Gol Intelligent Airlines Inc.
Form 6-K
February 17, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER PURSUANT TO RULE 13a-16 OR 15d-16 OF THE SECURITIES EXCHANGE ACT OF 1934

For the month of February, 2017
(Commission File No. 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)

Praça Comandante Linneu Gomes, Portaria 3, Prédio 24
Jd. Aeroporto
04630-000 São Paulo, São Paulo
Federative Republic of Brazil
(Address of Regristrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F ___X___ Form 40-F ______

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No ___X___

If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b):

Individual and Consolidated

Financial Statements

GOL Linhas Aéreas Inteligentes S.A.

December 31, 2016

with Independent Auditors' Report

Gol Linhas Aéreas Inteligentes S.A.

Individual and consolidated financial statements

December 31, 2016

Contents

Management Report

As previously guided, GOL’s load factors in the Brazilian summer have remained high and yields have risen as result of GOL’s network and fleet restructuring completed during the year to adjust capacity to the Brazilian economic contraction. GOL responded to the weaker environment by continuing to improve customer experience and cutting costs.

In the fourth quarter of 2016 GOL improved its high service quality and achieved net revenues of R$2.7 billion and continued to rationalize operations. While reducing the number of seats available for sale by 17%, full-year 2016 net revenues were a record R$10 billion, a result made possible due the flight network restructuring effected in May 2016. According to the ANAC, in 2016 GOL was the leading airline in the Brazilian domestic market with a share of 36% of RPKs (passenger demand per kilometers). According to ABRACORP - Brazilian Association of Travel Agencies, GOL was the leader in market share and number of tickets issued and sold to corporate clients.

GOL further consolidated its position as Brazil’s No. 1 airline. The dedication and teamwork of GOL’s employees contributed to improved operating results in the fourth quarter. GOL is proud of its status as Brazil’s lowest cost carrier for the 16th consecutive year based its standardized single fleet generating smaller crew costs, smart spare parts management and best in class maintenance and lean and productive operations, low fixed costs. The Company’s order for new B-737 MAX 8s and investments in technology will maintain its cost leadership.

The Company strives to provide the best overall flying experience to its clients. GOL was most on-time airline in 2016 in the Brazilian market, with an 84.6% rating, according to OAG (Official Airline Guide), a specialized independent company that monitored over 54 million flights worldwide. For the fourth consecutive year, GOL remained the most on-time Brazilian airline with a 94.8% rate of flights taking off on schedule, according to the data from Infraero and airports concessionaires, which considers as a delay any departure with a delay of over 30 minutes.

The Company’s 4Q16 operating profit (EBIT) registered R$198 million with an operating margin of 7.4%. In 4Q16, GOL increased aircraft utilization rates while maintaining market cost leadership. Passengers transported in 4Q16 decreased 15.4% over 4Q15. GOL’s load factor increased 2.2 percentage points to 77.6% due to the maturity of the new network launched in

May 2016 that achieved a 19.0% reduction in seats availability in the period. Aircraft utilization was at 11.7 block hours per day (increases 5.7% over 4Q15). Operating costs per ASK, excluding fuel and non-operating expenses, decreased approximately 6.8% to 13.97 cents (R$). Fuel costs per available seat kilometer (ASK) decreased 17.3% to 5.75 cents (R$). Cost reductions per ASK were driven by lower aircraft rent expenses due to fleet restructuring. The absolute market cost leadership is key to the value proposition of GOL and allowed GOL to provide the best fares and

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service in the market, even during a challenging industry environment.

Full year operating profit (EBIT) registered R$697 million, with the EBIT margin registering 7.1%. In 4Q16, the EBIT was R$198 million with an EBIT margin of 7.4% compared to a negative 3.6% margin in 4Q15.

In terms of future perspectives, besides maintain high levels of productivity and profitability, short-term results will be driven by the maintenance of capacity discipline. GOL remains committed to its strategy of profitable growth based on a low cost structure and high quality customer service. GOL is proud that almost 400 million passengers have chosen to fly GOL, and continues to make every effort to offer its customers the best in air travel: new, modern aircraft, frequent flights in major markets, an integrated route system and low fares. All of which is made possible by its dedicated team of employees, who are the key to GOL' success. By remaining focused on its low-cost business model, while continues to grow, innovate and provide low fares, GOL will create value for its customers, employees and shareholders.

Operating and Financial Indicators

RPK GOL – Total	**9,161**	9,440	-3.0%	**35,928**	38,410	-6.5%
RPK GOL – Domestic	**8,230**	8,415	-2.2%	**32,031**	33,901	-5.5%
RPK GOL – International	**931**	1,025	-9.1%	**3,897**	4,509	-13.6%
ASK GOL – Total	**11,800**	12,518	-5.7%	**46,329**	49,742	-6.9%
ASK GOL – Domestic	**10,568**	11,071	-4.5%	**41,104**	43,447	-5.4%
ASK GOL – International	**1,232**	1,447	-14.9%	**5,226**	6,295	-17.0%
GOL Load Factor – Total	**77.6%**	75.4%	2.2 p.p	**77.5%**	77.2%	0.3 p.p
GOL Load Factor - Domestic	**77.9%**	76.0%	1.9 p.p	**77.9%**	78.0%	-0.1 p.p
GOL Load Factor - International	**75.6%**	70.8%	4.8 p.p	**74.6%**	71.6%	2.9 p.p
Average Fare (R$)	**289.0**	242.7	19.0%	**265.2**	220.7	20.1%
Revenue Passengers - Pax on board ('000)	**8,106.1**	9,583.5	-15.4%	**32,622.8**	38,867.9	-16.1%
Aircraft Utilization (Block Hours/Day)	**11.7**	11.1	5.7%	**11.2**	11.3	-1.0%
Departures	**63,860**	79,377	-19.5%	**261,514**	315,902	-17.2%
Average Stage Length (km)	**1,084**	933	16.2%	**1,043**	933	11.7%
Fuel Consumption (mm liters)	**350**	391	-10.7%	**1,391**	1,551	-10.3%
Full-time Employees (at period end)	**15,261**	16,472	-7.4%	**15,261**	16,472	-7.4%
Average Operating Fleet	**112**	132	-14,9%	**117**	129	-9,1%
On-time Arrivals	**94.0%**	95,1%	-1.1 p.p	**94.8%**	95.4%	-0.6 p.p
Flight Completion	**98.3%**	90.9%	7.4 p.p	**94.2%**	91.9%	2.3 p.p
Passenger Complaints (per 1000 pax)	**1.7329**	1.7061	1.6%	**1.9960**	2.0379	-3.5%
Lost Baggage (per 1000 pax)	**2.15**	2.13	0.9%	**2.23**	2.64	-15.5%
Net YIELD (R$ cents)	**25.57**	24.64	3.8%	**24.14**	22.35	8.0%
Net PRASK (R$ cents)	**19.85**	18.58	6.8%	**18.72**	17.26	8.5%
Net RASK (R$ cents)	**22.58**	21.19	6.6%	**21.30**	19.66	8.3%
CASK (R$ cents)	**20.93**	21.94	-4.6%	**19.79**	20.02	-1.1%
CASK ex-fuel (R$ cents)	**15.17**	14.99	1.2%	**13.97**	13.38	4.4%
CASK (R$ cents) adjusted4	**19.73**	21.94	-10.1%	**19.74**	20.02	-1.4%
CASK ex-fuel (R$ cents) adjusted4	**13.97**	14.99	-6.8%	**13.92**	13.38	4.0%
Breakeven Load Factor	**72.0%**	78.1%	-6.1 p.p.	**72.1%**	78.6%	-6.5 p.p.
Average Exchange Rate [1]	**3.2953**	3.8441	-14.3%	**3.4878**	3.3313	4.7%
End of period Exchange Rate [1]	**3.2591**	3.9048	-16.5%	**3.2591**	3.9048	-16.5%
WTI (avg. per barrel, US$) [2]	**49.3**	42.2	16.9%	**43.4**	48.8	-11.1%
Price per liter Fuel (R$) [3]	**1.94**	2.22	-12.7%	**1.94**	2.13	-8.7%
Gulf Coast Jet Fuel (avg. per liter, US$)[2]	**0.38**	0.34	11.3%	**0.33**	0.40	-18.6%

1. Source: Central Bank; 2. Source: Bloomberg; 3. Fuel expenses/liters consumed; 4. Excluding non-recurring results on return of aircraft under finance lease contracts and sale-leaseback transactions; 5. Traffic operational data for 2015 were updated according to information obtained on the website of the National Civil Aviation Agency (ANAC) *Certain variation calculations in this report may not match due to rounding.

Domestic market – GOL

Domestic supply decreased by 4.5% in the quarter and 5.4% from January to December of 2016 compared to the same period of 2015, reflecting the network adjustments in May 2016.

Domestic demand decreased by 2.2% in 4Q16 and 5.5% in 2016, resulting in a domestic load factor of 77.9%, an increase of 1.9 p.p. compared to 4Q15, and a decrease of 0.1 p.p. compared to 2015.

GOL transported 7.7 million passengers in the domestic market in the quarter and 30.7 million in the full year, representing a decrease of 15.8% and 16.4%, respectively, when compared to the same periods in 2015. The Company is the leaderin the number of transported passengers in Brazil's domestic aviation market.

International market - GOL

GOL's international supply decreased 14.9% in the quarter and 17.0% in 2016, compared to 2015. International demand showed a decrease of 9.1% between October and December, registering load factor of 75.6%, and, in 2016, a decrease of 13.6%, leading the international load factor to 74.6%.

During the quarter, GOL transported 454.1 thousand passengers in the international market, 8.3% less than in 2015. For 2016, the Company transported 1,885.7 thousand passengers, a decrease of 10.2% compared to the same period in 2015.

Volume of departures and Total seats - GOL

The volume of departures in the overall system was reduced by 19.5% and 17.2% in the fourth quarter and full year of 2016, respectively, in line with the guidance released for 2016 of approximately a 17% reduction. The total number of seats available of the market fell 19.0% in 4Q16 and 16.9% in 2016, also in line with the guidance released for 2016 of approximately a 17% reduction.

PRASK, Yield and RASK

Net PRASK grew by 6.8% and 8.5%, RASK improved 6.6% and 8.3% and yield increased by 3.8% and 8.0%, in comparison with 4Q15 and 2015, respectively. It is worth noting the ASK decreased 5.7% in the quarter and 6.9% from January to December of 2016.

Operational fleet

Boeing 737-NGs	**130**	**144**	***-14***	**135**	***-5***
737-800 NG	102	107	*-5*	102	*0*
737-700 NG	28	37	*-9*	33	*-5*
Financial Leasing (737-NG)	34	46	*-12*	34	*0*
Operating Leasing	96	98	*-2*	101	*-5*

At the end of 4Q16, out of a total of 130 Boeing 737-NG aircraft, GOL was operating 121 aircraft on its routes. Of the nine remaining aircraft, seven were in the process of being returned to lessors and two were sub-leased to other another airline.

GOL has 96 aircraft under operating leases and 34 under finance leases, 31 of which have a purchase option for when their leasing contracts expire.

The average age of the fleet was 8.0 years at the end of 4Q16. In order to maintain this low average, the Company has 120 firm aircraft acquisition orders with Boeing for fleet renewal by 2027.

The next B737 aircraft is expected to be received by the Company in July 2018.

Fleet plan

Fleet (End of Period)	130	115	121		
Aircraft Commitments (R$ million)*	-	-	1,787.4	46,245.0	48,032.4
Pre-Delivery Payments (R$ million)	-	286.8	483.5	5,954.2	6,724.5

*Considers aircraft list price

Capex

Capital expenditures for quarter ended December 31, 2016 were R$207.8 million, primariy related to engines. For more details on changes in property, plant and equipment, see Note 14 in the interim financial statements.

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Relationship with Independent Auditors

When hiring services that are not related to external auditing from its independent auditors, the Company bases its conduct on principles that preserve the auditor's independence. Pursuant to internationally accepted standards, these principles consist of: (a) the auditors must not audit their own work, (b) the auditors must not execute managing functions for their clients and (c) the auditors must not represent their clients' legal interests.

Based on the subparagraph III, article 2 of the CVM Instruction 381/2003, the Company adopts a formal procedure to hire services other than external auditing from our auditors. The procedure consists of consulting its Audit Committee to ensure that those services shall not affect the independence and the objectivity, required for the independent audit performance. Additionally, formal statements are required from the auditors regarding their independence while providing such services.

The Company informs that its independent auditor for the period, Ernst & Young Auditores Independentes ("EY") did not provide additional services not related to auditing in the 2016 fiscal year.

Annual report of the Statutory Audit Committee (CAE)

General Information and Responsibilities

The Statutory Audit Committee (CAE) is a statutory body linked to the Board of Directors of Gol Linhas Aéreas Inteligentes S.A. ("Company"), which is composed of three independent members of the Board of Directors, who are elected by the Board members on annual basis, one of whom must be qualified as a Financial Expert. The CAE is responsible for overseeing the quality and integrity of financial reports and statements; compliance with legal, regulatory and statutory standards; the suitability of risk management processes, internal control policies and procedures; internal audit activities. It is also responsible for overseeing the independent auditors' work, including their independence and the quality and appropriateness of the services provided, as well as any differences of opinion with the management. It determines the registration and exercise of the independent audit within the scope of the Brazilian Securities and Exchange Commission (CVM) and performs the function of an Audit Committee, in compliance with the Sarbanes Oxley Act, to which the Company is subject to, since it is registered at the Security Exchange Commission – SEC. The CAE is also responsible for overseeing related-party transactions and operating the complaints channel.

CAE's Activities in 2016: In order to discuss the matters related to the year ended December 31, 2016, the CAE met seven times and, within its scope, carried out the following activities:

1. Its coordinator established the agendas and presided over the meetings;

2. It assessed the annual work plan and discussed the results of the activities performed by the independent auditors in 2016;

3. It supervised the activities and performance of the Company's internal audit, analyzing the annual work plan, discussing the result of the activities and reviews. Any issues raised by the internal audit about improvements in the internal control environment are discussed with the respective managers/officers in order to implement continuous improvements. It supervised and analyzed the effectiveness, quality and integrity of internal control mechanisms in order to, among others, monitor compliance with the provisions related to the integrity of the financial statements, including quarterly financial information and other interim financial statements;

4. It supervised, together with management and the internal audit, the different agreements entered into between the Company or its subsidiaries, on the one hand, and the controlling shareholder, on the other hand, in order to verify compliance with the Company’s policies and controls regarding related-party transactions;

5. It met with the independent auditors, Ernst & Young, and addressed the following topics: the relationship and communication between the CAE and the internal and external auditors, the scope of the auditors’ work, and the findings based on the implementation of the independent auditor’s work plan, among others; and

6. It prepared the CAE’s activities and operation report in 2016, in accordance with good corporate governance practices and the applicable regulation.

Internal Control Systems

Based on the agenda defined for 2016, the CAE addressed the main topics related to the Company's internal controls, assessing risk mitigation initiatives and the senior management's commitment to its continuous improvement. As a result of the meetings with the Company's internal areas, the Statutory Audit Committee had the opportunity to make suggestions to the Board of Directors for improvements in the processes, overseeing the results already obtained in 2016.

Considering that in 2016, the Company received requests from the Internal Revenue Service to provide clarifications on specific expenses incurred in 2012 and 2013, the CAE installed a Special Committee to start a procedure to monitor the Company's controls, as well as overlook the external independent audit contracted to analyze and clarify the all the facts.

Based on the information obtained, the Statutory Audit Committee recommended improvement on the internal control. With the implementation of these changes, but recognizing that research still in process, the CAE considers the internal control systems of the Company and its subsidiaries to be suitable for the size and complexity of their businesses and structured in order to ensure the efficiency of their operations and the systems that generate the financial reports, as well as compliance with applicable internal and external regulations.

Corporate Risk Management

CAE members, in the exercise of their duties and legal responsibilities, have analyzed the main external, internal and continuity risks, making recommendations to increase the effectiveness of the risk management processes directly at Board of Directors' meetings, contributing to and ratifying the initiatives implemented in 2016.

Conclusion

The CAE considers that the facts that have been presented to it, based on the works carried out and described in this Report to be appropriate, and recommended, in its report, the approval of the Company’s audited financial statements for December 31, 2016, duly audited.

São Paulo, February 16, 2017.

André Béla Jánszky

Member of the Statutory Audit Committee

Antônio Kandir

Member of the Statutory Audit Committee

Francis James Leahy Meaney

Member of the Statutory Audit Committee

Declaration of the officers on the financial statements

In compliance with the provisions of CVM Instruction No. 480/09, the Executive Board declares that it has discussed, reviewed and approved the financial statements for the year ended December 31, 2016.

São Paulo, February 16, 2017.

Paulo Sérgio Kakinoff

Chief Executive Officer

Richard Freeman Lark Jr.

Chief Financial Officer

Declaration of the officers on the independent auditor’s report

In compliance with the provisions of CVM Instruction No. 480/09, the Executive Board declares that it has discussed, reviewed and approved the conclusions expressed in the independent auditor’s report on the financial statements for the year ended December 31, 2016.

São Paulo, February 16, 2017.

Paulo Sérgio Kakinoff

Chief Executive Officer

Richard Freeman Lark Jr.

Chief Financial Officer

Independent Auditor's report on the individual and consolidated financial statements

(A free translation from Portuguese into English of the independent auditor's report originally issued in Portuguese)

Independent auditor's report on the individual and consolidated financial statements

To the shareholders and Board members and Officers of

Gol Linhas Aéreas Inteligentes S.A.

São Paulo - SP

Opinion

We have audited the individual and consolidated financial statements of GOL Linhas Aéreas Inteligentes S.A. (the "Company"), identified as Parent and Consolidated, respectively, which comprise the balance sheets as at December 31, 2016, and the statements of operations, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the individual and consolidated financial position of the Company as at December 31, 2016, and of its individual and consolidated financial performance and its individual and consolidated cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for opinion

We conducted our audit in accordance with the Brazilian and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the individual and consolidated financial statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Accountants (*Código de Ética Profisssional do Contador*) and the professional requirements issued by the Federal Accounting Council (*Conselho Federal de Contabilidade*), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

As mentioned in Note 1, the Company's Management initiated an investigation to ascertain in a specific and concrete manner the matters related to payments to companies under investigation by the public authorities. The actions taken to investigate these payments are currently in progress and, at this moment, it is not possible to predict the future developments arising from the investigation conducted by the public authorities, and whose leniency agreement with the Federal Public Ministry signed on December 12, 2016 is still pending of final approval, or the possible effects on the Company's businesses. Our opinion is not qualified in relation to this matter.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition from passenger transportation

Revenue recognition from passenger transportation is highly dependent on information technology (IT) systems and their internal controls for the revenue recognition from passenger transportation when the air transportation service is provided. This process also takes into consideration other complex aspects that may affect the proper revenue recognition, such as recording of tickets sold but not used, unused tickets recorded as credits to passengers, and subject to expiration, in addition to agreements with other airline companies, interline and codeshare agreements with other airline companies. Revenues recognized by the Company are disclosed in Note 22 and the recognition criteria are described in Note 2.2 (k).

This subject was considered significant to our audit due to the complexity of the technology environment and its respective controls related to revenue recognition, including ticket prices in different currencies, as well as, the acquisition of tickets through miles programs.

How our audit addressed this matter:

Our audit procedures included, among others, the involvement of systems specialists to support us in assessing the operational design and effectiveness of IT controls and internal controls that comprise the process of ticket sales, registration, execution of passenger transportation and revenue recognition; the execution of audit tests with the purpose of assessing the integrity of the data in the IT systems involved in the revenue recognition process, through selection of tickets samples for each revenue group and tests on tickets used and unused; other passenger revenues, and passenger no-show, rebooking and cancellation charges.

Additionally, we assessed the adequacy of disclosures made by the Company on this matter, included in Notes 2.2 (k) and 22 to the financial statements.

Breakage revenue

The Company's revenues take into consideration the estimated number of tickets and miles that are not expected to be used or redeemed up to their expiration date, and are recognized as breakage revenue based on a statistical calculation of tickets and miles with high potential for expiration due to their expiration or no use. The analyses and assumptions for the revenue recognition of breakage is reviewed annually by the Company's Management to take into consideration the historical trend of tickets and miles expired, as well, as those with high potential to expire.

This matter was considered significant to our audit, considering the subjectivity involved in this analysis and the high level of judgment adopted by Management to determine the assumptions used to determine the expected number of tickets and miles that will expire.

How our audit addressed this matter:

Our audit procedures included, among others, the assessment of the design and operational effectiveness of controls implemented by Management for the revenue recognition of breakage; assessment of the reasonableness of assumptions related to the tickets and miles expected to expire, based on the historical data of tickets and miles expired; tests on a sampling based of miles earned, redeemed and expired; and analysis of the reasonableness of the other assumptions and methodology adopted by Management to determine the breakage rate used to recognize revenue.

Additionally, we assessed the adequacy of disclosures made by the Company on this matter, included in Notes 2.2 (k) e 2.2 (q) to the financial statements.

Impairment of intangible assets – goodwill and airport operating rights

The Company is required to perform at least annually an impairment test on intangible assets with indefinite useful lives (goodwill and airport operating rights). At December 31, 2016, the balances of goodwill was R$ 542,302 thousand and airport operating rights was R$ 1,038,900 thousand.

This matter was considered significant to our audit due to the materiality of the amounts involved and, considering that the impairment test of these intangible assets is complex and involves a high level of subjectivity, and is based on several assumptions, such as: economy growth rates (GDP), foreign exchange rate (principally the US dollar), kerosene barrel price, and interest rates. These assumptions may be materially affected by the market conditions or future economic scenarios.

How our audit addressed this matter:

Our audit procedures included, among others, the use of specialists to support us in assessing the assumptions and the methodology used by the Company. We also assessed the adequacy of disclosures made by the Company regarding the assumptions used to test these intangible assets for impairment, as disclosed in Note 15 to the financial statements.

Realization of maintenance reserve and deposits

At December 31, 2016, the Company had a balance of maintenance reserve and deposits of R$604,744 thousand, as disclosed in Note 9. The Company pays in advance for the maintenance of aircraft and engines under certain aircraft lease agreements. The amounts paid are accumulated by lessors in maintenance reserve and deposit accounts and are mainly realized through the maintenance of engines and aircraft. The Company analyzes annually the realization of these assets considering the expected use through maintenance entitled to reimbursement, realization of balances through reimbursable maintenance performed by lessors and reimbursement of amounts paid upon return of the aircraft. Additionally, considering that the Company has no expectation of carrying out maintenance until the return date and/or using the reimbursable asset to maintenance, payments are then recorded in profit or loss for the year as additional aircraft lease expenses.

This matter was considered significant to our audit due to the materiality of amounts and the complexity of analyses made by the Company to determine the realization of these assets. The realization analysis is subject to a certain level of subjectivity, as well as the technical analyses conducted by the aeronautical engineering team, and the expectation of use of engines and aircraft in line with the Company’s business plan for the next years.

How we audit addressed this matter:

Our audit procedures included, among others, analyses and tests of the assumptions used by the Company to assess the realization of assets, review of the aircraft maintenance schedule, segregated by components, and analysis of the aircraft return schedule, in accordance with the Company's business plan, including the number of aircrafts and fleet renewal.

Additionally, we assessed the adequacy of disclosures made by the Company on this matter, included in Note 9 to the financial statements.

Other matters

Statements of value added

The individual and consolidated statements of value added for the year ended December 31, 2016, prepared under the responsibility of the Company’s Management and presented as supplementary information under IFRS, were submitted to the same audit procedures performed in accordance with the audit of the Company’s financial statements. For the purposes of forming our opinion, we evaluated whether these statements are reconciled with the financial statements and accounting records, as applicable, and whether their form and content are in accordance with the criteria provided for in Accounting Pronouncement CPC 9 - Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in Accounting Pronouncement CPC 9 and are consistent with the overall individual and consolidated financial statements as a whole.

Other information accompanying the individual and consolidated financial statements and the auditor’s report

The Company's Management is responsible for other information that includes the Management Report. Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of audit conclusion on the Management Report.

In connection with the audit of the individual and consolidated financial statements, our responsibility is to read the Management Report and, in doing so, consider whether this report is materially inconsistent with the financial statements or based on our knowledge obtained in the audit, or otherwise, whether this report appears to be materially misstated. If based on our work performed, we conclude that there is material misstatement in the Management Report, we are required to report this fact. We have nothing to report on this matter.

Responsibilities of Management and those charged with governance for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with the accounting practices adopted in Brazil and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the individual and consolidated financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's responsibilities for the audit of the individual and consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the individual and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Brazilian and International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Brazilian and International Standards on Auditing, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty

- exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

São Paulo, February 16, 2017

ERNST & YOUNG

Auditores Independentes S.S.

CRC-2SP015199/O-6

Vanessa Martins Bernardi

Accountant CRC-1SP244569/O-3

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Statements of financial position
As of December 31, 2016 and 2015
(In thousands of Brazilian reais - R$)

	Note	Parent Company 2016	2015	Consolidated 2016	2015
Assets					
Current assets					
Cash and cash equivalents	3	**57,378**	387,323	**562,207**	1,072,332
Short-term investments	4	**49**	195,293	**431,233**	491,720
Restricted cash	5	**-**	59,324	**-**	59,324
Trade receivables	6	**-**	-	**760,237**	462,620
Inventories	7	**-**	-	**182,588**	199,236
Recoverable taxes	8,1	**9,289**	5,980	**27,287**	58,074
Rights on derivative transactions	27	**-**	-	**3,817**	1,766
Other credits		**64,770**	35,812	**113,345**	116,494
		131,486	683,732	**2,080,714**	2,461,566
Noncurrent assets					
Deposits	9	**38,760**	31,281	**1,188,992**	1,020,074
Restricted cash	5	**32,656**	23,459	**168,769**	676,080
Recoverable taxes	8,1	**17,286**	17,283	**72,060**	73,385
Deferred taxes	8,2	**13,409**	7,952	**107,159**	107,788
Other credits		**-**	-	**4,713**	39,861
Credits with related parties	10	**1,873,350**	882,641	**-**	-
Investments	12	**281,758**	213,219	**17,222**	18,424
Property, plant and equipment	14	**323,013**	982,819	**3,025,010**	4,256,614
Intangible assets	15	**-**	-	**1,739,716**	1,714,605
		2,580,232	2,158,654	**6,323,641**	7,906,831
Total		**2,711,718**	2,842,386	**8,404,355**	10,368,397

The accompanying notes are an integral part of the financial statements.

Statements of financial position
As of December 31, 2016 and 2015
(In thousands of Brazilian reais - R$)

	Note	Parent Company		Consolidated	
		2016	**2015**	**2016**	**2015**
Liabilities					
Current liabilities					
Loans and financing	16	**277,219**	127,598	**835,290**	1,396,623
Suppliers		**1,314**	6,873	**1,097,997**	900,682
Salaries, wages and benefits		**309**	384	**283,522**	250,635
Taxes payable	17	**119**	302	**146,174**	118,957
Taxes and landing fees		**-**	-	**239,566**	313,656
Transportation commitments	18	**-**	-	**1,185,945**	1,206,655
Mileage program	19	**-**	-	**781,707**	770,416
Advances from customers		**-**	-	**16,823**	13,459
Provisions	20	**-**	-	**66,502**	206,708
Obligations on derivative transactions	27	**-**	-	**89,211**	141,443
Other current liabilities		**2,252**	870	**106,005**	222,774
		281,213	136,027	**4,848,742**	5,542,008
Noncurrent liabilities					
Loans and financing	16	**2,984,495**	4,238,782	**5,543,930**	7,908,303
Provisions	20	**-**	-	**723,713**	663,565
Mileage program	19	**-**	-	**219,325**	221,242
Deferred taxes	8,2	**-**	-	**338,020**	245,355
Taxes payable	17	**-**	-	**42,803**	39,054
Liabilities with related parties	10	**21,818**	27,237	**-**	-
Provision for loss on investment	12	**3,074,190**	2,986,802	**-**	-
Other noncurrent liabilities		**-**	-	**44,573**	71,310
		6,080,503	7,252,821	**6,912,364**	9,148,829
Equity (deficit)	21				
Capital stock		**3,080,110**	3,080,110	**3,080,110**	3,080,110
Cost of issued shares		**(42,290)**	(41,895)	**(155,618)**	(155,223)
Treasury shares		**(13,371)**	(22,699)	**(13,371)**	(22,699)
Capital reserves		**91,399**	98,861	**91,399**	98,861
Equity valuation adjustments		**(147,229)**	(178,939)	**(147,229)**	(178,939)
Share-based payments	11	**113,918**	103,126	**113,918**	103,126
Effects of changes in equity interest		**693,251**	690,379	**693,251**	690,379
Accumulated losses		**(7,425,786)**	(8,275,405)	**(7,312,458)**	(8,162,077)
Equity (deficit) attributable to		**(3,649,998)**	(4,546,462)	**(3,649,998)**	(4,546,462)

controlling shareholders				
Non-controlling interests of Smiles	**-**	-	**293,247**	224,022
Total equity (deficit)	**(3,649,998)**	(4,546,462)	**(3,356,751)**	(4,322,440)
Total	**2,711,718**	2,842,386	**8,404,355**	10,368,397

The accompanying notes are an integral part of the financial statements.

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Statements of income
Fiscal years ended December 31, 2016 and 2015
(In thousands of Brazilian reais - R$, except basic and diluted earnings (loss) per share)

	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Net Revenue					
Passenger		**-**	-	**8,671,442**	8,583,388
Cargo and other		**-**	-	**1,195,893**	1,194,619
	22	**-**	-	**9,867,335**	9,778,007
Cost of services provided	23	**-**	-	**(7,558,122)**	(8,260,357)
Gross profit		**-**	-	**2,309,213**	1,517,650
Operating income (expenses)					
Selling expenses	23	**-**	-	**(1,004,476)**	(1,041,041)
Administrative expenses	23	**(7,276)**	(15,044)	**(709,460)**	(682,140)
Other operating income, net	23	**219,434**	25,695	**102,548**	25,695
		212,158	10,651	**(1,611,388)**	(1,697,486)
Equity results	12	**(18,955)**	(3,321,762)	**(1,280)**	(3,941)
Operating profit (loss) before income taxes and financial result		**193,203**	(3,311,111)	**696,545**	(183,777)
Financial result	24				
Financial income		**384,650**	26,212	**568,504**	332,567
Financial expenses		**(363,016)**	(291,082)	**(1,271,564)**	(1,328,891)
Exchange variation, net		**629,325**	(813,782)	**1,367,937**	(2,266,999)
		650,959	(1,078,652)	**664,877**	(3,263,323)
Income (loss) before income and social contribution taxes		**844,162**	(4,389,763)	**1,361,422**	(3,447,100)
Income and social contribution taxes					
Current		**-**	(11,031)	**(257,944)**	(196,140)
Deferred		**5,457**	(60,089)	**(1,114)**	(648,000)
	8	**5,457**	(71,120)	**(259,058)**	(844,140)
Net Income (loss) for the year before non-controlling interests		**849,619**	(4,460,883)	**1,102,364**	(4,291,240)
		849,619	(4,460,883)	**849,619**	(4,460,883)

Attributable to controlling shareholders					
Attributable to non-controlling interests of Smiles		**-**	-	**252,745**	169,643
Basic earnings (loss) per common share	13	**0.070**	(0.422)	**0.070**	(0.422)
Basic earnings (loss) per preferred share	13	**2.455**	(14.764)	**2.455**	(14.764)
Diluted earnings (loss) per common share	13	**0.070**	(0.422)	**0.070**	(0.422)
Diluted earnings (loss) per preferred share	13	**2.450**	(14.765)	**2.450**	(14.764)

The accompanying notes are an integral part of the financial statements.

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Statements of comprehensive income
Fiscal years ended December 31, 2016 and 2015
(In thousands of Brazilian reais - R$)

	Note	Parent Company 2016	Parent Company 2015	Consolidated 2016	Consolidated 2015
Net Income (loss) for the year		**849,619**	(4,460,883)	**1,102,364**	(4,291,240)
Other comprehensive income (loss) to be reclassified to profit or loss	27				
Cash flow hedges		**123,889**	(60,949)	**123,889**	(60,949)
Tax effect		**(92,179)**	20,723	**(92,179)**	20,723
		31,710	(40,226)	**31,710**	(40,226)
Total comprehensive income (loss) for the year		**881,329**	(4,501,109)	**1,134,074**	(4,331,466)
Comprehensive income attributable to:					
Controlling shareholders		**881,329**	(4,501,109)	**881,329**	(4,501,109)
Non-controlling interests of Smiles		**-**	**-**	**252,745**	169,643

Changes in the equity valuation adjustment account for the years ended December 31, 2016 and 2015 are as follows:

	Note	Parent Company and Consolidated: Cash flow hedges	Tax effect (*)	Total other comprehensive income (loss)
Balances as of December 31, 2015		**(271,118)**	**92,179**	**(178,939)**
Realized losses from financial instruments transferred to profit or loss	27	**128,731**	**(92,179)**	**36,552**
Fair value variation		**(4,842)**	**-**	**(4,842)**
Balances as of December 31, 2016		**(147,229)**	**-**	**(147,229)**

(*) The amounts related to deferred tax credits were fully reversed, pursuant to Note 8.2

	Parent Company and Consolidated		
	Cash flow hedges	**Tax effect**	**Total other comprehensive income (loss)**
Balances as of December 31, 2014	(210,170)	71,457	(138,713)
Realized losses from financial instruments transferred to profit or loss	66,253	(22,526)	43,727
Fair value variation	(127,201)	43,248	(83,953)
Balances as of December 31, 2015	(271,118)	92,179	(178,939)

The accompanying notes are an integral part of the financial statements.

Statements of changes in equity - Parent Company
Fiscal years ended December 31, 2016 and 2015
(In thousands of Brazilian reais - R$)

						Capital reserves		Equity valuation adjustments	
	Note	Capital stock	Shares to be issued	Cost of issued shares	Treasury shares	Goodwill on transfer of shares	Special goodwill reserve of subsidiary	Unrealized hedge gain (losses)	Sha pa
Balances as of January 1, 2015		2,618,748	51	(36,886)	(31,357)	32,387	70,979	(138,713)	
Other comprehensive income (loss), net		-	-	-	-	-	-	(40,226)	
Net loss for the year		-	-	-	-	-	-	-	
Capital increase for exercise of stock option		89	(51)	-	-	-	-	-	
Capital increase		461,273	-	-	-	-	-	-	
Cost of issued shares		-	-	(5,009)	-	-	-	-	
Stock options		-	-	-	-	-	-	-	
Equity interest dilution effects		-	-	-	-	-	-	-	
Transfer of restricted shares		-	-	-	8,658	(4,505)	-	-	
Balances as of December 31, 2015		3,080,110	-	(41,895)	(22,699)	27,882	70,979	(178,939)	
Other comprehensive income (loss), net		**-**	**-**	**-**	**-**	**-**	**-**	**31,710**	
Cost of issued shares	21	**-**	**-**	**(395)**	**-**	**-**	**-**	**-**	

Stock options	21	-	-	-	-	-	-	-
Equity interest dilution effects	12	-	-	-	-	-	-	-
Net income for the year		-	-	-	-	-	-	-
Transfer of restricted shares	11	-	-	-	**9,328**	**(7,462)**	-	-
Balances as of December 31, 2016		**3,080,110**	**-**	**(42,290)**	**(13,371)**	**20,420**	**70,979**	**(147,229)**

The accompanying notes are an integral part of the financial statements.

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Statements of changes in equity - Consolidated
Fiscal years ended December 31, 2016 and 2015
(In thousands of Brazilian reais - R$)

						Capital reserves		Equity valuation adjustments
	Note	**Capital stock**	**Shares to be issued**	**Cost of issued shares**	**Treasury shares**	**Goodwill on transfer of shares**	**Special goodwill reserve of subsidiary**	**Unrealized hedge gain (losses)**
Balances as of January 1, 2015		2,618,748	51	(150,214)	(31,357)	32,387	70,979	(138,713)
Other comprehensive income (loss), net		-	-	-	-	-	-	(40,226)
Net loss for the year		-	-	-	-	-	-	-
Capital increase for exercise of stock options		89	(51)	-	-	-	-	-
Capital increase		461,273						
Cost of issued shares		-	-	(5,009)	-	-	-	-
Stock options		-	-	-	-	-	-	-
Equity interest dilution effects		-	-	-	-	-	-	-
Transfer of restricted shares		-	-	-	8,658	(4,505)	-	-
Interest on equity distributed		-	-	-	-	-	-	-
Dividends distributed		-	-	-	-	-	-	-
Balances as of December 31, 2015		3,080,110	-	(155,223)	(22,699)	27,882	70,979	(178,939)

Other comprehensive income (loss), net		-	-	-	-	-	-	**31,710**
Capital increase for exercise of stock option in subsidiary		-	-	-	-	-	-	-
Cost of issued shares	21	-	-	**(395)**	-	-	-	-
Stock options	21	-	-	-	-	-	-	-
Equity interest dilution effects	12	-	-	-	-	-	-	-
Net income for the year		-	-	-	-	-	-	-
Transfer of restricted shares	11	-	-	-	**9,328**	**(7,462)**	-	-
Interest on equity distributed		-	-	-	-	-	-	-
Dividends distributed		-	-	-	-	-	-	-
Balances as of December 31, 2016		**3,080,110**	**-**	**(155,618)**	**(13,371)**	**20,420**	**70,979**	**(147,229)**

The accompanying notes are an integral part of the financial statements.

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Statements of cash flows

Fiscal years ended December 31, 2016 and 2015

(In thousands of Brazilian reais - R$)

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Net Income (loss) for the year	**849,619**	(4,460,883)	**1,102,364**	(4,291,240)
Adjustments to reconcile net lincome to net cash provided by operating activities				
Depreciation and amortization	**-**	-	**447,668**	419,691
Allowance for doubtful accounts	**-**	-	**9,806**	39,287
Provisions for legal proceedings	**-**	-	**189,244**	44,460
Reversal for inventory obsolescence	**-**	-	**-**	(414)
Deferred taxes	**(5,457)**	60,089	**1,114**	648,000
Equity results	**18,955**	3,321,762	**1,280**	3,941
Share-based payments	**775**	3,992	**13,524**	14,352
Exchange and monetary variations, net	**(463,800)**	133,681	**(1,149,616)**	1,723,441
Interest on loans and financial lease	**239,368**	247,024	**682,188**	600,410
Unrealized derivative results	**-**	-	**82,990**	18,475
Provision for profit sharing	**-**	-	**56,238**	10,633
Write-off of property, plant and equipment and intangible assets	**104,287**	-	**181,308**	25,069
Losses from capital increase in subsidiary	**-**	-	**1,368**	-
Other provisions	**-**	-	**16,232**	-
Securities buyback effect	**(286,799)**	-	**(286,799)**	-
Adjusted net income (loss)	**456,948**	(694,335)	**1,348,909**	(743,895)
Changes in operating assets and liabilities:				
Trade receivables	**-**	-	**(307,574)**	(149,623)
Short-term investments	**179,077**	658,506	**83,062**	309,749
Inventory	**-**	-	**16,648**	(60,140)
Deposits	**(7,479)**	(4,575)	**(323,641)**	21,077
Suppliers	**(5,559)**	6,436	**204,184**	210,474
Transportation commitments	**-**	-	**(20,710)**	105,044
Mileage program	**-**	-	**9,374**	211,940
Advances from customers	**-**	-	**3,364**	10,263
Salaries, wages and benefits	**(75)**	(135)	**(23,351)**	(15,438)
Taxes and landing fees	**-**	-	**(74,090)**	(1,492)
Taxes payable	**(183)**	8,600	**257,464**	233,930
Rights (obligations) on derivative transactions	**-**	-	**(13,384)**	(6,267)
Provisions	**-**	-	**(253,643)**	(61,386)
Other assets (liabilities)	**29,871**	11,520	**(94,774)**	98,625
Interest paid	**(325,397)**	(207,032)	**(606,405)**	(548,773)
Income tax paid	**-**	(11,034)	**(226,500)**	(213,555)
Net cash generated (used) in operating activities	**327,203**	(232,049)	**(21,067)**	(599,467)

Transactions with related parties	**(1,160,978)**	(731,174)	**-**	-
Short-term investments	**-**	-	**(45,651)**	(254,416)
Restricted cash	**46,091**	(60,762)	**542,107**	(403,854)
Capital increase in associate	**-**	-	**(3,439)**	-
Capital increase in subsidiary	**(191,587)**	(570,897)	**-**	-
Advances for property, plant and equipment acquisition, net	**555,519**	(121,132)	**536,444**	(167,646)
Property, plant and equipment	**-**	-	**(409,709)**	(391,731)
Intangible assets	**-**	-	**(29,656)**	(42,812)
Dividends received	**166,411**	161,189	**1,993**	1,302
Net cash generated (used) in investing activities	**(584,544)**	(1,322,776)	**592,089**	(1,259,157)
Loan funding	**-**	1,064,404	**-**	2,468,531
Securities repurchase costs	**(27,249)**	-	**(27,249)**	-
Loan payments	**(50,298)**	-	**(520,519)**	(1,632,039)
Finance lease payments	-	-	**(342,791)**	(409,519)
Dividends paid to non-controlling interests of Smiles	-	-	**(163,134)**	(119,256)

Statements of cash flows

Fiscal years ended December 31, 2016 and 2015

(In thousands of Brazilian reais - R$)

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Interest on equity paid to non-controlling interests of Smiles	-	-	**(8,695)**	(17,566)
Capital increase	-	461,311	**-**	461,311
Capital increase from non-controlling interests of Smiles	**-**	-	**-**	3,737
Cost of issued shares	**(395)**	(5,009)	**(395)**	(5,009)
Transactions with related parties	**(1,161)**	(155,876)	**-**	-
Net cash generated (used) in financing activities	**(79,103)**	1,364,830	**(1,062,783)**	750,190
Exchange variation on cash in foreign subsidiaries	**6,499**	117,954	**(18,364)**	281,993
Net increase in cash and cash equivalents	**(329,945)**	(72,041)	**(510,125)**	(826,441)
Cash and cash equivalents at beginning of the year	**387,323**	459,364	**1,072,332**	1,898,773
Cash and cash equivalents at end of the year	**57,378**	387,323	**562,207**	1,072,332

The accompanying notes are an integral part of the financial statements.

Value added statements

Fiscal years ended December 31, 2016 and 2015

(In thousands of Brazilian reais - R$)

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Revenue				
Passengers, cargo and other	**-**	-	**10,547,831**	10,383,999
Other operating income	**299,177**	25,695	**336,933**	25,695
Allowance for doubtful accounts	**-**	-	**16,207**	33,448
	299,177	25,695	**10,900,971**	10,443,142
Inputs acquired from third parties (including ICMS and IPI)				
Suppliers of fuel and lubricants	**-**	-	**(2,753,918)**	(3,373,404)
Material, power, third-party services and other	**(84,198)**	(9,716)	**(3,105,132)**	(2,965,855)
Aircraft insurance	**-**	-	**(35,938)**	(29,791)
Sales and marketing	**(215)**	(348)	**(572,388)**	(651,147)
Gross value added	**214,764**	15,631	**4,433,595**	3,422,945
Depreciation and amortization	**-**	-	**(447,668)**	(419,691)
Value added produced	**214,764**	15,631	**3,985,927**	3,003,254
Value added received in transfer				
Equity results	**(18,955)**	(3,321,762)	**(1,280)**	(3,941)
Financial income	**1,166,664**	445,273	**3,580,594**	3,707,628
Value added for distribution (distributed)	**1,362,473**	(2,860,858)	**7,565,241**	6,706,941
Distribution of value added:				
Salaries	**2,605**	5,087	**1,306,615**	1,259,919
Benefits	**-**	-	**152,874**	159,288
F.G.T.S.	**(57)**	(143)	**102,676**	100,473
Employees	**2,548**	4,944	**1,562,165**	1,519,680
Federal taxes	**(4,065)**	73,039	**916,170**	1,433,437
State taxes	**-**	-	**36,171**	29,536
Municipal taxes	**-**	-	**3,554**	1,746
Tax, charges and contributions	**(4,065)**	73,039	**955,895**	1,464,719
Interest	**514,371**	1,522,042	**2,883,728**	6,754,984
Rent	**-**	-	**1,059,007**	1,093,048
Other	**-**	-	**2,082**	165,750
Third-party capital remuneration	**514,371**	1,522,042	**3,944,817**	8,013,782
Income (loss) net for the year	**849,619**	(4,460,883)	**849,619**	(4,460,883)

Income for the year attributable to non-controlling interests of Smiles	**-**	-	**252,745**	169,643
Remuneration of own capital	**849,619**	(4,460,883)	**1,102,364**	(4,291,240)
Value added for distribution (distributed)	**1,362,473**	(2,860,858)	**7,565,241**	6,706,941

The accompanying notes are an integral part of the financial statements.

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Notes to the financial statements

Fiscal year ended December 31, 2016

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

1. Operations

Gol Linhas Aéreas Inteligentes S.A. (the “Company” or “GLAI”) is a publicly-listed company established on March 12, 2004, in accordance with Brazilian corporate legislation. The Company is engaged in controlling its subsidiaries: (i) Gol Linhas Aéreas S.A. (currently “GLA”, formerly “VRG Linhas Aéreas S.A.” prior to the change in the corporate name on September 22, 2016), which essentially explores (a) the regular and non-regular flight transportation services of passengers, cargo and mailbags, domestically or internationally, according to the concessions granted by the competent authorities; and (b) complementary activities of flight transport services provided in its By-laws; and (ii) Smiles S.A., which mainly operates (a) the development and management of its own or third party’s customer loyalty program, and (b) the sale of redemption rights of rewards related to the loyalty program.

Additionally, the Company is the direct parent Company of the wholly-owned subsidiaries GAC Inc. (“GAC”), Gol Finance Inc. (“Gol Finance”), Gol LuxCo S.A. (“Gol LuxCo”) and Gol Dominicana Lineas Aereas SAS (“Gol Dominicana”), and indirect parent Company of Webjet Participações S.A. (“Webjet”).

The Company’s registered office is at Pça.Comandante Linneu Gomes, s/n, portaria 3, prédio 24, Jardim Aeroporto, São Paulo, Brazil.

The Company’s shares are traded on the BM&FBOVESPA and on the New York Stock Exchange (“NYSE”). The Company adopted Level 2 Differentiated Corporate Governance Practices from BM&FBOVESPA and is included in the Special Corporate Governance Stock Index (“IGC”) and the Special Tag Along Stock Index (“ITAG”), which were created to identify companies committed to the differentiated corporate governance practices.

GLA is highly sensible to the volatility of the U.S. dollar, since approximately 50% of its costs are denominated in U.S. dollar. To overcome the challenges faced throughout 2016, the Company implemented a plan to maintain its liquidity and resume its operating margin. The plan, executed in 2016, was a success even in a scenario of adversities, due to the following actions:

(a) Implementation of liquidity initiatives through negotiations with customers and strategic suppliers to maintain solvency in the short term;

(b) Change in the route network to focus on the operation's most profitable routes.

(c) Adjustment and reduction on the number of aircraft maintained in the operation, which reduced the number of seats available, allowing the alignment between supply and demand in the domestic market. In 2016, the Company removed 19 aircraft from its fleet, contributing to the maintenance of the cost structure in sustainable levels.

(d) Adjustment of the debt and leasing structure, revising the values of the lease agreements, the early settlement of agreements under finance and operational lease, and the offer to exchange debt instruments, which, in addition to the impact from the appreciation of the Brazilian real, resulted in a reduction of approximately R$2 billion in total gross nominal debt.

As a result, for the year ended December 31, 2016, the Company maintained in safe levels its liquidity and ability to respond effectively to the adverse events caused by the instability of the Brazilian economic scenario.

The Company established several initiatives to adjust capacity based on short- and long-term liquidity. The diligent work performed to adjust the fleet size to economic growth and matching seat supply to demand are some of the initiatives implemented to maintain a high load factor. The Company will maintain a solid strategy by means of liquidity initiatives, such as the adjustment of the route network, initiatives to reduce costs and the adjustment of its debt structure.

It is worth noting that, even in a scenario with an outlook for improvement, the Company does not rule out uncertainties in Brazil's economic and political scenario that may directly impact the effectiveness of the expected returns.

Management understands that the business plan prepared, presented and approved by the Board of Directors on January 31, 2017, shows strong elements to continue as going concern.

On October 21, 2016, the Company announced that it has received requests from the IRS under a supervision to provide specific and concrete clarification of certain expenses incurred during the years 2012 and 2013. After these requests, the Company initiated an internal investigation and hired an independent external audit in order to perform a full investigation and clarification of the facts.

Due to this supervision, on December 12, 2016, the Company entered into a Leniency Agreement with the Federal Prosecutor Office, whereby it undertook, among other things, to pay fines and penalties if the Federal Prosecutor Office did not press criminal or civil charges related to the activities that are the object of the agreement that may represent administrative corruption, among others. There is no evidence that any of the employees, representatives and current managers of the Company were involved in the negotiation of said contracts, or that they were aware of any illegal purposes or that the Company illegally benefitted from said contracts. The external independent audit continues in progress and the Company is not aware of any impacts related to this disclosure that may affect its businesses.

2. Approval and summary of significant accounting policies applied in preparing the financial statements

These financial statements were approved by the Board of Directors and had their publication authorized at a meeting held on February 16, 2017.

2.1. Statement of compliance

The Company’s individual and consolidated financial statements have been prepared in accordance with the accounting practices generally accepted in Brazil, the International Financial Reporting Standards (“IFRS”), issued by the International Accounting Standards Board (“IASB”), and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), implemented in Brazil through the Accounting Pronouncements Committee (“CPC”) and its technical interpretations (“ICPC”) and guidelines (“OCPC”), approved by the Brazilian Securities and Exchange Commission (“CVM”) and Federal Accounting Council (“CFC”).

When preparing the financial statements, the Company uses the following disclosure criteria: (i) regulatory requirements; (ii) the relevance and specificity of the information on the Company’s operations provided to users; (iii) the information needs of the users of the financial statements; and (iv) information from other entities in the same sector, mainly in the international market. Accordingly, Management confirms that all the material information presented in these financial statements is being demonstrated and corresponds to the information used by Management in the course of its duties.

2.2. Basis of preparation

These financial statements were prepared based on historical cost, except for certain financial assets and liabilities that are measured at fair value and investments measured using the equity method.

The Company’s individual and consolidated financial statements for the years ended December 31, 2016 and 2015 have been prepared assuming that it will continue as going concern, realizing assets and the settling liabilities in the normal course of business.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

Except for the subsidiary Gol Dominicana, whose functional currency is the U.S. dollar, the functional currency of all the other group entities is the Brazilian real. The presentation currency of the consolidated financial statements is the Brazilian real.

Consolidation criteria

The consolidated financial statements comprise Gol Linhas Aéreas Inteligentes S.A. and its direct and indirect subsidiaries and associates, as follows:

Entity	Date of constitution	Location	Operational activity	Type of control	% equity interest 12/31/2016	12/31/2015
Extensions (*):						
GAC	03/23/2006	Cayman Islands	Aircraft acquisition	Direct	**100.0**	100.0
Gol Finance	03/16/2006	Cayman Islands	Financial funding	Direct	**100.0**	100.0
Gol LuxCo	06/21/2013	Luxembourg	Financial funding	Direct	**100.0**	100.0
Subsidiaries:						
GLA	04/09/2007	Brazil	Flight transportation	Direct	**100.0**	100.0
Webjet	08/01/2011	Brazil	Flight transportation	Indirect	**100.0**	100.0
Smiles	06/10/2012	Brazil	Frequent flyer program	Direct	**53.8**	54.1
Gol Dominicana	02/28/2013	Dominican Republic	Non-operational	Direct	**100.0**	100.0
Jointly controlled:						
SCP Trip	04/27/2012	Brazil	Flight magazine	Indirect	**60.0**	60.0
Associate:						
Netpoints	11/08/2013	Brazil		Indirect	**25.4**	21.3

Frequent flyer
program

(*) These are entities constituted with the specific purpose of pursuing with the Company's operations or which represent rights and/or obligations established solely to meet the Company's needs. They have no management bodies and cannot take independent decisions. The assets and liabilities of these companies are consolidated line by line in the Parent Company's financial statements.

The Company maintained the same accounting practices applied in previous years in all consolidated entities. All transactions, balances, revenues and expenses between the consolidated entities are fully excluded from the consolidated financial statements.

The summary of the main accounting policies adopted by the Company and its subsidiaries is as follows:

a) <u>Cash and cash equivalents, short-term investments and restricted cash</u>

The Company classifies under cash equivalents investment funds and securities with immediate liquidity, which, pursuant to the Company's assessment, are readily convertible to a known amount of cash with insignificant risk of change in value. Restricted cash comprises mainly financial investments measured at fair value through profit or loss, used as guarantees linked to financial instruments and short- and long-term financing. Short-term investments also include exclusive investment funds, which are fully consolidated.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

b) Trade receivables

Trade receivables are measured based on cost (net of estimated losses from doubtful accounts) and approximate their fair value, given their short-term nature. An allowance for doubtful accounts is recorded for accounts more than 90 days overdue related to cargo sales and sales carried out by travel agencies paid in installments, and for accounts more than 180 days overdue related to sales carried out by partner airlines. Additionally, the Company carries out a case-by-case analysis to assess the risk of default in specific cases.

c) Inventories

They consist mainly of spare parts and maintenance and replacement materials. Costs are calculated based on the average cost and include the expenses incurred in the acquisition and transportation to their current location. Provisions for inventory obsolescence are recorded for items that are not expected to be realized.

d) Financial assets and liabilities

The Company measures financial assets and liabilities based on the categories below. The subsequent measurement of a specific item depends on the classification of the instrument, which is determined at initial recognition and annually reviewed in accordance with the Company's intentions. Said instruments comprise financial investments, investment in debt instruments, trade receivables and other receivables, loans and financing, other payables, other debt and derivative contracts.

Measured at amortized cost: with fixed or determinable payments not quoted in an active market, they are measured at amortized cost based on the effective interest rate method. Monetary restatement, interest and exchange variation, less impairment losses (where applicable), are recognized as financial revenue or expenses in profit or loss, when incurred. The Company's main assets in this category are the balances of trade receivables, deposits and other receivables, short-and long-term loans and financing (including finance leases) and trade payables.

Measured at fair value through profit or loss or held for trading: interest rates, monetary restatement, exchange variation and variations arising from the fair value measurement are recognized in profit or loss under as finance income or expenses. The Company has investments classified as cash equivalents, short-term investments and restricted cash in this category. The Company does not hold financial instruments held for trading.

Derivatives: changes in fuel prices, interest rates and exchange rates expose the Company and its subsidiaries to risks that may affect their financial performance. In order to mitigate said risks, the Company contracts derivative financial instruments that may or may not be designated for hedge accounting. If they are designated for hedge accounting, they are classified as cash flow hedge or fair value hedge.

- Not designated for hedge accounting: the Company can contract derivative financial instruments not designated for hedge accounting when the Risk Management goals do not require this classification. Changes in the fair value of operations not designated for hedge accounting are booked directly in the financial result.

- Designated as cash flow hedge: hedge future revenues or expenses against interest rate variations. The effectiveness of said variations is estimated based on statistical methods of correlation and on the ratio between hedging gains and losses and the variation of hedged costs and expenses. The instruments are effective when the change in the value of the derivatives offsets between 80% and 125% of the impact of the variation of the hedged risk. Effective fair value variations are booked in equity under "Other comprehensive income" until the hedged revenue is recognized in the same line of the income statement in which said item is recognized, while ineffective variations are booked in profit or loss under "Financial Result", based on the change in the fair value of the instrument. The deferred taxes over hedge transactions are recognized under "Other comprehensive results", net of taxes, only when there is expectation of the tax credit realization.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

Derecognition and write-off: the Company only writes off a financial item when the contractual rights and obligations of the cash flows arising from this item expire, or when it transfers substantially all its risks and benefits to a third party. If the Company does not transfer or retain substantially all the risks and benefits together with the ownership of the financial item, but continues to control or maintain an obligation regarding said object, it recognizes the interest held and the respective liability in payables. If it retains substantially all the risks and benefits of ownership of the transferred financial asset, the asset will continue being recognized by the Company.

Hedge accounting is likely to be discontinued prospectively when (i) the Company and its subsidiaries cancel the hedge relationship; (ii) the derivative instrument matures or is sold, terminated or executed, (iii) the hedged object is unlikely to be realized, or (iv) it no longer qualifies as hedge accounting. If the operation is discontinued, any gains or losses previously recognized under “Other comprehensive income” and accrued in equity until that date are recognized in profit or loss when the transaction is also recorded in profit or loss. When the transaction is unlikely to occur, gains or losses accrued and deferred in equity are immediately booked in the result.

e) Deposits

Deposits for aircraft and engine maintenance: refer to payments in U.S. dollars to lessors for the future maintenance of aircraft and engines. These assets are substantially realized when the deposits are used to pay workshops for maintenance services or through the receipt of funds, in accordance with the negotiations carried out with the lessors. The exchange variation of payments, net of the use for maintenance, is recognized as revenue or expense in the financial result. Management carries out periodical analyses of the recovery of these deposits based on such amounts values on future maintance events, if applicable, and believes that the amounts recorded in the statements of financial position can be realized.

Some agreements establish that the amounts deposited for said operation are not refundable if maintenance is not carried out and said deposits are not used. These amounts are withheld by the lessor and represent payments made for the use of the parts until the date of return. Amounts classified in this category are directly recognized in profit or loss, based on the payments made, under “Maintenance services”.

Additionally, the Company maintains agreements with some lessors to replace deposits with letters of credit, which can be executed by the lessors if aircraft and engine maintenance does not occur in accordance with the inspection schedule. Several aircraft lease agreements do not require maintenance deposits and have the letters of credit to ensure that maintenance occurs in the scheduled periods. Until December 31, 2016, no letter of credit had been executed against the Company.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

Deposits and collateral for lease agreements: deposits and guarantees are denominated in U.S. dollar and monthly adjusted for the exchange variation, without interest income, and refundable to the Company at the end of the lease agreements.

f) Operating leases and sale-leaseback

The portions arising from lease agreements classified as operating leases are recorded as an expense in profit or loss on a straight-line basis during the term of the agreement and presented under “aircraft lease”. The future payments of these agreements do not represent an obligation recorded in the statements of financial position; however, the commitments assumed are presented in Note 26.

Gains or losses arising from the Company’s sale-leaseback transactions classified after the sale of rights as operating lease are recognized as follows:

- Immediately in profit or loss when the transaction was measured at fair value;

- If the transaction price was established below or above the fair value, gains or losses are immediately recognized in profit or loss, unless the result is offset by future lease payments below market value (gains or losses are deferred and amortized in proportion to the lease payments during the year the asset is expected to be used);

The balance of deferred losses is recognized as a prepaid expense, while the balance of deferred gains is recognized as other obligations. The segregation between short and long term is recognized in accordance with the contractual term of the lease that originated such transaction.

g) Property, plant and equipment

Property, plant and equipment items, including rotables, are recorded at the acquisition or construction cost and include interest and other financial charges. Each component of the property, plant and equipment item that has a significant cost in relation to the total amount of the asset is depreciated separately. The estimated economic useful life of property, plant and equipment items, for depreciation purposes, is shown in Note 14.

The estimated market value at the end of the useful life of the item is used as an assumption to calculate the residual value of Company’s property, plant and equipment items. Except for aircraft classified as finance leases, other items do not have a residual value. The assets’ residual value and useful lives are annually reviewed by the Company: any variations arising from changes in the expected realization of these items result in prospective changes, in which the residual value is depreciated based on the remaining period of the new expected useful life.

Property, plant and equipment is tested for impairment when facts or changes in the circumstances show that the carrying amount is higher than the estimated recoverable value.

A property, plant and equipment item is written-off after sale or when there are no future economic benefits resulting from the asset’s continuous use. Any gain or loss from the sale or write-off of an item is determined by the difference between the amount received for the sale and the carrying amount of the asset and is recognized in profit or loss.

Additionally, the Company adopts the following treatment for the groups below:

Advances for aircraft acquisition: refer to prepayments in U.S. dollars to Boeing for the acquisition of 737-800 Next Generation and 737-MAX aircraft. The advances are converted at the historical rate.

Lease agreements: in cases of finance leases agreement, in which the risks and benefits of the leased asset are transferred to the Company, the asset is recognized in the statements of financial position. At the beginning of the lease term, the Company recognizes finance leases as assets and liabilities at amounts equivalent to the fair value of the leased asset or, if lower, at the present value of the lease’s minimum payments. The initially recognized liability is held as financing.

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Notes to the financial statements

Fiscal year ended December 31, 2016

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

Leased assets are depreciated throughout their useful lives. However, when there is no reasonable certainty that the Company will obtain ownership at the end of the lease, the asset is depreciated throughout its estimated useful lives or during the lease term, whichever is lower.

Other aircraft and engine leases are classified as operating lease and payments are recognized as an expense on a straight-line basis during the term of the agreement.

Aircraft reconfiguration expenses: the Company makes additions to provisions for aircraft reconfiguration, estimating the costs inherent in returns, considering the contractual conditions of the leased aircraft, pursuant to Note 14. After initial recognition, the asset is depreciated on a straight-line basis for the term of the agreement.

Capitalization of major engine and aircraft maintenance expenses: major maintenance expenses (including labor and replacement parts) are only capitalized when the estimated useful life of the engine or aircraft is extended. These costs are capitalized and depreciated until the next major maintenance stoppage. Any incurred expenses that do not extend the useful life of engines or aircraft, or those related to other aircraft components, are directly recognized in profit or loss.

h) Intangible assets

These are non-monetary assets without physical property, which are tested for impairment on an annual basis or when there is strong evidence of changes in the circumstances that indicate that the carrying amount may not be recovered.

Goodwill based on the expectation of future profitability: Goodwill is annually tested for impairment by comparing the carrying amount with the recoverable fair value of the cash-generating unit (GLA and Smiles). Management makes judgements and assumptions to assess the impact of macroeconomic and operational changes in order to estimate future cash flows and measure the recoverable value of assets.

Airport operation rights: acquired in the acquisition of GLA and da Webjet and recognized at fair value on the acquisition date, they are not amortized. The estimated useful life of these rights was considered indefinite due to several factors and considerations, including permission authorizations and requirements to operate in Brazil and the limited availability of use rights in major airports in terms of air traffic volume. These rights, together with GLA's cash-generating unit (route network), are tested for impairment on an annual basis or when there are changes in the circumstances that indicate that the carrying amount may not be recovered. No impairment losses have been recorded until now.

Software: software acquisition or development costs that can be separated from a hardware item are separately capitalized and amortized on a straight-line basis during the contract term.

i) Income and social contribution taxes

Income and social contribution tax expenses consist of the sum of current and deferred taxes.

Current taxes: the provision for income and social contribution taxes is based on taxable income for the year. The calculation is in compliance with the current tax legislation.

Deferred taxes: are recognized on temporary differences, income tax losses and negative basis of social contribution at the end of each reporting period between the asset and liability balances reported in the financial statements and the corresponding tax bases used to calculate taxable income.

The book value of deferred tax assets is reviewed at each reporting date and written off when it is likely that taxable income will no longer be available to allow deferred tax assets to be realized in full or in part.

Deferred taxes of items directly recorded in equity are recorded in equity, rather than in the income statement. Deferred tax items are recognized in accordance with the transaction that originated the deferred tax, in comprehensive income or directly in equity, and evaluated together with other temporary differences regarding their likelihood of realization.

Tax credits arising from tax losses and negative basis of social contribution are recorded based on the expected generation of future taxable income of the parent company and its subsidiaries, pursuant to legal limitations.

The projections of future taxable income on tax losses and negative basis of social contribution are prepared based on the business plans, reviewed annually and approved by the Company’s Board of Directors.

j) Provisions

Provisions are recognized when the Company has a legal or constructive obligation arising from a past event, and it is likely that it will disburse funds to settle it.

Provision for aircraft return: aircraft under operating lease have a contractual obligation to return the equipment based on pre-defined operating capacity. In these cases, the Company records provisions for return costs, since these are present obligations arising from past events that will generate future disbursements, which are measured with reasonable certainty. These expenses refer mainly to aircraft reconfiguration (interior and exterior), the obtaining of licenses and technical certifications, painting, etc., pursuant to contractual return clauses. The estimated cost is initially recorded at present value. The corresponding entry for the provision for aircraft return is “aircraft reconfiguration/improvements” in property, plant and equipment (see Note 14). After initial recognition, liabilities are restated using the discount rate estimated by the Company by crediting the financial result. Changes in the estimate of expenses to be incurred are recorded prospectively.

Provision for engines return: are estimated based on the minimum contractual conditions in which the equipment must be returned to the lessor, observing the historical costs incurred and the equipment conditions at the moment of the evaluation. Said provisions are recorded in profit or loss as of the time the contractual requirements are met and the next maintenance is scheduled for a date after the engines are expected to be returned. The Company estimates the provision for engine return in accordance with the costs to be incurred and, when the amount can be reliably estimated, the amount of a provision will be the present value of the expenses expected to be required to settle the obligation. The term will be based on the expected date of return of the leased aircraft, i.e., the duration of the lease agreement.

Provision for legal proceedings: Provisions are recognized and reassessed for all lawsuits that represent probable losses in accordance with the individual assessment of each proceeding taking into account the estimated financial outlay. If the Company expects the provision to be reversed in full or in part, the reversal is recognized as separate asset. Expenses related to any provision are recorded in profit or loss for the year, net of any reversals.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

k) Revenue recognition

Passenger revenue is recognized when air transportation services are effectively provided. Tickets sold but not yet used are recorded as transportation services to be provided and represent deferred revenue of tickets sold to be used on a future date, net of tickets that will expire in accordance with the Company's expectation (breakage). Breakage is the statistical calculation, based on historical figures, of tickets that expire without being used, i.e., passengers who acquired tickets and are not likely to use them. The Company periodically updates breakage balances in order to reflect the behavior of the expired tickets.

From a consolidated perspective, the revenue recognition cycle related to miles exchanged for flight tickets is only complete when the passengers are effectively transported.

Cargo revenue is recognized when transportation is provided. Other revenues include charter services, sales on board, ticket exchange fees and other additional services and are recognized when the service is performed.

l) Deferred revenue and miles revenue

The purpose of the Smiles Program is to increase customer loyalty by granting mileage credit to its members. The obligation generated by the issue of miles is measured based on the price at which miles are sold to airline and non-airline partners of Smiles, classified as the fair value of the transaction. Revenue is recognized in profit or loss for the year when miles are redeemed by the members of the Smiles Program in exchange for rewards with its partners.

m) Share-based payments

Stock options: the fair value of stock options granted to the executives is estimated on the grant date using the Black-Scholes pricing model and the expense is recognized in profit or loss during the vesting period, based on estimates of which shares granted will eventually be acquired with a corresponding increase in equity.

Restricted shares: restricted shares are transferred to the beneficiaries three years after the grant date, provided that the beneficiary maintains its employment relationship up to the end of this period. The transfer occurs through shares held in treasury, whose value per share is determined by the market price on the date it is transferred to the beneficiary. Gains from changes in the fair value of the share between the grant date and the transfer date of the restricted shares are recorded in equity, under “Goodwill on the transfer of shares”.

The impact of the revision of the number of stock options or restricted shares that will not be acquired in relation to the original estimates, if any, is recognized in profit or loss so that the accrued expense reflects the revised estimates with the corresponding adjustment in equity.

n) <u>Segments</u>

The Company has two operating segments:

Air transportation segment*:* its operations originate from its subsidiary GLA for the provision of air transportation services and the main assets that generate revenue are the company’s aircraft. Other revenues are mainly originated from cargo operations, excess baggage and cancellation fees, all of which are directly related to air transportation services.

Loyalty program segment: the operations of this segment are represented by the sale of mileage to air and non-air partner companies. This includes the management of the program, the sale of reward redemption rights and the creation and management of an individual and corporate database. The main cash-generating asset is the program’s member portfolio.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

o) Foreign currency transactions

Transactions in foreign currency are recorded at the exchange rate in effect on the transaction date. Monetary assets and liabilities designated in foreign currency are calculated based on the exchange rate on the reporting sheet date and any difference arising from currency translation is recorded under "Exchange variation, net" in the statement of income.

p) Value added statement ("DVA")

Its goal is to demonstrate the wealth created by the Company and its distribution in a given year; it is presented by the Company as required by Brazilian Corporation Law as part of its individual financial statements and as supplementary information to the consolidated financial statements, since it is not provided for or required by IFRS. The value added statements were prepared based on information obtained in the accounting records, pursuant to CPC 09 – "Value added statements".

q) Main accounting estimates and assumptions adopted

The preparation of these financial statements often requires Management to make assumptions, judgments and estimates that may affect the application of policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates since they are based on past experience and several factors deemed appropriate given the circumstances. The revisions of accounting estimates are recognized on the same year in which the assumptions are prospectively revised.

The estimates and assumptions that represent a significant risk of material adjustments to the book value of assets and liabilities are presented below:

Impairment of financial assets: the Company tests all its financial assets for impairment on each reporting date or when there is evidence that the carrying amounts may not be recovered. Any difficulty and/or restriction in the use of financial assets belonging to the Company is an evidence that the impairment test should be performed.

Impairment of non-financial assets: at the end of each year, the Company tests all non-financial assets, especially property, plant and equipment and intangible assets for impairment. The recoverable amounts are calculated by their value in used based on a five-year period, using discounted cash flow assumptions. Any amount below the asset’s carrying amount should be recognized as an impairment loss in profit or loss for the year when it occurred. For further information, see Note 14.

Income tax: The Company believes that the tax positions assumed are reasonable, but recognizes that authorities may question such positions, which may result in additional tax and interest liabilities. The Company recognizes provisions based on considerable judgement by Management. These provisions are reviewed and adjusted to reflect changes in circumstances, such as the expiration of the applicable statute of limitation, tax authorities’ conclusions, additional exposure based on the identification of new legal issues or decisions impacting certain tax issues. Actual results may differ from the estimates.

Breakage: as part of the revenue recognition process, issued tickets that will not be used and mileage that will not be redeemed are estimated and recognized as revenue during the term of maturity of the client’s right to use them. These estimates, referred to as breakage, are annually reviewed and are based on historical data of expired tickets and mileage.

Allowance for doubtful accounts: an allowance for doubtful accounts is recognized in an amount considered sufficient to cover eventual losses in the realization of trade receivables. The Company assesses its receivables portfolio on a regular basis and, based on historical data and risk analyses on a customer by customer basis, recognizes a provision for securities with low expectation of being realized.

Provision for legal proceedings: the provision is recognized based on the assessment of available evidence, including the opinion of the Company's internal and external legal counsel, the nature of the proceedings and past experience. In addition, provisions are reviewed on a regular basis and Management believes that the amounts recognized are compatible with the likelihood of loss of each proceeding. Nevertheless, material changes in court rulings may significantly impact the Company's financial statements.

Provision for aircraft return: the Company records a provision for aircraft return considering the costs to be incurred when the aircraft is returned and contractual conditions by debiting property, plant and equipment.

Provision for engine return: is calculated based on the estimate corresponding to the contractual obligation for the return of each engine and for recorded in profit or loss in interval between the last maintenance and the date of return of the components.

Fair value of financial instruments: when the fair value of financial assets and liabilities presented in the statements of financial position cannot be quoted in active markets, it is determined using valuation techniques, including the discounted cash flow method. The data used in these methods are based on those practiced by the market, when possible; however, when this is not possible, a certain level of judgment is required to determine the fair value. The judgment includes considerations about the data used, such as liquidity risk, credit risk and volatility. Changes in the assumptions about these factors could affect the fair value of the financial instruments.

2.3. New standards, amendments and interpretations of standards

IFRS 9 (CPC 48) – Financial instruments:

In July 2014, IASB issued the final version of “IFRS 9 – Financial Instruments”, which reflects all the phases of the financial instrument project and replaces “IAS 39 – Financial Instruments: Recognition and Measurement” and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. IFRS 9 will be effective for annual periods beginning on or after January 1, 2018, with early adoption being permitted. The Company intends to adopt the standard on the effective date. This standard must be applied retrospectively; however, it is not mandatory to present comparative data. The adoption of IFRS 9 will affect the classification and measurement of the Company’s financial assets and, based on the instruments in effect until the moment, the Company does not expect significant impacts on the classification and measurement of its financial liabilities.

IFRS 15 (CPC 47) – Revenue from Contracts with Customers

In 2014, the International Accounting Standards Board (IASB) issued standard IFRS15 - Revenue from Contracts with Customers, which will be in effect for fiscal years beginning on or after January 1, 2018. IFRS15 (CPC47 - under public hearing process) 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. The Company expects to adopt the new standard on the date it becomes effective using the full retrospective method. In 2016, the Company carried out a preliminary 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, the Company believes that the recognition of the following revenues may change compared with the current format:

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Fiscal year ended December 31, 2016

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

a) Passenger revenue arising from shared flight agreements: corresponds to agreements where two or more airlines unite to deliver air transportation services. In situations when the Company will work as the principal, revenue will be recognized based on the gross value of the transaction (price of the ticket to the final customer), rather than on the portion that corresponds only to the service provided by the Company.

b) Ancillary revenue: comprises all revenue linked to air transportation services, such as excess baggage, rebooking fees, refunds, among others. These revenues must be assessed and classified as “distinct” or “related to the main service”, and are recognized when incurred. In this regard, the Company does not expect significant changes, since these revenues are already recognized based on their nature, at the moment of recognition of passenger transportation revenue. Accordingly, the recognition of ancillary revenue is already aligned with the new standard.

c) Recognition of revenue from the loyalty program: considering that the Smiles program works as a separate entity and that the allocation of the fair value corresponds to the amount for which the mile has been sold, the Company does not expect any material impact on the calculation of the transaction price for separate performance obligations.

d) Breakage revenue: comprises the expectation of mileage and tickets that are not likely to be used by the customer. To recognize these revenues, the Company uses analysis tools and statistical data that allow the estimate to be calculated with a reasonable level of certainty. Given the standard’s specific requirements regarding this, the Company does not believe that the implementation of IFRS 15 will cause material impacts.

Although the pronouncement allows for early adoption as of January 1, 2017, the Company will only adopt the new standard as of January 1, 2018. Additionally, the Company will continue assessing the impacts from the adoption of the new standard and will disclose additional impacts as the analyses are concluded.

IFRS 16 – Leases

In January 2016, the IASB issued the final version of "IFRS 16 – Leases", which establishes the principles for recognizing, measuring and disclosing leases. IFRS 16 will be effective for annual periods beginning on or after January 1, 2019. Internationally, initial adoption is permitted as of January 01, 2018, but in Brazil early adoption of this standard is not permitted by the CVM. IFRS 16 establishes that, for most leases, the lessor will recognize an asset related to the right of use of the identified asset, as well as the liability related to the lease. Since 96 of the Company's 130 aircraft are leased, the adoption of this standard will have a material impact on the Company, with the potential increase in the assets corresponding to the right of use and liabilities corresponding to leases, which will be recorded in the statements of financial position as of the adoption date.

Additionally, the following new standards, amendments and interpretations were issued or revised by IASB and applied for the first time in 2016:

• Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortization – The amendments are applicable prospectively for annual periods beginning on or after January 1, 2016;

• Amendments to IAS 27 – Equity Accounting in Separate Financial Statements – The amendments are applicable prospectively for annual periods started on or after January 1, 2016;

Annual improvements –2012-2014 Cycle – Applicable to annual periods started on or after July 1, 2016;

Notes to the financial statements

Fiscal year ended December 31, 2016

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

- IFRS 7 Financial Instruments – Disclosure: (i) clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset and, (ii) the applicability of the amendments to IFRS 7 to the condensed interim financial information. This amendment must be applied retrospectively;

- IAS 34 Preparation and disclosure of interim financial reporting. This amendment must be applied retrospectively;

- Amendment to IAS 1 – Disclosure Initiative – The amendments are applicable prospectively to annual periods beginning on January 1, 2016, with early adoption being allowed;

- Amendments to IFRS 10, IFRS 12 and IAS 28 – Investment Entities: Applying the Consolidation Exception – The amendments are applicable prospectively to annual periods beginning on January 1, 2016, with early adoption being allowed.

According to Management, there are no other standards and interpretations issued and not yet adopted that may have a significant impact on the result or equity disclosed by the Company.

Notes to the financial statements

Fiscal year ended December 31, 2016

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

3. Cash and cash equivalents

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Cash and bank deposits	**17,978**	369,924	**246,528**	629,638
Cash equivalents	**39,400**	17,399	**315,679**	442,694
	57,378	387,323	**562,207**	1,072,332

The breakdown of cash equivalents is as follows:

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Private bonds	**31,267**	17,018	**45,882**	207,997
Investment funds	**8,133**	381	**269,797**	234,697
	39,400	17,399	**315,679**	442,694

As of December 31, 2016, the private securities were comprised by private bonds (Bank Deposit Certificates - “CDBs”), repos and time deposits, paid at a weighted average rate equivalent to 52% (97% as of December 31, 2015) of CDI rate.

Investment funds classified as cash equivalents have high liquidity and are readily convertible to a known amount of cash with insignificant risk of change in value.

4. Short-term investments

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Private bonds	**-**	195,293	**77,080**	196,283
Government bonds	**-**	-	**41,104**	12,769

Investment funds	**49**	-	**313,049**	282,668
	49	195,293	**431,233**	491,720

As of December 31, 2016, the private bonds were represented by time deposits and short-term investments with first-rate financial institutions, paid at a weighted average rate equivalent to 38% (110% as of December 31, 2015) of CDI rate.

Government bonds are primarily represented by LFT, LTN and NTN yielding an average 102% (98% as of December 31, 2015) of the CDI rate.

Investment funds include private funds and bonds remunerated at a weighted average rate of 101% (83% as of December 31, 2015) of the CDI rate. subject to significant changes in the amounts.

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Notes to the financial statements

Fiscal year ended December 31, 2016

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

5. Restricted cash

	Parent Company		Consolidated	
	2016	**2015**	**2016**	**2015**
Margin deposit for hedge transactions (a)	**-**	-	**-**	101,075
Escrow deposits for letter of guarantee (b)	**2,114**	3,134	**15,721**	359,604
Escrow deposits (c)	**29,360**	30,577	**67,345**	63,978
Escrow deposits - Leases (d)	**-**	-	**78,015**	158,835
Escrow deposits - Citibank (e)	**-**	48,810	**-**	48,810
Other restricted deposits	**1,182**	262	**7,688**	3,102
	32,656	82,783	**168,769**	735,404
Current	**-**	59,324	**-**	59,324
Noncurrent	**32,656**	23,459	**168,769**	676,080

(a) The balance as of December 31, 2015 refers to US$27,411, denominated in U.S. dollars and remunerated by Libor rate (average remuneration of 0.5% p.a.).

(b) In the year ended December 31, 2016, the Company repaid loans from Banco Safra and therefore redeemed the amount of R$117,618 related to GLA's guaranteed operations and R$68,333 related to Webjet's guaranteed operations. Additionally, the Company redeemed R$100,000 relating to Finimp transactions settled (see Note 16). The remaining amounts relate primarily to court deposits related to labor claims and Finimp agreements.

(c) The amount of R$29,360 (parent company and consolidated) refers to a contractual guarantee for STJs related to PIS and Cofins on interest attributable to shareholders' equity paid to GLAI as described in Note 20. The other amounts relate to guarantees of GLA letters of credit.

(d) Related to deposits required to obtain letters of credit for aircraft operating leases from GLA.

(e) The balance as of December 31, 2015 refers to additional escrow deposits with Delta Air Lines for issuing credit with surety. In the year ended December 31, 2016, the Company had not exceeded the contractual limits that would require a deposit of this type, therefore the balance was fully redeemed.

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Notes to the financial statements

Fiscal year ended December 31, 2016

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

6. Trade Receivables

	Consolidated	
	2016	**2015**
Local currency:		
Credit card administrators	**345,798**	115,236
Travel agencies	**228,089**	248,644
Cargo agencies	**41,926**	31,916
Airline partner companies	**4,153**	3,056
Other	**66,774**	52,651
	686,740	451,503
Foreign currency:		
Credit card administrators	**49,104**	32,725
Travel agencies	**16,323**	9,704
Cargo agencies	**2,215**	321
Airline partner companies	**31,200**	18,756
Other	**8,837**	-
	107,679	61,506
	794,419	513,009
Allowance for doubtful accounts	**(34,182)**	(50,389)
	760,237	462,620

The aging list of trade receivables is as follows:

Consolidated