STAG Industrial, Inc.
Form 8-K
March 13, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): March 12, 2018

STAG INDUSTRIAL, INC.
(Exact name of registrant specified in its charter)

Maryland	001-34907	27-3099608
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(IRS Employer Identification No.)

One Federal Street, 23rd Floor
Boston, Massachusetts 02110
(Address of principal executive offices, zip code)

Registrant's telephone number, including area code: (617) 574-4777

Not applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:
¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities and Exchange Act of 1934 (§240.12b-2 of this chapter).
Emerging growth company ¨
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act. ¨

ITEM 5.02. DEPARTURE OF DIRECTORS OR CERTAIN OFFICERS; ELECTION OF DIRECTORS; APPOINTMENT OF CERTAIN OFFICERS; COMPENSATORY ARRANGEMENTS OF CERTAIN OFFICERS.

On March 12, 2018, upon the recommendation of the Nominating and Corporate Governance Committee, the Board of Directors (the “Board”) of STAG Industrial, Inc. (the “Company”) increased the size of the Board from seven members to eight members and appointed Michelle Dilley to the Board, effective immediately on March 12, 2018, subject to re-election at the next annual meeting of stockholders to be held on April 30, 2018.

Ms. Dilley has served as the chief supply chain transformation officer at DSC Logistics, Inc., a logistics and supply chain management organization, since 2017. In this role, she leads the implementation of strategic initiatives to deliver transformation and continuous improvement performance and has responsibility for engineering, safety and security, quality, and, in collaboration with human resources, training. Previously, she served as senior vice president, operations at LaSalle Bristol, LP, a building products distributor, from 2014 to 2017, where she was accountable for supply chain operations throughout the United States and Canada. From 2009 to 2014, she served as vice president, supply chain at Ascension Health, a non-profit health system, where she led the supply chain business transformation and operational redesign. Ms. Dilley started her career at Whirlpool Corporation, where she served in a variety of roles, including general manager, global indirect goods & services sourcing from 2005 to 2009. Ms. Dilley holds a Bachelor of Arts degree from the University of Michigan.

Effective on March 12, 2018, Ms. Dilley became eligible to receive the standard compensation provided by the Company to its other non-management directors for services as a director. Additionally, in connection with Ms. Dilley’s appointment to the Board, the Company and Ms. Dilley will enter into an indemnification agreement in substantially the same form as the Company has entered with each of the Company’s existing directors. Ms. Dilley is not a party to any arrangement or understanding with any person pursuant to which she was appointed as a director, nor is she a party to any transactions required to be disclosed under Item 404(a) of Regulation S-K involving the Company or any of its subsidiaries. Ms. Dilley will serve on the Nominating and Corporate Governance Committee.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

STAG INDUSTRIAL, INC.

By: /s/ Jeffrey M. Sullivan
Jeffrey M. Sullivan
Executive Vice President, General Counsel
And Secretary

Dated: March 12, 2018

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496,490

(2,123,945)

(2,336,938)

7,869

11,315

353,129

496,490

(2,123,945)

(2,336,938)

Denominator

Weighted average number of outstanding shares (in thousands) (*)

4,981,350

204,664

5,035,037

202,261

5,035,037

158,285

Effects of dilution from stock options

-

2,614

-

347

-

-

Adjusted weighted average number of outstanding shares and diluted presumed conversions (in thousands) (*)

4,981,350

207,278

5,035,037

202, 608

5,035,037

158,285

Basic earnings (loss) per share	
	0.002
	0.055
	0.070
	2.455
	(0.422)
	(14.764)
Diluted earnings (loss) per share	
	0.002
	0.055
	0.070
	2.450
	(0.422)
	(14.764)

(*)The weighted average considers the split of common shares approved at the Extraordinary Shareholders Meeting held on March 23, 2015, in accordance with IAS 33. Earnings per share presented herein reflects the economic rights of each class of shares.

Diluted loss per share is calculated by the weighted average number of outstanding shares, in order to assume the conversion of all potential dilutive shares. Diluted result per share is calculated based on considering the instruments that may have a potential dilutive effect in the future, such as share-based payment instruments, described in Note 11. However, due to the losses reported for the year ended December 31, 2015, these instruments issued have antidilutive effect and, therefore, were not considered in the weighted average number of outstanding shares for the computation of diluted loss per share.

Gol Linhas Aéreas Inteligentes S.A.

Notes to the consolidated financial statements

For the years ended December 31, 2017, 2016 and 2015

(In thousands of Brazilian Reais - R$, except when otherwise indicated)

14. Property, plant and equipment

Flight equipment					
Aircraft held under finance leases	5.9%	2,000,866	(649,430)	1,351,436	1,411,932
Sets of replacement parts and spare engines	7.2%	1,345,161	(494,684)	850,477	804,974
Aircraft reconfigurations/overhauling	26.8%	1,807,133	(941,372)	865,761	615,812
Aircraft and safety equipment	20.0%	843	(438)	405	467
Tools	10.0%	36,199	(18,124)	18,075	14,617
		5,190,202	**(2,104,048)**	**3,086,154**	**2,847,802**
Impairment losses (*)	-	(26,076)	-	(26,076)	(30,726)
Total flight equipment		**5,164,126**	**(2,104,048)**	**3,060,078**	**2,817,076**
Property, plant and equipment in use					
Vehicles	20.0%	10,548	(9,100)	1,448	1,660
Machinery and equipment	10.0%	57,834	(37,792)	20,042	22,343
Furniture and fixtures	10.0%	28,148	(16,639)	11,509	10,061
Computers and peripherals	20.0%	39,458	(30,464)	8,994	7,401
Communication equipment	10.0%	2,617	(1,914)	703	823
Facilities	10.0%	1,534	(1,222)	312	332
Maintenance center - Confins	10.0%	107,127	(80,209)	26,918	38,096
Leasehold improvements	18.5%	33,111	(19,571)	13,540	8,248
Construction in progress	-	33,503	-	33,503	31,571
Total property, plant and equipment in use					**120,535**

		313,880	**(196,911)**	**116,969**	
		5,478,006	**(2,300,959)**	**3,177,047**	**2,937,611**
Advances for property, plant and equipment acquisition	**-**	18,720	-	18,720	87,399
Total property, plant and equipment		**5,496,726**	**(2,300,959)**	**3,195,767**	**3,025,010**

(*) Refers to provisions for impairment losses for rotable items, classified under "Sets of replacement parts and spare engines", recorded by the Company in order to present its assets according to the actual capacity for the generation of economic benefits.

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Changes in property, plant and equipment balances are as follows:

Balances as of December 31, 2015	**2,081,973**	**1,419,596**	**623,843**	**131,202**	**4,256,614**
Additions	-	425,218	71,503	27,400	524,121
Disposals	(597,136)	(122,487)	(607,947)	(9,911)	(1,337,481)
Depreciation	(72,905)	(317,183)	-	(28,156)	(418,244)
Balances as of December 31, 2016	**1,411,932**	**1,405,144**	**87,399**	**120,535**	**3,025,010**
Additions	-	827,658	263,328	30,511	1,121,497
Disposals	(5,639)	(135,381)	(332,007)	(10,506)	(483,533)
Depreciation	(54,857)	(388,779)	-	(23,571)	(467,207)
Balances as of December 31, 2017	**1,351,436**	**1,708,642**	**18,720**	**116,969**	**3,195,767**

During the year ended December 31, 2017, the Company reviewed the useful life of its assets and concluded that the estimates used are in line with its business plan.

15. Intangible assets

Balances as of December 31, 2015	542,302	1,038,900	133,403	1,714,605
Additions	-	-	55,316	55,316
Disposals	-	-	(781)	(781)
Amortization	-	-	(29,424)	(29,424)
Balances as of December 31, 2016	**542,302**	**1,038,900**	**158,514**	**1,739,716**
Additions	-	-	55,449	55,449

Disposals	-	-	(9,662)	(9,662)
Amortization	-	-	(38,218)	(38,218)
Balances as of December 31, 2017	**542,302**	**1,038,900**	**166,083**	**1,747,285**

Goodwill and other intangible assets were subject to impairment tests as of December 31, 2017 and 2016 using the discounted cash flows for each cash generating unit to calculate the value in use.

In order to assess the recoverable value, assets are grouped at the lowest levels for which there are separately identifiable cash flows (Cash-Generating Units – "CGUs"). In order to determine the carrying amount of each cash-generating unit, the Company considers the intangible assets recorded and all necessary tangible assets, given that it will only generate economic benefits by using the combination of both.

The Company allocates goodwill to two cash-generating units: GLA and Smiles, and the airport operating rights are fully allocated to GLA, as shown below:

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(In thousands of Brazilian Reais - R$, except when otherwise indicated)

December 31, 2017			
Book value	325,381	216,921	1,038,900
Book value - CGU	1,061,177	395,105	1,038,900
Value in use	15,206,092	5,464,287	5,069,156
Pre tax discount rate	15.46%	19.26%	14.50%
Perpetuity growth rate	3.50%	3.50%	3.50%
December 31, 2016			
Book value	325,381	216,921	1,038,900
Book value - CGU	2,433,861	56,880	1,038,900
Value in use	3,636,201	9,476,173	4,816,306
Pre tax discount rate	23.92%	14.51%	27.34%
Perpetuity growth rate	3.50%	3.50%	8.50%

The amount of value in use was compared to the carrying amount of each cash generating unit and, as a result, the Company did not recognized impairment losses.

The assumptions used in the impairment tests of intangible assets are consistent with internal projections, for a five-year period and after five-year period it was considered a perpetuity growth rate, and operating plans, both reviewed and approved by the Company’s Management. The discounted cash flows that determined the value in use of the cash generating units was prepared in accordance with the Company's business plan approved on January 11, 2018.

The main assumptions taken into consideration by the Company to determine the value in use of the cash-generating units are:

Capacity and fleet: consider the use, the aircraft capacity used in each route and the projected size of the fleet in operation.

Demand: market efficiency is the key input for the projection of the Company's growth in demand. Management believes that market efficiency is the ratio of market share and its participation in the load factor. This indicator reflects how efficiently the Company uses its share of the market’s total supply based on how much demand for air transportation it absorbs.

Revenue per passenger: considers the average price charged by GLA and the effects of market variables (see the variables used below).

Operating costs related to the business: based on the historical cost and updated by indicators, such as inflation, supply, demand and variation of the U.S. dollar.

The Company also considered market variables, including the GDP (source: Brazilian Central Bank), the U.S. dollar (source: Brazilian Central Bank), kerosene prices (per barrel) (source: Brazilian National Agency of Petroleum - ANP) and interest rates (source: Bloomberg).

Gol Linhas Aéreas Inteligentes S.A.

Notes to the consolidated financial statements

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16. Short and long-term debt

Short-term debt				
Local currency				
Safra (a)	May 2018	128% of DI	-	9,690
Debentures VI (g)	Sep. 2019	132% of DI	395,093	-
Interest accrued	-	-	23,921	45,026
Foreign currency (US$)				
J.P. Morgan (b)	Aug. 2019	1.32% p.a.	43,909	42,275
Finimp (c)	Dec. 2018	5.75% p.a.	240,973	174,428
Engine Facility (Cacib) (d)	Jun. 2021	Libor 3m+2.25% p.a.	17,145	16,889
ExIm (Cacib) (e)	Apr. 2019	Libor 3m+0.75% p.a.	47,507	-
Senior Notes I (f)	Apr. 2017	7.60% p.a.	-	182,418
Senior Notes V (k)	Dec. 2018	9.71% p.a.	23,258	-
PK Finance (q)	Aug. 2026	5.70% p.a.	7,883	-
Interest accrued	-	-	74,989	97,670
			874,678	**568,396**
Finance leases	Jun. 2025	4.04% p.a.	288,194	266,894
Total short-term debt			**1,162,872**	**835,290**
Long-term debt				
Local currency				
Safra (a)	May. 2018	128% of DI	-	4,871
Debentures VI (g)	Sep. 2019	132% of DI	617,333	1,005,242
Foreign currency (US$)				
J.P. Morgan (b)	Aug. 2019	Libor 3m+0.75% p.a.	12,451	11,142
Engine Facility (Cacib) (d)	Jun. 2021	Libor 3m+2.25%	142,137	156,917

		p.a.		
ExIm (Cacib) (e)	Apr. 2019	Libor 3m+0.75% p.a.	35,634	-
PK Finance (p)	Aug. 2026	5.70% p.a.	78,239	-
Senior Notes II (h)	Jul. 2020	9.64% p.a.	314,589	368,000
Senior Notes III (i)	Feb. 2023	11.30% p.a.	69,074	68,053
Senior Notes IV (j)	Jan. 2022	9.24% p.a.	299,524	889,595
Senior Notes V (k)	Dec. 2018	9.71% p.a.	-	43,010
Senior Notes VI (l)	Jul. 2021	9.87% p.a.	127,181	120,631
Senior Notes VII (m)	Dec. 2028	9.84% p.a.	54,752	52,721
Senior Notes VIII (n)	Jan. 2025	7.19% p.a.	1,597,713	-
Perpetual Notes (o)	-	8.75% p.a.	438,201	428,436
Term Loan (p)	Aug. 2020	6.70% p.a.	968,010	944,194
			4,754,838	**4,092,812**
Finance leases	Jun. 2025	4.04% p.a.	1,187,957	1,451,118
Total long-term debt			**5,942,795**	**5,543,930**
Total			**7,105,667**	**6,379,220**

(a) Credit line obtained by Webjet fully repaid in 2017, see Note 16.3.

(b) Issuance of 3 series of Guaranteed Notes to finance engine maintenance, as described in Note 10.4.

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

(d) Credit line raised on September 30, 2014 with Credit Agricole.

(e) Credit line raised on August 11, 2017 with Credit Agricole.

(f) Issuance of Senior Notes I by Gol Finance Inc. on March 22, 2007, which was used for prepayments of financing for purchase of aircraft. The total amount was settled on its maturity in April 2017.

(g) Issuance of 105,000 debentures by GLA on September 30, 2015 for early settlement of the Debentures IV and V.

(h) Issuance of Senior Notes II by Gol Finance Inc. on July 13, 2010 in order to repay debts held by the Company.

(i) Issuance of Senior Notes III by GLA on February 7, 2013 in order to finance the prepayment of debts due within the next 3 years. The total amount of notes was transferred to Gol Finance along with the financial investments acquired on the date of issuance, and a portion of the loan was prepaid.

(j) Issuance of Senior Notes IV by Gol Finance on September 24, 2014 in order to finance partial repurchase of Senior Notes I, II and III.

(k) Issuance of Senior Notes series V by Gol Finance on July 7, 2016, as a result of the Exchange Offer of Senior Notes I, II, III, IV and Perpetual Notes.

(l) Issuance of Senior Notes series VI by Gol Finance on July 7, 2016, as a result of the Exchange Offer of Senior Notes I, II, III, IV and Perpetual Notes.

(m) Issuance of Senior Notes series VII by Gol Finance on July 7, 2016, as a result of the Exchange Offer of Senior Notes I, II, III, IV and Perpetual Notes.

(n) Issuance of Senior Notes series VIII by Gol Finance on December 11, 2017 to repurchase Senior Notes and for other general purposes.

(o) Issuance of Perpetual Notes by Gol Finance on April 5, 2006 to finance aircraft purchase and repayment of loans.

(p) Term Loan issued by Gol Finance on August 31, 2016 for aircraft purchases and bank repayment of loans, with backstop guarantee from Delta. For additional information, see Note 10.5.

(q) Loan obtained with PK Finance, with a guarantee of four engines, as described Note 16.2.

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Notes to the consolidated financial statements

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Total debt includes issuance costs of R$101,795 (R$97,433 as of December 31, 2016) which will be amortized over the term of the related debt.

As of December 31, 2017, the maturities of long-term debt, excluding finance leases, are as follows:

Local currency							
Debentures VI	617,333	-	-	-	-	-	617,333
Foreign currency (US$)							
J.P. Morgan	12,451	-	-	-	-	-	12,451
Engine Facility (Cacib)	17,177	17,177	107,783	-	-	-	142,137
ExIm (Cacib)	35,634	-	-	-	-	-	35,634
PK Finance	8,352	8,838	9,375	9,933	41,741	-	78,239
Senior Notes II	-	314,589	-	-	-	-	314,589
Senior Notes III	-	-	-	-	69,074	-	69,074
Senior Notes IV	-	-	-	299,524	-	-	299,524
Senior Notes VI	-	-	127,181	-	-	-	127,181
Senior Notes VII	-	-	-	-	54,752	-	54,752
Senior Notes VIII	-	-	-	-	1,597,713	-	1,597,713
Perpetual Notes	-	-	-	-	-	438,201	438,201
Term Loan	-	968,010	-	-	-	-	968,010
Total	**690,947**	**1,308,614**	**244,339**	**309,457**	**1,763,280**	**438,201**	**4,754,838**

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The fair value of debt as of December 31, 2017 is as follows:

Senior Notes and Perpetual Notes (a)	2,974,501	2,955,391
Debentures (b)	1,036,348	1,072,232
Term Loan (b)	989,572	1,013,929
Other	629,095	724,788
Total	**5,629,516**	**5,766,340**

(a) Fair value obtained through current market quotations.

(b) Fair value obtained through internal valuation.

(c) The book value presented is net of interest and issuance costs.

16.1. Covenants

As of December 31, 2017, long-term debt (excluding perpetual notes and finance leases) that amounted to R$4,316,637 (R$3,664,376 as of December 31, 2016) is subject to restrictive covenants, including but not limited to those that require the Company to maintain liquidity requirements and the coverage of expense with interest.

The Company has restrictive covenants on the Term Loan and Debentures VI with the following financial institutions: Bradesco and Banco do Brasil. In the Term Loan, the Company must make deposits for reaching contractual limits of the debt pegged to the U.S. dollar. As of December 31, 2017, the Company did not have collateral deposits linked to the contractual limits of the Term Loan. As of December 31, 2017, Debentures VI were subject to the following covenants: (i) net debt/EBITDAR below 5.50 and (ii) debt coverage ratio (ICSD) of at least 1.33. According to the most recent measurements on December 31, 2017, the ratios obtained were: (i) net debt/EBITDAR of 4.70; and (ii) debt coverage ratio (ICSD) of 1.43. As a result, the Company met the minimum required levels for the covenants and, consequently, it was in compliance with the covenants. The next measurement will be for the end of the first half of 2018.

16.2. Restructuring of loans and financing in the year ended December 31, 2017

Import financing (Finimp): the Company, through its subsidiary GLA, obtained new funding in the year and renegotiated the maturities of the agreements, with the issue of promissory notes as collateral for these transactions, which are part of a credit line maintained by the Company for import financing in order to purchase spare parts and aircraft equipment. The funding operations during the year were as follows:

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01/13/2017	Banco do Brasil	5,245	16,803	6.13%	01/05/2018
02/01/2017	Banco do Brasil	8,595	27,057	6.15%	01/28/2018
02/10/2017	Banco do Brasil	4,815	15,001	6.14%	02/05/2018
04/20/2017	Banco do Brasil	4,274	13,442	6.20%	04/16/2018
05/31/2017	Banco Safra	5,407	17,540	4.85%	05/29/2018
06/26/2017	Banco do Brasil	9,638	31,929	5.95%	06/21/2018
06/26/2017	Banco Safra	4,571	15,142	5.17%	06/21/2018
06/30/2017	Banco do Brasil	10,436	34,526	5.85%	06/28/2018
06/30/2017	Banco do Brasil	7,823	25,879	5.85%	06/28/2018
10/30/2017	Banco do Brasil	2,693	8,768	5.53%	01/12/2018
12/04/2017	Banco Safra	9,347	30,383	5.11%	11/29/2018

Engine maintenance financing (J.P. Morgan): On January 11, 2017, GLA obtained a credit line drawn by issuing Guaranteed Notes for engine maintenance services with Delta Air Lines. The amount of the credit line was R$33,620 (US$10,456 on the transaction date), with issuance costs amounting to R$1,802 (US$560 on the transaction date). On August 1, 2017, GLA obtained a new credit line of the same contract, in the amount of R$32,451 (US$10,414 on the transaction date), with issuance costs totaling R$1,628 (US$514 on the transaction date). Both credit lines have quarterly amortization and interest payments, and a financial guarantee from Ex-Im Bank.

Financing of Wi-Fi Kits (Cacib): On August 11, 2017, GLA obtained a credit line for the installation of Wi-Fi technology with GOGO INC., by issuing Guaranteed Notes, in the amount of R$19,365 (US$6,109 on the transaction date), with quarterly amortization and interest payments, issuance costs of R$1,166 (US$367 on the transaction date) and a financial guarantee from Ex-Im Bank.

PK Finance: On August 31, 2017, the Company obtained funding with a guarantee of four engines in the amount of R$84,342 (US$26,800 on the transaction date), with issuance costs amounting to R$512 (US$161 on the transaction date). This type of financing has monthly interest amortization and payment.

16.2. Restructuring of loans and financing in theyear ended December 31, 2017

Engine maintenance financing (Cacib): On November 29, 2017, GLA obtained a credit line drawn by issuing Guaranteed Notes for engine maintenance services with Delta Air Lines. The amount of the credit line was R$32,136 (US$10,000 on the transaction date), with issuance costs amounting to R$1,866 (US$580 on the transaction date). On December 28, 2017, GLA obtained a credit line of the same contract, in the amount of R$33,080 (US$10,000 on the transaction date), with issuance costs totaling R$1,909 (US$578 on the transaction date). Both credit lines have quarterly amortization and interest payments, and a financial guarantee from Ex-Im Bank.

Senior Notes VIII: On December 11, 2017, the Company, through its subsidiary Gol Finance, issued senior notes due in 2025, in the amount of R$1,642,000 (US$500,000 on the transaction date), with issuance costs totaling R$45,172 (US$17,283 on the transaction date). The Senior Notes are guaranteed by the Company’s sureties, with half-yearly interest payments of 7.00% p.a. The proceeds will be used to repurchase other Notes and for corporate purposes in general.

The other existing loans and financing of the Company have not been affected by contractual alterations during the year ended December 31, 2017.

16.3. Early repayment of debt during the year ended December 31, 2017

Safra: In the year ended December 31, 2017, Smiles Fidelidade fully paid its debt with Banco Safra, and the portion of the debt recorded as noncurrent was early repaid. As a result, the outstanding issuance costs of R$438 and the fine for the early repayment of the loan in the amount of R$137 were fully recorded in the financial result.

Senior Notes Tender Offer: As part of the debt restructuring process (as per Note 1), the Company used the proceeds from the issue of Senior Notes on December 11, 2017 to repurchase debt securities, as shown below:

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Senior Notes II	Tender offer	12/29/2017	116,968	(21,191)	-	95,777	(422)
Senior Notes IV	Tender offer	12/11/2017	276,730	(185,197)	-	91,533	(12,071)
Senior Notes V	Prepayment	12/19/2017	14,685	(7,379)	-	7,306	-
Senior Notes VIII	Issuance	12/11/2017	-	-	482,717	482,717	-
Total in U.S. dollars			**408,383**	**(213,767)**	**482,717**	**677,333**	**(12,493)**
Total in Brazilian Reais			**1,331,982**	**(707,141)**	**1,596,828**	**2,221,669**	**(41,327)**

(*) Amounts recorded under “Exchange offer costs” in the financial results.

16.4. Finance leases

The future payments of finance agreements indexed to U.S. dollars are detailed as follows:

2017	-	350,883
2018	333,795	328,931
2019	319,511	307,027
2020	267,477	267,885
2021	224,591	227,204
2022	119,200	115,367
Thereafter	326,823	292,362
Total minimum lease payments	**1,591,397**	**1,889,659**
Less total interest	(115,246)	(171,647)

Present value of minimum lease payments	**1,476,151**	**1,718,012**
Less current portion	(288,194)	(266,894)
Noncurrent portion	**1,187,957**	1,451,118

The discount rate used to calculate present value of the minimum lease payments was 4.04% as of December 31, 2017 (4.52% as of December 31, 2016). There are no significant differences between the present value of minimum lease payments and the fair value of these financial liabilities.

The Company extended the maturity date of the financing for some of its aircraft leased for 15 years using the SOAR framework (mechanism for extending financing amortization and repayment), which enables the performance of calculated withdrawals to be settled by payment in full at the end of the lease agreement. As of December 31, 2017, amounts of withdrawals for the repayment at maturity date of the lease agreements totaled R$255,644 (R$217,065 as of December 31, 2016) and are recorded in non-current debt.

17. Suppliers - Forfaiting

The Company has operations with Banco Safra that allow suppliers to receive their receivables in advance. This type of operation does not change the existing commercial conditions between the Company and its suppliers. Obligations to suppliers have a longer payment term and a discount rate of 1.03% p.m. As of December 31, 2017, the amount recorded under current liabilities totaled R$78,416.

18. Taxes payable

PIS and COFINS	40,036	89,332
ICMS installments	-	4,852
Tax regularization program in installment payments - PRT and PERT	68,596	-
Withholding income tax on salaries	32,070	29,519
ICMS	45,492	43,226
Tax on import	3,454	3,454
IRPJ and CSLL payable	5,299	12,489
Other	6,200	6,105
Total	**201,147**	**188,977**
Current	134,951	146,174
Noncurrent	66,196	42,803

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Brazilian tax regularization programs

In the year ended December 31, 2017, the Company and its subsidiary GLA entered into tax regularization programs:

(i) Tax Regularization Program (“PRT”) on March 10, 2017, pursuant to Provisional Presidential Decree No. 766 of January 4, 2017, including tax debts that matured on November 30, 2017. Under this program, GLA chose to pay 76% of its debt by using tax losses carryforward and the remaining 24% in 24 monthly installments adjusted based on the SELIC interest rate as of the month it adhered to the program.

(ii) Special Tax Regularization Program (“PERT”) in September 2017, pursuant to Provisional Presidential Decree No. 783 of May 31, 2017, including tax debts owed to the Brazilian Federal Tax Authorities and to the Office of the General Counsel for the Federal Treasury, which matured on April 30, 2017. Under this program, GLA chose, in September 2017, to pay 5% of total debt in five monthly installments and the remaining amount with tax losses carryforward after reducing interest by 90% and fines by 70%. For most of its debits, GLAI chose, in October 2017, to pay 20% of total debt in three installments and the remainder in 36 monthly installments, reducing interest by 50%, fines by 80% and legal charges by 100%.

The breakdown of the obligation included in the above-mentioned installment payment programs is as follows:

IPI on customs import	92,153
PIS and COFINS	98,491
PIS and COFINS on financial income (b)	131,844
Income and social contribution taxes	23,372
Other	4,655
Total debt	350,515
Reductions in interest and fines (c)	(21,249)
Use of tax losses carryforward (a)	(227,689)
Amount payable in installments	**101,577**

(a) Registered in "Other, net". See Note 8.2.

(b) Included in May 2017, after the PRT and PERT adoption.

(c) Reduction of 90% in interest and 50% in fines for PERT.

19. Advance ticket sales

As of December 31, 2017, the balance of Advance ticket sales classified in current liabilities was R$1,456,939 (R$1,185,945 as of December 31, 2016) and is represented by 4,964,925 tickets sold and not yet used (4,447,824 as of December 31, 2016) with an average use of 48 days (46 days as of December 31, 2016).

20. Mileage program

As of December 31, 2017, the balance of Smiles loyalty program deferred revenue was R$765,114 (R$781,707 as of December 31, 2016) and R$188,204 (R$219,325 as of December 31, 2016) classified in current and noncurrent liabilities, respectively.

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21. Provisions

Balances as of December 31, 2015	**742**	**725,176**	**144,355**	**870,273**
Additional provisions recognized	4,237	97,423	189,244	290,904
Utilized provisions	(4,237)	(121,855)	(127,551)	(253,643)
Foreign exchange rate variation, net	-	(116,803)	(516)	(117,319)
Balances as of December 31, 2016	**742**	**583,941**	**205,532**	**790,215**
Additional provisions recognized (a)	(1)	38,819	158,263	197,081
Utilized provisions (b)	-	(220,082)	(155,999)	(376,081)
Foreign exchange rate variation, net	-	(1,827)	(199)	(2,026)
Balances as of December 31, 2017	**741**	**400,851**	**207,597**	**609,189**
As of December 31, 2016				
Current	742	65,760	-	66,502
Noncurrent	-	518,181	205,532	723,713
Total	**742**	**583,941**	**205,532**	**790,215**
As of December 31, 2017				
Current	741	45,820	-	46,561
Noncurrent	-	355,031	207,597	562,628
Total	**741**	**400,851**	**207,597**	**609,189**

(a) The additions of provisions for aircraft and engine return also include present value adjustment effects.

(b) include write-offs due to the revision of estimates and processes settled.

(a) Provision for aircraft and engine return

The provision for aircraft and engine return considers the costs that meet the contractual conditions for the return of engines maintained under operating leases, as well as the costs to reconfigure aircraft without purchase option as described in the return conditions of the lease contracts, and which is capitalized in property, plant and equipment (aircraft reconfigurations/overhauling).

(b) Provision for legal proceedings

As of December 31, 2017, the Company and its subsidiaries are parties to lawsuits and administrative proceedings. The lawsuits and administrative proceedings are classified into Operational (those arising from the Company’s normal course of operations), and Succession (those arising from the succession of former Varig S.A. obligations).

The civil lawsuits are primarily related to compensation claims generally related to flight delays and cancellations, baggage loss and damage. The labor claims primarily consist of discussions related to overtime, hazard pay, risk premium and wage differences.

The provisions related to civil, labor and taxes suits, whose likelihood of loss is assessed as probable, are as follows:

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Civil	67,528	73,356
Labor	137,071	132,163
Taxes	2,998	13
Total	**207,597**	**205,532**

Provisions are reviewed based on the progress of the proceedings and history of losses based on the best current estimate for labor and civil lawsuits.

There are other civil and labor lawsuits assessed by management and its legal counsel as possible risk of loss, in the estimated amount of R$30,945 for civil claims and R$124,062 for labor claims as of December 31, 2017 (R$31,598 and R$79,532 as of December 31, 2016, respectively), for which no provisions are recognized.

The tax lawsuits below were evaluated by the Company’s management and its legal counsels as being relevant and with possible risk of loss as of December 31, 2017 and 2016:

- GLA is discussing the non-incidence of the additional 1% COFINS rate on the imports of aircraft and parts, amounting R$48,596 (R$39,428 as of December 31, 2016). The Company’s legal counsel believes that the classification of possible risk was due to the fact that there was no express revocation of the tax relief (zero rate) granted to regular flight transportation companies.

- Tax on Services (ISS) in the amount of R$21,222 (R$19,443 as of December 31, 2016) arising from assessment notices issued by the Municipality of São Paulo against the Company, in the period from January 2007 to December 2010 regarding a possible ISS taxation on partnerships. The classification of possible risk of loss is a result from the matters under discussion being interpretative, and involves discussions of factual and evidential materials, and has no final positioning of the Superior Courts.

- Customs penalty in the amount of R$57,823 (R$45,689 as of December 31, 2016) relating to assessment notices issued against the Company for alleged breach of customs rules regarding procedures for temporary import of aircraft. The classification of possible risk is a result of the absence of a final positioning of the Superior Courts.

- BSSF goodwill (BSSF Air Holdings) in the amount of R$104,213 (R$47,572 as of December 31, 2016) related to an infraction notice due to the deductibility of the goodwill allocated to future profitability. The classification of possible risk is a result of the absence of a final opinion from the Superior Courts.

- GLA's goodwill in the amount of R$80,198 (R$72,687 as of December 31, 2016) resulted from assessment notice related to the deductibility of the goodwill classified as future profitability. The classification of possible risk is a result of the absence of a final opinion from the Superior Courts.

- GLAI had been discussing the non-incidence of taxation of PIS and COFINS on revenues generated by interest attributable to shareholders' equity related to the years from 2006 to 2008, paid by its subsidiary GTA Transportes Aéreos S.A., succeeded by GLA on September 25, 2008, wich amount assessed as possible loss was R$57,793 as of December 31, 2016. However, due to a recent unfavorable decision in a similar case, the Company reclassified the likelihood of loss in this case from possible to probable. As a result, the Company adhered to the Installment Payment Program (PERT) after the Federal Government signed Provisional Presidential Decree 783/17 into Law, including the amount of R$34,794 in tax installment payments. Additionally, the Company maintains escrow deposits with Bic Banco with a partial guarantee on the lawsuit of R$32,120 as disclosed in Note 5, which will be redeemed after the installment payment is fully settled.

- Tax on Industrialized Products ("IPI"): supposely levied on the importation of aircraft in the amount of R$115,136 as of December 31, 2016. On March 10, 2017, even though the lawsuit was not yet resolved in the administrative level, the Company included this tax in the PRT program, see Note 18, given that decisions in similar proceedings have not been favorable.

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There are other lawsuits that the Company’s Management and its legal counsels assess as possible risk of loss, in the estimated amount of R$58,750 (R$39,113 as of December 31, 2016) which added to the lawsuits mentioned above, totaled R$382,814 as of December 31, 2017 (R$436,861 as of December 31, 2016).

22. Equity

22.1. Capital stock

As of December 31, 2017, the Company’s capital stock was R$3,082,802 and represented by 3,129,582,142 shares, comprised by 2,863,682,710 common shares and 265,899,432 preferred shares. The Fundo de Investimento em Participações Volluto (“Fundo Volluto”) is the Company’s controlling shareholder, which is equally controlled by Constantino de Oliveira Junior, Henrique Constantino, Joaquim Constantino Neto and Ricardo Constantino.

The Company’s shares are held as follows:

Fundo Volluto	100.00%	49.25%	61.19%	100.00%	33.88%	61.28%
Delta Air Lines, Inc.	-	12.38%	9.47%	-	16.19%	9.48%
Airfrance - KLM	-	1.60%	1.22%	-	2.09%	1.22%
Treasury shares	-	0.10%	0.08%	-	0.44%	0.26%
Other	-	0.93%	0.71%	-	1.11%	0.65%
Free float	-	35.74%	27.33%	-	46.29%	27.11%
Total	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**	**100.00%**

The authorized capital stock as of December 31, 2017 was R$4.0 billion. Within the authorized limit, the Company can, once approved by the Board of Directors, increase its capital regardless of any amendment to its by-laws, by issuing shares, without necessarily maintaining the proportion between the different types of shares. Under the law terms, in case of capital increase within the authorized limit, the Board of Directors will define the issuance conditions, including pricing and payment terms.

On December 22, 2017, Fundo Volluto, the Company’s controlling shareholder, converted 2,171,354,430 common shares into preferred shares of the Company and now holds 130,953,776 preferred shares (accounting for 49.22% of the Company’s total preferred shares as of December 31, 2017). This conversion of common shares into preferred shares does not change the interest held by Fundo Volluto and other shareholders in the Company’s capital stock.

During the year ended December 31, 2017, the Company approved capital increases from the subscription of preferred shares as a result of the exercise of stock options, in the amounts of: (i) R$1,177 as of August 8, 2017, related to the exercise of 244,185 stock options; (ii) R$1,492 as of October 17, 2017, related to the exercise of 230,581 stock options; and (iii) R$23 as of December 13, 2017, related to the exercise of 2,000 stock options.

22.2. Dividends

The Company’s By-laws provide for a mandatory minimum dividend to be paid to common and preferred shareholders, at least 25% of annual adjusted net income after compensation of accumulated losses and allocation to reserves in accordance with the Brazilian Corporate Law.

22.3. Treasury shares

During the year ended December 31, 2017, the Company transferred 615,181 restricted shares to its beneficiaries (632,976 restricted shares in the year ended December 31, 2016).

As of December 31, 2017, the Company had 278,612 treasury shares, totaling R$4,168, with a market value of R$4,068 (893,793 treasury shares, totaling R$13,371, with a market value of R$4,129 as of December 31, 2016).

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23. Revenue

Passenger transportation	9,479,242	8,948,170	8,954,034
Cargo	354,561	324,492	318,573
Mileage revenue	800,976	622,567	421,348
Other revenue (*)	657,609	652,602	690,044
Gross revenue	**11,292,388**	**10,547,831**	**10,383,999**
Related tax	(716,366)	(680,496)	(605,992)
Net revenue	**10,576,022**	**9,867,335**	**9,778,007**

(*) Includes revenues from unused passenger tickets, reissued tickets and cancellation of flight tickets of R$433,639, R$430,898, R$449,263, for the years ended December 31, 2017, 2016 and 2015, respectively

Revenues are net of federal, state and municipal taxes, which are paid to the appropriate government entities.

Revenue by geographical location is as follows:

Domestic	9,044,990	85.5	8,395,364	85.1	8,670,023	88.7
International	1,531,032	14.5	1,471,971	14.9	1,107,984	11.3
Net revenue	**10,576,022**	**100.0**	**9,867,335**	**100.0**	**9,778,007**	**100.0**

24. Financial results

Financial income			
Income from derivatives	35,053	120,403	174,693
Income from short-term investments	119,863	152,656	178,147
Monetary variation	14,208	12,411	14,531
(-) Taxes on financial income (a)	(24,393)	(23,041)	(47,588)
Gain from the exchange offer	-	286,799	-
Interest income	18,245	4,651	8,539
Other	50,470	14,625	4,245
Total financial income	**213,446**	**568,504**	**332,567**
Financial expenses			
Losses from derivatives	(40,770)	(277,183)	(124,536)
Interest on short and long-term debt	(727,285)	(787,661)	(885,947)
Bank charges and expenses	(61,711)	(96,515)	(60,760)
Monetary variation	(2,993)	(3,867)	(3,921)
Tender offer costs (b)	(53,041)	-	-
Other (c)	(164,661)	(106,338)	(253,727)
Total financial expenses	**(1,050,461)**	**(1,271,564)**	**(1,328,891)**
Exchange rate variation, net	(81,744)	1,367,937	(2,266,999)
Total	**(918,759)**	**664,877**	**(3,263,323)**

(a) Relative to taxes on financial income (PIS and COFINS), according to Decree 8,426 of April 1, 2015.

(b) Refers to the tender offer of Senior Notes. Includes the write-off of issuance costs of the tendered debt of R$11,714.

(c) Includes the partial amount regarding the accrued interest in the amount of R$23,345 related to provisions for PIS and COFINS on interest attributable to shareholders' equity, through the adherence to PERT, see Note 18.

25. Segments

Operating segments are defined based on business activities from which it may earn revenues and incur expenses, which operating results are regularly reviewed by the Company's relevant decision makers to evaluate performance and allocate resources to the respective segments. The Company holds two operating segments: flight transportation and the Smiles loyalty program.

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The accounting policies of the operating segments are the same as those applied to the consolidated financial statements. Beginning in the year ended December 31, 2017, the Company is presenting the segment information of operating costs and expenses by nature. Additionally, the Company has distinct natures between its two operating segments, so there are no common costs and revenues between operating segments.

The Company is the controlling shareholder of Smiles Fidelidade, and the non-controlling interests of Smiles Fidelidade was 47.3%, 46.2% and 45.9% as of December 31, 2017, 2016 and 2015, respectively.

The information below presents the summarized financial position of the reportable operating segments as of December 31, 2017 and 2016 and for the years ended December 31, 2017, 2016 and 2015:

25.1. Assets and liabilities of the operating segments

Assets					
Current	2,389,146	1,901,672	4,290,818	(945,820)	3,344,998
Noncurrent	6,769,399	269,239	7,038,638	(378,888)	6,659,750
Total assets	**9,158,545**	**2,170,911**	**11,329,456**	**(1,324,708)**	**10,004,748**
Liabilities					
Current	5,508,427	1,096,357	6,604,784	(854,739)	5,750,045
Noncurrent	7,131,078	202,835	7,333,913	(10,264)	7,323,649
Total equity (deficit)	(3,480,960)	871,719	(2,609,241)	(459,705)	(3,068,946)
	9,158,545	**2,170,911**	**11,329,456**	**(1,324,708)**	**10,004,748**

Total liabilities and equity (deficit)

Assets					
Current	1,426,750	1,413,422	2,840,172	(759,458)	2,080,714
Noncurrent	6,474,404	513,456	6,987,860	(664,219)	6,323,641
Total assets	**7,901,154**	**1,926,878**	**9,828,032**	**(1,423,677)**	**8,404,355**
Liabilities					
Current	4,767,322	1,061,806	5,829,128	(980,386)	4,848,742
Noncurrent	6,782,835	229,725	7,012,560	(100,196)	6,912,364
Total equity (deficit)	(3,649,003)	635,347	(3,013,656)	(343,095)	(3,356,751)
Total liabilities and equity (deficit)	**7,901,154**	**1,926,878**	**9,828,032**	**(1,423,677)**	**8,404,355**

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25.1. Assets and liabilities of the operatingsegments

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25.2. Results of the operating segments

Net revenue					
Passenger (*)	8,785,938	-	8,785,938	399,867	9,185,805
Cargo and other (*)	768,566	-	768,566	(104,350)	664,216
Mileage revenue (*)	-	1,804,129	1,804,129	(1,078,128)	726,001
Gross profit	**9,554,504**	**1,804,129**	**11,358,633**	**(782,611)**	**10,576,022**
Operating costs and expenses					
Salaries	(1,654,388)	(53,723)	(1,708,111)	-	(1,708,111)
Aircraft fuel	(2,887,737)	-	(2,887,737)	-	(2,887,737)
Aircraft rent	(939,744)	-	(939,744)	-	(939,744)
Sales and marketing	(518,025)	(69,917)	(587,942)	(2,872)	(590,814)
Landing fees	(664,170)	-	(664,170)	-	(664,170)
Aircraft, traffic and mileage servicing	(649,126)	(990,685)	(1,639,811)	765,075	(874,736)
Maintenance, materials and repairs	(368,719)	-	(368,719)	-	(368,719)
Depreciation and amortization	(491,806)	(13,619)	(505,425)	-	(505,425)
Passenger service expenses	(437,045)	-	(437,045)	-	(437,045)
Other operating expenses	(591,087)	(26,385)	(617,472)	7,162	(610,310)
Total operating costs and expenses	**(9,201,847)**	**(1,154,329)**	**(10,356,176)**	**769,365**	**(9,586,811)**

Equity results	395,245	-	395,245	(394,701)	544
Operating result before financial result, net and income taxes	**747,902**	**649,800**	**1,397,702**	**(407,947)**	**989,755**
Financial results					
Financial income	184,448	205,431	389,879	(176,433)	213,446
Financial expenses	(1,225,315)	(2,201)	(1,227,516)	177,055	(1,050,461)
Exchange rate variation, net	(78,462)	(3,284)	(81,746)	2	(81,744)
Total financial results	**(1,119,329)**	**199,946**	**(919,383)**	**624**	**(918,759)**
Income (loss) before income taxes	**(371,427)**	**849,746**	**478,319**	**(407,323)**	**70,996**
Income taxes	390,611	(89,131)	301,480	5,733	307,213
Net income for the year	**19,184**	**760,615**	**779,799**	**(401,590)**	**378,209**
Attributable to equity holders of the parent	19,184	401,590	420,774	(401,590)	19,184
Attributable to non-controlling interests of Smiles	-	359,025	359,025	-	359,025

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25.2. Results of the operating segments

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Net revenue					
Passenger (*)	8,340,545	-	8,340,545	330,897	8,671,442
Cargo and other (*)	729,096	-	729,096	426	729,522
Mileage revenue (*)	-	1,548,109	1,548,109	(1,081,738)	466,371
Gross profit	**9,069,641**	**1,548,109**	**10,617,750**	**(750,415)**	**9,867,335**
Operating costs and expenses					
Salaries	(1,615,740)	(41,045)	(1,656,785)	-	(1,656,785)
Aircraft fuel	(2,695,390)	-	(2,695,390)	-	(2,695,390)
Aircraft rent	(996,945)	-	(996,945)	-	(996,945)
Sales and marketing	(494,076)	(61,908)	(555,984)	-	(555,984)
Landing fees	(687,366)	-	(687,366)	-	(687,366)
Aircraft, traffic and mileage servicing	(660,009)	(828,887)	(1,488,896)	735,399	(753,497)
Maintenance, materials and repairs	(593,090)	-	(593,090)	-	(593,090)
Depreciation and amortization	(439,173)	(8,495)	(447,668)	-	(447,668)
Passenger service expenses	(461,837)	-	(461,837)	-	(461,837)
Other operating expenses	(316,766)	(4,197)	(320,963)	15	(320,948)
Total operating costs and expenses	**(8,960,392)**	**(944,532)**	**(9,904,924)**	**735,414**	**(9,169,510)**
Equity results	287,134	(2,530)	284,604	(285,884)	(1,280)
Operating result before financial result, net and income taxes	**396,383**	**601,047**	**997,430**	**(300,885)**	**696,545**
Financial results					
Financial income	395,901	212,758	608,659	(40,155)	568,504
Financial expenses	(1,311,940)	(168)	(1,312,108)	40,544	(1,271,564)
Exchange rate variation, net	1,362,145	5,792	1,367,937	-	1,367,937
Total financial results	**446,106**	**218,382**	**664,488**	**389**	**664,877**

Income before income taxes	**842,489**	**819,429**	**1,661,918**	**(300,496)**	**1,361,422**
Income taxes	7,130	(271,156)	(264,026)	4,968	(259,058)
Net income for the year	**849,619**	**548,273**	**1,397,892**	**(295,528)**	**1,102,364**
Attributable to equity holders of the parent	849,619	295,528	1,145,147	(295,528)	849,619
Attributable to non-controlling interests of Smiles	-	252,745	252,745	-	252,745

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Net revenue					
Passenger (*)	8,294,463	-	8,294,463	288,925	8,583,388
Cargo and other (*)	941,928	47,199	989,127	(19,198)	969,929
Miles revenue (*)	-	1,172,322	1,172,322	(947,632)	224,690
Gross profit	**9,236,391**	**1,219,521**	**10,455,912**	**(677,905)**	**9,778,007**
Operating costs and expenses					
Salaries	(1,544,157)	(36,374)	(1,580,531)	-	(1,580,531)
Aircraft fuel	(3,301,368)	-	(3,301,368)	-	(3,301,368)
Aircraft rent	(1,100,086)	-	(1,100,086)	-	(1,100,086)
Sales and marketing	(566,329)	(51,074)	(617,403)	-	(617,403)
Landing fees	(681,378)	-	(681,378)	-	(681,378)
Aircraft, traffic and mileage servicing	(615,792)	(700,200)	(1,315,992)	637,917	(678,075)
Maintenance, materials and repairs	(603,925)	-	(603,925)	-	(603,925)
Depreciation and amortization	(416,856)	(2,835)	(419,691)	-	(419,691)
Passenger service expenses	(481,765)	-	(481,765)	-	(481,765)
Other operating expenses	(485,738)	(13,183)	(498,921)	5,300	(493,621)
Total operating costs and expenses	**(9,797,394)**	**(803,666)**	**(10,601,060)**	**643,217**	**(9,957,843)**
Equity results	179,377	(5,932)	173,445	(177,386)	(3,941)
Operating result before financial result, net and income taxes	**(381,626)**	**409,923**	**28,297**	**(212,074)**	**(183,777)**
Financial results					
Financial income	287,058	156,042	443,100	(110,533)	332,567

Financial expenses	(1,424,321)	(15,104)	(1,439,425)	110,534	(1,328,891)
Exchange rate variation, net	(2,264,750)	(2,248)	(2,266,998)	(1)	(2,266,999)
Total financial results	**(3,402,013)**	**138,690**	**(3,263,323)**	**-**	**(3,263,323)**
Income (loss) before income taxes	**(3,783,639)**	**548,613**	**(3,235,026)**	**(212,074)**	**(3,447,100)**
Income taxes	(677,244)	(178,691)	(855,935)	11,795	(844,140)
Net income (loss) for the year	**(4,460,883)**	**369,922**	**(4,090,961)**	**(200,279)**	**(4,291,240)**
Attributable to equity holders of the parent	(4,460,883)	200,279	(4,260,604)	(200,279)	(4,460,883)
Attributable to non-controlling interests of Smiles	-	169,643	169,643	-	169,643

(*) Eliminations are related to transactions between GLA and Smiles Fidelidade.

In the stand alone financial statements of the subsidiary Smiles Fidelidade, which represents the segment Smiles Loyalty Program, and in the information provided to the relevant decision makers, the revenue recognition occurs upon redemption of the miles by the participants. Under the perspective of Smiles Fidelidade, this measurement is appropriate given that this is when the revenue recognition cycle is complete. At this point, Smiles has transferred to its suppliers the obligation to provide services or deliver products to its customers.

However, from a consolidated perspective, the revenue recognition cycle related to miles exchanged for flight tickets is only complete when the passengers are effectively transported. Therefore, for purposes of reconciliation with the consolidated assets, liabilities and income and expenses, as well as for purposes of equity method of accounting and for consolidation purposes, the Company performed, in addition to elimination entries, consolidating adjustments to adjust the accounting practices related to Smiles’ revenues. In this case, under the perspective of the consolidated financial statements, the mileages that were used to redeem airline tickets are only recognized as revenue when passengers are transported, in accordance with accounting practices and policies adopted by the Company.

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26. Commitments

As of December 31, 2017, the Company had 120 firm orders for aircraft acquisition with Boeing. These aircraft acquisition commitments include estimates for contractual price increases during the construction phase. As of December 31, 2017, the approximate amount of firm orders, not including contractual discounts, was R$45,090,382 (US$13,630,708), and are segregated according to the following years:

2018	-	1,787,388
2019	1,117,604	2,917,833
2020	4,538,258	4,471,172
2021	6,198,259	6,106,634
2022	6,353,457	6,229,538
Thereafter	26,882,804	26,519,864
Total	**45,090,382**	**48,032,429**

As of December 31, 2017, from the total order commitments mentioned above, the Company had the amount of R$6,463,564 (US$1,953,919) related to advances for aircraft acquisition to be disbursed, in accordance with the following schedule:

2017	-	286,829
2018	316,215	483,518
2019	773,268	658,930
2020	848,003	835,468
2021	852,458	839,856
2022	866,119	853,316
Thereafter	2,807,501	2,766,624
Total	**6,463,564**	**6,724,541**

The installment financed by long-term debt with aircraft guarantee through the U.S. Ex-Im Bank corresponds approximately to 85% of the aircraft total cost. Other establishments finance the acquisitions with equal or higher percentages, reaching up to 100%.

The Company performs payments related to aircraft acquisition through its own funds, short and long-term debt, cash provided by operating activities, short and medium-term lines of credit and supplier financing.

The Company leases its entire aircraft fleet through a combination of operating and finance leases. As of December 31, 2017, the total fleet leased was comprised of 119 aircraft, of which 88 were under operating leases and 31 were recorded as finance leases. During the year ended December 31, 2017, the Company returned 11 aircraft under operating lease contracts. In addition, the Company changed the classification of three finance lease agreements, which are now classified as operating leases due to the new characteristics arising from the renewal of these contracts.

As of December 31, 2017, the Company recorded operating lease installments in the amount of R$139,110, of which R$28,387 under current liabilities and R$110,723 under noncurrent liabilities (R$7,233 was recorded under current liabilities as of December 31, 2016). Such amounts refer to negotiations with lessors that resulted in postponement of the original payment flows of the leases.

On February 14, 2017 and November 27, 2017, the Company entered in sale-leaseback transactions for 10 aircraft with AWAS and GECAS. The aircraft should be delivered between June 2018 and August 2019 and, pursuant to the agreement, the leases will have a 12-year term as of the arrival date of each aircraft. Under these agreements, AWAS and GECAS undertake to carry out all necessary disbursements to pay for advances based on the disbursement schedule of the aircraft acquisition agreement. Under the same agreement, the Company shall act as a guarantor for the transaction if AWAS and GECAS fail to comply with the commitments established in such agreements.

26.1. Operating leases

The future payments of non-cancelable operating lease contracts are denominated in U.S. dollars, and are as follows:

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2017	-	857,747
2018	858,508	839,343
2019	928,226	889,940
2020	888,944	873,692
2021	746,595	745,719
2022	630,477	646,388
Thereafter	1,251,964	1,393,896
Total minimum lease payments	**5,304,714**	**6,246,725**

26.2. Sale-leaseback transactions

In the year ended December 31, 2017, the Company did not enter in sale-leaseback transactions (net gain of R$233,483 related to 7 aircraft in the year ended December 31, 2016).

Additionally, the Company also has balances of deferred losses from transactions carried out between 2006 and 2009, in the amount of R$2,887 (R$9,959 as of December 31, 2016).

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27. Financial instruments and risk management

The Company and its subsidiaries have financial asset and financial liability transactions, which consist in part of derivative financial instruments. The financial derivative instruments are used to hedge against the inherent risks related to the Company's operations. The Company and its subsidiaries consider as most relevant risks: fuel price, foreign currency and interest rate. These risks can be mitigated by using exchange swap derivatives, futures and options contracts based on oil, U.S. dollar and interest markets. The contracts may be held by exclusive investment funds, as described in the Company's Risk Management Policy.

Financial instruments are managed by the Risk Committee in line with the Risk Management Policy approved by the Risk Policy Committee and submitted to the Board of Directors. The Risk Policy Committee sets guidelines and limits, monitors controls, including mathematical models used to continuously monitor exposures and possible financial effects, and also prevents the execution of speculative financial instruments transactions.

The Company does not hedge its total risk exposure, and is, therefore, subject to market fluctuations for a significant portion of its exposed assets and liabilities. Decisions on the portion to be protected consider the financial risks and the costs for such protection and are determined and reviewed at least quarterly in line with Risk Policy Committee strategies. The results from operations and the application of risk management controls are part of the monitoring process by the Risk Policy Committee and have been satisfactory to the proposed objectives.

The description of the consolidated account balances and the categories of financial instruments included in the statements of financial position as of December 31, 2017 and 2016 is as follows:

Assets				
Cash and cash equivalents (a)	434,295	269,797	592,567	292,410
Short-term investments (a)	955,589	431,233	-	-
Restricted cash	268,047	168,769	-	-
Derivatives assets	40,647	3,817	-	-
Trade receivables	-	-	936,478	760,237
Deposits (b)	-	-	655,244	756,810
Other assets	-	-	123,721	118,058
Liabilities				
Debt	-	-	7,105,667	6,379,220
Suppliers	-	-	1,471,150	1,111,514
Derivatives liabilities	34,457	89,211	-	-
Operating leases	-	-	139,110	7,233

(a) The Company manages its financial investments to pay its short-term operational expenses.

(b) Excludes judicial deposits, as described in Note 9.

(c) Items classified as amortized cost refer to credits, debt with private institutions which, in any early settlement, there are no substantial alterations in relation to the values recorded, except the amounts related to Perpetual Notes and Senior Notes, as disclosed in Note 16. The fair values approximate the book values, according to the short-term maturity period of these assets and liabilities. During the year ended December 31, 2017, there was no change on the classification between categories of the financial instruments.

As of December 31, 2017 and 2016, the Company did not have financial assets classified as available for sale.

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The Company's derivative financial instruments were recognized as follows:

Derivative assets (liabilities) as of December 31, 2015 (*)	**-**	**1,766**	**(141,443)**	**-**	**(139,677)**
Fair value variations:					
Net gains (losses) recognized in profit or loss (a)	309	(40,931)	(1)	-	(40,623)
Losses recognized in other comprehensive income (loss)	-	-	(4,842)	-	(4,842)
Settlements during the year	3,508	39,165	57,075	-	99,748
Derivative assets (liabilities) as of December 31, 2016 (*)	**3,817**	**-**	**(89,211)**	**-**	**(85,394)**
Fair value variations:					
Net gains recognized in profit or loss (a)	13,768	-	-	11,094	24,862
Losses recognized in other comprehensive income (loss)	35,505	-	(1,093)	-	34,412
Settlements (payments received) during the year	(12,443)	-	55,847	(11,094)	32,310
Derivative assets (liabilities) as of December 31, 2017 (*)	**40,647**	**-**	**(34,457)**	**-**	**6,190**
Changes in other comprehensive income (loss)					
Balances as of December 31, 2015	-	-	(178,942)	-	(178,942)
Fair value adjustments during the year	-	-	(4,842)	-	(4,842)
Net reversal to profit or loss (b)	-	-	128,731	-	128,731
Tax effects	-	-	(92,179)	-	(92,179)
Balances as of December 31, 2016	**-**	**-**	**(147,229)**	**-**	**(147,229)**
Fair value adjustments during the year	35,505	-	(1,093)	-	34,412
Net reversal to profit or loss (b)	-	-	33,501	-	33,501
Balances as of December 31, 2017	**35,505**	**-**	**(114,821)**	**-**	**(79,316)**
Effects on profit or loss (a-b)	**13,768**	**-**	**(33,501)**	**11,094**	**(8,639)**

December 31, 2017

Recognized in operating costs and expenses	**8,626**	**-**	**(11,548)**	**-**	**(2,922)**
Recognized in financial results	**5,142**	**-**	**(21,953)**	**11,094**	**(5,717)**
December 31, 2016					
Recognized in operating costs and expenses	**-**	**-**	**(12,574)**	**-**	**(12,574)**
Recognized in financial results	**309**	**(40,931)**	**(116,158)**	**-**	**(156,780)**
December 31, 2015					
Recognized in operating costs and expenses	**-**	**-**	**(13,150)**	**-**	**(13,150)**
Recognized in financial results	**(29,964)**	**102,696**	**(22,575)**	**-**	**50,157**

(*) Classified as "Derivatives assets" if the amount results in an asset or "Derivatives liabilities" if the amount results in a liability.

(**) In 2017, the Company carried out transactions with shares of third-party companies traded on B3 in the amount of R$106,976, and contracted a term derivative attached to the transaction, in order to minimize the risk of volatility of the shares borrowed in the market. This operation was fully settled with the respective derivative in December 2017.

The Company may adopt hedge accounting for derivatives contracted to hedge interest rate risk classified as "cash flow hedge" and that qualify for this classification as per IAS 39. As of December 31, 2017, the Company adopts cash flow hedge for the interest rate (mainly Libor interest rates) and jet fuel.

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The cash flow hedge is programmed to be recycled to profit or loss in the periods stated bellow:

Interest rate	(14,028)	(15,099)	(14,062)	(12,328)	(11,013)	(48,291)
Fuel	35,505	-	-	-	-	-
Recycle expectation (*)	**21,477**	**(15,099)**	**(14,062)**	**(12,328)**	**(11,013)**	**(48,291)**

(*) The positive amounts represent receivables and the negative amounts represent payables.

27.1. Market risks

a) Fuel price risk

The aircraft fuel prices fluctuate due to the volatility of the price of crude oil by product price fluctuations. To mitigate the risk of fuel price, the Company held the purchase option attached to WTI, as of December 31, 2017. In the year ended December 31, 2017, the Company recognized total gains of R$13,768 (gain of R$309 in the year ended December 31, 2016 and loss of R$29,964 in the year ended December 31, 2015) with fuel hedge transactions.

In the year ended December 31, 2017, the Company held derivatives operations designated as “hedge accounting” (as of December 31, 2016 and 2015, the Company did not hold derivatives operations designated as “hedge accounting”).

b) Foreign currency risk

Foreign currency risk derives from the possibility of unfavorable fluctuation of foreign currencies to which the Company's liabilities or cash flows are exposed. As of December 31, 2017, the Company had no outstanding derivative financial instruments. The Company recognized a loss on foreign currency derivatives in the amount of R$40,931 for the year ended December 31, 2016 and gain of R$102,969 in the year ended December 31, 2015). The Company does not have foreing currency derivatives designated as "hedge accounting".

The Company's foreign currency exposure is summarized below:

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Assets		
Cash and cash equivalents, short-term investments and restricted cash	1,215,716	548,792
Trade receivables	126,140	104,800
Deposits	655,244	756,810
Derivatives	40,647	3,817
Other assets	-	10,184
Total assets	**2,037,747**	**1,424,403**
Liabilities		
Short and long-term debt	4,593,169	3,596,379
Finance leases	1,476,151	1,718,012
Foreign suppliers	644,775	344,654
Derivatives	34,457	89,211
Operating leases	139,110	7,233
Total liabilities	**6,887,662**	**5,755,489**
Exchange exposure	**4,849,915**	**4,331,086**
Commitments not recorded in the statements of financial position		
Future commitments resulting from operating leases	5,304,714	6,246,725
Future commitments resulting from firm aircraft orders	45,090,382	48,032,429
Total	**50,395,096**	**54,279,154**
Total foreign currency exposure - R$	**55,245,011**	**58,610,240**
Total foreign currency exposure - US$	16,700,426	17,983,566
Exchange rate (R$/US$)	3.3080	3.2591

The Company’s foreign currency exposure mainly comprises U.S. Dollar rate.

c) Interest rate risk

The Company is mainly exposed to lease transactions indexed to variations in the Libor rate until the aircraft is received. To mitigate such risks, the Company has derivative financial instruments of interest rate (Libor) swaps. During the year ended December 31, 2017, the Company recognized a total loss with interest hedging transactions in the amount of

R$33,501 (loss of R$128,732 and R$35,725 in the years ended December 31, 2016 and 2015, respectively).

As of December 31, 2017, 2016 and 2015, the Company and its subsidiaries had interest rate swap derivatives recorded as hedge accounting.

27.2. Credit risk

The credit risk is inherent in the Company's operating and financing activities, mainly represented by cash and cash equivalents, short-term investments and trade receivables. Financial assets classified as cash, cash equivalents and short-term investments are deposited with counterparties rated investment grade or higher by S&P or Moody's (between AAA and AA-), pursuant to risk management policies. The financial institutions in which the Company concentrates more than 10% of its total financial assets are Itaú and Banco do Brasil. Other assets are diluted among other financial institutions, pursuant to the Company's risk policy. Trade receivables consists of amounts falling due from credit card operators, travel agencies, installment sales and government entities, which leaves the Company exposed to a small portion of the credit risk of individuals and other entities. Credit limits are set for all customers based on internal credit rating criteria and carrying amounts represent the maximum credit risk exposure. Customer creditworthiness is assessed based on an internal system of extensive credit rating. Outstanding trade receivables are frequently monitored by the Company.

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Derivative financial instruments are contracted in the over-the-counter market (OTC) with counterparties rated investment grade or higher, or in a commodities and futures exchange (B3 or NYMEX), thus substantially mitigating credit risk. The Company's obligation is to evaluate counterparty risk involved in financial instruments and periodically diversify its exposure.

27.3. Liquidity risk

The Company is exposed to two distinct forms of liquidity risk: (i) market prices, which vary in accordance with the types of assets and markets where they are traded, and (ii) cash flow liquidity risk related to difficulties in meeting the contracted operating obligations at the maturity dates. In order to manage liquidity risk, the Company invests its funds in liquid assets (government bonds, CDBs and investment funds with daily liquidity) and its Cash Management Policy requires the weighted average maturity of its debt to be longer than the weighted average term of its investment portfolio term.

The schedules of financial liability hold by the Company as of December 31, 2017 and 2016 is as follows:

Short and long-term debt	369,496	793,376	2,651,018	3,291,777	7,105,667
Suppliers	1,245,352	3,772	222,026	-	1,471,150
Suppliers - Forfaiting	78,416	-	-	-	78,416
Derivatives liabilities	34,457	-	-	-	34,457
Operating leases	28,387	-	110,723	-	139,110
As of December 31, 2017	**1,756,108**	**797,148**	**2,983,767**	**3,291,777**	**8,828,800**
Short and long-term debt	499,542	335,748	2,654,007	2,889,923	6,379,220
Suppliers	1,097,997	-	13,517	-	1,111,514
Derivatives liabilities	89,211	-	-	-	89,211
Operating leases	3,215	4,018	-	-	7,233

As of December 31, 2016	**1,689,965**	**339,766**	**2,667,524**	**2,889,923**	**7,587,178**

27.4. Capital management

The Company seeks alternatives to capital in order to meet its operational needs, aiming a capital structure that takes into account suitable parameters for the financial costs, the maturities of funding and its guarantees. The Company monitors its financial leverage ratio, which corresponds to net debt, including short and long-term debt. The table below shows the Company’s capital management as of December 31, 2017 and 2016:

Short and long-term debt	7,105,667	6,379,220
(-) Cash and cash equivalents	(1,026,862)	(562,207)
(-) Short-term investments	(955,589)	(431,233)
(-) Restricted cash	(268,047)	(168,769)
A - Net debt	**4,855,169**	**5,217,011**
B – Total deficit	(3,068,946)	(3,356,751)
C = (B + A) - Total capital and net debt	**1,786,223**	**1,860,260**

27.5. Sensitivity analysis of financial instruments

The Company also analyzes the impact of the financial instrument fluctuation on the profit or loss and total equity considering:

- Increase and decrease by 25% and -50% in fuel prices, by keeping all the other variables constant;
- Increase and decrease by 25% and -50% in the U.S. dollar exchange rate, by keeping all the other variables constant
- Increase and decrease by 25% and -50% in the Libor interest rate, by keeping all the other variables constant.

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The estimates presented do not necessarily reflect the amounts to be reported in future financial statements. The use of different methodologies and/or assumptions may have a material effect on the estimates presented.

The tables below show the sensitivity analysis of foreign currency exposure, derivatives positions and interest rates on December 31, 2017 to market risks considered relevant by Management. In the tables, positive values are displayed as asset exposures (assets higher than liabilities) and negative values are exposed liabilities (liabilities greater than assets).

a) Fuel risk

The Company and its subsidiaries contract crude oil derivatives (WTI, Brent) and its byproducts (Heating Oil) to hedge fluctuations in jet fuel prices. Historically, oil prices are highly correlated with aircraft fuel prices.

Percentage of fuel exposure hedged	27%	10%	6%	5%	12%
Amount in barrels (thousand barrels)	855	360	220	163	1,598
Future rate agreed per barrel (US$)	51.89	51.33	51.46	51.58	51.67
Total in thousands of Brazilian Reais	**146,760**	**61,124**	**37,453**	**27,813**	**273,120**

b) Foreign currency risk

As of December 31, 2017, the Company adopted the closing exchange rate of R$3.3080/US$1.00 as likely scenario. The table below shows the sensitivity analysis and the effect on profit or loss of exchange rate fluctuations in the exposure amount of the period as of December 31, 2017:

Dollar depreciation (-50%)	1.6540	2,424,957
Dollar depreciation (-25%)	2.4810	1,212,479
Dollar appreciation (+25%)	4.1350	(1,212,479)
Dollar appreciation (+50%)	4.9620	(2,424,957)

c) Interest rate risk

As of December 31, 2017, the Company holds financial investments and financial liabilities indexed to several rates, and position in Libor derivatives. In the sensitivity analysis of non-derivative financial instruments, it was considered the impacts on yearly interest of the exposed values as of December 31, 2017 (see Note 16) arising from fluctuations in interest rates, according to the scenarios presented below. The amounts show the impacts on profit or loss according to the scenarios presented below:

Referential rates	6.89%	1.69%	1.69%
Exposure amount (probable scenario) (b)	1,129,300	(287,608)	(34.457)
Possible adverse scenario (+25%)	90,595	(6,091)	(730)
Remote adverse scenario (+50%)	108,714	(7,309)	(876)

(a) Total invested and raised in the financial market at the CDI rate. A negative amount means more debt than investment.

(b) Balances recorded on December 31, 2017.

(c) Derivatives contracted to hedge the Libor rate variation embedded in the agreements for future delivery of aircraft.

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Measurement of the fair value of financial instruments

In order to comply with the disclosure requirements for financial instruments measured at fair value, the Company and its subsidiaries must classify its instruments in Levels 1 to 3, based on observable fair value levels:

- Level 1: Fair value measurements are calculated based on quoted prices (without adjustment) in active market or identical liabilities;
- Level 2: Fair value measurements are calculated based on other variables besides quoted prices included in Level 1, that are observable for the asset or liability directly (such as prices) or indirectly (derived from prices); and
- Level 3: Fair value measurements are calculated based on valuation methods that include the asset or liability but that are not based on observable market variables (unobservable inputs).

The following table shows a summary of the Company's and its subsidiaries' financial instruments measured at fair value, including their related classifications of the valuation method, as of December 31, 2017 and 2016:

Cash and cash equivalents	Level 2	434,295	434,295	269,797	269,797
Short-term investments	Level 1	32,701	32,701	41,104	41,104
Short-term investments	Level 2	922,888	922,888	390,129	390,129
Restricted cash	Level 2	268,047	268,047	168,769	168,769
Derivatives assets	Level 2	40,647	40,647	3,817	3,817
Derivatives liabilities	Level 2	(34,457)	(34,457)	(89,211)	(89,211)

28. Changes in liabilities arising from financing activities

The changes in liabilities arising from financing activities in the years ended December 31, 2017, 2016 and 2015 are as follows:

					Non-cash changes				
	Opening balance	**Cash flows**	**Net income for the year**	**Interest paid on loans**	**Import financing**	**Exchange variations on loans**	**Interest on loans**	**Other**	**Clos bala**
Short and long-term debt	6,379,220	612,396	-	(505,105)	63,066	68,895	502,529	(15,334)	7,105
Non-controlling interests from Smiles	293,247	(254,892)	359,025	-	-	-	-	14,633	412
Capital stock	3,080,110	2,692	-	-	-	-	-	-	3,082
Share issuance costs	(155,618)	(523)	-	-	-	-	-	523	(155,

					Non-cash changes				
	Opening balance	**Cash flows**	**Net income for the year**	**Repurchase of debt securities**	**Interest paid on loans**	**Exchange variations on loans**	**Interest on loans**	**Other**	**C ba**
Short and long-term debt	9,304,926	(890,559)	-	(286,799)	(606,405)	(1,220,608)	627,672	(549,007)	6,3
Non-controlling interests from Smiles	224,022	(171,829)	252,745	-	-	-	-	(11,691)	2
Capital stock	3,080,110	-	-	-	-	-	-	-	3,0
Share issuance costs	(155,223)	(395)	-	-	-	-	-	-	(1

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					Non-cash changes				
	Opening balance	**Cash flows**	**Net income for the year**	**Repurchase of debt securities**	**Interest paid on loans**	**Exchange variations on loans**	**Interest on loans**	**Other**	**Clo bal**
Short and long-term debt	6,235,239	426,973	-	-	(548,773)	(2,337,999)	600,410	253,078	9,30
Non-controlling interests from Smiles	185,413	(136,822)	169,643	-	-	-	-	5,788	22
Capital stock	2,618,799	465,048	-	-	-	-	-	(3,737)	3,08
Share issuance costs	(150,214)	(5,009)	-	-	-	-	-	-	(15

29. Insurance

As of December 31, 2017, insurance coverage by nature, considering the aircraft fleet and related to the maximum reimbursable amounts indicated in U.S. dollars, along with Smiles' insurance coverage, is as follows:

GLA		
Guarantee - hull/war	12,504,240	3,780,000
Civil liability per event/aircraft (*)	2,481,000	750,000
Inventories (local) (*)	992,400	300,000
Smiles		
Rent insurance (Rio Negro – Alphaville complex)	1,470	-
D&O liability insurance	50,000	-
Fire insurance (Property insurance Rio Negro – Alphaville complex)	9,025	-

(*) Values per incident and annual aggregate.

Pursuant to Law No. 10,744 of October 9, 2003, the Brazilian government assumed the commitment to complement any civil-liability expenses related to third parties caused by war or terrorist events, in Brazil or abroad, which GLA may be required to pay, for amounts exceeding the limit of the insurance policies effective since September 10, 2001, limited to the amount in Brazilian Reais equivalent to US$1.0 billion.

30. Subsequent events

On January 16, 2018, the subsidiary Gol Finance approved a tender offer of up to US$50 milion of the Senior Notes due in 2020.

On January 30, 2018, the offering of Senior Notes by Gol Finance was approved, in the amount of US$150 milion, due in 2025, which priced on February 2, 2018. The new Notes will be consolidated with, and form a single series with, the US$500 milion aggregate principal amount of notes that were originally issued on December 11, 2017, raising the outstanding total on the tranche to US$650 milion. Gol Finance will use part of the proceeds from the Senior Notes due in 2025 to fully redeem the Senior Notes due in 2020 that were offered after the Tender Offer and pay related costs and expenses.

Pursuant to a share repurchase program announced on April 10, 2018, to comply with the Company's restricted shares plan, the Company repurchased, through transactions on the B3, 740,000 preferred shares, representing 0.2776% of the total preferred shares issued and 0.2124% of the Company's capital stock, calculated considering the ratio of 35:1 of dividend rights of holders of common shares to those of holders of preferred shares. As a result of these repurchases, the Company holds 1,018,612 preferred shares in treasury, representing 0.3821% of the total preferred shares issued and 0.2924% of our capital stock. The Company terminated the share repurchase program on April 19, 2018.