As a result of the competitive environment there may be further consolidation in the Brazilian and global airline industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry. We may not be able to successfully integrate the business and operations of companies acquired, governmental approvals may be delayed, costs of integration and fleet renovation may be greater than anticipated, synergies may not meet our expectations, our costs may increase and our operational efficiency may be reduced, all of which would negatively affect us.

Under Brazilian law, the foreign ownership limit for Brazilian airlines is 20%, but there have been repeated discussions by the Brazilian government and Congress to lift this restriction fully or partially, including most recently an announcement that the government intends to issue a new measure, subject to Congress approval, completely removing the foreign ownership limit. We cannot foresee if and how these restrictions may be changed and how any such change would affect us and the competitive environment in Brazil.

Consolidation in the airline industry and changes in international alliances will continue to affect the competitive landscape in the industry and may result in the formation of airlines and alliances with greater financial resources, more extensive global networks and lower cost structures than we can obtain.

We rely on one manufacturer for our aircraft and engines.

One of the key elements of our business strategy and a key element of the low-cost carrier business model is to reduce costs by operating a standardized aircraft fleet. After extensive research and analysis, we chose the Boeing 737-700/800 Next Generation aircraft and CFM 56-7B engines from CFM International. We expect to continue to rely on Boeing and CFM International for the foreseeable future and have made a purchase order for 120 Boeing 737 Max-7/8 aircraft (the newest generation of our current aircraft and still under development), to be delivered starting in 2018. If either Boeing or CFM International were unable to perform its contractual obligations, our operations would be materially affected.

We derive benefits from a fleet comprised of a single type of aircraft while still having the flexibility to match the capacity and range of the aircraft to the demands of each route. If we had to lease or purchase aircraft of another manufacturer, we could lose these benefits. We cannot assure you that any such replacement aircraft would have the same operating advantages as the Boeing aircraft or that we could lease or purchase engines that would be as reliable and efficient as the CFM engines. Our operations could also be disrupted by the failure or inability of Boeing or CFM International to provide sufficient parts or related support services on a timely basis.

In 2012, Boeing and CFM released new aircraft and engines, the Boeing 737 Max-7/8 and LEAP-1B, to replace the Boeing 737-700/800 Next Generation. Any project delays or operational difficulties with this new aircraft and engines could create an adverse perception about our fleet, therefore adversely affecting us.

In addition, when these aircraft and engines are delivered and operational, it could cause the market value of our other aircraft and engines to decrease, which would lower the value of our assets and could result in us recording impairment charges.

We rely on complex systems and technology, and operational or security inadequacy or interruption could materially affect our ability to effectively operate our business.

In the ordinary course of business, our systems and technology will continue to require modification and refinements to address growth and changing business requirements. Modifications and refinements to our systems have been and are expected to continue to be expensive to implement and may divert management's attention from other matters. In addition, our operations could be adversely affected, or we could face imposition of regulatory penalties, if we were unable to timely or effectively modify its systems as necessary.

We have occasionally experienced system interruptions and delays that make our websites and services unavailable or slow to respond, which could prevent us from efficiently processing customer transactions or providing services. This in turn could reduce our operating revenues and the attractiveness of our services. Our computer and communications systems and operations could be damaged or interrupted by catastrophic events such as fires, floods, earthquakes, tornadoes and hurricanes, power loss, computer and telecommunications failures, acts of war or terrorism, computer viruses, security breaches, and similar events or disruptions. Any of these events could cause system interruptions, delays, and loss of critical data, and could prevent us from processing customer transactions or providing services, which could make our business and services less attractive and subject us to liability. Any of these events could damage our reputation and be expensive to remedy.

We rely on maintaining a high daily aircraft utilization rate to increase our revenues and reduce our costs.

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

Our reputation, operations and financial results could be harmed by events out of our control.

Accidents or incidents involving our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. We are required by ANAC and lessors of our aircraft under our operating lease agreements to carry liability insurance. Although we believe we currently maintain liability insurance in amounts and of the type generally consistent with industry practice, the amount of such coverage may not be adequate and we may be forced to bear substantial losses in the event of an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm us. Moreover, any accident or incident involving our aircraft, even if fully insured, or an accident or incident involving Boeing 737 Next Generation aircraft or the aircraft of any major airline could cause negative public perceptions about us or the air transport system, which would harm us.

In addition, we can be negatively affected by other factors, such as unpredictable economic conditions, fuel costs or the outbreak of diseases.

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

Our controlling shareholder has the power to, among other things, elect a majority of our directors and determine the outcome of any action requiring shareholder approval, including transactions with related parties, corporate reorganizations, dispositions, and the timing and payment of any future dividends. Our controlling shareholder may continue to direct our business and affairs even after significantly reducing its ownership interest, which is currently equivalent to 61.2% of the economic interests in us. A difference in economic exposure may intensify conflicts of interests between our controlling shareholder and you. See "Item 9. The Offer and Listing—C. Markets—Corporate Governance Practices."

Risks Relating to the ADSs and Our Preferred Shares

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

Investing in securities that trade in emerging markets, such as Brazil, often involves greater risk than investing in securities of issuers in the United States, and such investments are generally considered to be more speculative in nature. The Brazilian securities market is substantially smaller, less liquid, more concentrated and can be more volatile than major securities markets in the United States. Accordingly, although you are entitled to withdraw the preferred shares underlying the ADSs from the depositary at any time, your ability to sell the preferred shares underlying the ADSs at a price and time at which you wish to do so may be substantially limited. There is also significantly greater concentration in the Brazilian securities market than in major securities markets in the United States. The ten largest companies in terms of market capitalization represented 51.3% of the aggregate market capitalization of the B3 S.A. – *Bolsa, Brasil, Balcão*, or the B3, as of December 31, 2017.

In 2015 and early 2016, our market capitalization decreased and, as a result of the decrease in the trading price of our preferred shares and ADSs, we increased our ratio of preferred shares per ADS to 10:1 in February 2016. In 2017, our market capitalization increased and we reduced that ratio to 5:1 in April 2017 and to 2:1 in November 2017.

The trading prices of shares of companies in the worldwide airline industry are relatively volatile and investors' perception of the market value of our ADSs and preferred shares may be adversely affected by volatility and decreases in the price of our ADSs and preferred shares.

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

According to our by-laws, we must pay our shareholders at least 25.0% of our annual net income as dividends, as determined and adjusted under Brazilian corporation law. The adjusted net income may be capitalized, used to absorb losses or otherwise appropriated as allowed under the Brazilian corporation law and may not be available to be paid as dividends. We may not pay dividends to our shareholders in any particular fiscal year if our board of directors determines that such distributions would be inadvisable in view of our financial condition. In the past five fiscal years, we did not distribute dividends.

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

As an ADS holder, you benefit from the electronic foreign capital registration obtained by the custodian for our preferred shares underlying the ADSs in Brazil, which permits the custodian to convert dividends and other distributions with respect to the preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian's electronic foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of or distributions relating to the preferred shares, you will not be able to remit non-Brazilian currency abroad unless you obtain your own electronic foreign capital registration.

If you attempt to obtain your own electronic foreign capital registration, you will incur expenses and may suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner.

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

We may not be able to offer our preferred shares to "U.S. Holders" of ADSs pursuant to preemptive rights granted to holders of our preferred shares in connection with any future issuance of our preferred shares unless a registration statement under the U.S. Securities Act of 1933, or the Securities Act, is effective with respect to such preferred shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file a registration statement relating to preemptive rights with respect to our preferred shares, and we cannot assure you that we will file any such registration statement. If such a registration statement is not filed and an exemption from registration does not exist, the depositary bank will attempt to sell the preemptive rights, and you will be entitled to receive the proceeds of such sale. However, these preemptive rights will expire if the depositary does not sell them, and U.S. Holders of ADSs will not realize any value from the granting of such preemptive rights.

ITEM 4. Information on the Company

A. History and Development of the Company

General

We are Brazil's leading airline based on our size, low operating costs, network reach, management team and customer experience. We are a low-cost carrier focused on offering low fares with high-quality customer experience to business and leisure passengers. We believe that we operate the only true low-cost carrier business model in Brazil. In 2017, we:

- had the lowest operating costs of any Brazilian airline, with a CASK ex-fuel of R$14.4 cents (US$4.4 cents), and one of the lowest among airlines globally;

- are among the five largest low-cost carriers globally based on annual revenue;
- were the largest Brazilian airline with over 32 million annual passengers transported and a domestic market share of 36%;
- operated the most flights at Brazil's busiest airports;
- were the most on-time airline in Brazil;

- own the airline loyalty program in Brazil with the highest market valuation, Smiles, with 13.7 million members as of December 31, 2017; and

- had one of Brazil's largest e-commerce platforms and were a leader in digital solutions for clients.

As of December 31, 2017, we operated a single fleet of 119 Boeing 737-NG aircraft to offer approximately 700 daily flights across 64 destinations in Brazil, South America and the Caribbean. In 2017, we generated net operating revenue of R$10.6 billion with an operating margin of 9.4%, the highest in the last 7 years.

Gol was founded in 2000, when entrepreneur Constantino de Oliveira Junior pioneered the low-cost carrier concept in Brazil. We believe that our superior value proposition for customers and our reliable and quality service offering have helped us create a premier brand and led to the rapid increase in our passenger market share. From Gol's launch in 2001 until today, Gol has been a major driver behind passenger growth in Brazil. Between 2001 and 2017, Brazil's domestic passenger market grew 2.9 times, from 30.8 million passengers in 2001 to 90.6 million in 2017. Brazil's international passenger market increased from 3.8 million passengers in 2001 to 8.4 million passengers in 2017, excluding international carriers. At the same time, our passenger market share in the domestic air transportation market increased from 5% in 2001 to 36% in 2017. We refer to this growth of air transportation and passenger market share as the "Gol effect." We have transported approximately 420 million passengers since we began our operations.

We have a unique business model that permits a flexible and versatile operation, avoiding over and under capacity as the Brazilian market evolves. In addition to our single fleet type, our focus on business traffic in key markets in Brazil, short-term sublease agreements, tailored crew scheduling and a flexible hub-based network have helped us ensure the versatility of our business model and drive our operating margins. To strengthen our global connectivity we began cooperation with international carriers in 2009 and currently have 74 interline agreements and 12 codeshare partnerships. In addition, we have two of the world's biggest airlines, Delta Air Lines, Inc. and Air France – KLM, as our strategic shareholders, with combined ownership of 10.7% as of December 31, 2017.

We reward loyal customers through Smiles, our loyalty program. Smiles generates over R$1.8 billion in annual revenues, has 13.7 million members and is the most valuable loyalty program in Brazil in terms of market valuation with a market capitalization as of December 31, 2017 of R$9.4 billion. Smiles has over 30 partnerships including with some of Brazil and South America's largest banks and credit card companies. Smiles plays an important role for Gol, as it brings consistency to our core business by means of the following: (i) miles usage increases load factor with low yield impacts, (ii) the Smiles brand strengthens value perception, (iii) Smiles presents strong potential for ancillary revenue growth through diversified products and services and (iv) Smiles is an important part of our cash generation capacity and liquidity.

We maintained the lowest operating costs (on a CASK basis) of any Brazilian airline in every year since we began operating in 2001. In 2017, our CASK (ex-fuel) was R$14.4 cents (US$4.4 cents), which is the lowest in Brazil and one of the lowest globally. We believe we are well-positioned to maintain our relatively low unit operating costs by operating a single fleet type of Boeing 737-700/800, which allows us to maximize aircraft utilization and dilute our fixed costs. We have been constantly renewing our fleet and expect the first delivery of six Boeing 737 Max aircraft in 2018, five of which are from our total order book of 120. These aircraft will deliver lower operating costs compared to prior generation aircraft.

In addition to low unit costs, Gol has established the premier airline brand in Brazil, most recently recognized by the "Top of Mind 2017" award and "Brands of Trust Award 2017" by the Datafolha institute, attracting business and leisure customers with low fares and garnering business customers by delivering a high-quality experience. We are the first airline in Brazil to provide wireless internet, or Wi-Fi, and other on-board entertainment, including live television, in the same platform. We provide a comfortable flight experience with the most seats with the largest legroom available.

Lastly, we are the market leader in punctuality. In 2017, we had a punctuality rate of 94.6%, which is higher than that of our Brazilian competitors, according to INFRAERO, the entity in charge of managing and controlling airports in Brazil.

We are the leader in domestic air transportation of business and leisure passengers in Brazil. According to the Brazilian Association of Corporate Travel (*Associação Brasileira de Agências de Viagens Corporativas*), we had a 30.8% share of business travelers within Brazil in 2017 and have been the market leader since 2014. Business passengers are particularly attractive as they are less price sensitive, purchase tickets closer to the flight date at higher fares and often purchase other ancillary products that we offer. Our low-cost carrier business model permits effective segmentation, allowing us to attract a high share of the demand-inelastic but price sensitive Brazilian business passengers, while providing attractive fares to demand-elastic and very price sensitive leisure travelers.

We are the leading airline operating at Brazil's busiest and most important airports, including Congonhas in São Paulo and Galeão and Santos Dumont in Rio de Janeiro, where we have a domestic market share measured by RPK of 53.4%, 53.4% and 40.1%, respectively, for the year ended December 31, 2017. Considering this market share, we believe we are best-positioned to capitalize on Brazil's economic growth as São Paulo and Rio de Janeiro, collectively, represented over 40% of Brazil's GDP.

Brazil is geographically similar in size to the continental United States and is currently the fifth largest domestic airline market in the world, after United States, China, India and Russia. International Air Transport Association estimates that the Brazilian market will continue to grow 5.4% per year over the next two decades. In addition, the Brazilian aviation market has significant untapped potential as flights per capita totaled approximately 0.5 per year in 2015, significantly below that of more established markets such as Australia (2.4) or the United States (2.1).

During the sharp economic slowdown of the Brazilian economy and the political turmoil that occurred in 2014 through 2016, with an aggregate GDP contraction of approximately 7%, high inflation, increased interest rates and a strong depreciation of the *real*, our management team embarked on a comprehensive operational and financial repositioning, including (i) fleet reduction from 141 operating aircraft at the beginning of 2014 to 121 operating aircraft at year-end 2016 and 119 at year-end 2017; (ii) a complete network redesign focusing on the most profitable routes and business traffic; and (iii) a significant reduction of our operating costs, which, combined with improved yields, have resulted in increased operating margins and operating cash flow. Since 2015, we have reduced our debt, achieving a total net debt (excluding perpetual notes) to EBITDA ratio of 3.0x and a total adjusted net debt (excluding perpetual notes) to EBITDAR ratio of 4.5x in the end of 2017, compared to 10.5x in 2015 and 5.5x in 2016. We also increased our operating margin from negative 1.9% in 2015 to positive 7.1% in 2016 and 9.4% in 2017. In 2017, we recorded an operating result of R$989.8 million, as compared to R$696.5 million in 2016.

We believe we are best-positioned to benefit from the expected growth cycle in the Brazilian economy based on our strong network of slots and flights between the most attractive Brazilian airports, our higher market share in the business segment and our highly efficient aircraft fleet of Boeing 737 aircraft. These competitive advantages are key to our strategy and we believe they cannot be replicated by any of our competitors.

Our Competitive Strengths

We Have the Lowest Operating Costs of Any Brazilian Airline and One of the Lowest Globally. Our operating expense per available seat kilometer (CASK), ex-fuel, has been the lowest of any Brazilian airline since we began our operations in 2001. For the year ended December 31, 2017, our CASK (ex-fuel) was R$14.4 cents (US$4.4 cents), which is 28.5% lower than that of Azul, our only publicly listed peer in Brazil. Our low-cost structure is mainly driven by the following factors:

- *High Aircraft Utilization.* We have the highest aircraft utilization in Brazil, which for the year ended December 31, 2017 was12.1 hours per day, against 10.5 hours per day for Azul.

- *Modern Fleet and Attractive Order Book.* We operate a modern fleet composed solely of Boeing 737 family aircraft, which are recognized as having high reliability and low operating costs. A standardized fleet reduces inventory costs, as it requires fewer spare parts, eliminates the need to train our pilots to operate different aircraft types, simplifies our maintenance and operations processes and provides enhanced flexibility in network planning. In addition, we have an attractive order book of 120 brand new, fuel-efficient Boeing 737 Max to partially replace and increase our fleet. As a result of our order book, we believe that the average age of our fleet will be reduced to approximately 7 years by 2022, leading to lower maintenance costs and fuel consumption. Gol is the main customer of 737 aircraft in Latin America and one of the five largest in the world.

- *Fuel Efficient Fleet.* We continue to reduce fuel consumption and improve efficiency through fleet modernization and other fuel initiatives. We have the lowest fuel consumption among airline carriers in Brazil. In 2017, we achieved a ratio of 33.9 available seat kilometers per liter of fuel consumed. Furthermore, the Boeing 737 Max aircraft that we will begin to place in service are estimated to deliver approximately 15% improved fuel efficiency compared to the prior generation of Boeing 737 aircraft.

- *High Capacity Fleet.* We have one of the highest seat densities in Brazil, with an average seat capacity of 168 per aircraft as of December 2017. With the delivery of the Boeing 737 Max, we expect to increase our average seat capacity to 178 per aircraft by 2020.

- *Low Cost Distribution Model.* We have a robust operating platform that features advanced technology. Our effective use of technology helps to keep our costs low and our operations highly scalable and efficient. Our distribution channels are streamlined and convenient, allowing our customers to interact with us online. In 2017, we booked approximately 80% of our ticket sales through a combination of our website and applications programming interface, or API, systems.

- *Highly Productive Workforce.* We have a highly productive workforce resulting in a ratio of 2.23 thousand passengers on board per fulltime equivalent employee for the year ended December 31, 2017, which is significantly higher than that of Azul at 2.02 passengers on board per fulltime equivalent employee and LATAM at 1.56 passengers on board per fulltime equivalent employee.

Our Route Network Focuses on the Busiest Airports by Passenger Traffic. We hold the leading position in Brazil's primary cities and busiest airports, and our route network closely mirrors the country's GDP income distribution. Several Brazilian airports have limited their number of slots due to capacity restrictions, especially the busiest airports in the country. Routes between these airports are among the most profitable routes in our markets, with high yields mostly derived from business travelers. Our leading position in Brazil's main airports permits us to add connections, either through our own flights or through our partner airlines, to additional destinations with attractive demand characteristics. We are the market leader in Brazilian business travel and, according to ABRACORP, in 2017 maintained a 30.8% market share of the business traveler segment. For the year ended December 31, 2017, we had a leading domestic market share by RPK of 36.2%, whereas our competitors had market shares of 32.6% for LATAM, 17.8% for Azul and 12.9% for Avianca. We are also the largest player in six of the ten busiest airports in Brazil, with an average market share in excess of 40%.

The following table presents our leading market share in the most economically important states and our market share in terms of number of flights and domestic passengers at the busiest airports in Brazil:

Main Brazilian Airports (by passengers)[1]	**State**	**State Share of Brazilian GDP[2]**	**Gol's Share of Airport's Total Flights[3]**	**Domestic Passengers[1]** *(in thousands)*		
				Total	**Gol**	**Gol's Share**
São Paulo (CGH)	São Paulo	32.1%	44.1%	21,183	9,586	45.3%
São Paulo (GRU)			28.1%	23,345	7,990	34.2%
Campinas (VCP)			1.8%	8,317	221	2.7%
Rio de Janeiro (GIG)	Rio de Janeiro	11.8%	43.0%	11,753	5,963	50.7%
Rio de Janeiro (SDU)			34.0%	8,994	3,556	39.5%
Belo Horizonte (CNF)	Minas Gerais	9.2%	19.7%	9,378	2,266	24.2%
Porto Alegre (POA)	Rio Grande do Sul	6.2%	30.5%	7,346	2,599	35.4%
Salvador (SSA)	Bahia	3.8%	26.4%	7,210	2,151	29.8%
Brasília (BSB)	Distrito Federal	3.3%	31.5%	16,090	5,273	32.8%
Recife (REC)	Pernambuco	2.7%	22.1%	7,194	1,869	26.0%
Main Airports		**69.1%**	**29.7%**	**120,810**	**41,472**	**34.3%**

1. According to the National Civil Aviation Agency (*Agência Nacional de Aviação Civil*), or ANAC, for departures and arrivals data in 2017.

2. According to the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, for 2013.

3. Our market share in total number of domestic and international flights (departures and arrivals).

We Have the Premier Airline Brand in Brazil with High-Quality Customer Experience. We believe we provide the best overall experience to our customers, and we provide them with (i) the best on-time performance among all Brazilian airline companies; (ii) the best customer service; (iii) the most seats with the largest legroom available; (iv) on-board Wi-Fi, entertainment and live television; and (v) ancillary products and services, among others. Our business model is based on innovation, best value proposition and application of low-cost carrier best practices. We had the highest on-time performance rate in the Brazilian market in 2017. Our market-leading on-time performance is critical to maintaining high customer satisfaction levels. We operate a customer-friendly digital platform that includes our website and mobile app, which makes booking and travel easy and more enjoyable for our customers. In 2017, we received the following awards for best customer service in the Brazilian airline industry: (i) first place among airlines in customer service according to *Exame*, a leading business magazine in Brazil; (ii) first place according to ANAC in lowest number of complaints; and (iii) the only airline to receive a rating of "*ÓTIMO*" (outstanding) from online agency *reclameaqui.com.br*.

These awards are an external validation of our investments in customer service. In terms of comfort, we provide our customers the most seats with the largest legroom available, according to ANAC. In October 2016, we became the first airline in South America to offer Wi-Fi on board and, as of the end of the 2017, we had industry leading technology installed in 82 aircraft, combining Wi-Fi, streaming entertainment and live television in the same platform. Gol is the global launch customer for television streaming over the 2KU antenna developed by Gogo. In order to further improve customers' experience, we were the first company in the world to develop an online check-in with facial recognition ("selfie check-in"). Moreover, our customers also count with support of our proprietary Geolocation tool that informs customers how many hours (based on their location) it would take them to arrive at the airport, and also offers rebooking options. The geolocation tool has already helped 14 million passengers to not miss their flights. We believe this high-quality customer experience to be a key factor in our leadership with business clients, the most profitable client segment.

We believe that the Gol brand has become synonymous with innovation and value in the airline industry. We were the first low-cost carrier in Latin America and have since brought to market innovative services and solutions including kiosk usage in airports, food menus on board, inflight Wi-Fi and geolocation and "selfie check-ins" as mentioned above. Gol and Smiles are well-recognized brands that stand for best value proposition and consistent execution of industry best practices, as well as low cost and social media-focused innovative marketing and advertisement techniques. Additionally, brand and product diversification from *Gollog* and *GOL+Conforto* products enhance our brand recognition across a diverse set of customers in various business segments and provide important customer satisfaction. For the year ended December 31, 2017, ancillary products and services accounted for 13.1% of our operating revenue.

Strong Network Management and International Alliances. We have a disciplined and methodical approach to our route selection, which includes significant flexibility that allows us to quickly adjust to changing market conditions. Our operating model is based on an integrated hub and spoke network and strategic point-to-point markets. We believe the use of this hybrid model increases our adaptability to seasonal and macroeconomic changes while maintaining a low-cost structure and improving aircraft and crew scheduling efficiency. The high level of integration of flights at selected airports allows us to offer frequent, non-stop flights at competitive fares between Brazil's most important cities. Our robust network also allows us to increase our load factors on our strongest city pair routes by using the airports in those cities to connect our customers to their final destinations. Lastly, our hub and spoke model allows us to build our flight routes to add destinations to cities that would not, individually, be feasible to serve in the traditional point-to-point model, but that can be served when simply added as additional points on our multiple-stop flights. In 2018, we will increase our operations in the Northeast of Brazil with our recently-launched hub in Fortaleza. Designed to connect the main cities of the Northeast and North of Brazil, our Fortaleza hub will serve as an origin of flights to Florida with the new 737 MAX8 and to Europe with Air France – KLM.

The 737 MAX8 will provide us increased range to reach new markets. Beginning in November 2018, we will offer daily direct flights to Florida from Brasília and Fortaleza, which will link more than 30 Brazilian cities to Florida in a highly competitive elapsed time, as compared to routes connecting in Panama City, Bogotá or Lima. Additionally, we will provide passengers with a superior flight experience with the Max aircraft. We are evaluating other potential destinations and expect to serve growing demand from Southern Cone countries for flights to Brazil and other international destinations.

We have a strategic partnership with Delta, which holds 9.5% of our share capital and has become a strong operational and financial partner for us as a maintenance provider and codeshare partner. We believe this important partnership will also help us grow our international revenues further by seamlessly providing additional connecting traffic. In addition, our international alliance reach is broad, with partner airlines offering flights covering America, Europe, Africa and Asia. We have partnership programs with some of the most important international carriers, such as Air France – KLM, which holds 1.2% of our share capital, as well as Aerolíneas Argentinas, AeroMexico, Air Canada, Alitalia, Copa Airlines, Emirates, Etihad Airways, Korean Air, Qatar Airways and TAP. As of December 31, 2017, our global network included 74 interlines agreements and 12 codeshare programs. These alliances allow us to serve more than 160 destinations throughout the globe through codeshare agreements. We will be able to increase our international revenue, which provides a natural hedge for us, without investing in wide-body aircraft, by benefiting from the codeshare and network these partners present. We count with incomparable sponsorship from several players in the industry. We are one of Boeing’s most important 737 customers and the only airline in Brazil supported by the Export-Import Bank of the United States. Additionally, our shareholders include one of the largest airlines in Europe (Air France – KLM) and one of the largest in the U.S. (Delta), as well as our founding family, which remains active on our board of directors.

Our Loyalty Program, Smiles, is the Most Valuable Loyalty Program in Brazil, with 13.7 Million Members. Our Smiles loyalty program continues to be the fastest growing loyalty program among its publicly traded peers and is a strong relationship-building tool that represents a significant competitive advantage for us. Smiles has partnerships with, among others, hotel chains, car rental companies, publishers and retailers. Additionally, Smiles maintains partnerships with some of Brazil and South America's largest banks and credit card companies given its status as one of the leading frequent flyer programs in South America. We acquired Smiles in 2007 when we acquired VRG, a company formed from assets of the former Varig group. In 2013, we established Smiles S.A., which merged into Smiles Fidelidade S.A. in July 2017, as a separate subsidiary to create focus and innovation with a dedicated team. In 2013, we completed this subsidiary's initial public offering to unlock value for us and to create greater focus. Since then, Smiles has become the most valuable airline loyalty program in Brazil in terms of market valuation, with a market capitalization of R$9.4 billion as of December 31, 2017. In addition to the substantial loyalty-building component of the program, Smiles also provides us with enhanced flexibility, including funding sources (including advanced ticket sales), increased load factors with low impact on yields and dilution of fixed costs and expenses.

Our Strategies

Our goal is to offer the most attractive option for air travel to our customers, with a compelling combination of value, product and service, and, in so doing, to grow profitably and maintain our position as the leading airline in Brazil. Through the key elements of our business strategy, we seek to achieve:

Low Unit Cost. We aim to maintain our cost advantage as the lowest cost airline in Brazil and one of the lowest globally, by:

- maintaining the high aircraft utilization levels we achieved in the year ended December 31, 2017 of 12.1 block hours per day;

- utilizing new generation, fuel-efficient aircraft that deliver lower operating costs compared to prior generation aircraft;

- increasing the average seat capacity of the aircraft in our fleet through the continued introduction and operation of the new Boeing 737 Max; and

- taking a disciplined approach to our operational performance in order to reduce disruption and maximize utilization and profitability.

Offer the Best Service and Value to Our Customers. We intend to further increase our focus on customer satisfaction and loyalty by providing competitive low fares with dependable, reliable and on-time customer service. Essential to achieving this goal is continuing to be the most on-time airline in Brazil, having the most seats with the largest legroom available and convenient schedules to attractive destinations. We are the first Latin American airline to offer onboard Wi-Fi access via satellite, as well as television channels, program streaming with movies, cartoons, games and flight maps. All online and offline content is conveniently and easily accessed through passengers' mobile devices (cell phone, tablet or notebook). In addition, we will continue to use our Smiles loyalty program to increase our customer satisfaction by offering additional benefits, such as higher mileage multipliers for premium fares, upgrades and access to our recently remodeled airport lounges. We intend to further leverage our technological innovations and allow customers to perform more activities themselves by implementing our digital strategy.

Capitalize on Our Strong Market Position in Brazil and South America. We intend to increase penetration across all traveler segments by capitalizing on our competitive strengths. Since 2008, the number of domestic airline passengers carried in Brazil has increased by more than 80% to 90.6 million in 2017, according to ANAC. Brazilian domestic air passenger demand grew 3.2% in 2017 and Brazil is among the five largest domestic airline passenger markets worldwide. IATA estimates that it will grow 5.4% per year in the next two decades by 170 million, reaching a total market size of 272 million passengers. By 2034, according to IATA's forecast, the five fastest-growing passenger markets in terms of additional passengers will be China (856 million new passengers), the United States (559 million), India (266 million), Indonesia (183 million) and Brazil (170 million).

While we will remain focused on Brazilian markets, we will explore the new opportunities provided by our MAX fleet, which will permit an approximate 15% increase in distance flown, to expand our international operations to selected countries in the Caribbean, South America, North America and others. We believe that the Brazilian airline industry may experience further consolidation and that strengthening our existing strategic partnerships will be a key factor in our success. In this environment, we intend to play a leading role in the South American airline industry and to strengthen our position as a leading player. We continuously revisit our viability studies to serve markets in regions that can be operated by 737 aircraft. In Brazil, we also seek to stimulate demand in markets that are currently only served by high-fare alternatives.

Our Boeing 737 aircraft provide us a significant strategic advantage in the form of low operating costs and high seat capacity. They have allowed us to build a leading market position by increasing the supply of low-cost seats in Brazil, serving the most relevant destinations in South America and allowing us to add attractive markets for Brazilians to travel internationally.

Improve Our Balance Sheet and Capital Structure. We continuously focus on strengthening our balance sheet and have significantly reduced our leverage and improved our balance sheet and capital structure since 2015. We intend to further strengthen our financial position through several initiatives, including strict discipline in our fleet planning, liquidity position, further reduction of our operating costs and the extension of the average maturity profile of our debt. Since 2015, we have decreased our total adjusted debt by approximately 20%, achieving a total net debt (excluding perpetual notes) to EBITDA ratio of 3.0x and total adjusted net debt (excluding perpetual notes) to EBITDAR ratio of 4.5x for the year ended December 31, 2017, compared to 5.5x as of December 31, 2016. We also increased our operating margin from 7.1% in 2016 to 9.4% in 2017. In 2017, we recorded an operating result of R$989.8 million, as compared to R$696.5 million in 2016.

Corporate Information

Our principal executive offices are located at Brazil's largest domestic airport, the Congonhas airport, at Praça Comandante Linneu Gomes, S/N, Portaria 3, Jardim Aeroporto, 04626-020, São Paulo, SP, Brazil, and the telephone number of our investor relations department is +55 11 2128-4700. Our website is *www.voegol.com.br* and investor information may be found on our website under *www.voegol.com.br/ir*. Information contained on our website is not incorporated by reference herein and is not to be considered a part of this annual report.

Capital Expenditures

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

B. Business Overview

Airline Business

Routes and Schedules

Our operating model is based on a highly integrated route network that is a combination of the point-to-point, hub and spoke and multiple-stop models. This combination increases the connectivity of the network, permitting travelers to fly from a given point of origin to more destinations, while maintaining a low-cost structure and improving aircraft and crew scheduling efficiency. The high level of integration of flights at selected airports allows us to offer frequent, non-stop flights at competitive fares between Brazil's most important cities. Our network also allows us to increase our load factors on our strongest city pair routes by using the airports in those cities to connect our customers onwards to their final destinations.

Our operating model allows us to build our flight routes to add destinations to cities that would not, be feasible to serve in the traditional point-to-point model individually, but that are feasible to serve when simply added as additional points on our multiple-stop flight. We focus on the Brazilian and South American markets and carefully evaluate opportunities for continued growth. We look to increase the frequency of our flights to existing high-demand markets and add new routes to the network that can be reached with our current Boeing 737 Next Generation aircraft (for example, destinations in the Caribbean). With our new Boeing Max aircraft we will seek to offer reduced flight times to passengers that currently make connections in South American hubs en route to the U.S., Europe and Africa.

As a low-cost carrier operating a single fleet type, we work through alliances and codeshare arrangements with large international carriers (including Delta and Air France – KLM) and regional carriers in order to serve destinations that cannot be served by our Boeing 737 aircraft due to airport infrastructure or local market conditions.

We operate approximately 700 daily flights to 64 destinations. Our improved results in 2017 as compared to 2016 were primarily due to tactical changes to and the maturation of our network, specifically related to seasonality adjustments, improved schedules, reduction in minimum connection time, market substitutions, restructuring and improved management of our connections and procedural revisions.

In 2018, we will increase our operations in the Northeast of Brazil with our recently-launched hub in Fortaleza. Designed to connect the main cities of the Northeast and North of Brazil, our Fortaleza hub will serve as an origin of flights to Florida with the new 737 MAX8 and to Europe with Air France – KLM.

Despite the recent reduction in capacity, following the general trend in the domestic industry, we maintained our position as the leading company in number of passengers transported in Brazil, in 2017, with over 32 million passengers transported in the domestic market and a market share of 36%. The capacity reduction effort implemented by the company in 2016 generated PRASK recovery and is expected to have a meaningful impact in the coming years.

The following map shows the destinations we serve:

Services

Passenger Transportation

We recognize that we must offer high-quality and consistent value-proposition services to our corporate and leisure customers. We pay particular attention to the details that help to make for a pleasant, complication-free flying experience, including:

- convenient online sales, check-in, seat assignment and flight change and cancellation services;
- high frequency of flights between Brazil's most important airports;
- low cancellation and high on-time performance rates of our flights;
- self-check-in at kiosks at designated airports;

- friendly and efficient in-flight service;
- free shuttle services between airports;
- buy on-board services on certain flights;
- free healthy snacks for all passengers, including options for kids;
- mobile check-in and boarding pass (100% paperless boarding);
- smartphone application for check-in, electronic boarding pass and Smiles account management;

- more legroom and greater comfort (*GOL+Conforto* in the domestic flights and *GOL Premium Class* in the international flights);

- complete platform of in-flight entertainment with Wi-Fi access, live television, movies and series;

- premium domestic and international lounges for business class and premium Smiles passengers in the Guarulhos and Galeão Airports; and

- expansion of Smiles' programs to the accumulation of miles on promotional fares.

Because we understand that efficient and punctual operations are important to our customers, we strive to offer high rates of on-time performance and a high completion factor, as well as low rates of mishandled baggage, as set forth in the following table:

	2015	**2016**	**2017**
On-time departures	95.4%	94.8%	94.6%
Flight completion	91.9%	94.2%	98.5%
Lost baggage (per 1,000 passengers)	2.64	2.23	2.06

In general, passenger demand and profitability reach peak levels during the January and July vacation periods and in the final two weeks of December, during the Christmas holiday season. Conversely, we often witness a decrease in load factor during the week in which annual carnival celebrations take place in Brazil. Given our high proportion of fixed costs, this seasonality is likely to cause our results of operations to vary from quarter to quarter.

Ancillary Revenues and Gollog Cargo Transportation

Ancillary revenues include revenues from our *Gollog* services as well as baggage excess and ticket change and cancellation fees. *GOL+Conforto*, fees for in-cabin pets, on-board purchases of food and beverages and fees from travel insurance, hotels and car rentals are also becoming an increasingly important contributor to our ancillary revenue. Further development and growth of these services are a key part of our strategy to increase ancillary revenue. For the year ended December 31, 2017, we had total ancillary revenues of R$1.4 billion.

We are constantly evaluating opportunities to generate additional ancillary revenue such as sales of travel insurance, marketing activities and other services which may help us to better capitalize on the large number of passengers on our flights and the high volumes of customers using our website. As of December 31, 2017, 82 of our 119 aircraft had Wi-Fi installed, which is an additional and increasing source of revenue. In 2017, ANAC approved new rules to allow airlines to charge for checked bags and in June 2017 we implemented a new class of tickets called "light fare," which allows passengers traveling without luggage to pay a reduced fare.

We make efficient use of extra capacity in our aircraft by carrying cargo, through *Gollog*. The *Gollog* system provides online access to air waybills and allows customers to track their shipment from any computer with Internet access. Our 64 destinations throughout Brazil, South America and the Caribbean provide access to multiple locations in each region. With our capacity of approximately 700 daily flights, operated by 119 Boeing 737-700/800 aircraft, we can ensure quick and reliable delivery.

Our express delivery products – *Gollog* VOO CERTO, *Gollog* EXPRESS, *Gollog* ECOMMERCE and *Gollog* DOC – were developed to meet the growing demand for door-to-door deliveries, fixed deadlines and additional optional services. We intend to increase our efforts in the express delivery services by further strengthening our logistics capability, mainly by expanding our ground distribution network, increasing our commercial efforts and using innovation and technology to facilitate the boarding and tracking of cargo and to provide automatic updates to order status.

Aircraft Fleet

Our fleet is comprised entirely of Boeing 737 NG aircraft.

In 2017, we did not receive any aircraft and we will not receive any new aircraft until mid-2018. In addition, we reduced our operating fleet by 11 aircraft in 2017, which were under operating leases. As a result, on December 31, 2017, we had a total fleet of 119 aircraft, all of which are operating.

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

		As of December 31,		
	Seats	**2015**	**2016**	**2017**
B737-700 NG	138	36	28	27
B737-800 NG	177	5	3	3
B737-800 NG Short-Field Performance	177	103	99	89
Total Fleet		**144**	**130**	**119**
Operating Fleet[(1)]		**142**	**121**	**119**

(1) Operating fleet excludes aircraft under sublease and redelivery process.

As of December 31, 2017, of our total of 119 aircraft, 88 were under operating leases and 31 were under finance leases.

As of December 31, 2017, our operating leases had an average remaining term of 64 months.

As of December 31, 2017, our finance leases had an average remaining term of 46 months and we had purchase options for 31 of the aircraft under finance leases.

Under our operating lease agreements, we do not have purchase options and for some of our lease agreements we are required to maintain maintenance reserve payments or pay maintenance deposits and to return the aircraft and engine in the agreed condition at the end of the lease term. Title to the aircraft remains with the lessor. We are responsible for the maintenance, servicing, insurance, repair and overhaul of the aircraft during the term of the lease.

The average age of our operating fleet of 119 Boeing 737-700/800 aircraft as of December 31, 2017, was 9.2 years. The average daily utilization rate of our fleet was 12.1 block hours in 2017, 11.2 block hours in 2016 and 11.3 block hours in 2015.

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

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

In addition to being cost-efficient, the Boeing 737-700/800 Next Generation aircraft are equipped with advanced technology that promotes flight stability, provides a comfortable flying experience for our customers and has 13% lower CO_2 emissions than other current aircraft models. We use a single type of aircraft to simplify our operations.

We would only introduce a new type of aircraft to our fleet if, after careful consideration, we determine that such a step will reduce our operating costs. We expect that our fleet of Boeing 737 MAX 8 aircraft will be delivered starting in 2018. We expect that the new Boeing 737 MAX 8 aircraft will:

- reduce our fuel consumption by up to 15%, in relation to the Boeing 737-800 NG, and consume less fuel than other aircraft of comparable size;

- be equipped with the latest technology and provide improved operational performance;

- have an increased range and maximum take-off weight (MTOW) versus both the 737-800 NG and the A320neo;

- deliver flight autonomy of up to 6,500 km (increased from 5,500 km) and MTOW up to 82 tons (increased from 70 tons);
- have a significantly smaller noise footprint than today's single-aisle airplanes; and
- be equipped with Wi-Fi antennas that will allow our customers to access to the internet during flights and enjoy our on-board entertainment platform.

With our configuration, the Boeing 737 MAX 8 will permit us to add up to nine additional seats to its configuration while maintaining its current pitch that provides the most comfort to passengers in Brazil.

We have an order of 120 Boeing 737 MAX aircraft through 2028 and are currently the main client of the 737 family in South America and one of the five largest in the world.

Fleet Plan

The following table sets forth our year-end projected operating fleet through 2022:

Projected Fleet Plan	**2018**	**2019**	**2020**	**2021**	**2022**
Boeing 737 (700/800 NG and 7/8 MAX)	121	124	128	133	137

The fleet plan includes the arrival of new Boeing 737-MAX aircraft, which are expected to start in 2018. We will revise this fleet plan according to our expectations for the growth potential in the markets in which we operate.

Sales and Distribution

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

Our low-cost business model utilizes internet ticket sales as its main distribution channel, especially in the local market. For the year ended December 31, 2017, approximately 80% of our passenger revenue, whether directly from the customer or through travel agents, were booked online, making us a global leader in this area.

In addition, our customers can purchase tickets indirectly through travel agents, which are a widely-used travel service resource in Brazil, South America, Europe, North America and other regions. For the year ended December 31, 2017, travel agents provided us with approximately distribution outlets in 45 different countries. GDS allows us access to a large number of tourism professionals who are able to sell our tickets to customers around the world and enables us to enter into interline agreements with other airlines to offer more flights and connection options to our passengers, which adds incremental international passenger traffic.

Pricing

Brazilian airlines are permitted to establish their own domestic fares without previous government approval. Airlines are free to offer price discounts or follow other promotion activities. Airlines must submit, 30 days after the end of each month, a file containing fares sold and quantity of passengers for each fare amount, for all markets. This file lists regular fares and excludes all contracted, corporate and private fares. The objective is to monitor the average market prices. The same procedure applies for international fares. The only difference is that all fares sold for interline itineraries are also excluded from the data sent to ANAC.

Yield Management

Yield management involves the use of historical data and statistical forecasting models to produce knowledge about our markets and guidance on how to compete to maximize our operating revenue. Yield management forms the backbone of our revenue generation strategy and is strongly linked to our route and schedule planning and our sales and distribution methods. Our yield management practices enable us to react quickly in response to market changes. For example, our yield management systems are instrumental in helping us to identify the flight times and routes for which we offer promotions. By offering lower fares for seats that our yield management indicates would otherwise remain unsold, we capture additional revenue and also stimulate customer demand.

Maintenance

By ANAC regulation, we are directly responsible for the execution and control of all maintenance services performed on our aircraft. The maintenance performed on our aircraft can be divided into two general categories: line and heavy maintenance. Line maintenance consists of routine, scheduled maintenance checks on our aircraft, including pre-flight, daily and overnight checks and any diagnostics and routine repairs. All of our line maintenance is performed by our highly experienced technicians at our line maintenance service bases throughout Brazil and South America. At the Rio de Janeiro Galeão airport, we are the only company that holds the FAA certification for Delta's line maintenance for the Boeing 767-300/400ER and the Airbus A330-200/300. We believe that our practice of performing daily preventative maintenance helps to maintain a high aircraft utilization rate and reduces maintenance costs. Heavy maintenance consists of more complex inspections and servicing of the aircraft that cannot be accomplished overnight. Heavy maintenance checks are performed following a pre-scheduled agenda of major overhauls defined by the aircraft's manufacturer, based on the number of hours and flights flown by the aircraft. In addition, engine maintenance services are rendered in different MRO facilities.

We believe that our high aircraft utilization rate has not compromised our positioning in terms of performance and reliability when compared to other Boeing operators globally.

We have internalized heavy maintenance on our Boeing 737 aircraft in our Aircraft Maintenance Center at the Tancredo Neves International Airport in Confins, in the State of Minas Gerais. We use this facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We have four maintenance hangars, one dedicated to paintings. Our hangars are strategically located in Confins (Belo Horizonte) and São Paulo with capacity to carry out as many as nine checks simultaneously. We also have room to build an additional hangar, if needed.

We have entered into two strategic MRO partnership agreements (with Delta and MTU, respectively) in order to provide overhaul service for our CFM 56-7 engines, maintenance for parts and components on our fleet of Boeing 737 NG aircraft and also, consulting services related to maintenance workflow planning, materials and facility optimization and tooling support. We have recently agreed with Delta and Air France – KLM to increase the maintenance services we provide them starting in 2018.

In 2016, we received the FAA 145 Repair Station certification from the U.S. Federal Aviation Administration to perform C-checks at our maintenance center.

In 2017, we were certified by the European Aviation Safety Agency, or EASA, which is the European Union's aeronautical authority.

To conduct maintenance on aircraft and aircraft components, we must be certified as a "maintenance organization," which certification is granted by the country where the respective aircraft or components are operated. In Brazil, the certification is granted by ANAC and in the U.S. it is granted by the FAA. Therefore, in order to work on aircraft and aircraft components operating in the European Union, we would need a certification granted by EASA. However, in 2016 ANAC and EASA signed a bilateral agreement for the recognition of certifications granted by one another so that, after undergoing a validation process, Brazilian maintenance organizations can conduct maintenance on aircraft and aircraft components operating in the European Union and maintenance organization in the European Union can do the same with regards to aircraft and aircraft components operating in Brazil. Our Aircraft Maintenance Center underwent the validation process of its ANAC-granted certification for the EASA and is now authorized to conduct maintenance on aircraft and aircraft components operating in the European Union as if it were an entity directly certified by EASA. Some of the benefits of this validation are the recognition of the quality standards of our Aircraft Maintenance Center's services and new maintenance opportunities, including servicing aircraft and aircraft components under redelivery or sub-leasing to E.U. countries, which servicing would have previously been outsources. This also implies possible cost reductions for us when we return or sub-lease aircraft. As we can also service the aircraft and aircraft components of European airlines, we may be able to generate additional revenues.

Our Engine Office, part of our Aircraft Maintenance Center in Confins, was certified in December 2017 by ANAC and EASA for low-complexity services and repairs on CFM56-7 engines, which are in the Boeing 737NG operated by us. The Engine Office holds the latest infrastructure and tools and aims to conduct maintenance services that, although of low complexity, used to require used to require sending the engines to external offices or hiring third parties. These services can now be provided in-house. Our technical team completed a process to increase its skills, which included trainings by the engine's producer and by partner companies. Among the benefits of insourcing these services are reduced repair and logistics costs and reduced engine off-time and replacement time.

Fuel

Our fuel costs totaled R$2,888 million in 2017, representing 30.1% of our operating costs and expenses for the year. In 2017, we purchased a substantial part of our fuel from Petrobras Distribuidora, a retail subsidiary of Petrobras. In addition to Petrobras, there are two other large fuel suppliers in Brazil. In 2017, fuel prices under our contracts were re-set every 30 days and were composed of a variable and a fixed component. The variable component is defined by the refinery and follows international crude oil price fluctuations and the *real*/U.S. dollar exchange rate. The fixed component is a spread charged by the supplier and is usually a fixed cost per liter during the term of the contract. We operate a tankering program under which we fill the fuel tanks of our aircraft in regions where fuel prices are lower. We also provide our pilots with training in fuel management techniques, such as carefully selecting flight altitudes to optimize fuel efficiency.

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

	Year Ended December 31,		
	2015	**2016**	**2017**
Liters consumed (in millions)	1,551	1,391	1,379
Total fuel cost (in millions)	R$3,301.4	R$2,695.4	R$2,887.7
Average price per liter	R$2.13	R$1.94	2.09
% change in price per liter	(14.8)%	(8.9)%	8.1%
Percent of operating expenses	33.2%	29.4%	30.1%
ASK/liter consumed	32.07	33.31	33.86

We continuously invest in initiatives to reduce fuel consumption, including the following:

- Installation of winglets: We installed an aerodynamic component on the wing tips of the majority of our aircrafts for better aerodynamics and, consequently, lower fuel consumption.

- Required Navigation Performance (RNP - AR): Precision approaches guided through a satellite navigation system that enables pilots to control aircraft in flight even in the case of low visibility, reducing dependence on air-to-ground navigation and shortening length of flight, which reduces fuel consumption and improves accessibility at airports such as Rio de Janeiro, Santos Dumont Airport - SDU.

- Auxiliary Power Unit (APU): This is an auxiliary aircraft engine used to generate power and air conditioning when the main engines are not in use, usually in cases of long stops at airports or overnight use by maintenance. The APU OFF project was based on the study of Consumption Reduction Opportunities which is aimed to allow aircrafts to be charged up with an external power source (GPU - Ground Power Unit and ACU – Air Conditioning Unit) instead of using the aircraft's resources, in locations where this service is available. Whenever possible the APU OFF for aircrafts in transit is applied prior to selecting APU INOP aircrafts and flights with long ground time, reducing fuel consumption and preserving aircraft resources.

- Aircraft Communication Addressing Reporting System (ACARS): This is a satellite communication system that permits the exchange of data between aircraft and ground communication outlets during flights, and allows for more assertive communication and anticipated shared decision making processes, minimizing route deviations and ensuring operational efficiency.

Fuel costs are extremely volatile, as they are subject to many global economic and geopolitical factors that we can neither control nor accurately predict. Because international prices for jet fuel are denominated in U.S. dollars, our fuel costs, though payable in *reais*, are subject not only to price fluctuations but also to exchange rate fluctuations. We maintain a fuel hedging program, based upon policies which define volume, price targets and instruments, under which we enter into fuel and currency hedging agreements with counterparties providing for price protection in connection with the purchase of fuel. Our hedging practices are executed by our internal risk management committee and overseen by the risk policies committee of our board of directors. The risk policies committee, which may be comprised of members of our board of directors, external consultants, and senior management, meets monthly or more often, if called, and its main responsibilities are to assess the effectiveness of our hedging policies, recommend amendments when and where appropriate and establish its views regarding fuel price trends. We use risk management instruments that have a high correlation with the underlying assets so as to reduce our exposure. We require that all of our risk management instruments be liquid so as to allow us to make position adjustments and have prices that are widely disclosed. We also avoid concentration of credit and product risk. We have not otherwise entered into arrangements to guarantee our supply of fuel and we cannot provide assurance that our hedging program is sufficient to protect us against significant increases in the price of fuel. We also use non-derivative instruments as alternative hedge conferring an additional average protection through fixed price fuel transactions for future delivery negotiated with our main fuel supplier.

As of December 31, 2017, we had derivatives to protect approximately 27% of our expected fuel consumption in the first quarter of 2018.

Safety and Security

Our most important priority is the safety of our passengers and employees. We maintain our aircraft in strict accordance with manufacturer specifications and all applicable safety regulations, and perform routine line maintenance every day. Our pilots have extensive experience, with flight captains having more than 10,000 average hours of career flight time, and we conduct ongoing courses, extensive flight simulation training and seminars addressing the latest developments in safety and security issues. We promptly adopt best practices from the latest research regarding human fatigue risk management. We closely follow the standards established by ANAC's Air Accident Prevention Program and we have implemented the Flight Operations Quality Assurance System, which maximizes proactive prevention of incidents through the systematic analysis of the flight data recorder system. All of our aircraft are also equipped with Maintenance Operations Quality Assurance, a troubleshooting program that monitors performance and aircraft engine trends. The Brazilian civil aviation market follows the highest recognized safety standards in the world. We are also an active member of the Flight Safety Foundation, a foundation for the exchange of information about flight safety.

We maintain the highest rating (seven stars) and are ranked among the world's safest airlines, according to AirlineRatings.com, an independent plane safety and product rating website. The website's star ratings take multiple factors into account, including whether an airline has been certified by the International Air Transport Association (IATA), if it is on the EU's airline blacklist, its crash record and whether the fleet has been grounded over safety concerns. In June 2016, we carried out our fifth biennial IATA Operational Safety Audit (IOSA) and the next one is expected to be carried in 2018.

Environmental Sustainability

Since 2010, we prepare Annual Sustainability Reports based on Global Reporting Initiative (GRI) guidelines, an international standard for reporting economic, social and environmental performance. By adopting these parameters, we are reinforcing our accountability with various stakeholders through added transparency and credibility.

We also constantly invest in becoming more environmentally sustainable and have recently implemented the following actions:

- In 2017, we reopened our Office for Environmentally Sustainable Projects (*Escritório de Projetos Sustentáveis de Meio Ambiente*), which is responsible for the implementation and execution of Gol's environmental management system and seeks to conform our processes and monitor the company's environmental activities and initiatives.

- We received the FAA 145 Repair Station certification from the U.S. Federal Aviation Administration to perform C-checks in 2016 and EASA in 2017 at our Aircraft Maintenance Center at the Tancredo Neves International Airport located in Confins, in the State of Minas Gerais: we have reduced costs by decreasing the necessity of flying our aircraft overseas to be serviced. We also treat all of the effluents generated in our facilities and are committed to the reuse of water. The Maintenance Center was designed to comply with environmental responsibility requirements and all of the conditions imposed by the environmental licenses and current legislation.

- We are pioneers in incentivizing the research and development of biofuel technology. In 2014, we operated more than 365 domestic flights using renewable fuel. In 2015, we made our first international flight using renewable fuel on our Orlando – São Paulo route.

- We were the first Brazilian airline to release our greenhouse gas inventory based on the Greenhouse Gas Protocol Initiative, or GHG Protocol, and since 2011 we have been qualified with the gold stamp.

Insurance

We maintain passenger and third party liability insurance in amounts consistent with international industry practice and we insure our aircraft fleet against losses and damages on an "all risks" basis. We have obtained all insurance coverage required by the terms of our leasing agreements and in accordance with national and international insurance regulations and the requirements promulgated by the governmental and civil aviation authorities in each country in which we operate. We believe our insurance coverage is consistent with airline industry standards in Brazil and is appropriate to protect us from material loss in light of the activities we conduct.

Partnerships and Alliances

General

We count with incomparable sponsorship from several players in the industry. We are one of Boeing's most important 737 customers and the only airline in Brazil supported by the Export-Import Bank of the United States. Additionally, our shareholders include one of the largest airlines in Europe (Air France – KLM) and one of the largest in the U.S. (Delta), as well as our founding family, which remains active on our board of directors.

Our strong market positioning enables us to successfully negotiate a number of partnerships with supplementary major carriers worldwide, mostly in the form of codeshare agreements and interline agreements. Additional passenger inflows generated by these strategic partnerships help improve revenues at low incremental costs.

As of December 31, 2017, we had 12 codeshare agreements with Aerolíneas Argentinas, AeroMexico, Air Canada, Air France – KLM, Alitalia, Copa Airlines, Delta, Emirates, Etihad Airways, Korean Air, Qatar Airways and TAP and 74 interline agreements.

Delta

Since 2011, we have developed a comprehensive partnership with Delta. As of December 31, 2017, Delta owned 9.5% of our economic interest. We also have entered into a long-term commercial agreement with Delta that has exclusivity provisions designed to strengthen the operational cooperation and synergies between the two companies, including services related to aircraft maintenance and codeshare agreements.

On August 31, 2015, Delta guaranteed a US$300 million Term Loan borrowed by Gol Finance (previously named Gol LuxCo S.A.) from third party lenders. The Term Loan was made under a credit and guaranty agreement (the "Credit and Guaranty Agreement") among Gol Finance, as borrower, Gol, the Lessee and the other guarantors thereunder (collectively, the "Term Loan Guarantors") and the lenders party thereto (the "Third Party Lenders"). Under the terms of the Credit and Guaranty Agreement, Gol Finance's obligations thereunder are guaranteed by the Term Loan

Guarantors. Pursuant to a separate guaranty agreement, Delta provided to the administrative agent under the Credit and Guaranty Agreement, and the lenders under the Credit and Guaranty Agreement, a backstop guarantee of Gol Finance's and the Term Loan Guarantors' respective obligations under the Credit and Guaranty Agreement (the "Delta Guaranty"). The reimbursement obligations to Delta in connection with the Delta Guaranty are secured by a first priority security interest in favor of Delta in a portion of the shares of Smiles held by Gol. The Term Loan bears an effective interest rate of 6.70% per annum, payable semi-annually. The Term Loan matures on August 31, 2020 and is not secured by any property of Gol Finance or the Term Loan Guarantors.

In 2016, Delta granted us (i) credit support in the form of a backstop guarantee for up to US$32.0 million in Gol obligations under an ISDA Master Agreement with Morgan Stanley and (ii) a credit line for the financing of maintenance payments of up to US$50.0 million, which we will begin amortizing in 2018.

Air France – KLM

We also have a long term strategic partnership for commercial cooperation with Air France – KLM, which currently holds 1.2% of our total capital stock. The agreement provides for an alliance committee, comprised of at least one representative of Air France – KLM, at least two members of our board of directors and at least one representative of Delta.

In 2017, we entered into an agreement with Air France – KLM to expand our strategic partnership by means of a credit line granted to us for the financing of maintenance payments of up to US$50.0 million.

In 2017, we confirmed our selection of Fortaleza as our new joint hub with Air France – KLM. From 2018 on, we expect to increase our seat offering for flights out of Fortaleza. This new hub enables Air France – KLM to pursue its development strategy in Brazil and simultaneously links Fortaleza to its two main hubs at Amsterdam – Schiphol and Paris – Charles de Gaulle.

Competition

Domestic

Airlines in Brazil compete primarily on the basis of routes, fare levels, frequency of flights, capacity, airport operating rights and presence, reliability of services, brand recognition, frequent flyer programs and customer service.

Our main competitors in Brazil are Latam Airlines Group, or Latam Brasil; Azul Linhas Aéreas Brasileiras, or Azul Brasil; and Ocean Air Linhas Aereas, doing business as Avianca, or Avianca Brasil. Latam Brasil is controlled by Latam S.A., a Chilean company. Latam is the result of a June 2012 merger between TAM Airlines of Brazil and LAN Airlines of Chile, and is a full-service scheduled carrier offering flights on domestic routes and international routes. Azul, which acquired regional carrier Trip in 2012, is controlled by Azul S.A. Azul S.A.'s voting stock is controlled by David Neeleman and its largest economic stake is controlled by the Chinese government-controlled airline Hainan Airlines. Avianca Brasil is controlled by Synergy Group. Avianca licensed its brand to Avianca Brasil in 2010. We also face domestic competition from other domestic scheduled carriers, regional airlines and charter airlines, which mainly have regional networks.

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

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

Domestic Market Share— Scheduled Airlines	**2013**	**2014**	**2015**	**2016**	**2017**
Gol	35.4%	36.1%	35.9%	36.0%	36.2%
Latam Brasil(1)	39.9%	38.1%	36.7%	34.7%	32.6%
Azul Brasil(2)	17.0%	16.7%	17.0%	17.0%	17.8%
Avianca Brasil	7.1%	8.4%	9.4%	11.2%	12.9%
Others	0.6%	0.7%	1.0%	1.1%	0.5%

Source: ANAC

(1) Known as TAM Airlines prior to its June 2012 merger with LAN Airlines of Chile.

(2) In May 2012, Azul acquired Trip.

Domestically, we also face competition from ground transportation alternatives, primarily interstate bus companies. Given the absence of meaningful passenger rail services in Brazil, travel by bus has traditionally been the only low-cost option for long-distance travel for a significant portion of Brazil's population. We believe that our low-cost business model has given us flexibility in setting our fares to stimulate demand for air travel among passengers who in the past have traveled long distances primarily by bus. In particular, the highly competitive fares we have offered for travel on our night flights, which have often been comparable to bus fares for the same destinations, have had the effect of providing direct competition for interstate bus companies on these routes.

International

In our international operations, we face competition from Brazilian and South American airlines that are already established in the international market and that participate in strategic alliances and codeshare arrangements. In addition, non-Brazilian airlines may decide to enter or increase their schedules in the market for routes between Brazil and other South American and Caribbean destinations.

The table below shows the 2017 market share of major airlines on South American routes to/from Brazil based on RPKs:

International Market Share - Airline	RPK (mn)	Market Share
Latam Airlines Group(1)	9,027	46.3%
GOL	3,610	18.5%
Avianca Holdings(2)	3,243	16.6%
Avianca Brasil	461	2.4%
Aerolíneas Argentinas	1,744	8.9%
Azul Brasil	324	1.7%
Others	1,082	5.5%
Total	19,490	100.0%

Source: ANAC

(1) Includes Latam Airlines Brasil, Lan Chile, Lan Peru, Lan Argentina and TAM MERCOSUR.

(2) Includes Avianca Holdings and TACA Peru.

Smiles Loyalty Program

Overview

Smiles is one of the largest coalition loyalty programs in Brazil, with 13.7 million members as of December 31, 2017. Its business model is based on a pure coalition loyalty program consisting of a single platform for accumulating and redeeming miles through a broad network of commercial and financial partners.

The Smiles loyalty program was originally launched by Varig in 1994 as a frequent flyer program and was acquired by us in 2007, together with other assets of the Varig business. Beginning in 2008, the Smiles loyalty program underwent a restructuring and revitalization and, since then, the Smiles loyalty program has been transformed from a stand-alone program into an independent coalition loyalty program and has gained significant market share. In 2013, we listed Smiles on the B3 and in July 2017 it merged with Webjet Participações S.A. to create Smiles Fidelidade S.A. On December 31, 2017, Smiles' share of all miles issued in the domestic market was roughly 54%, up from 29% at the end of 2013.

Currently, Smiles loyalty program allows members to accumulate miles through: (1) flights with Gol and our international partners, (2) all the significant Brazilian commercial banks that issue credit cards, including through co-branded cards issued by Bradesco, Banco do Brasil and Santander, (3) a broad network of retail partners, including Localiza, the largest car rental agency in Brazil, Accor Hotels (Le Club), a global hotel chain, among others, (4) direct purchases of miles by customers and (5) purchase of miles and benefits through *Clube Smiles* (or Smiles Club). We are Smiles' primary redemption partner but members may also redeem miles for products and services from commercial partners.

Commercial Partners

As of the date of this annual report, the Smiles network of commercial partners is composed of airlines, financial institutions, travel agencies, hotels, car rental agencies, gas stations, bookstores, media companies, drugstores, restaurants and parking lot operators, among others.

- *Airlines*. We are Smiles' most important commercial partner in terms of miles and rewards volumes. We purchase miles from Smiles to distribute to our passengers. Additionally, Smiles offers redemptions with our airline partners.
- *Financial Institutions*. Smiles has commercial partnership agreements with all significant Brazilian commercial banks, including more than 80% of the largest Brazilian commercial banks in terms of total assets as of December 31, 2016, according to the Central Bank. Smiles sells miles to these commercial partners, which distribute them proportionately to credit card spending by cardholders who are Smiles loyalty program members. Smiles also sells miles for co-branded credit cards issued by Bradesco, Banco do Brasil and Santander.
- *Travel Companies, Hotels and Car Rental Agencies*. Currently, Smiles has partnership agreements with well-known domestic and international travel companies, hotels and car rental companies. These partners include Accor Hotels and Rocketmiles. This network allows Smiles loyalty program members to accumulate miles at a variety of locations worldwide and throughout the course of their trips.
- *Brazilian Retailers and Distributors*. Smiles has commercial agreements with important Brazilian retailers, including Polishop (a domestic electronics and merchandise retailer), the newspapers *O Globo* and *Valor Econômico*, Editora Abril S.A. (one of the largest Brazilian publishing companies), Shell gas stations, Centauro (a sports clothing and equipment retail chain), Grupo Pão de Açúcar and Via Varejo online websites (Assaí, Pão de Açucar, Extra, Casas Bahia and Ponto Frio), Magazine Luiza (the second largest home appliance retailer and one of the largest online retailers in Brazil) and Fast Shop (a domestic electronics retailer).

Competition

Smiles faces the following types of competition in Brazil: (i) frequent flyer programs, (ii) the loyalty programs of financial institutions and similar entities and (iii) other loyalty programs in general. The first group includes Multiplus, the current market leader, and other players such as the *Tudo Azul* program and Avianca's *Programa Amigo*. The second group includes a variety of large financial institutions and similar entities that have their own loyalty programs, such as the *SuperBônus* Program of Banco Santander (Brasil) S.A., the Bradesco Loyalty Card Program of Banco Bradesco S.A., the *Sempre Presente* Program of Banco Itaú Unibanco S.A., the American Express Membership Rewards Program and Livelo, a joint venture program between Banco do Brasil and Banco Bradesco. The majority of these programs allow members to transfer accumulated reward points to programs like the Smiles loyalty program. The third group of competitors includes companies such as Dotz and Netpoints (of which Smiles is a minority shareholder), among others.

If foreign loyalty programs such as Aeroplan or Air Miles enter the Brazilian market, Smiles may face additional competition. However, entry of foreign loyalty programs would also present new opportunities for commercial partnerships.

Agreements with Smiles

Operating Agreement

On December 28, 2012, GLA entered into an operating agreement with Smiles, or the Operating Agreement, that establishes the terms and conditions of our relationship. This agreement went into effect on January 1, 2013, when Smiles began to manage and operate the Smiles loyalty program.

The 20-year Operating Agreement will be automatically renewed for successive five-year periods if neither party objects at least two years prior to its expiration. If a party is given notice of non-renewal, it may terminate the Operating Agreement early by providing written notification to the other party six months prior to the termination date.

GLA pays Smiles a monthly fee for managing our frequent flyer program. This fee is adjusted on each anniversary of the Operating Agreement in accordance with our gross monthly miles purchases.

Back Office Services Agreement

On December 28, 2012, GLA entered into a back office services agreement with Smiles, or the Back Office Services Agreement, that contains the terms, conditions and levels of certain services in connection with back office activities including controllership, accounting, internal controls and auditing, finance, information technology, call center, inventory and legal matters. The amount recognized by Smiles as expenses in 2017, 2016, and 2015 totaled R$23.5 million, R$23.4 million and R$24.3 million, respectively.

The three-year Back Office Services Agreement is automatically renewed for successive three-year periods if neither party objects 12 months prior to its expiration. Smiles may terminate portions of the Back Office Services Agreement at any time by providing prior written notice to GLA.

Main Miles and Tickets Purchase Agreement

On December 28, 2012, GLA entered into a miles and tickets purchase agreement with Smiles, or the Miles and Tickets Purchase Agreement, that establishes the terms and conditions of purchases of miles and sales of tickets.

In order to govern pricing and availability of reward tickets and satisfy customer demand, the agreement establishes three seating classes: standard, commercial and promotional for ticketing purposes.

- *Standard seats*: Pricing will take into account the variation of the economic cost of the fare over the last 12 months and the characteristics of each route. The economic cost is equivalent to the sum of (i) the opportunity cost of not selling a ticket to a traveler when the flight is full – or displacement; (ii) the opportunity cost of a passenger redeeming a reward ticket who would have purchased the ticket using cash, had he or she not had available miles – or dilution; and (iii) the direct cost that GLA incurs in transporting an additional passenger on a given flight – or marginal cost. The availability of standard seating on planes is limited and controlled by GLA, although Smiles is assured a minimum aggregate number of standard seats out of total seats on all flights.
- *Commercial seats*: Pricing is subject to the same price and/or discount applied to third parties. The availability of commercial seats on flights is unrestricted.
- *Promotional seats*: Pricing is determined by an established discount table on a case-by-case basis. There is no minimum availability for promotional seats.

The price that GLA pays for miles is calculated based on the economic cost specified above, minus a portion of the breakage rate, which is the expected percentage of miles that will expire without being redeemed.

The 20-year Miles and Tickets Purchase Agreement will be automatically renewed for successive five-year periods if neither party objects at least two years prior to its expiration. If a party is given notice of non-renewal, it may terminate the agreement early by providing written notification to the other party six months prior to the termination date.

On December 27, 2017, GLA, along with Smiles, made adjustments in the prices of standard airline tickets and miles sold to GLA, representing a decrease of 0.6% and 1.5%, respectively, based on the composition of the airline tickets issued in the preceding period.

2016 Miles and Tickets Purchase Agreement

In February 2016, GLA entered into a miles and tickets purchase agreement with Smiles, totaling up to R$1.0 billion, providing for advance ticket sales to Smiles in various tranches through June 30, 2017. On April 5, 2017 GLA and

Smiles amended this agreement to extend its termination until July 31, 2018 and increase the total amount by R$480 million. In 2017, Smiles paid R$520 million in advance, of which R$240 million related to the agreement entered into in February 2016 and R$280 million related to the first amendment entered into in April 2017.

The advances by Smiles will be remunerated at a minimum rate of 132% of the CDI, which may be increased according to market conditions at each payment date. In addition, Smiles will benefit from some measures to strengthen its competitiveness.

Industry Overview

According to the International Air Transport Association, or IATA, Brazil is the fifth largest domestic aviation market in the world, after United States, China, India and Russia and should remain among the fourth largest over the next two decades with a total of 170 million passengers. Moreover, according to ANAC, there were 90.9 million domestic enplanements and 8.4 million international enplanements on Brazilian carriers in Brazil (which excludes international carriers) in 2017, out of a total population of over 207 million, according to IBGE. In contrast, according to the U.S. Department of Transportation, the United States had around 740 million domestic enplanements and 110 million international enplanements in 2017, out of a total population of over 320 million, based on the latest United States census estimates. Despite its size, the Brazilian market is still under-penetrated, with an estimated 0.45 flights per capita in 2016, way below levels of developed countries like Australia (2.4), United States (2.1) and Canada (1.3), reflecting a strong potential for growth in the mid-term. In the specific case of Gol, we are very well positioned to capture the growth of the Brazilian market, with 85.5% of revenues coming from the domestic market in 2017.

Brazilian air travel has historically been affordable for business passengers and or high-income individuals, resulting in low per capita penetration rates when compared to other emerging markets and developed countries. We believe that Brazil fundamentals over the long-term are still quite attractive which bodes well for the development and growth of air travel. Long-distance travel alternatives in Brazil are quite limited given that there is poor road infrastructure and no passenger rail or other alternative. Despite the significant growth in air travel in Brazil over the first decade after 2000 (CAGR of almost 12% over the 2000-2011), we believe that there is still significant upside potential for airlines in general and for low cost airlines specifically to gain market share of travelers who would ordinarily travel by bus. Moreover, Brazil’s “new middle class” consumers also allocated a greater portion of their family incomes into better vacation experiences. This explains the significant pick-up in demand for international air travel by Brazilians over the last 10 years. South American countries, the Caribbean and the United States feature among the top ten most popular tourist destinations for Brazilians traveling abroad on vacation according to industry data.

Brazil air travel is still very concentrated in a few city-pairs and business passengers account for the majority of the volume. According to industry data, business travel represents around 60% of the demand for domestic air travel in 2017. We believe this rate is significantly higher than the business travel portion of domestic air travel in the global aviation sector. According to the latest data collected by ANAC, flights between Rio de Janeiro and São Paulo, Brazil’s busiest city-pair accounted for 7.6% of all domestic passengers in 2017. The top ten routes accounted for almost 25% of all domestic air passengers in 2017, while the ten busiest airports accounted for 67% in 2017.

The table below sets forth information about the ten busiest routes for air travel in Brazil during 2017.

City Pair[(1)]	Passengers	Route Market Share
São Paulo – Rio de Janeiro[(2)]	6,908,612	7.6%
São Paulo (Congonhas) – Rio de Janeiro (Santos Dumont)	4,093,857	4.5%
São Paulo (Guarulhos) – Rio de Janeiro (Galeão)	1,241,457	1.4%
São Paulo (Congonhas) – Rio de Janeiro (Galeão)	837,446	0.9%
São Paulo (Guarulhos) – Rio de Janeiro (Santos Dumont)	735,852	0.8%
São Paulo (Congonhas) – Brasília	2,042,799	2.3%
São Paulo (Guarulhos) – Porto Alegre	1,888,334	2.1%
São Paulo (Congonhas) – Confins	1,810,856	2.0%
São Paulo (Guarulhos) – Recife	1,806,151	2.0%
São Paulo (Guarulhos) – Salvador	1,794,490	2.0%
São Paulo (Congonhas) – Porto Alegre	1,737,474	1.9%
São Paulo (Guarulhos) – Curitiba	1,544,731	1.7%

São Paulo (Congonhas) – Curitiba	1,505,024	1.7%
São Paulo (Guarulhos) – Fortaleza	1,496,762	1.7%

Source: ANAC – 2017

(1) Considers flights originating in either city of the pair

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

In light of Brazil's economic growth between 2009-2013 and Government income distribution initiatives, the middle class segment (A, B and C classes) increased significantly in the last years and now accounts for roughly 50% of total consumer spending (or 42 million new consumers rose to middle class status). The Northeast region led the growth in middle class consumers, with three out of ten new middle class consumer from this region. According to ANAC, after a 7.8% reduction in the number of domestic passengers transported in 2016, there was a 2.1% increase in 2017, reaching 90.6 million domestic passengers, which is the same level as in 2013.

In addition, there are ongoing discussions in Brazil regarding the execution of open skies agreements, which remove restrictions on the number of flights and destinations between countries. In 2017, the Brazilian Congress ratified an open skies agreement with the United States dated 2011, which was approved by the Senate in March 2018 and must be ratified by the President of Brazil. For more information on the open skies agreement between Brazil and the United States, see "—Regulation of the Brazilian Civil Aviation Market—Open Skies."

Brazilian Civil Aviation Market Evolution

In the past 40 years, the domestic market generally experienced year-over-year growth in revenue passenger kilometers twice the growth rate of GDP, except in times of significant economic or political distress, such as the petroleum crisis in the 1970s, the Brazilian sovereign debt crisis in the early 1980s and the economic and political distress in Brazil in the early 1990s. From 1972 to 2000, domestic revenue passenger kilometers grew at a compound annual rate of 7.2%. However, in the ten years following the start of Gol's operations, that is from 2000-2011 CAGR growth rate accelerated to an increase of almost 12%. During this period, Gol's market share as measured by available seat kilometers increased from 4% to 38%.We believe that Gol positively impacted the market by more than 260% in terms of demand stimulation which we call the "Gol effect."

From 2012 to 2016, the compound annual growth rate in industry passenger traffic, in terms of domestic revenue passenger kilometers, was 0.6%, versus a compound annual growth rate in available industry domestic capacity, in terms of available seat kilometers, of -1.7%. Domestic industry load factor, calculated as revenue passenger kilometers divided by available seat kilometers, averaged 77.7% over the same period.

After the 2016 capacity adjustment in the Brazilian airline industry, capacity increased in 2017 reaching 112.8 million ASKs, which remains below the capacity levels in 2013. Demand increased by 3.2% in 2017, leading to a record 81.5% load factor.

The table below shows the figures of domestic industry passenger traffic and available capacity for the periods indicated:

	2013	**2014**	**2015**	**2016**	**2017**
Domestic enplanements (millions)	90.2	95.9	96.2	88.7	90.6
Available Seat Kilometers (billions)	115.9	117.0	118.2	111.2	112.8
Available Seat Kilometers Growth	(2.9)%	0.9%	1.0%	(5.9)%	1.4%
Revenue Passenger Kilometers (billions)	88.2	93.3	94.4	89.0	91.9
Revenue Passenger Kilometers Growth	1.4%	5.8%	1.1%	(5.7)%	3.2%
Load Factor	76.1%	79.8%	79.8%	80.0%	81.5%

Source: ANAC, *Dados Comparativos Avançados*

Regulation of the Brazilian Civil Aviation Market

The Brazilian Aviation Authorities and Regulation Overview

Air transportation services are considered a public service and are subject to extensive regulation and monitoring in Brazil, including through the Brazilian Federal Constitution and the Brazilian Aeronautical Code. The Brazilian Aeronautical Code sets forth the main rules and regulations relating to airport infrastructure and operation, flight safety and protection, airline certification, lease structuring, burdening, disposal, registration and licensing of aircraft; crew training, concessions, inspection and control of airlines, public and private air carrier services, civil liability of airlines and penalties in case of infringements.

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

The Brazilian Civil Aviation National Policy (*Política Nacional de Aviação Civil),* or PNAC, corresponds to the guidelines and strategies that will lead the institutions responsible for the development of the Brazilian civil aviation sector, establishing strategic objectives and actions for the market.

The Ministry of Transport, Ports and Civil Aviation, formerly the Civil Aviation Secretary, monitors the implementation of PNAC by the entities responsible for the management, regulation and inspection of civil aviation, civil airport infrastructure and civil air navigation infrastructure connected to the Ministry. In addition to the Ministry of Transport, Ports and Civil Aviation, the bodies and entities of the National Civil Aviation Council (*Conselho de Aviação Civil*), or CONAC, monitor the implementation of PNAC.

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

The Ministry of Transport, Ports and Civil Aviation oversees ANAC and INFRAERO and reports directly to the President of Brazil. The Ministry is also responsible for implementation of the airport infrastructure concession plan and the development of strategic planning for civil aviation.

The National Commission of Airport Authorities (*Comissão Nacional de Autoridades Aeroportuárias*), or CONAERO, is a commission that coordinates the different entities and public agencies related to airports. This has a rule-making role in the search for efficiency and security in airports operations.

CONAERO is composed by the following individuals and representatives of entities: (i) Ministry of Transport, Ports and Civil Aviation, which chairs the commission; (ii) the President's chief of staff; (iii) Agriculture, Livestock and Supplies Ministry; (iv) Defense Ministry; (v) Finance Ministry; (vi) Justice Ministry; (vii) Planning, Budget and Administration Ministry; (viii) Health Ministry; and (ix) ANAC.

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

The Department of Air Space Control (*Departamento de Controle do Espaço Aéreo*), or DECEA, controls and supervises the Brazilian Airspace Control System. The DECEA reports indirectly to the Brazilian Minister of Defense which, is responsible for planning, administrating and controlling activities related to airspace, aeronautical telecommunications and technology, including approving and overseeing the implementation of equipment as well as of navigation, meteorological and radar systems.

With respect to non-privatized airports, INFRAERO, a state-controlled corporation reporting to Ministry of Transport, Ports and Civil Aviation, is in charge of managing, operating and controlling federal airports, including some control towers and airport safety operations. With respect to the recently privatized airports (Natal, Galeão, Confins, Guarulhos, Viracopos and Brasília), although INFRAERO still holds a minority stake in each of them, INFRAERO is no longer in charge of operations, which are now handled by their respective private operators. See "Regulation of the Brazilian Civil Aviation Market—Airport Infrastructure" below.

CONAC is an advisory body of the President of Brazil and its upper level advisory board is composed of the Minister of Defense, the Minister of Foreign Affairs, the Minister of Treasury, the Minister of Development, Industry and International Trade, the Minister of Tourism, the President's chief of staff, the Minister of Planning, Budget and Management, the Minister of Justice, the Minister of Transport, Ports and Civil Aviation and the Commandant of the Air Force. CONAC has the authority to establish national civil aviation policies that may be adopted and enforced by the High Command of Aeronautics and by ANAC. CONAC establishes guidelines relating to the proper representation of Brazil in conventions, treaties and other actions related to international air transportation, airport infrastructure, the granting of supplemental funds to be used for the benefit of airlines and airports based on strategic, economic or tourism-related aspects, the coordination of civil aviation, air safety, the granting of air routes and concessions, as well as permission for the provision of commercial air transportation services.

Route Rights

Domestic routes. Until March 25, 2017, ANAC was the intermediary between airlines and airport operators regarding new routes, changes to existing routes and surveillance of allocated routes. After this date, pursuant to Resolution No. 440/2017, airlines negotiate the use of airport and aeronautical infrastructure directly with airport operators and providers of air navigation services prior to registering routes with ANAC. For airports defined by ANAC as "coordinated" or "of interest," pursuant to Resolution No. 338/2014, airlines are still required to obtain slots. The implementation of Resolution No. 440/2017 is expected to permit more flexible and efficient networks to better serve demand for air services, principally in high and low seasons.

International routes. In general, requests for new international routes, or changes to existing routes, must be filed by each interested Brazilian airline that has been previously qualified by ANAC to provide international services, with the market access area (*Gerência de Acesso ao Mercado*), or GEAM, which, based on the provisions of the applicable bilateral agreement and general policies of the Brazilian aviation authorities, will submit a non-binding recommendation to ANAC's president, who will decide on approval of the request. International route rights for all countries, as well as the corresponding transit rights, derive from bilateral air transport agreements negotiated between Brazil and foreign governments. Under such agreements, each government grants to the other the right to designate one or more of its domestic airlines to operate scheduled service between certain destinations in each country. Airlines are only entitled to apply for new international routes when they are made available under these agreements. For the granting of new routes and changes to existing ones, ANAC has the authority to approve Brazilian airlines to operate new routes, subject to the airline having filed studies satisfactory to ANAC demonstrating the technical and financial viability of such routes and fulfilling certain conditions in respect of the concession for such routes. Any airline's international route frequency rights may be terminated if the airline fails to maintain at least 66% of flights provided for in its air transportation schedule for any 180-day period or suspends its operation for a period exceeding 180 days.

In 2010, ANAC approved the deregulation of international airfares for flights departing from Brazil to the United States and Europe, gradually removing the prior minimum fares. In addition, in 2010, CONAC approved the continuity of bilateral agreements providing for open skies policies with other South American countries and a new open skies policy with the United States, which was approved in 2017 by the Brazilian Congress and in March 2018 by the Senate and must be ratified by the President of Brazil. A similar agreement with Europe is still in its early stages. These new regulations should increase the number of passengers in South America and grow our market. To the extent that our presence and/or the presence of our partner, Delta, increase in the South American market, this will contribute to our business. On the other hand, to the extent competition increases in the expanded South American market and we and/or Delta lose significant market share, we may be adversely affected. For more information on the open skies agreement between Brazil and the United States, see "—Open Skies."

Slots Policy

Domestic. Under Brazilian law, a domestic slot concession derives from a flight concession by ANAC, which is reflected in the airline's registration. Such period of time is known as an "airport slot" and provides that an airline can operate at the specific airport at the intervals established.

Congonhas airport in the city of São Paulo is one of the slot constrained airports, where slots must be allocated to an airline before it may begin operations there. It is quite difficult to obtain and maintain a slot in Congonhas airport. The Santos-Dumont airport in Rio de Janeiro, is also a highly utilized airport with half-hourly shuttle flights between São Paulo and Rio de Janeiro, and also presents certain slot restrictions. ANAC has imposed schedule restrictions on several Brazilian airports from which we operate. Operating restrictions, including the prohibition of international flights' operations and the prohibition of civil aircraft's operation after 11:00 p.m. and before 6:00 a.m., were imposed for Congonhas airport (São Paulo), one of the busiest Brazilian airports and the most important airport for our operations. No assurance can be given that these or other government measures will not have a material adverse effect on us.

CONAC has taken certain measures to minimize recent technical and operational problems at São Paulo's airports, including the redistribution of air traffic from Congonhas airport (São Paulo) to the international airport in Guarulhos which is a "coordinated" airport in terms of slots. CONAC has also mentioned its intention to adjust tariffs for the use of busy airport hubs to encourage further redistribution of air traffic.

In July 2014, ANAC published new rules governing the allocation of slots at the main Brazilian airports, which consider operational efficiency (on-time performance and regularity) as the main criteria for the allocation of slots. Under these rules on-time performance and regularity are assessed in two annual seasons, following the IATA summer and winter calendars, between April and September and between October and March.

The minimum on-time performance and regularity targets for each series of slots in a season are 80% and 90%, respectively, at Congonhas airport (São Paulo) and 75% and 80%, respectively, for all other main airports. Airlines forfeit any series of slots that operate below the minimum criteria in a season. Forfeited slots are redistributed first to new entrants, which includes airlines that operate fewer than 5 slots in the relevant airport in the given weekday, and after to all airlines operating in the relevant airport based on their share of slots. In addition, in October 2014, ANAC distributed new slots at Congonhas airport, in light of increased runway capacity, exclusively to airlines with less than 12% of the slots.

Airport Infrastructure

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

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

The use of areas within federal airports, such as hangars and check-in counters, is subject to a concession by INFRAERO. If there is more than one applicant for the use of a specific airport area, INFRAERO may conduct a public bidding process for the granting of the concession. For recently privatized airports (Natal, Galeão, Confins, Guarulhos, Viracopos, Brasília, Fortaleza, Salvador, Florianópolis and Porto Alegre), operators may freely negotiate all commercial areas according to their own criteria; there is no requirement that a public bidding must be held in the event there is more than one applicant for the use of a specific airport area.

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

All of the 60 Brazilian airports managed by INFRAERO at the end of 2017 are scheduled to receive some infrastructure investments and upgrades within the next three years. In addition, under the regional aviation development program, 270 current or new regional airports may receive investments in the next few years. These airport upgrade plans do not require contributions or investments by the Brazilian airlines and are not expected to be accompanied by increases in landing fees or passenger taxes on air travel.

The table below sets forth the number of passengers at the ten busiest airports in Brazil during 2017:

Airport	**Number of Passengers Inbound and Outbound[(1)]**
	(in thousands)
São Paulo – Guarulhos	37,816
São Paulo – Congonhas	21,859
Brasília	16,913
Rio de Janeiro – Galeão	16,243
Belo Horizonte – Confins	10,164
Campinas – Viracopos	9,333
Rio de Janeiro – Santos Dumont	9,247
Porto Alegre	8,012
Recife	7,777
Salvador	7,736

Source: INFRAERO, DAESP and Guarulhos, Brasília, Rio de Janeiro Galeão, Confins and Viracopos airports

(1) Considers domestic and international departures and arrivals from main Brazilian airports.

Airport fees include airport charges for each landing and aircraft parking, connection fees as well as aeronautical and navigation fees. Most of these fees vary based on our level of operations and the rates are set by INFRAERO, DECEA and private airports. Since February 2012, the Brazilian government increased parking fees at the busiest airports, and at peak hours, which benefitted secondary hubs and off-peak flights in light of the differences in fees for the airlines that chose to operate in these airports or at these times. Currently, landing fees are fixed, based on the category of the airport and whether the flight is domestic or international. Navigation fees are also fixed, but consider the area overflown and whether the flight is domestic or international.

Airport Privatizations

In August 2011, the Brazilian government privatized the Natal airport, which construction was completed in mid-2014. In February 2012, the Brazilian government privatized the São Paulo (Guarulhos), Brasília and Campinas international airports, which will be operated by the winners of the privatization auction for periods of 20 to 30 years. In November 2013, the Brazilian government privatized Rio de Janeiro (Galeão) and Belo Horizonte (Confins) airports. Additionally, in March 2017, the Brazilian government privatized the international airports of Porto Alegre, Salvador, Florianópolis and Fortaleza. These ten airports combined account for 62.8% of Brazil’s total passenger volume.

The airports auctioned were:

Airport (Code)	Grant	Concession Term	Minimum Investment	Year of Concession
Natal (NAT)	R$170 million	28 Years	R$51.7 million	2011
São Paulo (GRU)	R$16.2 billion	20 Years	R$4.7 billion	2012
Brasília (BSB)	R$4.5 billion	25 Years	R$4.7 billion	2012
Campinas (VCP)	R$3.8 billion	30 Years	R$8.7 billion	2012
Rio de Janeiro (GIG)	R$19 billion	25 Years	R$4.8 billion	2013
Belo Horizonte (CNF)	R$1.8 billion	30 Years	R$1.1 billion	2013
Salvador (SSA)	R$1.59 billion	30 Years	R$1.24 billion	2017
Fortaleza (FOR)	R$1.51 billion	30 Years	R$1.44 billion	2017
Porto Alegre (POA)	R$382 million	25 Years	R$123 million	2017
Florianópolis (FLN)	R$241 million	30 Years	R$211 million	2017

Source: Civil Aviation Secretary (*Secretaria de Aviação Civil*)

Concession for Air Transportation Services

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

Our concession was granted on January 2, 2001 by the High Command of Aeronautics of the Ministry of Defense and was renewed in 2009 for another ten years with an expiration date of December 14, 2019. The concession agreement can be terminated if, among other things, we fail to meet specified service levels, cease operations or declare bankruptcy.

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

Import of Aircraft into Brazil

The import of civil or commercial aircraft into Brazil is subject to prior certification of the aircraft by ANAC. Import authorizations usually follow the general procedures for import of goods into Brazil, after which the importer must request the registration of the aircraft with the RAB.

Registration of Aircraft

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

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

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

According to the Brazilian Aeronautical Code, in order to be eligible for a concession for operation of regular services, the entity operating the concession must have at least 80% of its voting stock held directly or indirectly by Brazilian citizens and must have certain management positions entrusted to Brazilian citizens. As of December 31, 2017, the foreign ownership limit for Brazilian airlines remained unchanged at 20%, although there have been repeated discussions by the Brazilian government and Congress to lift this restriction fully or partially, including most recently an announcement that the government intends to issue a new measure, subject to Congress approval, completely removing the foreign ownership limit.

The Brazilian Aeronautical Code also imposes certain restrictions on the transfer of capital stock of concessionaires of air transportation services, such as GLA, including the following:

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

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

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

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

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

Environmental Regulation

Brazilian airlines are subject to various federal, state and municipal laws and regulations relating to the protection of the environment, including the disposal of materials and chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities. Non-compliance with such laws and regulations may subject the violator to administrative and criminal sanctions, in addition to the obligation to repair or to pay damages caused to the environment and third parties. As far as civil liabilities are concerned, Brazilian environmental laws adopt the strict and joint liability regime. In this regard we may be liable for violations by third parties hired to dispose of our waste. Moreover, pursuant to Brazilian environmental laws and regulations, the piercing of the corporate veil of a company may occur in order to ensure enough financial resources to the recovery of damages caused against the environment.

We adopted several Environmental Management System, or EMS, procedures with our suppliers and use technical audits to enforce compliance. We exercise caution, and may reject goods and services from companies that do not meet our environmental protection parameters unless confirmation of compliance is received.

We are monitoring and analyzing the developments regarding amendments to Kyoto protocol and emissions regulations in the United States and Europe and may be obliged to acquire carbon credits for the operation of our business. No legislation on this matter has yet been enacted in Brazil.

Open Skies

In 2011, the United States and Brazil entered into an open skies agreement designed to provide airlines greater liberty in defining their routes, prices and capacity. The countries agreed on a transition period until 2015, by which time the open skies model was expected to be in force. The agreement was approved and thereby ratified by the Brazilian Congress in 2017 and approved by the Senate in March 2018 and is now awaiting ratification by the President of Brazil.

The open skies agreement's principal purpose is to eliminate the limit on flight frequencies between the U.S. and Brazil, which had been set at 301 flights. The agreement also memorializes previously agreed terms, including free pricing, new itineraries and codeshare offers.

Among the important provisions of the open skies agreement are the rights to: (i) fly over a country without landing; (ii) make connections in another country for non-commercial purposes; and (iii) unlimited charter flight authorizations. The agreement also includes provisions regarding profit remittance, tax exemptions, airport tariffs and international agreements regarding civil aviation safety. The agreement does not, however, permit U.S. airlines to operate domestic flights within Brazil.

The open skies agreement is a significant commercial change for the airline industry as it will permit joint ventures among Brazilian and American airline companies.

Pending Legislation

The Brazilian congress is currently discussing a draft bill that would replace the current Brazilian Aeronautical Code (*Código Brasileiro de Aeronáutica*). In general, this draft bill deals with matters related to civil aviation, including airport concessions, consumer protection, limitation of airlines' civil liability, compulsory insurance, fines and the increase of limits to foreign ownership in voting stock of Brazilian airlines. This draft bill is still under discussion in the House of Representatives and, if approved, must be submitted for approval to the Senate, before being sent for presidential approval. If the Brazilian civil aviation framework changes, or ANAC implements increased restrictions, the Brazilian airline industry could be negatively affected.

C. Organizational Structure

We are a holding company that directly or indirectly owns shares of seven subsidiaries: GLA; Smiles Fidelidade S.A., which was formed in July 2017 as a result of Smiles' merger with Webjet Participações S.A.; Smiles Viagens e Turismo S.A., which is pre-operational; and four offshore subsidiaries: Gol Finance Inc.; GAC Inc., or GAC; Gol Finance (previously named Gol LuxCo S.A.); and Gol Dominicana Lineas Aereas Sas., which is non-operational. GLA is our operating subsidiary, under which we conduct our air transportation business. We are the majority shareholder of Smiles, which conducts the Smiles loyalty program. Gol Finance Inc., GAC and Gol Finance are offshore companies established for the purpose of facilitating cross-border general and aircraft financing transactions.

D. Property, Plant and Equipment

Our primary corporate offices are located in São Paulo, where our commercial, operations, technology, finance and administrative staff is primarily based. We have concessions to use other airport buildings and hangars throughout Brazil, including part of a hangar at Congonhas airport where we perform aircraft maintenance. As of December 31, 2017, we had finance lease agreements for 31 Boeing 737s, all of which had a purchase option at the end of the contract term. We own an Aircraft Maintenance Center in Confins, in the State of Minas Gerais. The certification of our Aircraft Maintenance Center authorizes airframe maintenance services for Boeing 737-300s, Boeing 767-200/300 and Boeing Next Generation 737-700 and 800s. We have three hangars at our Aircraft Maintenance Center, with a capacity to perform maintenance on six aircraft simultaneously and painting services on one additional aircraft. We also have room to build more hangars, if needed. For more information, see "Item 4B. Business Overview—Aircraft Fleet" and note 14 to our audited consolidated financial statements included herein.

ITEM 4A. Unresolved Staff Comments

None.

ITEM 5. Operating and Financial Review and Prospects

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

A. Operating Results

Revenues

Our revenues derive primarily from transporting passengers on our aircraft. In 2017, 86.9% of our net revenues came from passenger transportation revenues, and the remaining 13.1% came from ancillary revenues, principally from: our cargo business, which utilizes cargo space on our passenger flights, fees and charges (including cancellation fees and other fees and taxes linked to air transportation services), as well as revenues from products and services, other than air tickets, sold for miles. In 2017, 85.5% of our revenues derived from our domestic operations and 14.5% from our international operations. We recognize passenger revenue, including revenue from Smiles' loyalty program, which relates to the redemption of miles for Gol flight tickets, either when transportation is provided or when the unused ticket expires. We recognize cargo revenue when transportation is provided. Other ancillary revenue consists primarily of ticket change fees, excess baggage charges and interest on installment sales. Passenger revenues depend on capacity, load factor and yield. Our capacity is measured in terms of available seat kilometers (ASK), which represents the number of seats we make available on our aircraft multiplied by the number of kilometers the seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing revenue passenger kilometers by available seat kilometers. Yield is the average amount that one passenger pays to fly one kilometer.

The following table presents our main operating performance indicators in 2015, 2016 and 2017:

	Year Ended December 31,		
	2015	**2016**	**2017**
Operating Data:			
Load-factor	77.2%	77.5%	79.7%
Break-even load-factor	78.1%	72.1%	72.3%
Aircraft utilization (block hours per day)	11.3	11.2	12.1
Yield per RPK (cents)	22.4	24.1	24.7
Passenger revenue per ASK (cents)	17.3	18.7	19.7
Operating revenue per ASK (cents)	19.7	21.3	22.7
Number of departures	315,902	261,514	260,654
Average number of operating aircraft	129	117	109

Our revenues are net of ICMS and federal social contribution taxes, including social integration program (*Programa de Integração Social*), or PIS, and social contribution for financing social security (*Contribuição Social para o Financiamento da Seguridade Social*), or COFINS. ICMS does not apply to passenger revenues. The average rate of ICMS on cargo revenues varies by state from 0% to 20%. As a general rule, combined PIS and COFINS rates are 3.65% of passenger revenues and 9.25% of cargo revenues and Smiles revenues.

We have one of the largest e-commerce platforms in Brazil and we generate most of our revenues from ticket sales through our website.

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

Operating Expenses

We seek to lower our operating expenses by operating a young and standardized fleet, upgrading to Boeing 737 Max aircraft, utilizing our aircraft efficiently and improving their productivity, using and encouraging low-cost ticket sales and distribution processes. The main components of our operating expenses include aircraft fuel, rent and maintenance, sales and marketing expenses and salaries, including provisions for our profit sharing plan.

Our aircraft fuel expenses are higher than those of low-cost airlines in the United States and Europe because production, transportation and storage of fuel in Brazil depend on expensive and underdeveloped infrastructure, especially in the North and Northeast regions of the country. In addition, taxes on jet fuel are high and are passed along to us. Our aircraft fuel expenses are variable and fluctuate based on global oil prices. The price of West Texas Intermediate crude oil, a benchmark widely used for crude oil prices that is measured in barrels and quoted in U.S. dollars, varies significantly. The price per barrel at December 31, 2017 was US$60.42, as compared to US$53.77 at December 31, 2016. Since global oil prices are U.S. dollar-based, our aircraft fuel costs are also linked to fluctuations in the exchange rate of the *real* versus the U.S. dollar. Fuel costs represented 33% of our total operating costs and expenses in 2015, 29% in 2016 and 30% in 2017. In order to partially hedge against increases in oil prices, we enter into short to medium term arrangements to hedge our exposure. Our pricing and yield management strategy are also important components in hedging our exposure to fuel price fluctuations as we are able to pass a significant portion of these fluctuations to customers in the long-term, allowing us to recapture approximately two-thirds of this cost through our yield management.

Our aircraft rent expenses are in U.S. dollars and leases for 12 of our aircraft are subject to floating-rate payment obligations that are based on fluctuations in international interest rates. We currently have hedging policies in place to manage our interest rate, fuel price and foreign exchange rate exposure.

Our maintenance, material and repair expenses consist of light (line) and scheduled heavy (structural) maintenance of our aircraft. Line maintenance and repair expenses are charged to operating expenses as incurred. Structural maintenance for aircraft leased under finance leases is capitalized and amortized over the life of the maintenance cycle. Since the average age of our operating fleet was 9.2 years for 119 Boeing 737-700/800 aircraft at December 31, 2017, and most of the parts on our aircraft are under multi-year warranties, our aircraft require a low level of maintenance and we therefore incur low maintenance expenses. Our aircraft are covered by warranties that have an average term of 48 months for products and parts and 12 years for structural components. Thus, with regard to the accounting for aircraft maintenance and repair costs, our current and past results of operations may not be indicative of future results. Our Aircraft Maintenance Center in Confins, in the State of Minas Gerais, is certified to provide maintenance for Boeing 737-300s, Boeing 767-200/300 and Boeing Next Generation 737-700 and 800s. We currently use this facility for airframe heavy checks, line maintenance, aircraft painting and aircraft interior refurbishment. We believe that we have an advantage compared to industry peers in maintenance, materials and repairs expenses due to our in-house maintenance. We believe that this advantage will continue in the foreseeable future.

Our passenger service expenses are expenses we incur directly related to our passengers, which include baggage handling, ramp services and expenses due to interrupted flights.

Our sales and marketing expenses include commissions paid to travel agents, fees paid for our own and third-party reservation systems and agents, fees paid to credit card companies and advertising. Our distribution costs are lower than those of other airlines in Brazil on a per available seat kilometer (ASK) basis because a higher proportion of our customers purchase tickets from us directly through our website instead of through traditional distribution channels, such as ticket offices, and we have comparatively fewer sales made through higher cost global distribution systems. We generate around 80% of our consolidated sales through our website and API systems, including internet sales through travel agents. For these reasons, we believe that we have an advantage compared to industry peers in sales and marketing expenses and expect this advantage will continue in the foreseeable future. Additionally, we have one of the lowest costs related to fraud and chargeback ratios in the industry on our e-commerce platform.

Salaries paid to our employees include annual cost of living adjustments and provisions made for our profit sharing plan.

Aircraft, traffic and mileage servicing expenses include ground handling and the cost of airport facilities.

Other operating expenses comprise general and administrative expenses, purchased services, equipment rentals, passenger refreshments, communication costs, supplies, professional fees and gains or losses from early return of aircraft on finance leases.

Operating Segments

We have two operating segments:

- flight transportation; and
- Smiles loyalty program.

Our two segments have a number of transactions between each other, as the vast majority of miles redeemed are exchanged for tickets in flights operated by GLA. The most relevant aspects of intra-group transactions in this regard are:

Net revenue: a significant portion of the miles redeemed revenue is eliminated when we consolidate GLA and Smiles, as they relate to tickets purchased by Smiles from GLA and revenue is ultimately recognized as passenger transportation in our flight transportation segment.

Costs: a significant portion of redemption costs in the Smiles loyalty program segment is eliminated when we consolidate GLA and Smiles as they relate to tickets purchased by Smiles from GLA and ultimately recorded as flight transportation costs in our flight transportation segment.

Finance result: under the agreements between GLA and Smiles, Smiles makes certain advance ticket purchases at a discount. This discount is recognized as a financial expense in our flight transportation segment and as a financial income in our Smiles loyalty program segment, both of which are eliminated when we consolidate GLA and Smiles.

See "—Results of Operations—Segment Results of Operations" for more information on our operating segments.

Brazilian Macroeconomic Environment

As most of our operations are domestic, we are affected by Brazilian general economic conditions. While our growth since 2001 has been primarily driven by our expansion into new markets and increased flight frequencies, we have also been affected by macroeconomic conditions in Brazil. We believe the rate of growth in Brazil is important in determining our growth and our results of operations. Our revenue passenger kilometer in the domestic market increased by 3.8% in 2017, as compared to a 5.5% decrease in 2016 and a 0.5% increase in 2015. This increase was primarily due to Brazil's recent economic recovery. After contractions in Brazil's GDP in 2015 and 2016, Brazilian GDP increased by 1% in 2017.

Year	**Domestic Revenue Passenger Kilometers – RPK growth (contraction)**	**Real growth GDP growth (contraction)**
2010	23.6%	7.5%
2011	15.9%	4.0%
2012	6.9%	1.9%
2013	1.4%	3.0%
2014	5.8%	0.5%
2015	1.1%	(3.5)%

2016	(5.7)%	(3.5)%
2017	3.2%	1.0%

Compared to 2016, our passenger revenue per available seat kilometer (PRASK) increased by 5.1% in 2017, due to a combination of an 2.2% yield increase and a 2.2 percentage point increase in load factor.

We are materially affected by currency fluctuations. In 2017, 43.8% of our operating expenses (including aircraft fuel, rent and maintenance, materials and repairs) were denominated in, or linked to, U.S. dollars and therefore varied with the *real*/U.S. dollar exchange rate within the year. We believe that our foreign exchange and fuel hedging programs partially protect us against short-term swings in the *real*/U.S. dollar exchange rate and jet fuel prices. See “Item 3. Risk Factors— Risks Relating to Us and the Brazilian Airline Industry.”

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Inflation has also affected us and will likely continue to do so. In 2017, 56.2% of our operating expenses (excluding aircraft fuel, operating leases and maintenance) were denominated in *reais*, and the suppliers and service providers of these expense items generally attempt to increase their prices to reflect Brazilian inflation.

The following table shows data for real GDP growth (contraction), inflation, interest rates, the U.S. dollar selling rate and crude oil prices for and as of the periods indicated:

	December 31,		
	2015	**2016**	**2017**
Real GDP growth (contraction)	(3.5)%	(3.5)%	1.0%
Inflation (IGP-M)(1)	10.5%	7.2%	(0.5)%
Inflation (IPCA)(2)	10.7%	6.3%	3.0%
CDI rate(3)	14.1%	13.6%	6.9%
LIBOR rate(4)	0.6%	1.0%	1.7%
Appreciation (depreciation) of the *real* vs. U.S. dollar	(41.6)%	16.5%	1.5%
Period-end exchange rate—US$1.00	R$3.905	R$3.259	R$3.308
Average exchange rate—US$1.00(5)	R$3.338	R$3.472	R$3.193
Period-end West Texas intermediate crude (per barrel)	US$37.04	US$53.77	US$60.42
Period-end Increase (decrease) in West Texas intermediate crude (per barrel)	(30.5)%	45.2%	12.4%
Average period West Texas Intermediate crude (per barrel)	US$48.80	US$43.31	US$50.85
Average period increase (decrease) in West Texas Intermediate crude (per barrel)	(44.0)%	(11.3)%	17.4%

Sources: Fundação Getúlio Vargas, the Central Bank and Bloomberg

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

(2) Inflation (IPCA) is a broad consumer price index measured by IBGE.

(3) The CDI rate is average of inter-bank overnight rates in Brazil (as of the last date of the respective period).

(4) Three-month U.S. dollar LIBOR rate as of the last date of the period. The LIBOR rate is the London inter-bank offer rate.

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

Critical Accounting Policies

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

Critical accounting policies and estimates are those that are reflective of significant judgments and uncertainties, and potentially result in materially different outcomes under different assumptions and conditions. For a discussion of these and other accounting policies, see note 2.2(r) to our audited consolidated financial statements included elsewhere herein.

Property, Plant and Equipment. Property, plant and equipment, including reusable parts, are recorded at cost and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Each component of property, plant and equipment that has a cost that is significant in relation to the overall cost of the item is depreciated separately. Aircraft and engine spares acquired on the introduction or expansion of a fleet, as well as reusable spares purchased separately, are carried as fixed assets and generally depreciated in line with the fleet to which they relate. Pre-delivery deposits refer to prepayments under the agreements with Boeing for the purchase of Boeing 737-800 Next Generation and 737-800 MAX aircraft and include interest and finance charges incurred during the manufacture of aircraft and leasehold improvements.

Under IAS 16 “Property, Plant and Equipment,” major overhauls including replacement spares and labor costs are treated as a separate asset component with the cost capitalized and depreciated over the period to the next major overhaul. All other replacement spares and costs relating to maintenance of fleet assets are charged to the income statement on consumption or as incurred. Interest costs incurred on debts that fund progress payments on assets under construction, including pre-delivery deposits to acquire new aircraft, are capitalized and included as part of the cost of the assets through the earlier of the date of completion or aircraft delivery.

In estimating the useful life and expected residual values of our aircraft, we have primarily relied upon actual experience with the same or similar types of aircraft and recommendations from Boeing. Aircraft estimated useful life is based on the number of “cycles” flown (a cycle comprises one take-off and landing). We have made a conversion of cycles into years based on both our historical and anticipated future utilization of the aircraft. Subsequent revisions to these estimates, which can be significant, could be caused by changes to our maintenance program, changes in utilization of the aircraft (actual cycles during a given period of time), governmental regulations relating to aging aircraft and changing market prices of new and used aircraft of the same or similar types. We evaluate estimates and assumptions each reporting period and, when warranted, adjust these estimates and assumptions. These adjustments are accounted for on a prospective basis through depreciation and amortization expense, as required by IFRS.

We evaluate annually whether there is any indicator that our property, plant and equipment may be impaired. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of the long-lived asset, a significant change in the long-lived asset’s physical condition and operating or cash flow losses associated with the use of the long-lived asset. As of December 31, 2017 and 2016, we had recorded an impairment on property, plant and equipment of R$26.1 million and R$30.7 million, respectively, mainly related to replacement and spare parts. In 2017, we evaluated the impairment of our aircraft and no impairment or write-off was recorded.

Lease Accounting. Aircraft lease agreements are accounted for as either operating or capital leases (finance leases). When the risks and rewards of the lease are transferred to us, as lessee, the lease is classified as a capital lease. Capital leases are accounted for as an acquisition of the asset through a financing, with the aircraft recorded as a fixed asset and a corresponding liability recorded as a debt. Capital leases are recorded based on the lesser of the fair value of the aircraft or the present value of the minimum lease payments, discounted at an implicit interest rate, when it is clearly identified in the lease agreement, or market interest rate. The aircraft is depreciated through the lesser of its useful life or the lease term. Interest expense is recognized through the effective interest rate method, based on the implicit interest rate of the lease. Lease agreements that do not transfer the risks and rewards to us are classified as operating leases. Operating lease payments are accounted for as rent and we recognize rent expenses using the straight line method through the lease term.

Sale-leaseback transactions that result in a subsequent operating lease have different accounting treatments depending on the fair value of the asset, the price and the cost of the sale. If the fair value of the asset is less than its carrying amount, the difference is immediately recognized as a loss. When the sale gives rise to a gain it is recognized up to the fair value, with the excess deferred and amortized throughout the term of the lease. When the sale results in a loss and the carrying amount is not greater than fair value, the loss is deferred if compensated by future lease payments. If the carrying amount is greater than fair value, it is written down to fair value and if there is still a loss it is deferred if compensated by future lease payments.

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

Goodwill and Intangible Assets. We have allocated goodwill and intangible assets with indefinite lives acquired through business combinations, for the purposes of impairment testing, to the cash-generating units, the operating subsidiaries GLA and Smiles, since segregation of their operations. Goodwill is tested for impairment annually by comparing the carrying amount to the recoverable amount of the cash-generating unit, that has been measured on the basis of its value-in-use, by applying cash flow projections in the functional currency based on our approved business plan covering a five-year period followed by the long-term growth rate of 3.5%. The pre-tax discount rate applied to the cash flow projections was 15.5% for GLA’s cash-generating unit and 19.3% for the Smiles’ cash-generating unit, at

December 31, 2017. Considerable judgment is necessary to evaluate the impact of operating and macroeconomic changes to estimate future cash flows and to measure the recoverable amount. Assumptions in our impairment evaluations are consistent with internal projections and operating plans.

Airport operating rights acquired as part of the acquisition of Varig and Webjet were capitalized at fair value at that date and are not amortized. Those rights are considered to have an indefinite useful life due to several factors and considerations, including requirements for necessary permits to operate within Brazil and limited slot availability in the most important airports in terms of traffic volume. The carrying values of the airport operating rights are reviewed for impairment at each reporting date and are subject to impairment testing when events or changes in circumstances indicate that carrying values may not be recoverable. Costs related to the purchase or development of computer software that is separable from an item of related hardware is capitalized separately and amortized over a period not exceeding five years on a straight-line basis. The carrying value of these intangibles is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable. We assess at each balance sheet date whether intangibles with indefinite useful lives are impaired using discounted cash flow analyses. In 2017, no impairment or write-off was recognized for intangible assets. We believe none of our cash-generating units was at risk of having its value in use being less than its carrying value at the date of your most recent impairment analysis.

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

Derivative financial instruments are initially recognized at fair value and subsequently the change in fair value is recorded in profit or loss, unless the derivative meets the strict criteria for cash flow hedge accounting.

For hedge accounting purposes, according to IAS 39, the hedge instrument is classified as: (i) a cash flow hedge when it protects against exposure to fluctuations in cash flows that are attributable to a particular risk associated with an asset or liability recognized regarding an operation that is highly likely to occur or to an exchange rate risk for an unrecognized firm commitment, and (ii) a fair value hedge when it protects from the results of a change in the fair value of a recognized liability, or a part thereof, that could be attributed to exchange risk.

At the beginning of a hedge transaction, we designate and formally document the item covered by the hedge, as well as the objective of the hedge and the risk policies strategy. Documentation includes identification of the hedge instrument, the item or transaction to be protected, the nature of the risk to be hedged and how the entity will determine the effectiveness of the hedge instrument in offsetting exposure to variations in the fair value of the item covered or the cash flows attributable to the risk covered. The foregoing is performed with a view to ensuring that such hedge instruments will be effective in offsetting the changes in fair value or cash flows, and these are quarterly appraised to determine if they really have been effective throughout the entire period for which they have been designated.

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

If the forecast transaction is no longer expected to occur, amounts previously recognized in equity are transferred to profit or loss. If the designation as a hedge is revoked, amounts previously recognized in equity are recognized in profit or loss.

We measure quarterly the effectiveness of the hedge instruments in offsetting changes in prices. Derivative financial instruments are effective if they offset between 80% and 125% of the changes in price of the item for which the hedge has been contracted. Any gain or loss resulting from changes in the fair value of the derivative financial instruments during the quarter in which they are not qualified for hedge accounting, as well as the ineffective portion of the instruments designated for hedge accounting, are recognized as other finance income (expenses).

Aircraft maintenance and repair costs. Our aircraft lease agreements specifically provide that we, as lessee, are responsible for maintenance of the leased aircraft and engines, and we must meet specified airframe and engine return conditions upon lease expiration. Under certain of our existing lease agreements, we pay maintenance deposits to aircraft and engine lessors that are to be applied to future maintenance events. These deposits are calculated based on a performance measure, such as flight hours or cycles, and are available for reimbursement to us upon the completion of the maintenance of the leased aircraft. If there are sufficient funds on deposit to reimburse us for our maintenance costs, such funds are returned to us. The maintenance deposits paid under our lease agreements do not transfer either the obligation to maintain the aircraft or the cost risk associated with the maintenance activities to the aircraft lessor. In addition, we maintain the right to select any third-party maintenance provider or to perform such services in-house. Therefore, we record these amounts as a deposit on our balance sheet and recognize maintenance expense when the underlying maintenance is performed, in accordance with our maintenance accounting policy. Certain of our lease agreements provide that excess deposits at the end of the lease term are not refundable to us. Such excess could occur if the amounts ultimately expended for the maintenance events were less than the amounts on deposit. Any excess amounts held by the lessor or retained by the lessor upon the expiration of the lease, which are not expected to be significant, would be recognized as additional aircraft rental expense at the time it is no longer probable that such amounts will be used for maintenance for which they were deposited.

We follow IAS 16 – “Property, Plant and Equipment” and perform the capitalization of the costs relating to engine overhauls. This practice establishes that costs on major maintenance (including replacement parts and labor) should be capitalized only when there is an extension of the estimated useful life of the engine. Such costs are capitalized and depreciated until the next stop for major maintenance. The expense recognized directly in the income statement refers to maintenance costs of other aircraft components or even maintenance of engines that do not extend their useful life.

In addition, certain of our lease agreements do not require maintenance deposits; instead letters of credit are issued on behalf of the lessor, which can be claimed if the aircraft maintenance does not occur as established in the review schedule. As of December 31, 2017, no letters of credit had been executed.

Our initial estimates of the maintenance expenses regarding the leases are equal to or in excess of the amounts required to be deposited. This demonstrates it is probable the amounts will be utilized for the maintenance for which they are to be deposited and the likelihood of an impairment of the balance is remote. There has been no impairment of our maintenance deposits.

A summary of activity in the Aircraft and Engine Maintenance Deposits is as follows:

	2016	**2017**
	(in millions of *reais*)	
Beginning of year	261.1	247.8
Amounts paid in	291.8	110.5
Reimbursement and expense incurred	(240.2)	(98.0)
Exchange variation	(64.9)	5.9
End of year	**247.8**	**266.2**

Revenue Recognition. Passenger revenue is recognized when transportation is provided. Tickets sold but not yet used are recorded as advance ticket sales that represent primarily deferred revenue for tickets sold for future travel dates. We recognize a portion of advance ticket sales as revenue based on historical data relating to the percentage of tickets sold that are not going to be used prior to the expiration date (“breakage”). The balance of deferred revenue is then reviewed on a monthly basis based on actual tickets that have expired and adjusted when necessary.

Mileage Program. The obligation created by the issuance of miles is measured based on the price that the miles were sold to its airline and non-airline partners, classified by us as the fair value of the transaction. The revenue recognition on the consolidated income or loss occurs when the Smiles Program participant, after redeeming the miles and exchanging it for flight tickets, is transported.

Miles accrued through Smiles last from three to ten years, depending on the member’s status. The associated value for mileage credits estimated to be cancelled is recognized as revenue. We calculate the expiration estimate and non-use based on historical data. Future opportunities can significantly alter customer profile and the historical patterns. Such changes may result in material changes to the deferred revenue balance, as well as revenues recognized from that program.

Share-Based Payments. We measure the fair value of equity-settled transactions with employees at the grant date using the Black & Scholes valuation model. The resulting amount, as adjusted for forfeitures, is charged to income over the period in which the options vest. At each balance sheet date before vesting, the cumulative expense is calculated; representing the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will ultimately vest. The change in cumulative expense since the previous balance sheet date is recognized in the income statement prospectively over the remaining vesting period of the instrument.

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

Aircraft and engines return provision: in aircraft operating leases, we are contractually required to return the equipment with a predefined level of operational capability; as a result we recognize a provision based on the aircraft return costs as set forth in the agreement. The aircraft's return provisions costs are estimated based on expenditures incurred in aircraft reconfiguration (interior and exterior), license and technical certification, painting, and other costs, according to the return agreement. Engine return provisions are estimated based on an evaluation and minimum contractual conditions that the equipment should be returned to the lessor, considering not only the historical costs incurred, but also the equipment conditions at the time of the evaluation.

Deferred taxes. Deferred taxes are calculated based on tax losses, temporary differences arising on differences between tax bases and carrying amounts for financial reporting purposes of our assets and liabilities.

Even though unused tax losses and temporary differences have no expiration date in Brazil, deferred tax assets are recorded when there is evidence that future taxable profit will be available to use such tax credits. We record our deferred tax assets based on projections for future taxable profits, which considers a number of assumptions for revenue increases, for operating costs such as jet fuel prices, leasing expenses, etc. Our business plan is revised annually in order to reevaluate the amounts to be recorded as deferred tax assets.

The use of deferred taxes is a critical accounting policy for us because it requires a number of assumptions and is based on our best estimate of our projections related to future taxable profit. In addition, because the preparation of our business plan is subject to a variety of market conditions, the results of our operations may vary significantly from our projections and as such, the amounts recorded as deferred tax assets may be impacted significantly.

As of December 31, 2017, we had R$5.1 billion of tax loss carryforwards and negative basis of social contribution mainly from GLA and Webjet, which we acquired in 2011 and which merged with Smiles in July 2017 to form Smiles Fidelidade S.A. Under Brazilian tax laws we may only use our tax loss carryforwards to offset taxes payable up to 30% of the taxable income for each year. Thus, despite having a balance of tax loss carryforwards, we will have to pay income taxes on any taxable income in excess of this 30% compensation limit.

As a result of a history of net losses, fluctuations of the U.S. dollar exchange rate, and the instability of the political and economic environment in Brazil, we reassessed the recognition of tax credits on net operating losses carryforward and other temporary differences, and Gol and GLA have not recognized R$34.8 million and R$1,405.6 million, respectively, of deferred tax assets from net operating losses carryforward and GLA also limited the recognition of tax credits on other temporary differences based on the expected realization of the deferred tax liabilities. Additionally, GLA has not recognized the net amount of R$163.4 million of deferred tax assets.

Results of Operations

Consolidated Results of Operations

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Demand in the Brazilian airline market, comprising domestic and international flights, as measured in revenue passenger kilometers (RPK), increased by 5.6% in 2017 as compared to 2016, while capacity in Brazil, as measured by available seat kilometers (ASK), increased by 3.8% in the same period.

The table below presents domestic and international industry capacity and demand for the periods indicated:

Industry Capacity and Demand(1)	**2016**	**2017**	**Change**
Available Seat Kilometers – ASK (billions)	150.7	156.5	3.8%
Domestic	111.2	112.8	1.4%
International	39.5	43.7	10.6%
Revenue Passenger Kilometers – RPK (billions)	122.1	128.9	5.6%
Domestic	89.0	91.9	3.2%
International	33.1	37.0	12.0%
Load Factor	81.0%	82.4%	1.4 p.p.
Domestic	80.0%	81.5%	1.5 p.p.
International	83.7%	84.8%	1.1 p.p

Source: ANAC

(1) Considering only Brazilian companies.

During the course of 2017, our capacity increased 0.8% as a result of a 4.8% increase in stage length and a 4.2% reduction in the number of take-offs. Demand increased 3.6% as compared to 2016, resulting in a load factor of 79.7%, an increase of 2.2 percentage points when compared to 2016. Our passenger revenue per available seat kilometer (PRASK) increased by 5.1% in 2017 and our domestic market share was 36.2%, which represents an increase of 0.2 percentage points as compared to 2016.

In 2017, our domestic capacity increased 0.9% as compared to 2016, while domestic demand increased by 3.8%, leading to a domestic load factor of 80.2%, 2.3 percentage points higher than in 2016. Also in 2017, our international capacity increased by 0.2%, while our international demand increased 2.2%, leading to an international load factor of 76.1%, 1.5 percentage points higher than in 2016.

The table below presents our domestic and international capacity and demand for the periods indicated:

Gol Capacity and Demand	**2016**	**2017**	**Change**
Available Seat Kilometers – ASK (millions)	46,329	46,694	0.8%
Domestic	41,104	41,459	0.9%
International	5,226	5,235	0.2%
Revenue Passenger Kilometers – RPK (millions)	35,928	37,230	3.6%
Domestic	32,031	33,246	3.8%

International	3,897	3,984	2.2%
Load Factor	77.5%	79.7%	2.2 p.p
Domestic	77.9%	80.2%	2.3 p.p
International	74.6%	76.1%	1.5 p.p

Source: ANAC

Our recent comprehensive operational and financial repositioning started to show its full impact in 2017. A combination of our ability to increase revenue through yield raise and ancillary revenues and cost control through operational productivity resulted in an operating margin of 9.4%, 2.3 percentage points higher than in 2016.

The table below presents certain data from our results of operations for the periods indicated:

	Year Ended December 31,	
	2016	**2017**
	(in millions of *reais*)	
Operating revenue		
Passenger	8,671.4	9,185.8
Cargo and other	1,195.9	1,390.2
Total operating revenue	**9,867.3**	**10,576.0**
Operating expenses		
Salaries	(1,656.8)	(1,708.1)
Aircraft fuel	(2,695.4)	(2,887.7)
Aircraft rent	(996.9)	(939.7)
Sales and marketing	(556.0)	(590.8)
Landing fees	(687.4)	(664.2)
Passenger service expenses	(461.8)	(437.0)
Aircraft, traffic and mileage servicing	(753.5)	(874.7)
Maintenance, materials and repairs	(593.1)	(368.7)
Depreciation and amortization	(447.7)	(505.4)
Other operating expenses	(320.9)	(610.3)
Total operating expenses	**(9,169.5)**	**(9,586.8)**
Equity results	(1.3)	0.5
Income before financial (expense), net and income taxes	**696.5**	**989.8**
Financial income (expense), net	664.9	(918.8)
Income before income taxes	**1,361.4**	**71.0**
Income taxes	(259.1)	307.2
Net income	**1,102.4**	**378.2**

Operating Revenue

Operating revenue increased by 7.2%, from R$9,867.3 million in 2016 to R$10,576.0 million in 2017. On a unit basis, operating revenue per available seat kilometer (RASK) increased by 6.3%, from R$21.3 cents in 2016 to R$22.65 cents in 2017. This was due to the combination of: (i) a rational competitive environment resulting in higher yields (a 2.2% increase in 2017) and increased load factors (an increase of 2.2 percentage points in 2017) and (ii) an increase of 16.2% in revenue from cargo transportation and other ancillary revenues, such as rebooking, baggage and other fees.

The table below presents a breakdown of our operating revenue for the periods indicated:

	Year Ended December 31,		
	2016	**2017**	**Change %**
Operating revenue	**9,867.3**	**10,576.0**	**7.2%**
Passenger	8,671.4	9,185.8	5.9%
Cargo and other	1,195.9	1,390.2	16.2%

Operating Expenses

Operating expenses increased by 4.6%, from R$9,169.5 million in 2016 to R$9,586.8 million in 2017, mainly due to the higher price of jet fuel in 2017 and an increase in the products and services provided to Smiles customers.

The following table sets forth our total operating expenses for the periods indicated:

	Year Ended December 31,		
	2016	**2017**	**Change %**
	(in millions of *reais*, except percentages)		
Salaries	(1,656.8)	(1,708.1)	3.1%
Aircraft fuel	(2,695.4)	(2,887.7)	7.1%
Aircraft rent	(996.9)	(939.7)	(5.7)%
Sales and marketing	(556.0)	(590.8)	6.3%
Landing fees	(687.4)	(664.2)	(3.4)%
Passenger service expenses	(461.8)	(437.0)	(5.4)%
Aircraft, traffic and mileage servicing	(753.5)	(874.7)	16.1%
Maintenance, materials and repairs	(593.1)	(368.7)	(37.8)%
Depreciation and amortization	(447.7)	(505.4)	12.9%
Other operating expenses	(320.9)	(610.3)	90.2%
Total operating expenses	**(9,169.5)**	**(9,586.8)**	**4.6%**

On a per unit basis, our operating expense per available seat kilometer (CASK) increased by 3.7%, from R$19.79 cents in 2016 to R$20.53 cents in 2017, but CASK in 2016 was reduced due to the non-recurring positive result from the return of aircraft in financial leasing and sale-leaseback transactions.

The following table sets forth certain of our CASK components for the periods indicated:

Operating Expenses per Available Seat Kilometer	**Year Ended December 31, 2016**	**2017**	**Change %**
	(in cents of *reais*, except percentages)		
Salaries	3.58	3.66	2.3%
Aircraft fuel	5.82	6.18	6.3%
Aircraft rent	2.15	2.01	(6.5)%
Sales and marketing	1.20	1.27	5.4%
Landing fees	1.48	1.42	(4.1)%
Passenger service expenses	1.00	0.94	(6.1)%
Aircraft, traffic and mileage servicing	1.63	1.87	15.2%
Maintenance, materials and repairs	1.28	0.79	(38.3)%
Depreciation and amortization	0.97	1.08	12.0%
Other operating expenses	0.69	1.31	88.7%
Operating expenses per available seat kilometer (CASK)	**19.79**	**20.53**	**3.7%**
CASK excluding fuel expenses	**13.97**	**14.35**	**2.7%**
Operating expenses adjusted per available seat kilometer (CASK adjusted)	**19.74**	**20.30**	**2.8%**
CASK excluding fuel expenses adjusted	**13.92**	**14.12**	**1.4%**

Salaries increased by 3.1%, from R$1,656.8 million in 2016 to R$1,708.1 million in 2017, mainly due to an increase in employee wages. Salaries per available seat kilometer increased by 2.3%. We had 14,532 full-time employees as of December 31, 2017, representing a 4.8% decrease over December 31, 2016, which reduction occurred mainly in the last quarter of 2017.

Aircraft fuel expenses increased by 7.1%, from R$2,695.4 million in 2016 to R$2,887.7 million in 2017, due to an increase in the price per liter of fuel by 8.1% from R$1.94 per liter in 2016 to R$2.09 per liter in 2017, partially offset by a 0.9% decrease in the volume of fuel consumed. Aircraft fuel expenses per available seat kilometer increased by 6.3%.

Aircraft rent expenses decreased by 5.7%, from R$996.9 million in 2016 to R$939.7 million in 2017, due to renegotiations of aircraft agreements and consequent fleet reduction, as well as an average appreciation of the *real* against the U.S. dollar. Aircraft rent expenses per available seat kilometer decreased by 6.5%.

Sales and marketing expenses increased by 6.3%, from R$556.0 million in 2016 to R$590.8 million in 2017 due to an increase in sales incentives and a comprehensive marketing campaign started in July 2017 and denominated #NOVAGOL, which focus on our best in class product offering and market leadership in customer experience. Sales and marketing expenses per available seat kilometer increased by 5.4%.

Landing fees decreased by 3.4%, from R$687.4 million in 2016 to R$664.2 million in 2017. This decrease was largely due to our network redesign during the first half of 2016, which resulted in a 4.2% reduction in the number of departures over the periods. Landing fees per available seat kilometer decreased by 4.1%.

Passenger service expenses decreased by 5.4%, from R$461.8 million in 2016 to R$437.0 million in 2017 mainly due to aircraft ground handling costs as a result of fewer flights and our network redesign. Passenger service expenses per available seat kilometer decreased by 6.1%.

Aircraft, traffic and mileage servicing expenses increased by 16.1%, from R$753.5 million in 2016 to R$874.7 million in 2017, primarily because of the increase in the cost of Smiles products and tickets. Aircraft, traffic and mileage servicing expenses per available seat kilometer increased by 15.2%.

Maintenance, materials and repairs decreased by 37.8%, from R$593.1 million in 2016 to R$368.7 million in 2017, due to a combination of efficient maintenance processes, lower redelivery costs for aircraft returns, capitalization of maintenance and a 8.3% reduction in the U.S. dollar average. Maintenance, materials and repairs expenses per available seat kilometer decreased by 38.3%.

Depreciation and amortization increased by 12.9%, from R$447.7 million in 2016 to R$505.4 million in 2017, mainly due to depreciation of capitalized maintenance, partially offset by the lower number of aircraft under financing leases. Depreciation and amortization per available seat kilometer increased by 12.0%.

Other operating expenses increased from R$320.9 million in 2016 to R$610.3 million in 2017. Other operating expenses in 2016 included a non-recurring positive result derived from the return of aircraft under financial leases and sale-leaseback transactions during the period.

Financial Income (Expense), Net

In 2017 we had a net financial expense of R$918.8 million, compared to a net financial income of R$664.9 million in 2016, primarily as a result of exchange rate variation.

	Year Ended December 31,		
	2016	**2017**	**Change %**
	(in millions of *reais*)		
Interest on short and long-term debt	(787.7)	(727.3)	(7.7)%
Exchange rate variation, net	1,367.9	(81.7)	n.m.
Derivative results, net	(156.8)	(5.7)	(96.4)%
Income from short-term investments	152.7	119.9	(21.5)%
Other financial (expenses) income	88.8	(224.0)	n.m.
Financial income (expense), net	**664.9**	**(918.8)**	n.m.

Interest on short and long-term debt decreased by 7.7% from R$787.7 million in 2016 to R$727.3 million in 2017 principally due to (i) a decrease in Brazilian interbank deposit rates (*Certificado de Depósito Interbancário*), or CDI rates; (ii) lower volume of receivables factoring; and (iii) a reduction in total average debt during the period. As of December 31, 2016, we had R$6,379.2 million in total debt and as of December 31, 2017, we had R$7,105.7 million in total debt.

Exchange rate variation changed from a gain of R$1,367.9 million in 2016 to an expense of R$81.7 million in 2017, mainly due to the impact on our U.S. dollar denominated debt resulting from the depreciation of the U.S. dollar against the *real* in 2016.

In 2016, we recognized a derivative loss of R$156.8 million compared to a loss of R$5.7 million in 2017, primarily from losses in foreign currency and interest rate swaps in 2016.

Other financial income (expense), net, totaled an income of R$88.8 million in 2016 compared to an expense of R$224.0 million in 2017, which was mainly impacted by (i) gains recognized in 2016 on certain of our senior notes as a consequence of our 2016 exchange offer for senior secured notes and (ii) expenses in 2017 related to the issuance of our senior notes due 2025, as well as payments related to our tender offer for our senior notes due 2020 and 2022.

Income Taxes

Income tax expenses totaled R$259.1 million in 2016, compared to an income of R$307.2 million in 2017, mainly due to an income of R$547.1 million of deferred income taxes in 2017, mainly as a result of (i) R$225.0 million of deferred income tax credits on tax losses carryforward used by GLA in the special tax regularization program described below, (ii) tax credits of R$150.0 million on temporary differences and (iii) R$193.0 million of tax credit on net operating losses carryforward recorded by Smiles Fidelidade S.A. in July 2017 as a result of its merger of Smiles S.A.

On March 10, 2017 and September 19, 2017, our subsidiary GLA enrolled in the tax regularization program (*programa de regularização tributária*), or PRT, and the special tax regularization program (*programa especial de regularização tributária*), or PERT, which allowed the partial settlement of taxes with tax contingencies by means of tax loss carryforwards, with a 76% reduction in tax obligations and the use of tax credits on tax losses, with the remaining 24% payable in 24 monthly installments adjusted by the Brazilian base interest rate (SELIC rate) from the month of enrollment.

Net Income

As a result of the foregoing, we had a net income of R$378.2 million in 2017 as compared to a net income of R$1,102.4 million in 2016.

Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Demand in the Brazilian airline market, as measured in revenue passenger kilometers (RPK), decreased by 5.5% in 2016 as compared to 2015, while capacity in Brazil, as measured by available seat kilometers (ASK), decreased by 5.4% in the same period. These figures reflect the capacity rationalization that have been in place in the Brazilian market since 2014.

During the course of 2015 and 2016, we concentrated on tailoring our operations to the current economic environment, becoming a more efficient airline by adjusting domestic capacity and focusing on established, profitable routes. Effective May 1, 2016 we implemented a new, fully updated, route network to take into account our fleet reduction. The route network update resulted in reductions of 6.9% in ASK, 6.5% in RPK and 17.2% in takeoffs in 2016 when compared to 2015.

In 2016, as compared to 2015, our passenger revenue per available seat kilometer (PRASK) increased by 8.5%, reflecting a 20.1% increase in average ticket prices partially offset by an 11.8% increase in average stage length.

In 2016, our domestic seat supply decreased 5.4% as compared to 2015, while domestic demand decreased by 5.5%, leading to a domestic load factor of 77.9%, 0.1 percentage points lower than in 2015. Also in 2016, our international market demand and capacity decreased by 13.6% and 17.0%, respectively, leading to an international load factor of 74.6%, which was 2.9 percentage points higher than in 2015.

The table below presents certain data from our results of operations for the periods indicated:

	Year Ended December 31,	
	2015	**2016**
	(in millions of *reais*)	
Operating revenue		
Passenger	8,583.4	8,671.4
Cargo and other	1,194.6	1,195.9
Total operating revenue	**9,778.0**	**9,867.3**
Operating expenses		
Salaries	(1,580.5)	(1,656.8)
Aircraft fuel	(3,301.4)	(2,695.4)
Aircraft rent	(1,100.1)	(996.9)
Landing fees	(681.4)	(687.4)
Aircraft, traffic and mileage servicing	(678.1)	(753.5)
Passenger service expenses	(481.7)	(461.8)
Sales and marketing	(617.4)	(556.0)
Maintenance, materials and repairs	(603.9)	(593.1)
Depreciation and amortization	(419.7)	(447.7)
Other operating expenses	(493.6)	(320.9)
Total operating expenses	**(9,957.8)**	**(9,169.5)**
Equity results	(3.9)	(1.3)
Income (loss) before financial (expense), net and income taxes	**(183.8)**	**696.5**
Financial income (expense), net	(3,263.3)	664.9
Income (loss) before income taxes	**(3,447.1)**	**1,361.4**
Income taxes	(844.1)	(259.1)
Net income (loss)	**(4,291.2)**	**1,102.4**

Operating Revenue

Operating revenue increased by 0.9%, from R$9,778.0 million in 2015 to R$9,867.3 million in 2016. On a unit basis, operating revenue per available seat kilometer (RASK) increased by 8.3%, from R$19.7 cents in 2015 to R$21.3 cents in 2016. This was primarily due to capacity adjustment, new network profile and focus on more profitable routes, as discussed above.

The table below presents a breakdown of our operating revenue for the periods indicated:

	Year Ended December 31,		
	2015	**2016**	**Change %**
	(in millions of *reais*, except percentages)		
Operating revenue	**9,778.0**	**9,867.3**	**0.9%**
Passenger	8,583.4	8,671.4	1.0%
Cargo and other	1,194.6	1,195.9	0.1%

Operating Expenses

Operating expenses decreased by 7.9%, from R$9,957.8 million in 2015 to R$9,169.5 million in 2016, as discussed below.

The following table sets forth our total operating expenses for the periods indicated:

	Year Ended December 31,		
	2015	2016	Change %
	(in millions of *reais*, except percentages)		
Salaries	(1,580.5)	(1,656.8)	4.8%
Aircraft fuel	(3,301.4)	(2,695.4)	(18.4)%
Aircraft rent	(1,100.1)	(996.9)	(9.4)%
Landing fees	(681.4)	(687.4)	0.9%
Aircraft, traffic and mileage servicing	(678.1)	(753.5)	11.1%
Passenger service expenses	(481.7)	(461.8)	(4.1)%
Sales and marketing	(617.4)	(556.0)	(9.9)%
Maintenance, materials and repairs	(603.9)	(593.1)	(1.8)%
Depreciation and amortization	(419.7)	(447.7)	6.7%
Other operating expenses	(493.6)	(320.9)	(35.0)%
Total operating expenses	**(9,957.8)**	**(9,169.5)**	**(7.9)%**

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On a per unit basis, our operating expense per available seat kilometer (CASK) decreased by 1.1%, from R$20.02 cents in 2015 to R$19.79 cents in 2016, mainly due to a decrease in average fuel prices of 8.7%, partially offset by the decrease in ASK.

The following table sets forth certain of our CASK components for the periods indicated:

Operating Expenses per Available Seat Kilometer	**Year Ended December 31, 2015**	**2016**	**Change %**
	(in cents of *reais*, except percentages)		
Salaries	(3.18)	(3.58)	12.6%
Aircraft fuel	(6.64)	(5.82)	(12.3)%
Aircraft rent	(2.21)	(2.15)	(2.7)%
Landing fees	(1.37)	(1.48)	8.3%
Aircraft, traffic and mileage servicing	(1.36)	(1,63)	19.3%
Passenger service expenses	(0.97)	(1.00)	2.9%
Sales and marketing	(1.24)	(1.20)	(3.3)%
Maintenance, materials and repairs	(1.21)	(1.28)	5.5%
Depreciation and amortization	(0.84)	(0.97)	14.5%
Other operating expenses	(0.99)	(0.69)	(30.2)%
Operating expenses per available seat kilometer (CASK)	**(20.02)**	**(19.79)**	**(1.1)%**
CASK excluding fuel expenses	**(13.38)**	**(13.97)**	**4.4%**

Salaries increased by 4.8%, from R$1,580.5 million in 2015 to R$1,656.8 million in 2016, mainly due to an 11.0% increase in employee wages from the new collective bargaining agreement and increase in variable crew compensation from an increase in flight hours per crew member, partially offset by a 7.4% reduction in the workforce. Due to the decrease in ASK, salaries expenses per available seat kilometer increased by 12.5%.

Aircraft fuel expenses decreased by 18.4%, from R$3,301.4 million in 2015 to R$2,695.4 million in 2016, largely due to the reduction of fuel prices of 8.7% year over year and the lowest fuel consumption in liters at 10.3%. Due to the decrease in ASK, aircraft fuel expenses per available seat kilometer decreased by 12.3%.

Aircraft rent decreased by 9.4%, from R$1,100.1 million in 2015 to R$996.9 million in 2016, due to the decrease in number of aircraft in our fleet, partially offset by the average depreciation of the *real* against the U.S. dollar of 4.7% and the costs associated with the time lag between removing an aircraft from operation until its actual return. Due to the decrease in ASK, aircraft rent expenses per available seat kilometer decreased by 2.7%.

Sales and marketing expenses decreased by 9.9%, from R$617.4 million in 2015 to R$556.0 million in 2016, mainly due to the decrease in losses from direct sales and accounts receivables. Due to the decrease in ASK, sales and marketing expenses per available seat kilometer decreased by 3.3%.

Landing fees increased by 0.9%, from R$681.4 million in 2015 to R$687.4 million in 2016. This increase was largely due to increases in airport fees - landing fee and navigation support, partially offset by a 17.2% decrease in takeoffs. Due to the decrease in ASK, landing fees expenses per available seat kilometer increased by 8.3%.

Aircraft, traffic and mileage servicing expenses increased by 11.1%, from R$678.1 million in 2015 to R$753.5 million in 2016, mainly due to IT services in the domestic and international bases and an increase in the number of Smiles redemption tickets purchased from partner airlines, which are paid by us upon ticket issuance and that will be recorded as revenue when the passengers fly. Due to the decrease in ASK, aircraft, traffic and mileage servicing expenses per available seat kilometer increased by 12.5%.

Maintenance, materials and repairs decreased by 1.8%, from R$603.9 million in 2015 to R$593.1 million in 2016, due to less engines repaired, however partially offset by costs related to the anticipated return of aircraft and higher average exchange rate of 4.7%. Due to the decrease in ASK, maintenance, materials and repairs expenses per available seat kilometer increased by 5.4%.

Depreciation and amortization expenses increased by 6.7%, from R$419.7 million in 2015 to R$447.7 million in 2016, mainly due to the reduction in the accounting life cycle of certain spare parts from 25 to 18 years, partially offset by our fleet reduction. Due to the decrease in ASK, depreciation and amortization per available seat kilometer increased by 14.5%.

Other operating expenses (mainly crew travel and accommodation expenses, direct passenger expenses, equipment leasing and general and administrative expenses) decreased by 35.0%, from R$493.6 million in 2015 to R$320.9 million in 2016, mainly due to a gain of R$233.5 million from sale-leaseback transactions. This decrease was mainly due to the adjustment of Company's capacity and consequent lower number of accommodation for the crew members and interrupted flights. Due to the decrease in ASK, other operating expenses per available seat kilometer decreased by 20.7%.

Financial Income (Expense), Net

In 2016 we had net financial income of R$664.9 million, compared to net financial expenses of R$3,263.3 million in 2015, primarily as a result of the period-end appreciation of the *real* against the U.S. dollar of 16.5% in 2016 as compared to a 47.0% depreciation in 2015.

	Year Ended December 31,		
	2015	**2016**	**Change %**
	(in millions of *reais*)		
Interest on short and long-term debt	(885.9)	(787.7)	(11.1)%
Exchange rate variation, net	(2,267.0)	1,367.9	n.m.
Derivative results, net	50.2	(156.8)	n.m.
Income from short-term investments	178.1	152.7	(14.3)%
Other financial (expenses) income	(338.7)	88.8	n.m.
Financial income (expense), net	**(3,263.3)**	**664.9**	**n.m.**

Interest on short and long-term debt decreased by 11.1% from 2015 to 2016 principally due to lower debt levels and lower number of aircraft under financial leases, partially offset by the average depreciation of the *real* against the U.S. dollar of 4.7%.

Exchange rate variation was an income of R$1,367.9 million in 2016, compared to an expense of R$2,267.0 million in 2015, mainly due to the period-end appreciation of the *real* against the U.S. dollar.

In 2016, we recognized a derivative loss of R$156.8 million compared to gain of R$50.2 million in 2015, mainly as a result of losses on our interest rate derivatives in 2016.

Income from short-term investments decreased by 14.3% from R$178.1 million in 2015 to R$152.7 million in 2016, explained by our lower cash position.

Other financial income totaled R$88.8 million in 2016, compared to an expense of R$338.7 million in 2015, mainly due to the gain of R$286.8 million from the exchange offer of our senior notes.

Income Taxes

Income taxes expenses totaled R$259.1 million in 2016, compared to R$844.1 million in 2015, mainly impacted by the write-off of deferred tax credits from net operating losses carry forward in 2015 and increase in income taxes expenses from Smiles.

Net Income (Loss)

As a result of the foregoing, we had a net income of R$1,102.4 million in 2016 as compared to a net loss of R$4,291.2 million in 2015.

Segment Results of Operations

We have two operating segments:

- Flight transportation; and
- Smiles loyalty program.

For more information on our segments, see note 25 to our audited consolidated financial statements included elsewhere herein.

Flight Transportation Segment Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Operating revenue

Passenger revenue increased 5.3%, from R$8,340.5 million in 2016 to R$8,785.9 million in 2017. This was primarily due to an increase in demand and yields.

Cargo and other revenue increased 5.4%, from R$729.1 million in 2016 to R$768.6 million in 2017.

Operating costs and expenses

Operating costs and expenses increased 2.7%, from R$8,960.4 million in 2016 to R$9,201.8 million in 2017, primarily due to the reasons discussed above.

Financial income (expense), net

Our net financial results decreased by R$1,565.4 million, from a net financial income of R$446.1 million in 2016 to a net financial expense of R$1,119.3 million in 2017, mainly as a result of exchange rate gains recognized in 2016, as discussed above.

Income taxes

Income taxes expenses changed from an income of R$7.1 million in 2016 to an income of R$390.6 million in 2017, mainly due to recognition of deferred taxes, as discussed above.

Net income

As a result of the foregoing, our flight transportation segment had a net income of R$19.2 million in 2017 as compared to a net income of R$849.6 million in 2016.

Smiles Loyalty Program Segment Year December 31, 2017 Compared to Year December 31, 2016

In 2017, Smiles' members accumulated 85.2 billion miles, an increase of 59.1% over 2016. This is related to the increase in miles from banks and retail and service accruals, as well as Gol's new dynamic accrual process in which customers accrue more miles per *real* spent when flying with Gol.

In 2017, 68.0 billion miles were redeemed, an increase of 56.2% when compared to 2016. The burn/earn ratio reached 79.7%. This is the ratio between the number of miles redeemed and accrued.

Operating revenue

Smiles' operating revenue are mainly derived from redemptions, which are recognized when customers exchange their miles for flight tickets, goods or services from Smiles' airline and commercial partners. Operating revenue also includes breakage and miles that expired without being used.

The following table sets forth Smiles' operating revenue for the periods indicated:

	Year Ended December 31,		
	2016	2017	Change %
	(in millions of *reais*, except percentages)		
Miles redemption revenue	1,443.2	1,683.7	16.7%
Breakage revenue	245.3	274.7	12.0%
Other revenue	18.2	31.6	73.6%
Taxes on revenue	(158.6)	(185.9)	17.2%
Total operating revenue	**1,548.1**	**1,804.1**	**16.5%**

Miles redemption revenue increased 16.7%, from R$1,443.2 million in 2016 to R$1,683.7 million in 2017, driven by an increase in miles redeemed.

Breakage revenue, derived from the expected expiration of miles and miles expired, increased 12% from R$245.3 million in 2016 to R$274.7 million in 2017, as a result of an increase in the breakage rate from 17.2% in 2016 to 18.5% in 2017.

Other revenue, comprised mainly of cancellation fees, fees related to co-branded credit cards and management fees from Smiles' loyalty program, increased 73.6%, from R$18.2 million in 2016 to R$31.6 million in 2017.

Operating costs and expenses

Operating costs and expenses increased by 22.2%, from R$944.5 million in 2016 to R$1,154.3 million in 2017, mainly due to an increase in costs related to airline tickets and other product and services purchases, as well as an increase in salaries expenses.

	Year Ended December 31,		
	2016	2017	Change %
	(in millions of *reais*, except percentages)		
Operating costs and expenses	**(944.5)**	**(1,154.3)**	**22.2%**
Salaries	(41.0)	(53.7)	31.0%
Mileage servicing	(828.9)	(990.7)	19.5%
Sales and marketing	(61.9)	(69.9)	12.9%
Depreciation and amortization	(8.5)	(13.6)	60.0%
Other costs and expenses	(4.2)	(26.4)	n.m.

Net financial income

Our net financial income decreased 8.4%, from R$218.4 million in 2016 to R$199.9 million in 2017, due to a reduction in financial revenues and exchange rate variation.

	Year Ended December 31,		
	2016	**2017**	**Change %**
	(in millions of *reais*, except percentages)		
Financial income, net	**218.4**	**199.9**	**(8.5%)**
Financial income	212.8	205.4	(3.5%)
Financial expenses	(0.2)	(2.2)	n.m.
Exchange variation, net	5.8	(3.3)	(156.9%)

Income taxes

Income tax expenses decreased 67.1%, from R$271.2 million in 2016 to R$89.1 million in 2017, mainly due to the merger of Smiles S.A. by Smiles Fidelidade S.A., which resulted in a tax benefit as a result of the recognition of deferred tax asset on tax losses carryforward of R$193.0 million.

Net income

As a result of the foregoing, our Smiles loyalty program segment had a net income of R$760.6 million in 2017, as compared to a net income of R$548.3 million in 2016, representing an increase of 38.7%, or R$212.3 million.

Flight Transportation Segment Year Ended December 31, 2016 Compared to Year Ended December 31, 2015

Operating revenue

Passenger revenue increased by R$46.0 million, or 0.6%, from R$8,294.5 million in 2015 to R$8,340.5 million in 2016. This was primarily due to capacity adjustment, new network profile and focus on more profitable routes, as discussed above.

Cargo and other revenue decreased by R$212.8 million, or 22.6%, from R$941.9 million in 2015 to R$729.1 million in 2016.

Operating costs and expenses

Operating costs and expenses decreased by R$837.0 million, or 8.5%, from R$9,797.4 million in 2015 to R$8,960.4 million in 2016, primarily due to the reasons discussed above.

Financial income (expense), net

Our net financial results changed by R$3,848.1 million, from a net financial expense of R$3,402.0 million in 2015 to a net financial income of R$446.1 million in 2016, mainly as a result of gains from the net exchange rate variation in 2016 compared to a loss from the net exchange rate variation in 2015, as discussed above.

Income taxes

Income taxes expenses changed by R$684.3 million from a R$677.2 million expense in 2015 to an income of R$7.1 million in 2016, mainly impacted by the losses at GLA, partially offset by the income from the anticipated return of aircraft under finance leasing and gains with the debt exchange offer transaction.

Net income (loss)

As a result of the foregoing, our flight transportation segment had a net income of R$849.6 million in 2016 as compared to a net loss of R$4,460.9 million in 2015.

Smiles Loyalty Program Segment Year December 31, 2016 Compared to Year December 31, 2015

In 2016, Smiles' members accumulated 53.6 billion miles, an increase of 2.3% over 2015. The increase is related to greater accrual of non-air miles which were 4.2% higher year-on-year partially offsetting the 9.4% decrease in accrual with Gol.

In 2016, 43.5 billion miles were redeemed, an increase of 11.0% when compared to 2015, mainly due to strong performance by non-air redemptions. The burn/earn ratio reached 81.2%. This is the ratio between the number of miles redeemed and accumulated.

Operating revenue

Smiles' operating revenue are mainly derived from redemptions, which are recognized when customers exchange their miles for flight tickets, goods or services from Smiles' airline and commercial partners. Operating revenue also includes breakage and miles that expired without being used.

The following table sets forth Smiles' operating revenue for the periods indicated:

	Year Ended December 31,		
	2015	**2016**	**Change %**
	(in millions of *reais*, except percentages)		
Miles redemption revenue	1,172.4	1,443.2	23.1%
Breakage revenue	150.9	245.3	62.6%
Other revenue	20.9	18.2	(12.9)%
Taxes on revenue	(124.6)	(158.6)	27.3%
Total operating revenue	**1,219.5**	**1,548.1**	**26.9%**

Miles redemption revenue increased 23.1%, from R$1,172.4 million in 2015 to R$1,443.2 million in 2016. This increase resulted from greater share of new miles in the total mix of miles redeemed in the program (from 91.9% in 2015 to 98.9% in 2016).

Breakage revenue, derived from the expected expiration of miles and miles expired, increased 62.6% from R$150.9 million in 2015 to R$245.3 million in 2016, as a result of increase in miles actually expired.

Other revenue decreased 12.9% from R$20.9 million in 2015 to R$18.2 million due to lower commissions from co-branded credit cards in 2016.

Operating costs and expenses

Operating costs and expenses increased by 17.5%, from R$803.7 million in 2015 to R$944.5 million in 2016, mainly due to the increase in redemptions costs, which increased 17.2% from R$676.5 million in 2015 to R$792.9 million in 2016, as a consequence of the R$96.9 million increase in ticket acquisition expenses and the R$10.8 million increase in marketing expenses.

Net financial income

Our net financial income increased by 57.5%, from R$138.7 million in 2015 to R$218.4 million in 2016, primarily as a result of higher average cash balance, higher CDI rate and income on advances for ticket purchases from GLA.

Income taxes

Income taxes expenses increased 51.8% from R$178.7 million in 2015 to R$271.2 million in 2016 mainly due to a 49.4% increase in profit before income taxes.

Net income

As a result of the foregoing, our Smiles loyalty program segment had a net income of R$548.3 million in 2016 as compared to R$369.9 million in 2015, representing an increase of 48.2%, or R$178.4 million.

B. Liquidity and Capital Resources

Cash Flows

Operating Activities. In 2017, we had net cash generated by operating activities of R$672.8 million, compared to net cash used in operating activities in 2016 of R$21.1 million and net cash used in operating activities of R$599.5 million in 2015.

In 2017, net cash generated in operating activities was positively affected by improvements in operational performance and our effective working capital management.

In 2016, net cash used in operating activities was positively impacted by the exchange rate variation due to the period-end appreciation of the *real* against the U.S. dollar of 16.5% and the decrease in our costs resulting from higher yields of 8.0% and a decrease in fuel costs of 18.4%.

In 2015, net cash used in operating activities was negatively impacted by the exchange rate variation due to the 47.0% depreciation of the *real* against the U.S. dollar and the decrease in our revenues and increase in our costs resulting from the macroeconomic slowdown.

Investing Activities. In 2017, we had net cash used in investing activities of R$559.8 million, compared to net cash generated by investing activities of R$592.1 million in 2016, mainly as a result of the returns of deposits related to the postponement of new aircraft arrivals in 2016 and net cash used in investing activities of R$1,259.2 million in 2015. We also had an increase in restricted cash in 2017 to R$268.0 million as of December 31, 2017, compared to a decrease in restricted cash to R$168.8 million as of December 31, 2016 from R$735.4 million as of December 31, 2015.

Financing Activities. In 2017, net cash generated by financing activities was R$359.7 million, mainly due to R$1,898.7 million in proceeds from issuances of loans and financing, primarily related to our issuance of US$500.0 million in aggregate principal amount of senior notes due 2025, which was partially offset by dividend payments to non-controlling shareholders of Smiles of R$254.9 million, payments of finance leases of R$239.1 million, payments of debt of R$274.5 million and R$707.1 million in payments related to (i) US$185.2 million paid in our tender offer for 2022 senior notes, (ii) US$21.2 million paid in our tender offer for 2020 senior notes and (iii) US$7.4 million in prepayment for our redemption of 2018 senior notes.

In 2016, net cash used in financing activities was R$1,062.8 million, mainly due to payments of debt of R$520.5 million, payments of financial leases of R$342.8 million and payment of dividends to non-controlling shareholders of Smiles of R$171.8 million.

In 2015, net cash generated by financing activities was R$750.2 million mainly due to (i) the capital increase in the amount of R$461.3 million by our Controlling shareholder and Delta and (ii) issuance of new debt of R$2,468.5 million, which was partially offset by payments of debt of R$1,632.0 million and payments of financial leases of R$409.5 million.

Liquidity

In managing our liquidity, we take into account our cash and cash equivalents, short-term investments and long-term restricted cash, as well as, our accounts receivable balances. Our accounts receivable balance is affected by the payment terms of our credit card receivables, which can be readily converted into cash through factoring transactions. Our customers can purchase seats on our flights using a credit card and pay in installments, typically creating a one, or two month lag between the time that we pay our suppliers and expenses and the time that we receive payment for our services. When necessary, we obtain working capital loans, which can be secured by our receivables, to finance the sale-to-cash collection cycle.

Our total liquidity position, which we calculate as the sum of cash and cash equivalents, short-term investments, restricted cash and accounts receivable, as of December 31, 2017, was R$3,187.0 million and equivalent to 30.1% of our trailing 12 months' operating revenue.

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

	At December 31, 2016	At December 31, 2017
	(in millions of *reais*)	
Real denominated	**1,268.8**	**1,845.2**
Cash and cash equivalents, short-term investments and short and long-term restricted cash	613.4	1,034.8
Short-term receivables	655.4	810,4
Foreign exchange denominated	**653.6**	**1,341.8**
Cash and cash equivalents and short-term investments	548.8	1,215.7
Short-term receivables	104.8	126.1
Total	**1,922.4**	**3,187.0**

As of December 31, 2017, we did not have balances of advances for aircraft acquisitions related to contract negotiations carried out throughout 2017.

As of December 31, 2017, cash and cash equivalents, short-term investments and long-term restricted cash totaled R$2,250.5 million, consisting of R$1,026.9 million in cash and cash equivalents, R$955.6 million in short-term investments and R$268.0 million in restricted cash.

Indebtedness

The following table sets forth our loans and financing at December 31, 2017 and 2016:

	At December 31, 2016	At December 31, 2017
	(in millions of *reais*)	
Loans and financing	4,090.1	5,092.4
Aircraft finance lease	1,718.0	1,476.2
Interest accrued	142.7	98.9
Perpetual notes	428.4	438.2
Total loans and financing	**6,379.2**	**7,105.7**

As of December 31, 2017, our total debt was R$7,105.7 million. Our loans and financing were affected by the period end depreciation of the *real* against the U.S. dollar. The *real*/U.S. dollar exchange rate was R$3.259 on December 31, 2016 and R$3.308 on December 31, 2017.

Loans and Financing

The following table sets forth our short-term and long-term debt as of December 31, 2016 and 2017:

	At December 31,	
	2016	**2017**
Short-Term Debt	**(in millions of *reais*)**	
Local currency	**54.7**	**419.0**
Working capital loan	9.7	-
Debentures VI	-	395.1
Interest	45.0	23.9
Foreign currency (U.S. Dollars)	**780.6**	**743.9**
MRO Ex-Im guaranteed financing(1)	42.3	43.9
FINIMP(2)	174.4	241.0
Engine facility (Cacib)(3)	16.9	17.1
Wi-Fi Ex-Im guaranteed financing(4)	-	47.5
Engine facility (PK Finance)	-	7.9
Senior Notes	182.4	23.3
Interest	97.7	75.0
Finance lease	266.9	288.2
Total Short-Term Debt	**835.3**	**1,162.9**
Long-Term Debt		
Local Currency	**1,010.1**	**617.3**
Working capital loan	4.9	-
Debentures VI	1,005.2	617.3
Foreign currency (U.S. Dollars)	**4,533.8**	**5,325.5**
MRO Ex-Im guaranteed financing(1)	11.1	12.5
Engine facility (Cacib)(3	156.9	142.1
Wi-Fi Ex-Im guaranteed financing(4)	-	35.6
Engine facility (PK Finance)(5)	-	78.2
Senior notes	1,542.0	2,462.8
Term Loan	944.2	968.0
Perpetual notes	428.4	438.2
Finance lease	1,451.10	1,188.0
Total long-term debt	**5,543.9**	**5,942.8**
Total loans and financing	**6,379.2**	**7,105.7**

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(1) Guaranteed notes to finance engine maintenance with the Export-Import Bank of the United States, or Ex-Im Bank.

(2) Credit line with Banco do Brasil and Safra or import financing for the purchase of spare parts and rotables aircraft equipment.

(3) 2014 credit line with Crédit Agricole.

(4) 2017 credit line with Crédit Agricole (to finance Wi-Fi installation and engine maintenance with a financial guarantee from Ex-Im Bank).

(5) Loan from PK Finance.

The following table sets forth the maturities and interest rates of our indebtedness at December 31, 2017:

	Maturity	Interest p.a.	Currency
Debentures VI	09/2019	132.0% of CDI	*Real*
MRO Ex-Im guaranteed financing	08/2019	1.32%	U.S. dollar
Finimp	12/2018	5.75%	U.S. dollar
Engine facility (Cacib)	06/2021	Libor 3M + 2.25%	U.S. dollar
Wi-Fi Ex-Im guaranteed financing	04/2019	Libor 3M + 0.75%	U.S. dollar
Engine facility (PK Finance)	08/2026	5.70%	U.S. dollar
Senior Notes 2018(1)	12/2018	9.71%	U.S. dollar
Senior Notes 2020(2)	07/2020	9.64%	U.S. dollar
Senior Notes 2021(1)	07/2021	9.87%	U.S. dollar
Senior Notes 2022	01/2022	9.24%	U.S. dollar
Senior Notes 2023	02/2023	11.30%	U.S. dollar
Senior Notes 2025	01/2025	7.19%	U.S. dollar
Senior Notes 2028(1)	12/2028	9.84%	U.S. dollar
Perpetual Notes	-	8.75%	U.S. dollar
Term Loan	08/2020	6.70%	U.S. dollar

(1) In January 2018, we redeemed approximately US$68 million in outstanding 2018 notes, 2021 notes and 2028 notes.

(2) In December 2017 to January 2018, we purchased approximately US$21 million in outstanding 2020 notes tendered as part of our tender offer for up to US$50 million in outstanding 2020 notes. In March 2018, we redeemed the remaining outstanding 2020 notes in their entirety.

The following table sets forth our payment schedule, in millions of *reais*, for our long-term loans and financing (excluding aircraft finance leases):

	2018	2019	2020	2021	2022	Thereafter	Without maturity	Total
***Real* Denominated**								
Interests	23.9	-	-	-	-	-	-	23.92
Debentures VI	395.1	617.3	-	-	-	-	-	1,012.43
U.S. Dollar Denominated								
Interests	75.0	-	-	-	-	-	-	75.0
MRO Ex-Im guaranteed financing	43.9	12.5	-	-	-	-	-	56.4
Finimp	241.0	-	-	-	-	-	-	241.0
Engine facility (Cacib	17.1	17.2	17.2	107.8	-	-	-	159.3
Wi-Fi Ex-Im guaranteed financing	47.5	35.6	-	-	-	-	-	83.1
Engine facility (PK Finance)	7.9	8.4	8.8	9.4	9.9	41.7	-	86.1
Senior Notes 2018(1)	23.3	-	-	-	-	-	-	23.3

Senior Notes 2020(2)	-	-	314.6	-	-	-	-	314.6
Senior Notes 2021(1)	-	-	-	127.2	-	-	-	127.2
Senior Notes 2022	-	-	-	-	299.5	-	-	299.5
Senior Notes 2023	-	-	-	-	-	69.1	-	69.1
Senior Notes 2025	-	-	-	-	-	1,597.7	-	1,597.7
Senior Notes 2028(1)	-	-	-	-	-	54.8	-	54.8
Perpetual Notes	-	-	-	-	-	-	438.2	438.2
Term Loan	-	-	968.0	-	-	-	-	968.0
Total*	**874.7**	**690.9**	**1,308.6**	**244.3**	**309.5**	**1,763.3**	**438.2**	**5,629.5**

* excludes finance leases.

(1) In January 2018, we redeemed approximately US$68 million in outstanding 2018 notes, 2021 notes and 2028 notes.

(2) In December 2017 to January 2018, we purchased approximately US$21 million in outstanding 2020 notes tendered as part of our tender offer for up to US$50 million in outstanding 2020 notes. In March 2018, we redeemed the remaining outstanding 2020 notes in their entirety.

For more information on our indebtedness, see note 16 to our audited consolidated financial statements included elsewhere herein.

Aircraft Finance Leases

The following table sets forth our aircraft finance leases as of December 31, 2016 and 2017:

	As of December 31,	
	2016	2017
	(in millions of *reais*)	
Short-Term Debt (Foreign Currency - U.S. Dollars)		
Finance lease	266.9	288.2
Long-Term Debt (Foreign Currency - U.S. Dollars)		
Finance lease	1,451.1	1,188.0
Total Aircraft Finance Lease	**1,718.0**	**1,476.2**

On December 31, 2017, aircraft finance lease totaled R$1,476.2 million, including aircraft finance lease paid in monthly installments with funds generated from our operations. Financial expenses related thereto are booked as financial expenses in our statement of operations.

Total short-term debt at December 31, 2017 totaled R$1,162.9 million consisting of aircraft finance lease of R$288.2 million, interest of R$98.9 million and loans of R$775.8 million. Long-term debt totaled R$5,942.8 million, consisting of aircraft finance leases of R$1,188.0 million, perpetual notes of R$438.2 million and loans of R$4,316.6 million.

Liability Management

In December 2017, we completed an offering of US$500 million aggregate principal amount of 7.000% senior notes due 2025, the net proceeds of which we applied: (i) to purchase in December 2017 US$185 million in 2022 notes tendered as part of our tender offer for any and all outstanding 2022 notes; (ii) to purchase in January 2018 US$21 million in 2020 notes tendered as part of our tender offer for up to US$50 million in outstanding 2020 notes; and (iii) to redeem in January 2018 US$75 million in outstanding 2018 notes, 2021 notes and 2028 notes. We maintained the remaining US$209 million from the net proceeds of the offering to improve our cash position.

In January 2018, we completed an offering of US$150 million aggregate principal amount of 7.000% senior notes due 2025, the net proceeds of which we applied to call the remaining outstanding 2020 notes in their entirety.

The results of these tender offers and redemptions included an increase in the average maturity of our senior bonds from 4.0 years to 6.7 years, a decrease in the blended cost of our debt, an increase in our ratio of total liquidity to revenue and index eligibility for new notes.

Covenant Compliance

Our long-term financings (excluding perpetual notes and finance leases) are subject to restrictive covenants, and our Term Loan and Debentures VI have restrictions that require us to comply with specific debt liquidity and interest expense coverage ratios. As of December 31, 2017, our Debentures VI were subject to the following covenants: (i) net debt/EBITDAR lower than 5.50x; and (ii) debt coverage ratio (ICSD) of at least 1.33x. Our covenant compliance is evaluated on a biannual basis (in June and December). As of December 31, 2017, we were in compliance with our financial covenants and our indices were (i) net debt to EBITDA ratio of 4.70 and (ii) debt coverage ratio of 1.43.

According to our Term Loan, we must make deposits in case we reach contractual limits of our U.S. dollar denominated or linked debt. On December 31, 2017, we had no obligation to make such deposits.

Capital Resources

We typically finance our leased aircraft through operating and finance leases. Although we believe that debt or operating lease financings should be available for our future aircraft deliveries, we cannot assure you that we will be able to secure financings on terms attractive to us, if at all. To the extent we cannot secure financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to continue to require working capital investment due to the use of credit card installment payments by our customers. We expect to meet our operating obligations as they become due through available cash and internally generated funds, supplemented as necessary by short-term credit lines.

As of December 31, 2017, committed expenditures for these aircraft, based on aircraft list price and including estimated amounts for contractual price escalations will start in 2019 as follows: R$1,117.6 million in 2019, R$4,538.3 million in 2020, R$6,198.2 million in 2021 and R$6,353.4 million in 2022 and R$26,882.8 million beyond 2023. The firm aircraft orders are a significant financial commitment.

We expect to meet our pre-delivery deposits by using long term loans from private financial institutions guaranteed by first tier financial institutions and capital markets financing such as long term and perpetual notes as well as sale-leaseback transactions.

Pending the application of the proceeds from financing activities, we have invested these proceeds in overnight deposits and deposit certificates with highly-rated Brazilian banks and short-term investments, mainly highly-rated Brazilian government bonds.

Another important factor that impacted the terms of our financings in recent years is the Sector Understanding on Export Credits for Civil Aircraft, or the ASU. In 2010, the Ex-Im Bank agreed on a common approach with European export-credit agencies on offering export credits for commercial aircraft. Among other things, the ASU sets forth minimum guarantee premium rates applicable to aircraft delivered on or after January 1, 2013, or under firm contracts entered into after December 31, 2010 and also changes the maximum amount that may be financed.

All of our pre-delivery payments for 2018 deliveries as well as the first five aircraft to be delivered in 2019 are 100% covered through sale-leaseback financings.

Recent Accounting Pronouncements

The standards and interpretations issued, but not yet effective to the financial statements included herein, are being evaluated by us, such as IFRS 9 – *Financial Instruments*, IFRS 15 – *Revenue from Contracts with Customers* and IFRS 16 – *Leases*.

IFRS 15 – *Revenue from Contracts with Customers* was issued in May 2014 and amended in April 2016, and is effective for fiscal years beginning on or after January 1, 2018. IFRS 15 presents revenue recognition principles based on a five-step model to be applied to all contracts with customers, in accordance with the entity's performance requirements. We will adopt the new standard on the date it becomes effective, as of January 1, 2018, using the full retrospective method. In 2017, we carried out an assessment of IFRS 15, which is subject to changes due to more detailed analyses that are still in progress.

Among the main challenges for the adoption of IFRS 15, we believe that the recognition of the following revenues may change compared with the current accounting:

a) *Passenger revenue arising from codeshare agreements*: These revenues relate to agreements between two or more airlines to provide air transportation services. In transactions where we will act as principal, revenue will be recognized based on the gross value of the transaction (price of the ticket to the final customer), and in transactions when we will act as agent, revenue will be recognized based on the net value of the transaction (sale price less the amount payable to the other airline). We did not identify any impact of the change to this standard on revenue arising from codeshare agreements.

b) *Ancillary revenues*: These revenues comprise all revenue related to air transportation services, including fees for excess baggage, cancellations, refunds and no-shows, among others. These revenues were assessed and will be classified as "related to the main service" and will be recognized only when the air transportation service is incurred. In this regard, we concluded an assessment and estimated impact of approximately R$14 million as a result of changes to the timing of recognition of revenues and approximately R$500 million from the reclassification of revenues from "other revenue" to "passenger revenue."

c) *Breakage revenues*: These revenues comprise the expectation of mileage and tickets that are not likely to be used by customers. To recognize these revenues, we use analytical tools and statistical data that allow us to make estimates with a reasonable degree of certainty. Given the standard's specific requirements, we concluded that our methodologies are in compliance with IFRS 15.

d) *Mileage program*: (i) Presentation as agent: the main impact refers to the presentation of gross revenue with redemption of premiums net of their respective costs; and (ii) mileage valuation: there are no impacts resulting from the mileage valuation as they are priced based on sales value, considering that Smiles' Mileage Program operates independently. As a consequence, there is no change in the valuation of the tickets originating from the redemption of the mileage program.

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Lease-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. IFRS 16 sets the principles for recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 and requires that, for the majority of leases, the lessor record an asset related to the right of use of the leased item and a liability related to the lease. We have 88 aircraft leased under operational leases, out of our total of 119 aircraft, and the adoption of this standard will have a material impact on us with a potential increase in assets corresponding to the right of use of the leased item and liabilities related to the leases, which will be recorded in our statements of financial position as of the adoption date.

IFRS 9 – Financial Instruments: In July 2014, the IASB issued the final version of IFRS 9 – "Financial Instruments," which replaces IAS 39 – "Financial Instruments: Recognition and Measurement" and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with early application permitted. Except for hedge accounting, retrospective application is required but providing fully comparative information is not required. The adoption of IFRS 9 will not affect our classification and measurement of financial assets. One of the main impacts is the measurement of the allowance for doubtful accounts, which will be calculated based on expected credit losses instead of estimated losses. We expect a reduction of approximately 30% in estimated losses. Related to the effects on derivatives, we expect that the main changes from our adoption of IFRS 9 will be related to our documentation of hedging strategy policies.

For more information on recent accounting pronouncements, see note 2.3 to our financial statements included elsewhere in this annual report.

C. Research and Development, Patents and Licenses, etc.

We believe the Gol brand has become synonymous with innovation and value in the Brazilian airline industry. We filed requests for registration of the trademarks "GOL" and "GOL LINHAS AÉREAS INTELIGENTES," with trademark offices in Brazil and in other countries, and were granted final registration of these trademarks in, among others, Argentina, Aruba, Bolivia, Chile, Colombia, Dominican Republic, the European Union, the United States, Paraguay and Uruguay.

D. Trend Information

We expect to continue executing our rational strategy, with a capacity forecast matching GDP growth and the expected demand for seats. We expect to reduce our non-fuel cost per available seat kilometer (CASK) as we reduce the age of our fleet, operate an increasingly fuel efficient fleet, benefit from cost savings associated with our aircraft maintenance facility and improve upon our cost-efficient distribution channels.

E. Off-Balance Sheet Arrangements

None of our 88 operational aircraft recognized as operating leases is reflected on our balance sheet. At December 31, 2017, we had 31 aircraft recognized as finance leases on our balance sheet. We are responsible for all maintenance, insurance and other costs associated with operating these aircraft; however, we have not made any residual value or other guarantees to our lessors. Starting on January 1, 2019, all operational aircraft will be recognized on our balance sheet according to IFRS 16. For more information on IFRS 16, see "—C. Recent Accounting Pronouncements" above.

F. Tabular Disclosure of Contractual Obligations

Our main non-cancelable contractual obligations as of December 31, 2017 included the following:

	Total	2018	2019	2020	2021	2022	There-after	Without Maturity
		(in millions of *reais*)						
Non-derivative financial instruments								
Operating leases	5,304.7	858.5	928.2	888.9	746.6	630.5	1,252.0	-
Finance leases(1)	1,591.4	333.8	319.5	267.5	224.6	119.2	326.8	-
Debt	5,629.5	874.7	690.9	1,308.6	244.3	309.5	1,763.3	438.2
Total non-derivative financial instruments	**12,525.6**	**2,067.0**	**1,938.6**	**2,465.0**	**1,215.5**	**1,059.2**	**3,342.1**	**438.2**
Total finance leases interest	115.2	43.7	31.8	21.1	11.9	5.1	1.6	-
Total non-derivative financial instruments excluding total finance leases interest	**12,410.4**	**2,023.3**	**1,906.8**	**2,443.9**	**1,203.6**	**1,054.1**	**3,340.5**	**438.2**
Derivative financial instruments								
Interest rate swaps	34.4	34.4	-	-	-	-	-	-
Total derivative financial instruments	**34.4**	**34.4**	**-**	-	-	-	-	-
Aircraft commitments								
Pre-delivery deposits	6,463.6	316.2	773.3	848.0	852.5	866.1	2,807.5	-
Aircraft purchase commitments	45,090.4	-	1,117.6	4,538.3	6,198.3	6,353.4	26,882.8	-
Total aircraft commitments	**51,554.0**	**316.2**	**1,890.9**	**5,386.3**	**7,050.8**	**7,219.5**	**29,690.3**	-
Total	**63,998.8**	**2,373.9**	**3,797.7**	**7,830.2**	**8,254.4**	**8,273.6**	**33,030.8**	**438.2**

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(1) Net of finance lease interest.

ITEM 6. Directors, Senior Management and Employees

A. Directors and Senior Management

Under our by-laws, we are managed by our *Conselho de Administração*, or board of directors, which comprises at least five and at most ten members, and our *Diretoria*, or board of executive officers, which comprises at least two and at most seven members. According to the B3's Differentiated Corporate Governance Practices Level 2, at least 20% of the members of our board of directors must be independent directors, as defined by the B3.

A number of committees comprising highly specialized and qualified individuals support and advise our management and board of directors. These committees actively participate in our management's strategic and key decisions and we believe they add substantial value to our business. We currently have the following committees and subcommittees: (i) Corporate Governance and People Management Policies Committee; (ii) Financial Policy Committee; (iii) Accounting and Tax Policies and Financial Statements Subcommittee; (iv) Risk Policies Committee; (v) Alliances Committee; and (vi) Audit Committee. The Audit Committee is a permanent advisory body to our board of directors and its responsibilities are set by CVM Rule No. 308/99, as amended. A permanent Governance Committee must be installed if our controlling shareholder holds an economic interest in our company equal to or less than 35%.

We are committed to achieving and maintaining high standards of corporate governance. In working towards this goal, we have established a committee to monitor and make recommendations with respect to corporate governance “best practices” to our board of directors. In addition, in connection with listing as a Level 2 company on the B3, we agreed with the B3 to grant certain additional rights not required of Level 2 companies to our shareholders, such as tag-along rights offering our preferred shareholders 35 times the price paid per common share of controlling block shareholders. We conduct our business with a view towards transparency and the equal treatment of all our shareholders. We have implemented policies to help ensure that all material information required for our shareholders to make informed investment decisions is promptly made available to the public and that we at all times accurately reflect the state of our operations and financial position through press releases, filings with the U.S. Securities and Exchange Commission, or the SEC, and the CVM, and by keeping the investor relations section of our website current and complete. We have also adopted formal policies that restrict trading in our preferred shares by company insiders.

In addition, according to the Level 2 practices, the company must require all new members of the board of directors, board of executive officers and fiscal board to sign a statement of consent in which they undertake to comply with the regulations of the Differentiated Corporate Governance Practices Level 2. Also, the members of the board of directors, board of executive officers and fiscal board must sign a statement of consent in which they undertake to refer to arbitration under the auspices of the B3 Arbitration Chamber, including any disputes and/or controversies arising out of the application of the listing rules of the Differentiated Corporate Governance Practices Level 2, the listing agreement with the B3, the regulations of the B3, the Brazilian corporation law's provisions, guidelines issued by the Brazilian authorities and the other rules applicable to capital markets generally, involving the company, the shareholders, the managers and the members of the fiscal board.

Board of Directors

Our board of directors is responsible for establishing our general business policies and for electing and supervising our executive officers. Our board of directors currently comprises nine members, four of whom qualify as independent directors pursuant to the Brazilian corporation law and CVM criteria. Our board of directors meets an average of 12 times per year.

There are no provisions in our by-laws restricting a director's power to vote on a proposal, arrangement or contract in which such director is materially interested. However, under the Brazilian corporation law, a director is prohibited from voting on any matter in which such director has a conflict of interest with our company.

Additionally, under the Brazilian corporation law, shareholders representing at least 10% of the voting capital may request a multiple voting procedure for electing the members of our board of directors, whether or not provided for in our by-laws. Additionally, shareholders of publicly traded companies, such as us, who together hold non-voting or voting-right restricted preferred shares representing at least 10% of our total share capital for at least three months are entitled to appoint one member to our board of directors.

Under our by-laws, the members of our board of directors are elected by the holders of our common shares at our annual shareholders' meeting. Our by-laws provide that if the controlling shareholder at any time holds an economic interest in our company equal to or less than 35% and greater than 15%, at least 40% of the directors must be independent and the preferred shareholders will have the right to elect one of the independent directors. Also, if the controlling shareholder at any time holds an economic interest in our company equal to or less than 15% and greater than 7.5%, at least 50% of the directors must be independent and the preferred shareholders will have the right to elect two of the independent directors. If the controlling shareholder at any time holds an economic interest in our company equal to or less than 7.5%, at least 60% of the directors must be independent and the preferred shareholders will have the right to elect two of the independent directors.

Members of our board of directors serve simultaneous one-year terms and may be re-elected. The term of our current directors expires on April 20, 2018. Our by-laws do not provide for a mandatory retirement age for directors.

The following table sets forth the name, age and position of each member of our board of directors. A brief biography of each follows the table.

Name	**Age**	**Position**
Constantino de Oliveira Junior	49	Chairman
William Charles Carroll	60	Director
Anna Luiza Constantino	28	Director
Joaquim Constantino Neto	53	Director
Ricardo Constantino	54	Director

André Jánszky*	66	Director
Antonio Kandir*	64	Director
Germán Pasquale Quiroga Vilardo*	50	Director
Francis James Leahy Meaney*	53	Director

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* Denotes an independent director.

Constantino de Oliveira Junior has been a member of our board of directors since we were founded in 2001 and is currently the chairman of our board of directors. He was also our chief executive officer from 2001 to 2012. Mr. de Oliveira introduced the "low-cost, low-fare" concept to the Brazilian airline industry and was named "Most Valuable Executive" by the Brazilian newspaper *Valor Econômico* in 2001 and 2002. He was also elected the leading executive in the logistics sector by the readers of *Gazeta Mercantil*, a Brazilian financial newspaper, in 2003, and in 2008, was named a "Distinguished Executive" in the air transportation category at the Latin American Aeronautics Gallery awards, sponsored by IATA. From 1994 to 2000, he served as a director of a land passenger transportation company. Mr. de Oliveira studied business administration at the *Universidade do Distrito Federal* and attended the Executive Program on Corporate Management for Brazil conducted by the Association for Overseas Technical Scholarships. He is also a member of our Corporate Governance and People Management Policies, Financial Policy, Risk Policies, and Alliances Committees.

William Charles Carroll has been a member of our board of directors since 2016. He was nominated by Delta pursuant to the investment agreement between Fundo de Investimento em Participações Volluto, or FIP Volluto, our controlling shareholder, and Delta (see "Item 4. Information on the Company—B. Business Overview—Airline Business—Partnerships and Alliances—Delta Investment and Commercial Agreements"). Mr. Carroll is the senior vice president international CFO and alliances of Delta. Mr. Carroll provides financial oversight of Delta's international investments. With more than 30 years of finance experience, Mr. Carroll has served in controller and chief financial officer roles in both domestic and international businesses, including eight years of overseas assignments in Spain and Mexico. Before joining Delta in August 2013, Mr. Carroll worked for Homedics, a global consumer products company, as well PepsiCo and Arthur Andersen & Co. Mr. Carroll holds a bachelor's degree in accounting from Rider University in New Jersey. Additionally, he is a certified public accountant and holds a CFA charter. He is a member of our Alliances Committee.

Anna Luiza Constantino has been a member of our board of directors since 2016. She is currently an associate in the credit intelligence department of Bloomberg LP. Previously, she worked in the finance departments of Kerburn Rose in New York and Lockheed Martin in Orlando. Ms. Constantino holds a degree in business administration from the University of Central Florida and has a CFA certificate, level II.

Joaquim Constantino Neto has been a member of our board of directors since March 2004. Mr. Constantino Neto has also been the chief operating officer of the Comporte group since 1994. From 1984 to 1990, he was in charge of operations of Empresas Reunidas Paulista de Transportes Ltda. Since 1990, he has served as the president of Breda Serviços, a bus transportation company. He is also a member of the board of directors of CMP Participações, a company that manages 2,000 buses in São Paulo and Paraná.

Ricardo Constantino has been a member of our board of directors since March 2004. Mr. Constantino has been the chief technical and maintenance officer of the Comporte group since 1994. He is also a member of the board of directors of BRVias S.A., and is a senior executive of Agrodiesel S.A.

André Jánszky has been a member of our board of directors since 2016. Mr. Jánszky has decades of experience as a corporate finance and mergers and acquisitions lawyer. Until November 2016, he was the partner responsible for the Latin America practice of Milbank, Tweed, Hadley & McCloy LLP and managing partner of the firm's São Paulo office. Mr. Jánszky is a member of our Audit, Corporate Governance and People Management Policies and Financial Policy Committees.

Antonio Kandir has been a member of our board of directors since August 2004. Mr. Kandir is an economic consultant. During the last ten years, he has served on the board of directors of several companies and managed various investments funds. Mr. Kandir is a member of the board of directors of AEGEA, CSU, CPFL and COIMEX. Mr. Kandir also served for two terms as a member of Brazil's Chamber of Deputies, during which he also served as Planning and Budget Minister, Secretary of Economic Policy and president of the Privatization Council. He holds a bachelor's degree in production engineering from the *Escola Politécnica* at *Universidade de São Paulo* and bachelor's, master's and doctoral degrees in economics from the *Universidade Estadual de Campinas*. Mr. Kandir is a member of our Audit, Corporate Governance and People Management Policies, Financial Policy and Risk Policies Committees.

Germán Pasquale Quiroga Vilardo has been a member of our board of directors since 2016. He was the founder and CEO of TV1.com, CIO and CMO of Americanas.com, CIO and CMO of Cyrela Brasil Realty and founder, CEO and member of the board of directors of Pontofrio.com, Nova Pontocom, and various other e-commerce companies. He is currently vice-chairman of the board of directors of Totvs and Camara-E.net and a member of the board of directors of Abrarec and Fecomércio. Mr. Quiroga holds a bachelor's degree in electronic engineering from the *Instituto de Engenharia Militar* and a master's degree in digital systems from the Polytechnic School of the *Universidade de São Paulo* (USP).

Francis James Leahy Meaney has been a member of our board of directors since 2016. Mr. Meaney is the managing director for Latin America and member of the executive committee of Compass PLC. Before Compass PLC, he was the interim chief executive officer of Aceco, a company controlled by Kohlberg, Kravis & Roberts. Mr. Meaney was the chief operating officer of Oi S.A., and founder and chief executive officer of Contax S.A., which he led from its startup until it became publicly listed in 2005 and eventually became the largest Brazilian business process outsourcing company with 107,000 employees and US$1.3 billion in revenue. Mr. Meaney also held positions at Global Crossing, Conectel, Mars & Co. and First Boston. He is also a member of the advisory board of the Kellogg Institute for International Studies at the University of Notre Dame. Mr. Meaney holds a bachelor's degree in economics from the University of Notre Dame, a master's degree in business administration from Harvard Business School and completed INSEAD's advanced management course. Mr. Meaney is a member of our Audit Committee.

Constantino de Oliveira Junior, Joaquim Constantino Neto and Ricardo Constantino are brothers and they control our major shareholder, FIP Volluto. Anna Luiza Constantino is the daughter of Constantino de Oliveira Junior.

Executive Officers

Our executive officers have significant experience in the domestic and international passenger transportation industries, and we have been able to draw upon this extensive experience to develop our low-cost operating structure. Our executive officers are responsible for our day-to-day management.

Under our by-laws, we must have at least two and no more than seven executive officers that are elected by the board of directors for a one-year term. Any executive officer may be removed by the board of directors before the expiration of his term. The current term of all our executive officers ends in December 2018.

The following table sets forth the name, age and position of each of our executive officers. A brief biography of each follows the table.

Name	Age	Position
Paulo Sergio Kakinoff	43	President and Chief Executive Officer
Richard F. Lark, Jr	51	Executive Vice President, Chief Financial Officer and Investor Relations Officer
Sergio Quito	64	Vice President and Chief Operations Officer
Eduardo José Bernardes Neto	43	Vice President and Chief Commercial Officer
Celso Guimarães Ferrer Junior	35	Vice President and Chief Planning Officer

Paulo Sergio Kakinoff has been our president and chief executive officer since July 2012. He served as an independent member of our board of directors from January 2010 to June 2012. He held the position of CEO at Audi Brazil until June 2012, having worked for the Volkswagen Group for 18 years as the Sales & Marketing Officer at Volkswagen Brasil and as the executive officer for South America at the Volkswagen Group's head offices in Germany. Mr. Kakinoff also served as the vice president of the Brazilian Association of Importers of Motor Vehicles (ABEIVA) and was a member of the board of directors of Volkswagen Participações. He holds a bachelor's degree in business administration from Mackenzie University, in São Paulo. Mr. Kakinoff is a member of our Corporate Governance and People Management Policies, Risk Policies, Financial Policy and, Alliances Committees.

Richard F. Lark, Jr. has been our executive vice president, chief financial officer and investor relations officer since July 2016. Mr. Lark has been with Gol for 15 years, as our CFO from 2003 to 2008 and as a member of our board of directors from 2008 to 2016. Mr. Lark is the founder and managing partner of Endurance Capital Partners, a private equity management firm (member of ANBIMA and ABVCAP). From 2000 to 2003, he served as chief financial officer of Americanas.com, one of the leading Brazilian e-commerce companies. Prior to joining Americanas.com, Mr. Lark was employed by the investment banking divisions of Morgan Stanley & Co., Citicorp and The First Boston Corporation. Mr. Lark served as a member of the advisory boards of the Kellogg Institute for International Studies at the University of Notre Dame, Associação Vida Jovem, and as president of the American Society of São Paulo. He holds a master's degree in business administration degree from the UCLA Anderson School of Management and a bachelor degree in finance and business economics and philosophy from the University of Notre Dame. He is a portfolio manager registered with the CVM and ANBIMA and an associate of the Brazilian Institute of Corporate Governance (IBGC). Mr. Lark is a member of our Financial Policy and Risk Policies Committees.

Sérgio Quito has been our vice president and chief operations officer since February 2016. Mr. Quito is responsible for operations, maintenance, airports and operational safety. He has over 40 years of experience in the airline industry, having worked for VARIG, Lider, VASP and Pão de Açúcar and worked with us for 11 years as a Boeing 737-800 NG pilot and in quality and operational safety, leading projects such as IOSA certification and the implementation of SGSO. Mr. Quito holds a degree in international relations from the *Pontifícia Universidade Católica de São Paulo* (PUC-SP), and is also an Operational Security Agent certified by the Research Centre of Aeronautical Accidents of the Brazilian Air Force. He also serves as vice chairman of the Operations and Safety Committee of IATA (Safety and Operations Committee - SFO), with a term ending in July 2017.

Eduardo José Bernardes Neto has been our vice president and chief commercial officer since February 2015. Mr. Bernardes is responsible for sales, marketing, distribution and ancillary revenues. He has been with Gol for 16 years, having joined our commercial area as an account manager in February 2001. Mr. Bernardes coordinated the opening of several of our national and international facilities. He is also a member of the board of directors of UATP. Mr. Bernardes has a degree in business administration from *Faculdade Ibero-Americana* with a specialization in foreign trade.

Celso Guimarães Ferrer Junior has been with Gol for 14 years and our vice president and chief planning officer since February 2015. Mr. Ferrer is responsible for our yield management, network planning and aeronautical asset management departments. He is also a pilot of Boeing 737-700 and Boeing 737-800 Next Generation aircraft. Mr. Ferrer has a degree in economics from the *Universidade de São Paulo* and in international relations from the *Pontifícia Universidade Católica de São Paulo*.

B. Compensation

Under our by-laws, our shareholders are responsible for establishing the aggregate amount we pay to the members of our board of directors and executive officers. Once our shareholders establish an aggregate amount of compensation for our board of directors and executive officers, the members of our board of directors are then responsible for setting individual compensation levels in compliance with our by-laws.

For the year ended December 31, 2017, the aggregate compensation, including cash and benefits-in-kind but excluding stock options, to the members of our board of directors and executive officers was R$13.5 million.

Stock Option Plan and Restricted Share Plan

Our stock option plan was approved by our shareholders on December 9, 2004 and amended on April 30, 2010 and October 19, 2012. On October 19, 2012 our shareholders also approved a restricted share plan. Both plans are valid for 10 years. The plans aim to encourage management and employees to contribute to our success. They are managed by both our Corporate Governance and People Management Policies Committee and our board of directors.

Both the stock option plan and the restricted share plan relate only to our preferred shares. The number of outstanding options granted and restricted shares combined may not, at any time, exceed 5% of our preferred shares. The Corporate Governance and People Management Policies Committee establishes each year the strike price of the options to be granted, which must be equal to the average price of the preferred shares recorded in the last 60 trading sessions prior to the granting date.

The vesting period of the stock options is three years, vesting 20% in the first year, 30% in the second year and 50% in the third year. Restricted shares awarded vest after three years.

In case of termination of the option holder, with or without cause (except in case of permanent disability or death) all unexercised options granted to the participant automatically expire. Options already vested on the termination date may be exercised within 90 days, in case of termination without cause, or on the termination date, in case of termination with cause or at the beneficiary's request.

In case of termination of the restricted share beneficiary without cause (except in case of permanent disability or death), restricted shares not yet unrestricted vest proportionally to the number of months since the award date, and, in case of termination with cause or at the beneficiary's request, all restricted shares awarded automatically expire.

We have granted 8,621,343 stock options in the last three years, which represented 2.5 % economic interest in our company or 3.2% of our preferred shares, as of December 31, 2017. Of the total options granted, 9,040,293 are currently outstanding, which represented 1.8% economic interest in our company, as of December 31, 2017. During the last three years, 476,766 stock options were exercised.

Additionally, we have granted 6,752,331 restricted shares in the last three years, which represented 1.9% economic interest in our company or 2.5% of our preferred shares, as of December 31, 2017. As of December 31, 2017, we had 5,297,191 restricted shares outstanding, which represented 1.5% economic interest in our company. In 2017, we transferred 615,181 restricted shares, once the vesting condition was fully met.

For additional information on these share-based payments, see note 11 to our audited consolidated financial statements included elsewhere herein.

C. Board Practices

Our board of directors currently comprises nine members.

Committees of the Board of Directors and Board of Executive Officers

Our board of directors has Audit, Corporate Governance and People Management Policies, Financial Policy, Alliances and Risk Policies Committees and an Accounting, Tax Policies and Financial Statements Subcommittee. Our board of executive officers has management, executive, budget, investment, corporate governance and risk management committees. Not all the members of our committees are members of our board of directors or of our board of executive officers, as in certain committees we appoint outside experts.

Audit Committee. Our Audit Committee provides assistance to our board of directors on matters involving accounting, internal controls, financial reporting and compliance. The Audit Committee recommends the appointment of our independent auditors to our board of directors and reviews the compensation of our independent auditors and helps oversee their activities. It also evaluates the effectiveness of our internal financial and legal compliance controls. The Audit Committee also performs the roles of an audit committee under U.S. laws. The current members of our audit committee are André Jánszky, Antonio Kandir and Francis James Leahy Meaney. All members meet the applicable independent membership requirements of the SEC and New York Stock Exchange, or NYSE, as well as other NYSE requirements. Mr. Jánszky is the committee's "financial expert" within the meaning of the SEC rules under the U.S. Securities Exchange Act of 1934.

Financial Policy Committee. Our Financial Policy Committee is responsible for: (i) approving our corporate finance policies, as well as monitoring and reviewing their effectiveness and implementation, and (ii) reviewing our financing plan. The current members of our Financial Policy Committee are Constantino de Oliveira Junior, André Jánszky, Antonio Kandir, Paulo Sergio Kakinoff and Richard Lark.

Risk Policies Committee. Our Risk Policies Committee is responsible for: (i) reviewing and approving our risk management mechanisms; (ii) approving and evaluating the risk policies used by us; and (iii) monitoring their implementation. The current members of our Risk Policies Committee are Constantino de Oliveira Junior, Antonio Kandir, Paulo Sergio Kakinoff and Richard Lark.

Corporate Governance and People Management Policies Committee. Our Corporate Governance and People Management Policies Committee is responsible for: (i) coordinating, implementing and reviewing our corporate governance practices and (ii) reviewing and recommending human resources policies and compensation to our board of directors. The current members of our Corporate Governance and People Management Policies Committee are Constantino de Oliveira Junior, André Jánszky, Antonio Kandir, Paulo Sergio Kakinoff, Paulo Cézar Aragão and Betânia Tanure de Barros.

Alliances Committee. Our Alliances Committee is responsible for: (i) evaluating opportunities for partnerships and alliances, and possible investments in this context, by us and partner airlines and (ii) maximizing the benefits of existing partnerships through the optimization of resources and opportunities. The current members of our Alliances Committee are Constantino de Oliveira Junior, William Charles Carroll, Paulo Sergio Kakinoff and Pieter Elbers.

Accounting, *Tax and Financial Statement Policy Subcommittee*. Our Accounting, Tax and Financial Statement Policy Subcommittee is responsible for reviewing, evaluating and monitoring our accounting policies and financial statements and recommending actions on these matters to the board of directors. The current members of our Accounting, Tax and Financial Statement Policy Subcommittee are Marcos da Cunha Carneiro, Natan Szuster and Valdenise dos Santos Menezes.

D. Employees

We believe that our growth potential and the achievement of our results-oriented corporate goals are directly linked to our ability to attract and maintain the best professionals available in the airline business. We place great emphasis on our selection and training of enthusiastic employees with potential to add value to our business and who we believe fit in with and contribute to our business culture.

As of December 31, 2017, we had 14,532 total employees and 14,481 active employees, which considers interns, employees on maternity leave and employees on vacation. We invest significant resources promoting the well-being of our employees.

We train our own pilots. We also provide extensive ongoing training for our pilots, flight attendants and customer service representatives. In addition to the required technical training, which follows the strictest international standards, we also provide comprehensive managerial training to our pilots and flight attendants through crew resource management and line oriented flight training programs, emphasizing the importance of resource management to provide the best service to our passengers.

In order to help retain our employees, we encourage open communication channels between our employees and management and offer career development opportunities in the company, as well as periodic evaluations. Our compensation strategy reinforces our determination to retain talented and highly motivated employees and is designed to align the interests of our employees with those of our shareholders. Our compensation packages include competitive salaries and participation in our profit sharing program. We have agreements with medical and insurance companies to offer affordable health plan options to our employees.

A national aviators' union represents Brazil's pilots and flight attendants, and other regional aviation unions represent ground employees of air transportation companies. Approximately 28% of our employees are members of unions. Negotiations regarding cost of living wages and salary increases are conducted annually between the workers' unions and a national association of airline companies. There is no salary differential or seniority pay escalation among our pilots. Work conditions and maximum work hours are regulated by government legislation and are not the subject of labor negotiations. Since the commencement of our operations, we have not had a work stoppage by our employees and we believe we have a good relationship with our employees.

To motivate our employees and align their interests with our results of operations, we provide an annual profit sharing program to all of our employees. Under Brazilian law, companies may provide profit sharing programs that define mechanisms for distributing a portion of a company's profits based upon the achievement of pre-defined targets established by the company. Our annual profit sharing programs are negotiated with a commission formed by our employees and approved by labor unions for the benefit of all of our unionized and non-unionized employees. For the purposes of our profit sharing program, a portion of profit sharing distributions are based on the achievement of corporate profit targets and a portion of the distributions are based on the achievement of operational targets set for each of our departments. We have established a long term incentive plan (stock option and restricted share plans) to our management and employees that vests over a three year period.

E. Share Ownership

The members of our board of directors and our executive officers, on an individual basis and as a group, directly own approximately 0.7% of our preferred shares. See "Item 7A. Major Shareholdings and Related Party Transactions—Major Shareholders." FIP Volluto is a fund directly controlled by Constantino de Oliveira Júnior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino.

For a description of stock options granted to our board of directors and our executive officers, see "—Compensation—Stock Option Plan and Restricted Share Plan."

ITEM 7. Major Shareholders and Related Party Transactions

A. Major Shareholders

The following table sets forth information relating to the beneficial ownership of our common shares and preferred shares as of December 31, 2017, by each person known by us to beneficially own 5% or more of our common shares or preferred shares and all our directors and officers as a group.

Each shareholder's percentage ownership in the following table is based on the 2,863,682,710 common shares and 265,899,432 preferred shares outstanding as of the date hereof.

	Common Shares		Preferred Shares[2][3]		Total Shares		Economic Interest
	Shares	**(%)**	**Shares**	**(%)**	**Shares**	**(%)**	**(%)**
Fundo de Investimento em Participações Volluto[1]	2,863,682,150	100.00%	130,953,776	49.25%	2,994,635,926	95.69%	61.19%
Executive officers and directors[4]	560	0.00%	2,459,487	0.93%	2,460,047	0.08%	0.71%
Treasury shares	0	0.00%	278,612	0.10%	278,612	0.01%	0.08%
Delta Air Lines, Inc	0	0.00%	32,926,020	12.38%	32,926,020	1.05%	9.47%
Airfrance – KLM			4,246,620	1.60%	4,246,620	0.14%	1.22%
Free float[5]	0	0.00%	95,034,917	35.74%	95,034,917	3.04%	27.33%
Total	2,863,682,710	100.00%	265,899,432	100.00%	3,129,582,142	100.00%	100.00%

(1) Fundo de Investimento em Participações Volluto (formerly named Fundo de Investimento em Participações Asas), or FIP Volluto, is controlled equally by Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino.

(2) In December 2017, FIP Volluto converted 2,171,354,430 common shares into preferred shares.
(3) Preferred shares are entitled to a dividend 35 times the dividend paid per common share. See "Item 10B. Additional Information—Memorandum and Articles of Association."
(4) Includes 140 shares owned by a member of our controlling family.

(5) Not considering Delta Air Lines, Inc.

According to our internal share record, which contains information regarding the ownership of our shares and the ADSs as filed by the holders of such shares and ADSs, as of December 31, 2017, 43.4% of our free float was traded in the United States.

During 2017, our executive officers did not exercise any stock options.

In March 2015, shareholders representing 81.7% of our capital stock approved certain amendments (equivalent to more than 99% of votes cast) to our by-laws that increased our equity financing capacity by increasing our ability to issue more preferred shares without needing to issue common shares simultaneously, as the transfer and ownership of common shares are subject to restrictions under Brazilian airline industry laws and regulations. This approval represented a long-term structural solution to improve our capacity to raise equity capital as we do not depend on our controlling shareholder in order to do so.

These amendments were also aimed at improving our corporate governance and strengthening the alignment of interests among our common and preferred shareholders and included, among others:

- split of common shares in the ratio of 35 to one;
- increase in economic rights of preferred shares in the ratio of 35 to one;
- increase in the representation of preferred shareholders on the board of directors depending on the percentage of economic rights held by the controlling shareholder;
- enhancement of our audit committee by making it a permanent statutory body;
- separate vote for preferred shareholders in extraordinary meetings on certain matters, as detailed in our by-laws;
- restrictions on the sale of shares held by our controlling shareholder; and
- mandatory public tender offer for all shares if any person acquires 30% or more of our economic rights.

For more information, see "Item 9C. Markets—Corporate Governance Practices."

In September 2015, in connection with our strategic agreement with Delta, we increased our capital by R$461.3 million. This capital increase was equivalent to the issuance of 64,065,611 preferred shares at an issuance price of R$7.20 per share. See "Item 4. Information on the Company—Business Overview."

Shareholders' Agreement

No shareholders' agreements have been filed with us.

B. Related Party Transactions

We have engaged in a number of transactions with related parties, none of which have involved the issuance of guarantees. Following is a description of our main related party transactions:

Agreements with Smiles

GLA and Smiles are party to the following agreements:

- Operating Agreement;
- Back Office Services Agreement; and
- Main Miles and Tickets Purchase Agreement.

Because we consolidate GLA and Smiles, these transactions are eliminated in our consolidated financial statements. For more information on these agreements see "Item 4. Information on the Company—B. Business Overview—Smiles Loyalty Program—Agreements with Smiles."

Transportation and Consultancy Agreements with Entities Controlled by Our Controlling Shareholder

We have exclusive bus transportation agreements with Expresso União Ltda. and Viação Piracicabana Ltda. for the transportation of our employees, our passengers and their luggage. We also have a contract with related party Pax Participações S.A. to provide consulting and advisory services. We have also signed a contract with Aller Participações and Limmat Participações S.A to provide air cargo transportation services. These entities are controlled by our controlling shareholder.

In 2015, 2016 and 2017, GLA recorded expenses of R$16.1 million, R$13.0 million and R$8.6 million, respectively, under these operating agreements.

Agreement for Use of VIP Lounges

In April 2012, we entered into an agreement with Delta for the use of their VIP lounges, with expected payments of US$20 per passenger. In August 2016, we signed an amendment and prepaid US$3.0 million for continued use of the VIP lounges. As of December 31, 2017, the outstanding balance under this agreement was R$6.8 million.

Engine Maintenance Agreement with Delta TechOps

In 2010, we entered into a strategic MRO partnership agreement with Delta TechOps, the maintenance division of Delta, one of our shareholders, which provides overhaul service for approximately 50% of our CFM 56-7 engines, maintenance for parts and components on our fleet of Boeing 737 NG aircraft and also, consulting services related to maintenance workflow planning, materials and facility optimization and tooling support. In 2015, 2016 and 2017, the expenses under this agreement were R$307.7 million, R$210.2 million and R$403.2 million, respectively. The balance of financing related to engine maintenance classified as liabilities in debt was R$372.5 million and R$210.2 million, respectively, as of December 31, 2017 and December 31, 2016.

We have recently agreed with Delta and Air France – KLM to increase the maintenance services we provide them starting in 2018.

Term Loan Guaranteed by Delta

On August 31, 2015, Delta guaranteed a US$300 million Term Loan borrowed by Gol Finance (previously named Gol LuxCo S.A.) from third party lenders. Under the terms of the Credit and Guaranty Agreement, Gol Finance’s obligations thereunder are guaranteed by the Term Loan Guarantors. Pursuant to a separate guaranty agreement, Delta provided to the administrative agent under the Credit and Guaranty Agreement, and the lenders under the Credit and Guaranty Agreement, a backstop guarantee of Gol Finance’s and the Term Loan Guarantors’ respective obligations under the Credit and Guaranty Agreement. The reimbursement obligations to Delta in connection with the Delta Guaranty, which are guaranteed by GLA, are secured by a first priority security interest in favor of Delta in a portion of the shares of Smiles held by Gol.

The Term Loan bears interest at a rate of 6.7% per annum, payable semi-annually. The Term Loan matures at August 31, 2020 and is not secured by any property of Gol Finance or the Term Loan Guarantors.

Delta Credit Support

In 2016, Delta granted us (i) credit support in the form of a backstop guarantee for up to US$32.0 million in Gol obligations under an ISDA Master Agreement with Morgan Stanley and (ii) a credit line for the financing of maintenance payments of up to US$50.0 million, which we will begin amortizing in 2018.

On January 31, 2017, GLA signed a Loan Agreement with Delta in the amount of US$50.0 million with a maturity date of December 31, 2020 and reimbursement obligations by Gol, GLA and Gol Finance, in the same terms as the reimbursement contract dated August 19, 2015.

Agreement with Air France – KLM

On February 19, 2014, we entered into an exclusive long term strategic partnership for commercial cooperation with Air France – KLM. Under this agreement, Air France – KLM has made a US$48 million payment for the purpose of enhancing our codesharing, connectivity and joint sale activities as well as other benefits for our customers, including the integration and improvement of products and services for our frequent flyer programs. As part of this agreement, Air France – KLM also invested US$52 million in the acquisition of a number of our newly issued preferred shares, equivalent to 1.2% of our capital stock, at an issuance price equivalent to US$12.23 per share. The agreement further provides for the creation of an alliance committee, comprised of at least one representative of Air France – KLM, at least two members of our board of directors and at least one representative of Delta, to coordinate efforts to improve the benefits of these partnerships. In 2014, we received R$74.5 million related to the first installment and in 2015 we received R$17.7 million under this agreement.

We have recently agreed with Delta and Air France – KLM to increase the maintenance services we provide them starting in 2018.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. Financial Information

A. Consolidated Statements and Other Financial Information

See “Item 3. Key Information—Selected Financial Data” and “Item 18. Financial Statements.”

Legal Proceedings

In the ordinary course of our business, we are party to various claims, which we believe are incidental to our operations, in large part related to consumer rights claims. We have established provisions for all amounts in dispute that represent a probable loss in the view of our legal advisors and in relation to those disputes that are covered by laws, administrative decrees, decrees or court rulings that have proven to be unfavorable.

As of December 31, 2017, we had provisions for civil proceedings of R$67.5 million and provisions for labor proceedings of R$137.1 million.

In 2007, we commenced an arbitration before the International Chamber of Commerce against the sellers of VRG and their controlling shareholders relating to a purchase price adjustment. In January 2011, the arbitral tribunal ruled in our favor against the sellers of VRG and their controlling shareholders. We brought enforcement proceedings to collect the award amount in U.S. federal courts. However, the US federal courts refused to enforce the arbitral award and we may not be able to collect the judgment in the United States. In 2017 we brought another enforcement proceedings in the courts of the Cayman Islands, and these proceedings are still pending. We believe that the chance of success in enforcing the award is now possible.

We had been discussing the non-incidence of taxation of PIS and COFINS on revenues generated by interest attributable to shareholders’ equity related to the 2006 to 2008 fiscal years, paid by its subsidiary GTA Transportes Aéreos S.A., succeeded by GLA on September 25, 2008. The amount assessed as a possible loss was R$57.8 million as of December 31, 2016. However, due to a recent unfavorable decision in a similar case, we adhered to the special tax regularization program (*programa especial de regularização tributária*), or PERT, after the federal government signed Provisional Presidential Decree 783/17 into law, including the amount of R$34.8 million in debt installment payments. Additionally, we maintain escrow deposits with Bic Banco with a partial guarantee on the lawsuit of R$32.1 million, which will be redeemed after the installments payment are fully settled.

We are also questioning the applicability of tax on services (*imposto sobre serviços*), or ISS, in the amount of R$21.2 million on revenue from certain of our activities related to agreements with partners from 2007 to 2010. Based on the opinion of our legal counsel, we believe that these proceedings represent a possible risk of loss. As of December 31, 2017, we had no provisions for these proceedings.

In addition, we are questioning the applicability of a fine imposed by Brazilian customs authorities in the amount of R$57.8 million for the alleged breach of certain rules regarding the temporary import of aircraft. Based on the opinion of our legal counsel, we believe that these proceedings represent a possible risk of loss. As of December 31, 2017, we had no provisions or judicial deposits for these proceedings.

In addition, we are also questioning infraction notices regarding goodwill from BSSF Air Holdings, in the amount of R$104.2 million. Although the outcome of these proceedings cannot be anticipated, our management understands that the final decisions in these proceedings will not have a material adverse impact on our financial position, operating results or cash flows. As of December 31, 2017, we had no provisions or judicial deposits for these proceedings.

We received an infraction notice regarding industrialized products tax (*imposto sobre produtos industrializados*), or IPI, that allegedly should have been levied on aircraft imports in the amount of R$115.1 million as of December 31, 2016. On March 10, 2017, although the lawsuit has not been resolved at the administrative level, we included this tax in its installment program, given that decisions in similar proceedings have not been favorable. For more information on our taxes payable, see note 18 to our audited consolidated financial statements included elsewhere herein.

We are also questioning infraction notices regarding goodwill from GLA, in the amount of R$80.2 million. Although the outcome of these proceedings cannot be anticipated, our management understands that the final decisions on these proceedings will not have any material adverse impact on our financial position, operating results and cash flows. As of December 31, 2017, we had no provisions for these proceedings nor judicial deposits.

GLA is discussing the non-incidence of an additional 1% COFINS rate on imports of aircraft and parts, which would amount to R$48.6 million as of December 31, 2017 (R$39.4 million as of December 31, 2016). GLA's legal counsel determined a possible risk of loss due to there being no express revocation of the tax relief (zero rate) granted to regular flight transportation companies.

For more information on our legal proceedings and contingencies, see note 21 to our audited consolidated financial statements.

Irregular Payments Investigation

In 2016, we received inquiries from Brazilian tax authorities regarding certain payments to firms that turned out to be owned by politically exposed persons in Brazil. Following an internal investigation, we engaged U.S. and Brazilian legal counsel to conduct an external independent investigation to ascertain the facts with regard to these and any other payments identified as irregular and to evaluate the adequacy and effectiveness of our internal control and compliance programs in light of the findings of the investigation.

In December 2016, we entered into a leniency agreement with the Brazilian Federal Public Ministry (the "Leniency Agreement"), under which we agreed to pay R$12.0 million in fines and to make improvements to our compliance program. In turn, the Federal Public Ministry agreed not to bring any criminal or civil suits related to activities that are the subject of the Leniency Agreement and that may be characterized as (i) acts of administrative impropriety and related acts involving politically exposed persons or (ii) other possible actions, which at the date of the Leniency Agreement had not been identified by the ongoing investigation (any such actions possibly resulting in an increase in the fines under the Leniency Agreement). In addition, we paid R$4.2 million in fines to the Brazilian tax authorities related to the above-mentioned payments. We voluntarily informed the U.S. Department of Justice, the SEC and the CVM of the external independent investigation and the Leniency Agreement.

The external independent investigation was concluded in April 2017. It revealed that certain additional irregular payments were made to politically exposed persons. None of the amounts paid were material (individually or in the aggregate) in terms of cash flow, and none of our current employees, representatives or members of our board or management knew of any illegal purpose behind any of the identified transactions or knew of any illicit benefit to the Company arising out of the transactions investigated. We reported the conclusions of the investigation to the relevant authorities and will maintain them informed of any developments, as well as collaborate with them in their analysis. These authorities may impose significant fines and possibly other sanctions on us.

We continue to take steps to strengthen and expand our internal control and compliance programs. Among other measures, we are monitoring our transactions with politically exposed persons, and we enhanced our procurement procedures, including the contracting and execution of services by outside providers. We have hired specialists to assess risks and review internal controls related to fraud and corruption to identify and help us implement further improvements, and we will continue to hire specialists to implement any necessary improvements, as well as systems to monitor our transactions and train our employees.

Dividends and Dividend Policy

Amounts Available for Distribution

At each annual shareholders' meeting, our board of directors is required to propose how our earnings for the preceding fiscal year are to be allocated. For purposes of Brazilian corporation law, a company's non-consolidated net income after federal income tax and social contribution on net income for such fiscal year, net of any accumulated losses from prior fiscal years and amounts allocated to employees' and management's participation in earnings represents its "income" for such fiscal year. In accordance with the Brazilian corporation law, an amount equal to the company's "income," as adjusted (the "distributable amount"), will be available for distribution to shareholders in any particular year. The distributable amount will be affected by the following:

- reduced by accumulated losses;
- reduced by amounts allocated to the legal reserve;
- reduced by amounts allocated to the statutory reserve, if any;
- reduced by amounts allocated to the contingency reserve, if any;
- reduced by amounts allocated to the unrealized profits reserve established by the company in compliance with applicable law (as discussed below);
- reduced by amounts allocated to the reserve for investment projects (as discussed below); and
- increased by reversals of reserves recorded in prior years.

Our by-laws do not provide for statutory or contingency reserves. Under the Brazilian corporation law and according to our by-laws, we are required to maintain a “legal reserve” to which we must allocate 5% of our “income” for each fiscal year until the amount of the reserve equals 20% of paid-in capital. We are not required to make any allocations to our legal reserve in respect of any fiscal year in which such reserve, when added to our capital reserves, exceeds 20% of our capital stock. Accumulated losses, if any, may be charged against the legal reserve. Other than that, the legal reserve can only be used to increase our capital. The legal reserve is subject to approval by the shareholders voting at the annual shareholders’ meeting and may be transferred to capital but is not available for the payment of dividends in subsequent years. Our calculation of net income and allocations to reserves for any fiscal year are determined on the basis of our non-consolidated financial statements prepared in accordance with the Brazilian corporation law.

Under the Brazilian corporation law, a portion of a corporation’s “income” may be allocated for discretionary appropriations for expansion and other fixed or working capital investment projects, the amount of which is based on a capital budget previously presented by management and approved by the shareholders in a general shareholders’ meeting. After completion of the relevant capital projects, the company may retain the appropriation until shareholders vote to transfer all or a portion of the reserve to capital or retained earnings. The Brazilian corporation law provides that, if a project to which the reserve for investment projects account is allocated has a term exceeding one year, the budget related to the project must be submitted to the shareholders’ meeting each fiscal year until the relevant investment is completed.

Under the Brazilian corporation law, the amount by which the mandatory distribution exceeds the “realized” portion of net income for any particular year may be allocated to the unrealized profits reserve and the mandatory distribution may be limited to the “realized” portion of net income. The “realized” portion of net income is the amount by which “income” exceeds the sum of (i) our net positive results, if any, from the equity method of accounting for earnings and losses of our subsidiaries and certain affiliates, and (ii) the profits, gains or income obtained on transactions maturing after the end of the following fiscal year. As amounts allocated to the unrealized income reserve are realized in subsequent years, such amounts must be added to the dividend payment relating to the year of realization.

Under the Brazilian corporation law, any company may create a “statutory” reserve, which reserve must be described in the company’s by-laws. Those by-laws which authorize the allocation of a percentage of a company’s net income to the statutory reserve must also indicate the purpose, the criteria for allocation and the maximum amount of the reserve. The Brazilian corporation law provides that all discretionary allocations of “income,” including the unrealized profits reserve and the reserve for investment projects, are subject to approval by the shareholders voting at the general shareholders’ meeting and may be transferred to capital or used for the payment of dividends in subsequent years. The fiscal incentive reserve and the legal reserve are also subject to approval by the shareholders voting at the general shareholders' meeting and may be transferred to capital or used to absorb losses, but are not available for the payment of dividends in subsequent years.

The amounts available for distribution may be further increased by a reversion of the contingency reserve for anticipated losses constituted in prior years but not realized. Allocations to the contingency reserve are also subject to approval by the shareholders voting at the general shareholders' meeting. The amounts available for distribution are determined on the basis of our non-consolidated statutory financial statements.

The balance of the profit reserve accounts, except for the contingency reserve and unrealized profits reserve, may not exceed the share capital. If this happens, a shareholders' meeting must resolve whether the excess will be applied to pay in the subscribed and unpaid capital, to increase and pay in the subscribed stock capital or to distribute dividends.

Pursuant to the Brazilian corporation law, net income unallocated to the accounts mentioned above must be distributed as dividends.

Mandatory Distribution

The Brazilian corporation law generally requires that the by-laws of each Brazilian corporation specify a minimum percentage of the amounts available for distribution by such corporation for each fiscal year that must be distributed to shareholders as dividends, also known as the mandatory distribution.

The mandatory distribution is based on a percentage of adjusted non-consolidated net income, not lower than 25%, rather than a fixed monetary amount per share. If the by-laws of a corporation are silent in this regard, the percentage is deemed to be 50%. Under our by-laws, at least 25% of our adjusted non-consolidated net income for the preceding fiscal year must be distributed as a mandatory annual dividend. Adjusted net income means the net income after any deductions for the legal reserve and contingency reserves and any reversals of the contingency reserves created in previous fiscal years. The Brazilian corporation law, however, permits a publicly held company, such as we are, to suspend the mandatory distribution of dividends in any fiscal year in which the board of directors reports to the shareholders' meeting that the distribution would be inadvisable in view of the company's financial condition. The suspension is subject to the approval at the shareholders' meeting and review by members of the fiscal board, if in place. While the law does not establish the circumstances in which payment of the mandatory dividend would be "inadvisable" based on the company's financial condition, it is generally agreed that a company need not pay the mandatory dividend if such payment threatens the existence of the company as a going concern or harms its normal course of operations. In the case of publicly held corporations, the board of directors must file a justification for such suspension with the CVM within five days of the relevant general meeting. If the mandatory dividend is not paid and funds are available, those funds shall be attributed to a special reserve account. If not absorbed by subsequent losses, those funds shall be paid out as dividends as soon as the financial condition of the company permits.

The board of directors can also decide to make the mandatory dividend distribution in the form of interest attributable to shareholders' equity, which is deductible when calculating income and social contribution taxes.

Payment of Dividends

We are required by the Brazilian corporation law to hold an annual shareholders' meeting by no later than April 30 of each year, at which time, among other things, the shareholders have to decide on the payment of an annual dividend. Additionally, interim dividends may be declared by the board of directors. Any holder of record of shares at the time of a dividend declaration is entitled to receive dividends. Dividends on shares held through depositaries are paid to the depositary for further distribution to the shareholders.

Under the Brazilian corporation law, dividends are generally required to be paid to the holder of record on a dividend declaration date within 60 days following the date the dividend was declared, unless a shareholders' resolution sets forth another date of payment, which, in either case, must occur prior to the end of the fiscal year in which such dividend was declared. Pursuant to our by-laws, unclaimed dividends do not bear interest, are not monetarily adjusted and revert to us three years after dividends were declared. See "Item 10.B. Memorandum and Articles of Association—Description of Capital Stock."

Our board of directors may declare interim dividends or interest attributable to shareholders' equity based on income verified in semi-annual financial statements. The board of directors may also declare dividends based on financial statements prepared for shorter periods, provided that the total dividends paid in each six-month period do not exceed the capital reserves amount required by Brazilian corporation law. The board of directors may also pay interim dividends or interest attributable to shareholders' equity out of retained earnings or income reserves recorded in the last annual balance sheet. Any payment of interim dividends may be set off against the amount of mandatory dividends relating to the net income earned in the year in which the interim dividends were paid.

Our by-laws do not require that we adjust the amount of any dividend payment for inflation.

In general, shareholders who are not residents of Brazil must register their equity investment with the Central Bank to have dividends, sales proceeds or other amounts with respect to their shares eligible to be remitted outside Brazil. The preferred shares underlying the ADSs are held in Brazil by Banco Itaú S.A., also known as the custodian, as agent for the depositary, that is the registered owner on the records of the registrar for our shares. The current registrar is Banco Itaú S.A. The depositary registers the preferred shares underlying the ADSs with the Central Bank and, therefore, is able to have dividends, sales proceeds or other amounts with respect to registered preferred shares remitted outside Brazil.

Payments of cash dividends and distributions, if any, are made in *reais* to the custodian on behalf of the depositary, which then converts such proceeds into U.S. dollars and causes such U.S. dollars to be delivered to the depositary for distribution to holders of ADSs. In the event that the custodian is unable to convert immediately the Brazilian currency received as dividends into U.S. dollars, the amount of U.S. dollars payable to holders of ADSs may be adversely affected by depreciation of the Brazilian currency that occur before the dividends are converted. Under the current Brazilian corporation law, dividends paid to persons who are not Brazilian residents, including holders of ADSs, will not be subject to Brazilian withholding tax, except for dividends declared based on profits generated prior to December 31, 1995, which will be subject to Brazilian withholding income tax at varying tax rates. See "Taxation—Material Brazilian Tax Considerations."

Holders of ADSs have the benefit of the electronic registration obtained from the Central Bank, which permits the depositary and the custodian to convert dividends and other distributions or sales proceeds with respect to the preferred shares represented by ADSs into foreign currency and remits the proceeds outside Brazil. In the event the holder exchanges the ADSs for preferred shares, the holder will be entitled to continue to rely on the depositary's registration for five business days after the exchange. Thereafter, in order to convert foreign currency and remit outside Brazil the sales proceeds or distributions with respect to the preferred shares, the holder must obtain a new registration in its own name that will permit the conversion and remittance of such payments. See "Item 10B. Memorandum and Articles of Association—Description of Capital Stock—Regulation of Foreign Investment."

Under current Brazilian legislation, the federal government may impose temporary restrictions of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments.

Interest Attributable to Shareholders' Equity

Under Brazilian tax legislation effective January 1, 1996, Brazilian companies are permitted to pay "interest" to holders of equity securities and treat such payments as an expense for Brazilian income tax purposes and, beginning in 1997, for social contribution purposes. The purpose of the tax law change is to encourage the use of equity investment, as opposed to debt, to finance corporate activities. Payment of such interest may be made at the discretion of our board of directors, subject to the approval of the shareholders at a general shareholders' meeting. The amount of any such notional "interest" payment to holders of equity securities is limited in respect of any particular year to the daily pro rata variation of the Long-Term Interest Rate (*Taxa de Juros de Longo Prazo*), or TJLP, as determined by the Central Bank from time to time, and may not exceed the greater of:

- 50% of net income (after social contribution on net profits but before taking into account the provision for income tax and the interest attributable to shareholders' equity) for the period in respect of which the payment is made; or

- 50% of the sum of retained earnings and profit reserves as of the beginning of the year in respect of which such payment is made.

Payment of interest to a holder that is not domiciled in Brazil for Brazilian tax and regulatory purposes (a "non-Brazilian holder") is subject to withholding income tax at the rate of 15%, or 25% if the non-Brazilian holder is domiciled in a country or location that does not impose income tax or where the income tax rate is lower than 20% ("Low or Nil Tax Jurisdiction") or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Brazilian holder. These payments may be included, at their net value, as part of any mandatory dividend. To the extent payment of interest attributable to shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

Under current Brazilian legislation, the sum of the amount distributed as interest attributable to shareholders’ equity and as dividends must be at least equal to the mandatory dividend. For IFRS accounting purposes, the interest is deducted from shareholders’ equity in a manner similar to a dividend. Any payment of interest in respect of preferred shares (including the ADSs) is subject to Brazilian withholding income tax at the rate of 15%, or 25% in the case of a shareholder domiciled in a Low or Nil Tax Jurisdiction or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Brazilian holder (see “Taxation—Material Brazilian Tax Considerations”). If such payments are accounted for, at their net value, as part of any mandatory dividend, the tax is paid by the company on behalf of its shareholders, upon distribution of the interest. In case we distribute interest attributed to shareholders’ equity in any year, and that distribution is not accounted for as part of mandatory distribution, Brazilian income tax would be borne by the shareholders.

Under our by-laws, interest attributable to shareholders’ equity may be treated as a dividend for purposes of the mandatory dividend. In 2013, 2014, 2015, 2016 and 2017, we did not distribute dividends.

Dividend Policy

We declare and pay dividends and/or interest attributable to shareholders’ equity, as required by the Brazilian corporation law and our by-laws. The declaration of annual dividends, including dividends in excess of the mandatory distribution, requires approval by the vote of the majority of the holders of our common shares. The amount of any distributions will depend on many factors, such as our results of operations, financial condition, cash requirements, prospects and other factors deemed relevant by our board of directors and shareholders. Within the context of our tax planning, we may continue determining that it is to our benefit to distribute interest attributed to shareholders’ equity.

B. Significant Changes

None.

ITEM 9. The Offer and Listing

A. Offer and Listing Details

In the United States, our preferred shares trade in the form of ADSs. In February 2016, we had changed the ratio of our ADSs to preferred shares from one ADS to one preferred share to one ADS to ten preferred shares. In April 2017 we reduced the ratio of our preferred shares to one ADS to five preferred shares and in November 2017 we reduced the ratio of our preferred shares to one ADS to two preferred shares. Therefore, after November 2017, each ADS represents two preferred shares, issued by the depositary pursuant to a deposit agreement. Our ADSs commenced trading on the NYSE on June 24, 2004. As of December 31, 2017, the ADSs represented 21.2% of our preferred shares and 43.4% of our current global public float.

The following table sets forth the reported high and low closing sales prices for the ADSs on the NYSE for the periods indicated (adjusted for the ADS ratio change to two preferred shares to one ADS effective November 2017, as described above):

	US$ per ADS		
	Low	**High**	**Average[(1)]**
2013			
Annual	5.56	15.22	10.23
2014			
Annual	7.58	13.68	10.76
2015			
Annual	1.13	10.94	4.34
2016			
Annual	0.50	5.35	2.48
First quarter	0.50	2.02	1.15
Second quarter	1.27	2.21	1.52
Third quarter	1.93	4.78	3.53
Fourth quarter	2.31	5.35	3.68
2017			
Annual	3.00	9.76	6.44
First quarter	3.00	5.96	4.65
Second quarter	4.41	7.01	5.53
Third quarter	4.48	8.96	6.75
Fourth quarter	7.66	9.76	8.79
Last Six Months			
October 2017	8.47	9.76	9.28
November 2017	7.66	9.30	8.43
December 2017	8.23	9.01	8.63
January 2018	9.16	11.32	10.07
February 2018	10.06	12.10	10.86
March 2018	11.44	13.24	12.46
April 2018 (through April 25, 2018)	10.97	14.11	12.61

Source: Bloomberg

(1) Calculated as average of closing prices for the period.

Our preferred shares began trading on the São Paulo Stock Exchange on June 24, 2004. The following table sets forth the reported high and low closing sale prices for our preferred shares on the B3, for the periods indicated:

	***Reais* per Preferred Share**		
	Low	**High**	**Average[(1)]**
2013			
Annual	6.14	15.00	10.69
2014			
Annual	9.29	15.25	12.56
2015			

Annual	2.39	15.21	6.84
2016			
Annual	1.16	8.34	4.17
First quarter	1.16	3.80	2.25
Second quarter	2.27	3.68	2.66
Third quarter	3.19	7.68	5.68
Fourth quarter	3.85	8.34	6.00
2017			
Annual	4.51	15.60	10.20
First quarter	4.51	9.71	7.25
Second quarter	7.22	11.25	8.79
Third quarter	7.36	14.09	10.61
Fourth quarter	12.44	15.60	14.25
Last Six Months			
October 2017	13.57	15.60	14.84
November 2017	12.44	14.84	13.71
December 2017	13.64	14.60	14.15
January 2018	14.60	18.17	15.98
February 2018	16.55	19.61	17.83
March 2018	18.60	21.68	20.55
April 2018 (through April 25, 2018)	19.15	23.89	21.46

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Source: Bloomberg

(1) Calculated as the average of the closing prices for the period.

B. Plan of Distribution

Not applicable.

C. Markets

Trading on the B3

In 2000, the São Paulo Stock Exchange was reorganized through the execution of memoranda of understanding by the Brazilian stock exchanges. Under the memoranda, all securities are now traded only on the São Paulo Stock Exchange, with the exception of electronically traded public debt securities and privatization auctions, which are traded on the Rio de Janeiro Stock Exchange. In the same year, the São Paulo Stock Exchange launched three special listing segments that adopt additional and more stringent corporate governance requirements: *Novo Mercado* and Special Corporate Governance Levels 1 and 2.

On May 8, 2008, the São Paulo Stock Exchange and the Brazilian Mercantile and Futures Exchange merged, adopting the corporate name BM&FBOVESPA – Securities, Commodities and Futures Exchange (BM&FBOVESPA S.A. – *Bolsa de Valores, Mercadorias e Futuros*), or BM&FBOVESPA. On March 29, 2017, BM&FBOVESPA and Cetip S.A. – *Mercados Organizados* merged, creating B3 S.A. – *Brasil, Bolsa, Balcão*, or the B3. The B3 is one of the largest exchanges worldwide in terms of market value, the second largest in the Americas and the leading exchange in Latin America.

When shareholders trade in common and preferred shares on the B3, the trade is settled in three business days after the trade date without adjustment of the purchase price for inflation. The seller is ordinarily required to deliver the shares to the exchange on the second business day following the trade date. Delivery of and payment for shares are made through the facilities of the clearinghouse, *Companhia Brasileira de Liquidação e Custódia*, or CBLC.

The B3 is a for-profit listed company that has regulatory authority over its trading markets. Trading on the B3 is limited to member brokerage firms and a limited number of authorized nonmembers. The B3 has two open outcry trading sessions each day from 10:00 a.m. to 5:00 p.m., São Paulo time, for all securities traded on all markets, except during daylight savings time in Brazil. During daylight savings time in Brazil, usually the sessions are from 11:00 a.m. to 6:00 p.m., São Paulo time, to closely mirror the NYSE trading hours. Trading is also conducted between 11:00 a.m. and 6:00 p.m., or between 10:00 a.m. and 5:00 p.m. during daylight savings time in the United States, on an automated system known as the Computer Assisted Trading System (*Sistema de Negociação Assistida por Computador*) on the B3 and on the National Electronic Trading System (*Sistema Eletrônico de Negociação Nacional*). This system is a computerized system that links electronically with the seven smaller regional exchanges. The B3 also permits trading from 5:45 p.m. to 7:00 p.m., São Paulo time, or from 6:45 p.m. to 7:30 p.m. during daylight savings time in Brazil, on an online system connected to traditional and Internet brokers called the “after market.” Trading on the aftermarket is subject to regulatory limits on price volatility and on the volume of shares transacted through Internet brokers. There are no specialists or officially recognized market makers for our shares in Brazil.

In order to better control volatility, the B3 adopted a “circuit breaker” system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of the B3 falls below the limits of 10% or

15%, respectively, in relation to the index registered in the previous trading session.

The B3 is significantly less liquid than the NYSE or other major exchanges in the world. As of December 31, 2017, the aggregate market capitalization of the B3 was equivalent to R$3.1 trillion and the 10 largest companies listed on the B3 represented approximately 53.1% of the total market capitalization of all listed companies. In contrast, as of December 31, 2017, the aggregate market capitalization of the NYSE was US$28.0 trillion. Although any of the outstanding shares of a listed company may trade on the B3, in most cases fewer than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons, by government entities or by one principal shareholder. See "Item 3. Risk Factors—Risks Relating to the ADSs and Our Preferred Shares—The relative volatility and illiquidity of the Brazilian securities markets, and securities issued by airlines in particular, may substantially limit your ability to sell the preferred shares underlying the ADSs at the price and time you desire. Recent decreases in our market capitalization have increased volatility in the trading price of our preferred shares and ADSs."

Trading on the B3 by a non-Brazilian holder, is subject to certain limitations under Brazilian foreign investment legislation. With limited exceptions, non-Brazilian holders may only trade on Brazilian stock exchanges in accordance with the requirements of Resolution No. 4,373, of the National Monetary Council (*Conselho Monetário Nacional*), or CMN, or Resolution No. 4,373. Resolution No. 4,373 requires that securities held by non-Brazilian holders be maintained in the custody of, or in deposit accounts with, financial institutions and be registered with a clearinghouse. Such financial institutions and clearinghouses must be duly authorized to act as such by the Central Bank and the CVM. In addition, Resolution No. 4,373 requires non-Brazilian holders to restrict their securities trading to transactions on Brazilian stock exchanges or qualified over-the-counter markets. With limited exceptions, non-Brazilian holders may not transfer the ownership of investments made under Resolution No. 4,373 to other non-Brazilian holders through a private transaction. See "Taxation—Material Brazilian Tax Considerations—Taxation of Gains" for a description of certain tax benefits extended to non-Brazilian holders who qualify under Resolution No. 4,373.

Corporate Governance Practices

In 2000, the São Paulo Stock Exchange introduced three special listing segments, known as Level 1 and 2 of Differentiated Corporate Governance Practices and New Market (*Novo Mercado*), aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the B3, by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by Brazilian law. These rules generally increase shareholders' rights and enhance the quality of information provided to shareholders.

In May 2004, we entered into an agreement with the B3 to comply with the requirements to become a Level 2 company. In addition to complying with Level 2 requirements, we have granted tag-along rights that entitle our preferred shareholders to receive thirty five times the price paid per common share of controlling block shareholders in connection with a transaction resulting in a transfer of control of our company. Furthermore, we prepare quarterly financial statements in accordance with IFRS. We were included in the following indexes: (a) since 2005: IbrX-100 (*Índice Brasil*, *Index Brazil*), IGC (*Índice de Ações com Governança Corporativa Diferenciada*, *Special Corporate Governance Index*), ITAG (*Índice de Ações com Tag Along Diferenciado*, *Special Tag Along Stock Index*) and MSCI (*Morgan Stanley Capital International Index*), (b) since 2006: IbrX-50 (*Índice Brasil 50*, *Index Brazil 50*): and (c) since 2007: *Índice B3*, all of which reflect our increased market capitalization and liquidity of our preferred shares.

On March 23, 2015, our shareholders approved certain amendments to our by-laws that increased our equity financing capacity. The amendments also intended to improve corporate governance and strengthen the alignment of interest among common and preferred shareholders and included, among other items:

- A split of our common shares in the ratio of 35 to one;
- An increase in economic rights of preferred shares in the ratio of 35 to one;
- An increase in the representation of preferred shareholders on the board of directors depending on the percentage of economic rights held by the controlling shareholder;
- Enhancing our audit committee by making it a permanent statutory body;

- A separate vote for preferred shareholders in Extraordinary Meetings on certain matters, as detailed in our by-laws;
- Restrictions on the sale of shares held by the controlling shareholder; and
- The mandatory public tender offer for all of our shares if any person acquires 30% or more of our economic rights.

Regulation of the Brazilian Securities Market

The Brazilian securities markets are regulated by the CVM, which has regulatory authority over the stock exchanges and securities markets, as well as by the Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities markets are governed by Law No. 10,198 dated February 14, 2001, Law No. 10,303 dated October 31, 2001, or Law No. 10,303, and Law No. 10,411 dated February 26, 2002, which introduced new concepts and several changes to Law No. 6,385 dated December 7, 1976, as amended and supplemented, the principal law governing the Brazilian securities markets, through Brazilian corporation law and regulations issued by the CVM, the CMN and the Central Bank. These laws and regulations, among others, provide for disclosure requirements applicable to issuers of traded securities, criminal sanctions for insider trading and price manipulation, and protection of minority shareholders. They also provide for licensing and oversight of brokerage firms and governance of Brazilian stock exchanges. However, the Brazilian securities markets are not as highly regulated and supervised as U.S. securities markets.

Under the Brazilian corporation law, a company is either publicly held, (*companhia aberta*) or privately held (*companhia fechada*). All listed companies are registered with the CVM and are subject to reporting and regulatory requirements. A company registered with the CVM may trade its securities either on the B3 or in the Brazilian over-the-counter market. Shares of companies listed on the B3 may not simultaneously trade on the Brazilian over-the-counter market. The shares of a listed company may also be traded privately, subject to several limitations. To be listed on the B3, a company must apply for registration with the B3 and the CVM.

The trading of securities on the B3 may be halted at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of the B3 or the CVM, among other reasons, based on or due to a belief that a company has provided inadequate information regarding a significant event or has provided inadequate responses to inquiries by the CVM or the B3.

Trading on the B3 by non-residents of Brazil is subject to limitations under Brazilian foreign investment and tax legislation. The Brazilian custodian for the preferred shares underlying the ADSs must, on behalf of the depositary for the ADSs, obtain registration from the Central Bank to remit U.S. dollars abroad for payments of dividends, any other cash distributions or upon the disposition of the shares and sales proceeds thereof. If you exchange your ADSs for preferred shares, you will be entitled to continue to rely on the custodian's electronic foreign capital registration for five business days after the exchange. Thereafter, you may not be able to obtain and remit abroad non-Brazilian currency upon the disposition of or distributions relating to the preferred shares and will be subject to a less favorable tax treatment on gains with respect to the preferred shares, unless you obtain a new electronic foreign capital registration in your own name. See "Item 10B. Memorandum and Articles of Association—Description of Capital Stock—Regulation of Foreign Investment."

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. Additional Information

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

We were formed on March 12, 2004 as a stock corporation (*sociedade anônima*) duly incorporated under the laws of Brazil with unlimited duration. We were registered with the São Paulo Commercial Registry (*Junta Comercial do Estado de São Paulo*) under NIRE 35.300.314.441.

Description of Capital Stock

General

As of December 31, 2017, our share capital consisted of 2,863,682,710 common shares and 265,899,432 preferred shares, each with no par value.

On March 23, 2015, our shareholders approved, among other amendments to our by-laws intended to improve corporate governance, the split of 143,858,204 common shares in the proportion of 35 common shares for each common share, upon the issuance of 4,891,178,936 new common shares, without modification to our capital stock. In December 2017, FIP Volluto converted 2,171,354,430 common shares into preferred shares.

Issued Share Capital

Under our by-laws, our authorized capital as of December 31, 2017 was R$4.0 billion, and can be increased by the issuance of preferred or common shares, after approval by our board of directors. Our shareholders must approve any capital increase that exceeds our authorized capital. Under our by-laws and the Brazilian corporation law, if we issue additional shares in a private transaction, the existing shareholders have preemptive rights to subscribe for shares on a pro rata basis according to their holdings. See "Description of Capital Stock—Preemptive Rights."

Regulation of Foreign Investment

There are no general restrictions on ownership of our preferred shares or common shares by individuals or legal entities domiciled outside Brazil, except for those regarding airline companies (see "Item 4B. Business Overview—Regulation of the Brazilian Civil Aviation Market"). However, the right to convert dividend payments and proceeds from the sale of preferred shares or common shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, the registration of the relevant investment with the Central Bank.

Foreign investors may register their investment under Law No. 4,131, dated September 3, 1962, or Law No. 4,131, or Resolution No. 4,373 of January 26, 2000 of the CMN, or Resolution No. 4,373. Registration under Law No. 4,131 or under Resolution No. 4,373 generally enables foreign investors to convert dividends, other distributions and sales proceeds received in connection with registered investments into foreign currency and to remit such amounts abroad. Resolution No. 4,373 affords favorable tax treatment to foreign investors who are not residents in a Low or Nil Tax Jurisdiction, which is defined under Brazilian tax laws as a country or location or other jurisdiction that does not impose tax or where the maximum income tax rate is lower than 20%.

Under Resolution No. 4,373, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution No. 4,373, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities that are domiciled or headquartered abroad. Investors may not transfer the ownership of investments made under Resolution No. 4,373 to other non-Brazilian holders through private transactions.

Pursuant to Resolution No. 4,373, foreign investors must:

- appoint at least one representative and a custodian in Brazil with powers to perform actions relating to the foreign investment;
- complete the appropriate foreign investor registration form;
- register as a foreign investor with the CVM;
- register the foreign investment with the Central Bank;
- appoint a tax representative in Brazil; and
- obtain a taxpayer identification number from the Brazilian federal tax authorities.

Amounts invested in our preferred shares by a non-Brazilian holder who qualifies under Resolution No. 4,373 and obtains registration with the CVM, or by the depositary representing an ADS holder, are eligible for registration with the Central Bank. This registration (the amount so registered is referred to as registered capital) allows the remittance outside Brazil of foreign currency, acquired with the proceeds of distributions on, and amounts realized through, dispositions of our preferred shares. The registered capital per preferred share purchased in the form of an ADS, or purchased in Brazil and deposited with the depositary in exchange for an ADS, will be equal to its purchase price (stated in U.S. dollars). The registered capital per preferred share withdrawn upon cancellation of an ADS will be the U.S. dollar equivalent of (i) the average price of a preferred share on the Brazilian stock exchange on which the most preferred shares were traded on the day of withdrawal or (ii) if no preferred shares were traded on that day, the average price on the Brazilian stock exchange on which the most preferred shares were traded in the 15 trading sessions immediately preceding such withdrawal. The U.S. dollar equivalent will be determined on the basis of the average rates quoted by the Central Bank on these dates.

A non-Brazilian holder of preferred shares may experience delays in effecting Central Bank registration, which may delay remittances abroad. This delay may adversely affect the amount in U.S. dollars, received by the non-Brazilian holder.

A registration has been obtained in the name of the depositary with respect to the ADSs and is maintained by the custodian on behalf of the depositary. Pursuant to the registration, the custodian and the depositary are able to convert dividends and other distributions with respect to the preferred shares represented by our ADSs into foreign currency and remit the proceeds outside Brazil. In the event that a holder of ADSs exchanges such ADSs for preferred shares, such holder will be entitled to continue to rely on the depositary's registration for five business days after such exchange, following which, such holder must seek to obtain its own registration with the Central Bank.

Thereafter, any holder of preferred shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to such preferred shares, unless the holder is a duly qualified investor under Resolution No. 4,373.

If the shareholder does not qualify under Resolution No. 4,373 by registering with the CVM and the Central Bank and appointing a representative and a custodian in Brazil, the holder will be subject to less favorable Brazilian tax treatment than a holder of ADSs. Regardless of qualification under Resolution No. 4,373, residents in a Low or Nil Tax Jurisdiction are subject to less favorable tax treatment than other foreign investors. See "Taxation—Material Brazilian Tax Considerations."

Under current Brazilian legislation, the federal government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil's balance of payments. For approximately six months in 1989 and early 1990, the Brazilian government froze all dividend and capital repatriations held by the Central Bank that were owed to foreign equity investors, in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with federal government directives. There can be no assurance that the Brazilian government will not impose similar restrictions on foreign repatriations. See "Item 3. Risk Factors—Risks Relating to Brazil."

Description of Preferred Shares

According to our by-laws, our preferred shares are non-voting and have the right to receive dividends per share equal to 35 times the value of the dividends received per common share. However, under certain limited circumstances provided for in the Brazilian corporation law and as described in this section, holders of our preferred shares may be entitled to vote. Upon liquidation, holders of preferred shares are entitled to receive distributions prior to the holders of our common shares and at value of 35 times the value attributable to each common share.

According to our by-laws, holders of our preferred shares are entitled to be included in a public tender offer in case our controlling shareholder sells its controlling stake in us and the minimum price to be offered for each preferred share is 35 times the price paid per share of the controlling stake.

Under Brazilian law, the protections afforded to minority shareholders are different from those in the United States. In particular, judicial guidance with respect to shareholder disputes is less established under Brazilian law than U.S. law and there are different procedural requirements for bringing shareholder lawsuits, such as shareholder derivative suits. As a result, in practice it may be more difficult for our minority shareholders to enforce their rights against us or our directors or controlling shareholder than it would be for shareholders of a U.S. company.

Redemption and Rights of Withdrawal

Under the Brazilian corporation law, a dissenting or non-voting shareholder has the right to withdraw from a company and be reimbursed for the value of the preferred or common shares held whenever a decision is taken at a general shareholders' meeting by a vote of shareholders representing at least 50% of the total outstanding voting capital to:

- create a new class of preferred shares or increase disproportionately an existing class of preferred shares relative to the other classes of shares, unless such action is provided for or authorized by our by-laws (our by-laws allow us to do so);

- modify a preference, privilege or condition of redemption or amortization conferred on one or more classes of preferred shares or create a new class with greater privileges than the existing classes of preferred shares;

- reduce the mandatory distribution of dividends;

- merge or consolidate us with another company;

- participate in a group of companies as defined in the Brazilian corporation law and subject to the conditions set forth therein;

- change our corporate purpose, including a sale of the voting control to a third party;

- transfer all of our shares to another company or receive shares of another company in order to make the company whose shares were transferred a wholly owned subsidiary of such company, known as *incorporação de ações*;

- conduct a spin-off that results in (a) a change of our corporate purposes, except if the assets and liabilities of the spin-off company are contributed to a company that is engaged in substantially the same activities, (b) a reduction in the mandatory dividend or (c) any participation in a centralized group of companies, as defined under the Brazilian corporation law; or

- dissolution of the company or terminating a state of liquidation.

In the event that the entity resulting from a merger, consolidation, or *incorporação de ações*, or spin-off of a listed company fails to become a listed company within 120 days of the shareholders' meeting at which such decision was taken, the dissenting or non-voting shareholders may also exercise their withdrawal right.

If there is a resolution to (a) merge or consolidate us with another company; (b) conduct a *incorporação de ações*; (c) participate in a group of companies, as defined under the Brazilian corporation law; or (d) acquire control of another company, the withdrawal rights are exercisable only if our shares do not satisfy certain tests of liquidity and dispersal of the type or class of shares in the market at the time of the general meeting.

Only holders of shares adversely affected by the changes mentioned in the first and second items above may withdraw their shares.

The right of withdrawal lapses 30 days after publication of the minutes of the relevant general shareholders' meeting that approved the corporate actions described above. In the case of the changes mentioned in items (a) and (b) above, the resolution is subject to confirmation by the preferred shareholders, which must be obtained at a special meeting held within one year. In those cases, the 30-day term is counted from the date of publication of the minutes of the special meeting. We would be entitled to reconsider any action triggering appraisal rights within 10 days following the expiration of such rights if the redemption of shares of dissenting or non-voting shareholders would jeopardize our financial stability. Shares to be purchased by us from the dissenting or non-voting shareholders exercising appraisal rights will be valued at an amount equal to the lesser of the portion attributable to such shares of our shareholders' equity as shown on the last balance sheet approved at a general shareholders' meeting (book value) and the portion attributable to such shares of the economic value of the company, pursuant to an appraisal report produced in accordance with the provisions of the Brazilian corporation law. If more than 60 days have elapsed since the date of such balance sheet, dissenting shareholders may require that the book value of their shares be calculated on the basis of a new balance sheet. As a general rule, shareholders who acquire their shares after the first notice convening the general shareholders' meeting or after the relevant press release concerning the meeting is published will not be entitled to appraisal rights.

For purposes of the right of withdrawal, the concept of "dissenting shareholder," under the Brazilian corporation law, includes not only those shareholders who vote against a specific resolution, but also those who abstain from voting, who fail to attend the shareholders' meeting or who do not have voting rights.

Preemptive Rights

Each of our shareholders generally has a preemptive right to subscribe for shares or convertible securities in any capital increases, in proportion to its shareholdings. A minimum period of 30 days, unless a shorter period is established by our board of directors, following the publication of notice of the capital increase is allowed for the exercise of the right and the right is negotiable. In the event of a capital increase which would maintain or increase the proportion of capital represented by preferred shares, holders of ADSs or preferred shares would have preemptive rights to subscribe only to new