As submitted to the Securities and Exchange Commission on April 30, 2020.

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2019

OR

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

For the transition period from _______________ to _______________

OR

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

Date of event requiring this shell company report

Commission file number: 001-38049

Azul S.A.

(Exact name of Registrant as specified in its charter)

N/A
(Translation of the Registrant's name into English)

Federative Republic of Brazil
(Jurisdiction of incorporation or organization)

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

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

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

928,965,058 Common Shares

329,568,166 Preferred Shares

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer ☒
Accelerated filer ☐
Non-accelerated filer ☐
Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

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

U.S. GAAP ☐
International Financial Reporting Standards as issued by the International Accounting Standards Board. ☒
Other ☐

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

Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court:

Yes ☐ No ☐

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INTRODUCTION

In this annual report, the discussion of our business includes the business of Azul S.A. and its direct and indirect subsidiaries. Unless otherwise indicated or the context otherwise requires, "Azul" "we," "us," "our" or the "Company" refer to Azul S.A. and its consolidated subsidiaries. The term "Brazil" refers to the Federative Republic of Brazil and the phrase "Brazilian government" refers to the federal government of Brazil. "Central Bank" refers to Banco Central do Brasil. References in the annual report to "real," "*reais*" or "R$" refer to the Brazilian real, the official currency of Brazil and references to "U.S. dollar," "U.S. dollars" or "US$" refer to U.S. dollars, the official currency of the United States.

GLOSSARY OF AIRLINE AND OTHER TERMS:

The following is a glossary of industry and other defined terms used in this annual report:

- "ABEAR" means the Brazilian Association of Airline Companies (*Associação Brasileira das Empresas Aéreas*).
- "ABRACORP" means the Brazilian Corporate Agencies Association (*Associação Brasileira de Agências Corporativas*).
- "ADR" means American depositary receipts.
- "*Aeroportos Brasil*," a private consortium that operates Viracopos airport jointly with INFRAERO.
- The "Águia Branca Group," or "Grupo Águia Branca," is a Brazilian transportation and logistics conglomerate controlled by the Chieppe family.
- "Airbus" means Airbus S.A.S.
- "Airbus Group" means Airbus Group N.V.
- "aircraft utilization" represents the average number of block hours operated per day per aircraft for our operating fleet, excluding spare aircraft and aircraft in maintenance.
- "ANAC" refers to the Brazilian National Civil Aviation Agency (*Agência Nacional de Aviação Civil*).
- "Atlantic Gateway" means Atlantic Gateway, SPGS, Lda., an entity jointly owned by our principal shareholder, Hainan and another European investor.
- "ATR" means aircraft with turboprop propulsion manufactured by Avions de Transport Régional G.I.E.
- "audited consolidated financial statements" means our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017.
- "available seat kilometers," or "ASKs," represents aircraft seating capacity multiplied by the number of kilometers the aircraft is flown.
- "AVB" means AVB Holding S.A.
- "average fare" means total passenger revenue divided by passenger flight segments.
- "average ticket revenue per booked passenger" means total passenger revenue divided by booked passengers.
- "Avianca Brasil" means Oceanair Linhas Aéreas S.A.
- "Avolon" means Avolon Holdings Limited.
- "block hours" means the number of hours during which the aircraft is in revenue service, measured from the time it closes the door at the departure of a revenue flight until the time it opens the door at the arrival on the gate at destination.
- "Boeing" means The Boeing Company.
- "booked passengers" means the total number of passengers booked on all passenger flight segments.
- "BR Distribuidora" means Petrobras Distribuidora S.A., a subsidiary of Petrobras.
- "CADE" refers to the Brazilian Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*).
- "Calfinco" means Calfinco, Inc., a wholly-owned subsidiary of United.
- "CAPA" means the Centre for Aviation, a provider of independent aviation market intelligence, analysis and data services.
- "Cape Town Convention" means the Convention on International Interests in Mobile Equipment and its protocol on Matters Specific to Aircraft Equipment, concluded in Cape Town on November 16, 2001.

- “CASK” represents total operating cost divided by available seat kilometers.
- “CBP” means United States Customs and Border Protection.
- “completion rate” means the percentage of completion of our scheduled flights that were operated by us, whether or not delayed (i.e., not cancelled).
- “COVID-19” means the novel coronavirus that surfaced in Wuhan, China in December 2019.
- “crewmembers” is a term we use to refer to all our employees, including aircraft crew, airport ground, call center, maintenance and administrative personnel.
- “CVM” means the Brazilian Securities Commission (*Comissão de Valores Mobiliários*).
- “DECEA” means the Brazilian Department of Airspace Control (*Departamento de Controle do Espaço Aéreo*).
- “departure” means a revenue flight segment.
- “DOT” means the United States Department of Transportation.
- “economic interest” means a participation in the total equity value of our company, calculated as if all common shares issued and outstanding had been converted into preferred shares at the conversion ratio of 75.0 common shares to 1.0 preferred share pursuant to the mechanisms set forth in our bylaws.
- “E-Jets” refer to narrow-body jets manufactured by Embraer S.A.
- “Embraer” means Embraer S.A.
- “ERISA” means the United States Employee Retirement Income Security Act of 1974, as amended.
- “ESG” means Environmental, Social and Governance practices.
- “FAA” means the United States Federal Aviation Administration.
- “FGV” refers to the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), a Brazilian higher education institution that was founded in December 1944.
- “financial statements” refers to our audited consolidated financial statements.
- “flight hours” means the number of hours during which the aircraft is in revenue service, measured from the time it takes off until the time it lands at the destination.
- “focus-city” means a destination from which an airline operates several point-to-point routes. A focus-city may also function as a smaller scale hub.
- “FTEs” means full-time equivalent employees.
- “FTEs per aircraft” means the number of FTEs divided by the number of operating aircraft.
- “Global Distribution System” or “GDS” means a system that enables automated transactions between airlines and travel agencies. Travel agencies traditionally rely on GDS for services, products and rates in order to provide travel-related services to end consumers. GDS can link services, rates and bookings consolidating products and services across different travel sectors including airline reservations, hotel reservations and car rentals. GDS charges participant airlines a booking fee per passenger and segment sold, typically applying additional charges for ticketing, credit card authorizations, real time connectivity, information pages and other ancillary services.
- “Gol” means Gol Linhas Aéreas Inteligentes S.A.
- “gross billings” means the result of the sale of points to commercial partners and the cash portion of points plus money transactions. It is not an accounting measurement. This revenue may affect the current period or may be recognized as revenue in future periods, depending on the time of redemption on the part of program participants.
- “Hainan” means Hainan Airlines Holding Co., Ltd.
- “IATA” means the International Air Transport Association.
- “IBGE” means the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*).
- “ICAO” means the International Civil Aviation Organization.
- “IFRS” means International Financial Reporting Standards, as issued by the International Accounting Standards Board.

- “INFRAERO” means Empresa Brasileira de Infraestrutura Aeroportuária—INFRAERO, a Brazilian state-controlled corporation reporting to the Ministry of Transportation, Ports and Civil Aviation that is in charge of managing, operating and controlling federal airports, including control towers and airport safety operations.
- “Innovata” means Innovata LLC, a provider of travel content management that maintains a flight schedule database in partnership with IATA.
- “INPI” means the Brazilian Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*).
- “JetBlue” means JetBlue Airways Corporation.
- “LATAM” means Latam Airlines Group S.A. including all of its subsidiaries. Latam was formed in 2012, through the acquisition of TAM S.A., or TAM Linhas Aéreas S.A., by Lan Airlines S.A.
- “load factor” means the percentage of aircraft seats actually occupied on a flight (RPKs divided by ASKs).
- “main competitors” refers to Gol and Latam, our competitors in the Brazilian market that have a market share larger than ours and publicly disclose their results of operations from time to time. When used in the singular, the term “main competitor” refers to Gol, our only direct competitor for which stand-alone information is publicly available.
- “LATAM Pass” is LATAM’s loyalty program.
- “Mercado Libre” is MercadoLibre, Inc, Latin America’s largest e-commerce technology company.
- “Net promoter score (NPS)” means a customer loyalty metric that we use to measure how willing a customer is to recommend our service.
- “on-time performance” refers to the percentage of an airline’s scheduled flights that were operated and that arrived within 15 minutes of the scheduled time.
- “operating fleet” means aircraft in service, spare aircraft and aircraft undergoing maintenance.
- “passenger flight segments” means the total number of revenue passengers flown on all revenue flight segments.
- “Petrobras” means Petróleo Brasileiro S.A., a mixed economy corporation in the oil and gas industry that is majority owned by the Brazilian government.
- “pitch” means the distance between a point on one seat and the same point on the seat in front of it.
- “PRASK” means passenger revenue divided by ASKs.
- “PRASK premium” refers to the positive difference between an airline’s PRASK and its main competitor’s PRASK over a given time period.
- “preferred shares” means our preferred shares issued and outstanding.
- “principal shareholder” means David Neeleman.
- “RAB” means the Brazilian Aeronautical Registry *(Registro Aeronáutico Brasileiro)*.
- “RASK” or “unit revenue” means operating revenue divided by ASKs.
- “revenue passenger kilometers” or “RPKs” means one-fare paying passenger transported per kilometer. RPK is calculated by multiplying the number of revenue passengers by the number of kilometers flown.
- “route” means a segment between a pair of cities.
- “Shareholders’ Agreement” means that certain shareholders’ agreement, dated September 1, 2017, entered into by and between us and the holders of our common shares, David Neeleman, Hainan and Calfinco.
- “Smiles” means Smiles Fidelidade S.A., Gol’s loyalty program.
- “stage length” means the average number of kilometers flown per flight.
- “TAP” means TAP – Transportes Aéreos Portugueses, SGPS, S.A.
- “TAP bonds” means Tranche A 7.5% bonds due March 2026 issued by TAP and convertible into TAP special shares that, once issued, will represent certain capital and voting equity, and which are entitled to a right to receive certain dividends.
- “TRIP” means the entity formerly known as TRIP Linhas Aéreas S.A.
- “TRIP acquisition” means our 2012 acquisition of TRIP.
- “trip cost” represents operating expenses adjusted for non-recurring events divided by departures.

- "TRIP's former shareholders" means, collectively, the Caprioli family and the Águia Branca Group.
- "TSA" means the United States Transportation Security Administration.
- "TwoFlex" means Two Taxi Aereo.
- "United" means United Airlines Inc.
- "Viracopos" means the main airport of Campinas, located approximately 100 km from the city of São Paulo.
- "yield" represents the average amount one passenger pays to fly one kilometer.

Market Share and Other Information

This annual report contains data related to economic conditions in the market in which we operate. The information contained in this annual report concerning economic conditions is based on publicly available information from third-party sources that we believe to be reasonable. Data and statistics regarding the Brazilian civil aviation market are based on publicly available data published by ANAC, INFRAERO, ABRACORP, Ministry of Transportation, Ports and Civil Aviation and Aeroportos Brasil, among others. Data and statistics regarding international civil aviation markets are based on publicly available data published by ICAO or IATA. We also make statements in this annual report about our competitive position and market share in, and the market size of, the Brazilian airline industry. We have made these statements on the basis of statistics and other information from third-party sources that we believe to be reasonable, such as Innovata, ANAC and Dados Comparativos Avançados (Advanced Comparative Data, a monthly report issued by ANAC that contains preliminary information on the number of ASKs and RPKs recorded in the Brazilian civil aviation market), and ABEAR. In addition, we include additional operating and financial information about Gol, LATAM, Smiles and LATAM Pass, which is derived from the information released publicly by them, including disclosure filed with or furnished to the SEC and other information made available on their respective websites. Although we have no reason to believe any of this information or these reports are inaccurate in any material respect and believe and act as if they are reliable, we have not independently verified it. Governmental publications and other market sources, including those referred to above, generally state that their information was obtained from recognized and reliable sources, but the accuracy and completeness of that information is not guaranteed. In addition, the data that we compile internally and our estimates have not been verified by an independent source.

Presentation of Financial and Other Information

Our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 are included in this annual report. Our financial statements were prepared in accordance with the International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

The financial information presented in this annual report should be read in conjunction with our financial statements and the related notes included elsewhere in this annual report and the section of this annual report entitled "Item 5. Operating and Financial Review and Prospects."

Convenience Translations

This annual report contains conversions of certain Brazilian *real* amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the Brazilian *real* amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate or any other exchange rate as of that or any other date. Unless we indicate otherwise, the U.S. dollar equivalent for information in Brazilian *reais* is based on the commercial selling rate published by the Central Bank of Brazil on March 31, 2020, which was R$5.1987 = US$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Brazilian *reais.*

Rounding

Certain amounts and percentages included in this annual report, including in the section entitled "Item 5. Operating and Financial Review and Prospects," have been rounded for ease of presentation. Percentage figures included in this annual report have not been calculated in all cases on the basis of the rounded figures but on the basis of the original amounts prior to rounding. For this reason, certain percentage amounts in this annual report may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain other amounts that appear in this annual report may not add up due to rounding.

FORWARD-LOOKING STATEMENTS

This annual report includes estimates and forward-looking statements principally under the captions "Item 3. Key Information" and "Item 5. Operating and Financial Review and Prospects."

These estimates and forward-looking statements are based mainly on our current expectations and estimates of future events and trends that affect or may affect our business, financial condition, results of operations, cash flow, liquidity, prospects and the trading price of our preferred shares, including in the form of ADSs. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to many significant risks, uncertainties and assumptions and are made in light of information currently available to us.

These statements appear throughout this annual report and include statements regarding our intent, belief or current expectations in connection with:

- changes in market prices, customer demand and preferences and competitive conditions;
- general economic, political and business conditions in Brazil, particularly in the geographic markets we serve as well as any other countries we currently serve and may serve in the future;
- our ability to keep costs low;
- existing and future governmental regulations;
- increases in maintenance costs, fuel costs and insurance premiums;
- our ability to maintain landing rights in the airports that we operate;
- air travel substitutes;
- labor disputes, employee strikes and other labor-related disruptions, including in connection with negotiations with unions;
- our ability to attract and retain qualified personnel;
- our aircraft utilization rate;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy, including our expected fleet growth, passenger growth, our capital expenditure plans, our future joint venture and partnership plans, our ability to enter new airports (including certain international airports), that match our operating criteria;
- management's expectations and estimates concerning our future financial performance and financing;
- plans and programs;
- our level of debt and other fixed obligations;
- our reliance on third parties, including changes in the availability or increased cost of air transport infrastructure and airport facilities;
- inflation, appreciation, depreciation and devaluation of the *real*;
- our aircraft and engine suppliers;
- significant public health crises, epidemics or pandemics, including COVID-19, may adversely affect our business, results of operations and financial condition; and
- other factors or trends affecting our financial condition or results of operations, including those factors identified or discussed as set forth under "Item 3.D. Risk Factors."

The words "believe," "understand," "may," "will," "aim," "estimate," "continue," "anticipate," "seek," "intend," "expect," "should," "could," "forecast" and similar words are intended to identify forward-looking statements. You should not place undue reliance on such statements, which speak only as of the date they were made. Neither we nor the initial purchasers undertake any obligation to update publicly or to revise any forward-looking statements after we distribute this annual report because of new information, future events or other factors. Our independent auditors have neither examined nor compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. In light of the risks and uncertainties described above, the future events and circumstances discussed in this annual report might not occur and are not guarantees of future performance. Because of these uncertainties, you should not make any investment decision based upon these estimates and forward-looking statements.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The following tables summarize our financial data for each of the periods indicated. You should read this information in conjunction with the items below, all included elsewhere in this annual report:

- our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017; and
- the information under “Item 5. Operating and Financial Review and Prospects.”

Our selected financial data included below is derived from our financial statements, which were prepared in accordance with IFRS. Our selected financial data as of December 31, 2019, 2018 and 2017 is derived from our audited consolidated financial statements included elsewhere in this annual report.

On January 1, 2019, we adopted IFRS 16 – Leases. Under IFRS 16, we capitalize the right-of-use of all aircraft previously held under operating leases and depreciate the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. We applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior years ended December 31, 2018 and 2017 have been restated. Upon transition, we recognized a right-of-use asset representing our right to use the underlying asset and a corresponding lease liability that were initially measured at the present value of the future lease payments recognized at the historical U.S. dollar exchange rate and discount rate. The lease liability is updated at each reporting period to reflect the current exchange rate, but the right-of-use carrying value remains at historical rates.

On January 1, 2018, we adopted the new revenue recognition standard, IFRS 15—Revenue from Contracts with Customers, or IFRS 15, which impacted the classification and timing of recognition of certain ancillary revenues, such as baggage fees, administrative charges, upgrades and other travel related charges that were previously classified in other revenue to passenger revenue. These ancillary fees are directly related to passenger travel and will no longer be considered distinct performance obligations separate from the passenger travel component. In this context, such ancillary revenues, which were previously recognized when sold, are now recognized when transportation is provided.

In July 2014, the IASB published the final version of IFRS 9 – Financial Instruments, which superseded IAS 39 – Financial Instruments: Recognition and Measurement. IFRS 9 is applicable for annual periods beginning on or after January 1, 2018. Except for hedge accounting, retrospective application is required, but comparative information is not required. We adopted the new standard on January 1, 2018 and opted not to present comparative information showing retroactively the results from the adoption of IFRS 9.

Statements of Operations Data

	December 31, 2019 (2) (US$)(1)	December 31, 2019 (2) (R$)	December 31, 2018 (2) (R$)	December 31, 2017 (2) (R$)
	(in thousands)			
Operating revenue				
Passenger revenue	2,098,196	10,907,889	8,670,132	6,695,340
Cargo and other revenue	102,800	534,428	386,932	1,009,491
Total operating revenue	**2,200,996**	**11,442,317**	**9,057,064**	**7,704,831**
Operating expenses				
Aircraft fuel	(593,534)	(3,085,603)	(2,644,261)	(1,848,195)
Salaries, wages and benefits	(359,398)	(1,868,402)	(1,413,017)	(1,296,166)
Landing fees	(139,452)	(724,971)	(592,100)	(490,569)
Traffic and customer servicing	(91,654)	(476,481)	(395,394)	(357,841)
Sales and marketing	(85,421)	(444,079)	(368,663)	(309,540)
Maintenance, materials and repairs	(68,114)	(354,105)	(250,105)	(484,156)
Depreciation and amortization	(706,116)	(3,670,884)	(1,284,050)	(1,063,378)
Other operating expenses	(387,249)	(2,013,192)	(915,850)	(612,194)
	(2,430,938)	**(12,637,717)**	**(7,863,440)**	**(6,462,039)**
Operating income (loss)	**(229,942)**	**(1,195,400)**	**1,193,624**	**1,242,792**
Financial result				
Financial income	13,863	72,071	74,522	128,272
Financial expense	(255,742)	(1,329,524)	(1,094,828)	(1,078,598)
Derivative financial instruments, net	62,603	325,452	298,094	(90,171)
Foreign currency exchange, net	(75,385)	(391,905)	(1,306,063)	34,859
	(254,661)	**(1,323,906)**	**(2,028,275)**	**(1,005,638)**
Result from related parties transactions, net	(3,262)	(16,959)	381,725	176,975
Net income (loss) before income taxes	**(487,865)**	**(2,536,265)**	**(452,926)**	**414,129**
Current income taxes	(429)	(2,228)	(11,224)	2,875
Deferred income taxes	26,046	135,407	(171,581)	7,509
Net income (loss) for the year	**(462,247)**	**(2,403,086)**	**(635,731)**	**424,513**
Basic (loss) earnings per common share R$/US$(3)	(0.02)	(0.09)	(0.03)	0.02
Diluted (loss) earnings per common share R$/US$(3)	(0.02)	(0.09)	(0.03)	0.02
Basic (loss) earnings per preferred share R$/US$(3)	(1.36)	(7.05)	(1.88)	1.35
Diluted (loss) earnings per preferred share R$/US$(3)	(1.36)	(7.05)	(1.88)	1.32
EBITDA(4)	405,416	2,107,634	1,622,356	2,221,589
Adjusted EBITDA(5)	696,868	3,622,809	2,703,934	2,276,901
Adjusted EBITDA Margin (%)(6)	31.7%	31.7%	29.9%	29.6%

(1) For convenience purposes only, the amounts in *reais* for the year ended December 31, 2019 have been translated to U.S. dollars using the rate R$5.1987 as of March 31, 2020, which corresponds to the commercial selling rate for U.S. dollars as of March 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) On January 1, 2019, we adopted IFRS 16 – Leases, and Azul had to capitalize the right-of-use of all aircraft previously held under operating leases and depreciate the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. Azul applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior years ended December 31, 2018 and 2017 have been restated.

(3) Reflects the conversion ratio of 75.0 common shares to 1.0 preferred share and a two-for-one stock split on February 23, 2017.

(4) We calculate EBITDA as net income (loss) minus interest income (comprised of interest on short-term investments), plus interest expense (comprised of interest on loans and interest on factoring credit card and travel agencies receivables), current and deferred income tax and social contribution and depreciation and amortization. We believe EBITDA is a well-recognized performance measurement in the airline industry that is frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. EBITDA is not a measure of financial performance in accordance with IFRS, and should not be considered in isolation or as an alternative to net income, an alternative to operating cash flows, a measure of liquidity, or the basis for dividend distribution. Other companies may calculate EBITDA differently than us. EBITDA serves an indicator of overall financial performance, which is not affected by changes in rates of income tax and social contribution or levels of depreciation and amortization. Consequently, we believe that EBITDA serves as an important tool to periodically compare our operating performance, as well as to support certain administrative decision. Because EBITDA does not include certain costs related to our business, such as interest expense, income taxes, depreciation, capital expenditures and other corresponding charges, which might significantly affect our net income, EBITDA has limitations which affect its use as an indicator of our profitability. See "Introduction—Presentation of Financial and Other Information" for a reconciliation of EBITDA to net income (loss).

(5) Adjusted EBITDA is equal to EBITDA adjusted to exclude foreign currency exchange, net, derivative financial instruments, net, other financial income (expense), and result from related party transactions, net. Adjusted EBITDA is not a measure of financial performance in accordance with IFRS, and should not be considered in isolation or as an alternative to net income, an alternative to operating cash flows, a measure of liquidity, or the basis for dividend distribution. Other companies may calculate Adjusted EBITDA differently than us. Adjusted EBITDA serves as an indicator of overall financial performance that we believe serves as an important tool to periodically compare our operating performance, as well as to support certain administrative decisions. Because Adjusted EBITDA does not include certain costs related to our business, it has limitations which affect its use as an indicator of our profitability. See "Introduction—Presentation of Financial and Other Information" for a reconciliation of Adjusted EBITDA to net income (loss). The 2019 and 2018 calculation of Adjusted EBITDA takes into consideration non-recurring losses totaling R$3.2 billion in 2019, including R$2.1 billion recorded under depreciation, consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of E-Jets inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees and R$226.3 million in 2018 in connection with the sale of six E-Jets.

(6) Represents Adjusted EBITDA divided by total operating revenue.

The following table presents the reconciliation of the non-GAAP performance measures EBITDA and Adjusted EBITDA to net income (loss) for the periods indicated below:

	For the Years Ended December 31,			
	2019[2]	2019[2]	2018[2]	2017[2]
		(in thousands)		
Reconciliation:	**(US$)[1]**	**(R$)**	**(R$)**	**(R$)**
Net income (loss) for the year	(462,247)	(2,403,086)	(635,731)	424,513
Plus (*minus*):				
Financial expense[3]	195,274	1,015,172	856,308	828,153
Financial income[4]	(8,109)	(42,157)	(65,076)	(84,071)
Current income taxes	429	2,228	11,224	(2,875)
Deferred income taxes	(26,046)	(135,407)	171,581	(7,509)
Depreciation and amortization[5]	706,116	3,670,884	1,284,050	1,063,378
EBITDA[6]	**405,416**	**2,107,634**	**1,622,356**	**2,221,589**
Foreign currency exchange, net[7]	75,385	391,905	1,306,063	(34,859)
Derivative financial instruments, net[8]	(62,603)	(325,452)	(298,094)	90,171
Other financial expense[9]	60,467	314,352	238,520	250,444
Other financial income[10]	(5,754)	(29,914)	(9,446)	(44,201)
Result from related parties transactions, net	3,262	16,959	(381,725)	(176,975)
Non-recurring events[11]	220,695	1,147,325	226,261	—
Adjusted EBITDA[6][12]	**696,868**	**3,622,809**	**2,703,934**	**2,306,169**
Adjusted EBITDA Margin(%)[13]	**31.7%**	**31.7%**	**29.9%**	**29.9%**

(1) For convenience purposes only, the amounts in *reais* for the year ended December 31, 2019 have been translated to U.S. dollars using the rate R$5.1987 as of March 31, 2020, which corresponds to the commercial selling rate for U.S. dollars as of March 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) On January 1, 2019, we adopted IFRS 16 – Leases, and Azul had to capitalize the right-of-use of all aircraft previously held under operating leases and depreciate the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. Azul applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior years ended December 31, 2018 and 2017 have been restated.

(3) Interest expense is interest on loans, interest on lease, interest on finance lease and interest on factoring credit card, and travel agencies receivables, which is a component of financial expense. See “Note 26. Financial result” to our audited consolidated financial statements.

(4) Interest income is interest on short-term investments and sublease receivable, which is a component of financial income. See “Note 26” to our audited consolidated financial statements.

(5) Depreciation and amortization in 2019 includes a R$2.1 billion impairment charge related to the phase-out plan of our E-Jets fleet. See “Note 1” to our audited consolidated financial statements.

(6) EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to EBITDA and Adjusted EBITDA as used by other companies which may calculate Adjusted EBITDA in a manner which differs from ours. EBITDA and Adjusted EBITDA are not measures of financial performance in accordance with IFRS. They do not represent cash flow for the corresponding periods, and should not be considered as alternatives to net income or loss or as measures of operating performance, cash flow or liquidity, nor should they be considered for the calculation of dividend distribution.

(7) Represents the foreign exchange remeasurement on U.S. dollar and Euro denominated assets and liabilities.

(8) Represents currency forward contracts used to protect our U.S. dollar exposure.

(9) Other financial expenses are a component of our financial expense. See “Note 26. Financial result” to our audited consolidated financial statements.

(10) Other financial income is a component of our financial income. See “Note 26. Financial result” to our audited consolidated financial statements.

(11) The calculations of Adjusted EBITDA for 2019 and 2018 take into consideration non-recurring losses totaling R$3.2 billion in 2019, including R$2.1 billion recorded under depreciation, consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of E-Jets inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees and R$226.3 million in 2018 in connection with the sale of six E-Jets.

(12) Adjustments exclude the effects of the following items: (i) the foreign currency exchange variation relating to U.S. dollars denominated assets and liabilities; (ii) gains or losses in connection with our derivative instruments used to protect us against variations of the U.S. dollar compared to the *real*; (iii) other financial expenses (does not include interest expense), which is a component of financial expense; (iv) other financial income and fair value adjustment of other financial liabilities (does not include interest income), which are components of financial income; and (v) related party transactions, net (as applicable). We believe that such adjustments are useful to indicate our operating performance.

(13) Represents Adjusted EBITDA divided by total operating revenue.

Note Regarding the Use of Non-GAAP Financial Measures

The Company provides financial information in this filing that was not prepared in accordance with IFRS and should not be considered as an alternative to the information prepared in accordance with IFRS. This financial information, which has not been prepared in accordance with IFRS, has been denominated non-GAAP measures (Non Generally Accepted Accounting Principles). The Company provides supplemental non-IFRS financial information, which the Company's management utilizes to evaluate its ongoing financial performance and the Company believes provides additional insight to investors as supplemental information to its IFRS results. The following measures are often provided, and utilized by the Company's management, analysts, and investors to enhance comparability of year-over-year results, as well as to compare results to other airlines: EBITDA, non-IFRS; Adjusted EBITDA, non-IFRS; Available seat kilometers (ASKs), non-IFRS; Passenger revenue per ASK (PRASKs), non-IFRS; Operating revenue per ASK (RASK), non-IFRS; and total operating cost divided by ASK (CASK) non-IFRS amongst others.

Balance Sheet Data

The following tables present key line items from our historical balance sheet data:

	December 31, 2019 (US$)[1]	December 31, 2019 (R$)	December 31, 2018 (R$)	December 31, 2017 (R$)
	(in thousands)			
Cash and cash equivalents	316,979	1,647,880	1,169,136	762,319
Total assets	**3,692,748**	**19,197,490**	**16,094,398**	**13,917,116**
Loans and financing[2]	676,738	3,518,156	2,756,126	2,578,439
Lease liabilities	2,328,779	12,106,621	8,919,746	7,343,493
Equity	(676,933)	(3,519,174)	(1,150,038)	(390,971)
Issued capital	431,495	2,243,215	2,209,415	2,163,377
Total liabilities and equity	**3,692,748**	**19,197,490**	**16,094,398**	**13,917,116**

(1) For convenience purposes only, the amounts in *reais* as of December 31, 2019 have been translated to U.S. dollars using the rate R$5.1987 as of March 31, 2020, which corresponds to the commercial selling rate for U.S. dollars as of March 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) Includes current and non-current loans and financing.

Operating Data

	As of and For the Years Ended December 31,			
Operating Statistics (unaudited)	2019[2] (US$)[1]	2019[2] (R$)	2018[2] (R$)	2017[2] (R$)
Operating aircraft at end of period	142	142	125	122
Total aircraft at end of period	**166**	**166**	**143**	**147**
Cities served at end of period	116	116	116	116
Average daily aircraft utilization (hours)	11.3	11.3	10.4	10.5
Stage length (km)	1,050	1,050	1,006	905
Number of departures	295,354	295,354	262,312	259,966
Block hours	495,362	495,362	433,945	407,416
Passenger flight segments	27,674,247	27,674,247	23,122,440	22,014,009
Revenue passenger kilometers (RPKs) (million)	29,941	29,941	24,156	20,760
Available seat kilometers (ASKs) (millions)	35,868	35,868	29,353	25,300
Load Factor (%)	83.5%	83.5%	82.3%	82.1%
Passenger revenue (in thousands)	US$2,098,196	R$10,907,889	R$8,670,132	R$6,695,340
Passenger revenue per ASK (cents) (PRASK)	US$5.85	R$30.41	R$29.54	R$26.46
Operating revenue per ASK (cents) (RASK)	US$6.14	R$31.90	R$30.86	R$30.45
Yield per ASK (cents)	US$7.01	R$36.43	R$35.89	R$32.25
Trip Cost	US$6,129.04	R$31,863.06	R$29,114.87	R$24,857.25
End-of-period FTEs per aircraft	93	93	94	89
CASK (cents)	US$6.78	R$35.23	R$26.79	R$25.54
CASK adjusted (cents)[3]	US$5.05	R$26.24	R$26.02	R$25.54
CASK ex-fuel adjusted (cents)[4]	US$3.39	R$17.63	R$17.01	R$18.24
Fuel liters consumed (thousands)	1,203	1,203	1,036	940
Average fuel cost per liter	US$0.49	R$2.56	R$2.55	R$1.97

(1) For convenience purposes only, the amounts in *reais* as of and for the year ended December 31, 2019 have been translated to U.S. dollars using the rate R$5.1987 as of March 31, 2020, which corresponds to the commercial selling rate for U.S. dollars as of March 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) On January 1, 2019, we adopted IFRS 16 – Leases, and we capitalized the right-of-use of all aircraft previously held under operating leases and depreciate the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. Azul applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior years ended December 31, 2018 and 2017 have been restated.

(3) CASK adjusted for non-recurring losses totaling R$3.2 billion in 2019 and R$226.3 million in 2018.

(4) CASK excluding all fuel costs and adjusted for non-recurring losses totaling R$3.2 billion in 2019 and R$226.3 million in 2018.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

You should carefully consider the risks described below. We could be materially and adversely affected by any of these risks.

The risks described below are those that we currently believe may adversely affect us. In general, investing in the securities of issuers in emerging market countries such as Brazil involves risks that are different from the risks associated with investing in the securities of U.S. companies and companies located in other countries with more developed capital markets.

To the extent that information relates to, or is obtained from sources related to, the Brazilian government or Brazilian macroeconomic data, industry data or other third parties, the following information has been extracted from official publications of the Brazilian government or other reliable third party sources and has not been independently verified by us.

Risks Relating to Brazil

The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement as well as Brazil's political and economic conditions could harm us and the price of our preferred shares, including in the form of ADSs.

The Brazilian federal government frequently exercises significant influence over the Brazilian economy and occasionally makes significant changes in policy and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, changes in monetary and tax policies, price controls, foreign exchange rate controls, currency devaluations, capital controls and limits on imports. We have no control over and cannot predict what measures or policies the Brazilian government may take in the future. We and the market price of our securities may be adversely affected by changes in Brazilian government policies, as well as general economic factors, including, without limitation:

- growth or downturn of the Brazilian economy;
- interest rates and monetary policies;
- exchange rates and currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- import and export controls;
- exchange controls and restrictions on remittances abroad;
- modifications to laws and regulations according to political, social and economic interests;
- fiscal policy and changes in tax laws;
- economic, political and social instability;
- labor and social security regulations;
- energy and water shortages and rationing;
- the Brazilian government's intervention, modification or rescission of existing concessions;
- the Brazilian government's control of or influence on the control of certain oil producing and refining companies; and
- other political, social and economic developments in or affecting Brazil.

In addition, Brazil has experienced a recession from 2014 to 2016 and since 2017, the Brazilian economy has been growing at a slow pace. GDP grew 1.0% in 2017, 1.1% in 2018, 1.1% in 2019, and is expected to contract by 2.96% in 2020, see—"Item 5. Operating and Financial Review and Prospects—Principal Factors Affecting Our Financial Condition and Results of Operations." We cannot predict what measures the Brazilian federal government will take in the face of mounting macroeconomic pressures or otherwise.

Developments in Brazil's political landscape, such as presidential and municipal elections, may also impact us. Uncertainty over whether the current Brazilian federal government will implement changes in policy or regulation affecting these or other factors in the future may affect economic performance and contribute to economic uncertainty in Brazil, which may have an adverse effect on us and our preferred shares, including in the form of ADSs. Recent economic and political instability has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian securities markets, which also may adversely affect us and the trading price of our preferred shares, including in the form of ADSs. See "—The ongoing economic uncertainty and political instability in Brazil may adversely affect us and the price of our preferred shares, including in the form of ADSs."

The ongoing economic uncertainty and political instability in Brazil may adversely affect us and the price of our preferred shares, including in the form of ADSs.

Brazil's political environment has historically influenced, and continues to influence, the performance of the country's economy. Political crises have affected and continue to affect the confidence of investors and the general public, which have historically resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies.

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as *Lava Jato*, have negatively impacted the Brazilian economy and political environment. Members of the Brazilian government, as well as senior officers of large state-owned companies, have faced or are currently facing allegations or convictions of, or have entered into plea bargain or leniency agreements for crimes related to crimes of political of corruption and money laundering. These individuals are alleged to have accepted bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. The profits of these kickbacks allegedly financed the political campaigns of political parties of the government that were unaccounted for or not publicly disclosed. These funds were also allegedly destined toward the personal enrichment of certain individuals. A number of senior politicians, including members of Congress, and high-ranking executive officers of major corporations and state-owned companies in Brazil have been arrested, convicted of various charges relating to corruption, entered into plea agreements with federal prosecutors and/or have resigned or been removed from their positions. The potential outcome of *Lava Jato*, as well as other ongoing corruption-related investigations is uncertain, but they have already had an adverse impact on the image and reputation of those companies that have been implicated as well as on the general market perception of the Brazilian economy, political environment and the Brazilian capital markets. We have no control over, and cannot predict, whether such investigations, allegations, convictions, plea bargains and agreements will lead to further political and economic instability or whether new allegations, convictions, plea bargaining or agreements against or with government officials, officers and/or companies will arise in the future. In addition, we cannot predict the outcome of any such allegations, convictions, plea bargains and agreements, nor their effect on the Brazilian economy.

In October 2018, Jair Bolsonaro was elected president, and his term began in January 2019. Although Mr. Bolsonaro has promised in his campaign to implement economic reforms, we cannot predict which policies the new President of Brazil may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy. Any such new policies or changes to current policies may have a material adverse effect on us or the price of our preferred shares, including in the form of ADRs. Furthermore, uncertainty over whether the acting Brazilian government under the new administration will implement changes in policy or regulation in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies.

In addition, political demonstrations in Brazil over the last few years have affected the development of the Brazilian economy and investors' perceptions of Brazil. For example, street protests, which started in mid-2013 and continued through 2016, demonstrated the public's dissatisfaction with the worsening Brazilian economic condition (including an increase in inflation and fuel prices, as well as rising unemployment), the perception of widespread corruption, and the potential for severe water and electricity rationing following a decrease in rainfall and water reservoir levels throughout Brazil in early 2016.

Any of the above factors may create additional political uncertainty, which could have a material adverse effect on the Brazilian economy and, consequently, on us and the price of our preferred shares, including in the form of ADSs.

Exchange rate instability may have adverse effects on the Brazilian economy, us and the price of our preferred shares, including in the form of ADSs.

The Brazilian currency has been historically volatile and has devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the *real* is generally linked to the rate of inflation in Brazil, depreciation of the *real* occurring over shorter periods has resulted in significant variations in the exchange rate between the *real*, the U.S. dollar and other currencies. The *real* depreciated against the U.S. dollar by 17.1% at year-end 2018 as compared to year-end 2017. The *real*/U.S. dollar exchange rate reported by the Central Bank was R$3.87 per U.S. dollar on December 31, 2018, and R$4.03 per U.S. dollar on December 31, 2019, reflecting a 4.02% depreciation in the *real* against the U.S. dollar. Since the outbreak of COVID-19, the *real* depreciated over 30% as compared to the U.S. dollar and the *real*/U.S. dollar exchange rate reported by the Central Bank was R$5.1987 per U.S. dollar on March 31, 2020. There can be no assurance that the *real* will not further depreciate against the U.S. dollar or other currencies in the future.

A devaluation of the *real* relative to the U.S. dollar could create inflationary pressures in Brazil and cause the Brazilian government to, among other measures, increase interest rates. Any depreciation of the *real* may generally restrict access to the international capital markets. It would also reduce the U.S. dollar value of our results. Restrictive macroeconomic policies could reduce the stability of the Brazilian economy and adversely affect our results of operations and profitability. In addition, domestic and international reactions to restrictive economic policies could have a negative impact on the Brazilian economy. These policies and any reactions to them may adversely affect us by curtailing access to foreign financial markets and prompting further government intervention. A devaluation of the *real* relative to the U.S. dollar may also, as in the context of the current economic slowdown, decrease consumer spending, increase deflationary pressures and reduce economic growth.

On the other hand, an appreciation of the *real* relative to the U.S. dollar and other foreign currencies may deteriorate the Brazilian foreign exchange current accounts. We and certain of our suppliers purchase goods and services from countries outside Brazil, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods and services that we purchase. Depending on the circumstances, either devaluation or appreciation of the *real* relative to the U.S. dollar and other foreign currencies could restrict the growth of the Brazilian economy, as well as our business, results of operations and profitability.

Most of our revenues are linked to the *real* and a significant part of our operating expenses, such as fuel, certain aircraft operating lease agreements, certain flight hour maintenance contracts and aircraft insurance, are denominated in, or linked to, foreign currency. In addition, we have and may incur substantial amounts of U.S. dollar-denominated operating lease or financial obligations, fuel costs linked to the U.S. dollar and U.S. dollar-denominated indebtedness in the future or similar exposures to other foreign currencies. As of December 31, 2019, 2018 and 2017, 41.3%, 43.2% and 41.4% of our operating expenses, respectively, were denominated in, or linked to, foreign currency.

We are not always fully hedged against fluctuations of the *real*. In light of the foregoing, there can be no assurance we will be able to protect ourselves against the effects of fluctuations of the *real*. Depreciation of the *real* could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole, harm us, curtail access to financial markets and prompt government intervention, including recessionary governmental policies. Depreciation of the *real* can also, as in the context of the current global economic recovery, lead to decreased consumer spending, and reduced growth of the economy as a whole.

Any depreciation of the *real* against the U.S. dollar may have an adverse effect on us, including leading to a decrease in our profit margins or to operating losses caused by increases in U.S. dollar-denominated costs (including fuel costs), increases in interest expense or exchange losses on unhedged fixed obligations and indebtedness denominated in foreign currency.

Inflation and certain measures by the Brazilian government to curb inflation have historically adversely affected the Brazilian economy and Brazilian capital market, and high levels of inflation in the future would adversely affect us and the price of our preferred shares, including in the form of ADSs.

In the past, Brazil has experienced extremely high rates of inflation. Inflation and some of the measures taken by the Brazilian government in an attempt to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to curb inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian capital markets.

According to the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, Brazilian inflation rates were 4.3%, 3.8%, 2.9%, 6.3%, 10.7% and 6.4% for the years 2019, 2018, 2017, 2016, 2015 and 2014, respectively. Brazil may experience high levels of inflation in the future and inflationary pressures may lead to the Brazilian government's intervening in the economy and introducing policies that could adversely affect us and the price of our preferred shares, including in the form of ADSs. In the past, the Brazilian government's interventions included the maintenance of a restrictive monetary policy with high interest rates that restricted credit availability and reduced economic growth, causing volatility in interest rates. For example, the SELIC (*Sistema Especial de Liquidação e Custódia*), the Central Bank's overnight rate, as established by the Monetary Policy Committee (*Comitê de Política Monetária do Banco Central do Brasil*), or COPOM, increased from 10.00% at the beginning of 2014 to a high point of 14.25% in 2016 before a series of rate reductions in 2017, 2018 and 2019, bringing the SELIC rate down to 7.00% as of December 31, 2017, 6.50% as of December 31, 2018 and to 4.50% as of December 31, 2019. Conversely, more lenient government and Central Bank policies and interest rate decreases have triggered and may continue to trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect us and increase our indebtedness.

In the event that Brazil experiences high inflation in the future, we may not be able to adjust the prices we charge our passengers to offset the potential impacts of inflation on our expenses, including salaries. This would lead to decreased net income, adversely affecting us. Inflationary pressures may also adversely affect our ability to access foreign financial markets, adversely affecting us.

Developments and the perceptions of risks in other countries, including other emerging markets, the United States and Europe, may adversely affect the Brazilian economy and the price of Brazilian securities, including the price of our preferred shares, including in the form of ADSs.

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging markets, as well as the United States, Europe and other countries. To the extent the conditions of the global markets or economy deteriorate, Brazilian companies may have their businesses adversely affected. The weakness in the global economy has been marked by, among other adverse factors, lower levels of consumer and corporate confidence, decreased business investment and consumer spending, increased unemployment, reduced income and asset values, reduction of China's growth rate, currency volatility and limited availability of credit and access to capital. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to Brazilian companies and resulted in considerable outflows of funds from Brazil, decreasing the amount of foreign investments in Brazil.

The economic and market conditions of other countries, including the United States, countries of the Europe, and emerging markets, may affect the credit availability and the volume of foreign investments in Brazil and in the countries in which we do business, to varying degrees. More recently, Brexit has contributed to increased volatility and uncertainty in a number of financial markets. In addition, the crisis affecting emerging markets that began in the second quarter of 2018 as a result of the rise in interest rates by the U.S. Federal Reserve and the trade war between the United States and China, among other factors, could have an impact on the Brazilian economy. Political risks remain mainly from the United States presidential election, the medium-term relationship between the United States and China, uncertainty over government instabilities in Europe and other local geopolitical risks. The materialization of these risks may affect global growth and decrease investors' interest in assets from Brazil and other countries in which we do business, which may materially and adversely affect the market price of our preferred shares, including in the form of ADSs, making it more difficult for us to access capital markets and, as a result, to finance our operations in the future.

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

We can be adversely affected by investors' perceptions of risks related to Brazil's sovereign debt credit rating. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors.

Brazil has lost its investment grade sovereign debt credit rating by the three main U.S. based credit rating agencies, Standard & Poor's, Moody's and Fitch. Standard & Poor's downgraded Brazil's sovereign debt credit rating from BBB- to BB+ in September 2015, subsequently reduced it to BB in February 2016, and maintained its negative outlook on the rating, citing Brazil's fiscal difficulties and economic contraction as signs of a worsening credit situation. In December 2015, Moody's placed Brazil's Baa3 sovereign debt credit rating on review and downgraded Brazil's sovereign credit rating in February 2016 to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's indebtedness figures amid a recession and challenging political environment. Fitch downgraded Brazil's sovereign credit rating to BB+ with a negative outlook in December 2015, citing the country's rapidly expanding budget deficit and worse-than-expected recession, and further downgraded Brazil's sovereign debt credit rating in May 2016 to BB with a negative outlook. On January 11, 2018 Standard and Poor's downgraded Brazil's sovereign credit rating due to concerns over a large deficit, stalled pension reform and presidential elections. On February 23, 2018, Fitch further downgraded Brazil's sovereign credit rating to BB-minus with a stable outlook. On April 9, 2018, Moody's reaffirmed the Ba2 rating, but raised the outlook from negative to stable, citing expectations that the winner of the October 2018 presidential elections will pass fiscal reforms. On December 11, 2019, Standard & Poor's maintained Brazil's credit rating at BB- with a positive outlook.

Brazil's sovereign credit rating is currently rated below investment grade by the three main credit rating agencies. Consequently, the prices of securities issued by Brazilian companies have been negatively affected. A new Brazilian recession or continued political uncertainty, among other factors, could lead to further ratings downgrades. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, adversely affect the price of our preferred shares, including in the form of ADSs.

Variations in interest rates may have adverse effects on us.

We are exposed to the risk of interest rate variations, principally in relation to the Interbank Deposit Rate, or CDI Rate, and with respect to operating and finance leases and debt-financed aircraft denominated in U.S. dollars, the London Interbank Offer Rate, or LIBOR.

If the CDI Rate or LIBOR were to increase, our repayments under certain loans, operating and finance leases would increase, and we may not be able to adjust the prices we charge to offset increased payments. For example, our repayments under some of our operating and finance leases and debt-financed aircraft are linked to LIBOR. The outstanding loan balance due on our finance lease and debt-financed aircraft contracts linked to LIBOR amounted to R$897.4 million as of December 31, 2019, R$1,049.9 million as of December 31, 2018 and R$1,232.6 million as of December 31, 2017.

Significant increases in consumption, inflation or other macroeconomic pressures may lead to an increase in these rates. Increases in the CDI Rate or LIBOR may have adverse effects on us. An increase of 0.5% in the CDI Rate would represent additional expenses in interest rates of R$13.2 million per year. On the other hand, an increase of 0.5% in LIBOR would represent additional expenses in interest rates of R$0.4 million. For further information regarding our exposure to the risk of interest rate variations, see "Item 5. Operating and Financial Review and Prospect—Operating Results—Principal Factors Affecting Our Financial Condition and Results of Operations—Effects of exchange rates, interest rates and inflation."

In addition, various interest rates and other indices which are deemed to be "benchmarks" (including LIBOR and Euro Interbank Offered Rate, or EURIBOR) are the subject of recent national, international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented, including the majority of the provisions of the EU Benchmark Regulation (Regulation (EU) 2016/1011), or the Benchmarks Regulation.

In particular, in 2017, the Chief Executive of the U.K. Financial Conduct Authority, or FCA, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. This announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021, and it appears likely that LIBOR will be discontinued or modified by 2021. This and other reforms may cause benchmarks to perform differently than in the past, or to disappear entirely, or have other consequences, which cannot be fully anticipated, which introduce a number of risks for us including legal risks arising from potential changes required to documentation for new and existing transactions, financial risks arising from any changes in the valuation of financial instruments linked to benchmark rates, pricing risks arising from how changes to benchmark indices could impact pricing mechanisms on some instruments, operational risks arising from the potential requirement to adapt information technology systems, trade reporting infrastructure and operational processes, and conduct risks arising from the potential impact of communication with counterparties and engagement during the transition period. The replacement benchmarks and the timing of and mechanisms for implementation have not yet been confirmed by central banks. Accordingly, it is not currently possible to determine whether, or to what extent, any such changes would affect us. However, the implementation of alternative benchmark rates may have a material adverse effect on our business, results of operations, financial condition and prospects.

Deficiencies in Brazilian infrastructure, particularly in airports and ports, may adversely affect us.

We offer products and services that depend on the performance and reliability of the infrastructure in Brazil and abroad. Historically, public investment in the construction and development of airports, ports, highways and railroads has been relatively low, which affects the demand for domestic tourism and could also affect our ability to carry out our operations or limit our expansion plans as well as cause delays and increase operational costs. For example, in 2007, Brazil went through a significant crisis related to its air traffic control system, which negatively impacted air travel and the tourism industry as a whole. Insufficient public and/or private investment in the expansion of Brazilian infrastructure, particularly airports, ports and other travel hubs could lead to a decrease in sales or lower growth rates than we expect, which may adversely affect us and growth prospects. In particular, lack of or insufficient investment in the maintenance at our main hub in Campinas could impact the general activity and operation of the airport, which would adversely impact us. For example, Aeroportos Brasil, which holds a concession for the operation of Viracopos airport from ANAC, filed for bankruptcy protection in 2018 as it has not complied with its contractual obligations relating to the construction of a new terminal. On February 17, 2020 creditors approved Aeroportos Brasil's debt restructuring plan, which consists in returning the concession for the operation of Viracopos airport to ANAC to initiate a re-bidding process of the concession to a new operator. For more information, see "Item 4.B. Business Overview—Airports and Other Facilities and Properties—Airports" and "Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Risks Relating to our Business and the Brazilian Civil Aviation Industry

Substantial fluctuations in fuel costs or the unavailability of fuel, which is mostly provided by one supplier, would have an adverse effect on us.

Historically, international and local fuel prices have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel expenses, which at times in 2007 and 2008 were at historically high levels, constitute a significant portion of our total operating expenses, accounting for 24.4% as of December 31, 2019, 33.6% as of December 31, 2018 and 28.6% as of December 31, 2017. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. Events resulting from prolonged instability in the Middle East or other oil-producing regions, or the suspension of production by any significant producer, may result in substantial price increases and/or make it difficult to obtain adequate supplies, which may adversely affect us. Natural disasters or other large unexpected disrupting events in regions that normally consume significant amounts of other energy sources could have a similar effect. We cannot predict the price and future availability of fuel with any degree of certainty, and significant increases in fuel prices may harm our business. Our hedging activities may not be sufficient to protect us from fuel price increases, and we may not be able to adjust our fares adequately to protect us from this cost.

We purchase fuel from a number of distributors in Brazil, principally from BR Distribuidora, a subsidiary of Petrobras, Air BP Brasil Ltda. and Raízen Combustíveis Ltda., with whom we have agreements to exclusively purchase all of our jet fuel needs in certain locations. As of December 2019, BR Distribuidora provided 61% of our fuel and was entitled to terminate its fuel supply contracts with us for a number of reasons, including (i) non-compliance with any contractual obligation, (ii) non-payment of invoices up to 60 days after expiration and (iii) in the event of our judicial or extrajudicial liquidation. In addition, BR Distribuidora may be unable to guarantee its fuel supply to us, for example due to difficulties in its production, import, refining or distribution activities. If we were unable to obtain fuel on similar terms from alternative suppliers, our business would be adversely affected. In addition, our agreement with BR Distribuidora enables us to lock in the cost of the jet fuel that we will consume in the future. Accordingly, in case this agreement is terminated, we might be required to enter into alternative hedging or pay higher prices, which could adversely affect us.

We and the airline industry in general are particularly sensitive to changes in economic conditions and continued negative economic conditions that would likely continue to adversely affect us and our ability to obtain financing on acceptable terms.

Our operations and the airline industry in general are particularly sensitive to changes in economic conditions. Unfavorable economic conditions, such as high unemployment rates, a constrained credit market, low or negative GDP growth, unfavorable exchange rates and increased business operating expenses, can reduce spending for both leisure and business travel. Unfavorable economic conditions can also impact our ability to raise fares to counteract increases in fuel, labor, and other expenses. In particular, the recent recession in the Brazilian economy and political instability has adversely affected industries with significant spending in travel, including government, oil and gas, mining and construction. In addition to decreases in load factors, reduced spending on business travel also affects the quality of demand, resulting in our inability to sell as many high-yield tickets.

An increasingly unfavorable economic environment would likely adversely affect us. In addition, a significant instability of the credit, capital and financial markets could result in increasing our borrowing costs, adversely affecting us. We typically finance our aircraft through operating and finance leases and debt finance. We may not be able to continue to obtain financing on terms attractive to us, or at all. To the extent we cannot obtain such financing on acceptable terms or at all, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would adversely affect us and our growth strategy. These factors could also adversely affect our ability to obtain financing on acceptable terms and our liquidity in general.

Because the airline industry is characterized by high fixed costs and relatively elastic revenues, airlines cannot quickly reduce their costs to respond to shortfalls in expected revenue and this may harm our ability to attain our strategic goals.

The airline industry is characterized by low gross profit margins; high fixed costs, such as aircraft ownership and leasing, headquarters facility and personnel, information technology system license costs, training and insurance expenses; and revenues that generally exhibit substantially greater elasticity than costs. The operating costs of each flight do not vary significantly with the number of passengers flown and, therefore, a relatively small change in the number of passengers, fare pricing or traffic mix could have a significant effect on operating and financial results.

We expect to incur additional fixed costs, including contractual debt, as we lease or acquire new aircraft and other equipment to implement our growth strategy or other purposes. Based on our current firm orders, between 2020 and 2024, we expect to add approximately 71 next-generation E2 aircraft, 42 next-generation Airbus 320neos and two next-generation Airbus A330-900neo widebody aircraft to our fleet, replacing current generation aircraft.

As a function of our fixed costs, we may (i) have limited ability to obtain additional financing, (ii) be required to dedicate a significant part of our cash flow to fixed costs resulting from operating leases and debt for aircraft, (iii) incur higher interest or leasing expenses for the event that interest rates increase or (iv) have a limited ability to plan for, or react to, changes in our businesses, the civil aviation sector generally and overall macroeconomic conditions. In addition, volatility in global financial markets may make it difficult for us to obtain financing to manage our fixed costs on favorable terms or at all.

As a result of the foregoing, we may be unable to quickly adjust our fixed costs in response to changes in our revenues. A shortfall from expected revenue levels could have a material adverse effect on us.

Changes to the Brazilian civil aviation regulatory framework may adversely affect us, our business and results of operations, including our competitiveness and compliance costs.

Brazilian aviation authorities monitor and influence the developments in Brazil's airline market. For example, in July 2014, ANAC published new rules governing the allocation of slots at the main Brazilian airports, which consider operational efficiency (on-time performance and regularity) as the main criteria for the allocation of take-off and landing slots at Brazilian airports. The policies of Brazilian aviation authorities, including ANAC, may adversely affect us and our operations.

Further, in December 2018, the former Brazilian president approved Provisional Measure (*Medida Provisória*) MP 863/2018, which lifts restrictions on foreign ownership of Brazilian airlines' voting stock. On June 17, 2019, the provisional measure MP 863/2018 was converted into de Law No 13.842/2019, amending the Brazilian Aeronautical Code, and allowed 100% of the voting stock of a company belonged to foreigners, in other words, completely opened up the market to outsiders. See "Item 4.B. Business Overview—Restrictions on the Ownership of Shares in Air Transportation Service Providers."

For a description of recent changes to the Brazilian civil aviation regulatory framework, see "Item 4.D. Regulation—Airport Infrastructure." For a description of recent changes to and pending legislation regarding the Brazilian civil aviation regulatory framework, see "Item 4.D. Regulation—Pending Legislation."

Changes to the Brazilian civil aviation regulatory framework, including the policies of ANAC and/or INFRAERO, as well as other aviation supervisory authorities, including the Brazilian Aeronautical Code, could increase our costs and change the competitive dynamics of our industry and may adversely affect us. In addition, we cannot guarantee that any of the operating concessions that we hold will be renewed or that we will obtain new concession. Any change that requires us to dedicate a significant level of resources on compliance with new aviation regulations, for example, would result in additional expenditure on compliance and consequently adversely affect us.

We operate in a highly competitive industry and actions by our competitors could adversely affect us.

We face intense competition on certain routes in Brazil from existing scheduled airlines, charter airlines and potential new entrants in our market and also with regards to our business units TudoAzul, Azul Cargo and Azul Viagens. In particular, we face strong competition in routes and markets where our network overlaps with that of our main competitors. As of December 31, 2019, 35% and 28% of our domestic network overlapped with that of Gol and LATAM, respectively. Airlines increase or decrease capacity in markets based on perceived profitability. Decisions by our competitors that increase overall industry capacity, or capacity dedicated to a particular region, market or route, as well as any other management decisions that increase a potential competitor's market share, could have a material adverse impact on us. Our growth and the success of our business model could stimulate competition in our markets through the development of similar strategies by our competitors. If these competitors adopt and successfully execute similar business models, we could be adversely affected.

Each year we may face increased competition from existing and new participants in the Brazilian market. The air transportation sector is highly sensitive to price discounting and the use of aggressive pricing policies. Other factors, such as flight frequency, schedule availability, brand recognition, and quality of offered services (such as loyalty programs, VIP airport lounges, in-flight entertainment and other amenities) also have a significant impact on market competitiveness. In addition, the barriers to entering the domestic market are relatively low and we cannot assure you that existing or new competitors in our markets will not offer lower prices, more attractive services or increase their route capacity in an effort to obtain greater market share. We may also face competition from international airlines as they introduce and expand flights to Brazil. In addition to competition among scheduled airlines and charter operators, the Brazilian airline industry faces competition from ground transportation alternatives, such as interstate buses and automobiles. Finally, the Brazilian government and regulators could give preference to new entrants or provide support to our competitors, for example, when granting new and current slots in Brazilian airports, as previously occurred with respect to new slots at Congonhas airport

On December 10, 2018, Avianca Brasil filed for judicial reorganization (*recuperação judicial*) with the bankruptcy court in São Paulo and in May 2019 ANAC issued a note suspending all flights operated by the airline. As a result, several slots operated by Avianca Brasil including all the slots operated at Congonhas airport have been redistributed to other airlines, including us.

In addition, technology advancements may limit the desire for air travel. For example, new developments in video teleconferencing and other methods of electronic communication may reduce the need for in-person communication and add a new dimension of competition to the industry as travelers seek lower cost substitutes for air travel.

Furthermore, new competitors may target TudoAzul's business partners and members or enter the loyalty marketing industry. We cannot assure you that an increase in competition faced by TudoAzul will not have an adverse effect on the growth of our business with respect to TudoAzul or in general. If we are unable to adjust rapidly to the changing nature of competition in our markets or if the Brazilian loyalty marketing industry does not grow sufficiently to accommodate new participants, it could have an adverse effect on us.

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

As a result of the competitive environment in which we operate, there may be further consolidation in the Brazilian and global airline industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry. Our competitors could increase their scale, diversity and financial strength and may have a competitive advantage over us, which would adversely affect us. Consolidations in the airline industry and changes in international alliances are likely to affect the competitive landscape in the industry and may result in the formation of airlines and alliances with increased financial resources, more extensive global networks and reduced cost structures than us.

We routinely engage in analysis and discussions regarding our own strategic position, including alliances, code-share arrangements, investments, acquisitions, interline arrangements and loyalty program enhancements, and may have future discussions with other airlines regarding similar arrangements. To the extent we act as consolidators, we may not be able to successfully integrate the business and operations of companies acquired, governmental approvals may be delayed, costs of integration and fleet renovation may be greater than anticipated, synergies may not meet our expectations, our costs may increase and our operational efficiency may be reduced, all of which would negatively affect us. To the extent we do not engage in such consolidations, our competitors may increase their scale, diversity and financial strength and may have a competitive advantage over us, which would negatively affect us, including our ability to realize expected benefits from our own strategic partnerships.

We are subject to costs and risks associated with increased or changing laws and regulations affecting our business, including those relating to the sale of consumer products. Specifically, developments in data protection and privacy laws could harm our business, financial condition or results of operations.

We operate in a complex regulatory and legal environment that exposes us to compliance and litigation risks that could materially affect our results of operations. These laws may change, sometimes significantly, as a result of political, economic or social events. Some of the federal, state or local laws and regulations in Brazil that affect us include: those relating to consumer products, product liability or consumer protection; those relating to the manner in which we advertise, market or sell products; labor and employment laws, including wage and hour laws; tax laws or interpretations thereof; data protection and privacy laws and regulations; and securities and exchange laws and regulations. For instance, data protection and privacy laws are developing to take into account the changes in cultural and consumer attitudes towards the protection of personal data. There can be no guarantee that we will have sufficient financial resources to comply with any new regulations or successfully compete in the context of a shifting regulatory environment.

On August 14, 2018, the then President of Brazil approved Law 13709/2018, a comprehensive data protection law establishing general principles and obligations that apply across multiple economic sectors and contractual relationships (*Lei Geral de Proteção de Dados*), or the LGPD. The LGPD establishes detailed rules for the collection, use, processing and storage of personal data and will affect all economic sectors, including the relationship between customers and suppliers of goods and services, employees and employers and other relationships in which personal data is collected, whether in a digital or physical environment. The obligations established by LGPD is expected to become effective in August 2020, by which date all legal entities will be required to adapt their data processing activities to these new rules. Any additional privacy laws or regulations enacted or approved in Brazil or in other jurisdictions in which we operate could seriously harm our business, financial condition or results of operations. See “Item 4.B. Business Overview—Data Protection.”

In particular, as we seek to build a trusted and secure platform for commerce, we will increasingly be subject to laws and regulations relating to the collection, use, retention, security, and transfer of information, including the personally identifiable information of our employees and customers. As with the other laws and regulations noted above, these laws and regulations may be interpreted and applied differently over time and from jurisdiction to jurisdiction, and it is possible they will be interpreted and applied in ways that will materially and adversely affect our business. Any failure, real or perceived, by us to comply with our posted privacy policies or with any regulatory requirements or orders or other local, state, federal, or international privacy or consumer protection-related laws and regulations could cause sellers or their customers to reduce their use of our products and services and could materially and adversely affect our business.

We depend significantly on automated systems and any cyber-attacks, breakdown, hacking or changes in these systems may adversely affect us.

We depend on automated systems to operate our businesses, including our sales system, automated seat reservation system, fleet and network management system, telecommunications system and website. Significant or repeated breakdowns of our automated systems may impede our passengers and travel agencies’ access to our products and services, which may cause them to purchase tickets from other airlines, adversely affecting our net revenues. Our website and ticket sales system must accommodate a high volume of traffic and deliver important flight information. Substantial or repeated website, ticket sales, scheduling or telecommunication systems failures could reduce the attractiveness of our services and could cause our customers to purchase tickets from another airline. Any interruption in these systems or their underlying infrastructure could result in the loss of important data, increase our expenses and generally harm us.

These interruptions may include but are not limited to computer hackings, computer viruses, worms or other disruptive software, or other malicious activities. In particular, both unsuccessful and successful cyber-attacks on companies have increased in frequency, scope and potential harm in recent years. The costs associated with a major cyber-attack could include expensive incentives offered to existing customers to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. In addition, if we fail to prevent the theft of valuable information, protect the privacy of customer and employee confidential data against breaches of network or IT security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. We may also implement certain changes to our systems that may result in breakdowns, reduced sales, fleet and network mismanagement or telecommunications interruptions, all of which would negatively affect us. Furthermore, the compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers’, employees’ or business partners’ information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information or disruption to our operations. Any of these occurrences could result in a material adverse effect on us.

We, our reputation, and the price of our preferred shares, including in the form of ADSs, could be adversely affected by events outside of our control, such as natural disasters, epidemics or acts of terrorism.

Accidents or incidents involving our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. We are required by ANAC and lessors of our aircraft under our operating lease agreements to carry liability insurance. The amount of liability insurance we maintain may not be adequate, and we may be forced to bear substantial losses in the event of an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident involving our aircraft, even if fully insured, or the aircraft of any major airline could cause negative public perceptions about us, our aircraft or the air transport system, due to safety concerns or other problems, whether real or perceived, which would harm our reputation, financial results and the market price of our preferred shares, including in the form of ADSs.

We may also be affected by other events that affect travel behavior or increase costs, such as the potential of epidemics or acts of terrorism. These events are outside of our control and may affect us even if occurring in markets where we do not operate and/or in connection with other airlines. Any future terrorist attacks or threats of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations, including an escalation of military involvement in the Middle East, or otherwise and any related economic impact, could result in decreased passenger traffic and materially and adversely affect us.

Demand for air travel may be adversely impacted by events beyond our control, such as adverse weather conditions and natural disasters, terrorist attacks, war or political and social instability. Epidemics and outbreaks such as the recent such as the COVID-19 pandemic, Zika virus, Ebola, avian flu, foot-and-mouth disease, swine flu, Middle East Respiratory Syndrome, or MERS, and Severe Acute Respiratory Syndrome, or SARS, may also result in quarantines of our personnel or an inability to access facilities or our aircraft, which would harm us, our reputation, and the market value of our common shares and preferred shares, including in the form of ADSs. The outbreak of diseases such as COVID-19 could result in significant decreases in passenger traffic and the imposition of government restrictions in service and could have a material adverse impact on the airline industry. Situations such as these, or other conditions beyond our control, in one or more of the markets in which we operate could have a material impact on our business, financial condition and results of operations. Furthermore, the current spread of COVID-19 and other adverse public health developments could have a prolonged effect on air travel demand and any prolonged or widespread effects could significantly impact our operations.

For more information, see *" — A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations."*

Natural disasters, severe weather conditions and other events outside of our control may affect and disrupt our operations. For example, in 2018 a truckers' strike disrupted the distribution of fuel supplies throughout Brazil, affecting flights as well as passengers' ability to commute to and from airports for a period of approximately 10 days. About 37 airports in which Azul operates ran out of fuel, and some airports remained closed for three days.

Severe weather conditions can cause flight cancellations or significant delays that may result in increased costs and reduced revenue. Any natural disaster or other event that affects air travel in the regions in which we operate could have a material adverse impact on us.

A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations.

An outbreak of a disease that affects travel behavior and the demand for air travel can have a material adverse impact in the airline industry, our business, our results of operations and our common shares and preferred shares, including in the form of ADSs.

In December 2019, COVID-19 was reported to have surfaced in Wuhan, China. In March 2020, the World Health Organization declared the COVID-19 outbreak a pandemic. This pandemic, as well as the reality or fear of any other adverse public health developments, has materially affected travel demand in Brazil and worldwide. Additionally, the COVID-19 pandemic resulted in further significant financial market volatility and uncertainty worldwide. Therefore, the market value of our common shares and preferred shares, including in the form of ADSs may be adversely affected by events occurring inside or outside of Brazil. The recent outbreak of the COVID-19 pandemic has already negatively affected global economic conditions, disrupted supply chains and otherwise negatively impacted air travel demand, aircraft manufacturing operations and reduced the availability of aircraft and aircraft spare parts. The ultimate severity of the COVID-19 outbreak is uncertain at this time and therefore we cannot predict the additional impact it may have on the availability of aircraft or aircraft spare parts.

The outbreak of COVID-19 has led to government-imposed travel restrictions, flight cancellations, and a marked decline in passenger demand for air travel. The containment and quarantine measures that are being implemented across Brazil and worldwide are significantly limiting the mobility of our customers, crewmembers and business partners, making our operation unfeasible in several routes we serve. As a result, on March 24, 2020, we announced that from March 25, 2020 to April 30, 2020, we expect to operate 70 non-stop flights per day to 25 cities, representing a 90% reduction of our consolidated planned capacity in terms of ASKs for the month of April, in light of the uncertainty due to the COVID-19 pandemic that is affecting the demand for air traffic. We also announced several measures to reduce fixed costs and preserve our cash position. For more information, see "*Events Subsequent to the Date of the Financial Statements*." Continued travel restrictions, reduced demand for travel and continued loss in revenue resulting from the rapid spread of COVID-19 or other contagious illnesses that adversely reduce demand for air travel in a part of the world in which we have significant operations could a material adverse effect on our business and results of operations. The current spread of COVID-19 and other adverse public health developments could have a prolonged effect on air travel demand and any prolonged or widespread effects could significantly impact our operations, cash flows and financial condition. We cannot fully predict the extension and the duration of the impact that the COVID-19 pandemic will have on worldwide air travel and we are not able to fully determine the growth of our operating fleet over the next few years as a result of the impact of the spread of COVID-19 on demand for air travel in the regions we operate.

The effects of COVID-19 on our business are not limited to reduced air travel demand. As a result of the pandemic, the availability of credit line facilities became restricted, which could further adversely impact our financial expenses and ability to finance our operations. Additionally, COVID-19 has had, and may continue to have, a negative impact on the value of our investments and may result in write-offs of such investments. In particular, COVID-19 has directly and adversely impacted TAP, an entity that we are invested in and with which we have other business arrangements. See " Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP." Furthermore, since the outbreak of COVID-19, the Brazilian real depreciated over 30% as compared to the U.S. dollar, increasing the cost of our operating expenses denominated in U.S. dollars, including, without limitation, corporate bonds, aircraft rent, fuel and maintenance.

The extent to which COVID-19 could impact our business is still uncertain and depends on future developments, which cannot be predicted and are outside of our control, including, among others, government imposed measures, new information which may quickly emerge concerning the severity of the virus, the scope of the outbreak and other actions to contain the virus or treat its impact.

Our insurance expenses may increase significantly as a result of a terrorist attack, war, aircraft accident, seizures or similar event, adversely affecting us.

Insurance companies may significantly increase insurance premiums for airlines and reduce the amount of insurance coverage available to airlines for civil liability in respect of damage resulting from acts of terrorism, war, aircraft accident, seizures or similar events, as was the case following the terrorist attacks of September 11, 2001 in the United States.

In response to substantial increases in insurance premiums to cover risks related to terrorist attacks following the events of September 11, 2001 in the United States, the Brazilian government enacted legislation, specifically Law 10744, of October 9, 2003, authorizing the Brazilian government to assume civil liability to third parties for any injury to goods or persons, whether or not passengers, caused by terrorist attacks or acts of war against Brazilian aircraft operated by Brazilian airlines in Brazil or abroad. In addition, according to the abovementioned legislation, the Brazilian government may, at its sole discretion, suspend or cancel this assumption of liability. If the Brazilian government suspends its assumption of liability, Brazilian airlines will be required to assume the liability once more and obtain insurance in the market.

Airline insurers may reduce their coverage or increase their premiums in case of new terrorist attacks, war, aircraft accident, seizures and the Brazilian government's termination of its assumption of liability or other events affecting civil aviation in Brazil or abroad. If there are significant reductions in insurance coverage, our potential liability would increase substantially. If there are significant increases in insurance premiums, our operating expenses would increase, adversely affecting us.

In line with global industry practice, we leave some business risks uninsured, including business interruption, loss of profit or revenue and consequential business losses arising from mechanical breakdown. To the extent that uninsured risks materialize, we could be materially and adversely affected. In addition, there is no assurance that our coverage will cover all potential risks associated with our operations and activities. To the extent that actual losses incurred by us exceed the amount insured, we may have to bear substantial losses which will have an adverse impact on us.

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

We are dependent on improvements in the coordination and development of Brazilian airspace control and airport infrastructure, which, mainly due to the large growth in civil aviation in Brazil in recent years, require substantial improvements and government investments. Technical and operational problems in the Brazilian air traffic control systems have led to extensive flight delays, higher than usual flight cancellations and increased airport congestion. The Brazilian government and air traffic control authorities have taken measures to improve the Brazilian air traffic control systems, but if the changes undertaken by the Brazilian government and regulatory authorities do not prove successful, these air traffic control related difficulties might recur or worsen, which may have a material adverse effect on us and our growth strategy.

Slots at Congonhas airport in São Paulo are fully utilized. The Santos Dumont airport in Rio de Janeiro, which is important for our operations, has certain landing rights restrictions. Several other Brazilian airports, for example Brasília, Salvador, Belo Horizonte (Confins), São Paulo (Guarulhos and Viracopos) and Rio de Janeiro (Galeão), have limited the number of landing rights per day due to infrastructural limitations at these airports. Any condition that would prevent or delay our access to airports or routes that are vital to our strategy, or our inability to maintain our existing landing rights and slots, and obtain additional landing rights and slots, could materially adversely affect us. New operational and technical restrictions imposed by Brazilian authorities in the airports we operate or in those we expect to operate may also adversely affect us. In addition, we cannot assure that any investments will be made by the Brazilian government in the Brazilian aviation infrastructure to permit a capacity increase at busy airports and consequently additional concessions for new slots to airlines.

Furthermore, we cannot assure that any investments will be made by the holders of concessions for the operators of the airports which serve our routes. For example, as a result of the transfer of our operations to the new passenger terminal at Viracopos airport, we signed a "Terminal Transfer Incentive Agreement" with Aeroportos Brasil which established a detailed construction schedule for this new terminal and gave us certain rights to impose penalties in the event of noncompliance. Due to the fact that Aeroportos Brasil has not complied with certain contractual obligations under this agreement, we have retained 40% of the airport landing tariffs since February 2017. As a result of this retention, Aeroportos Brasil filed a collection action against us, which was settled in May 2018. Pursuant to the settlement agreement, we agreed to carry out certain parts of the construction of the new terminal at Viracopos Airport using the airport landing tariffs retained from Aeroportos Brasil. For more information, see "Item 4.B. Business Overview—Airports and Other Facilities and Properties—Airports" and "Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Increases in labor benefits, union disputes, strikes, and other worker-related disturbances may adversely affect us, including our ability to carry out our normal business operations.

Our business is labor intensive. Our expenses related to our workforce (salaries, wages and benefits) represented 14.8%, 18.0%, and 20.1%, of our total operating expenses for the years 2019, 2018 and 2017, respectively. All Brazilian airline employees, including ours, are represented by regional aviation unions and by two national labor unions: the National Pilots' and Flight Attendants' Union (*Sindicato Nacional dos Aeronautas*) and the National Aviation Union (*Sindicato Nacional dos Aeroviários*). Negotiations regarding cost of living increases and salary payments are conducted annually between these unions and an association that represents all Brazilian airline companies, the National Union of Airline Companies (*Sindicato Nacional das Empresas Aeroviárias*), or SNEA. Work conditions and maximum work hours are regulated by government legislation and are not subject to labor negotiations. Future terms and conditions of collective agreements could become more costly for us as a result of an increase in threats of strikes and binding negotiations between the unions and SNEA. Furthermore, certain employee groups such as pilots, mechanics and other airport personnel have highly specialized skills and cannot be easily replaced. Our labor costs could increase if the size of our business increases. Any labor proceeding or other workers' dispute involving unionized employees could adversely affect us or interfere with our ability to carry out our normal business operations.

Moreover, we are subject to periodic and regular investigations by labor authorities, including the Brazilian Ministry of Labor and the Public Prosecutor's Office, or the Labor Prosecution Office, with respect to our compliance with labor rules and regulations, including those relating to occupational health and safety. These investigations could result in fines and proceedings that may materially and adversely affect us. For example, in February 2017, the Federal Labor Prosecutor's Office filed a lawsuit against us claiming that we have allegedly violated certain labor regulations, including limitations on daily working hours and resting periods. The claim involves an amount of approximately R$66 million in punitive damages. The Federal Labor Prosecutor's Office also requested the grant of an injunction limiting overtime and enforcing legally required breaks, under the penalty of R$5,000 per breach. This injunction has been denied by the labor court. The lawsuit has been suspended and we are in the process of negotiating a Conduct Adjustment Agreement (*Termo de Ajuste de Conduta*) with the Federal Labor Prosecutor's Office. We believe the probability of a loss is possible and, although we expect our ultimate liability to be significantly lower than the amount originally claimed, we cannot guarantee that the outcome of this claim will not materially and adversely affect us.

A failure to implement our growth strategy may adversely affect us.

Our growth strategy and the consolidation of our leadership in terms of markets served includes, among other objectives, increasing the number of markets we serve and increasing the frequency of the flights we provide. These objectives are dependent on obtaining approvals for operating new routes from local regulators and obtaining adequate access to the necessary airports. Certain airports that we serve or that we may want to serve in the future are subject to capacity constraints and impose landing rights and slot restrictions during certain periods of the day such as the Santos Dumont airport in Rio de Janeiro and the Juscelino Kubitschek airport in Brasília. We cannot assure you that we will be able to maintain our current landing rights and slots and obtain a sufficient number of landing rights and slots, gates, and other facilities at airports to expand our services as we propose. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risks having those slots reallocated to other airlines. Where landing rights and slots or other airport resources are not available or their availability is restricted in some way, we may have to modify our schedules, change routes or reduce aircraft utilization.

Some of the airports to which we fly impose various restrictions, including limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. In addition, we cannot assure you that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports, which may adversely affect us.

We cannot guarantee that we will be successful in the implementation of our growth strategy and the consolidation of our leadership in terms of markets served and, as a result, any factor preventing or delaying our access to airports or routes which are vital to our growth strategy (including our ability to maintain our current slots and obtain additional landing rights and slots at certain airports) may restrict our operations or the expansion of our operations and, consequently, adversely affect us, our financial results and our growth strategy.

Our current business plan contemplates the addition of Airbus and Embraer aircraft to replace older generation aircraft and serve high-density markets. Any disruption or change in the manufacturers' delivery schedules for our new Embraer and Airbus aircraft may affect our operations and might negatively affect us because we may not be able to accommodate increased passenger demand or develop our growth strategies.

The successful execution of our strategy is partly dependent on the maintenance of a high daily aircraft utilization rate, making us especially vulnerable to delays.

In order to successfully execute our strategy, we need to maintain a high daily aircraft utilization rate. Achieving high aircraft utilization allows us to maximize the amount of revenue that we generate from each aircraft and dilute fixed costs. High daily aircraft utilization is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to fly more hours on average per day. Our aircraft utilization rate could be adversely affected by a number of factors that we cannot control, including air traffic and airport congestion, interruptions in the service provided by air traffic controllers, adverse weather conditions and delays by third-party service providers in respect of matters such as fueling and ground handling. Such delays could result in a disruption in our operating performance, leading to lower daily aircraft utilization rates and customer dissatisfaction due to any resulting delays or missed connections, which could adversely affect us.

Any expansion of our business activities will require us to incur additional costs and expenses and we ultimately may be unsuccessful in generating a profit from any such new activities, potentially adversely affecting us.

We intend to expand our business activities through additional products and services if we believe this expansion will increase our profitability or our influence in the markets in which we operate. As part of our growth strategy, we periodically acquire additional aircraft, including different types of aircraft than the ones we currently operate or have operated in the past, and enter into commitments for additional aircraft based on our expectations of increased traffic given the significant time frames for ordering and taking delivery of these assets. We cannot assure you that we will be able to successfully operate these new aircraft and maintain our historical operating performance.

As the international and domestic markets develop and expand in Brazil, our expansion may also include additional acquisitions of existing service related businesses, aircraft hangars and other assets and business that are expansions of or complementary to our core and ancillary business and responsive to our perceived needs to compete with our competitors. There can be no assurances that our plans to expand our business will be successful given a number of factors, including the possible need for regulatory approvals, additional facilities or rights, personnel and insurance. These new activities may require us to incur material costs and expenses, including capital expenditures, increased personnel, training, advertising, maintenance and fuel costs, as well as costs related to management oversight of any new or expanded activities. We may also incur additional significant costs related to integration of these assets and activities into our existing businesses and require significant ancillary expenditures for systems integration and expansion, financial modeling and development of pricing, traffic monitoring and other management tools designed to help achieve profitability from these new assets and activities.

Any expansion of our activities, change in management oversight and related costs may affect our results and financial condition until we are able to generate a profit from these new activities. Given the current and expected competitive landscape in the airline industry in general and in particular in Brazil, as well as other market factors and conditions, it is possible that there may be a significant period before we are able to generate profits relating to any such new or our existing activities and our overall business, and in certain circumstances we may never turn a profit at all, in each case potentially adversely affecting us.

We may not be able to grow our operations to or in the United States and Europe and may be adversely affected if Brazil does not maintain a favorable safety assessment or if we fail to comply with the United States and European civil aviation regulatory frameworks.

We cannot assure you that the laws and regulations of the jurisdictions to which we fly (including, without limitation, immigration and security regulations, which directly affect passengers) will not change or that new laws adverse to us will not be enacted, and any such events may adversely affect us and our ability to continue and expand our operations internationally.

For example, the FAA periodically audits the aviation regulatory authorities of other countries. As a result of their investigations, each country is given an International Aviation Safety Assessment, or IASA, rating. The IASA rating for Brazil is currently “Category 1,” which means that Brazil complies with the ICAO safety requirements. This allows us to continue our service from our hubs in Brazil to the United States in a normal manner and take part in reciprocal code-sharing arrangements with U.S. carriers. However, we cannot assure you that Brazil will continue to meet international safety standards, and we have no direct control over its compliance with IASA guidelines.

If Brazil does not maintain a favorable safety assessment or if we fail to comply with the United States and European civil aviation regulatory frameworks, our ability to continue or increase service to or in the United States and Europe could be restricted, which could in turn, adversely affect us.

We are highly dependent on our three hubs at Viracopos airport, Confins airport and Recife airport for a large portion of our business and as such, a material disruption at any of our hubs could adversely affect us.

Our business is heavily dependent on our operations at our three hubs at Viracopos airport, Confins airport and Recife airport. Many of our routes operate through these hubs, which account for a significant part of our daily arrivals and departures. Like other airlines, we are subject to delays caused by factors beyond our control and that could affect one or more of our hubs or other airports in any of the regions served by us. For example, in 2018, an incident with an aircraft from LATAM caused the closing of a runway at Confins airport, one of our main hubs, for 21 hours, which negatively impacted our operations and forced us to re-accommodate our passengers to new flights. Due to this geographical capacity concentration, we may not be able to react as quickly or efficiently as our competitors to any delays, interruption or disruption in service or fuel at any one or more of our hubs, which could have a material adverse impact on us. Furthermore, ANAC has granted concessions for the operation of Viracopos airport and Confins airport. We have no control over these concessions and cannot predict how the current concessions, any future concessions or the termination of any concessions could affect these airports. For example, Aeroportos Brasil, which holds a concession for the operation of Viracopos airport from ANAC, filed for bankruptcy protection in 2018 as it has not complied with its contractual obligations relating to the construction of a new terminal. On February 17, 2020, creditors approved Aeroportos Brasil’s debt restructuring plan, which requires returning the concession for the operation of Viracopos airport to ANAC to initiate a new bidding process of the concession to a new operator.For more information, see “Item 4.B. Business Overview—Airports and Other Facilities and Properties—Airports” and “Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings.” Any changes to these concessions could have a material adverse impact on us.

We fly and depend upon Embraer, ATR and Airbus aircraft, and we could suffer if we do not receive timely deliveries of aircraft, if aircraft from these companies become unavailable or subject to significant maintenance or if the public negatively perceives our aircraft.

As our fleet has grown, our reliance on Embraer, ATR and Airbus has also grown. As of December 31, 2019, our passenger operating fleet consisted of 59 Embraer E-Jets, 33 ATR aircraft, 38 next-generation Airbus A320neos and 10 Airbus A330s.

Risks relating to Embraer, ATR and Airbus include: (i) our failure or inability to obtain Embraer, ATR or Airbus aircraft parts or related support services on a timely basis because of high demand or other factors, (ii) the issuance by the aviation authorities of directives restricting or prohibiting the use of Embraer, ATR or Airbus aircraft, (iii) the adverse public perception of a manufacturer as a result of an accident or other negative publicity or (iv) delays between the time we realize the need for new aircraft and the time it takes us to arrange for Embraer, ATR and Airbus or from a third-party provider to deliver this aircraft.

Our ability to obtain these new aircraft from Embraer, ATR and Airbus may be affected by several factors, including (i) Embraer, ATR or Airbus may refuse to, or be financially limited in its ability to, fulfill the obligations it assumed under the aircraft delivery contracts, (ii) the occurrence of a fire, strike or other event affecting Embraer's, ATR's or Airbus's ability to fulfill its contractual obligations in a complete and timely fashion and (iii) any inability on our part to obtain aircraft financing or any refusal by Embraer, ATR or Airbus to provide financial support. We may also be affected by any failure or inability of Embraer, ATR, Airbus, (or other suppliers) to supply sufficient replacement parts in a timely fashion, which may cause the suspension of operations of certain aircraft because of unscheduled or unplanned maintenance. Any such suspension of operations would decrease passenger revenue and adversely affect us and our growth strategy.

The occurrence of any one or more of these factors could restrict our ability to use aircraft to generate profits, respond to increased demands or could limit our operations and adversely affect us.

We could be adversely affected by expenses or stoppages associated with planned or unplanned maintenance on our aircraft, as well as any inability to obtain spare parts on time.

As of December 31, 2019, the average age of our operating fleet was 5.8 years. Our relatively new aircraft require less maintenance now than they will in the future. Our fleet will require more maintenance as it ages and our maintenance and repair expenses for each of our aircraft will be incurred at approximately the same intervals. In the event we cannot renew our fleet, our scheduled and unscheduled aircraft maintenance expenses will increase as a percentage of our revenue in future years. Any significant increase in maintenance and repair expenses would have a material adverse effect on us.

Our business would be significantly harmed by unplanned stoppages or suspensions of operations associated with planned or unplanned maintenance due to mechanical issues. For example, if a design defect or mechanical problem with Embraer E-Jets, ATRs or Airbus aircraft were to be discovered, this would cause our aircraft to be grounded while such defect or mechanical problem was being corrected. We cannot assure you that we would succeed in obtaining all aircraft and parts to solve such defect or mechanical problem, that we would obtain such parts on time, or that we would succeed in solving such defect or mechanical problem even if we obtained such parts. This could result in a suspension of the operations of certain of our aircraft, potentially for a prolonged period of time, while we attempted to obtain such parts and solve such defect or mechanical problem, which could have a materially adverse effect on us.

Additionally, General Electric is the sole manufacturer and supplier of the CF34 engines on our Embraer E-Jets and of the LEAP engines on our next-generation Airbus A320neos, Pratt & Whitney is the sole manufacturer and supplier of the PW 127M engines on our ATR 72 aircraft, and Rolls Royce is the sole manufacturer of the Trent 700 engines for our A330 aircraft. As prices for the engines and parts are payable in U.S. dollars, they are subject to fluctuations in exchange rates and may result in us incurring substantial additional expenses in the event that the U.S. dollar appreciates. We have also outsourced all engine maintenance for our Embraer E-Jet and next-generation Airbus A320neo fleet to General Electric, for our ATR fleet to Pratt & Whitney, and the engine maintenance of our A330 fleet to Rolls Royce. If General Electric, Rolls Royce or Pratt & Whitney are unable to perform their contractual obligations or if we are unable to acquire engines from alternative suppliers on acceptable terms, we could lose the benefits we derive from our current agreements with General Electric, Pratt & Whitney and Rolls Royce, incur substantial transition costs, or suffer from the suspension of the operations of certain of our aircraft due to the need for unscheduled or unplanned maintenance while these contractual obligations are not being performed.

We rely on agreements with third parties to provide our customers and us with facilities and services that are integral to our business and the termination or non-performance of these agreements could harm us.

We have entered into agreements with third-party contractors to provide certain facilities and services required for our operations, such as aircraft maintenance, ground handling, baggage handling and television and internet services for our flights. All of these agreements are subject to termination on short notice. The loss or expiration of these agreements or our inability to renew these agreements or to negotiate new agreements with other providers at comparable term and conditions or at all could harm our business and results of operations. Further, our reliance on third parties to provide essential services on our behalf gives us less control over the costs, efficiency, timeliness and quality of those services. Any of these third parties may fail to meet their service performance commitments, may suffer disruptions to their systems that could impact the fulfillment of their obligations, or the agreements with such third parties may be terminated. The failure of any third-party contractor to adequately perform their services, or other interruptions of services, may adversely affect us, including reducing our revenues and increasing our expenses or preventing us from operating our flights or providing other services to our customers. In addition, we, including our reputation, could be materially adversely affected if our customers believe that our services or facilities are unreliable or unsatisfactory.

We rely on partner airlines for code-share and loyalty marketing arrangements and the loss of a significant partner through bankruptcy, consolidation, or otherwise, could adversely affect us.

Azul is a party to code-share agreements with international air carriers United, TAP and JetBlue, among others. These agreements provide that certain flight segments operated by us are held out as United, TAP or JetBlue flights, as the case may be, and that certain United, TAP or JetBlue flights, as the case may be, are held out for sale as Azul flights. In addition, these agreements provide that our TudoAzul members can earn points on or redeem points for United or TAP flights, as the case may be, and vice versa. We receive revenue from flights sold under these code-share agreements. In addition, we believe that these frequent flyer arrangements are an important part of our TudoAzul program. The loss of a significant partner through bankruptcy, consolidation, or otherwise, could adversely affect us. We may also be adversely affected by the actions of one of our significant partners, for example, in the event of nonperformance of a partner's material obligations or misconduct by such partner, which could potentially result in us incurring liabilities, or poor delivery of services by one of our partners, which could damage our brand.

We may be adversely affected if TudoAzul loses business partners or if these business partners change their policies in relation to the granting of benefits to their clients.

TudoAzul relies on its four largest business partners (which are the largest banks in Brazil) for a significant majority of its gross billings. We have no control or influence over TudoAzul's business partners, which may terminate their relationship with TudoAzul or change their commercial policies with respect to the accumulation, transfer and redemption of points, as well as choose to develop or offer their customers their own platforms for exchanging points for prizes, including airline tickets issued by other airlines. The loss of a significant TudoAzul business partner or changes to TudoAzul's business partners' policies could (i) make TudoAzul less attractive or efficient for our business partners' customers, and (ii) increase competition with respect to TudoAzul, thereby reducing our gross sales and the demand for points, factors that may negatively impact us. If we do not find satisfactory replacement business partners in the event of the loss of one or more of TudoAzul's significant business partner or adapt satisfactorily to changes to TudoAzul's business partners' policies, we may be adversely affected.

If actual redemptions by TudoAzul members are greater than expected, or if the costs related to redemption of reward points increase, we could be adversely affected.

We derive most of our TudoAzul revenues by selling TudoAzul points to business partners. The earnings process is not complete, however, at the time points are sold, as we incur most of our costs related to TudoAzul upon the actual redemption of points by our TudoAzul members. Based on historical data, the estimated period between the issuance of a TudoAzul point and its redemption is currently nine months; however, we cannot control the timing of the redemption of points or the number of points ultimately redeemed. Since we do not incur redemption-related costs for points that are not redeemed, our profitability depends in part on the number of accumulated TudoAzul points that are never redeemed by our TudoAzul members, or "breakage." We experience breakage when TudoAzul points are not redeemed for any number of reasons.

Our estimate of breakage is based on historical trends. We expect that breakage will decrease from historical amounts as TudoAzul expands its network of business partners and makes available a greater variety of reward options to our TudoAzul members. We seek to offset the anticipated decrease in breakage through our pricing policy for points sold. If we fail to adequately price our points or actual redemptions exceed our expectations, TudoAzul's profitability, and consequently our own profitability, could be adversely affected. Furthermore, if actual redemptions exceed our expectations, we may not have sufficient cash on-hand to cover all actual redemption costs, which could materially adversely affect us.

We depend on our senior management team, and the loss of any member of this team, including our Chairman and key executives, could adversely affect us.

Our business depends upon the efforts and skill of our senior management. Our future success depends on a significant extent on the continued service of our senior management team, who are critical to the development and the execution of our business strategies. Any member of our senior management team may leave us to establish or work in businesses that compete with ours. There is no guarantee that the compensation arrangements and non-competition agreements we have entered into with our senior management team are sufficiently broad or effective to prevent them from resigning in order to join or establish a competitor or that the non-competition agreements would be upheld in a court of law. In the event that our Chairman or a number of our senior management team leave our company, we may have difficulty finding suitable replacements, which could have a material adverse effect on us.

We may be unable to maintain our culture and to retain and/or hire skilled personnel as our business grows, such as pilots, which could have an adverse impact on us.

We believe that our growth potential and the maintenance of our results and customer-oriented company culture are directly linked to our capacity to attract and maintain the best professionals available in the Brazilian airline industry. As we grow, we may be unable to identify, hire or retain enough people who meet the above criteria, or we may have trouble maintaining our company culture as we become a larger business. From time to time, the airline industry has experienced a shortage of skilled personnel, especially pilots. We compete against all other airlines, both inside and outside Brazil, for these highly-skilled personnel. We may have to increase wages and benefits to attract and retain qualified personnel or risk considerable employee turnover. Our culture is crucial to our business plan, and failure to maintain that culture could have an adverse impact on us.

The airline industry is subject to increasingly stringent environmental regulations and non-compliance therewith may adversely affect us.

The airline industry is subject to increasingly stringent federal, state, local and foreign laws (including those of the United States and Europe), regulations and ordinances relating to the protection of the environment, including those relating to emissions to the air, levels of noise, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. As far as civil liabilities are concerned, Brazilian environmental laws adopt a strict and joint liability regime. These laws and regulations are enforced by various governmental authorities. Non-compliance with such laws and regulations may subject the violator to administrative and criminal sanctions, in addition to the obligation to repair or to pay damages caused to the environment and third parties. Pursuant to Brazilian environmental laws and regulations, the piercing of the corporate veil of a company may occur to help provide enough financial resources for the recovery of damages caused against the environment. As far as civil liabilities are concerned, Brazilian environmental laws adopt a strict and joint liability regime.

In this regard we may be liable for violations by third parties hired to dispose of our waste, among other activities. Also, we may not hold all valid environmental licenses deemed necessary by the environmental authorities to perform our activities.

In 2016, ICAO adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), providing a framework for a global market-based measure to stabilize carbon dioxide, or CO2, emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). CORSIA is being implemented in phases, starting with the participation of ICAO member states on a voluntary basis during a pilot phase (from 2021 through 2023), followed by a first phase (from 2024 through 2026) and a second phase (from 2027). Currently, CORSIA focuses on defining standards for monitoring, reporting and verification of emissions from air operators, as well as on defining steps to offset CO2 emissions after 2020. We expect to report our emissions to Brazilian authorities starting in 2020. Brazil is expected to become a signatory of CORSIA in 2027. To the extent most of the countries in which we operate continue to be ICAO member states, in the future we may be affected by regulations adopted pursuant to the CORSIA framework. The proliferation of national regulations and taxes on CO2 emissions in the countries that we have domestic operations, including environmental regulations that the airline industry is facing in Brazil, may also affect our costs of operations and our margins.

Concerns about climate change and greenhouse gas emissions may result in additional regulation or taxation of aircraft emissions in Brazil, the United States or Europe. Future operations and financial results may vary as a result of the adoption of such regulations in Brazil, the United States or Europe.

The European Union has proposed a directive under which the existing emissions trading scheme, or ETS, in each European Union member state was to be extended to all airlines. This directive would require us to submit annual emission allowances in order to operate routes to and from European Union member states. As of December 31, 2019, this proposal would affect only intra-European flights (which are not material to our business) but there is a possibility that the directive could be extended to all flights in the future. Currently, we operate two routes to and from Europe, and service additional destinations in Europe through our code-sharing agreement with TAP. Although this proposal has been postponed for evaluation and it is uncertain whether it will be approved, it is increasingly likely that we will be required to participate in some form of an international aircraft emissions program in the future, which may involve significant costs.

We may incur financial losses and damages to our reputation from environmental and social risks.

Environmental and social risk is considered a material issue for our business since it can affect the creation of shared value in the short, medium and long terms, from the standpoint of our organization and our main stakeholders. Further, we understand environmental and social risk as the possibility of losses due to exposure to environmental and social events arising from the performance of our activities. We also recognize climate risk as an emerging environmental and social risk. Climate change is a risk as it affects our clients, suppliers and our operations, including property and equipment. Finally, our reputation could be affected if we do not fully comply with voluntary commitments, such as Equator Principles, Principles for Responsible Investment and National Pact for the Eradication of Slave Labor among others.

We benefit from tax incentives on our purchases of jet fuel in Brazil, and these tax incentives may be revoked at any time adversely affecting us.

The price of the jet fuel that we purchase in certain Brazilian states is subsidized through tax incentives provided to us by those states. Depending on the type of agreement, Governmental authorities may revoke, suspend or fail to renew these tax incentives at any time, including if we fail to comply with our obligations in the tax incentive agreements that we have executed with those states. In addition, certain tax incentive agreements require approval from CONFAZ, the Brazilian National Council of Fiscal Policy, which have not yet been obtained and could therefore be canceled by the Brazilian Supreme Court at any time. If any of these tax incentives are canceled, revoked, suspended or not renewed, the prices that we pay for jet fuel would increase or we may reduce our number of flights, which may lead to a significant impact in our results and adversely affect us.

The agreements governing our debt contain covenants and restrictions that limit our ability to engage in change of control transactions, terminate our relationship with certain suppliers and incur certain levels of indebtedness.

Our financing agreements contain covenants and restrictions that restrict us and our subsidiaries' ability to engage in change of control transactions and terminate concession agreements associated with such financial contracts, whether through failure to renew or otherwise. In addition, certain of our financing instruments require us and our subsidiaries to meet financial covenants calculated as of December 31 of each year that, among other restrictions, limit our permissible ratios of debt to EBITDA and debt to cash freely convertible into U.S. dollars. Our ability to comply with the covenants and restrictions contained in our financing agreements may be affected by economic, financial and industry conditions beyond our control. The breach of any of these covenants and restrictions could result in declaration of an event of default and acceleration of the maturity of indebtedness, which would require us to pay all amounts outstanding.

As of December 31, 2019, we were in compliance with all financial covenants in our financing instruments requiring us to maintain certain ratios. An eventual default under such agreements may result in their early termination and, as consequence, the cross-default of certain obligations which would cause a material adverse effect on us.

For more information on the covenants and restrictions and on certain defaults under our financing agreements see "Item 5.B. Liquidity and Capital Resources—Loans and Financings" and "Item 5.D. Trend Information."

Unfavorable decisions in judicial or administrative proceedings could adversely affect us.

We and our subsidiaries are parties to various proceedings in the judicial and administrative spheres, including civil, labor, social security, tax, consumer protection, civil and regulatory actions. There is no way to guarantee that such lawsuits will be ruled favorably to us and/or our subsidiaries, or that the amounts provisioned are sufficient to cover amounts resulting from any unfavorable rulings. Decisions contrary to the interests of us and/or our subsidiaries that could eventually result in substantial payments, affect our image and/or the image of our subsidiaries or impede the performance of our business as initially planned may have a material adverse effect on our business, the business of our subsidiaries, our financial condition and our results of operations.

Any violation or alleged violation of anti-corruption, anti-bribery and anti-money laundering laws could adversely affect us, including our brand and reputation.

There can be no assurance that our employees, agents, and the companies to which we outsource certain of our business operations will not take actions in violation of our anti-corruption, anti-bribery and anti-money laundering policies, for which we may be ultimately held responsible. We are subject to the United States Foreign Corrupt Practices Act of 1977, or the FCPA, by virtue of our shares being listed and traded in the United States, while in the past, our exposure was less significant due to our limited nexus with the United States. If we are not in compliance with anti-corruption laws, anti-money laundering laws and other laws governing the conduct of business with government entities, including under the FCPA and other United States and local laws, we may be subject to criminal and civil penalties and other remedial measures, which could harm our brand and reputation and have a material adverse impact on our business, financial condition, results of operations and prospects. Any investigation of any actual alleged violations of such laws could also adversely affect us, including our brand and reputation.

We are a holding company and do not have any material assets other than the shares of our subsidiaries.

We are a holding company that conducts its operations through a series of operating subsidiaries. We support these operating subsidiaries with technical and administrative services through our various other subsidiaries. All of the assets we use to perform administrative and technical services and to operate the concessions and authorizations are held at the subsidiary level. As a result, we do not have any material assets other than the shares of our subsidiaries. Dividends or payments that we may be required to make will be subject to the availability of cash provided by our subsidiaries. Transfers of cash from our subsidiaries to us may be further limited by corporate and legal requirements, or by the terms of the agreements governing our indebtedness. If a shareholder were to assert a claim against us, the enforcement of any related judgment would be limited to our available assets, rather than our assets and those of our combined subsidiaries.

Risks Relating to Our Preferred Shares, Including in the Form of ADSs

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

In accordance with Brazilian corporate law and our bylaws, our controlling shareholder has the legal power to, among other things, elect the majority of our directors and determine the outcome of any action requiring shareholder approval. This power includes the ability to control decisions with respect to related party transactions (excluding transactions with a related party to the controlling shareholder himself), corporate restructurings, dispositions, partnerships, sale of all or substantially all of our assets, withdrawal of our shares from the Level 2 segment of B3 and the time for payment of any future dividends. Our controlling shareholder may choose to enter into acquisitions, dispositions, partnerships or enter into loans and financing or other similar transactions for us that could conflict with the interests of investors and that may negatively affect us. As of December 31, 2019, our controlling shareholder owned, directly and indirectly, 67% of our voting capital and 50.4% of our total capital. In economic terms, our controlling shareholder’s holdings equal 5.8%. In particular, due to our capital structure, the capital contributions made by the holders of our common shares to date were considerably lower than those made by the holders of our preferred shares, which means that our controlling shareholder has the right to direct our business but has considerably less economic interest with respect to the results of our activities than holders of our preferred shares. This difference in economic interest may intensify conflicts of interests between our controlling shareholder and you.

Our controlling shareholder is entitled to receive significantly less dividends than holders of our preferred shares, which may cause his decisions on the distribution of dividends to conflict with your interests.

Holders of our common shares are entitled to receive an amount of dividends equivalent to 75 times less than the amount of dividends paid to holders of our preferred shares. The fact that our controlling shareholder receives a small portion of our dividends in each distribution in comparison to the amount of dividends to which holders of our preferred shares are entitled may influence his decisions on the distribution of dividends, which may differ from interests of the holders of our preferred shares. For more information on distribution of dividends and compensation of our management, see “Item 10.F. Dividends and Payment Agents—Dividend Policy” and “Item 6.B. Management Compensation,” respectively.

Investors in our preferred shares, including in the form of ADSs, may experience book value dilution in the future.

We have established stock option and restricted share plans for key personnel, including our officers, certain managers and other key crewmembers. We estimate that as of December 31, 2019, 2,294,135 new preferred shares would have been issued if all of our vested options were exercised by the holders thereof at a weighted average strike price of R$13.81. The exercise of vested options by the holders thereof could result in substantial dilution in book value to investors if the public offering price for our preferred shares (including in the form of ADSs) is higher than the book value of such shares in the future upon the exercise of our stock options. See "Item 6.B. Management Compensation—Stock-Based Incentive Plans."

In addition, in the event that we need to obtain capital for our operations by issuing new shares in the future, any such issuance may be made at a value below the book value of our preferred shares on the relevant date. In that event, the holders of our ADSs and preferred shares at such time would suffer an immediate and significant dilution of their investment.

An active and liquid trading market for our preferred shares, including in the form of ADSs may not be maintained, thereby potentially adversely affecting the price our preferred shares, including in the form of ADSs.

An active and liquid public trading market for our preferred shares, including in the form of ADSs, may not be maintained. Active, liquid trading markets generally result in lower price volatility and more efficient purchases and sales of shares. If an active trading market is not maintained, the liquidity and price of our preferred shares, including in the form of ADSs, could be seriously harmed.

The investment in marketable securities traded in emerging countries, such as Brazil, usually represents higher levels of risk as compared to investments in securities issued in countries whose political and economic situations are more stable, and in general, such investments are considered speculative in nature. The Brazilian capital market is substantially smaller, less liquid, more volatile, and more concentrated than major international capital markets. B3 exchange-listed companies had an aggregate market capitalization of R$4.6 trillion as of December 31, 2019 and a daily average trading volume of R$17.3 billion as December 31, 2019, according to B3. These market characteristics may substantially limit the capacity of holders of our preferred shares to sell them at the price and time of their preference and this may have an adverse effect on the market price of our preferred shares.

In addition, the price of shares of companies in the worldwide airline industry are relatively volatile and investors' perception of the market value of these shares, including our preferred shares in the form of ADSs, may also be negatively impacted with additional volatility and decreases in the price of our ADSs and preferred shares.

Our preferred shares will have limited voting rights.

Except under certain situations, our preferred shares, including in the form of ADSs, do not carry general voting rights. See "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights." Our principal shareholders, who hold the majority of common shares with voting rights and control us, are therefore able to approve most corporate measures without the approval of holders of our preferred shares, including in the form of ADSs. Accordingly, you will generally not have control over any matters, including the approval of corporate measures such as appointment of directors, approval of significant transactions or changes in our capital structure.

According to Brazilian corporate law, preferred shares with limited or no voting rights and with rights to fixed or minimum priority dividends, gain voting rights if the company ceases to pay the fixed or minimum dividends to which such shares are entitled for three consecutive fiscal years.

In addition, to the extent holders of our preferred shares are entitled to vote on certain limited matters pursuant to Brazilian corporate law, the provisions of our bylaws, and the provisions of or governing the deposited preferred shares, we cannot assure ADS holders that they will receive the voting materials in time to ensure that they can instruct the depositary to vote the preferred shares underlying their ADSs. Furthermore, there can be no assurance that ADS holders will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our preferred shares. While ADS holders could exercise their right to vote directly if they withdraw the preferred shares, such ADS holders may not know about the meeting sufficiently enough in advance to withdraw the preferred shares. See "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights."

Holders of our preferred shares, including in the form of ADSs, may not receive any dividends or interest on shareholders' equity.

According to our bylaws, provided that the Company records a net income and there are no accumulated losses, we must pay our common and preferred shareholders at least 0.1% of our annual adjusted net income as dividends or interest on shareholders' equity, as calculated and adjusted pursuant to Brazilian corporate law. Interim dividends and interest on our shareholders' equity declared for each fiscal year may be attributed to our minimum obligatory dividend for the year in which it was declared. For more information, see "Item 10.F. Dividends and Payment Agents—Dividend Policy." This adjusted net income may be capitalized, used to absorb losses or otherwise retained as allowed under Brazilian corporate law, and may not be made available for payment as dividends or interest on shareholders' equity.

Additionally, Brazilian corporate law allows a company like ours to suspend the mandatory distribution of dividends in any particular fiscal year if our board of directors informs our shareholders that such distribution would be inadvisable in view of our financial condition. If these events were to occur, the holders of our preferred shares, including in the form of ADSs may not receive dividends or interest on shareholders' equity.

The sale of a significant number of our preferred shares, including in the form of ADSs, may negatively affect the trading price of our preferred shares, including in the form of ADSs.

Our principal shareholders, as well as our directors, officers and other affiliates, are able to sell additional preferred shares, including in the form of ADSs, and certain lock up agreements into which they had entered have expired. In addition, under our fifth amended and restated registration rights agreement, or the Registration Rights Agreement, which we entered into on August 3, 2016 with our then principal shareholders, we could be required to register additional preferred shares held by the shareholders who signed the Registration Rights Agreement with the SEC for future sale at any time commencing six months following our initial public offering. For further details of the Registration Rights Agreement, see "Item 7.A. Major Shareholders—Registration Rights Agreement."

Sales of our preferred shares, including in the form of ADSs, made by our affiliates, including those effected by our directors, executive officers or controlling shareholders or those involving a large number of preferred shares or ADSs, or market perception of an intention to any of such sales, may negatively affect the trading price of our preferred shares, including in the form of ADSs.

Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our preferred shares, including in the form of ADSs.

Law 10833 of December 29, 2003 provides that the disposition of assets located in Brazil by a nonresident to either a resident or a nonresident of Brazil is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. This provision results in the imposition of income tax on the gains arising from a disposition of our preferred shares by a nonresident of Brazil to either a resident or a nonresident of Brazil. However, since currently there is no judicial guidance determining whether ADSs should be considered assets located in Brazil, we are unable to predict whether Brazilian courts may decide that income tax under Law 10833 applies to gains assessed on dispositions of our ADSs. In the event that the disposition of assets is interpreted to include the disposition of our ADSs, this tax law would result in the imposition of withholding taxes on the sale of our ADSs by a nonresident of Brazil to either a resident or a nonresident of Brazil. Because any gain or loss recognized by a U.S. Holder (as defined in "Item 10.E. Taxation—United States Federal Income Tax Considerations") on the disposition of preferred shares or ADSs generally will be treated as U.S.-source gain or loss for U.S. foreign tax credit purposes, the U.S. Holder may not be able to benefit from a foreign tax credit for Brazilian income tax imposed on the disposition of preferred shares or ADSs unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. See "Item 10.E. Taxation—United States Federal Income Tax Considerations —Sale or Other Taxable Disposition of Preferred Shares, Including in the Form of ADSs."

The Brazilian government may impose exchange controls and significant restrictions on remittances of reais abroad, which would adversely affect your ability to convert and remit dividends or other distributions or the proceeds from the sale of our preferred shares, our capacity to make dividend payments or other distributions to non-Brazilian investors and would reduce the market price of our preferred shares, including in the form of ADSs, and our capacity to comply with payment obligations in foreign currency.

In case of serious imbalances, the Brazilian government may restrict the remittance abroad of proceeds of investments in Brazil and the conversion of the *real* into foreign currencies. The Brazilian government last imposed such remittance restrictions for a brief period in 1989 and early 1990. We cannot assure you that the Brazilian government will not take similar measures in the future. The return of any such restrictions would hinder or prevent your ability to convert dividends or other distributions or the proceeds from any sale of our preferred shares into U.S. dollars and to remit U.S. dollars abroad, our capacity to make dividend payments or other distributions to non-Brazilian investors, and our capacity to comply with payment obligations in foreign currency. The imposition of any such restrictions would have a material adverse effect on the stock market price of our preferred shares, including in the form of ADSs, and on our capacity to access foreign capital markets.

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

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our preferred shares underlying the ADSs in Brazil, permitting the custodian to convert dividends and other distributions with respect to our preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian's electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of distributions relating to our preferred shares, unless you obtain your own electronic certificate of foreign capital registration, or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration, you would not be able to remit abroad non-Brazilian currency. In addition, if you do not qualify under the foreign investment regulations, you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our preferred shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The depositary's electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

If we do not maintain a registration statement and no exemption from the Securities Act is available, U.S. Holders of ADSs will be unable to exercise preemptive rights with respect to our preferred shares.

We may, from time to time, offer preferred shares or other securities, or preemptive rights to acquire additional preferred shares or other securities to shareholders, including as a result of the Brazilian Corporate Law. We will not be able to offer such securities or rights to holders of ADSs unless a registration statement under the Securities Act is effective with respect to such preferred shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file such registration statement, and we cannot assure you that we will file a registration statement. If a registration statement is not filed and an exemption from registration does not exist, Citibank, N.A., as depositary, will attempt to sell such preemptive rights or securities, as the case may be, and you will be entitled to receive the proceeds of the sale. However, if the depositary is unable to sell these preemptive rights or securities, U.S. holders of ADSs will not receive any value in connection with such distribution.

In the event that you are not entitled to preemptive rights or are unable or unwilling to exercise preemptive rights in connection with the preferred shares, including in the form of ADSs or other securities, your investment could be subjected to dilution.

The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members or executive officers.

As a public company, we incur significant legal, accounting and other expenses that we have not incurred as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, as amended, and related rules implemented by the SEC. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers and may divert management's attention. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our preferred shares, fines, sanctions and other regulatory action and potentially civil litigation which may adversely affect us.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, the market price and trading volume of our preferred shares, including in the form of ADSs could decline.

The trading market for our preferred shares, including in the form of ADSs, depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our preferred shares, including in the form of ADSs, could decline, which might cause the market price and trading volume of our preferred shares, including in the form of ADSs to decline.

Our status as a foreign private issuer allows us to follow alternate standards to the corporate governance standards of the NYSE, which may limit the protections afforded to investors.

We are a "foreign private issuer" within the meaning of the NYSE corporate governance standards. Under NYSE rules, a foreign private issuer may elect to comply with the practices of its home country and not comply with certain corporate governance requirements applicable to U.S. companies with securities listed on the exchange. We currently follow certain Brazilian practices concerning corporate governance and intend to continue to do so.

We rely on certain exemptions as a foreign private issuer listed on the NYSE. For example, the NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the affirmative determination of the board of directors of absence of a material relationship between a director and the listed company. Under the listing standards of Level 2 segment of B3, our board of directors must have at least five members, at least 20% of which must be independent. Also, Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE rules. Also, pursuant to Brazilian corporate law and Instruction 308, dated May 14, 1999, as amended, issued by CVM, our audit committee, unlike the audit committee of a U.S. issuer, will not be composed of directors only, will only have an "advisory" role and may only make recommendations for adoption by our board of directors, which will be responsible for the ultimate vote and final decision.

In addition, we do not have a nominating committee as required for U.S. issuers under the NYSE rules and although we have a compensation committee and a corporate governance committee, we are not required to comply with the NYSE standards applicable to compensation or corporate governance committees of listed companies.

Furthermore, the corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. company and, as a result, you may receive less information about us than you would receive from a comparable U.S. company. We are subject to the reporting requirements of the Securities Exchange act of 1934, as amended, or the Exchange Act. The disclosure requirements applicable to foreign private issuers under the Exchange Act are more limited than the disclosure requirements applicable to U.S. issuers. Publicly available information about issuers of securities listed on the CVM, which is provided in Portuguese, also provides less detail in certain respects than the information regularly published by listed companies in the United States or in certain other countries.

Accordingly, holders of our ADSs will not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements. For a comparison of the foregoing requirements, see "Item 16.G. Corporate Governance."

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

We are incorporated as a Brazilian *sociedade por ações* under the corporate name Azul S.A. Our headquarters are at Edifício Jatobá, 8th floor, Castelo Branco Office Park, Avenida Marcos Penteado de Ulhôa Rodrigues, 939, Tamboré, Barueri, São Paulo, SP 06460-040, Brazil. We are registered with the Board of Trade of the state of São Paulo under corporate registration number, or NIRE, number 35.300.361.130. We have been registered with the CVM as a publicly held corporation since April 7, 2017.

We were founded on January 3, 2008 by entrepreneur David Neeleman and began operations on December 15, 2008. Backed by Mr. Neeleman and other strategic shareholders, we have benefitted from our partnerships and have invested in a robust and scalable operating platform. We have a management team that effectively combines local market expertise with diversified international experience and knowledge of best practices from the United States, the largest aviation market in the world.

Our start-up capital of R$400.7 million enabled us to invest up-front in a scalable operating platform and efficient young fleet. After less than six months of operations, we became Brazil's third-largest airline in terms of domestic market share in May 2009, according to ANAC. Our operating fleet has grown from three Embraer E-Jets in December 2008 to a total of 142 aircraft, consisting of 59 Embraer E-Jets, 33 ATR aircraft, 38 next-generation Airbus A320neos, 10 Airbus A330s and two B737 freighter as of December 31, 2019.

In August 2012, we acquired TRIP, which at the time was the largest regional carrier in South America by number of destinations. The fleet similarity between the two airlines allowed us to integrate all of TRIP's activities by June 2014. The TRIP acquisition substantially increased our network connectivity, enabling us to serve 106 destinations upon completion of the acquisition and to become the leading carrier in terms of departures in 73 cities as of December 31, 2019 as well as to consolidate our position as a leader in Brazil's fast-growing regional aviation market. As of December 31, 2019, we had the largest airline network in Brazil in terms of departures and cities served, with 916 daily departures spanning 116 destinations – an unparalleled network of 249 non-stop routes.

Leveraging the strength of the network we built over the previous years, in December 2014 we started operating international flights with Airbus A330 aircraft, serving millions of passengers that connected throughout our network and that previously did not have a convenient option to travel internationally.

As part of our plans to expand globally, we have also established code-share agreements with other carriers such as United and TAP, giving our passengers the ability to connect to more than 200 destinations worldwide in addition to the 116 destinations we currently serve.

Capital Expenditures

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

B. Business Overview

General

We are the largest airline in Brazil in terms of departures and cities served, with 916 daily departures to 116 destinations, creating an unparalleled network of 249 non-stop routes as of December 31, 2019. As the sole airline on 70% of our routes, we are the leading airline in 73 Brazilian cities in terms of departures and carried approximately 28.0 million passengers in the year ended December 31, 2019. In addition to having an extensive network, optimized fleet, and a high-quality product, we also have strategic revenue generating business units including our wholly-owned loyalty program TudoAzul, and our logistics solutions business Azul Cargo.

Brazil is geographically similar in size to the continental United States and is currently the sixth largest market for domestic airline passengers in the world. Since 2008, the number of domestic airline passengers carried in Brazil has increased by 90% to 95 million in 2019, according to ANAC, and Azul alone has captured almost 60% of that growth. Brazil's air travel market continues to be significantly underpenetrated and is expected to double by 2029 according to ABEAR.

We have the most extensive route network in Brazil, serving 106 domestic destinations, about twice as many as our main competitors Gol and LATAM, which served 60 and 46 destinations, respectively, as of December 31, 2019. We are the only provider of scheduled service to 40 of our domestic destinations and hold the leading position in eight out of the ten largest domestic airports in terms of departures in which we operate. Through our network, we connect travelers to destinations exclusively served by us from our three hubs, which cater to the São Paulo, Belo Horizonte and Recife markets, all among the largest metropolitan areas in the country. Notably, we are the leading airline at Viracopos airport, one of the principal airports in the São Paulo area and the largest domestic hub in South America in terms of non-stop destinations served, with a 97% share of its 139 domestic daily departures as of December 31, 2019.

We operate a young, fuel-efficient fleet that we believe is better tailored for Brazil than those of our main competitors, as it allows us to serve markets with different demographics, ranging from large capitals to smaller cities. As of December 31, 2019, our passenger operating fleet was comprised of 140 aircraft with an average age of 5.8 years, which is significantly younger than that of our main competitors. We believe that our diversified fleet is optimized to efficiently match capacity to demand. This enables us to offer superior connectivity as well as more convenient and frequent non-stop service to more airports than our main competitors, which exclusively operate larger aircraft.

A key driver of our profitability is our management team's extensive experience in implementing a disciplined, low-cost operating model. Our optimized fleet yields lower trip costs than our main competitor. In the year ended December 31, 2019, our average trip cost was R$31,863, 29.6% lower than that of Gol. With the increase in the number of next-generation Airbus A320neos and Embraer E2s in our fleet, we expect to maintain our market-leading low trip cost advantage. In addition, our FTEs per aircraft were the lowest in Brazil at 93 compared to 143 for Gol as of December 31, 2019, according to Gol's 2019 results filed with the SEC on February, 20, 2020.

We have built a strong brand by offering what we believe is a superior travel experience, based on a culture of customer service provided by a highly-motivated and well-trained team of crewmembers. Our service features include passenger seat selection, leather seats, individual entertainment screens with free live television at every seat in all our Embraer jets and most of our A320neos, extensive legroom with a pitch of 30 inches or more, complimentary beverage and snack services, and free bus service to key airports we serve. In addition, we expect to offer Wi-Fi service in most of our A320neo and E2 fleet. As a result of our strong focus on customer service, our NPS score in 2019 totaled 57, significantly higher than Gol's NPS score of 40. In 2019, we won the Skytrax award of "*Best Regional Airline in South America*" for the eight consecutive year and Skytrax award of "*Best Airline Staff*" for the fourth consecutive year. In addition, we were named "*Best Carrier in Latin America*" for the third consecutive year and listed among the world's top 10 airlines by TripAdvisor Travelers' Choice.

We continue to invest in and expand our loyalty program TudoAzul, which had approximately 12 million members and 78 program partners as of December 31, 2019. TudoAzul has been the fastest growing loyalty program in terms of members in Brazil for the past six years compared to Smiles and LATAM Pass, the loyalty programs of Gol and LATAM, respectively, according to publicly available information of such competitors, including disclosure filed with or furnished to the SEC and information available on their respective websites. TudoAzul was also elected "*Best Loyalty Program in Brazil*" for the fourth consecutive year by readers of Melhores Destinos, the largest web portal of airline fare promotions and loyalty programs in Brazil. Given our network strength and the expected growth of passenger air travel, credit card penetration and usage and customer loyalty in Brazil, we believe that TudoAzul is a key strategic asset for us.

Other revenue streams are expected to be mostly driven by our logistics solutions business, Azul Cargo. In 2019 Azul Cargo grew 45% in terms of revenues, reaching R$481 million mostly driven by our increase in cargo volume transported and our expanding presence in the e-commerce segment, including a partnership with Mercado Libre. We ended 2019 with a 23% share of cargo volume transported in Brazil, giving the importance of our unique network and the capillarity support it provides. In addition, we intend to continue growing our ancillary and other revenue streams, including Azul Viagens, our travel package business.

In 2019, we generated total operating revenue of R$11.4 billion and a net loss of R$2,403.1 million compared to total operating revenue of R$9.1 billion and a net loss of R$635.7 million, respectively, in 2018. We had the impact of non-recurring losses, accounting for R$3.2 billion in 2019 and R$226.3 million in 2018.

Events Subsequent to the Date of the Financial Statements

On March 24, 2020, Azul announced that from March 25, 2020 to April 30, 2020, it expects to operate 70 non-stop flights per day to 25 cities, representing a 90% reduction of its consolidated planned capacity in terms of ASKs for the month of April, in light of the uncertainty due to the COVID-19 pandemic that is affecting the demand for air traffic. Azul also announced several measures to reduce fixed costs and preserve its cash position as described below.

Measures for costs and expenses reduction

- Executive management team salary cut of 50% and managers salary cut of 25% until situation normalizes;
- Hiring freeze;
- Payment deferral of 2019 bonus and profit sharing;
- An increase of crewmembers joining the Company's voluntary unpaid leave program with over 10,500 requests approved as of March 31, 2020;
- Suspension of travel and discretionary spending;
- Grounding of surplus aircraft; and
- Suspending all new aircraft deliveries.

Measures for balance sheet and cash flow management. In addition to taking aggressive steps to reduce operating costs, the Company is also working to strengthen its liquidity position by preserving cash, including:

- Actively managing all areas of working capital;
- Eliminating all non-critical capital spend;
- Negotiating new payment terms with its commercial partners; and
- Discussing new credit facilities with financial institutions, including the Brazilian Development Bank (BNDES), who announced a support package worth R$ 10 billion in credit lines for the Brazilian airline sector.

The Company anticipates that these initiatives to obtain additional sources of liquidity, along with measures to contain operational expenses and non-essential capex outflows, will provide ample resources to endure a prolonged downturn in demand during several months. However, it is not possible to guarantee their sufficiency and complete implementation, as some of them depend on third parties actions and decisions.

New measures may still be implemented by Azul, as the extent of the impact of COVID-19 on Azul's operational and financial performance is still uncertain and will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for air travel, all of which cannot be predicted.

Management continues to monitor the Company's profitability and its financial position, taking actions to sustain its ability to continue with its operations in the foreseeable future. For more information, see "Item 3.D. Risk Factors—A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations."

On February 21, 2020, our wholly-owned subsidiary, Azul Linhas Aéreas Brasileiras, and Two Taxi Aereo, "TwoFlex", announced that they have entered into a certain Quota Purchase Agreement under which we agreed to acquire the Brazilian regional carrier TwoFlex for the total purchase price of R$123 million. TwoFlex is a domestic airline based in Jundiaí, Brazil, founded in 2013 and offers regular passenger and cargo service to 39 destinations in Brazil, of which only three regional destinations are currently being served by Azul. TwoFlex also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo's downtown airport. Congonhas is a particularly coveted airport because of its proximity to São Paulo's business districts. Currently, our two larger competitors, Gol and LATAM, control most of the flights in Congonhas. TwoFlex's fleet is composed of 17 owned Cessna Caravan aircraft, a regional turboprop with a capacity of nine passengers. On March 27, 2020, the Brazilian Administrative Council for Economic Defense (CADE – *Conselho Administrativo de Defesa Econômica*) approved the acquisition without imposing further obligations for the parties. The parties are working towards the closing of the transaction, which we expect to occur in the near future.

Strengths and Opportunities

Our Competitive Strengths

We believe the following business strengths allow us to compete successfully:

Largest Network in Brazil

We have the largest network in Brazil in terms of departures and cities served, with 916 daily departures serving 116 destinations, creating an unparalleled network of 249 non-stop routes as of December 31, 2019. Our connectivity at large hubs allows us to consolidate traffic, serving larger and medium-sized markets as well as smaller cities that do not generate sufficient demand for point-to-point service. We believe that our extensive network coverage allows us to connect more passengers than our competitors, who serve significantly fewer destinations. As of December 31, 2019, we served 106 destinations in Brazil, compared to 60 for Gol and 46 for LATAM. In addition, we were the sole airline on 70% of our routes and 40 of the destinations we served, and the leading player in 73 cities as of December 31, 2019. By comparison, Gol and LATAM were leading carriers in only 11 and 12 cities, respectively, as of December 31, 2019. Furthermore, as of December 31, 2019, 35% and 28% of our domestic network overlapped with that of Gol's and LATAM's, respectively, while Gol's and LATAM's networks had an overlap of approximately 88% between them.

Our Optimized Fleet Enables us to Efficiently Serve our Target Markets

Our fleet strategy is based on optimizing the type of aircraft for the different markets we serve. Our diversified fleet of ATR, E-Jets and Airbus aircraft enables us to serve markets that we believe our main competitors, who only fly one type of larger narrow-body aircraft, cannot serve profitably. We believe our current fleet of aircraft allows us to match capacity to demand, achieve high load factors, provide greater convenience and frequency, and serve low and medium density routes and markets in Brazil that are not served by our main competitors. According to ANAC, 47.1% of the flights in Brazil carried fewer than 120 passengers in 2019. Our domestic fleet consists of Embraer E-Jets which seat up to 136 passengers, fuel-efficient ATR aircraft which seat 70 passengers, and next-generation Airbus A320neos which seat 174 passengers, while all the narrow-body aircraft used by Gol and LATAM in Brazil have between 138 and 220 seats. As a result, the average trip cost for our fleet of R$31,862 as of December 31, 2019 was 29.6% lower than that of larger Boeing 737-800 jets flown by Gol. We also operate 10 Airbus A330s to serve international markets and two Boeing 737 freighter aircraft to support our cargo business

Our fleet plan focuses on maintaining a trip cost advantage relative to our main competitors while also providing us with flexibility for growth into new markets both domestically and internationally. Based on our current firm orders, between 2020 and 2024, we expect to add approximately 71 next-generation E-195 E2 aircraft, 42 next-generation Airbus 320neos and two next-generation Airbus A330-900neo widebody aircraft to our fleet, replacing older generation aircraft. These new generation aircraft are more fuel-efficient than older generation aircraft. We expect that our fleet plan will allow us to maintain market-leading trip costs and to reduce our CASK, both in absolute terms and relative to our main competitors.

Industry-Leading PRASK

We utilize a proprietary yield management system that is key to our strategy of optimizing yield through dynamic fare segmentation and demand stimulation. We target both business travelers, to whom we offer convenient flight options, and cost-conscious leisure travelers, to whom we offer low fares to stimulate air travel and to encourage advanced purchases. This segmentation model has enabled us to achieve a market-leading PRASK of 30.41 *real* cents in the year ended December 31, 2019. In addition, in 2019, our PRASK represented a 18.7% premium compared to Gol. We believe our superior network and product offering allows us to attract high-yield and frequent business travelers. According to ABRACORP, we held a 32% share in terms of Brazilian business-focused travel agency revenue, compared to a 24% market share in terms of RPKs as of December 31, 2019.

As an illustration of our ability to stimulate demand, the following table highlights the increase in average customers per day on certain routes from November 2008, shortly before we started operations, to December 2019:

	Total Direct Flights	Azul	Average Daily Enplanements (One Way)
Campinas—Rio de Janeiro			
November 2008	6	—	564
December 2019	17	15	1,326
Campinas—Salvador			
November 2008	—	—	155[1]
December 2019	2	2	547
Campinas—Belo Horizonte			
November 2008	5	—	503
December 2019	10	10	1,934
Belo Horizonte—Goiânia			
November 2008	1	—	82
December 2019	4	4	299
Campinas—Porto Alegre			
November 2008	—	—	241[1]
December 2019	8	8	772

Source:ANAC and internal data.

(1) Itinerary available through connecting flight only.

The increase in flights from Campinas, our main hub, illustrates the success of our demand-stimulation model. Across Brazil, our Campinas hub offers superior connectivity for connecting passengers, with the most non-stop services in the country as of December 31, 2019. As a result of our focus on underserved markets, we have been able to establish a successful platform that has significantly increased demand at Viracopos airport over the last 11 years. In November 2008, before we began operations, airlines serving Viracopos airport offered just twelve daily departures to eight destinations. As of December 31, 2019, Viracopos airport offered 139 domestic daily departures to 61 destinations, and we held a 97.4% share of those daily departures.

Most Efficient Cost Structure in the Brazilian Market

We have leveraged our management team's experience by implementing a disciplined, low-cost operating model to achieve our operational efficiencies. We believe we have achieved these operational efficiencies primarily through:

- Optimized aircraft for markets and routes served;
- Low cost of sales, distribution and marketing through direct-to-consumer marketing, e-commerce (approximately 88% of all sales were generated by online channels in year of 2019) and associated use of social networking tools;
- Lower costs due to single class cabin configuration for our domestic flights;
- Operation of a modern fleet with better fuel-efficiency and lower maintenance costs than previous generation aircraft;
- Innovative and beneficial financial arrangements for our aircraft, as a result of being one of the largest customers for Embraer and ATR aircraft;
- Investment in check-in technology to increase operating efficiencies; and
- Creation of a company-wide business culture focused on driving down costs.

As a result, we have achieved lower trip costs than our main competitor. In the year ended December 31, 2019, our average trip cost was R$31,863, 29.6% lower than that of Gol. In addition, our FTEs per aircraft were the lowest in Brazil at 93 compared to 143 for Gol as of December 31, 2019.

We have a robust and scalable operating platform that features advanced technology such as ticketless reservations, an Oracle financial system, a mobile app, and electronic check-in kiosks at our main destination airports. We believe that our scalable platform provides superior reliability and safety and will generate economies of scale as we continue to expand.

Strategic Global Partnerships

We have established long-term strategic partnerships with United and TAP. In 2015, United, acting through a subsidiary, acquired shares representing approximately a 5% economic interest in our company for US$100 million. In 2018, United acquired additional shares and increased its economic interest in our company to 8.0%. Our alliance with United has enhanced the reach of our mutual networks and created additional connecting traffic, as both we and United began selling each other's flights on our websites through a code-share agreement. This code-share agreement also provides customers flying on both airlines with a seamless reservations and ticketing process, including boarding pass and baggage check-in to their final destination, and we are evaluating possible additional cooperation with United.

As part of the privatization process of TAP in 2016, a consortium of private investors (including our principal shareholder) acquired a stake in TAP, and we invested €90 million in exchange for TAP bonds convertible into 41.25% economic interest in TAP. On March 14, 2019, we acquired a fully diluted economic stake of 6.1% in TAP from Hainan Airlines (Hong Kong) Co. Limited for a purchase price of US$25 million. The current stake represents 20.0% and 35.6% of the voting rights and economic rights of Atlantic Gateway, respectively. As a result, considering our current investment in TAP through a bond that is convertible into 41.25% of TAP's economic rights, Azul's total economic interest in TAP, assuming the bonds are converted, increased to 47.35%. For information on the conversion mechanism of TAP bonds, see "Business—Strategic Partnerships, Alliances and Commercial Agreements—TAP." As of December 31, 2019, TAP served 72 destinations, including 10 destinations in Brazil, and was the leading European carrier serving Brazil in terms of number of seats and flights. In addition, we currently offer non-stop flights between our and TAP's main hubs, Campinas and Lisbon and between Campinas and Porto. We are constantly evaluating the various ways in which we can cooperate with TAP and as of December 31, 2019 we had subleased 15 aircraft to TAP as part of our fleet optimization plan, see "Item 4.B. Business Overview—Fleet" and "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP."

As a result of our existing code-share agreements with United and TAP, our customers have access to more than 200 additional destinations worldwide. In addition, we believe that our strategic partnerships with these airlines provide our TudoAzul members with a broad range of attractive redemption options.

On February 6, 2020 we entered into a commercial joint venture agreement with TAP. Through this agreement, we will bring more connectivity to Brazilian domestic network and access to the European market, giving a more streamlined travel experience to customers flying between Brazil and Europe. The transaction was approved by Azul shareholders on December 9, 2019 and the closing of the transaction remains subject to regulatory approvals.

High-Quality Customer Experience Through Product and Service-Focused Culture

We believe we provide a high-quality, differentiated travel experience and have a strong culture focused on customer service. Our crewmembers are trained to be service-oriented, focusing on providing the customer with a travel experience that we believe is unique among Brazilian airlines. We provide extensive training for our crewmembers that emphasizes the importance of both safety and customer service. We strive to hold our employees accountable to maintain the quality of our crew and customer service.

Our service features include passenger seat selection, leather seats, individual entertainment screens with free live television at every seat in all our jets, extensive legroom with a pitch of 30 inches or more, complimentary beverage and snack service, free bus service to key airports we serve (including between the city of São Paulo and Viracopos airport) and a fleet younger than Gol and LATAM.

We focus on meeting our customers' needs and had one of the best on-time performance records among Brazil's largest carriers for the last four years, according to OAG, at 80%, 85%, 84% and 89% for the years ended in December 31, 2019, 2018, 2017 and 2016, respectively. In addition, our completion rate has been consistently high, totaling 99% in 2019, 98% in 2018 and 99% in 2017 and 2016.

Well-Recognized Brand

We believe we have been successful in building a strong brand by using innovative marketing and advertising techniques with low expenditures that focus on social networking tools to generate word-of-mouth recognition of our high-quality service. As a result of our strong focus on customer service, surveys that we have conducted indicate that, as of December 31, 2019, 70% of our customers would recommend or strongly recommend Azul to a friend or relative. In addition, we use the NPS metric to measure customer satisfaction and in 2019, our score totaled 57, significantly higher than Gol's NPS score of 40. The strength of our brand has been recognized in a number of awards:

- Ranked among the ten best airlines in the world in 2017, 2018 and 2019 and best airline in Latin America in 2018 and 2019 by TripAdvisor Traveler's Choice Awards;
- Named "*Best Airline in Brazil*" in 2019 for the third consecutive year by Melhores Destinos, the largest web portal of airline fare promotions and loyalty programs in Brazil;
- Named "*Best Regional Carrier in South America*" in 2018 and 2019 by Skytrax, an aviation research organization;
- Named "*Best Staff in South America*" in 2019 for the fourth consecutive year by Skytrax;
- Recognized as the "*Most On-Time Low Cost Carrier in the World*" by OAG in 2018 for the second time;
- Recognized as the "*Most On-time Low Cost Carrier in the Americas*" by OAG in 2018;
- Named "*Fastest Check-in in Brazil*" in 2018 for the third consecutive year by the Civil Aviation Secretariat (*Secretaria de Aviação Civil*);
- Named "*Best Low Cost Carrier in South America*" in 2017 for the seventh consecutive year by Skytrax

Named "Best Low Cost Carrier in The World" in 2012 by CAPA, an independent aviation research organization;

- Named one of the "*50 Most Innovative Companies in The World*" and "*Most Innovative Company in Brazil*" in 2011 by Fast Company, a business magazine; and
- Named one of the "*50 Hottest Brands In The World*" in 2010 by Ad Age, a leading marketing news source.

In addition, as a result of our strong brand awareness and focus on customer service, our TudoAzul loyalty program had approximately 12 million members as of December 31, 2019 and has been recognized with the following awards:

- Named "*Best Loyalty Program in Brazil*" from 2016 until 2019 by Melhores Destinos;
- Named "*The Loyalty Program with the Best Fares in Brazil in 2016-2017*" by Melhores Destinos; and
- Recognized as having "*The Most Innovative Co-Branded Credit Card*" at the 2015 Loyalty Awards Event presented by Flight Global, a renowned website recognized by the global aviation community as a reliable source of news, data and expertise relating to the aviation and aerospace industries.

Experienced Management Team

We believe we benefit from our highly knowledgeable and experienced management team. Our senior management, which has senior airline experience both in Brazil and in the United States, includes:

- Our Chairman and Founder David Neeleman, a dual Brazilian and U.S. citizen, who has founded five airlines in three different countries, including JetBlue Airways;
- Our Chief Executive Officer, John Peter Rodgerson, who previously served as our Chief Financial Officer and our Investor Relations Officer, where he was responsible for implementing our financial strategy and cost structure since our inception. Mr. Rodgerson also served as Director of Planning and Financial Analysis at JetBlue Airways for five years. Mr. Rodgerson also serves as Chief Executive Officer of our only operating subsidiary – Azul Linhas Aéreas Brasileiras (ALAB);
- Our Chief Financial Officer and Investor Relations Officer, Alexandre Wagner Malfitani, who previously served as the Head of our TudoAzul loyalty program, and our Director of Finance and Treasurer. Before joining Azul, Mr. Malfitani held the position of Managing Director of Treasury at United, having also worked in the finance industry, including as a fund manager at Deutsche Bank and as a trader at Credit Agricole Indosuez;
- Our Chief Revenue Officer, Abhi Shah, who has more than 16 years of experience in the aviation industry and has previously held executive positions at JetBlue Airways and Boeing. He was responsible for developing our yield management, network planning and revenue structure;
- Our Vice-President of People and Customers, Jason Ward, was a member of the original start-up team of Azul in 2008 and played an integral role in the Company's merger with TRIP a few years later. In 2016, Mr. Ward moved to Portugal and worked as Chief Operating Officer at TAP before returning to Azul in September 2017. He started his career in 1992 at Morris Air, the first airline founded by David Neeleman and has worked with Mr. Neeleman in marketing and sales at Southwest Airlines and customer services at JetBlue Airways; and
- Our Chief Operating Officer, Flávio Costa, who has been part of the Azul founding team since inception and has more than 40 years of experience in the airline industry, having served as Technical and Operations Director at Pluna S.A., and OceanAir and as Technical Director at Varig.

Most of our senior management team has worked together for almost ten years and has been with us since our launch. All non-Brazilian individuals on the team are residents of São Paulo with permanent work visas. In addition to Mr. Neeleman, all of our principal officers are also shareholders in our company, and all are motivated by participation in our stock-based incentive plans, which we believe aligns shareholders' and management's interests. Our management team has focused on establishing a successful working environment and employee culture. We believe the experience and commitment of our senior management team have been a critical component in our growth, as well as in the continuing enhancement of our operating and financial performance.

To align senior management interests with our results of operations, we provide a leadership incentive plan based on the achievement of pre-defined company performance targets including operating margin, customer satisfaction, crewmember satisfaction, and on-time performance. We also have established a stock option plan for our leadership that vests over a four-year period. See "Item 6.B. Management Compensation—Stock-Based Incentive Plans."

Principal Strategies

Adding Larger, More Fuel Efficient, Next-Generation Aircraft to our Fleet

We intend to continue adding next-generation, more fuel-efficient aircraft to our fleet replacing older generation aircraft. In addition to providing us with leading low seat costs, these aircraft have more seats contributing to an increase in revenue generated from connecting traffic, TudoAzul, our cargo business, and our travel package business. Based on our current firm orders, between 2020 and 2024, we expect to add approximately 71 next-generation E2 aircraft, 42 next-generation Airbus 320neos and two next-generation Airbus A330-900neo widebody aircraft to our fleet, replacing older generation aircraft.

We have begun to introduce next-generation Airbus A320neos, which have 56 more seats than our current E-Jets for longer-haul leisure service in December 2016. At that time, we started flying between our main hub in Campinas and our regional hub in Recife with our next-generation Airbus A320neos. This approximately three-hour flight provides us with a 29% lower seat cost than our current E-Jets and provides sufficient seat capacity to connect customers between both hubs.

We started to introduce the E2s to replace current generation E-Jets starting in the second half of 2019. The E2s have 18 additional seats and a 25% lower cost per seat and a 14% lower trip cost compared to the E-Jets.

We believe that by applying this strategy we will continue improving our profitability going forward by reducing our cost per seat while expanding revenue.

Increasing Flight Frequencies, Connecting Cities and Adding New Destinations

While most of our capacity growth over the next five years is expected to derive from the replacement of smaller aircraft with larger next generation aircraft, we intend to continue identifying, entering into and rapidly achieving leading market presence in new markets or underserved markets with high growth potential. We also intend to continue to grow by adding new destinations to our network, further connecting the cities that we already serve with new non-stop service, increasing frequency in existing markets, and using larger aircraft in markets that we have developed and grown over the years.

We intend to apply our disciplined approach of selecting new destinations that can be served by our ATR or Embraer aircraft, with a continued focus on Brazilian cities where we believe there is the greatest opportunity for profitable growth, and on select destinations in South America with perceived high growth potential. Our ATR aircraft give us a significant strategic advantage in the ability to enter new cities and access previously untapped demand, since these aircraft only have 70 seats and, therefore, require fewer passengers for the flight to become profitable.

We believe there are significant opportunities to connect the cities we currently serve with non-stop service where none existed before. We believe that our Embraer fleet is the ideal fleet type to connect such cities due to the combination of seat count and low trip costs.

On existing routes that we believe present additional demand, we intend to increase the number of daily flights with our E-Jets to achieve or further increase schedule superiority over our competitors. For example, we increased our daily departures on the Campinas—Rio de Janeiro route from three to 15 between March 2009 and December 2019, and our daily departures on the Campinas—Belo Horizonte route from four to 10 between August 2009 and December 2019. By providing this additional convenience to our customers, we aim to continue stimulating demand for our products and services. We also intend to continue operating the A320neos mostly in high density, longer-haul leisure markets.

We plan to focus our international growth on connecting our strong presence in Brazil via our hub in Campinas, Belo Horizonte and Recife and our current long-haul international destinations Fort Lauderdale, Orlando, Lisbon and Porto. We believe we are especially suited to stimulate additional demand for travel to key long-haul international destinations, which can be served by our Airbus A330s, by taking advantage of our focused domestic route structure, both in terms of passengers and overall connectivity throughout Brazil. We currently offer non-stop flights to 55 destinations out of our main hub in Campinas, and we continue to leverage our position as the largest airline in Viracopos airport by offering international flights as well as connecting passengers throughout Brazil. Additionally, our codeshare flights with United and TAP enables us to connect our main hubs with United's destinations in the U.S. and TAP's destinations in Europe.

Continue to Unlock Value from our TudoAzul Loyalty Program

As a result of the growth of our network, we believe there is an opportunity to further unlock value from our TudoAzul loyalty program. With approximately 12.0 million members as of December 31, 2019, TudoAzul has been the fastest growing loyalty program among the three largest programs in Brazil for the past six years, according to publicly available information of such competitors, including disclosure filed with or furnished to the SEC and information available on their respective websites. TudoAzul sells loyalty points to business partners as well as directly to program members. Our current business partners include financial institutions such as Itaú, Santander, Livelo (Banco do Brasil's and Bradesco's loyalty joint venture), and Caixa, retailers (including Casas Bahia, Magazine Luiza and Fast Shop), and travel partners (including Accor, RentCars, Hertz, and Booking.com).

In September 2014, we also launched an Azul-branded credit card in partnership with Banco Itaucard S.A. In addition, in December 2015, we launched Clube TudoAzul, an innovative, subscription-based product through which members pay a fixed recurring amount per month in exchange for TudoAzul points, access to promotions and other benefits. We also offer members the ability to buy points to complete the amount required for a reward, or pay a fee to renew expired points or transfer points to a different member's account. We believe that our international flights and strategic partnerships with international carriers, including United and TAP, provide our TudoAzul members with a broad range of attractive redemption options.

We offer last-seat availability to TudoAzul members and have significant flexibility to price redemptions in a way that is competitive with other loyalty programs, thus helping to maximize TudoAzul's attractiveness. We actively manage the price of our redemptions, offering very competitive fares in points when seat availability is high and optimizing margin in peak, high-demand flights. We have also developed an exclusive, proprietary pricing system, which provides ample flexibility to price redemptions within a given flight. This allows us to sell seats using several combinations of points and money. It also allows us to customize pricing using a number of different factors, such as a member's elite tier, membership in Clube TudoAzul, and age (allowing us to offer lower prices to infants and children). We are confident that this proprietary system offers more flexibility than those of our main competitors, therefore allowing us to create promotions, stimulate cross-sell of other TudoAzul products, and more accurately price redemptions to maximize profitability.

In an effort to maximize the value creation potential of TudoAzul, we have been managing the program through a dedicated team since mid-2015. On a standalone basis, TudoAzul's gross billings ex-airline totaled R$1,298.0 million in the year ended December 31, 2019 compared to R$988.1 million in the year ended December 31, 2018. Given the number of exclusive destinations we operate, our network strength, and the expected growth of passenger air travel, credit card penetration and usage and member loyalty in Brazil, we believe that TudoAzul is a strategic business for us. As TudoAzul is our wholly-owned subsidiary, all of the cash flows generated by this high-growth, high-margin business accrue to our shareholders in a tax-efficient manner. We plan to continue investing in TudoAzul's expansion and evaluating opportunities to unlock value for this strategic asset.

Continue to Increase Ancillary, Cargo and Other Revenue

We intend to continue growing our ancillary, cargo and other revenue, by both leveraging our existing products and introducing new ones. We intend to focus on deriving further value from our existing ancillary and other revenue streams, which represented R$63.02 per passenger as of December 31, 2019 and included revenue from bag fees, upgrades, other passenger related fees, cargo services, sales of advertising space in our various customer-facing formats, and commissions on travel insurance sales. As a result of the introduction of larger next-generation aircraft to our fleet, we expect to have more seat availability for our TudoAzul loyalty program and our Azul Viagens travel package business as well as additional cargo capacity.

Other revenue streams are expected to be mostly driven by our logistics solutions business, Azul Cargo. In 2019 Azul Cargo grew 45% in terms of revenues, reaching R$480.7 million mostly driven by our increase in cargo volume transported and our expanding presence in the e-commerce segment, including a partnership with Mercado Libre. We ended 2019 with a 23% share of cargo volume transported in Brazil, giving the importance of our unique network and the capillarity support it provides. Our extensive route network and our strategic location at Viracopos airport, the second largest cargo airport in Brazil, according to ANAC, in addition to our high reliability and on-time performance, provide a significant value proposition for our cargo services.

Continue to Establish and Extend Strategic Partnerships

As of December 31, 2019, we had code-share agreements with United, TAP, JetBlue, Turkish Airlines, Ethiopian Airlines, Copa Airlines, Beijing Capital, Alitalia and Avianca Colombia, as well as 27 interline agreements with a number of other international airlines, allowing us to handle passengers traveling on itineraries that require multiple flights on multiple airlines widening our network. As part of our plans to expand globally, we have established strategic partnerships with United and TAP. We view these and possible future relationships with other airlines as strategic ways of allowing us to expand our network with connectivity throughout the United States, Europe and Asia without having to commit the full resources on our own. We believe that our existing and future customer base are increasingly taking advantage of the ability to fly internationally, and we aim to be able to offer our Brazilian customers a seamless ability to do so, whether by purchasing tickets on partner airlines on our website or through connected and complimentary schedules facilitating onward travel outside of Brazil. In addition to facilitating a more global network for us through these partnerships, we are exploring a variety of cooperative arrangements, including additional interline agreements, code-sharing, access to partner airlines' frequent flyer programs and possible cobranding efforts. We also see opportunities to leverage these relationships to facilitate greater operating efficiencies by utilizing partner expertise in maintenance, cargo transport and even possible pilot and crew training and redeployment, as well as redeployment of redundant or unneeded aircraft. We are exploring joint ventures and other arrangements with our partners to determine the most effective and beneficial ways to leverage these relationships for all parties.

We view our partnerships as critical to our global connectivity but also as a way to addressing macroeconomic pressures in Brazil. By working with our partners, we believe we have and can continue to adapt to changing economic conditions and do so swiftly in areas involving our fleet, crews and operating expenses. We expect to continue evaluating strategic partnership opportunities, including investments and acquisitions, that allow us to improve our network, offer more attractive benefits to our TudoAzul members, enhance our brand and build loyalty and revenue.

Description of Our Products and Services

Our principal product is the scheduled air transportation of customers, which generates passenger ticket and non-ticket revenue. In addition, we generate revenue through our wholly-owned TudoAzul loyalty program, our cargo transportation operations, and our travel and tourism operations.

Scheduled Air Transportation

We target business travelers by offering convenient and frequent service to numerous destinations, 40 of which we served exclusively as of December 31, 2019. We also target leisure travelers with our extensive route network and our segmented pricing model, offering low fares for advance purchases. In connection with our scheduled air transportation services, we generate passenger ticket revenue and other revenue, such as passenger related ancillary revenue, cargo revenue through our Azul Cargo business, and the sale of travel packages, through our Azul Viagens business.

Passenger Revenue

We believe our extensive network and our range of product offerings allow us to attract high-yield business travelers, who we believe make up the largest component of our ticket revenue and customers. According to ABRACORP, we held a 32% share in terms of Brazilian business-focused travel agency revenue and our average business-focused travel agency ticket price was approximately 9% higher than those of our main competitor in the year ended December 31, 2019. By comparison, we held a disproportionately smaller market share in terms of total domestic passengers transported, as measured by RPKs at 24%, during the same period, according to ANAC, which demonstrates our competitive strength in the corporate market segment. We attribute this to our network connectivity, which provides business passengers with several connection options allowing them to more easily and conveniently reach their destinations, as well as to the fact that we are the only player in certain markets that are attractive to business travelers. Leisure travelers, by contrast, are typically more price sensitive than business travelers, but tend to be more flexible regarding flight schedules.

Passenger revenue also includes revenue derived from the sale of TudoAzul points to third parties. For more information, see “Item 4.B. Business Overview—TudoAzul Loyalty Program.”

In the year ended December 31, 2019, passenger revenue was R$10,907.9 million, representing 95.3% of our total operating revenue. Passenger revenue was R$8,670.1 million in 2018 and R$6,695,3 million in 2017, representing 95.7% and 86.9% of our total operating revenue, respectively. On January 1, 2018, we adopted IFRS 15, which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees, since they are deemed part of the single performance obligation of providing passenger transportation. These ancillary items are now recognized in passenger revenue while non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized under other revenue.

In addition to generating passenger revenue derived from the sale of tickets and TudoAzul points, we generate ancillary revenue by selling travel insurance and by charging fees for certain services, such as checked baggage fees, cancellation fees, change fees, no-show fees, call center booking fees, online booking fees. We also offer upgrades to our premium “Espaço Azul” seats that feature additional legroom in our domestic flights and to our “Economy Xtra,” “SkySofas” and business class seats available on our international flights serviced with Airbus A330 aircraft. Our “Economy Xtra” cabin has an additional three inches of legroom in a 2-4-2 configuration and our “SkySofas” are an innovative feature consisting of four economy seats with a footrest that can be raised to create a flat, sofa-like, flexible space for families to sleep together more comfortably.

Cargo and other Revenue

Other revenue streams are expected to be mostly driven by our logistics solutions business, Azul Cargo. In 2019 Azul Cargo revenue grew 45%, reaching R$480.7 million mostly driven by our increase in cargo volume transported and our expanding presence in the e-commerce segment, including a partnership with Mercado Libre. We ended 2019 with a 23% share of cargo volume transported in Brazil, giving the importance of our unique network and the capillarity support it provides.

The growth of our cargo business was also driven by our international expansion and the introduction of larger next-generation aircraft to our fleet, which have larger cargo capacity. As a result of the rapid growth of our cargo business, we have leased two used 737-400 freighter aircraft in 2018. We offer cargo transportation services to over 3,657 locations and we have 246 cargo stores across Brazil that offer our cargo transportation services. We transport cargo by air and hire independent third parties to transport and deliver cargo to its final destination by ground transportation. While we are liable to our customers for proper cargo delivery, our agreements with such independent third parties provide for our right of recourse against them if any losses occur during the ground transportation.

We also derive revenue streams from our travel and tourism operations, Azul Viagens, which combine airfare, ground transportation and lodging options. The travel packages we offer are either pre-built or flexible and customized and can be purchased through our website or, as of December 31, 2019, at one of the 2,100 travel agencies that offer our travel products or at one of our 50 free-standing stores.

Cargo and other revenue was R$534.4 million in 2019, R$386.9 million in 2018 and R$1,009.5 million in 2017, representing 4.7%, 4.3% and 13.1% of our total operating revenue, respectively. On January 1, 2018, we adopted IFRS 15 that impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees, since they are deemed part of the single performance obligation of providing passenger transportation. These ancillary items are now recognized in passenger revenue while non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized under other revenue.

Route Network

We offer flights to every region in Brazil and to select international destinations. The map below shows the destinations and routes we currently serve.

As of December 31, 2019, we served 116 destinations, including 106 cities across every region in Brazil, the largest number of destinations offered by a Brazilian airline and our flights represented approximately one third of the total domestic departures in the country. Our main hub is in Campinas at Viracopos airport, approximately 100 kilometers (62 miles) from the city of São Paulo. From Viracopos airport, we provided non-stop service to 55 Brazilian cities accounting for 97.4% of 134 daily domestic departures from Viracopos airport, as of December 31, 2019.

Our second largest hub is located at Belo Horizonte's main airport, where we served 40 domestic destinations and had a 64.0% share of that airport's 113 daily departures as of December 31, 2019. This hub serves Belo Horizonte, which is the capital city of Minas Gerais, the third wealthiest state in Brazil according to IBGE.

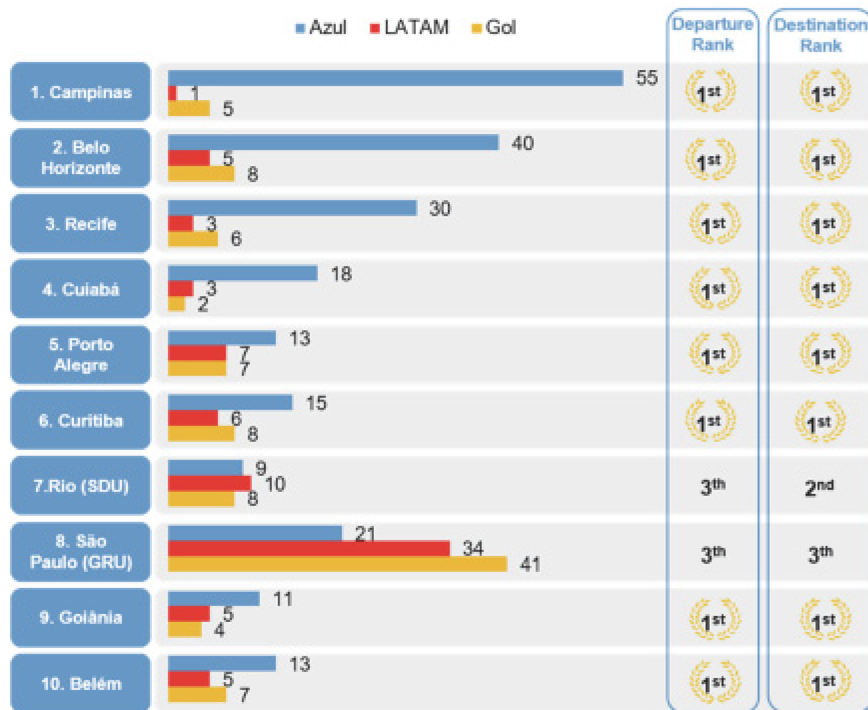
We also built a regional hub in Recife, which serves 30 domestic non-stop destinations, including non-stop international flights to Orlando and Fort Lauderdale. We had a 74.0 % share of Recife's airport's 100 daily domestic departures as of December 31, 2019. Recife is one of the largest cities in the Northeast of Brazil, and this regional hub allows us to increase flight connectivity within this region and internationally, making it our closest hub for non-stop flights to both Europe and the United States.

Our diversified network allows us to connect not only our main hubs but also strategic airports throughout Brazil located in, among other places, São Paulo (Guarulhos and Congonhas airports), Rio de Janeiro (Santos Dumont and Galeão airports), Porto Alegre, Cuiabá, Belém and Manaus.

Domestic Routes

The chart below shows the number of non-stop domestic destinations offered by us and by our competitors at select airports as of December 31, 2019:

Non-stop Domestic Destinations by Airport (December 31, 2019)



Source: Innovata.

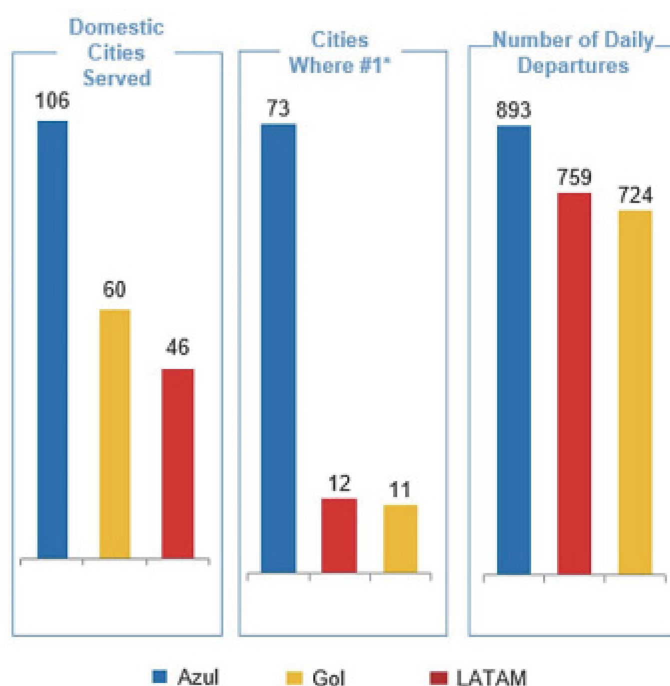
The table below shows our top ten cities served by average number of departures per day and the estimated population within 100 kilometers as of December 31, 2019.

	As of December 31, 2019		
Airport	**Azul Average Number of Departures per Day**	**Estimated Population**	**Azul Leadership Position (departures)**
Campinas	134	7,395,319	1
Belo Horizonte (Confins)	90	5,932,158	1
Recife	66	5,579,221	1
São Paulo (Guarulhos)	63	12,614,146	4
Rio de Janeiro (Santos Dumont)	46	6,750,548	2
Curitiba	44	4,053,516	1
Porto Alegre	37	5,148,699	1
Cuiabá	26	984,342	1
Belém	21	3,179,323	1
Goiânia	16	3,242,625	1

Source: Innovata and Azul (Based on IBGE data)

Our focus on providing a large route network with convenient service has enabled us to become the market leader in 73 cities and 36.4% of our routes in terms of departures, being the only operating airline in 40 cities and the leader on 83% of our routes as of December 31, 2019. By comparison, as of December 31, 2019, Gol and LATAM were leading carriers in 11 and 12 cities in Brazil, respectively. In addition, the routes in which we hold a leadership position represent approximately 70% of our total ASKs and 73% of our total passenger revenue.

The chart below shows the number of cities we serve and the number of cities in which we are a market leader in terms of departures by cities served in comparison with Gol and LATAM, as of December 31, 2019.



Source: Innovata

* *Considers leadership in terms of number of departures*

The map below shows the domestic cities in which we are a market leader in terms of departures in comparison with Gol and LATAM, as of December 31, 2019:

Our extensive network coverage allows us to offer more itineraries and connections than our competitors, which serve a significantly lower number of destinations. For instance, on the route from Ribeirão Preto to Campinas, approximately 93% of the passengers connect in Campinas to over 61 destinations served by Azul, including 12 destinations where we are the only carrier. Similarly, on flights from Cuiabá (one of our focus-cities, which connects to 21 destinations in Brazil) to Viracopos, approximately 84% of the passengers are connecting passengers heading to more than 61 destinations, including 12 destinations served only by us.

We believe our optimized fleet is uniquely tailored to the Brazilian market and to our growth strategy, allowing us to serve cities with different demographics ranging from large capitals to smaller cities throughout Brazil. For more information on our fleet, see “Item 4.B. Business Overview—Fleet.” As a result, we believe we effectively match capacity to demand by offering more convenient and frequent non-stop service than Gol and LATAM, which exclusively fly larger aircraft within Brazil, and we believe are limited to serving only a subset of cities profitably due to infrastructure restrictions that do not affect certain of our aircraft. We believe we are effective in adjusting our capacity to meet demand by timing aircraft deliveries and maintenance schedules accordingly. We intend to continue to grow sustainably and profitably by further adding new domestic and international destinations, interconnecting the cities that we already serve and increasing frequency in existing markets.

International Routes

Our international expansion strategy is based on connecting our strong presence in various cities in Brazil with our current long-haul international destinations of Fort Lauderdale, Orlando, Lisbon and Porto and select destinations in South America. In addition, we serve other international destinations according to seasonal demand. For the year ended December 31, 2019, our international revenue represented 14.88% of our total operating revenue, as compared to 20.9% for the year ended December 31, 2018. We believe our main hub in Campinas, which offers non-stop flights to 55 domestic destinations and is the largest domestic hub in South America in terms of destinations served is uniquely suited to serve our international routes due to our focused domestic route structure, both in terms of passengers and overall connectivity throughout Brazil. Once in Campinas, our international passengers are able to take advantage of our full domestic route structure to connect to every region in Brazil. In the United States, we already serve Fort Lauderdale and Orlando, Florida from Viracopos, Belo Horizonte and Recife.

To enhance our connectivity outside of Brazil, we have entered into code-share and frequent flyer reciprocity agreements with United and TAP, as well as 7 other code-share and 27 interline agreements with several other international carriers. For more information on our code-share arrangements and strategic partnerships, see “Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements.”

In March 2016, we established a strategic partnership with TAP, further supporting our plans to expand globally. For more information regarding our investment in TAP, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP." As a result of this strategic partnership, in June 2016, we successfully launched a non-stop code-share flight between our and TAP's main hubs, Campinas and Lisbon, respectively. As of December 31, 2019, TAP served 72 destinations, including 10 destinations in Brazil, and therefore was the number one European carrier serving Brazil in terms of number of seats and flights. Our flight to Lisbon enhances our passenger connectivity between Brazil and Europe and allows our business and leisure passengers to take advantage of TAP's network to access key destinations in Europe. Furthermore, we expect to continue taking advantage of our network connectivity by adding select destinations in South America to be served by our narrow-body aircraft.

Customer Service

We believe that a high-quality product and exceptional service significantly enhance customer loyalty and brand recognition through word-of-mouth, as satisfied customers communicate their positive experience to others. Based on this principle, we have built a strong company culture focused on customer service that serves as the foundation of a differentiated travel experience. According to surveys we have conducted, as of December 31, 2019, 70% of our customers would recommend or strongly recommend Azul to a friend or relative. In addition, we use the NPS mentioned to measure customer satisfaction and in 2019, our score totaled 57, significantly higher than Gol's NPS score of 40.

Crewmembers

Our crewmembers are specifically trained to implement our values in their interactions with our customers, particularly through being service-oriented and taking individual initiatives, focusing on providing customers with a travel experience that we believe is unique among Brazilian airlines. We strive to instill our "customer comes first" and "can do" approach in all our crewmembers, which is reflective of how we manage our business.

Product Features

We endeavor to provide our passengers with a differentiated travel experience focused on convenience and comfort. To serve this goal, we offer customers the following features:

- a fleet younger than those of our main competitors, Gol and LATAM;
- passenger seat selection;
- leather seats;
- individual entertainment screens with free live television at every seat in all our jets;
- extensive legroom with a pitch of 30 inches or more;
- complimentary beverage and snack service on domestic flights;
- free bus service to certain key airports we serve (including between the city of São Paulo and Viracopos airport); and
- four-seat "SkySofas," offering full-length beds in certain economy class cabins.

As of December 31, 2019, our bus shuttle service between São Paulo and Viracopos airport had 214 departures per day across six different bus lines, transporting an average of over 53,000 customers monthly and featuring pre-boarding check-in services at most departure points. Our shuttle service is complimentary, and we believe that the associated cost is justified by increased customer satisfaction and passenger demand.

On-Time Performance

Our commitment to operating an on-time airline with a high-quality customer experience, which we believe is unique among Brazilian airlines, has resulted in us been ranked among the top ten most on-time low-cost carriers in the world since 2016, according to OAG.

The following table sets forth certain performance-related customer service measures for the periods indicated:

	For the year ended December 31,				
	2019	2018	2017	2016	2015
On-Time Performance[1]	80.4%	86.5%	84.1%	88.9%	91.0%
Completion Rate[2]	98.5%	98.5%	98.8%	98.9%	98.9%
Mishandled Bag Rates[3]	1.9	1.6	1.7	1.8	1.9

Source: OAG and Azul

(1) Percentage of our scheduled flights that were operated by us and that arrived on time (within 15 minutes).

(2) Percentage of our scheduled flights that were operated by us, whether or not delayed (i.e., not cancelled).

(3) Number of bags mishandled per 1,000 passengers.

Strategic Partnerships, Alliances and Commercial Agreements

General

As part of our plans to expand globally, we have established strategic partnerships that allow us to improve our overall network, expand our international connectivity, offer more attractive benefits to our TudoAzul customers, enhance our brand and build customer loyalty and revenue. These strategic partnerships provide for expanded cooperation through commercial cooperation agreements, code-share and interline arrangements, as well as marketing initiatives, loyalty program reciprocity or benefit sharing, enhanced service levels at airports and equity and debt investments in us by our partners, or by us in our partners.

Our commercial cooperation agreements establish broad frameworks for cooperation in such areas as code-sharing, interlining, marketing, service and aircraft and engine maintenance, among other areas. Interline agreements are entered into among individual airlines to handle passengers traveling on itineraries that require multiple airlines, allowing passengers to utilize a single ticket and to check their baggage through to their final destination. Code-share agreements differ from interline arrangements in that they allow airlines to identify a flight with an airline’s code even though the flight is operated by another airline, which enhances marketing and customer recognition.

We have entered into a commercial cooperation, a code-share and frequent flyer reciprocity agreements with United and TAP and have entered into another 7 code-share and 27 interline agreements with several other international carriers, including JetBlue, Etihad Airways, Air Europa, Lufthansa, Copa Airlines, and Aerolíneas Argentinas. We believe these strategic relationships allow us to increase our load factor on flights departing from Brazilian airports operated by our partners and expand our brand exposure internationally for our Brazil-based and international customers. Our code-share agreements with United, JetBlue and TAP allow us to sell flights to virtually all destinations served by these carriers, contributing to the growth of our international operations and offering our passengers additional connectivity beyond Brazil. Furthermore, our relationships with other carriers allow us to expand our cargo operations by offering these services beyond the locations served by our own aircraft.

As a result of these arrangements and relationships, our customers have access to more than 200 additional destinations worldwide. We believe that our strategic relationships with our partner airlines, particularly United and TAP, provide our TudoAzul members with a broad range of attractive redemption options and allow us to leverage our TudoAzul program beyond our own network. We continue exploring joint ventures and other arrangements with our strategic partners to determine the most effective and beneficial ways to expand our business and increase profitability through these relationships.

United

On June 26, 2015, we entered into an investment agreement with Calfinco, a subsidiary of United, pursuant to which it acquired Class C preferred shares representing a 5%, non-voting economic interest in us. Such Class C preferred shares were converted on a one-to-one basis into Class A preferred shares on February 3, 2017, which were then simultaneously renamed "preferred shares" and subsequently subject to a two-for-one stock split on February 23, 2017, resulting in United holding 10,843,792 preferred shares through a subsidiary. Pursuant to this agreement, United has the right to elect one member of our board of directors so long as it retains at least 50% of the Class C preferred shares it received on the date of its investment or preferred shares resulting from their conversion. United has designated a representative on our board effective as of June 26, 2015. See "Item 6.A. Directors and Senior Management—Board of Directors." United is a party to our Shareholders' Agreement, which provides for United's right to elect one director, so long as they hold at least 50% of the Class C preferred shares it received on the date of its investment or preferred shares resulting from their conversion. For more information, see "Item 7.B. Related Party Transactions— Shareholders' Agreement." On April 27, 2018, United closed a private preferred share transaction with Hainan to acquire 16,151,524 preferred shares of our company increasing its shareholding in us to 26,995,316 preferred shares, representing 7.89% of our economic interest as of December 31, 2019.

In connection with United's investment, we also entered into a commercial cooperation agreement with United on June 26, 2015 which governs the expanded cooperation between both of our companies with respect to certain matters, including (i) code-sharing, (ii) loyalty programs, (iii) special terms relating to passengers and cargo, (iv) marketing programs, (v) corporate accounts and sales contracts, (vi) employee interline pass travel, (vii) service levels at specific airports, and (viii) the negotiation of a commercial joint venture between us and United whereby we would share resources with United and split revenue related to specified matters relating to our and their route networks in order to optimize profitability for both us and United. To date, this joint venture has not yet been established, and we and United continue discussing objectives, the type of joint venture, revenue sharing and other matters.

Our alliance with United enhances the reach of our network and creates additional connecting traffic, as both we and United cross-sell each other's flights on our websites. This arrangement provides customers flying on both airlines with a seamless reservations and ticketing process, including boarding pass and baggage check-in to their final or any other destination. United is a principal member of StarAlliance, but Azul currently has no plans to join such alliance.

We expect that our overall relationship with United, including the code-sharing, commercial and other arrangements that are either in place or being discussed by us, will increase international travel by Azul customers to the United States and other international destinations that we do not serve but which are served by United. We also expect that such relationship will increase traffic of United customers to and across Brazil via our network of domestic locations beyond the limited airports served by United in Brazil.

TAP

TAP is the national carrier of Portugal and is a leading carrier between Europe and Brazil. We have had a long relationship with TAP since our inception, with TAP affiliates in Brazil providing all of the heavy maintenance for our Embraer jets (excluding engine maintenance), representing approximately 6% and 35% of our total maintenance costs as of December 31, 2019 and December 31, 2018, respectively.

TAP was wholly-owned and operated by the Portuguese government until June 2015, when it was privatized. Atlantic Gateway currently owns 45% of TAP's voting shares, employees hold a 5% interest, and the Portuguese government has an ownership of 50% of the voting shares. This structure remains under the assessment of the Portuguese Civil Aviation Agency. On March 14, 2019, we acquired a 6.1% economic stake in TAP for US$25 million.

In connection with TAP's privatization process, we invested €90 million in 7.5% bonds due March 2026, secured by an interest in TAP's loyalty program, convertible at our option into newly issued TAP equity securities without any further payment by us. Under the terms of the TAP bonds, if and when they are converted, the shares to be issued will represent 6% of TAP's total share capital and voting equity securities on a fully diluted basis, but will be entitled to enhanced economic rights, subject to customary anti-dilution provisions, to receive 41.25% of any TAP dividends when, as and if declared, as well as any other distributions by TAP, which would make Azul TAP's largest equity holder by economic value. As of the date of this annual report, we have not made any decision to exercise the right to convert the TAP bonds held by us into TAP shares. The TAP bonds are subject to certain redemption rights by TAP if the TAP bonds are not yet converted, upon the earlier of (1) an IPO of TAP or (2) four years from issuance provided that TAP is in compliance with certain financial covenants set forth in the indenture. See "Item 7.B. Related Party Transactions—Strategic Partnership with TAP."

In addition to our investment in TAP bonds, our relationship with TAP consists of (i) a code-share agreement providing for flights between Brazil and Portugal, (ii) further cooperation between TAP and Azul in maintenance, cargo and other areas and (iii) subleasing of 15 aircraft to TAP as part of our fleet optimization strategies. We have no other formal strategic partnership or other operating agreements with TAP, but are exploring other agreements and arrangements with TAP as a means of further connecting TAP and its widespread European operations with our Brazilian customers. We are also discussing the possibility of establishing a joint venture with TAP in order to jointly explore flights between Brazil and Portugal. We believe that such cooperation with TAP has the potential for significant synergies primarily through the joint marketing and sales of tickets and cargo for our flights as well as TAP's flights between Brazil and Portugal. On December 9, 2019 the shareholders of Azul approved the execution of a Cooperation Agreement regarding a "Non-Corporate Joint Venture" directed to offer joint air transportation services between ALAB and TAP that further aligns both companies' strategies. This agreement was executed on February 7, 2020 and remains subject to regulatory approvals.

For more information on the impact of COVID-19 on our investments and business arrangements, including with respect to TAP, see " Item 3.D. Risk Factors—A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations."

TwoFlex

On February 21, 2020, our wholly-owned subsidiary Azul Linhas Aéreas Brasileiras S.A and TwoFlex, announced that they have entered into a certain Quota Purchase Agreement under which Azul agreed to acquire the Brazilian regional carrier TwoFlex for the total purchase price of R$123 million. TwoFlex is a domestic airline based in Jundiaí, Brazil, founded in 2013 and offers regular passenger and cargo service to 39 destinations in Brazil, of which only three regional destinations are currently being served by Azul. TwoFlex also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo's downtown airport. Congonhas is a particularly coveted airport because of its proximity to São Paulo's business districts. Currently, Azul's two larger competitors, Gol and LATAM, control most of the flights in Congonhas. TwoFlex's fleet is composed of 17 owned Cessna Caravan aircraft, a regional turboprop with a capacity of 9 passengers. On March 27, 2020, the Brazilian Administrative Council for Economic Defense (CADE — *Conselho Administrativo de Defesa Econômica*) approved the acquisition without imposing further obligations for the parties. The parties are working towards the closing of the transaction, which we expect to occur in the near future.

Revenue Management

Our revenue management model is focused on effective pricing and yield management, which are closely linked to our route planning, and our sales and distribution methods.

The fares and the number of seats we offer at each fare are determined by our internally developed, proprietary, proactive yield management system and are based on a continuous process of analysis and forecasting. Past booking history, load factors, seasonality, the effects of competition and current booking trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are also included in our forecasting model to arrive at optimal seat allocations for our fares on specific routes. We use a combination of approaches, taking into account yields and flight load factors, depending on the characteristics of the markets served, to design a strategy to achieve the maximum revenue by balancing the average fare charged against the corresponding effect on our load factors.

Our model of fare segmentation seeks to maximize revenue per seat through dynamic inventory adjustment depending on demand. By increasing price segmentation, we are able to ensure that we continue to attract and retain high-yield business traffic including last-minute seat availability for late-booking business travelers, which is integral to our revenue management, as well as leisure travelers who usually pay lower fares for tickets purchased in advance.

Utilizing the appropriate aircraft for a specific market enables us to better match capacity to demand. As a result, we believe we are able to enter new markets, cater to underserved destinations with high growth potential and provide greater flight frequency than our main competitors. With this model, we optimize revenue through dynamic fare segmentation, targeting both business travelers, who appreciate the convenience of our frequent non-stop service, and cost conscious leisure travelers, many of whom are first-time or low-frequency flyers, and for whom we offer low fares to stimulate air travel and encourage advance purchases.

We utilize a proprietary yield management system that is key to our strategy of optimizing yield through dynamic fare segmentation and demand stimulation. We target both business travelers, to whom we offer convenient flight options, and cost-conscious leisure travelers, to whom we offer low fares to stimulate air travel and to encourage advanced purchases. We believe that our fare segmentation model has enabled us to achieve a market-leading PRASK of 30.41 *real* cents the year ended December 31, 2019. In addition, in 2019 our PRASK represented a 18.7% premium compared to Gol. We believe our superior network and product offering allows us to attract high-yield and frequent business travelers.

TudoAzul Loyalty Program

Our wholly-owned loyalty program TudoAzul, which was launched in May 2009, aims to enhance customer loyalty and brand recognition. TudoAzul had approximately 12 million members as of December 31, 2019 and has been the fastest-growing loyalty program in terms of members among the three largest programs in Brazil for the past six years according to information publicly available on the websites of Smiles and LATAM Pass, the loyalty programs of Gol and LATAM, respectively. TudoAzul members earn at least one point and up to six points per each *real* spent in tickets on Azul. Redemptions of points for one-way tickets start at 3,000 points and go up for more expensive flights. TudoAzul also offers a points plus cash option, in which tickets can be purchased using a combination of cash and TudoAzul points. Periodically, as a promotional tool, we may offer awards for fewer than 3,000 points. We believe that with a system that awards at least as many points as Brazilian reais spent, customers perceive they are also receiving a higher reward for their purchases. At the same time, we believe that the variable amount of points required to redeem awards gives us flexibility in exercising discretion over the costs we incur in relation to these redemptions.

We offer last-seat availability to TudoAzul members and have significant flexibility to price redemptions in a way that is competitive with other loyalty programs, thus helping to maximize TudoAzul's attractiveness. We actively manage the price of our redemptions, offering very competitive fares in points when seat availability is high and optimizing margins in peak, high-demand flights. We have also developed an exclusive, proprietary pricing system, which provides ample flexibility to price redemptions within a given flight. This allows us to sell seats using several combinations of points and money. It also allows us to customize pricing using a number of different factors, such as a member's elite tier, membership in Clube TudoAzul, and age (allowing us to offer lower prices to infants and children). We are confident that this proprietary system offers more flexibility than those of our main competitors, therefore allowing us to create promotions, stimulate cross-sell of other TudoAzul products, and more accurately price redemptions to maximize profitability.

Most TudoAzul points expire two years after issuance. Frequent flyers achieve "TudoAzul Topázio" (Topaz) status when they accumulate 5,000 qualifying points, "TudoAzul Safira" (Sapphire) status once they accumulate 10,000 qualifying points and "TudoAzul Diamante" (Diamond) status once they accumulate 20,000 qualifying points during a given calendar year. Topázio, Safira or Diamante status is valid during the rest of the year of qualification and the entire following year, and provides the following benefits, among others: bonus points, check-in privileges at major airports like Viracopos, Santos Dumont, Confins, Brasília and others, priority boarding, higher baggage allowances, and dedicated telephone and e-mail services.

Since the program's inception, TudoAzul members have generally demonstrated a willingness to pay higher average fares than those paid by non-members. We believe this is in part because of high customer satisfaction, increased passenger loyalty and because many of our business travelers, who frequently purchase more expensive, last-minute tickets, are typically also TudoAzul members.

Our current TudoAzul business partners, which offer TudoAzul members options to accrue and redeem points, include financial institutions such as Itaú, Santander, Livelo (Banco do Brasil's and Bradesco's loyalty joint venture), and Caixa, retailers (Casas Bahia, Magazine Luiza and Fast Shop), and travel partners (including Accor, RentCars, Hertz and Booking.com).

In September 2014, we also launched an Azul-branded credit card in partnership with Banco Itaucard S.A. In addition, in December 2015, we launched Clube TudoAzul, an innovative subscription-based product through which members pay a fixed recurring amount per month in exchange for TudoAzul points, access to promotions and other benefits. We also offer members the ability to buy points to complete the amount required for a reward, or pay a fee to renew expired points or transfer points to a different member's account. Finally, we believe that our international flights and loyalty program partnerships with international carriers, including United, TAP and Copa provide our TudoAzul members with a broad range of attractive redemption options.

To maximize the value creation potential of TudoAzul, we have been managing the program through a separate, dedicated team since mid-2015. On a standalone basis, TudoAzul's gross billings excluding the airline totaled R$988.1 million for the year ended December 31, 2018 and R$1,298.0 million in the year ended December 31, 2019, which we believe demonstrates TudoAzul's growth potential.

Given the number of exclusive destinations we operate, our network strength, the expected growth of passenger air travel, credit card penetration and usage and member loyalty in Brazil, we believe that TudoAzul is a key strategic asset for us. We plan to continue investing in TudoAzul's expansion and evaluating opportunities to unlock value for this strategic asset.

A sample of the key operating statistics demonstrating TudoAzul's growth are set forth below:

	2019	2018	2017
Gross billings ex-airline (in millions of reais)	1,298.0	988.1	762.8
Total members (in millions)	**12.0**	**10.8**	**9.0**
Total partners	**78**	**76**	**83**

Marketing

We strive to achieve the highest marketing impact at the lowest cost through efficient and effective marketing and advertising strategies. Our marketing and advertising strategies are consistent with our low-cost operating model. We believe we have been successful in building a strong brand by focusing on innovative marketing and advertising techniques rather than traditional marketing tools, such as print ads. Our marketing and advertising techniques focus on social networking tools (Facebook, Twitter, and YouTube), email, websites, mobile marketing, and generating word-of-mouth recognition of our service, including through our TudoAzul loyalty program and our visibly branded complimentary bus service between São Paulo and Viracopos airport. Our marketing and advertising strategies also involve sales and promotion campaigns with our travel partners. In addition, we increase our visibility and brand recognition by featuring Azul advertisements on the individual entertainment screens at every seat in all of our E-Jets, which feature free live television on domestic flights, and by offering our onboard customers our Azul magazine (which is also a source of revenue, mainly from paid advertisements), snacks branded with our logo, Coca-Cola soft drinks and seasonal free premium beer happy hours. We also build our brand by offering our business travelers with our VIP lounge in Viracopos airport. Additionally, we engage in marketing by maintaining planes in our livery painted with recognizable symbols, like the Brazilian flag, and symbols supporting important social causes, like breast cancer awareness, a social cause that we have supported through our corporate social responsibility platform since our foundation. We also place logos of key partners on our planes to generate additional revenue, such as Sky TV and Coca-Cola. Furthermore, we engage in guerilla marketing campaigns (which consist of marketing activities conducted in public places, such as the airports and the aircraft that we operate) to enhance our brand recognition and provide promotions directed at our customers.

Awards

The strength of our brand has been recognized in a number of recent awards:

- Ranked among the ten best airlines in the world in 2017, 2018 and 2019 and best airline in Latin America in 2018 and 2019 by TripAdvisor Traveler's Choice Awards;
- Named "*Best Airline in Brazil*" in 2019 for the third consecutive year by Melhores Destinos, the largest web portal of airline fare promotions and loyalty programs in Brazil;
- Named "*Best Regional Carrier in South America*" in 2018 and 2019 by Skytrax, an aviation research organization;

- Named "*Best Staff in South America*" in 2019 for the fourth consecutive year by Skytrax;
- Recognized as the "*Most On-Time Low Cost Carrier in the World*" by OAG in 2018 for the second time;
- Recognized as the "*Most On-time Low Cost Carrier in the Americas*" by OAG in 2018;
- Named "*Fastest Check-in in Brazil*" in 2018 for the third consecutive year by the Civil Aviation Secretariat (*Secretaria de Aviação Civil*);
- Named "*Best Low Cost Carrier in South America*" in 2017 for the seventh consecutive year by Skytrax
- Named "Best Low Cost Carrier in The World" in 2012 by CAPA, an independent aviation research organization;
- Named one of the "*50 Most Innovative Companies in The World*" and "*Most Innovative Company in Brazil*" in 2011 by Fast Company, a business magazine; and
- Named one of the "*50 Hottest Brands In The World*" in 2010 by Ad Age, a leading marketing news source.

In addition, as a result of our strong brand awareness and focus on customer service, our TudoAzul loyalty program had approximately 12 million members as of December 31, 2019 and has been recognized with the following awards:

- Named "*Best Loyalty Program in Brazil*" from 2016 until 2019 by Melhores Destinos;
- Named "*The Loyalty Program with the Best Fares in Brazil in 2016-2017*" by Melhores Destinos; and
- Recognized as having "*The Most Innovative Co-Branded Credit Card*" at the 2015 Loyalty Awards Event presented by Flight Global, a renowned website recognized by the global aviation community as a reliable source of news, data and expertise relating to the aviation and aerospace industries.

Sales and Distribution

We currently sell our products through six primary distribution channels: (i) our website, (ii) our mobile app, (iii) our call center, (iv) airport stations, (v) Azul Viagens freestanding stores, and (vi) third parties such as travel agents, including through their websites. Direct internet bookings by our customers represent our lowest cost distribution channel. Approximately 88% of all sales were generated by online channels in 2019, and approximately 87% of all sales were generated by online channels in 2018, which created significant cost savings for us. We intend to continue working to increase sales through online channels, in particular sales through our website and our mobile app, as these sales are more cost-efficient and involve lower distribution costs than sales through travel agencies. In conjunction with Navitaire, a provider of host reservation services and other ancillary services, including data center implementation services, network configuration and design services, we developed a direct connection to travel agencies using online portals that bypass expensive distribution through GDS, resulting in a considerably lower indirect distribution cost. This allows travel agencies to use common internet programming schemes, which have almost fixed low costs that do not vary by sales, to develop their front end, mobile and internet applications with a direct connection to our reservation system. In connection with sales booked through travel agents, we pay incentive commissions to travel agents who attain our sales targets rather than upfront commissions. We maintain a high-quality call center, staffed solely with our crewmembers, as we believe that having a high-quality call center is crucial to our culture focused on customer service. We charge a fee for reservations made through our website and call center to offset its operating costs.

Fleet

As of December 31, 2019, our passenger contractual fleet totaled 164 aircraft and our passenger operating fleet in service totaled 140 aircraft. The 24 aircraft not included in our passenger operating fleet consisted of 15 aircraft subleased to TAP, six aircraft being prepared to exit the fleet, and three A320neo family aircraft in process of entering service.

Our operating fleet has an average age of 5.8 years, which is significantly younger than the average of 9.9 years of our main competitor. We believe operating a young fleet leads to better reliability, greater fuel efficiency and lower maintenance costs. Our Embraer E-Jets seat up to 118 customers, our next-generation Airbus A320neos accommodate 174 passengers and our fuel-efficient ATR aircraft seat 70 customers, while the aircraft used by our two principal competitors in Brazil have between 144 and 220 seats. As a result, in the year ended December 31, 2019, the average trip cost of our fleet was R$31,863, which was 29.6% lower than that of larger Boeing 737 jets flown by Gol.

In addition to leveraging the strength of our domestic network and maximizing the growth potential of our loyalty program and cargo operations, in December 2016, we began adding next-generation Airbus A320neo aircraft to our fleet with lower seat and trip costs to serve longer-haul leisure and peak hour focus-city to focus-city service. For example, on long-haul flights such as a flight between Campinas and Salvador, the trip cost flying a next-generation Airbus A320neo is approximately only 5% higher than the trip cost of an E-195. However, as the next-generation Airbus A320neo has 56 more seats than the E-195, its CASK is 29% lower. As a result, by adding next-generation aircraft to our fleet, we expect to maintain market-leading trip costs and to reduce our CASK, both in absolute terms and relative to our main competitors.

The following tables set forth the composition of (i) our contractual fleet, which consists of aircraft that are contractually leased or owned by us and includes 15 aircraft subleased to TAP since 2016 and the three aircraft in process of exiting our fleet, and (ii) our operating fleet, which consists of aircraft that are being operated by us, including spare aircraft, for the periods indicated.

		As of December 31,				
Total Contractual Fleet	**Number of seats**	**2019**	**2018**	**2017**	**2016**	**2015**
Embraer aircraft						
E-190	106	15	16	17	17	22
E-195	118	55	56	62	64	66
E-195-E2	136	4	0	0	0	0
ATR aircraft						
ATR 72	68-70	39	42	49	46	56
ATR 42	46-48	0	0	0	0	1
Airbus aircraft						
A320neo	174	40	20	12	5	0
A321neo	214	1	0	0	0	0
A330ceo	242-272	8	7	7	7	7
A330neo	298	2	0	0	0	0
Boeing 737 (Freighter)	—	2	2	0	0	0
Total Contractual Fleet		**166**	**143**	**147**	**139**	**152**

		As of December 31,				
Total Operating Fleet	**Number of seats**	**2019**	**2018**	**2017**	**2016**	**2015**
Embraer aircraft						
E-190	106	6	9	10	10	22
E-195	118	49	54	60	64	66
E-195-E2	136	4	0	0	0	0
ATR aircraft						
ATR 72	68-70	33	33	33	39	49
ATR 42	46-48	0	0	0	0	0
Airbus aircraft						
A320neo	174	38	20	12	5	0
A321neo	214	0	0	0	0	0
A330neo	242-272	8	7	7	5	7
A330ceo	298	2	0	0	0	0
Boeing 737 (Freighter)	—	2	2	0	0	0
Total Operating Fleet		**142**	**125**	**122**	**123**	**144**

Of the 166 aircraft that comprised our contractual fleet as of December 31, 2019, 19 were owned or held under finance leases or debt-financing and 147 were financed under operating leases of up to 12 years. Our finance leased aircraft and debt-financed aircraft were financed through credit facilities with different creditors, of which 8.6% was denominated in *reais* and 91.4% was denominated in U.S. dollars as of December 31, 2019.

Embraer

We were the first and currently are the only airline in Brazil to operate Embraer E-Jets. We believe that our successful launch of the Embraer E-Jets in the Brazilian market was due in part to the significant experience of most of our senior management team, who were trained in operating and maintaining E-Jet aircraft in the United States. We believe this experience provides us with a significant advantage over any competitor that may seek to reproduce our model. In addition, our decision to purchase Brazilian-made Embraer aircraft has enabled us to access competitive local aircraft financing in *reais* from BNDES, Brazil's national development bank, at rates below Brazil's CDI overnight deposit rate.

We have a strong and close partnership with Embraer, which is headquartered in São José dos Campos, approximately 100 km from our headquarters in Barueri, São Paulo and approximately 150 km from our main hub in Campinas. Our Embraer E-Jets have a two-by-two cabin layout with no middle seats, and our aircraft are configured to offer standard seats with 31 inches of legroom and premium seats called "*Espaço Azul*" with 34 inches of legroom. Our over-wing exit seats (four per aircraft) offer a spacious 39 inches of legroom. Embraer E-Jets are fuel-efficient, with fuel consumption averaging approximately 20% less than a Boeing 737 series, according to Embraer, and thus offer significantly lower trip costs than larger narrow-body aircraft. Embraer E-Jets feature state-of the-art fly-by-wire technology, which increases operating safety while reducing pilot workload and fuel consumption.

The new generation E2s, compared to the current generation of Embraer E-Jets, are expected to have 18 additional seats, accommodate up to 136 passengers and offer 26% lower cost per seat and 14% lower trip cost compared to current generation aircraft. Based on our current firm orders, between 2020 and 2024 we expect to add 46 next-generation E-195 E2 aircraft to our fleet, with deliveries started in the second half of 2019. In addition, we served as Embraer's launch operator for the next-generation E-195 E2 aircraft. As part of our fleet transformation process, we expect to replace our entire Embraer E190/E195 fleet with next-generation E-195 E2 aircraft by 2023 contributing to a significant reduction in operating cost.

ATR

We are the largest ATR operator in the world, according to ATR. ATR is the world's largest manufacturer of 50-to-70-seat turboprop aircraft. ATR turboprop aircraft provide significantly lower operating costs than jets, with fuel consumption averaging approximately 50% to 65% less than a comparably-sized jet. The ATR 72-600 is the newest member of the ATR family known for its high efficiency, dispatch reliability and low fuel burn. It features a new glass cockpit, communications and flight management system. Like Embraer E-Jets, ATR aircraft have a two-by-two layout with no middle seats, and our aircraft are configured to offer 30 inches of legroom, which is comparable to our E-Jets. We began operating ATR aircraft in March 2011 for two strategic purposes: to serve short-haul direct routes between smaller cities where jet aircraft would be less profitable, and to feed customer traffic from secondary markets into our existing network.

As of December 31, 2019, we had 33 ATR aircraft in our fleet.

Airbus

As part of our strategy to maintain a young and efficient fleet, we expect to add up to 42 next-generation Airbus 320neos family aircraft to our fleet between late 2020 and 2024. The next-generation Airbus A320neo replaces the A320 family, featuring a new engine option and other improvements such as aerodynamic refinements, large curved winglets (sharklets), weight savings, and a rearranged cabin that accommodates up to 174 passengers with larger luggage spaces, and an improved air purification system. Our next-generation Airbus 320neos are equipped with CFM International LEAP-1A engines and have approximately 15% less fuel consumption and less noise production compared to the A320 series, as well as an increase in range of approximately 500 nautical miles.

We began operating the Airbus A330-200, configured up to 272 seats, in December 2014 and currently have 10 aircraft serving Fort Lauderdale, Orlando, Lisbon and Porto with this aircraft. According to Airbus, the A330 delivers better economics than competing aircraft and meets higher environmental standards and provides greater passenger comfort. We also have an order for five next-generation Airbus A330-900neo widebody aircraft, with deliveries starting in the second quarter of 2019. This aircraft will come with 298 seats in a high-density configuration. The cabin interior will be divided into 34 business class, 108 Economy Extra, and 156 Economy seats. The A330neo will come with the most advanced passenger cabin today dubbed "Air Space by Airbus," bringing together an enhanced experience for passengers and optimum performance based on comfort, ambience, service and design. Moreover, the A330neo reduces fuel consumption by 14% per seat compared to the current model, making it the most cost-efficient, medium range widebody aircraft in the market.

As of December 31, 2019, Azul had 71 E2s, 42 A320neo family aircraft, and three A330neo aircraft on order. At this time, Azul is not able to fully determine the growth of its operating fleet over the next few years as a result of the impact of the spread of COVID-19 on demand for air travel in the regions we operate.

Fuel

Fuel costs are our largest operating expense. Fuel accounted for 24.4%, 33.6% and 28.6%, of our total operating costs for the years ended December 31, 2019, 2018 and 2017, respectively. Aircraft fuel prices are composed of a variable and a fixed component. The variable component is set by the refinery and reflects international price fluctuations for oil and the *real*/U.S. dollar exchange rate. This variable component is re-set monthly in the Brazilian market, as opposed to daily in North America and Europe. The fixed component is a spread charged by the supplier and is usually a fixed cost per liter during the term of the contract.

We purchase fuel from a number of distributors in Brazil, principally from BR Distribuidora, a subsidiary of Petrobras, Air BP Brasil Ltda. and Raízen Combustíveis Ltda., all companies authorized by the National Petroleum Agency (*Agência Nacional do Petróleo*), or ANP, to market products derived from oil for aviation throughout Brazil, with whom we have agreements to exclusively purchase all of our jet fuel needs in certain locations. Our agreement with BR Distribuidora sets forth that we have the obligation to exclusively purchase jet fuel from BR Distribuidora in the event BR Distribuidora installs new supply points in airports where we operate, provided that we have not already entered into a jet fuel supply agreement with another provider. Our agreements with BR Distribuidora, Air BP Brasil Ltda. and Raízen Combustíveis Ltda. are in effect until December 2021. For our international flights departing from outside of Brazil, we purchase fuel from local providers.

International oil prices, which are denominated in U.S. dollars, are volatile and cannot be predicted with any degree of certainty as they are subject to many global and geopolitical factors. Airlines often use West Texas Intermediate, or WTI, crude or heating oil future contracts to protect their exposure to jet fuel prices. In order to protect us against volatile oil prices, we have entered into derivative future contracts in the past and may do so from time to time. We also have the possibility of negotiating customized hedging products directly with fuel distributors, with the purpose of locking in the cost of the jet fuel we will consume in the future, and protect ourselves against any exchange rate risk.

Moreover, building on our operations team's significant experience with the E-Jet aircraft, we operate an active fuel conservation program involving reducing taxi times, taxiing using a single engine, and managing the aircraft's load balance, angle of attack and cruising airspeed for optimal fuel-efficiency.

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

	For the Year Ended December 31,		
	2019	2018	2017
Liters consumed (in thousands)	1,203,486	1,035,816	939,908
Aircraft fuel (R$ in thousands)	3,085,603	2,644,261	1,848,195
Average price per liter (R$)	2.56	2.55	1.97
Percent increase (decrease) in price per liter	0.43%	29.83%	11.09%
Percent of operating expenses (1)	24.4%	33.6%	28.6%

(1) Or 32.8% and 34.6% for 2019 and 2018, respectively, excluding the impact of non-recurring losses, totaling R$3,226.8 million in 2019 and R$226.3 million in 2018.

Airports and Other Facilities and Properties

Airports

Most of Brazil's public airports are currently managed by INFRAERO, an airport operator wholly-owned by the Brazilian government. Brazil's airline industry has grown significantly over the past years and, as a result, some of Brazil's airports face significant capacity constraints.

Airlines and service providers may lease areas within federal, state or municipal airports, such as hangars and check-in counters, subject to concessions or authorizations granted by the authority that operates the airport – which may be INFRAERO, the state, the municipality or a private concession holder, as the case may be. No public bid is required for leases of spaces within airports, although INFRAERO typically conducts processes similar to a public bidding process if there is more than one applicant. In other cases, the use may be granted by a simple authorization or permission issued by the authority that operates the airport. In the case of airports operated by private entities, the use of concession areas is subject to a commercial agreement between the airline and the airport operator.

We have renewable concessions with terms varying from one to five years from INFRAERO and other granting authorities to use and operate all of our facilities at each of the major airports that we serve.

With respect to our international facilities, we have entered into lease agreements or other occupancy agreements directly with the applicable local airport authority on varying terms dependent on prevailing practice at each airport. It is customary in the airline industry to have agreements that automatically renew. Our terminal passenger service facilities of ticket counters, gate space, operations support area and baggage service offices generally have agreement terms ranging from less than one year to five years. These agreements can contain provisions for periodic adjustments of rental rates, landing fees and other charges applicable under the type of lease and the extension of the concession term. Under these agreements, we are responsible for the maintenance, insurance, utilities and certain other facility-related expenses and services.

In 2011, the Brazilian government started to grant the operation of certain airports in Brazil by way of concessions following public bids. Between 2011 and 2019, 22 airports have been privatized after bidding procedures, including our three hubs, Viracopos, Confins and Recife airports. The concessions for these airports have terms of between 20 to 30 years. In 2020, the Brazilian government expects to auction another 22 airports located in the Southern, Mid and Northern regions of the country.

Following the concession for the operation of Viracopos airport, our largest hub, in February 2012, a series of new investments for Viracopos airport have been made by Aeroportos Brasil, a private consortium that won the bid to operate Viracopos airport. In April 2016, Aeroportos Brasil transferred all operations to a new passenger terminal, which is approximately six times larger than the old terminal. Total investments at Viracopos airport totaled approximately R$3.0 billion between 2012 and 2016.

As a result of the transfer of our operations to the new passenger terminal at Viracopos airport, we signed a "Terminal Transfer Incentive Agreement" with Aeroportos Brasil which established a detailed construction schedule for this new terminal and gave us certain rights to impose penalties in the event of noncompliance. Due to the fact that Aeroportos Brasil has not complied with certain contractual obligations under this agreement, we have retained 40% of the airport landing fees from February 2017 until May 2018. As a result of this retention, Aeroportos Brasil filed a collection action against us, which was settled in May 2018 and, consequently, the retention of airport landing fees was resolved. Pursuant to the settlement agreement, we agreed to carry out certain parts of the construction of the new terminal at Viracopos Airport using the airport landing tariffs retained from Aeroportos Brasil. For more information on this proceeding, see "Item 8.A. Consolidated Statements and Other Financial Information —Legal Proceedings."

In addition, Aeroportos Brasil, which holds a concession for the operation of Viracopos airport from ANAC, filed for bankruptcy protection in 2018 as it has not complied with its contractual obligations relating to the construction of a new terminal. On February 17, 2020 creditors approved Aeroportos Brasil's debt restructuring plan, which requires returning the concession for the operation of Viracopos airport to ANAC to initiate a re-bidding process. In accordance with article 13 and pursuant to Law 13448, to begin the re-bidding process for the concession to a new operator ANAC will (i) suspend concession forfeiture proceedings; (ii) amend the concession agreement entered into with Aeroportos Brasil to determine the covenants and minimum services to be rendered during the new bidding process; (iii) issue a technical and economic viability study, public bidding rules and a new concession agreement. The re-bidding process will be further regulated by decrees to be enacted by the Brazilian Federal Government and is expected to conclude, pursuant to Law 13448, within 24 months. Once the proceeding is concluded, the operation of Viracopos airport should be transferred to a new operator (in case the re-bidding is successful) or otherwise returned to the government

Our second largest hub is Confins airport, the main airport in Belo Horizonte, whose concession was granted to private operators in 2013. In 2016, the concession concluded the construction of a new passenger terminal increasing Confins airport's capacity to up to 22 million passengers per year. We are the leading carrier at Confins airport with a 64.0% share of its domestic departures to 40 destinations as of December 31, 2019.

In July of 2014, ANAC enacted a resolution establishing new procedures to allocate slots in airports operating at full capacity. Through such allocation, we received 26 new slots at Congonhas airport. In November 2014, we started operating 13 daily flights from Congonhas airport to some of our most profitable markets including Belo Horizonte, Porto Alegre, and Curitiba, leveraging the connectivity we have in these cities and expanding our flights available to São Paulo passengers. In August 2019 ANAC announced a temporary distribution of 41 slots in Congonhas airport previously operated by Avianca Brasil, of which 15 slots were allocated to us. As a result, we adjusted our flight schedules at Congonhas airport and since September 2019, we started operating a shuttle service between Congonhas and Rio de Janeiro and between Congonhas and Belo Horizonte.

We built a regional hub in Recife to increase flight connectivity within the Northeast region of Brazil. Recife has the largest GDP of Brazil's Northeast region according to IBGE and is our closest Latin American hub for non-stop flights to both Europe and the United States. Our Recife regional hub serves 30 non-stop domestic destinations, including non-stop international flights to Orlando and Fort Lauderdale, and we had a 74.0% share of Recife airport's 100 daily domestic departures as of December 31, 2019. Our diversified network allows us to connect not only our main hubs but also strategic destinations throughout Brazil such as São Paulo (Guarulhos and Congonhas airports), Rio de Janeiro (Santos Dumont and Galeão airports), Porto Alegre, Cuiabá and Manaus.

Other Facilities and Properties

Our primary corporate offices and headquarters are located in the city of Barueri, state of São Paulo, where we lease 8,179.33 square meters under three lease agreements that expire in December of 2022. We also entered into a lease agreement for a warehouse and office complex in Fort Lauderdale, United States.

We lease four hangars at our full capability maintenance center in Belo Horizonte, where we perform airframe heavy checks, line maintenance, painting and interior refurbishment of our ATR aircraft and E-Jets. We also lease one hangar in Manaus and Cuiabá for E-Jets and ATR line maintenance. In addition, in 2018 we started to build a full capability maintenance center for our E-Jets and Airbus at Viracopos airport, which was concluded in March 2020. Our training facility for pilot and cabin crew education, UniAzul, has 71,000 square feet and four simulator bays and is located less than a mile away from Viracopos airport, our main hub. This facility provides training services both for our own crewmembers, including pilots, and for third parties on a commercial basis. At UniAzul we train all of our crewmembers, including pilots, flight attendants and maintenance technicians. As part of our extensive training program at UniAzul we operate two E-Jet flight simulators, one ATR flight simulator and one A320 flight simulator, all of them with full-flight capacity, a technology we believe none of our main competitors has. We also provide training and grant access to our onsite flight simulators to third parties, including TAP, Embraer and the Brazilian Air Force. We have plans to expand the training programs offered at UniAzul through partnerships with technical schools and universities.

Competition

Domestic

The two largest airlines in Brazil in terms of RPK share are Gol and LATAM. Both Gol and LATAM operate similar hub-and-spoke networks, which require that passengers on many of their routes connect through the cities of São Paulo, Rio de Janeiro or Brasília. The principal competitive factors on these routes that are served by more than one airline are fares, total price, flight schedules, aircraft type, passenger amenities, number of routes served from a city, customer service, on-time performance, safety record and reputation, code-sharing relationships, and frequent flyer programs and redemption opportunities.

As a result of our innovative business model, which is based on stimulating demand in underserved markets, we believe we are less susceptible to the effects of fare competition involving our main competitors, which fly from the airports in the city of São Paulo. As of December 31, 2019, 35% and 28% of our domestic network overlapped with that of Gol and LATAM, respectively, while Gol's and LATAM's networks had an overlap of approximately 88% with each other. In Campinas, our primary hub, only 2 out of 55 domestic destinations faced direct competition from Gol or LATAM as of December 31, 2019. While Gol, LATAM or any other airline may enter the markets we currently serve exclusively or in which we hold a large market share, we believe that our extensive connectivity allows us to avoid competition in numerous of the markets we serve, in particular from our competitors operating larger aircraft such as Gol and LATAM as it is more difficult to profitably serve our markets with larger aircraft. See "—Route Network."

Before we started our operations, Gol and LATAM controlled over 90% of the Brazilian airline market in terms of RPK share. From 2008 to 2015, the Brazilian airline market has grown significantly, partially because of (i) our entry into the market, which stimulated demand, and (ii) the organic growth of the market, with more individuals using airline transportation services. As a result, despite the fact that Gol and LATAM lost market share following our entry into the market, the number of passengers transported by both airlines increased in that time period. As of December 31, 2019, we had an 24% market share of domestic RPKs, according to ANAC.

In December 2018, Avianca Brasil filed for judicial reorganization (*recuperação judicial*) and as of May 2019 Avianca Brasil ceased to operate flights. Most of Avianca Brasil's slots have been redistributed by ANAC to incumbent airlines.

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

Domestic Market Share— Scheduled Airlines	**2017**	**2018**	**2019**
Gol	36.2%	35.7%	37.7%
LATAM Brasil	32.6%	31.9%	34.7%
Azul	17.8%	18.6%	23.6%
Avianca Brasil	12.9%	13.4%	3.7%
Others	0.5%	0.4%	0.4%

Source: ANAC

The following table provides details with respect to the competition faced on our top routes, based on weekly frequency as of December 31, 2019.

	At December 31, 2019		
	Flights per Day		
	Azul	**Gol**	**LATAM**
Campinas—Rio de Janeiro	15	2	—
Campinas—Belo Horizonte	10	—	—
Campinas—Curitiba	9	—	—
Campinas—Porto Alegre	8	—	—
Rio de Janeiro—Belo Horizonte	8	5	5
Recife— Salvador	8	—	—
Belo Horizonte—Vitória	5	—	—
Campinas—Ribeirão Preto	5	—	—
Belo Horizonte—Montes Claros	5	—	—
Campinas—Cuiabá	4	—	—
Campinas—São Jose do Rio Preto	4	—	—

Source: Innovata

In addition to other airlines, our competitors also include companies catering to other forms of transportation, principally bus services. We believe that many of our fares are competitive with the cost of road travel on many of our routes, in particular the discounted fares we offer through our yield management system for advance purchases.

International

We currently are the only carrier in Viracopos airport that offers non-stop service to the United States and Europe. As we expand our international services to select international destinations, our pool of competitors may increase and we may face competition from Brazilian, North American, South American and other foreign airlines that are already established in the international market and that participate in strategic alliances and code-share arrangements. In addition, non-Brazilian airlines may decide to enter or increase their schedules in the market for routes between Brazil and other international destinations, which would also drive up competition.

In 2010, ANAC approved regulations regarding international fares for flights departing from Brazil to the United States and Europe, which gradually removes the previous minimum fares. In 2010, ANAC approved the continuity of bilateral agreements providing for open skies policies with other South American countries, as well as a new open skies policy with the United States. The open skies policy with the United States was approved by the Brazilian National Congress in March 2018. In March 2011, Brazil also signed an open skies agreement with Europe, which was initially expected to come into force in 2014 but still lacks the necessary approvals from the Brazilian executive branch in order to be considered and ratified by the Brazilian National Congress. These new regulations should increase the number of passengers in South America and may enable the expansion of our international services.

The table below shows the 2019 market share of major airlines on South American routes to/from Brazil based on RPKs:

International Market Share—Airline	RPK	Market Share
LATAM	29,906,134	69.3%
Azul	7,150,979	16.6%
GOL	5,441,597	12.6%
Avianca Brasil	657,667	1.5%
Other	7,875	0.0%
Total	**43,164,252**	**100.0%**

Source: ANAC

Maintenance

Safety is our core value. Aircraft maintenance, repair and overhaul are critical to the safety and comfort of our customers and the optimization of our fleet utilization. Our maintenance policies and procedures are regulated by FAA, EASA and ANAC requirements, and our aircraft maintenance programs are approved by ANAC and are based on manufacturers' maintenance planning documents and recommendations. We employ our own experienced qualified technicians to perform line maintenance services rather than relying on third-party service providers. All technicians are certified by ANAC and meet stringent qualification requirements. Our maintenance technicians undergo extensive initial and ongoing training provided by UniAzul and by our aircraft and engine manufacturers to ensure the safety and continued airworthiness of our aircraft. Our training programs are all approved by ANAC.

We have developed a technical operations organization structure and a Continuous Analysis and Surveillance System, or CASS, aimed at achieving the highest level of safety, airworthiness, customer-worthiness, dependability, quality and cost efficiencies of our aircraft fleet.

With this in mind, we have established an engineering and quality assurance department that oversees the compliance of all airworthiness requirements, and provides oversight of all maintenance activities in accordance with ANAC regulations and our CASS. Our engineering technical services set the standards and specifications for maintaining our aircraft and engines, monitor the performance reliability of the aircraft systems, engine and components, perform root-cause analyses of defects, and forecast long-term and short-term maintenance activities. We have also implemented aircraft and engine health monitoring programs to determine preventative or corrective actions. The newer generation aircraft and engines are able to transmit over ten times more performance data to the airline and aircraft manufacturer engineers, contributing to a higher reliability performance and improved safety. Our engineering and quality assurance crewmembers are trained and qualified in technical and airworthiness management with relevant aircraft type training and certification.

Aircraft maintenance and repair consists of routine and non-routine maintenance work and is divided into two general categories: line maintenance and base maintenance.

Line maintenance consists of routine, scheduled daily and weekly maintenance checks on our aircraft, including pre-flight, daily and overnight checks, any diagnostics and routine repairs and any unscheduled items on an as needed basis. All of our line maintenance is currently performed by our own experienced and certified technicians, primarily in Campinas, Porto Alegre and Belo Horizonte, in addition to other airports we serve.

Base maintenance consists of more complex tasks that cannot be accomplished during an overnight visit and require well-equipped facilities, such as hangars. Base maintenance checks are performed following a pre-scheduled agenda and work scope for major checks. The scheduled interval for such major checks is set forth in the ANAC Approved Maintenance Program, and is based on the number of hours flown, landings and/or calendar time. Base airframe maintenance checks (which do not cover engine performance and overhaul shop visits) may normally take from one week to one month to be accomplished, depending on the manpower requirements of the work package, and typically are required approximately every 18 months. Engine performance and overhaul shop visits are performed approximately every three years.

We currently perform all base airframe maintenance checks for our ATR aircraft and most of the E-Jets base airframe maintenance at our full-capability maintenance facility in Belo Horizonte and outsource certain base airframe maintenance checks for our E-Jets, Airbus A320neos and A330s to FAA, EASA and ANAC certified maintenance, repair and overhaul providers. Starting in April 2020 we will perform all base maintenance checks for our Airbus A320neo family aircraft at our new full-capability maintenance facility in Campinas.

We hold concessions for three hangars at our ATR full-capability maintenance center in Belo Horizonte, where we perform airframe heavy checks, line maintenance, painting and interior refurbishment of our ATR aircraft. We also own one hangar in Manaus and Cuiabá for E-Jets and ATR line maintenance. In addition, we are building a full-capability maintenance center for our E-Jets and Airbus aircraft at Viracopos airport, which is expected to be concluded by March 2020.

Our current strategy is to outsource all engine repair, performance restoration and overhaul shop visit maintenance to qualified third parties. As such, we have entered into the following long-term flight hour agreements with the following parties; most of such agreements require us to make monthly payments based on utilization and, in turn, these agreements transfer certain risks to the third party provider:

a) General Electric, or GE, the manufacturer of the CF34 engines installed on our E-Jet aircraft fleet—A power-by-the-hour agreement, effective throughout the period in which we operate each engine part of the agreement, which provides for comprehensive engine repair, performance restoration, overhaul, engine condition monitoring and diagnostics management of the CF34 engine fleet. Under this agreement, GE has equipped its GE Celma plant in Petrópolis near Rio de Janeiro to perform our engine maintenance since September 2012, resulting in a significant reduction in turnaround time and engine spares inventory, and avoiding the cost of shipping engines to the United States for maintenance.

b) Rolls-Royce, the manufacturer of the Trent 700 and Trent 7000 engines installed on our A330 and A330NEO wide-body aircraft fleet, respectively—Separate power-by-the-hour agreements, or Total Care, each effective throughout the period in which we operate each engine part of the agreement, which provides for comprehensive engine repair, performance restoration, overhaul, engine condition monitoring and diagnostics management of Trent 700 and Trent 7000 engines fleet.

c) CFM International, a joint venture between GE and Safran Aircraft Engines, the manufacturer of the Leap 1A engines installed on our next-generation Airbus A320neo family fleet—A power-by-the-hour twelve year agreement, which provides for the repair, performance restoration, overhaul, engine conditioning monitoring and diagnostics management of each Leap 1A engine fleet. Under this agreement, GE has the obligation to develop its GE Celma plant in Petrópolis near Rio de Janeiro to perform our engine maintenance with full capability by 2020, which will result in significant reduction in turnaround time and engine spares inventory, and will avoid the cost of shipping engines to the United States for maintenance.

d) Pratt & Whitney, the manufacturer of the PW1900G engines installed on the E-jet E2 aircraft fleet—A power-by-the-hour twelve year agreement for each engine effective from the delivery date of the first aircraft and covering the repair, performance restoration, overhaul, engine conditioning monitoring and diagnostics management of the engine fleet.

To support the maintenance of our aircraft, we have entered into component flight hour services program agreements with various industry-leading specialists in the supply, exchange, repair, and lease of commercial aircraft repairable spares. These programs provide us with comprehensive inventory solutions for component repair, on-site inventory and access to spare parts exchange pools for our ATR, E-Jets, and Airbus aircraft fleets. Such programs allow us to optimize our component maintenance costs, improve our cash flow forecasting and achieve the high standards of component reliability required to maximize our aircraft availability. These agreements require us to make monthly payments based on flight hours, and in turn, the agreements transfer certain risks related to the supply and repair of component parts to the third-party service provider.

We have entered into the following long-term component flight hour agreements with the following parties:

a) ATR — An agreement expiring in 2028 which covers the component repair, on-site inventory and access to a spare parts exchange pool for our ATR72-600 aircraft fleet.

b) Embraer — A warranty repair agreement expiring in September 2022 which covers the repair of components for our E-Jet aircraft fleet. A new component repair agreement will be negotiated with Embraer prior to September 2019.

c) Airbus — Separate agreements for both the A320neo and A330 fleet expiring in 2028 and 2027, respectively, which cover the component repair, on-site inventory and access to a spare parts exchange pool.

Safety and Quality

We are committed to the safety and security of our customers and crewmembers and are certified by the IATA Operational Safety Audit, or IOSA, an internationally recognized quality and safety evaluation system designed to assess the operational management and control systems of an airline. We maintain an Operational Safety Team, divided into six departments: (i) Risk Management & Prevention (ii) Safety Assurance, (iii) Corporate Quality, (iv) Maintenance Safety (v) Security and (vi) Emergency Response and Humanitarian Assistance. All of our safety and quality team members have significant international experience in the airline industry and some of them have previously worked at international airlines and OEM's, which provides them not only with knowledge of airline safety and quality systems, but also familiarity with the fleet we operate.

The Risk Management and Safety Assurance departments are responsible for managing safety programs as conducting the Safety Reports (voluntary and mandatory), the Human Factors, the Flight Data Monitoring, or FDM, and Line Oriented Safety Audit, which maximizes reactive, proactive and predictive actions to achieve high levels of safety. All of our aircraft are included in the Maintenance Operations Quality Assurance System, a troubleshooting and health programs that monitors Maintenance Safety performance and aircraft engine trends. This department follows all activities related to the Safety Management System, or SMS, including the SMS standards established by ANAC, which follows the highest recognized safety standards in the world. Brazil is ranked in Category 1 in flight safety standards by the International Civil Aviation Organization, which is the same classification held by the United States and Canada. See "Regulation."

The Corporate Quality department conducts audits and inspections in all operational areas in accordance with a Quality Management System. These stringent standards and requirements are key to assuring the very highest levels of safety and quality throughout the operational areas.

The Emergency Response and Humanitarian Assistance department trains and maintain a Special Assistance Team, composed of volunteers that are trained for emergency situations. This department also conducts regular drills, trainings and relevant media training along with our Communications Office.

The Security department focuses on the protection of aviation operations against acts of unlawful interference in compliance with TSA and ANAC security protocols and is also responsible for the security of executives and VIP customers, as well as physical and electronic security at administrative and operational facilities.

We are the first airline in Brazil certified to use dual head-up displays, or HUDs, an advanced display of flight, navigation or other information superimposed upon the pilot's forward field of view, which is currently installed in most of our jets. In addition to this advanced safety feature, the majority of our fleet is equipped with electronic flight bags, an information management device that helps flight crew perform flight management tasks safely. We believe we are the only airline in Brazil with onsite access to flight simulators with full flight capability. We maintain our aircraft in strict accordance with manufacturer specifications and all applicable safety regulations, perform routine daily line maintenance, and are part of the Embraer and Airbus Aircraft Integrity Monitoring Program, which provides close monitoring of malfunction trends in systems and components. We also strive to comply with or exceed most health and safety standards. In pursuing these goals, we maintain an active aviation safety program, in which all our personnel are expected to participate and take an active role in the identification, reduction and elimination of hazards.

Our ongoing focus on safety and quality are reflected in the training of our crewmembers, who are provided with the appropriate tools and equipment required to perform their job functions in a safe and efficient manner. Safety in the workplace targets several areas of our operations, including flight operations, maintenance, dispatch and station operations.

Employees

We believe that the quality of our employees, whom we refer to as crewmembers, promotes our success and growth potential. We believe we have created a strong service-oriented company culture, which is built around our values of safety, consideration, integrity, passion, innovation and excellence. We are dedicated to carefully select, train and maintain a highly productive workforce of considerate, passionate and friendly people who serve our customers and provide them with what we believe is the best flying experience possible. We reinforce our culture by providing an extensive orientation program for new crewmembers and instill in them the importance of customer service and the need to remain productive and cost efficient. Our crewmembers are empowered to not only meet our customers' needs and say "yes" to a customer, but to also listen to our customers and solve problems.

We communicate regularly with all of our crewmembers, keeping them informed about events at our offices through town hall meetings and question and answer sessions and soliciting feedback for ways to improve cooperation and their work environment. We conduct an annual crewmember survey and provide training for our leadership that focuses on crewmember engagement and empowerment. In addition, each of our executives adopts a city and is responsible for meeting with crewmembers on a periodic basis to be an additional source of corporate communication and assistance. Our executives also interact directly with our customers when traveling to obtain feedback and suggestions about the Azul experience.

We aspire to be the best customer service company in Brazil and, as a result, we believe our crewmembers are more likely to recommend us as a place to work to a friend or relative. We have good relations with our crewmembers and we have never experienced labor strikes or work stoppages.

We are focused on increasing the efficiency and productivity of our crewmembers. As of December 31, 2019, we had 93 FTEs per aircraft, compared with 143 for Gol. The following table sets forth the number of our crewmembers per category and the number of FTEs per aircraft at the end of the periods indicated:

	At December 31,		
Crewmembers	**2019**	**2018**	**2017**
Pilots	1,846	1,741	1,633
Flight attendants	2,936	2,351	2,217
Airport personnel	3,293	3,165	2,903
Maintenance personnel	2,217	2,063	1,835
Call center personnel	917	924	899
Others	1,980	1,563	1,391
Total	**13,189**	**11,807**	**10,878**
End-of-period FTEs per aircraft	93	94	89

We provide extensive training for our crewmembers that emphasizes the importance of safety. In compliance with Brazilian and international IATA safety standards, we provide training to our pilots, flight attendants, maintenance technicians, managers and administrators and customer service (airport and call center) crewmembers. We have implemented employee accountability initiatives both at the time of hiring and on an ongoing basis in order to maintain the quality of our crew and customer service. We currently operate four flight simulators and have an extensive training program at UniAzul, our training facility adjacent to Viracopos airport. See "—Airports and Other Facilities and Properties—Other Facilities and Properties" and "—Safety and Quality."

A national union represents all airline employees in Brazil. However, we do not have a direct collective bargaining agreement with any labor unions. Binding negotiations in respect of cost of living, wage and salary increases are conducted annually between the national union and an association representing all of Brazil's airlines. Work conditions and maximum work hours are regulated by government legislation and are not the subject of labor negotiations. In addition, we have no seniority pay escalation. Since our FTEs per aircraft is lower than that of our main competitor, any wage increases have a lower impact on us, thus making labor costs less significant to our operations. As a result, we believe our results of operations are less affected by labor costs than those of our main competitor.

Our compensation strategy is competitive and meant to retain talented and motivated crewmembers and align the interests of our crewmembers with our own. Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, psychosocial assistance under our *Anjo Azul* program, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), salary-deduction loans, bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft. We also benefit from generally lower labor costs in Brazil, when compared to other countries, which is somewhat offset by lower productivity due to government requirements over employee labor conditions and taxes on payroll.

To motivate our crewmembers and align their interests with our results of operations, we provide a leadership incentive plan based on the achievement of pre-defined company performance targets (*Programa de Recompensa*). We also have established a stock option plan for our leadership that vests over a four-year period. See "Item 6.B. Management Compensation—Stock-Based Incentive Plans."

Insurance

We maintain insurance policies as required by law and the terms of our aircraft leasing agreements. Our insurance coverage for third party and passenger liability is consistent with general airline industry standards in Brazil and we insure our aircraft against physical loss and damage on an "all risks" basis. We maintain all mandatory insurances coverage for each of our aircraft and additional insurances coverage required by lessors, although liability for war and associated acts, including terrorism, is covered by the Brazilian government.

Environmental, Social and Governance ("ESG") Responsibility

Aviation brings people, cultures and economies together, driving economic growth and social progress. Since our foundation in 2008, we have established our operations with a concern for social values, local development and environmental protection, aiming to create sustainable long-term relationships with all of our stakeholders.

Emissions efficiency is a constant concern for our sector. Recently developed, more efficient aircraft models and effective operating processes lead to a decrease in fuel consumption per passenger. Our fleet transformation process, which consists of replacing older generation aircraft with next-generation fuel-efficient aircraft is not only the main driver of our positive operating results going forward but also the main source of reduction in our consumption of fuel per passenger. We are constantly working on other initiatives to reduce our fuel consumption including route optimization and operational improvements.

Azul's most valuable asset is its committed and passionate team of crewmembers. Our mission is for our crewmembers to have the best job experience working at Azul and to offer our customers the best flight experience. For us, our crewmembers are essential to our achieving excellence. Regardless of our position in the Company, we are all part of the same team, and the Azul experience is a collective effort that involves the commitment from all of us.

As of December 31, 2019, we were the sole airline in 156 of the 249 routes we served and, as a result, we support smaller communities that are located far from larger metropolitan areas, boosting their local economy. In addition to our diversified domestic network, we also serve select international destinations and partner with several airlines connecting customers to global destinations.

In 2019, we affirmed our commitment to the United Nations (UN) Sustainable Development Goals (SDGs) and developed an increasingly engaged social action, not only around our operating stations, but also across Brazil. We are committed to building a promising future, connecting people and changing lives through the work of our team of 2,193 volunteers and social investment projects that have directly benefited over 50,000 people.

We conduct our corporate governance with transparency and in accordance with the most relevant market guidelines that comply with SEC and CVM requirements. Azul was the first Brazilian company to become signatory to the Brazilian Takeover Panel (CAF), a private self-regulated organization for the Brazilian securities market ruled by the highest levels of corporate governance standards. For more information about our ESG initiatives and results visit www.voeazul.com.br/ir.

Seasonality

Our operating revenue and results of operations are substantially dependent on overall passenger traffic volume, which is subject to seasonal and other changes in traffic patterns. Therefore, our operating revenue and results of operations for any interim period are not necessarily indicative of those for the entire year. We generally expect demand to be greater in the first, third and fourth quarters of each calendar year compared to the second quarter of each year. This demand increase occurs due to an increase in business travel during the second half of the year, as well as the Christmas season, Carnival and the Brazilian school summer vacation. Although business travel can be cyclical depending on the general state of the economy, it tends to be less seasonal than leisure travel, which peaks during vacation season and around certain holidays in Brazil.

The table below shows our average fare in *reais* for the periods indicated, reflecting our total passenger revenue divided by passenger flight segments for such periods:

Year Ended December 31,	Average Fare (R$)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2017	283.7	279.8	308.1	344.8
2018	376.1	346.1	379.9	395.7
2019	382.3	379.7	391.5	419.9

Intellectual Property

Brands

We have registered, applied for registration or renewed licenses for approximately 92 trademarks with the INPI including, among others, the trademarks "TUDO AZUL," "AZUL LINHAS AÉREAS BRASILEIRAS," "AZUL FLEX," "AZUL PROMO," "AZUL VIAGENS," "VOE AZUL," and "AZUL CARGO EXPRESS." Except for "VOE AZUL," and "AZUL SOUND" which registration process are still under review by the INPI, the other trademarks have been granted.

We operate software products under licenses from our vendors, including Oracle, Trax, Sabre, Navitaire, Amadeus. Comarch, Lufthansa, Sita, Jeppesen and SmartKargo. Under our agreements with Embraer, ATR and Airbus we use their knowledge and proprietary information to maintain our aircraft.

Patents

We possess no patents registered with or granted by the INPI.

Domain Names

We have also registered several domain names with NIC.br, Brazil's internet domain name registry, and other domain registers, including, among others, "voeazul.com.br," "flyazul.com," "azulcargoexpress.com," "azulviagens.com.br" and "tudoazul.com."

Regulation

Overview

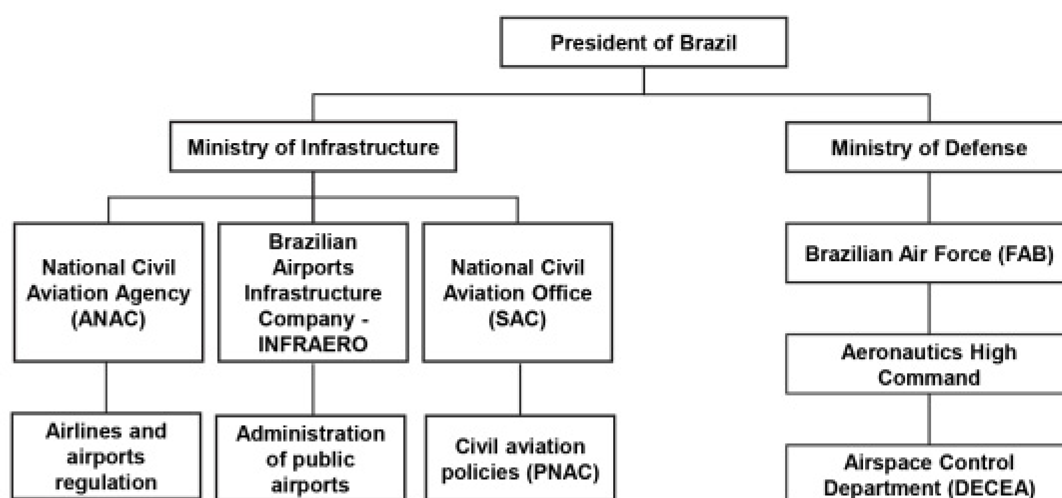
Under the Brazilian Constitution, air transportation is a public service. It is therefore subject to extensive governmental regulation and monitoring by several federal agencies and entities. The sector is regulated by the Brazilian Aeronautical Code, which covers air service concessions; airport infrastructure and operations; flight safety; airline certification; leasing, taking security, disposal, registration and licensing of aircraft; crew training; inspection and control of airlines; public and private air carrier services; civil liability; and penalties for infringement.

Brazil has signed and ratified the Chicago Convention of 1944, the Geneva Convention of 1948, the Montreal Convention of 1999 and the Cape Town Convention of 2001, the leading international conventions relating to worldwide commercial air transportation activities.

The National Civil Aviation Policy (*Política Nacional de Aviação Civil*), or PNAC, which was adopted in 2009, sets out the main governmental guidelines and policies that apply to the Brazilian civil aviation system. The PNAC encourages all regulatory bodies to issue regulations on strategic matters such as safety, competition, environmental and consumer issues, and to inspect, review and evaluate the activities of all operating companies.

Regulatory Bodies

The chart below illustrates the main regulatory bodies together with their responsibilities and reporting lines:



The Ministry of Infrastructure (formerly the Ministry of Transport, Ports and Civil Aviation) supervises civil aviation services and activities in Brazil and is responsible for issuing governmental policies for the sector. The Ministry of Infrastructure reports directly to the President of Brazil and is responsible for the oversight of ANAC and INFRAERO.

ANAC, which was created in 2005, has full regulatory powers regarding the following:

- guiding, planning, stimulating and supporting the activities of public and private civil aviation companies in Brazil;
- regulating flight operations; and
- regulating economic issues affecting air transportation and airports, including air safety, certification and fitness, insurance, consumer protection and competitive practices.

INFRAERO is a state-controlled airport operator that reports to the Ministry of Infrastructure. It is responsible for managing, operating and controlling all government-operated federal airports (i.e., those whose operations have not been transferred to private parties by way of concessions), including safety, operational conditions and infrastructure. With respect to the recently privatized airports (Natal, Galeão, Confins, Guarulhos, Viracopos and Brasília), although INFRAERO still holds a minority stake in each of them, INFRAERO is no longer in charge of operations, which are now handled by their respective private operators.

The National Commission of Airport Authorities (*Comissão Nacional de Autoridades Aeroportuárias*), or CONAERO, which was created in 2011, is a commission within the Ministry of Infrastructure. Its role is to coordinate the activities of the different entities and public agencies with respect to airport efficiency and safety.

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

The Brazilian Civil Aviation Council (*Conselho de Aviação Civil*), or CONAC, which was created in 2000, is an advisory body to the President of Brazil with authority to establish national civil aviation policies, to be adopted and enforced by the Aeronautics High Command and ANAC. CONAC establishes guidelines relating to following:

- the representation of Brazil in conventions, treaties and other activities related to international air transportation;
- airport infrastructure;
- the provision of funds to airlines and airports to further strategic, economic or tourism interests;

- the coordination of civil aviation;
- air safety; and
- the granting of air routes, concessions and permissions for commercial air transportation services.

Airport Infrastructure

Brazil currently has more than 2,400 private and public airfields. Airlines that operate regularly scheduled flights primarily use public airport infrastructure, with 98% of total passenger traffic passing through a network consisting of 65 airports. INFRAERO is responsible for the operational matters of 47 of these airports.

A number of smaller, regional airports in Brazil are under the control of state or municipal governments and are managed by local governmental entities. INFRAERO is responsible for safety and security activities at the largest airports, including passenger and baggage screening, cargo security measures and airport security.

In 2011, the Brazilian government started to grant the operation of certain airports in Brazil by way of concessions following public bids. Between 2011 and 2019, 22 airports have been privatized after bid concessions, including our three hubs, Viracopos ,Confins and Recife. The concessions for these airports have terms of between 20 to 30 years. In 2020, the Brazilian government expects to auction another 22 airports located in the Southern, Mid and Northern region of the country.

Aeroportos Brasil, the holder of the concession to operate Viracopos airport, has announced its intention to return this concession to ANAC. Aeroportos Brasil's judicial reorganization plan was approved by its creditors on February 14, 2020, provided that Aeroportos Brasil present its request for rebidding of Viracopos airport concession to the Brazilian federal government. The request for rebidding was filed with ANAC on March 19, 2020.

In March 2019, the Brazilian government concluded an auction for the concession of 12 airports grouped into three regional blocks – Northeast, Midwest, and Southeast, including our third largest hub in Recife. In 2020, the Brazilian government expects to auction another 22 airports located in the Southern, Mid and Northern region of the country.

Of the 47 Brazilian airports managed directly or indirectly by INFRAERO, 17 airports are currently receiving infrastructure investments and upgrades. The airport upgrade plan does not require contributions or investments by Brazilian airlines, and is not expected to involve increases in landing fees or passenger taxes on air travel.

The Resolution No. 338, of July 2014, predicts that airports operating at full capacity. Under this resolution, airports operating at full capacity are deemed by ANAC "coordinated airports." The following airports are currently deemed to be "coordinated airports" by ANAC: Belém, Cuiabá, Congonhas, Curitiba, Guarulhos, Goiania, Foz do Iguaçu, Manaus, Maceió, Recife, Santos Dumont, and Vitória.

In July of 2014, ANAC enacted a resolution establishing new procedures to allocate slots in airports operating at full capacity. Through such allocation, we received 26 new slots at Congonhas airport. In November 2014, we started operating 13 daily flights from Congonhas airport to some of our most profitable markets including Belo Horizonte, Porto Alegre, and Curitiba, leveraging the connectivity we have in these cities and expanding our flights available to São Paulo passengers. In August 2019, ANAC announced a temporary distribution of 41 slots in Congonhas airport previously operated by Avianca Brasil, of which 15 slots were allocated to us. As a result, we adjusted our flight schedules at Congonhas airport and since September 2019, we started operating a shuttle service between Congonhas and Rio de Janeiro and between Congonhas and Belo Horizonte.

Due to the exceptional Avianca situation, ANAC is in the process of reviewing the Resolution No. 338, to increase the competition on congested airports. Although the rule of Resolution No. 338 has not been changed yet the Board of ANAC on July 25, 2019 has deliberated that exceptionally for Congonhas Airport due to Avianca situation the criteria for distribution of slots are different than the criteria of Resolution No. 338.

Airlines and service providers may lease areas within federal, state or municipal airports, such as hangars and check-in counters, subject to concessions or authorizations granted by the authority that operates the airport—which may be INFRAERO, the state, the municipality or a private concession holder, as the case may be. No public bid is required for leases of spaces within airports, although INFRAERO may conduct a public bidding process if there is more than one applicant. In other cases, the use may be granted by a simple authorization or permission issued by the authority that operates the airport. In the case of airports operated by private entities, the use of concession areas is subject to a commercial agreement between the airline and the airport operator.

We have renewable concessions with terms varying from one to five years from INFRAERO and other granting authorities to use and operate all of our facilities at each of the major airports that we serve. Most of our concession agreements for passenger service facilities at our terminals, which include check-in counters and ticket offices, operational support areas and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the concession term. We have airport areas under concession and certain areas which concessions are being duly formalized in order to be renewed.

Air Transportation Service Concessions

Under the Brazilian Constitution, the Brazilian government is responsible for air transportation and airport infrastructure, as a public service, and may provide these services directly or by way of concessions or authorizations to third parties. ANAC is the authority empowered to authorize concessions for the operation of regular air transportation services.

ANAC requires companies interested in operating air services to meet certain economic, financial, technical, operational and administrative requirements. The applicant must be an entity incorporated in Brazil, must have a valid Airline Operating Certificate (*Certificado de Operador Aéreo – COA*) and must comply with the ownership restrictions discussed below. ANAC has the authority to revoke a concession if the airline fails to comply with the Brazilian Aeronautical Code and any other relevant laws or regulations relating to the concession agreement, including if the airline fails to meet specified service levels, ceases operations or declares bankruptcy.

ALAB's first concession was granted on November 26, 2008 by ANAC and had a term of ten years. Therefore, on November 21, 2018, ALAB made a formal request to renew the concession. On December, 6, 2018, ANAC published the renewal of concession contract for another 10 years.

The concession agreement can be terminated if, among other things, ALAB fails to meet specified service levels, ceases operations or declares bankruptcy. By the end of the term of the concession, the continuation of the provision of airport services depends on the extension of the term of the current concession agreement or the granting of a new concession.

Public bidding is not currently required for the grant of concessions for the operation of air transportation services.

Route Rights

Domestic routes

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

International Routes

In accordance with Resolution No. 491, as of September 10, 2018, rights regarding international routes and the corresponding transit rights depend on the bilateral air transport treaties between Brazil and the foreign government. Under these treaties, each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain destinations in each country. Airlines are only entitled to apply for new international routes when they are made available under these agreements.

ANAC has the authority to grant Brazilian airlines approval to operate a new international route or change an existing route, subject to the airline having filed satisfactory studies to ANAC demonstrating the viability of the routes and fulfilling certain conditions with respect to the concession for the routes. A Brazilian airline that received ANAC approval to provide international services may address a request for approval of a new or changed route to the Air Services Superintendence of ANAC (*SAS – Superintendecia de Acompanhamento de Serviços Aéreos da ANAC*). The Superintendence submits a non-binding recommendation to the president or ANAC, who may decide whether to approve the request.

An airline's international route frequency rights may be terminated if the airline fails to maintain an Index of Frequency Utilization (*Índice de Utilização de Freqüência*), or IUF, of at least 66% of flights for any 180-day period, or if the airline does not initiate operations within a period of 180 days from the grant of the new route.

Resolution No. 491 also established that, after March 2019, low frequency international routes may be reallocated to different operators if an allocation request is made by another company and there are no other available frequencies to the country of destination. Low frequency routes are those with less than 50% of usage in the period of evaluation of 26 consecutive weeks.

In 2010, ANAC approved regulations regarding international fares for flights departing from Brazil to the United States and Europe, which gradually removes the previous minimum fares. In 2010, ANAC approved the continuity of bilateral agreements providing for open skies policies with other South American countries.

In 2011, United States and Brazil reached an open-skies aviation agreement to liberalize the air services and traffic between both countries, including, among other things, removal of restrictions on pricing and additional scheduled and charter services to the congested airports of São Paulo and Rio de Janeiro. Both countries agreed to a transition period of five years; however, the agreement was only approved by the Brazilian National Congress in March 2018 and sanctioned by the President in office (Michel Temer) in June 2018.

There are ongoing negotiations between Brazil and EU to implement an open skies agreement but the final terms of the treaty have not been approved.

Domestic Slots Policy

For certain airports that are classified as operating at full capacity by ANAC, passenger airlines are required to obtain slots from ANAC. A slot is a predetermined period of time during which the airline is allowed to take off or land at a specific airport. To obtain domestic slots, the airline must submit a request to ANAC, and ANAC will, in turn, distribute slots to the requesting airlines in accordance with the number of new slots available as per the slot allocation calendar defined by Resolution No. 338. Airlines may transfer slots with ANAC's prior approval. An airline may lose its rights to its slots where service provision is below the quality determined by ANAC. In these cases, the slots are distributed to other airline companies by public tender.

Currently, there are a thirteen Brazilian ANAC "coordinated airports" where slots are necessary to perform scheduled flights: Belém, Cuiabá, Congonhas, Curitiba, Guarulhos, Goiania, Foz do Iguaçu, Manaus, Maceió, Recife, Santos Dumont, and Vitória. Additionally, there are eight airports declared as "airports of interest" which are also subject to slot coordination procedures (coordination performed by their respective airport operators instead of ANAC). These are: Brasilia, Confins, Florianópolis, Galeão, Porto Alegre, Salvador, and Viracopos.

Congonhas airport, which is the busiest domestic airport in Brazil, has a shortage of slots due to the lack of airport infrastructure to meet current demand. As a result, the number of new slots granted by ANAC at this airport is limited. New slots are awarded by public tender and generally only become available when they are taken from existing airlines as a result of disciplinary proceedings, or when airport capacity is increased. In the most recent distribution of slots, ANAC opened the public tender to all airlines that were qualified to bid. Airports in smaller and medium-sized markets, which are the focus of our growth strategy, do not require slots, which allows us greater flexibility in establishing our timetable when building out our route network.

In July of 2014, ANAC enacted a resolution establishing new procedures to allocate slots in airports operating at full capacity. Through such allocation, we received 26 new slots at Congonhas airport. In November 2014, we started operating 13 daily flights from Congonhas airport to some of our most profitable markets including Belo Horizonte, Porto Alegre, and Curitiba, leveraging the connectivity we have in these cities and expanding our flights available to São Paulo passengers. In August 2019 ANAC announced a temporary distribution of 41 slots in Congonhas airport previously operated by Avianca Brasil, of which 15 slots were allocated to us. As a result, we adjusted our flight schedules at Congonhas airport and since September 2019, we started operating a shuttle service between Congonhas and Rio de Janeiro and between Congonhas and Belo Horizonte ceasing to operate flights to Porto Alegre and Curitiba.

Import of Aircraft into Brazil

Any civil or commercial aircraft must be certified in advance by ANAC before being imported into Brazil. Once certified, the aircraft may be imported in the same way as other goods. Following import, the importer must register the aircraft with the Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro*).

Registration of Aircraft

Brazilian aircraft must have a certificate of registration (*certificado de matrícula*) and a valid certificate of airworthiness (*certificado de aeronavegabilidade*), both of which are issued by the RAB after technical inspection of the aircraft by ANAC. The certificate of registration establishes that the aircraft has Brazilian nationality and serves as proof of its enrollment with the aviation authority. The certificate of airworthiness, which is generally valid for 15 years from the date of ANAC's initial inspection, authorizes the aircraft to fly in Brazilian airspace, subject to continuing compliance with certain technical requirements and conditions. An aircraft's registration may be cancelled if the aircraft is not in compliance with the requirements for registration and, in particular, if it has failed to comply with any applicable safety requirements specified by ANAC or the Brazilian Aeronautical Code.

All information relating to the contractual status of an aircraft, including title documents, operating leases and mortgages, must be filed with the RAB in order to update public records.

Fares

Brazilian regulations allow airlines to establish their own domestic fares without prior approval from the Brazilian government or any other authority. However, ANAC regularly monitors domestic fares. In particular, under regulations published in 2010, Brazilian airlines must report their monthly prices to ANAC by the last business day of each month.

Baggage Charge

According to ANAC's Resolution 400 of December 13, 2016 (General Conditions of Air Transport), or Resolution 400, which became effective on March 14, 2017 (but had its applicability and effects suspended until April 29, 2017) airlines are allowed to charge for checked baggage. On June 1, 2017, we started charging our passengers a fee for checked baggage and believe this will be an important source of revenue going forward. The legality of charging for checked baggage was confirmed by Brazil President's veto of the provisional measure MP No 863/2018, which intended to prohibit charging for checked baggage.

General Conditions Applicable to Air Transportation

On December 14, 2016, ANAC approved Resolution No. 400, of December 2016, which sets forth certain general conditions applicable to air transportation. Resolution No. 400 was enacted on March 14, 2017 for all flight tickets purchased on and after this date. This resolution establishes boarding documentation requirements, provides customers with a 24 hour post-purchase period to cancel a flight ticket without charge, reduces repayment periods, increases the baggage allowance, allows for free passenger name corrections on flight tickets, guarantees return tickets in the event a one-way cancellation is made in advance for a domestic flight and simplifies the return and compensation process for lost baggage.

Restrictions on the Ownership of Shares in Air Transportation Service Providers

On December 13, 2018, the Brazilian Federal government issued provisional measure MP 863/2018, a new rule amending the Brazilian Aeronautical Code, which established that at least 80% of the voting stock of a company that holds a concession to provide scheduled air transportation services must be held directly or indirectly by Brazilian citizens, and the company must be managed exclusively by Brazilian citizens. MP 863/2018 allows foreign shareholders to hold up to 100% of the voting stock of Brazilian airlines companies and lifts the restriction on foreign management of domestic carriers. Thus, regardless of the company's capital origin, as long as the legal entity is incorporated under Brazilian law, there are no restrictions on the foreign capital interest in such entities. On June 17, 2019, the provisional measure MP 863/2018 was converted into Law No 13.842/2019, amending the Brazilian Aeronautical Code, and allowed 100% of the voting stock of a company that holds a concession to provide scheduled air transportation services to be owned by foreigners, which completely opened up the market to non-Brazilian citizens. Besides that, the leadership of companies that hold a concession to provide scheduled air transportation services can now be carried by foreigners and ANAC will not need to approve any acts of formation or changes to the corporate governance structure of such companies.

Environmental Regulation

Brazilian airlines are subject to various federal, state and municipal laws and regulations relating to the protection of the environment, including the disposal of waste, the use of chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities. If an airline fails to comply with these laws and regulations it may be subject to administrative and criminal sanctions, in addition to the obligation to remediate the environmental damage and/or to pay damages to third parties. In addition, Brazilian environmental law establishes a regime of strict civil liability (i.e., irrespective of fault) as well as joint civil liability, meaning that we may be held liable for violations by any third parties whom we hire, for example, to dispose of waste. Brazilian environmental law also provides for "piercing of the corporate veil," which imposes liability on a corporation's controlling shareholders in order to ensure sufficient financial resources to cover environmental damage. Accordingly, we may be directly liable for any violations caused by ALAB and TRIP.

We seek to comply with all environmental legislation and all requirements of public authorities in order to avoid liabilities and limit additional expenses.

Environmental Licenses

Under Brazilian law, the authority to grant environmental licenses for facilities or activities within a state, among other activities, belongs to the state authorities, unless the environmental impact would extend beyond the state border, in which case the Brazilian federal government has jurisdiction. Municipal authorities have jurisdiction over the licensing of facilities or activities that have a local impact. Each state has the power to establish specific regulations regarding environmental licensing procedures, within the scope of general guidelines established by the Brazilian government.

Most of the requests for renewal of an environmental license must be filed at least 120 days prior to its expiry. Provided that this deadline is complied with, the license is automatically extended until the environmental authority issues its decision.

The constructing, implementation, operation, expansion or enlargement, without a license, of any facility or activity that causes significant environmental impact, or the expansion of an activity in violation of an existing license, subjects the violator to various penalties, including the requirement to shut down the facility or activity and fines ranging from R$500 to R$10,000,000. These penalties would therefore apply if we were to carry out any potentially polluting activity without a valid license or in violation of the license conditions.

We seek to require our suppliers to comply with several Environmental Management System procedures and use technical audits to enforce compliance. We exercise caution in environmental matters, and reserve the right to reject goods and services from companies that do not meet our environmental protection parameters unless confirmation of compliance is received.

Federal Technical Register

Federal Law 6938/1981 and IBAMA's Instruction No. 06/2013 set forth that all legal entities that carry out potentially polluting activities must be register with the IBAMA's Federal Technical Register, or CTF. This register is an instrument to promote the preservation of the environment.

Activities with a significant potential of pollutant and intense use of natural resources, such as the manufacture and assemble of aircraft, besides being subject to the CTF, are also subject to the quarterly payment of the Environmental Control and Inspection Fee, or TCFA, to IBAMA.

The Federal Decree 6514/2008 subjects entities with no CTF register to fines that range from R$50.00 to R$9,000.00, depending on the size of the enterprise and the economic capability of the offender. The Failure to pay TCFA entails a fine of 20% (twenty percent) on the amount owed, as well as default interest of 1% (one percent) per month. Currently, all of our activities subject to registration with the IBAMA's CTF are duly regular.

Gas Emissions

We are monitoring and analyzing developments regarding amendments to the Kyoto protocol and the emissions regulations in the United States and Europe. We may be required to purchase carbon credits for the operation of our business in future. Brazilian Federal Law 12187/2009 (National Policy on Climate Change) is still to be regulated by specific legislation concerning the establishment of the Brazilian Emissions Reduction Market (*Mercado Brasileiro de Redução de Emissões*), or MBRE, and the establishment of goals for the reduction of greenhouse gases.

Waste

Brazilian law, and particularly the National Policy on Solid Waste of 2010, provides that the transportation, management and final disposal of waste matter may not cause damage to the environment or inconvenience to public health and welfare. Brazilian legislation regulates the segregation, collection, storage, transportation, treatment and final disposal of waste, and states that parties who outsource waste disposal to third party providers are jointly and severally liable with the service provider.

The administrative penalties applicable to the improper discharge of solid, liquid and gas waste, whether or not resulting in effective contamination, include, among others, embargo of the activity or civil work and fines up to R$50 million. The costs for the proper waste management will probably increase in the coming years, in view of the implementation of sectorial agreements and greater regulation.

Proper transportation, treatment and final discharge of waste depend on the waste classification for disposal. The projects are subject to prior approval by the environmental authorities. Waste treatment activities are prone to licensing.

In the context of the shared responsibility (*responsabilidade compartilhada*), the National Solid Waste Policy provides that some industrial sectors shall implement a Reverse Logistics (*Logística Reversa*) system, defined as the actions and procedures to enable the collection and recovery of solid residues, for reusing in the manufacture cycles, as well as in other destinations. As stated in the applicable legislation, the Reverse Logistics systems may be implemented jointly or individually by companies.

The Reverse Logistics system shall envisage the take-back of products after the consumer’s use for their reuse in the manufacture cycle or for proper final destination. Such obligation is applicable to the Company as a consumer of lubricating oil, tires etc. The reverse logistics systems of these products are currently being implemented in Brazil. Each part of the chain has specific obligations with the goal of reducing the solid residues volume and mitigating adverse impacts on human health and on the environment.

Environmental Liability

The Brazilian Federal Constitution provides for three different types of environmental liabilities: (i) civil, (ii) administrative and (iii) criminal. These liabilities may be applied separately and cumulatively. Any individual or legal entity (public or private) that directly or indirectly causes, by action or omission, any damage to the environment may be held liable for such damage, as well as for any violation of environmental regulation.

Brazil’s National Environmental Policy provides for strict civil liability for damages caused to the environment, which means that we can be held liable for any damage irrespective of fault. To establish strict liability, one simply has to demonstrate a cause-effect relationship between the polluter’s activity and the resulting damage in order to trigger the obligation to redress the environmental damage.

Public Attorneys’ offices, foundations, state agencies, state-owned companies and environmental protection associations are empowered to file public civil actions seeking compensation for environmental damages. The National Environmental Policy establishes joint liability among all the parties involved in polluting activity and that benefit directly or indirectly from it. Accordingly, the affected party or any of the other parties entitled to sue may choose to seek damages against any single responsible party, and the defendant is entitled to seek right of recourse against all other parties involved in polluting activity.

According to prevailing legal opinion in Brazil, there is no statute of limitations for claims seeking compensation for environmental damages.

Brazilian Federal Decree 6.514/2008 sets forth the infractions and administrative sanctions regarding the environmental matters and the federal administrative procedure to investigate these infractions. Administrative sanctions include: (i) warnings; (ii) simple fines; (iii) daily fines; (iv) seizure of the animals, products and subproducts of fauna and flora; (v) product destruction; (vi) product sales and manufacturing suspension; (vii) closure of the plant or construction; (viii) construction demolition; (ix) full or partial suspension of the activities; and (ix) restriction of rights.

Criminal liability for environmental matters in Brazil extends to corporations as well as to individuals. If a corporation is found criminally liable for an environmental violation, its officers, directors, managers, agents or proxies may also be subject to criminal penalties if there is proof of their intent or fault in preventing the occurrence of the crime. The settlement of a civil or administrative lawsuit does not prevent criminal prosecution for the same violation. Freedom-restricting penalties (confinement or imprisonment) are reduced to right-restricting penalties, such as community service mandates. Criminal sanctions encompass imprisonment in the case of individuals, or dissolution or restriction of rights for legal entities. Fines may be replaced by an undertaking by the violator to take specific steps to redress the environmental damage, if approved by the appropriate environmental authority. Enforcement of fines may be suspended upon settlement with environmental authorities for damage redress.

Data Protection

The Brazilian General Data Protection Act (Lei Geral de Proteção de Dados) was published in the Federal Official Gazette on August 15, 2018 and was amended by Provisional Measure MP 869, issued by the President of Brazil in December 2018. The LGPD will take effect in August 2020 (the original effective date was February 2020, but MP 869/2018 postponed it for 6 months).

Before LGPD comes into force, Brazil lacks a data privacy specific regulation and a data protection authority. Privacy is generally protected through the Federal Constitution, the Brazilian Civil Code (Law 10406 of January 10, 2002), the Brazilian Consumer Protection Code (Law 8078 of September 11, 1990) and the Civil Rights Framework for the Internet (Law 12965 of April 23, 2014 and the Decree 8771 of May 11, 2016, also known as the Internet Law).

The LGPD brings about major changes in the conditions for personal data processing, with a set of rules to be observed in activities such as collection, processing, storage, use, transfer, sharing and erasure of information concerning identified or identifiable natural persons. The application of the LGPD will apply irrespective of industry or business when dealing with personal data.

The Brazilian National Data Protection Authority, or the ANPD, was created in 2018, which will have equivalent activities to the European data protection authorities, exercising the triple role of (i) investigation, being able to issue norms and procedures, deliberate on the interpretation of the Act and request information to controllers and processors; (ii) enforcement, in cases of noncompliance with the law, through an administrative process; and (iii) education, disseminating knowledge about the Act and security measures, stimulating standards for services and products that facilitate control of data subjects, and elaborating studies on national and international practices for the protection of personal data and privacy, amongst others. The ANPD is not operational yet since the commissioners have not been appointed.

The ANPD has been assured technical independence, although subordinated to the Presidency of the Republic.The Federal Senate has approved the Bill of Law 1,179/2020, as amended, which introduces emergency changes to federal legislation during COVID-19 pandemic. These changes include specific amendments to the LGPD, such as: (i) its effectiveness will be postponed to January 1, 2021, and (ii) the sections related to administrative penalties (articles 52-54) will only be effective as of August 1, 2021. The Bill of Law 1,179/2020's approval now depends on the affirmative vote by the Brazilian House of Representatives and, if approved, to subsequent signing by the President.

Pending Legislation

The Brazilian Congress is currently discussing a draft bill that would replace the current Brazilian Aeronautical Code. This draft bill deals with matters related to civil aviation, including airport concessions, consumer protection, limitation of airlines' civil liability, compulsory insurance and fines.

The draft bill has been internally approved by the Brazilian House of Representatives in March 2019, but it still needs to be discussed and approved by the Brazilian Federal Senate. If approved by the Federal Senate without any relevant amendments to the approved wording submitted by the Brazilian House of Representatives, it will be sent for presidential approval. If the Brazilian civil aviation framework changes in the future, or if ANAC implements increased restrictions, our growth plans and our business and results of operations could be adversely affected.

Aircraft Repossession

On March 1, 2012, Brazil ratified the Cape Town Convention, which created a system of international registration of legal interests in aircraft and engines. This convention has been ratified and published by Presidential Decree 8008, dated May 15, 2013, and was regulated by ANAC through Resolution No. 309, of March 18, 2014.

The Cape Town Convention is intended to standardize transactions involving movable property. The treaty creates international standards for registration of ownership, security interests (liens), leases and conditional sales contracts, as well as various legal remedies for default in financing agreements, including repossession and provisions regarding how the insolvency laws of the signatory states will apply to registered aircraft and engines. The Convention provides specific remedies such as the Irrevocable Deregistration and Export Request Authorization, which allows recovery of the aircraft in case of default and insolvency. The Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro* –RAB has been appointed as the responsible authority regarding the international registry in Brazil.

Although the Cape Town Convention has been duly internalized into the Brazilian legal system with the status of an ordinary law, further specific rules relating to the export of aircraft in accordance with the Cape Town Convention, especially upon enforcement of an Irrevocable Deregistration and Export Request Authorization in an event of default under financing or lease agreements, are pending further regulations to be issued by the Government of Brazil. The lack of regulations, at this state, is not likely to prevent export of aircraft in accordance with the Cape Town Convention entirely, but may represent an increase in the time required for actual export of aircraft.

Government Insurance

In response to substantial increases in insurance premiums to cover risks related to terrorist attacks following the events of September 11, 2001 in the United States, the Brazilian government enacted Law 10744 of 2003, authorizing the government to assume civil liability to third parties for any injury to goods or persons, whether or not passengers, caused by terrorist attacks or acts of war against Brazilian aircraft operated by Brazilian airlines in Brazil or abroad. This statutory coverage is limited to an amount of US$1 billion. In addition, under the abovementioned legislation, the Brazilian government may, at its sole discretion, suspend this assumption of liability at any time, provided that it gives seven days' notice of the suspension. Brazil is currently the sole jurisdiction worldwide still providing such statutory coverage to its registered fleet.

We maintain all other mandatory insurance coverage for each of our aircraft and additional insurance coverage as required by lessors. See "Item 4.B. Business Overview—Insurance."

U.S. and International Regulation

Operational Regulation

The airline industry is heavily regulated by the U.S. government. Two of the primary regulatory authorities overseeing air transportation in the United States are the DOT and the FAA. The DOT has jurisdiction over economic issues affecting air transportation, such as unfair or deceptive competition, advertising, baggage liability and disabled passenger transportation. The DOT has authority to issue permits required for airlines to provide air transportation. We hold an open skies foreign air carrier DOT permit authorizing us to engage in scheduled air transportation of passengers, property and mail to and from certain destinations in the United States.

The FAA is responsible for regulating and overseeing matters relating to air carrier flight operations, including airline operating certificates, aircraft certification and maintenance and other matters affecting air safety. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate and to comply with Federal Aviation Regulations 129 and 145. This certificate, in combination with operations specifications issued to the airline by the FAA, authorizes the airline to operate at specific airports using aircraft approved by the FAA. As of December 31, 2017 ALAB has FAA operations specifications approved as Part 129 to use Airbus A330-200 in scheduled flights to the U.S. We have also obtained the necessary FAA authorization to fly to Fort Lauderdale and Orlando. We hold all necessary operating and airworthiness authorizations, certificates and licenses and are operating in compliance with applicable DOT, FAA and applicable international regulations, interpretations and policies.

Customs and Border Protection

Our service to the U.S. is also subject to U.S. Customs and Border Protection, or CBP (a law enforcement agency that is part of the U.S. Department of Homeland Security), immigration and agriculture requirements and the requirements of equivalent foreign governmental agencies. Like other airlines flying international routes, from time to time we may be subject to civil fines and penalties imposed by CBP if un-manifested or illegal cargo, such as illegal narcotics, is found on our aircraft. These fines and penalties, which in the case of narcotics are based upon the retail value of the seizure, may be substantial. We have implemented a comprehensive security program at our airports to reduce the risk of illegal cargo being placed on our aircraft, and we seek to cooperate actively with CBP and other U.S. and foreign law enforcement agencies in investigating incidents or attempts to introduce illegal cargo.

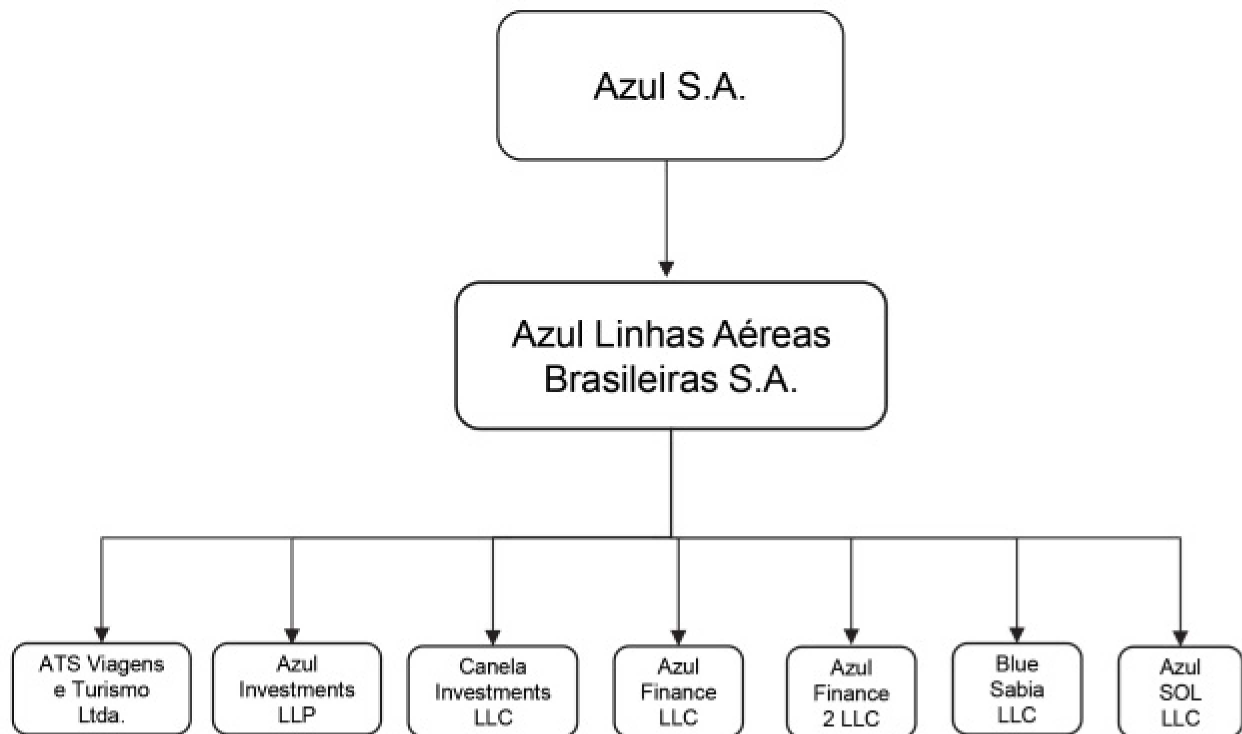
Security Regulation

The TSA was created in 2001 with the responsibility and authority to oversee the implementation, and ensure the adequacy, of security measures at airports and other transportation facilities in the United States. Since the creation of the TSA, airport security has seen significant changes including enhancement of flight deck security, the deployment of federal air marshals onboard flights, increased airport perimeter access security, increased airline crew security training, enhanced security screening of passengers, baggage, cargo and employees, training of security screening personnel, increased passenger data to CBP and background checks. Funding for passenger security is provided in part by a per enplanement ticket tax (passenger security fee) of US$2.50 per passenger flight segment, subject to a US$5 per one-way trip cap. The TSA was granted authority to impose additional fees on air carriers if necessary to cover additional federal aviation security costs. Pursuant to its authority, the TSA may revise the way it assesses this fee, which could result in increased costs for passengers and/or us. We cannot forecast what additional security and safety requirements may be imposed in the future in the United States or in the EU, or the costs or revenue impact that would be associated with complying with such requirements. The TSA also assess an Aviation Security Infrastructure Fee on each airline.

C. Organizational Structure

Corporate Organization

We operate as a holding company and own 100% of our two principal subsidiaries: (i) ALAB and (ii) TudoAzul S.A. The following organizational chart sets forth, in summary form, our material direct or indirect subsidiaries as of December 31, 2019:



ALAB is our original operating subsidiary through which we operate all of our flight activities. ALAB wholly owns Azul Finance LLC and Azul Finance 2 LLC, subsidiaries incorporated in Delaware for the purpose of acquiring next- generation Airbus A320neos from Airbus and E-Jets from Embraer. ALAB also wholly owns Azul SOL LLC, a subsidiary incorporated in Delaware, through which ALAB holds the option to purchase six E-Jets under an operating lease structure, and Blue Sabia LLC, a wholly-owned subsidiary incorporated in Delaware, which leases certain aircraft to Portugalia – Companhia Portuguesa de Transportes Aéreos, S.A., a subsidiary of TAP. In addition, ALAB wholly owns ATS Viagens e Turismo Ltda., a subsidiary organized in Brazil, which sells travel packages offered by our Azul Viagens business unit. ALAB is also the Managing Partner of Azul Investments LLP, a limited liability partnership incorporated in Delaware for the issuance of debt securities in the United States.

Canela Investments, a limited liability company incorporated in Delaware, is the parent company of our aircraft operating companies that finance aircraft in U.S. dollars.

We either acquire aircraft using financing obtained in the United States in U.S. dollars, or in Brazil, in *reais*, or lease them from third parties. Each aircraft that we purchase through financing in U.S. dollars is owned by a separate subsidiary of Canela Investments. Each subsidiary of Canela Investments owns one such aircraft and leases it to ALAB, whereas aircraft that we purchase through financing in *reais* are held directly by ALAB. Aircraft that we lease from third parties under operating leases are owned by our relevant counterparty and leased to ALAB.

As of December 31, 2019, our contractual fleet, which is the fleet that we contractually own or lease, totaled 166 aircraft, consisting of: (i) two aircraft owned by subsidiaries of Canela Investments, (ii) 17 aircraft owned directly by ALAB, and (iii) 147 aircraft leased from third parties. As part of our fleet optimization efforts, in 2016 and 2017, we leveraged our strategic partnerships by subleasing 15 aircraft to TAP for the remaining period under our lease agreements with third parties, see “Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP.” As a result, as of December 31, 2019, our operating fleet, which is the fleet we operate, totaled 142 aircraft, consisting of 59 Embraer E-Jets, 33 ATR aircraft, 38 next-generation Airbus A320neos, ten Airbus A330s and two Boeing 737 freighter.

D. Property, Plant and Equipment

We lease all of our facilities at each of the airports we serve. Our leases for our terminal passenger service facilities, which include ticket counter and gate space, operations support area and baggage service offices, generally have terms ranging from one to three years and contain provisions for periodic adjustments of lease rates. We expect to either renew these leases or find alternative space that would permit us to continue providing our services. We also are responsible for maintenance, insurance and other facility-related expenses and services. We have also entered into use agreements at each of the airports we serve that provide for the non-exclusive use of runways, taxiways and other facilities. Landing fees under these agreements are based on the number of landings and weight of the aircraft.

Our primary corporate offices and headquarters are located in the city of Barueri, state of São Paulo, where we lease 8,179.33 square meters under three lease agreements that expire in December of 2022.

We also lease four hangars totaling 97,800 square-feet for our full capability maintenance center in Belo Horizonte, with expirations from 2020 to 2024. We also lease one hangar in Manaus totaling 14,854 square feet and one in Cuiabá totaling 13,745 square feet for E-Jets and ATR line maintenance with leases expiring in 2020 and 2024, respectively. We also lease one hangar in Campinas totaling 93,642 square-feet, with lease expiring until 2045. Our training facility for pilot and cabin crew education, UniAzul, located at Viracopos airport has 71,000 square feet is under a lease agreement that expires in 2028. We also lease a 9,600 square-feet warehouse and office complex, located in Fort Lauderdale within the airport area, under a lease that expires in 2022.

Property and equipment are recorded at acquisition or construction cost (which include interest and other financial charges) and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Under International Accounting Standard, or IAS, 16 “Property, Plant and Equipment,” major engine overhauls are treated as a separate asset component with the cost capitalized and depreciated over the period to the next overhaul. In estimating the lives and expected residual values of our airframes and engines, we primarily have relied upon actual experience with the same or similar aircraft types and recommendations from third parties. Subsequent revisions to these estimates, which can be significant, could be caused by changes to our maintenance program, changes in utilization of the aircraft, governmental regulations related to aging aircraft.

We evaluate annually whether there is an indication that our property and equipment may be impaired. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of long-lived assets, a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of long-lived assets. An impairment loss exists when the book value of an asset unit exceeds its recoverable amount, which is the higher of fair value less selling costs and value in use. The calculation of fair value less selling costs is based on information available of sales transactions regarding similar assets or market prices less additional costs for disposing of assets.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this annual report, as well as the data set forth in "Item 3.A. Selected Financial Data." The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report particularly in "Item 3.D. Risk Factors."

Principal Factors Affecting Our Financial Condition and Results of Operations

We believe our operating and business performance is driven by various factors that affect the global and Brazilian economy, the Brazilian airline industry, trends affecting the broader Brazilian travel industry, and trends affecting the specific markets and customer base that we target. The following key factors may affect our future performance.

Brazilian Economic Environment

As most of our flight operations are within Brazil, our revenues and profitability are affected by conditions in the Brazilian economy. Our operations and the airline industry in general are particularly sensitive to changes in economic conditions. Unfavorable economic conditions, such as high unemployment rates and a constrained credit market, can reduce spending for both leisure and business travel. Unfavorable economic conditions can also impact our ability to raise fares to counteract increased fuel, labor, and other expenses, and generally increase our credit rank, particularly with respect to our trade receivables.

The following table shows data for real GDP, inflation and interest rates in Brazil, the U.S. dollar/*real* exchange rate and crude oil prices for and as of the periods indicated.

	As of and for the Years ended December 31,		
	2019	2018	2017
Real growth (contraction) in gross domestic product	1.1%	1.1%	1.0%
Inflation (IGP-M)[1]	7.3%	7.6%	(0.5%)
Inflation (IPCA)[2]	4.3%	3.8%	2.9%
Long-term interest rates – TJLP (average)[3]	5.6%	6.5%	7.0%
CDI Rate (average)[4]	5.9%	6.5%	10.1%
LIBOR[5]	2.4%	2.3%	1.4%
Period-end exchange rate—reais per US$ 1.00	4.031	3.875	3.308
Average exchange rate—reais per US$ 1.00[6]	3.945	3.654	3.192
Average depreciation of the real vs. US$	8.0%	14.8%	(8.5%)
WTI crude price (average US$ per barrel during period)	57.63	64.89	50.86
Unemployment rate[7]	10.6%	12.4%	12.7%

Source: FGV, IBGE, Central Bank, Bloomberg and Energy information administration

(1) Inflation (IGP-M) is the general market price index measured by the FGV.
(2) Inflation (IPCA) is a broad consumer price index measured by the IBGE.
(3) TJLP is the Brazilian long-term interest rate (average of monthly rates for the year).
(4) The CDI Rate is an average of inter-bank overnight rates in Brazil (daily average for the period).
(5) Average U.S. dollar three-month LIBOR for the year.
(6) Average of the exchange rate on each business day of the year.
(7) Average unemployment rate for year as measured by IBGE.

According to IBGE, Brazilian economy grew 1.1% in 2019, as it continued to recover from an economic recession which started in 2014 and ended in 2017. In 2019, the risk assessment of the Brazilian economy, measured by CDS decreased 20.3%, indicating an optimistic expectation about the ongoing reforms and the fiscal consolidation in place.

In terms of passenger demand as measured by RPKs, according to ANAC, the Brazilian domestic aviation market grew 0.8% for the year ended December 31, 2019, compared to growth of 4.4% in 2018 and 3.2% in 2017. The lower growth in 2019 is mostly related to the judicial recovery process and resulting termination of flights operated by Avianca Brasil during the second quarter of the year.

The spread of COVID-19 in early 2020 is expected to have a negative impact on the Brazilian economy. Although the size of the economic impact of COVID-19 is still uncertain, according to the Focus report issued on April, 17, 2020, the Brazilian economy is expected to contract by 2.96% in 2020 and grow by 3.10% in 2021.

Net Operating Loss Carryforwards

We and our subsidiaries had net operating loss carryforwards of R$1,971.8 million as of December 31, 2019, represented by income tax losses and negative basis of social contribution. Certain of these net operating losses have been recorded at dormant subsidiaries and any future usage is dependent on transferring operating activities to such subsidiaries. Under Brazilian tax laws, we may only use our net operating losses to offset taxes payable up to 30% of the taxable income for each year. See “Item 5.A. Operating Results—Principal Components of Our Results of Operations—Taxes” and “Item 5.A. Operating Results—Critical Accounting Policies and Estimates—Deferred Taxes.”

Impact of Airline Industry Competition

The airline industry is highly competitive. The principal competitive factors in the airline industry are fare pricing, flight schedules, flight times, aircraft type, passenger amenities, number of routes served from a city, customer service, safety record and reputation, brand recognition, code-sharing relationships, and loyalty programs and redemption opportunities. Price competition occurs on a market-by-market, route-by-route and flight schedule basis through price discounts, changes in pricing structures, fare matching, target promotions and loyalty program initiatives.

As of December 31, 2019, 35% and 28% of our domestic network overlapped with that of Gol and LATAM, respectively, while Gol’s and LATAM’s networks had an overlap of 88% with each other. At Viracopos airport, our primary hub, only 2 out of 55 domestic destinations faced direct competition from Gol or LATAM as of December 31, 2019.

In addition, we were the sole airline on 70% of our routes and 40 of the destinations we served, and the market leader in 73 cities in terms of departure as of December 31, 2019. By comparison, Gol and LATAM were market leaders in only 11 and 12 cities, respectively, as of December 31, 2019.

Effects of Aviation Fuel Costs

Aviation fuel costs have been subject to wide fluctuations in recent years. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage, and demand for heating oil, gasoline and other petroleum products, as well as meteorological, economic and political factors and events occurring throughout the world, which we can neither control nor accurately predict. We attempt to mitigate fuel price volatility through commodity forward agreements with banks or a fixed price agreement with BR Distribuidora. See “Item 5.A. Operating Results —Principal Components of Our Results of Operations—Operating Expenses.” Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, the pricing of hedges and other derivative products in the market and applicable regulatory policies. Petrobras, the leading player in the Brazilian oil industry and the parent company of BR Distribuidora, has a strategy to equalize aviation fuel prices to international fuel prices every month. There are also regional differences based on logistical issues and different regional taxes.

Seasonality

Our operating revenue and results of operations are substantially dependent on overall passenger traffic volume, which is subject to seasonal and other changes in traffic patterns. Therefore, our operating revenue and results of operations for any interim period are not necessarily indicative of those for the entire year. We generally expect demand to be greater in the first, third and fourth quarters of each calendar year compared to the second quarter of each year. This demand increase occurs due to an increase in business travel during the second half of the year, as well as the Christmas season, Carnival and the Brazilian school summer vacation. Although business travel can be cyclical depending on the general state of the economy, it tends to be less seasonal than leisure travel, which peaks during vacation season and around certain holidays in Brazil.

The table below shows our average fare in *reais* for the periods indicated, reflecting our total passenger revenue divided by passenger flight segments for such periods:

	Average Fare (R$)			
Year Ended December 31,	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
2017	283.7	279.8	308.1	344.8
2018	376.1	346.1	379.9	395.7
2019	382.3	379.7	391.5	419.9

Effects of Exchange Rates, Interest Rates and Inflation

Our results of operations are affected by currency fluctuations. For the years ended December 31, 2019, 2018 and 2017, 85.12%, 79.1% and 83.4%, respectively, of our revenue was domestic and therefore denominated in *reais* while 41.3%, 43.2% and 41.4%, respectively, of our operating expenses were either payable in or affected by the U.S. dollar, such as aviation fuel, certain flight hour maintenance contract payments and aircraft insurance. We also have certain aircraft debt denominated in U.S. dollars, see "Item 5.B. Liquidity and Capital Resources—Loans and Financings." We use short-term arrangement to hedge against exchange rate exposure related to our aircraft lease and other rent payment obligations.

We also have assets denominated in foreign currency such as security deposits, maintenance reserves, cash and equivalents, and the TAP bond, providing us with a natural hedge against our U.S. dollar denominated liabilities. In addition, our aircraft, engines, and spare parts are commercialized in U.S. dollars.

Inflation also had, and may continue to have, effects on our financial condition and results of operations. For the year ended December 31, 2019, 2018 and 2017, approximately, 30.7%, 28.9% and 30.1%, respectively, of our operating expenses, including salaries, catering and ground handling expenses were impacted by changes in inflation.

The Central Bank determines the base interest rate in order to manage inflation. Variations in interest rate affect primarily our long-term obligations subject to variable interest rates, including our loans and financing. As of December 31, 2019, 2018 and 2017, we had R$3,518.2 million, R$2,756.1 million and R$2,578.4 million, respectively, in current and noncurrent loans and financing of which (i) 70.1%, 89.2% and 80.6%, respectively, was indexed to the CDI Rate, or overnight interbank/branch benchmark interest rate, and (ii) 2.1%, 3.4% and 7.0%, respectively, was indexed to LIBOR. In addition, interest rates also affect our financial income to the extent that we have investments indexed to the CDI Rate. The Central Bank has changed the base interest rate several times over the past years in order to keep inflation within its targets.

New IFRS Standards

On January 1, 2019, we adopted IFRS 16 – Leases. IFRS 16 was issued in January 2016 and replaced IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement Contains a Lease, SIC-15 – Operating leases-Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single model in the balance sheet, similar to accounting for finance leases under IAS 17. Under IFRS 16, we capitalize the right-of-use of all aircraft previously held under operating leases and depreciates the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. We applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior years have been restated. Upon transition, we recognized a right-of-use asset representing our right to use the underlying asset and a corresponding lease liability that were initially measured at the present value of the future lease payments recognized at the historical U.S. dollar exchange rate and discount rate. The lease liability is updated at each reporting period to reflect the current exchange rate, but the right-of-use carrying value remains at historical rates, in accordance with IAS 21 – The effects of changes in foreign exchange rates.

We have adopted IFRS 15 – Revenue from Contracts with Customers as of January 1, 2018, which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees, since they are deemed part of the single performance obligation of providing passenger transportation. These ancillary items are now recognized in passenger revenue while non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized under other revenue.

We adopted IFRS 9 on January 1, 2018. Except for hedge accounting, retrospective application is required, but comparative information is not required. We have opted not to present comparative information showing retroactively the results from the adoption of IFRS 9.

Principal Components of Our Results of Operations

Operating Revenue

Our operating revenue is primarily derived from transporting customers in our aircraft. For the year ended December 31, 2019, 95.3% of our operating revenue was derived from passenger revenue, and 4.7% was derived from cargo and other revenue.

For the years ended December 31, 2019 and 2018, 85.12% and 79,1% respectively of our operating revenue was denominated in *reais*. Passenger revenue is recognized either upon departure of the scheduled flight or when a purchased ticket expires unused, including revenue related to the redemption of TudoAzul points for Azul flights. Cargo revenue is recognized when transportation is provided.

Passenger revenue depends on our capacity, load factor and yield. Capacity is measured in terms of ASKs, which represents the number of seats we make available on our aircraft multiplied by the number of kilometers these seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing RPKs, which represents the number of kilometers flown by revenue passengers, by ASKs. Yield is the average amount that one passenger pays to fly one kilometer. We use RASK, or revenue divided by ASKs, and PRASK, or passenger revenue divided by ASKs, as our key performance indicators, because we believe they enable us to evaluate the balance between load factor and yield. Since our first year of operations, we have maintained a significant RASK and PRASK premium compared to our competitors given our higher load factors and yields. We expect that our strategy will enable us to maintain that premium in the future.

Our revenues are net of certain taxes, including state-value added tax, the Tax on Circulation of Goods and Services (*Imposto sobre Circulação de Mercadorias e Serviços*), or ICMS; federal social contribution taxes, including the Social Integration Program (*Programa de Integração Social*), or PIS; and the Social Contribution to Social Security Financing (*Contribuição Social para o Financiamento da Seguridade Social*), or COFINS. ICMS does not apply to passenger revenue. The average rate of ICMS on cargo revenues varies by state and ranges from 4% to 19%. In respect of passenger transportation revenues, the applicable rates of PIS and COFINS are 0.65% and 3%, respectively, due to a specific rule which enforces the use of the cumulative system of PIS and COFINS on these revenues. The remaining revenue related to air transportation activity is levied at rates of 1.65% and 7.60%, respectively. The Municipal Tax on Services (*Imposto Sobre Serviços*), or ISS, is a municipal tax assessed at rates varying from 2% to 5% of our service rendered revenues.

The air transportation business is volatile and highly affected by economic cycles and trends. Fluctuations in aviation fuel prices, customer discretionary spending, fare initiatives, labor actions, pandemics such as COVID-19, weather and other factors have resulted in significant fluctuations in revenues and results of operations in the past.

ANAC, the Brazilian civil aviation agency, may adopt regulations that influence our ability to generate revenue as it is responsible for approving the concession of landing rights slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new aircraft. Our ability to grow and to increase our revenues is dependent on approvals for new routes, increased frequencies and additional aircraft by ANAC.

Operating Expenses

We are committed to maintaining a low-cost operating structure, and we seek to keep our expenses low by operating a young and efficient fleet with a single-class of service on domestic routes, maintaining high employee productivity, investing significantly in technology, utilizing our fleet efficiently and deploying low-cost distribution processes.

Our largest operating expense is aviation fuel, which represented 24.4% of our total operating expenses in 2019, 33.6% in 2018 and 28.6% in 2017. Aircraft fuel prices in Brazil are much higher than in the United States, as the Brazilian infrastructure needed to produce, transport and store fuel is expensive and aviation fuel prices are controlled by a concentrated number of suppliers. Our aviation fuel expenses are variable and fluctuate based on global oil prices. Since global prices are denominated in U.S. dollars, our aviation fuel costs are also subject to exchange rate fluctuations between the *real* and U.S. dollar. During the year ended December 31, 2019, the fuel price per liter increased 0.4%, from R$2.55 per barrel as of December 31, 2018 to R$2.56 per barrel as of December 31, 2019. In 2018, the fuel price per liter increased 29.8% from R$1.97 per barrel as of December 31, 2017 to R$2.55 per barrel as of December 31, 2018. In 2017, the fuel price per liter increased 11.0%, from R$1.77 per barrel as of December 31, 2016 to R$1.97 per barrel as of December 31, 2017.

We attempt to mitigate fuel price volatility related to global changes in fuel prices through commodity forward agreements with banks and also have the option to enter into hedge agreements with Petrobras, whose subsidiary BR Distribuidora is a key supplier of fuel for us. The Petrobras hedging product available to us enables us to lock in the cost of the jet fuel we will consume in the future, thereby offering a more tailored hedge than WTI or heating oil futures, which are not perfectly correlated to jet fuel. In addition, Petrobras offers us the option to lock the jet fuel price in reais, thereby hedging our exposure not only to fuel prices, but also to the *real*/U.S. dollar exchange rates.

In addition, local taxes applicable to the sale of jet fuel are high, ranging from 3.0% to 25.0%. Different states in Brazil apply different rates of value-added tax to fuel (which is not passed on to end consumers for passenger services), requiring us to continually adjust our fuel prices to optimize fuel uplift. Several states in Brazil offer a value-added fuel tax relief or subsidy to airlines that provide better connectivity between cities within the state and other domestic or international destinations. Given the size of our network and diversified fleet, we believe we pay lower value-added fuel tax rates compared to our main competitors

Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft. While we had 93 FTEs per aircraft as of December 31, 2019, Gol had 143 as of the same date. We also benefit from generally lower labor costs in Brazil, when compared to other countries, which is somewhat offset by lower productivity due to government requirements over employee labor conditions and taxes on payroll.

Landing fees include airport charges for each landing and aircraft parking, connecting fees as well as aeronautical and navigation fees. Most of these fees vary based on our level of operations and the rates are set by INFRAERO, DECEA and private airports.

Traffic and customer servicing includes the cost of airport facilities, ground handling expenses, customer bus service and inflight services and supplies. We provide complimentary bus services between a limited number of locations and certain strategic airports, such as transportation from the city of São Paulo to Viracopos airport, and we believe that the additional customers we attract by offering this service more than offset its cost.

Our sales and marketing expenses include commissions paid to travel and cargo agents, fees paid to credit card companies and advertising associated with the sale of our tickets and other products and services. We believe that our distribution costs are lower than those of our competitors because a higher proportion of our customers purchase tickets directly through our website instead of through traditional distribution channels, such as ticket offices, and we have comparatively fewer sales made through higher cost global distribution systems. In 2019 we generated 88% of our passenger revenue through our website, including direct connect bookings with travel agencies compared to 87% in 2018 and 85% in 2017. We employ low-cost, innovative marketing techniques, focusing on social networking tools (Facebook, Twitter, YouTube and Instagram) and generating word of mouth recognition, including visibly branded complimentary bus service and guerrilla marketing campaigns to enhance brand recognition and provide promotions directed at our customers. We believe that we have an advantage compared to industry peers in sales and marketing expenses and expect this advantage will remain in the future.

Our maintenance, materials and repair expenses consist of line maintenance checks and certain maintenance fees based on number of hours flown to access spare parts to repair aircraft and engines. Since the average age of our operating fleet was 5.8 years as of December 31, 2019, 5.9 years as of December 31, 2018 and 5.6 years as of December 31, 2017, and most of the parts on our aircraft are under four-year warranties, our aircraft have required a relatively low level of maintenance. As our aircraft age, these costs will increase.

At the initial recognition of aircraft or right-of-use assets, Azul allocates the total cost of the aircraft between four major components; airframe, engines, heavy maintenance and structural checks. The useful economic life is the period extending up to the next heavy maintenance or structural check or the remaining useful life of the aircraft/engines or lease contract, whichever is shorter. Azul has maintenance contracts for its engines that cover all significant maintenance events. Azul has "power-by-the-hour" type contracts, which estipulate a rate for maintenance per hour flown, which are paid in accordance with the total hours flown when maintenance occurs. Subsequent heavy maintenance events and structural checks, which increase the useful lives of the assets, are capitalized and recognized as property and equipment or in addition to the right-of-use assets, according to the underlying asset. Subsequently they are depreciated during the respective period of use or until the end of the lease. Repairs and other routine maintenance are recognized in the maintenance expenses during the period in which they are incurred.

Depreciation and amortization expenses include the depreciation of all fixed assets we own or right-of-use assets, including amortization of capitalized maintenance expenses.

Other operating expenses, net consist of general and administrative expenses, purchased services, equipment rentals, communication costs, professional fees, travel and training expenses for crews and ground personnel, provisions for legal proceedings, interrupted flights and all other overhead expenses.

Slightly over half of our expenses, such as fuel and maintenance, fluctuate with changes in the exchange rate between the *real* and the U.S. dollar. We currently enter into arrangements to hedge against increases in fuel prices, foreign exchange and interest rates. See "Item 11—Quantitative and Qualitative Disclosures about Market Risk."

Financial Results

Our financial income includes interest earned on our cash and cash equivalents (which bear interest indexed to the CDI Rate) and short-term investments. Our financial expenses include interest expense on lease liabilities, aircraft debt, loans and financings and working capital facilities. As of December 31, 2019, 2018 and 2017 respectively, 100%, 100% and 99.2% of our working capital debt, which excludes lease liabilities, was denominated in *reais*, respectively, and therefore was not exposed to currency fluctuations. The balances of derivative financial instruments include gains or losses on our derivatives not designated for hedge accounting. Foreign currency exchange is the net gain or loss on our assets and liabilities related to the appreciation or depreciation of the *real* against the U.S. dollar and has limited impact on our cash position.

Taxes

We account for income taxes using the liability method. We record deferred tax assets only when, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carryforwards. See "Item 5.A. Operating Results—Critical Accounting Policies and Estimates—Deferred Taxes." In assessing whether the deferred tax assets are realizable, our management considers whether it is more likely than not that some or all of the deferred tax assets will be utilized. We consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis.

We and our subsidiaries had net operating loss carryforwards of R$1,971.8 million as of December 31, 2019, represented by income tax losses and negative basis of social contribution. See "Item 5.A. Operating Results—Principal Factors Affecting Our Financial Condition and Results of Operations—Net Operating Loss Carryforwards."

Critical Accounting Policies and Estimates

The preparation of our financial statements in accordance with IFRS requires our management to adopt accounting policies and make estimates and judgments to develop amounts reported in our financial statements and related notes. Critical accounting policies are those that reflect significant judgments or estimates about matters that could potentially result in materially different outcomes under different assumptions and conditions. We believe that our estimates and judgments are reasonable. However, actual results and the timing of recognition of such amounts could differ from our estimates. For a discussion of these and other accounting policies, see "Note 3. Significant Accounting Policies" to our audited consolidated financial statements.

Basis for consolidation

The consolidated financial statements comprise the financial statements of Azul and its subsidiaries as of December 31, 2019. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee when facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the statements of net income (loss) from the date the Company gains control, and ceases on the date the Company loses control of the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

Cash and cash equivalents

Cash and cash equivalents are held in order to meet short-term cash commitments and not for investment or other purposes. The Company considers as cash equivalents deposits or instruments which are readily convertible into a known cash amount and subject to an insignificant risk of change in value. The Company considers as cash equivalents instruments with original maturities of less than three months.

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Non-derivative financial assets—initial recognition and subsequent measurement

Initial recognition

Non-derivative financial assets, other than trade receivables, are measured at initial recognition at their fair value plus (in the case of a financial asset not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the financial asset.

Trade receivables that do not contain a significant financing component are measured at initial recognition at the transaction price.

Classification of financial instruments

Under IFRS 9, classification and measurement of financial instruments is based on the business model of the Company to manage financial assets and on the contractual cash flow characteristics of the financial assets.

Financial assets are classified in three categories:

(i) measured at amortized cost;

(ii) measured at fair value through other comprehensive income; and

(iii) measured at fair value through profit or loss.

For a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are "exclusively principal and interest payments" (also referred to as the "SPPI" test) on the principal amount outstanding. This evaluation is performed at instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets or both.

Purchases or sales of financial assets that require the delivery of assets within a period established by regulation or convention in the market (regular negotiations) are recognized on the trade date, that is, the date on which the Company undertakes to buy or sell the asset.

Business model assessment

The business model assessment requires classification of the asset in one of the business models defined by IFRS 9. The business models reflect how the Company manages the financial asset in order to generate cash flows on the basis of scenarios that the Company reasonably expects to occur. In order to perform the business model assessment, the Company has grouped financial assets in portfolios of assets that are managed together:

Management Objective	Measurement
Collect contractual payments over the life of the instrument	Amortized cost
Collecting contractual cash flows and selling financial assets	Fair value through other comprehensive income
Held for trading or measured in a fair value basis	Fair value through profit or loss

Contractual cash flow characteristics assessment

The contractual cash flow characteristic assessment requires to determine whether the contractual cash flows of the assets consists solely of payment of principal or interest on the principal amount outstanding "SPPI". When the asset cash flows is SPPI, it will be subsequently measured following the result of the business model assessment. However when the asset cash flows is not SPPI, it will be measured at fair value through profit or loss irrespective of the result of the business model assessment.

Subsequent measurement of the financial assets of the Company

The criteria for subsequent measurement of the financial assets of the Company is presented below:

- At amortized cost – Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired;

  Financial assets at amortised cost includes: restricted investments, trade and other receivables other than credit card receivables, receivables from related parties, security deposits and maintenance reserves;

- At fair value through other comprehensive income (OCI) – For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss;

- At fair value thorough profit of loss – Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through profit or loss include: Financial instruments, short-term investments and the TAP Bonds presented under long-term investments.

Non-derivative financial liabilities—initial recognition and subsequent measurement

Initial recognition

Financial liabilities are initially classified as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Non-derivative financial liabilities are measured at initial recognition at its fair value less transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

All non-derivative financial liabilities of the Company at the reporting date are measured at amortized cost and consists of loans and financings and accounts payable, except for those designated as hedge item in a fair value hedge (Note 24).

Financial instruments and hedge accounting – Initial recognition and subsequent measurement

Initial recognition and subsequent measurement

The Company uses financial instruments, such as currency forward contracts options and NDF to hedge itself against the currency risk, heating oil swaps to hedge the fuel price risk and interest rate swaps to hedge against the interest risk. Financial instruments not designated as hedge instruments are recognized initially at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value. The accounting for subsequent changes in fair value to derivatives that are hedge instruments in a hedge accounting depends of the nature of the item being hedged and the type of hedge relationship designated. Derivatives are presented as financial assets when the instrument's fair value is positive and as financial liabilities when fair value is negative.

Any gains or losses from changes in the fair value of derivatives not designated to hedge accounting during the year are recorded directly in profit or loss. The accounting treatments for derivatives designated as hedge instruments are presented in the next topic.

Hedge accounting

The following classifications are used for hedge accounting purposes:

- Fair value hedge when hedging against exposure to changes in fair value of recognized assets or liabilities, or an unrecognized firm commitment.
- Cash flow hedge when providing protection against changes in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction which may affect the income or foreign currency risk in an unrecognized firm commitment.

On inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, as well as the Company's objective and risk management strategy for undertaking the hedge. The documentation includes identification of the hedge instrument and item or transaction being hedged, the nature of the risk being hedged and risks excluded, and effectiveness assessment approach using prospect basis proving the existence of economic relationship between the hedged item and hedge instrument, that credit risk does not dominate the value changes that results from that economic relationship and how the hedge ratio is determined, including possible sources of ineffectiveness by performing a qualitative (when the critical terms of hedged item and hedge instrument match or are closely aligned – as nominal amount, maturity and underlying) or quantitative.

Hedges that meet the criteria for hedge accounting are accounted for as follows:

Fair value hedge

The gain or loss resulting from changes in fair value of a hedge instrument (for derivative hedge instrument) or the foreign exchange component of its carrying amount is recognized in profit or loss or other comprehensive income, if the hedging instruments hedges an equity instrument for which the Company has elected to present changes in fair value in other comprehensive income. The gain or loss on the hedged item shall adjust the carrying amount of the hedged item (for on-balance item) and be recognized in profit of loss.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm sales commitment is designated as a hedged item in a hedge relationship, the change in fair value of the firm sales commitment attributable to the hedge risk is recognized as a financial asset or as a financial liability, with the recognition of a corresponding gain or loss in the statements of net income (loss). The accumulated balance in the statement of financial position resulting from successive changes in fair value of the firm sales commitment attributable to the hedged risk will be transferred to the balance of the hedged item upon its recognition (recognition of balance is either of accounts payable or accounts receivable).

The Company holds interest rate swaps to hedge against its exposure to changes in fair value of some of its aircraft financing (Note 24).

Cash flow hedge

The effective portion of a gain or loss from the hedge instrument is recognized directly in other comprehensive income. When the hedge ratio is not aligned, giving rise to ineffectiveness, but the risk management strategy is the same, the Company shall rebalance the hedge ratio in order to meet the hedge effectiveness requirements.

Any gain or loss remaining from the hedge instrument (as result of the rebalancing) is deemed an ineffectiveness and shall be recorded in profit or loss.

The amounts recorded in other comprehensive loss are transferred to the statement of net income (loss) in tandem with the hedged transaction impact on profit or loss. For example, when a forecasted sale occurs or when the income or expense being hedged is recognized. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recorded as other comprehensive loss are transferred to initial carrying amount of the non-financial assets or liability.

The Company shall discontinue hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship).

If the occurrence of the forecast transaction or firm commitment is no longer likely, the amounts previously recognized in other comprehensive loss are transferred to the statement of net income (loss). If the hedge instrument expires or is sold, terminated, exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in comprehensive loss remains deferred in other comprehensive loss until the forecast transaction or firm commitment affects profit or loss.

The Company uses swap contracts to hedge against its exposure to the risk of changes in floating rates related to its finance lease transactions and currency option to hedge the notional amount of debt denominated in foreign currency.

Current and non-current classification

Derivative instruments that are not classified as effective hedge instruments are classified as current, non-current or segregated into current or non-current portions based on the underlying contractual cash flows.

- When the Company expects to maintain a derivative as an economic hedge (and to not apply hedge accounting) for a period exceeding 12 months after the statement of financial position date, the derivative is classified as non-current (or segregated into current and non-current portions), consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified in a manner consistent with the cash flows of the host contract.
- Derivative instruments that are designated as and are effective hedge instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is segregated into current and non-current portion only if a reliable allocation can be made.

Derecognition of financial assets and financial liabilities

Financial assets

Financial assets, or where appropriate, part of a financial asset or part of a group of similar financial assets, are derecognized when:

- The rights to receive cash flows from the assets have expired; or
- The Company has transferred their rights to receive cash flows of the assets and (a) the Company has substantially transferred all the risks and benefits of the assets, or (b) the Company has not transferred or retained substantially all the risks and benefits related to the assets, but has transferred control of the assets.

When the Company has transferred their rights to receive cash flows from assets and has not transferred all the risks and rewards relating to an asset, that asset is recognized to the extent of the continuing involvement of the Company. In this situation, the Company also recognizes an associated liability.

The transferred assets and associated liabilities are measured based on the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee on the assets transferred is measured by the original book value of the assets or the maximum payment that may be required from the Company, whichever is lower.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, with the difference in the corresponding book values recognized in the statements of net income (loss).

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liability simultaneously.

Impairment of financial assets

The Company recognizes an allowance for losses on financial assets for expected credit losses in line of IFRS 9 requirements.

Trade receivables and contract assets

The Company uses the simplified approach allowed by IFRS 9 to estimate the allowance for losses on trade receivables.

Under the simplified approach, the Company estimates expected credit losses over the life of the receivables at the reporting date (which in all cases have a contractual life shorter than 12 months) since they result from transactions with customers and do not have a significant financing component.

In estimating expected credit losses the Company considers credit card receivables as receivables with a low risk of default. Considering that it has a relevant history of no credit risk losses on such receivables and that it does not expect losses during the lifetime of those receivables no allowance has been recognized for those assets.

In order to estimate expected credit losses for other trade receivables and contract assets, the Company aggregates such assets in portfolios of receivables which share credit risk characteristics. The Company currently uses portfolios to estimate credit losses. For each portfolio, the Company measures the historic rate of losses (net of recoveries) on defaulted receivables over a relevant historic period considering that, generally, a receivable has defaulted when it is more than 90 days overdue. Such historical default rate for the portfolio is subsequently adjusted to incorporate an estimate of the impact of future economic conditions on past historic rates.

The estimate of the impact of future economic conditions is based on the observed correlation of defaults with macroeconomic indicators. The Company periodically reviews the historic period over which defaults are measured and, the relevant macroeconomic indicator to use and how the correlate with the experience of defaults.

Other financial assets

For other financial assets, the Company assesses individually for each counterparty whether there has been a significant increase in the credit risk of the asset since initial recognition or not. Such determination is based on information already available to the Company. If and when credit risk ratings of the counterparty are publicly available, such information is also taken into consideration.

For financial assets with no significant increase in credit risk, an estimate is made of expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For those assets with a significant increase in credit risk, the estimate is made of losses that result from default events that are possible over the lifetime of the asset.

An allowance for loss is recognized when the Company estimates that the risk of credit losses during the period exists. In measuring the allowance, the Company considers at least three scenarios (standard, optimistic and pessimistic) and for each an estimate of cash inflows (including cash inflows from collateral) is made. The resulting estimated cash flows for each scenario is discounted to present value to the reporting date and are probability-weighted based on a judgmental determination of the probability of each scenario.

Fair value of financial instruments

The fair value of financial instruments actively traded in organized financial markets is determined based on prices quoted in the market at close of business at the statement of financial position date, not including the deduction of transaction costs.

The fair value of financial instruments for which there is no active market is determined using valuation techniques. These techniques can include use of recent market transactions, references to the current fair value of other similar instruments, analysis of discounted cash flows, or other valuation models.

Inventories

Inventories consist of aircraft maintenance parts, snack supplies and uniforms. Inventories are valued at cost or net realizable value, whichever is lower, net of any provision for inventory.

Taxes

Income tax expense, deferred tax assets and liabilities reflect management's best assessment of estimated current and future taxes to be paid. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized and the tax rates used, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. In Brazil, income tax is determined on each legal entity, that is, not on a consolidated basis.

Provisions for income tax and social contribution are based on the taxable income of the year considering the offset of tax loss carryforwards, up to the limit of 30% of annual taxable income. Tax rates and tax laws used to calculate the amounts are those in force at the statement of financial position dates. The income from foreign subsidiaries is subject to taxation pursuant to local tax rates and legislation. In Brazil, these incomes are taxed according to Law 12.973/14.

Deferred income taxes and social contribution arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

Deferred income tax assets and liabilities are measured at tax rates that are expected to be applicable in the year that the assets will be realized or the liability settled, based on tax rates (and tax law) enacted or substantially enacted on each statement of financial position date.

The book value of the deferred tax assets is presented net if there is a legal or contractual right to offset tax assets against tax liabilities and deferred taxes are related to the same taxable entity and is reviewed on each statement of financial position date and written off to the extent that it is no longer probable that taxable profits will be available to allow that all or part of the deferred taxes assets will be used.

Unrecognized deferred tax assets are reassessed on each statement of financial position date and are recognized to the extent that it becomes probable that future taxable profit will allow that the deferred tax assets be recovered.

Deferred income tax and social contribution relating to equity items are recognized directly in equity. The Company assesses on a regular basis the tax status of situations in which tax law requires interpretation and records provisions if appropriate.

Foreign currency transactions

The consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency.

Transactions in foreign currencies are initially translated into Brazilian reais using the exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the statement of financial position date.

Non-monetary items denominated in foreign currency at historical cost basis are translated into the functional currency using the exchange rates on the dates of original transactions. Non-monetary items denominated in foreign currency measured at fair value are translated using the exchange rates prevailing on the date of determination of fair value.

Differences arising on settlement or transaction of monetary items are recognized in the statement of net income (loss). Changes in fair value of the hedging instruments are recorded using the accounting treatment described in "Financial instruments".

Property and equipment

Assets included in property and equipment are stated at acquisition or construction cost including interest and other financial charges.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated useful lives
Aircraft	12 years
Furniture and fixtures	5 years
Aircraft equipment	12 years
Computer equipment and peripherals	5 years
Tools	5 years
Heavy maintenance – engines	3 to 8 years
Heavy maintenance – structural checks	2 to 10 years
Engines	12 years
Leasehold improvements	10 years
Simulators	20 years
Vehicles	5 years

The net book value and useful life of assets and the depreciation methods are reviewed at the end of each year and adjusted prospectively, if necessary.

The book value of property and equipment is tested for impairment when there is an indicator that the carrying value may be greater than the estimated recoverable amount.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in “Other operating expenses, net”.

Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities (except for the impact of changes in foreign exchange rates). The cost of right-of-use assets includes the amount of lease liabilities recognized at the discount rate and foreign exchange rate at commencement date, initial direct costs incurred, and lease payments made at or before the commencement date, plus the initial estimate of restoration costs expected to be incurred at the end of the contract, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In 2018 and 2019, the total expenses related to the variable lease payments were immaterial.

In calculating the present value of lease payments, the Company uses the interest rate implicit in the lease and, when it is not readily available, the incremental borrowing nominal rate at the lease commencement date.

In determining the discount rate, the Company used, in each of the years in which assets were incorporated into the balance sheet, the cost of raising debt in the American and Brazilian markets. For operations in the Brazilian market, the Company converted the cost to the equivalent of a dollar transaction, adjusting for the country risk and interest rate differential between Brazil and United States. Thus, we understand that the inflationary effects are irrelevant, especially considering that 99.4% of the Company's leases are determined in US dollars.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term. In 2018 and 2019, the total expenses related to the leases of low value assets were immaterial.

Sale and leaseback transaction

If the Company transfers the asset to another entity and leases it back from the buyer, the Company applies the requirements under IFRS 15 to determine if the transaction qualifies as a sale for which revenue is recognized, or whether the transaction is a collateralized borrowing.

If the transfer of the asset qualifies as a sale under IFRS 15, the Company measures a right-of-use asset arising from the leaseback as the proportion of the carrying amount of the asset that relates to the right-of-use retained. The gain (or loss) that the Company recognizes is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the buyer-lessor.

If the transfer of the asset does not meet the requirements of IFRS 15 to be accounted for as a sale of the asset, the Company continues to recognize the transferred asset and recognizes a financial liability equivalent to the cash received from the transfer in accordance with the requirements of IFRS 9.

Sublease transaction

When the underlying asset is leased again by the Company to a third party, and the original lease remains in effect, the Company assesses whether it is a finance or operating sublease by analyzing the extent to which the lease transfers the risks and benefits inherent in the right of use.

Regardless of the sublease classification, the accounting for the lease liability of the original lease remains unchanged.

- Finance sublease: the Company de-recognizes the right of use asset and recognizes a sublease receivable. The difference between the net book value of depreciation of the right of use and the present value of the sublease receivable is recognized immediately in the income statement under the heading "Other operating expenses, net".
- Operating sublease: the Company continues to recognize the right of use, which in turn continues to depreciate in accordance with the Company's policy. Sublease revenue is recognized throughout the sublease contract under the heading "Cargo and other revenues".

Aircraft and right-of-use decomponentization and capitalization of heavy maintenance events and structural checks

At the initial recognition of aircraft or right-of-use assets, the Company allocates the total cost of the aircraft between four major components; airframe, engines, heavy maintenance and structural checks. The useful economic life is the period extending up to the next heavy maintenance or structural check or the remaining useful life of the aircraft/engines or lease contract, whichever is shorter.

The Company has maintenance contracts for its engines that cover all significant maintenance events. The Company has "power-by-the-hour" type contracts, which estipulate a rate for maintenance per hour flown, which are paid in accordance with the total hours flown when maintenance occurs.

Subsequent heavy maintenance events and structural checks, which increase the useful lives of the assets, are capitalized and recognized as property and equipment or in addition to the right-of-use assets, according to the underlying asset. Subsequently they are depreciated during the respective period of use or until the end of the lease. Repairs and other routine maintenance are recognized in the maintenance expenses during the period in which they are incurred.

Capitalization of contractual obligations with aircraft return conditions

The costs resulting from the maintenance events that will be carried out immediately before the return of the aircraft to the lessors (defined as restoration events under IFRS 16) are recognized as provisions from the beginning of the contract, as long as they can be reasonably estimated. In addition, a right-of-use asset is recognized and depreciated on a straight-line basis over the lease term.

Advance payments for acquisition of aircraft

Advance payments for acquisition of aircraft are recorded in property and equipment, including interest and financial charges incurred during the aircraft manufacturing phase and improvements to third-party assets.

The Company receives credits from manufacturers when purchasing certain aircraft and engines, which can be used to pay for maintenance services. These credits are recorded as a reduction in the acquisition cost of related aircraft and engines, against a charge to other accounts receivable and then recorded as an expense or asset, when the credits are used for the additional acquisition of goods or services.

Business Combinations

The Company accounts for business combinations using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, based on its fair value on the acquisition date. Costs directly attributable to the acquisition are expensed as incurred. The assets acquired and liabilities assumed are measured at fair value, classified and allocated according to the contractual terms, economic circumstances and relevant conditions on the acquisition date. Goodwill is measured as the excess of the consideration transferred over the fair value of net assets acquired. If the consideration transferred is smaller than the fair value of net assets acquired, the difference is recognized as a gain on bargain purchase in the statement of net income (loss). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the years ended December 31, 2019 and 2018, the Company has not completed any business combination transaction.

For combinations between entities under common control, the Company accounts under the Predecessor Accounting Method. Assets and liabilities of the acquired entity are stated at predecessor carrying values. These intra-group transactions have no impact in the consolidated financial statements.

Intangible assets

Separately acquired intangible assets are measured at cost on initial recognition. After initial recognition, intangible is not capitalized.

The useful life of intangible assets is assessed as definite or indefinite.

Intangible assets with definite useful lives are amortized over their estimated useful lives and tested for impairment, whenever there is an indication of any loss in the economic value of the assets. The period and method of amortization for intangible assets with definite lives are reviewed at least at the end of each fiscal year or when there are indicators of impairment. Changes in estimated useful lives or expected consumption of future economic benefits embodied in the assets are considered to modify the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization of intangible assets with definite lives is recognized in the statements of net income (loss) in the expense category consistent with the use of intangible assets (Note 15).

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at each year-end or whenever there is an indicator that their carrying amount cannot be recovered. The assessment is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from the indefinite to definite is made on a prospective basis.

Gains and losses resulting from the disposal of intangible assets are measured as the difference between the net disposal proceeds and the book value of assets, and are recognized in the statements of net income (loss).

In connection with the acquisition of TudoAzul (former TRIP), the Company identified airport operating licenses as having indefinite useful lives. The fair value of Pampulha, Santos Dumont and Fernando de Noronha airports operating licenses were recognized at fair value at the acquisition date. Fair value of operating licenses was based on estimated discounted future cash flows. Operating licenses are considered to have indefinite useful lives due to several factors, including requirements for necessary permits to operate within Brazil and limited landing rights availability in Brazil's most important airports regarding traffic volume.

Impairment of non-financial assets

The Company performs an annual review for impairment indicators in order to assess events or changes in economic, technological, or operating conditions which may indicate that an asset is not recoverable.

If any, those indicators are identified when performing the annual impairment testing and the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less cost to sell or its value in use. When the carrying amount of intangibles exceed its recoverable amount, an impairment charge is recorded and the asset is written down to its recoverable amount.

The reversal of an impairment loss should be recognized if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment test was carried out. The amount of any reversal that can be recognized is restricted to increasing the relevant asset's carrying value to the carrying value that would have been recognized if the original impairment had not occurred.

The Company operates as a single CGU.

In estimating the value in use of assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. The fair value less cost to sell is determined, whenever possible, based on a firm sales agreement carried out on an arm's length basis between known and interested parties, adjusted for expenses attributable to asset sales, or when there is no firm sale commitment, based on the market price of an active market or most recent transaction price of similar assets.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually or when circumstances indicate that the carrying value may not be recoverable.

Impairment is determined for goodwill by assessing the recoverable amount of the single CGU taking the Company as a whole.

When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, and when circumstances indicate that the carrying value may be impaired.

Security deposits and maintenance reserves

a) Security deposits

Security deposits are guarantee deposits held as collateral related to aircraft lease contracts paid to lessors at the inception of the lease agreement that will be refunded to the Company when the aircraft is returned to the lessor at the end of the lease agreement. Security deposits are denominated in U.S. Dollars and do not bear interest.

b) Maintenance reserves

Certain master lease agreements provide that we pay maintenance reserves to aircraft lessors to be held as collateral in advance of the performance of major maintenance activities. Maintenance reserve deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lesser of (1) the amount of the maintenance reserve held by the lessor associated with the specific maintenance event or (2) the costs related to the specific maintenance event. Substantially all of these maintenance reserve payments are calculated based on a utilization measure, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance.

At the lease inception and at each statement of financial position date, we assess whether the maintenance reserve payments required by the master lease agreements are expected to be recovered through the performance of qualifying maintenance on the leased assets. Maintenance deposits expected to be recovered from lessors are reflected in security deposits and maintenance reserves in the accompanying statements of financial position. We assess recoverability of amounts currently on deposit with a lessor by comparing them to the amounts that are expected to be reimbursed at the time of the next maintenance event, and amounts not recoverable are considered maintenance costs. Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (comparative figures, previously presented as non-current on its entirety, have been reclassifed to improve comparability between periods presented).

Provisions

Provisions are recognized when the Company has a present legal or constructive obligation, and as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

When the Company expects that the value of a provision will be reimbursed, in whole or in part, as for example under an insurance contract, the reimbursement is recognized as a separate asset but only when reimbursement is virtually certain. The expense relating to any provision is presented in the statements of net income (loss), net of any reimbursement.

The Company is party in other judicial and administrative proceedings. Provisions are set up for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, the most recent court decision and their relevance in the legal system, as well as the assessment of legal counsel.

If the Company identifies an onerous contract, a contract in which the unavoidable costs of meeting the obligations of the contract exceed the economic benefits expected to be received over the same contract, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Company assesses and recognizes any impairment losses that have occurred on the assets related to that contract in accordance with IAS 36 – Impairment.

Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

Employee benefits

i) Executive bonus

The Company records a provision for executive bonus, which payment is contingent to meeting predefined goals and it is recorded under Salaries, wages and benefits.

ii) Share-based payment

The Company offered its executives share-based payments to be settled with Company shares, where the Company receives services provided by these professionals in consideration for share options and restricted stock units.

The cost of equity settled awards with employees is measured based on the fair value as of the grant date. In order to determine the fair value of share options, the Company uses the Black-Scholes option pricing model.

The cost of equity-settled awards is recognized together with a corresponding increase in equity over the period in which performance and/or service conditions are fulfilled, ending on the date the employee acquires the full right to the award (vesting date). The cumulative expense for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and management's best estimate of the number of equity instruments that will be vested.

The expense or credit in the statement of the operations for the period is recorded in "Salaries, wages and benefits" and represents the change in the accumulated expense recognized in the period.

No expense is recognized for awards that do not vest, except for awards in which vesting is subject to a market or non-vesting condition. These are treated as vested, regardless of whether the market conditions are met or not, provided that all the other exercise conditions are met.

When the terms of an equity-settled award are modified, the minimum expense is that which would have been recognized had the terms not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction or otherwise benefits the employee, as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as having vested on the cancellation date and any expense not recognized for the award is immediately recognized. This includes any award in which the non-vesting conditions within the control of the Company or the counterparty are not met. However, if a new plan replaces the plan canceled and designated as a replacement award on the date of grant, the canceled plan and the new plan are treated as if they were a modification to the original plan, as described in the previous paragraph.

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the service period with the recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in the statement of the operations for the period in "Salaries, wages and benefits".

Accounts payable – Supplier finance

The Company negotiated with suppliers to extend payment terms. As a result, the Company signed an agreement with financial institutions to allow the anticipation of trade receivables from its suppliers. Taking into account that the early receipt with financial institutions is an option for suppliers, this does not generate financial expenses for the Company, it does not require the mandatory participation of suppliers, and the Company is neither refunded and/nor benefited with discounts from the financial institution due to prepayment before the maturity date agreed upon with the supplier. There is no change in the bill subordination level in the event of judicial execution.

Revenue

Passenger tickets revenue is recognized upon effective rendering of the transportation service. Travel-related services revenue is recognized when the related transportation service is provided being classified as passenger revenue. Travel-related services include baggage fees, administrative charges, upgrades and other travel related charges.

The Company recognizes revenue for tickets and travel-related services sold upon the departure of the related scheduled flight and for tickets and travel-related services sold that are expected to expire unused (breakage). The Company estimates the value of future refunds and exchanges, net of forfeitures for all unused tickets, once the flight date has already passed. These estimates are based on historical data and experience from past events.

IFRS 15 requires disclosure of quantitative and qualitative information about transaction price allocation to unsatisfied or partially satisfied performance obligations. The Company decided to apply the practical expedient to not disclose such information as the performance obligations are part of contracts with expected duration of one year or less.

"TudoAzul" Program

Under the "TudoAzul" program, customers accrue points based on the amount spent on tickets flown. The amount of points earned depends on TudoAzul membership status, market, flight, day of week, advance purchase, booking class and other factors, including promotional campaigns. The Company recognizes revenue on points that are estimated to expire unused. Points in general expire two years after the date earned regardless of activity in the account.

Upon the sale of a ticket, the Company recognizes a portion of the ticket sales as revenue when the transportation service occurs and defers a portion corresponding to the points earned under the TudoAzul Program, in accordance with IFRS 15, Customer Loyalty Programs in the account "Air Traffic Liabilities".

The Company determines the estimated selling price of the air transportation and points as if each element had been sold on a separate basis and was therefore based on the stand alone selling price.

The Company sells points to customers and also to business partners, including co-branded credit cards, financial institutions and other businesses. The related revenue is deferred and recognized as passenger revenue when points are redeemed and the related transportation service occurs, based on the weighted average price of the points sold.

Sales of points are comprised of two components, transportation and marketing. Accordingly, we recognize the marketing component in "other revenue" based on contractual terms.

Points awarded or sold and not used are recorded in "Air traffic liability". The Company recognizes revenue for points sold and awarded that will never be redeemed by program members. The Company estimates such amounts annually based upon the latest available information regarding redemption and expiration patterns.

Segment information

IFRS 8 requires that operations are identified by segment based on internal reports that are regularly reviewed by the Company´s chief operating decision maker to allocate funds to segments and assess their performance.

The operations of the Company consist of air transportation services in Brazil. The Company's management allocates funds based on the consolidated results. The main revenue-generating assets of the Company are its aircraft, from which revenue is generated in Brazil. Other revenues are basically derived from cargo operations and all items are directly attributed to air transport services that are recognized in income for the year when the services are rendered.

Based on how the Company manages its business and the way in which fund allocation decisions are taken, the Company has only one operating segment for financial reporting purposes.

Results of Operations

General

We believe we have created a robust network of profitable routes by stimulating demand through frequent and affordable air service. We expect that most of our domestic capacity growth will come from replacing smaller aircraft with larger, fuel efficient, next generation aircraft that have a lower seat cost. We also expect to continue adding select routes and cities that we believe possess high demand and growth potential and are either not served or underserved by other airlines. We expect to continue leveraging the strong connectivity we have created in Brazil to benefit from the addition of select international destinations in the United States and Europe. In addition, we believe that we will continue benefiting from additional revenue streams coming from our TudoAzul loyalty program, our cargo, and our travel package businesses.

The following chart includes certain operating information that evidences the evolution of our business between 2008 through December 31, 2019:

As of	Cities Served	FTEs	Total Aircraft at End of Period Owned	Leased	Total[1]
December 31, 2008	3	712	3	2	5
December 31, 2009	17	1,535	8	6	14
December 31, 2010	28	2,940	14	13	27
December 31, 2011	43	4,329	22	27	49
December 31, 2012[2]	100	8,914	50	74	124
December 31, 2013	103	9,848	56	81	137
December 31, 2014	106	10,501	46	107	153
December 31, 2015	102	10,533	46	106	152
December 31, 2016[3]	102	10,311	39	100	139
December 31, 2017[3]	104	10,878	27	120	147
December 31, 2018[3]	110	11,807	20	123	143
December 31, 2019[3]	116	13,189	19	147	166

(1) Includes aircraft held under finance and operating leases. We do not record aircraft held under operating leases as assets on our balance sheet.
(2) Includes operating information resulting from the TRIP acquisition since November 30, 2012.
(3) Includes 15 aircraft subleased to TAP.

The following table sets forth the composition of our operating fleet, which consists of all aircraft that are being operated by us, including spare aircraft, for the periods indicated.

Total Contractual Fleet	Number of seats	As of December 31, 2019	2018	2017	2016	2015
Embraer aircraft						
E-190	106	15	16	17	17	22
E-195	118	55	56	62	64	66
E-195-E2	136	4	0	0	0	0
ATR aircraft						
ATR 72	68-70	39	42	49	46	56
ATR 42	46-48	0	0	0	0	1
Airbus aircraft						
A320neo	174	40	20	12	5	0
A321neo	214	1	0	0	0	0
A330ceo	242-272	8	7	7	7	7
A330neo	298	2	0	0	0	0
Boeing 737 (Freighter)	—	2	2	0	0	0
Total Contractual Fleet		**166**	**143**	**147**	**139**	**152**

Total Operating Fleet	Number of seats	As of December 31, 2019	2018	2017	2016	2015
Embraer aircraft						
E-190	106	6	9	10	10	22
E-195	118	49	54	60	64	66
E-195-E2	136	4	0	0	0	0
ATR aircraft						
ATR 72	68-70	33	33	33	39	49
ATR 42	46-48	0	0	0	0	0
Airbus aircraft						
A320neo	174	38	20	12	5	0
A321neo	214	0	0	0	0	0
A330neo	242-272	8	7	7	5	7
A330ceo	298	2	0	0	0	0
Boeing 737 (Freighter)	—	2	2	0	0	0
Total Operating Fleet		**142**	**122**	**122**	**123**	**144**

Comparison of the year ended December 31, 2019 to the year ended December 31, 2018

	For the Year Ended December 31, 2019[1]	2018[1]	Percent Change
	(in thousands of *reais*)		
Operating revenue:			
Passenger revenue	10,907,889	8,670,132	25.8%
Cargo and other revenue	534,428	386,932	38.1%
Total operating revenue	**11,442,317**	**9,057,064**	**26.3%**
Operating expenses:			
Aircraft fuel	(3,085,603)	(2,644,261)	16.7%
Salaries, wages and benefits	(1,868,402)	(1,413,017)	32.2%
Landing fees	(724,971)	(592,100)	22.4%
Traffic and customer servicing	(476,481)	(395,394)	20.5%
Sales and marketing	(444,079)	(368,663)	20.5%
Maintenance materials and repairs	(354,105)	(250,105)	41.6%
Depreciation and amortization	(3,670,884)	(1,284,050)	185.9%
Other operating expenses	(2,013,192)	(915,850)	119.8%
	(12,637,717)	**(7,863,440)**	**60.7%**
Operating income (loss)	**(1,195,400)**	**1,193,624**	**n.a.**
Financial result:			
Financial income	72,071	74,522	(3.3)%
Financial expense	(1,329,524)	(1,094,828)	21.4%
Derivative financial instruments	325,452	298,094	9.2%
Foreign currency exchange	(391,905)	(1,306,063)	(70.0)%
	(1,323,906)	**(2,028,275)**	**34.7%**
Result from related party transactions, net	(16,959)	381,725	(104.4)%
Loss before income taxes	**(2,536,265)**	**(452,926)**	**460.0%**
Current income taxes	(2,228)	(11,224)	(80.1)%
Deferred income taxes	135,407	(171,581)	n.a.
Net loss	**(2,403,086)**	**(635,731)**	**278.0%**

(1) On January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption and the comparative information for 2018 and 2017 was restated.

Operating Income (Loss)

In 2019 we reported an operating loss of R$1,195.4 million, compared to an operating income of R$1,193.6 million in 2018. This result was mostly driven by a 26.3% increase in total operating revenue resulting from the 22.2% increase in capacity in terms of ASKs, mostly due to the introduction of next-generation aircraft to our fleet, which are more fuel efficient and have a lower CASK, partially offset by (i) non-recurring events totaling R$3,226.8 million consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees, (ii) the end of a 20% payroll tax relief effective January 2019, and (iii) the 8.0% average depreciation of the Brazilian real against the U.S. dollar in 2019 compared to 2018, which increased expenses denominated in U.S. dollars. Excluding the impact of non-recurring events, operating income would have been R$2,031.4 million in 2019, representing a 17.8% margin.

We reported a net loss of R$2,403.1 million in 2019, compared to a net loss of R$635.7 million in 2018. Excluding the impact of non-recurring events, 2019 net income would have been R$823.7 million.

The table below sets forth the breakdown of our operating revenues and expenses on a per-ASK basis for the periods indicated:

	For the Year Ended December 31,		Percent Change
	2019	2018	
	(per ASK in R$ cents)		
Operating revenue:			
Passenger revenue	30.41	29.54	3.0%
Cargo and other revenue	1.49	1.32	13.0%
Total operating revenues	**31.90**	**30.86**	**3.4%**
Operating expenses:			
Aircraft fuel	8.60	9.01	(4.5)%
Salaries, wages and benefits	5.21	4.81	8.2%
Landing fees	2.02	2.02	0.2%
Traffic and customer servicing	1.33	1.35	(1.4)%
Sales and marketing	1.24	1.26	(1.4)%
Maintenance materials and repairs	0.78	0.81	(3.4)%
Depreciation and amortization	4.44	4.37	1.4%
Other operating expenses	2.62	2.39	9.5%
Total operating expenses	**26.24**	**26.02**	**0.8%**

Operating Revenue

Operating revenue increased 26.3%, or R$2.4 billion, from R$9.1 billion in 2018 to R$11.4 billion in 2019, due to (i) an increase of 25.8% of passenger revenue and (ii) a 38.1% increase in cargo and other revenue discussed herein.

Passenger Revenues

The R$2.2 billion, or 25.8% increase in passenger revenue in 2019 compared to 2018 was mainly attributable to (i) an increase of 23.9% of RPKs reflecting a 22.2% increase in ASK's and (ii) a 3.0% increase in PRASK due to higher load factors, yields and non-ticket revenue.

Cargo and Other Revenue

The R$147.5 million or 38.1% increase in cargo and other revenue was mainly due to an increase in cargo revenue.

The table below presents our passenger revenue and selected operating data for the periods indicated.

	For the Year Ended December 31,		Percent Change
	2019	2018	
Passenger revenue (in millions of reais)	R$10,907.9	R$ 8,670.1	25.8%
Available seat kilometers (ASKs) (millions)	35,868	29,353	22.2%
Load factor (%)	83.5%	82.3%	+1.2 p.p.
Passenger revenue per ASK (cents) (PRASK)	30.41	29.54	3.0%
Operating revenue per ASK (cents) (RASK)	31.90	30.86	3.4%
Yield per passenger kilometer (cents)	36.43	35.89	1.5%
Number of departures	295,354	262,312	12.6%
Block hours	495,362	433,945	14.2%

Operating Expenses

Operating expenses increased R$4,774.3 million, from R$7,863.4 million in 2018 to R$12,637.7 million in 2019 mainly due to (i) non-recurring losses totaling R$3.2 billion in 2019 due to the expected exit of E-Jets from our fleet consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of E-Jets inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees, (ii) the end of a 20% payroll tax relief effective January 2019 and (iii) the 8.0% average depreciation of the Brazilian real against the U.S. dollar in 2019 compared to 2018, which increased expenses denominated in U.S. dollars, partially offset by the introduction of more fuel-efficient aircraft to our fleet.

Aircraft Fuel. Aircraft fuel expenses increased 16.7%, or R$441.3 million, in 2019 compared to 2018, mainly as a result of (i) a 14.2% increase in block hours and (ii) the 0.4% increase in fuel price per liter, partially offset by the introduction of more fuel-efficient aircraft to our fleet. On a per-ASK basis, aircraft fuel decreased by 4.5%.

Salaries, Wages and Benefits. Salaries, wages and benefits increased 32.2%, or R$455.4 million, in 2019 compared to 2018, due to (i) an increase in the number of crewmembers from 11,807 in 2018 to 13,189 in 2019, mostly related to the 22% increase in capacity and (ii) the end of a 20% payroll tax relief effective since January 2019. On a per ASK basis, salaries, wages and benefits increased 8.2%.

Landing Fees. Landing fees increased 22.4%, or R$132.9 million, in 2019 compared to 2018 primarily due to the 22.2% increase in ASKs. On a per ASK basis, landing fees increased 0.2%.

Traffic and Customer Servicing. Traffic and customer servicing expense increased 20.5% or R$81.1 million, in 2019 compared to 2018 primarily due to (i) a 22.2% increase in ASKs, driving a 19.7% increase in the number of passengers, and (ii) an increase in international flights which have higher catering expenses than domestic flights. On a per ASK basis, traffic and customer servicing expense decreased 1.4%.

Sales and Marketing. Sales and marketing expenses increased 20.5%, or R$75.4 million, in 2019 compared to 2018 in line with the increase in passenger revenues, which results in higher credit card processing fees expenses and commissions paid to travel agencies. Sales and marketing per ASK decreased 1.4%.

Maintenance, Materials and Repairs. Maintenance, materials and repairs increased 41.6% or R$104.0 million primarily due to (i) a R$72.5 million maintenance provision related to the exit of E-Jets from our fleet and (ii) a higher number of aircraft in our fleet resulting in an increase in maintenance repair and overhaul fee rates. On a per ASK basis, maintenance decreased 3.4% excluding the impact of non-recurring items.

Depreciation and Amortization. Depreciation and amortization increased 185.9% or R$2,386.8 million in 2019 compared to the same period in 2018, mainly due to (i) a R$2.1 billion impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, (ii) a net addition of 23 aircraft to the fleet during 2019 and (iii) an increase in the capitalization of heavy maintenance checks. On a per-ASK basis, excluding the impact of non-recurring items, depreciation and amortization increased 1.4%.

Other Operating Expenses. Other operating expenses increased 119.8% or R$1,097.3 million in 2019 compared to 2018 primarily due to (i) R$1.1 billion of non-recurring expenses related to the exit of E-Jets from our fleet including the write-off of inventory and spare parts, expected aircraft sale losses and contractual termination fees, (ii) an increase in training and accommodations expenses related to our growth, (iii) higher IT expenses, and (iv) an increase in flight contingencies. On a per-ASK basis excluding the impact of non-recurring items, other operating expenses increased 9.5%.

Financial Results

Financial Income. Financial income decreased 3.3%, or R$2.5 million, in 2019 compared to 2018, mostly due to the reduction of the Brazilian risk-free rate from an average of 6.4% during 2018 to 5.0% in 2019.

Financial Expenses. Financial expenses increased 21.4%, or R$234.7 million, in 2019 compared to 2018 mainly due to an increase of lease interest payments from the net addition of 23 new aircraft to our balance sheet over the last twelve months, and the 8.0% average depreciation of the Brazilian real in 2019 compared to the same period in 2018.

Derivative Financial Instruments. Gains in derivative financial instruments amounted to R$325.5 million in 2019 and gains of R$298.1 million in 2018, which reflects (i) U.S. dollar derivative instruments used to hedge our foreign exchange exposure resulting from U.S. dollar denominated financial expenses and (ii) heating oil derivative instruments used to hedge our fuel exposure.

Foreign Currency Exchange. The net translation effect on our monetary assets and liabilities when remeasured into reais, amounted to a loss of R$391.9 million in 2019 compared to a loss of R$1,306.1 million in 2018, due to the 8.0% end of period depreciation of the Brazilian real against the U.S. dollar from December 31, 2018 to December 31, 2019 resulting in a higher value for our liabilities denominated in foreign currency.

Result from Related Party Transactions, net. In 2019, we recorded a net loss of R$17.0 million from related party transactions compared to a net gain of R$381.7 million in 2018, mostly due to the fair value of the TAP bond call option, which is convertible into 41.25% of the equity value of the Portuguese carrier.

Current Income Taxes. We recorded current income taxes expense of R$2.2 million in 2019 mostly due to the recognition of taxable income in the holding company. In 2018, we recorded income taxes expense of R$11.2 million mainly due to the recognition of taxable income in the holding company.

Deferred Income Taxes. In 2019, the credit related to deferred income taxes totaled R$135.4 million compared to an expense of R$171.6 million in 2018, mostly due to temporary differences recognized in 2019.

Comparison of the year ended December 31, 2018 to the year ended December 31, 2017

	For the Year Ended December 31,		Percent Change
	2018	2017	
	(in thousands of *reais*)		
Operating revenue[1]:			
Passenger revenue	8,670,132	6,695,340	29.5%
Cargo and other revenue	386,932	1,009,491	(61.7)%
Total operating revenue	9,057,064	7,704,831	17.5%
Operating expenses:			
Aircraft fuel	(2,644,261)	(1,848,195)	43.1%
Salaries, wages and benefits	(1,413,017)	(1,296,166)	9.0%
Landing fees	(592,100)	(490,569)	20.7%
Traffic and customer servicing	(395,394)	(357,841)	10.5%
Sales and marketing	(368,663)	(309,540)	19.1%
Maintenance materials and repairs	(250,105)	(484,156)	(48.3)%
Depreciation and amortization	(1,284,050)	(1,063,378)	20.8%
Other operating expenses	(915,850)	(612,194)	49.6%
	(7,863,440)	**(6,462,039)**	**21.7%**
Operating income	**1,193,624**	**1,242,792**	**(4.0)%**
Financial result:			
Financial income	74,522	128,272	(41.9)%
Financial expense	(1,094,828)	(1,078,598)	1.5%
Derivative financial instruments	298,094	(90,171)	n.a.
Foreign currency exchange	(1,306,063)	34,859	n.a.
	(2,028,275)	**(1,005,638)**	**(101.1)%**
Result from related party transactions, net	381,725	176,975	115.7%
Income (loss) before income taxes	**(452,926)**	**414,129**	**n.a.**
Current income taxes	(11,224)	2,875	n.a.
Deferred income taxes	(171,581)	7,509	n.a.
Net income (loss)	**(635,731)**	**424,513**	**n.a.**

(1) On January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption and the comparative information for 2018 and 2017 was restated.

Operating Income (Loss)

In 2018 we reported an operating income of R$1,193.6 million, a R$49.2 million decrease compared to 2017. This result was mostly driven by a 17.5% increase in revenue resulting from the 16.0% increase in capacity in terms of ASKs, mostly due to the introduction of next-generation A320neo aircraft, which are more fuel efficient and have a lower CASK, partially offset by (i) non-recurring expense of R$226.3 million related to the sale of six E-Jets, (ii) the 14.8% average depreciation of the Brazilian real against the U.S. dollar in 2018 compared to 2017, which increased expenses denominated in U.S. dollars, and (iii) a 30% increase in fuel prices. Excluding the impact of non-recurring expenses, operating income would have totaled R$1,419.9 million, a R$177.1 million increase compared to 2017.

We reported a net loss of R$635.7 million in 2018. Excluding non-recurring expenses, net loss would have been R$409.4 million.

The table below sets forth the breakdown of our operating revenues and expenses on a per-ASK basis for the periods indicated:

	For the Year Ended December 31,		Percent Change
	2018	2017	
	(per ASK in R$ cents)		
Operating revenue[1]:			
Passenger revenue	29.54	26.46	11.6%
Other revenue	1.32	3.99	(67.0)%
Total operating revenues	**30.86**	**30.45**	**1.3%**
Operating expenses:			
Aircraft fuel	9.01	7.31	23.3%
Salaries, wages and benefits	4.81	5.12	(6.0)%
Landing fees	2.02	1.94	4.0%
Traffic and customer servicing	1.35	1.41	(4.8)%
Sales and marketing	1.26	1.22	2.7%
Maintenance materials and repairs	0.81	1.91	(57.5)%
Depreciation and amortization	4.37	4.20	4.1%
Other operating expenses	2.39	2.42	(1.3)%
Total operating expenses	**26.02**	**25.54**	**1.9%**

(1) On January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption and the comparative information for 2018 and 2017 was restated. On January 1, 2018, we adopted IFRS 15 which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees.

Operating Revenue

Operating revenue increased 17.5%, or R$1,352.2 million, from R$7,704.8 million in 2017 to R$9,057.1 million in 2018, primarily due to an increase of 16.0% in capacity in terms of ASKs.

Passenger Revenue

The R$1,974.8 million, or 29.5% increase in passenger revenue in 2018 compared to 2017 was mainly attributable to (i) an increase of 16.4% of RPKs reflecting a 16.0% increase in ASK's and (ii) the adoption of the IFRS 15, which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees that were recognized as other revenue in 2017 and as from January 1, 2018 are recognized in passenger revenue. We have opted to adopt IFRS 15 using the modified retrospective transition method, which does not require a restatement of prior year financial statements.

Cargo and Other Revenue

The R$622.6 million, or 61.7% decrease in cargo other revenue in 2018 as compared to 2017 was mainly related to the adoption of the IFRS 15, which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees that were recognized as other revenue in December 31, 2017 and are recognized as from January 1, 2018 in passenger revenue. Non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized in cargo and other revenue. We have opted to adopt IFRS 15 using the modified retrospective transition method, which does not require a restatement of prior year financial statements.

The table below presents our passenger revenues and selected operating data for the periods indicated.

	For the Year Ended December 31,		Percent Change
	2018	2017	
Passenger revenue (in millions of reais)	8,670	6,695	29.5%
Available seat kilometers (ASKs) (millions)	29,353	25,300	16.0%
Load factor (%)	82.3%	82.1%	+0.2 p.p.
Passenger revenue per ASK (cents) (PRASK)(1)	29.54	26.46	11.6%
Operating revenue per ASK (cents) (RASK)(1)	30.86	30.45	1.3%
Yield per passenger kilometer (cents)	35.89	35.64	0.7%
Number of departures	262,312	259,966	0.9%
Block hours	433,945	407,416	6.5%

(1) On January 1, 2018, we adopted IFRS 15 that impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees.

Operating Expenses

Operating expenses increased 21.7%, or R$1,401,4 million, from R$6,462.0 million in 2017 to R$7,863.4 million in 2018 mainly due to (i) the 14.8% average depreciation of the Brazilian real against the U.S. dollar in 2018 compared to 2017, which increased expenses denominated in U.S. dollars, (ii) a 30% increase in aircraft fuel prices, and (iii) non-recurring events totaling R$226.3 million related to the sale of six E-Jets, partially offset by the introduction of next generation aircraft to our fleet which has a lower CASK.

Aircraft Fuel. Aircraft fuel expenses increased 43.1%, or R$796.1 million, in 2018 compared to 2017, mainly as a result of (i) a 30.0% increase in jet fuel prices from an average of R$1.97 per liter in 2017 to R$2.56 per liter in 2018, and (ii) a 6.5% increase in block hours. In comparison, on a per ASK basis, aircraft fuel increased by 23.3% due to the reasons above partially offset by the introduction of more fuel efficient A320neos.

Salaries, Wages and Benefits. Salaries, wages and benefits increased 9.0%, or R$116.9 million, in 2018 compared to 2017, due to a 2.5% increase in salaries as a result of collective bargaining agreements with labor unions applicable to all airline employees in Brazil in 2018, and (ii) an increase in the number of crewmembers from 10,878 in 2017 to 11,807 in 2018, mostly related to the introduction of the A320neo to our fleet. Salaries, wages and benefits per ASK decreased 6.0%.

Landing Fees. Landing fees increased 20.7%, or R$101.5 million, in 2018 compared to 2017 primarily due to (i) the 11.2% increase in average stage length from 905 kilometers in 2017 to 1,006 kilometers in 2018, and (ii) an increase in international departures, which have higher landing fees. Landing fees per ASK increased 4.0%.

Traffic and Customer Servicing. Traffic and customer servicing expense increased 10.5% or R$37.6 million, in 2018 compared to 2017 primarily due to (i) a 16.0% increase in ASKs, driving a 5.0% increase in the number of passengers, and (ii) an increase in international flights which have higher catering expenses than domestic flights. On a per ASK basis, traffic and customer servicing expense decreased 4.8%.

Sales and Marketing. Sales and marketing expenses increased 19.1%, or R$59.1 million, in 2018 compared to 2017 in line with the increase in passenger revenues, which results in higher credit card processing fees expenses and commissions paid to travel agencies. Sales and marketing per ASK increased 2.7%.

Maintenance, Materials and Repairs. Maintenance, materials and repairs decreased 48.3%, or R$234.1 million, in 2018 compared to 2017 primarily due to (i) lower maintenance events in 2018 compared to 2017, (ii) insourcing of certain E-Jet maintenance activities, and (iii) more favorable pricing conditions negotiated with suppliers. Maintenance, materials and repairs per ASK decreased 57.5%.

Depreciation and Amortization. Depreciation and amortization increased 20.7% or R$220.7 million, in 2018 compared to 2017 mainly due to an addition of 10 aircraft to the fleet during 2018 and an increase in the capitalization of heavy maintenance checks. On a per-ASK basis, depreciation and amortization increased 4.1%.

Other Operating Expenses. Other operating expenses increased 49.6%, or R$303.7 million, in 2018 compared to 2017 primarily due to (i) a non-recurring expenses totaling R$226.3 million related to the sale of six E-Jets, leading to a non-cash difference between the selling price of these aircraft and the price recognized in our balance sheet, (ii) an increase of 16% in IT expenses related to GDS expenses as a result of our international partnerships, which are U.S. dollar denominated, and (iii) expenses related to pilot training. On a per-ASK basis excluding the impact of non-recurring items, other operating expenses per ASK decreased 1.3%.

Financial Result

Financial Income. Financial income decreased 41.9%, or R$53.8 million, in 2018 compared to 2017, mostly due to the reduction of the Brazilian risk-free rate from an average of 10.1% during 2017 to 6.5% in 2018.

Financial Expenses. Financial expenses increased 1.5%, or R$16.2 million, in 2018 compared to 2017 mostly due to an increase of lease interest payments from the addition of 10 new aircraft to our balance sheet over the last twelve months, and the reduction of the Brazilian risk-free rate from an average of 10.1% during 2017 to 6.5% in 2018.

Derivative Financial Instruments. Gains in derivative financial instruments amounted to R$298.1 million in 2018. In we had losses of R$90.2 million. This line reflects (i) U.S. dollar derivative instruments used to hedge our foreign exchange exposure resulting from U.S. dollar denominated financial expenses and (ii) heating oil derivative instruments used to hedge our fuel exposure.

Foreign Currency Exchange. The net translation effect on our monetary assets and liabilities when remeasured into reais, amounted to a loss of R$1,306.1 million in 2018 compared to a net gain of R$34.9 million in 2017, due to the 17.1% end of period depreciation of the Brazilian real against the U.S. dollar from December 31, 2017 to December 31, 2018 resulting in a higher value for our liabilities denominated in foreign currency.

Result from Related Party Transactions, net. In 2018, we recorded a net gain of R$381.7 million from related party transactions compared to R$177.0 million in 2017, mostly due to the increase in fair value of the TAP bond call option due to improved results at TAP, which is priced in Euros and convertible into 41.25% of the equity value of the Portuguese carrier.

Current Income Taxes. We recorded income taxes expense of R$11.2 million in 2018 mostly due to the recognition of taxable income in the holding company. In 2017, we recorded income taxes gain of R$2.9 million mainly due to reversal of tax provisions as the statute of limitations passed regarding certain tax liabilities.

Deferred Income Taxes. In 2018, expenses related to deferred income taxes totaled R$171.6 million compared to a credit of R$7.5 million in 2017, mostly due to temporary differences recognized in 2018, as in 2017 we recognized the utilization of the tax loss carryforwards and negative bases of social contribution in the Special Program of Tax Regularization, or PERT.

B. Liquidity and Capital Resources

General

Our short-term liquidity requirements relate to the payment of operating costs, including aircraft fuel and salaries, payment obligations under our lease liabilities and loans and financing (including aircraft debt-financing and debentures) and the funding of working capital requirements. Our medium- and long-term liquidity requirements include equity payments for aircraft and debt-financing, the working capital required to start up new routes and new destinations, and payment obligations under our borrowings and financings.

For our short-term liquidity needs, we rely primarily on cash provided by operations and cash reserves. For our medium- and long-term liquidity needs, we rely primarily on cash provided by operations, cash reserves, working capital loans and bank credit lines including, but not limited to, bank loans, debentures and promissory notes.

In order to manage our liquidity, we review our cash and cash equivalents, short-term investments, and trade and other receivables on an ongoing basis. Trade and other receivables include credit card sales and accounts receivables from travel agencies and cargo transportation. Our accounts receivables are affected by the timing of our receipt of credit card revenues and travel agency invoicing. One general characteristic of the retail sector in Brazil and the aviation sector in particular is the payment for goods or services in installments via a credit card. Our customers may pay for their purchases in up to ten installments without interest or up to 12 installments with 3% interest per month. This is similar to the payment options offered by other airlines in Brazil. Once the transaction is approved by the credit card processor, we are no longer exposed to cardholder credit risk and the payment is guaranteed by the credit card issuing bank in case of default by the cardholder. Since the risk of non-payment is low, banks are willing to advance these receivables, which are paid the same day they are requested. As a result, we believe our ability to advance receivables at any time significantly increases our liquidity position.

As of December 31, 2019, our total cash position consisting of cash and cash equivalents and short-term and long-term investments, was R$3,107.6 million, compared to R$2,974.3 million as of December 31, 2018.

We believe that we will continue to be able to access equity and debt capital markets if and when necessary.
The table below presents our cash flows from operating, investing and financing activities for the periods indicated:

	For the Year Ended December 31,		
	2019	**2018**	**2017**
	(in thousands of *reais*)		
Cash Flow			
Net cash provided by operating activities	2,594,637	1,764,903	1,014,244
Net cash used in investing activities	(1,186,820)	(273,841)	(1,081,377)
Net cash provided by (used in) financing activities	(913,503)	(1,151,284)	243,455
Exchange gain (losses) on cash and cash equivalents	(15,570)	67,039	36,833
Net increase in cash and cash equivalents	**478,744**	**406,817**	**213,155**

Net Cash Provided By Operating Activities

Net cash provided by operating activities in 2019 was R$2,594.6 million compared to net cash provided by operating activities of R$1,764.9 million in 2018. The growth of the operating cash flows was mainly a result of (i) a net income excluding non-cash activities of R$3,334.3 million in 2019 compared to R$3,051.6 million in 2018 (ii) a reduction of cash flow from derivative instruments to R$2.4 million in 2019 compared to R$373.8 million in 2018, (iii) an increase in salaries and wages of R$113.6 million in 2019 due to higher bonus and profit sharing provisions compared to a reduction of R$2.3 million in 2018 and (iv) an increase of R$421.8 million in cash provided by air traffic liability, compared to R$322.4 million in 2018, mostly due to the growth of the company.

Net cash provided by operating activities in 2018, was R$1,764.9 million compared to net cash provided by operating activities of R$1,014.2 million in 2017. The growth of operating cash flows was mainly a result of (ii) a net income excluding non-cash activities of R$3,051.6 million in 2018 compared to R$2,205.1 million in 2017, (ii) an increase in cash used with suppliers and supplier finance to R$408.6 million in 2018 compared to a reduction in cash used with suppliers of R$95.1 million in 2017, due to the increase in the average term of suppliers' payment in order to optimize our working capital, and (ii) a reduction of cash applied in security deposits and maintenance reserves from R$168.9 million in 2017 to R$65.0 million in 2018, partially offset by an increase in cash used on taxes recoverable for R$171.0 million in 2018 compared to R$68.4 million in the previous year.

Net Cash Used In Investing Activities

Net cash used in investing activities was R$1,186.8 million in 2019, compared to net cash used in investing activities of R$273.8 million in 2018. The increase in cash used in investing activities is mostly related to (i) a decrease in the sale of fixed assets proceeds from R$363.2 million in 2018 to R$59.4 million in 2019, (ii) the increase in the amount spent on acquisitions of property, equipment and intangible assets from R$1,186.6 million in 2018 to R$1,560.4 million in 2019, and (iii) the acquisition of long term financial investments of R$96.2 million in 2019.

Net cash used in investing activities was R$273.8 million in 2018, compared to net cash used in investing activities of R$1,081.4 million in 2017. This decrease in the amount of cash used in investing activities is mostly related to (i) an increase in the sale of fixed assets proceeds of R$363.2 million in 2018, compared to R$177.3 million in 2017, and (ii) the net redemption of current financial investments of R$544.0 million in 2018 compared to an investment of R$629.6 million in 2017; partially offset by the increase in the amount spent on acquisitions of property, equipment and intangible assets of R$1,186.6 million in 2018 compared to R$751.2 million in 2017.

Net Cash Provided By (Used In) Financing Activities

Net cash used in financing activities was R$913.5 million in 2019, compared to a net cash used in financing activities of R$1,151.3 million in 2018. The decrease in net cash used by financing activities was mainly due to a reduction of repayment of loans, debentures, and leases from R$1,997.6 million in 2018 to R$1,547 million in 2019 partially offset by an increase in loans and debentures issued from R$98.9 million in 2018 to R$592.3 million in 2019.

Net cash used in financing activities was R$1,151.3 million in 2018, compared to a net cash provided by financing activities of R$243.4 million in 2017. The change in net cash used by financing activities was mainly due to (i) the reduction in loans and debentures from R$1,710.6 million in 2017 to R$98.9 million in 2018, (ii) a capital increase of R$1,231.3 in 2017 from our IPO in April 2017, compared to a capital increase of R$47.6 million in 2018, partially offset by the reduction of repayment of loans, debentures and leases of R$1,997.6 million in 2018 compared to R$2,890.5 million in 2017.

Loans and Financings

As of December 31, 2019, our total debt was R$15,624.8 million, and our total debt including sublease receivables was R$15,345.3 million, a 35.6% increase compared to December 31, 2018. Total debt, including sublease receivables and considering the effect of currency swaps, was R$15,023.5 million in December 31, 2019, and our leverage ratio measured as adjusted net debt to adjusted EBITDA for non-recurring losses was 3.3, with an average term of 3.4 years and an average interest rate of 4.8% for obligations in local currency and 5.6% for U.S. dollar-denominated obligations. Excluding aircraft received during the quarter, leverage would have been 2.7x.

The following tables sets forth our short-term and long-term loans and financing as of December 31, 2019 and 2018:

	At December 31,	
	2019	**2018**
	(in thousands of *reais*)	
Short-Term Debt		
Local currency	289,676	116,880
Foreign currency (U.S. Dollars)	174,712	25,745
Lease liabilities	1,585,233	1,237,909
Senior Notes	16,839	16,188
Total short-term debt	**2,066,460**	**1,396,722**
Long-Term Debt		
Local Currency	604,366	882,256
Foreign currency (U.S. Dollars)	820,047	165,137
Lease liabilities	10,521,388	7,681,837
Senior Notes	1,612,516	1,549,920
Total long-term debt	**13,558,317**	**10,279,150**
Total loans and financing	**15,624,777**	**11,675,872**

The following table sets forth the financial charges and balances of our aircraft and non-aircraft debt as of the periods indicated:

	Financial Charges		As of December 31, 2019	2018
Aircraft financing[1]				
In local currency (R$)	Fixed of 6.00% to 6.50% p.a. and SELIC plus 5.46% p.a.	Monthly repayment	164,280	192,861
In foreign currency (U.S.$)[1]	LIBOR plus "spread" of 2.55% to 3.60% p.a. and fixed of 4.00% and 6.07% p.a. / US Treasury + 3.25% p.a.	Monthly, quarterly and semi-annual repayment	896,232	100,042
Non-aircraft financing:				
In foreign currency (U.S.$)	LIBOR plus fixed interest of 0.88% and fixed interest of 5.90% p.a	Monthly, quarterly, semi-annual and bullet payment	1,727,882	1,656,947
In local currency (R$)	5.00% fixed p.a. to 125% and 126% of CDI Rate plus "spread" between 3.97% p.a. and 4.91% p.a.	Monthly, quarterly and semi-annual repayment and monthly repayment after grace period of 20 months	37,355	75,757
Debentures (R$)	CDI Rate plus 1.50% and 117% to 122% of CDI Rate	Quarterly and semi-annual repayment	692,407	730,519
			3,518,156	**2,756,126**

(1) Aircraft financing includes lease liabilities and financing agreements with respect to our aircraft, flight simulators and related equipment.

As of December 31, 2019, we had pledged as security under our loans and financing, assets and equipment with a carrying value of R$232 million.

As of December 31, 2019, we had 147 aircraft under operating leases with an aggregate balance of R$11,118.4 million and 19 aircraft held under finance leases and loans, with an aggregate outstanding balance of R$1,147.4 million, with the underlying aircraft serving as security. Of our contractual fleet of 166 aircraft, 15 aircraft were subleased to TAP as of December 31, 2019. Our non-aircraft secured loans, aircraft finance leases and aircraft debt financing contain customary covenants and restrictions, such as default in case of change of control and termination, or non-renewal of the agreement.

Capital Expenditures

Our gross capital expenditures (acquisitions of property, equipment and intangibles) for the years ended December 31, 2019, 2018 and 2017, totaled R$1,560.4 million, R$1,186.6 million and R$751.2 million, respectively. Most of these expenditures are related to the acquisition of new aircraft, engines, engine overhaul and aircraft equipment such as spare parts. Other capital expenditures include IT systems and facilities.

We expect to meet our contractual commitments by using cash generated from our operations together with loans and/or capital markets financings.

We typically hold our aircraft under operating leases, finance leases or aircraft loans. All of our deliveries through December 31, 2019 are already under lease commitments. Although we believe financing should be available for all of our future aircraft deliveries, we cannot assure you that we will be able to secure them on terms attractive to us, if at all. To the extent we cannot secure these and other financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to meet our operating obligations as they become due through available cash, internally generated funds and credit lines. We believe that our cash provided by operations and our ability to obtain financing (including through finance leases and aircraft debt-financing), by already approved lines of credit with financial institutions, as well as our ability to obtain operating leases and issue debentures in the Brazilian capital market, will enable us to honor our current contractual and financial commitments.

On March 24, 2020, we announced that from March 25, 2020 to April 30, 2020, we expect to operate 70 non-stop flights per day to 25 cities, representing a 90% reduction of our consolidated planned capacity in terms of ASKs for the month of April, in light of the uncertainty due to the COVID-19 pandemic that is affecting the demand for air traffic. We also announced several measures to reduce fixed costs and preserve our cash position. For more information, see "*Events Subsequent to the Date of the Financial Statements*." We are not able to determine the adjusted levels of estimated capital expenditures in light of the expected lower demand on air travel. The actual amount and timing of our future capital expenditures may be materially lower than our estimates as a result of the impact of the spread of COVID-19 on demand for air travel in the regions we operate.

For additional information relating to our commitments for future acquisition of aircraft, see “Note 27. Commitments” to our audited consolidated financial statements.

For more information on certain defaults under our financing agreements see “Item 5.D. Trend Information.”

C. Research and Development, Patents and Licenses

We have registered the trademark “AZUL LINHAS AÉREAS BRASILEIRAS,” among others, with the INPI. We have also registered several domain names with the Brazilian body for domain registration, or NIC.br, and other domain registrars, including “voeazul.com.br,” “flyazul.com,” “azulviagens.com.br,” “azulcargo.com.br” and “tudoazul.com.” We also operate software products under licenses from our suppliers, such as Oracle, Trax, Sabre and Navitaire.

D. Trend Information

While we have experienced economic crises in the past, and our management remains committed to achieving its long-term targets, we cannot at this point assure you to what extent the spread of the COVID-19 pandemic and measures to attempt to contain it will affect us in the near term.

Before the outbreak of COVID-19, our original projections for 2020 pointed to continued margin expansion and top line growth. Given the uncertainty related to the impact of the spread of the virus, we have suspended our market projections until we have more visibility.

As COVID-19 continues to evolve, our priority is the health and safety of our crewmembers and customers. We are taking immediate action to reduce our costs to reflect the slowdown we are seeing in the Brazilian economy while preserving our cash position. On March 24, 2020, we announced that from March 25, 2020 to April 30, 2020 we expect to operate 70 non-stop flights per day to 25 cities, representing a 90% reduction of our consolidated planned capacity in terms of ASKs for the month of April, in light of the uncertainty due to the COVID-19 pandemic that is affecting the demand for air traffic. We also announced several measures to reduce fixed costs and preserve our cash position. For more information, see “Events Subsequent to the Date of the Financial Statements.”

The extent of the impact of the COVID-19 on our operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for air travel, all of which are highly uncertain and cannot be predicted.

We believe that our business model and strong cash position and balance will enable us to weather the economic impact of COVID-19. Although we cannot predict how quickly air travel will recover from the economic impact caused by the outbreak of COVID-19, prior unexpected demand shocks have been followed by quick recoveries in air-travel. Nevertheless, in the long-term, we believe that demand for passenger aircraft travel in the markets we serve will continue to grow as travel remains underpenetrated in Brazil compared to other developed economies. Under normal economic conditions, we believe there is a strong growth opportunity in frequent point-to-point airline service on routes not served by us or underserved routes among larger, medium-sized, and regional cities in Brazil. In addition, we believe there is an opportunity to leverage our domestic network connectivity by serving additional select international destinations. For a discussion of the impact of COVID-19 on our business, see “ Item 3.D. Risk Factors—A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations.”

Since the start of the COVID -19 pandemic, international carriers such as ourselves have seen a significant decrease in passenger and cargo revenue resulting from a significant decrease in flights in Brazil and internationally. Due to the uncertainties associated with the COVID-19 pandemic and the indeterminate length of time it will affect the air transportation industry, we have taken certain proactive measures to secure our liquidity position including undertaking negotiations with its aircraft lessors, our Brazilian and international creditors, our employees and their unions and with international airport and regulatory authorities. As we have indicated in our public statements, our focus now is to take the best of our competitive position and optimize it for the post COVID-19 world so that we can become even more efficient, flexible and in a better position to take advantage of future opportunities. To help us with this process in a constructive and beneficial manner for Azul and its stakeholders, we have hired a team of expert advisors, including Galeazzi & Associados and Plane View Partners, to help us address our current situation, including challenges that have arisen as a result of our seeking to renegotiate certain of our operating aircraft and related arrangements. As of the date of the filing of this Annual Report, we have received notices of default with respect to certain aircraft leases. We believe we will be able to reach satisfactory arrangements with these and other counter parties as we renegotiate these and other arrangements.

E. Off-Balance Sheet Arrangements

In connection with the full retrospective adoption of IFRS 16 – Leases, we do not have off-balance sheet arrangements such as operating leases.

F. Tabular Disclosure of Contractual Obligations

Our non-cancellable contractual obligations as of December 31, 2019 included the following:

	2020 Less than 1 year	2021-2022 1 to 2 years	2023-2025 3 to 5 years	>2025 More than 5 years	Total
			(in thousands of R$)		
Commitments for future aircraft acquisition[(i)]	2,815,674	5,451,913	4,579,433	2,625,245	**15,472,265**
Commitments for future aircraft acquisition – lessor[(ii)]	195,981	1,495,257	1,468,098	4,232,251	**7,391,587**
Lease liabilities	1,585,233	4,204,324	3,877,435	2,439,629	**12,106,621**
Non-aircraft loans	158,660	12,568	1,594,009	—	**1,765,237**
Debentures	247,740	444,667	—	—	**692,407**
Aircraft loans	74,827	734,355	217,490	33,840	**1,060,512**
Interest payable on bonds	225,118	399,800	99,966	800	**725,684**
Interest on lease liabilities	896,224	537,740	811,609	1,886,856	**4,132,429**
Total	**6,199,457**	**13,280,624**	**12,648,040**	**11,218,621**	**43,346,742**

(i) Commitments for future acquisitions of aircraft provides the following: the Company has purchase commitments for the acquisition of 94 aircraft.
(ii) Related to lessor placement, the commitments for future acquisitions of aircraft provides the following: the Company has purchase commitments for the acquisition of 53 aircraft.

G. Safe Harbor

Not applicable.

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Board of Directors

Our board of directors is responsible for, among other tasks, establishing our overall strategy and general business policies, supervising management, electing and removing our executive officers, and appointing our independent auditors. Our bylaws determine that our board of directors shall be composed of five to fourteen members.

The members of our board of directors are elected at a shareholders' meeting in accordance with the terms and conditions of our bylaws, Brazilian corporate law, Shareholders' Agreement, and the regulations of the Level 2 segment of B3. The members of our board of directors are elected for terms of two consecutive years and can be re-elected and removed at any time by our shareholders at a shareholders' meeting. In addition, pursuant to our bylaws, the chairman of the board of directors will be appointed by our shareholders at a general shareholders' meeting.

Pursuant to Brazilian corporate law, holders of preferred shares (with no voting rights or restricted voting rights) representing at least 10% of the total capital stock have the right to elect one member to the board of directors in a separate voting process, except if the bylaws of the company already provide the right of holders of preferred shares to elect one member of the board of directors. Pursuant to our bylaws, holders of our preferred shares have the right to elect two members to the board of directors in a separate voting process. In addition, minority shareholders whose interest in our common shares represent a minimum of 15% of our total voting capital stock have the right to elect one director in a separate voting process.

Pursuant to the Shareholders' Agreement:

- as long as TRIP's former shareholders hold (i) more than 20% of our common shares, they will have the right to appoint three directors among them as a single shareholding block; (ii) between 10% and 20% of our common shares, they will have the right to appoint two directors; and (iii) between 5% and 10% of our common shares, they will have the right to appoint one director;
- as long as Calfinco holds at least 50% of the preferred shares that were held by Calfinco as of August 3, 2016, Calfinco will have the right to appoint one director;

- as long as Hainan holds (i) at least 20% of the economic interest in the Company and owns the largest percentage of economic interest in the Company, taking account of TRIP's former shareholders as a single shareholding block, Hainan will have the right to appoint three directors; (ii) at least a 10% economic interest in the Company, Hainan will have the right to appoint two directors; and (iii) between 5% and 10% of the economic interest in the Company, Hainan will have the right to appoint one director; and
- the remaining directors must be appointed by David Neeleman, provided that at least two directors are independent, according to the regulations of the Level 2 segment of B3, and the majority of the directors are Brazilian citizens, to the extent required by applicable Brazilian law or governmental authorities.

In June 2018, we announced a secondary public offering pursuant to which Hainan sold 19,379,335 ADSs representing all of Hainan's preferred shares held in our company. The offering price was US$16.15 per ADS and no other shareholder of Azul sold its ADSs or preferred shares in the offering. As a result, Hainan is no longer bound to our Shareholders' Agreement nor has the right to appoint any members of our board of directors. Consequently, the three members of our board of directors appointed by Hainan and elected in 2016 resigned to their positions in June 2018, following the closing of the offering.

Currently, our board of directors is composed of 11 members, elected in accordance with the Shareholders' Agreement, three of whom were appointed by TRIP's former shareholders, one of whom was appointed by Calfinco and the remainder were appointed by David Neeleman. Nine members of our board of directors are independent members, according to the regulations of the Level 2 segment of B3. On April 26, 2019, all of the members of our board of directors were re-elected.

Under our bylaws and in conformity with regulations of the Level 2 segment of B3, at least two or 20%, whichever is greater, of the members of our board of directors must be independent, and must be expressly identified as so at the time of election. Pursuant to Brazilian corporate law, members of our board of directors who are also shareholders of the company may not vote in any shareholders' meetings or vote in any decision regarding any transaction in which there is a conflict of interest with such member.

The Level 2 segment of B3 rules also require that all members of our board of directors execute a management compliance statement as a prerequisite for service on the board. Consistent with this statement, our directors are personally liable for our compliance with the terms of the Level 2 segment of B3 Participation Agreement, including the Market Arbitration Chamber Rules (*Câmara de Arbitragem do Mercado*) and the Level 2 rules.

Pursuant to Brazilian corporate law, the members of our board of directors are prohibited from taking any actions, including the deliberation of such actions during a meeting of the board of directors, in which he or she has a conflict of interest with us. In accordance with this law, our bylaws prohibit the election to our board of directors of someone who has or may have a conflict of interest, except when such conflict of interest is disregarded through a shareholders' meeting. In addition, if a conflict of interest arises after the election of a member of our board of directors, such member may not exercise his or her right to vote and may not access information or participate in board of directors meetings related to such conflict of interest.

All decisions made by our board of directors are made by majority vote of those members present at the relevant meeting. Pursuant to our bylaws, our board of directors is required to meet at least once each quarter, and whenever corporate interests require such meeting.

In 2019, we paid our board of directors a fixed aggregate compensation amount totaling approximately R$2.9 million for services rendered. The members of our board of directors are also granted stock-based compensation as a long-term incentive, see "Item 6.B. Management Compensation—Stock-Based Incentive Plans." In addition, as a benefit, our directors receive passenger tickets on our flights.

As of December 31, 2019, we do not have any contractual arrangements, insurance policies or other instruments structuring compensation or indemnification mechanisms for our directors in the event of dismissal or retirement.

The table below sets forth the name, title, election date, expiration date of the term of office, and the date of birth of each of the current members of our board of directors:

Name	Title	Election Date [1]	Mandate Term	Date of Birth
David Neeleman	Chairman	April 26, 2019	April 30, 2021	October 16, 1959
José Mario Caprioli dos Santos	Member	April 26, 2019	April 30, 2021	July 11, 1971
Sérgio Eraldo de Salles Pinto	Independent Member[2]	April 26, 2019	April 30, 2021	September 24, 1964
Carolyn Luther Trabuco	Independent Member[2]	April 26, 2019	April 30, 2021	April 15, 1969
Gelson Pizzirani	Independent Member[2]	April 26, 2019	April 30, 2021	July 18, 1951
Renan Chieppe(3)	Independent Member[2]	April 26, 2019	April 30, 2021	April 6, 1962
Decio Luiz Chieppe(3)	Independent Member[2]	April 26, 2019	April 30, 2021	May 14, 1960
John Ray Gebo	Independent Member[2]	April 26, 2019	April 30, 2021	May 19, 1970
Henri Courpron	Independent Member[2]	April 26, 2019	April 30, 2021	March 2, 1963
Michael Lazarus	Independent Member[2]	April 26, 2019	April 30, 2021	May 20, 1955
Gilberto de Almeida Peralta	Independent Member[2]	April 26, 2019	April 30, 2021	May 3, 1957

(1) Refers to date of most recent election.
(2) Independent according to the regulations of the Level 2 segment of B3.
(3) Renan Chieppe and Decio Luiz Chieppe are siblings.

The business address of each member of our board of the directors is Edifício Jatobá, 8th floor, Castelo Branco Office Park, Avenida Marcos Penteado de Ulhôa Rodrigues, 939, Tamboré, Barueri, São Paulo, SP 06460-040, Brazil.

The following discussion contains summary biographical information relating to each of the members of our board of directors:

David Neeleman, a dual Brazilian and U.S. citizen, is the Chairman of our board of directors and served as Chief Executive Officer until July 2017 since he founded Azul in January 2008. Prior to Azul, Mr. Neeleman founded JetBlue, where he held the position of Chief Executive Officer from 1998 to 2007 and Chairman of the board of directors from 2002 to 2008. Mr. Neeleman's career in the airline industry began in 1984 when he co-founded Morris Air. As president of Morris Air, he implemented the industry's first electronic ticketing system and pioneered a home reservationist system that is now the foundation of JetBlue's call center. Mr. Neeleman sold Morris Air in 1993 and took the electronic ticketing to Open Skies. He sold Open Skies to Hewlett Packard in 1999. Mr. Neeleman was also co-founder of WestJet Airlines and served as a member of its board of directors from 1996 to 1999. Mr. Neeleman is also part of a consortium that initially acquired a controlling interest in TAP through TAP's privatization in 2015 and is a member of the board of directors of TAP.

José Mario Caprioli dos Santos has been a member of our board of directors since August 15, 2012. Mr. Caprioli was our Chief Operating Officer from August 15, 2012 to February 18, 2014 and he was also our Institutional Relations Officer from February 18, 2014 to March 9, 2020. Mr. Caprioli was the founder of TRIP, where he served as the Chief Executive Officer from 1998 until February 2013. Mr. Caprioli holds a bachelor's degree in business administration from Pontifícia Universidade Católica de Campinas. He also attended a specialization course on public transportation at Universidade de Campinas and a capital markets program at Columbia University.

Sérgio Eraldo de Salles Pinto has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since March 10, 2008. He is the Chief Executive Officer of the Bozano Group. Mr. Salles is also a current board member of Embraer, Mercatto Investimentos, Trapezus Asset Management, BR Investimentos, Ouro Preto Óleo e Gás and Netpoints. In addition to holding these positions, Mr. Salles served as Executive Director of Banco Meridional and was Chairman of Bozano Simonsen Securities of London. Mr. Salles holds a bachelor's degree in economics and electrical engineering from Universidade de Brasília, a master's degree in economics from Fundação Getúlio Vargas do Rio de Janeiro, and a master's degree in business administration from Pontifícia Universidade Católica do Rio de Janeiro.

Carolyn Luther Trabuco has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since March 10, 2008. Ms. Trabuco is a member of the investment team at Manatuck Hill Partners. She was a Senior Vice President at Astenbeck Capital Management LLC and Phibro Trading LLC ("Phibro") from 2009 until 2014, where she was responsible for global oil and gas equity analysis. Prior to joining Phibro, Ms. Trabuco worked at Pequot Capital Management as a senior equity research analyst focused on the global resources sector and the Latin America region from 2002 until 2009. She has worked in the financial services industry for over 20 years and has been involved with Azul since its formation in 2008. Ms. Trabuco holds a bachelor's degree in art history from Georgetown University.

Gelson Pizzirani has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since April 30, 2012. Mr. Pizzirani was a VP of Revenue Management and Fleet Planning at Tam Linhas Aéreas S.A. from 2002 to 2007. Before joining Tam Linhas Aéreas S.A., he held several management positions with different IT companies. Mr. Pizzirani holds a bachelor's degree in mathematics from the Universidade do Santo André and a master's degree in strategic management and information technology from Fundação Getúlio Vargas.

Renan Chieppe has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since August 15, 2012 and General Executive Officer of Grupo Águia Branca's passenger transportation unit since 1994. Mr. Chieppe joined Grupo Águia Branca in 1980. He is also currently the president of the Brazilian Association of Passenger Ground Transportation Providers (*Associação Brasileira das Empresas de Transporte Terrestre de Passageiros—ABRATI*) and a member of the board of directors of VIX Logística. Mr. Chieppe also served as chairman of the board of TRIP from 2008 to 2012. In 2001, he was elected president of the Espírito Santo State Passenger Transportation Trade Association (*Sindicato de Transportes de Passageiros do Estado do Espírito Santo*), a position he held for two consecutive terms. Mr. Chieppe holds a degree in business administration from Faculdades Integradas Espírito-Santenses.

Decio Luiz Chieppe has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since August 15, 2012. He is also an Executive Officer for Administration and Finance at Grupo Águia Branca and a member of the board of directors of Vix Logistica S.A. During his career, Mr. Chieppe has held leadership positions at all Grupo Águia Branca companies, including as an executive officer for finance and administration from 1993 through the present day and as the chief executive officer of certain Grupo Águia Branca companies from 1978 to 1993. Mr. Chieppe holds a degree in business administration from the *Universidade Federal do Espírito Santo* and an executive master's degree in business administration in finance from IBMEC, a private Brazilian university. He also completed an executive skills, tools and competencies program (STC), at the J.L. Kellogg Graduate School of Management.

John Ray Gebo has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since January 28, 2016. Mr. Gebo is Senior Vice President of Alliances for United and Vice Chairman of the board of directors of the Alliant Credit Union. Mr. Gebo joined United in 2000 and has held several positions of increasing responsibility including Senior Vice President of Financial Planning and Analysis, Managing Director of Revenue Divisions Finance, Managing Director of Corporate Financial Planning, and Head of Investor Relations. Prior to joining United, Mr. Gebo worked at General Motors Corporation in manufacturing engineering. Mr. Gebo currently serves on the board of directors of Copa Holdings, S.A. He received his bachelor's degree in mechanical engineering from the University of Texas and his master's degree in business administration from the University of Michigan.

Henri Courpron has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since May 5, 2015. Mr. Courpron is currently the Chairman and Co-Founder of Plane View Partners, a strategic advisory firm for aviation and aerospace management and investments. Mr. Courpron is a member of the board of directors of TAP. He was the CEO of International Lease Finance Corporation (ILFC), one of the largest aircraft financing firms in the world, and President of the Aerospace Division of Seabury Aviation & Aerospace, an advisory and investment banking firm in New York focused on the aviation industry. Prior to that, Henri served a 20-year career with Airbus where he reached the position of Executive Vice President, Procurement at Airbus headquarters in Toulouse, France and held a number of other executive positions, including President and Chief Executive Officer of Airbus, North America. Mr. Courpron earned his degree in Computer Science from Ecole Nationale Supérieure d'Electrotechnique d'Electronique d'Informatique et d'Hydraulique (ENSEEIHT) in Toulouse, where he specialized in artificial intelligence.

Michael Lazarus has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since February 20, 2013. Mr. Lazarus co-founded Weston Presidio, a private equity firm focused on growth companies, in 1991 and currently serves as one of its Managing Partners. Mr. Lazarus is also a founding partner of Main Post Partners, a San Francisco based growth equity fund. Prior to the formation of Weston Presidio, he served as Managing Director and Director of the Private Placement Department of Montgomery Securities. He was previously the founding Chairman of JetBlue and served on the board of directors for the airline as well as on the boards of directors for Restoration Hardware, Morris Air, Guitar Center, Fender Musical Instrument Corp., Integro, Jimmy John's LLC, and numerous privately held companies. Michael graduated with a bachelor's degree in accounting from Grove City College and he is a certified public accountant in the United States.

Gilberto de Almeida Peralta has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since August 24, 2018. With more than 35 years of experience in the aviation sector, Mr. Peralta has held led positions at General Electric, including CEO of GE Brazil, General Manager of GE Capital Aviation Services, and Vice President at GE Aviation. He has lived and worked in Brazil, the United States and Europe and holds a bachelor's degree in Civil and Mechanical Engineering from the Catholic University of Petropolis.

Board of Executive Officers

The members of our board of executive officers are our legal representatives. They are primarily responsible for the day-to-day management of our business and for implementing the general policies and directives established by our board of directors. Our board of directors is responsible for establishing the roles of each executive officer.

Pursuant to Brazilian corporate law, each member of our board of executive officers must reside and have domicile in Brazil. In addition, up to, at most, one third of the members of our board of directors may hold a position on our board of executive officers.

According to our bylaws, our board of executive officers is composed of two to seven members, who serve for two-year terms and may be reelected. Our bylaws set forth that our board of executive officers must be composed of (i) one chief executive officer; (ii) one chief financial officer, (iii) one institutional relations officer and (iv) up to four additional officers with or without specific designation. In addition, our bylaws establish that one officer must be designated the investment relations officer. Officers may serve in more than one capacity at the same time.

Our executive officers can be removed by our board of directors at any time. Pursuant to the regulations of the Level 2 segment of B3, each executive officer must, prior to taking office, sign an instrument of consent (*Termo de Anuência dos Administradores*).

Our investor relations department is located in the city of Barueri, state of São Paulo. Alexandre Wagner Malfitani, who is also our Chief Financial Officer, was elected our Investors Relations Officer at the board of directors meeting held on July 24, 2017. The telephone number of our investor relations department is +55 (11) 4831-2880, the fax number is +55 (11) 4134-9890 and its e-mail is invest@voeazul.com.br.

The table below indicates the name, title, date of birth and date of election of each of the current members of our board of executive officers:

Name	Title	Election Date	Mandate Term	Date of Birth
John Peter Rodgerson	Chief Executive Officer	January 10, 2019	January 10, 2021	June 11, 1976
Antonio Flavio Torres Martins Costa	Chief Operating Officer	March 9, 2020	March 9, 2022	August 28, 1951
Alexandre Wagner Malfitani	Chief Financial Officer Investor Relations Officer	January 10, 2019	January 10, 2021	August 21, 1972
Abhi Manoj Shah	Chief Revenue Officer	January 10, 2019	January 10, 2021	September 27, 1978

The following discussion contains summary biographical information relating to each of the members of our board of executive officers:

John Peter Rodgerson is our Chief Executive Officer. He has been our Chief Executive Officer since July 24, 2017. Mr. Rodgerson previously served as our Chief Financial Officer and Investor Relations Officer. Prior to joining Azul, Mr. Rodgerson served as the Director of Planning and Financial Analysis at JetBlue from 2003 to 2008. Before JetBlue, he worked for IBM Global Services from 2001 to 2003. Mr. Rodgerson holds a bachelor's degree in finance from Brigham Young University.

Alexandre Wagner Malfitani is our Chief Financial Officer and Investor Relations Officer. Mr. Malfitani previously served as the head of our TudoAzul loyalty program and our Director of Finance and Treasurer. Mr. Malfitani joined Azul in 2008 as one of the airline's founding members. Before joining Azul, Malfitani worked from 2003 to 2008 at United Airlines in Chicago, and occupied the position of managing director of treasury. Before that, he worked for five years in the finance industry, including as fund manager at Deutsche Bank and trader at Credit Agricole Indosuezez.

Antonio Flavio Torres Martins Costa is our Chief Operating Officer. Mr Costa has been part of the Azul founding team since inception and has more than 40 years of experience in the airline industry, having served as Technical and Operations Director at Pluna S.A., and OceanAir and as Technical Director at Varig.

Abhi Manoj Shah is our Chief Revenue Officer and one of the founding members of Azul. Prior to joining Azul in 2008, Mr. Shah worked at JetBlue from 2004 to 2008 and at the Boeing Company from 2000 to 2004. Mr. Shah holds a bachelor's degree in aerospace engineering from the University of Texas and a master's degree in aerospace engineering from the University of Washington.

Fiscal Council

Pursuant to Brazilian corporate law, a fiscal council is a corporate body independent from a company's management and independent auditors. A fiscal council may be either permanent or non-permanent. Although we have not elected any fiscal council members as of December 31, 2019, we currently have a non-permanent fiscal council as required by law, which may be installed at any time at the request of shareholders, as described below. If installed, the primary responsibilities of our fiscal council would include monitoring management activities, reviewing our financial statements each quarter, and reporting its findings to our shareholders. If installed, fiscal council members would be entitled to annual compensation in the form of a fixed salary.

The fiscal council, if installed, will be composed of three members who are residents of Brazil and their respective alternates. Under Brazilian corporate law, a non-permanent fiscal council may be installed at the request of shareholders representing at least (i) 10% of the outstanding common shares or (ii) 5% of the preferred shares and, once installed, the fiscal council will serve until the first annual shareholders' meeting following its establishment. Pursuant to CVM rules, listed corporations with outstanding capital stock valued at more than R$150 million, such as us, may reduce these percentages to (i) 2% of the outstanding common shares or (ii) 1% of the preferred shares. In addition, each group of preferred shareholders (irrespective the percentage of shares held) and minority shareholders representing a minimum of 10% of or outstanding common shares is entitled to elect one fiscal council member and the corresponding alternate by a separate vote. In this case, our controlling shareholders may elect the same number of council members as the minority shareholders (common and preferred), plus one. The fiscal council may not include members of our board of directors or our board of executive officers, employees of controlled companies or any company from within our economic group, or relatives of our managers. Brazilian corporate law requires each fiscal council member to receive as compensation an amount equal to at least 10% of the average individual annual salary of executive officers, excluding benefits and other allowances, or profit-sharing arrangements. Fiscal council members are further required to comply with the rules of the Level 2 segment of B3.

B. Management Compensation

Our executive officers are entitled to compensation consisting of a fixed and variable component. The monthly fixed compensation paid to our management is based on market practices and surveys prepared by an independent consulting firm and consist of thirteen monthly payments per year. Such amounts are subject to annual adjustment. The variable component consists of bonus, stock and restricted share options, as further described below.

Short-term variable compensation is based on targets that, if reached, entitle the officer to an annual bonus based on his or her individual performance. The targets are established at the beginning of the year based on our strategic plan. The main performance indicators considered for purposes of variable compensation are operating margin, customer satisfaction, crewmember satisfaction and on-time performance. For managers, half of the short-term variable compensation is based on our performance, and the other half is based on the individual's performance. For officers, 75% of the short-term variable compensation is based on our performance, and 25% is based on the individual's performance. On the other hand, our long-term variable compensation involves the grant of stock and restricted share options. In addition, our officers receive benefits in line with market practices, which include medical, dental and life insurance, meal vouchers and passenger tickets on our flights.

Only the independent members of our board of directors, according to the regulations of the Level 2 segment of B3, receive compensation for their service through either a monthly fixed amount or a fixed amount per meeting attended.

Certain of our executives receive additional benefits, such as an allowance package for school fees and housing for our expatriate executive officers. Under this package, ALAB has given a guarantee of rent and other payments under three lease agreements for family housing in Brazil. In addition, our directors, officers and non-statutory officers are entitled to free airline tickets for their immediate family.

The aggregate compensation expense incurred to our directors, executive officers and officers in the years ended December 31, 2019, 2018 and 2017 was R$58.6 million, R$45.0 million and R$48.9 million, respectively, including stock options.

Stock-Based Incentive Plans

We have stock option and restricted share plans for key personnel, including our officers, certain managers and other key crewmembers. Beneficiaries of the plans receive options to purchase preferred shares and/or restricted units, allowing them to participate in the long-term achievements of our company through share ownership, with the aim of stimulating alignment with and commitment to achieving our corporate strategies and goals. The beneficiaries of our stock option, restricted share and virtual stock option plans are selected by our compensation committee.

On December 11, 2009, we established our first stock option plan, which consists of three programs:

- The first program was established on December 11, 2009 and terminated on December 31, 2010. The options granted to each beneficiary under this first program vested in 48 equal monthly installments. The vested, options under this program became exercisable upon the pricing of our initial public offering. The strike price under this program, after accounting for the stock splits that we carried out subsequent to the date of grant, is R$3.42 per preferred share. On December 11, 2009, our compensation committee authorized the issuance of 5,718,400 preferred options (after giving effect to the two-for-one stock split on February 23, 2017) for our officers, executives and key employees.
- The second program, which extends to our statutory and non-statutory officers, was established on March 24, 2011. The options granted to each beneficiary under this second program vested in 48 equal monthly installments and authorized the issuance of 1,648,000 preferred options (after giving effect to the two-for-one stock split on February 23, 2017). The vested options under this program became exercisable upon the pricing of our initial public offering. The strike price under this program, after accounting for the stock splits that we carried out subsequent to the date of grant, is R$6.44 per preferred share, which was calculated based on a valuation of our shareholders' equity at the time. Due to the granting of additional options under this program, the Special Shareholder's Meeting held on April 27, 2011 approved an amendment to our charter authorizing a capital increase and a limit of 7,366,400 preferred shares (after giving effect to the two-for-one stock split on February 23, 2017); however, only 1,572,000 preferred options (after giving effect to the two-for-one stock split on February 23, 2017) were granted under this second program.
- The third program was established on April 5, 2011, authorizing the issuance of 685,600 preferred options (after giving effect to the two-for-one stock split on February 23, 2017), which were remaining from the first program. The options granted to each beneficiary under this third program vested in 48 equal monthly installments. The vested options under this program became exercisable upon the pricing of our initial public offering. The strike price under this program (after giving effect to the two-for-one stock split on February 23, 2017) is R$6.44 per preferred share, which was calculated based on a valuation of our shareholders' equity at the time.

As of December 31, 2019, we have 600,160 outstanding shares under this stock option plan.

On June 30, 2014, we established our second stock option plan. The options granted to each beneficiary under the second stock option plan vest in four equal annual installments. The vested options under this plan became exercisable upon the pricing of our initial public offering. The strike price under this second stock option plan shall reflect the lowest stock price of our preferred shares traded in the stock market during the 30 trading sessions prior to the options grant approved by the Board of Directors.

There were three programs approved under the second stock option plan:

- On June 30, 2014, our compensation committee approved the first share-based program, authorizing 2,169,122 options (after giving effect to the two-for-one stock split on February 23, 2017). The strike price under this program is R$19.15 per preferred share.
- On July 1, 2015, our compensation committee approved the second share-based program, authorizing 627,810 options (after giving effect to the two-for-one stock split on February 23, 2017). The strike price under this program is R$14.51 per preferred share.
- On July 1, 2016, our compensation committee approved the third share-based program, authorizing 820,250 options (after giving effect to the two-for-one stock split on February 23, 2017). The strike price under this program is R$14.50 per preferred share.
- On July 6, 2017, our compensation committee approved the fourth share-based program, authorizing 680,467 options. The strike price under this program is R$22.57.

As of December 31, 2019, we have 1,978,502 outstanding shares under this second stock option plan.

On October 3, 2017, our shareholders, upon our compensation committee's and board of directors' recommendation, approved the following amendments to the second stock option plan: (i) revise the definition of "Compensation Committee" to reflect activities related to the organization, management and construction of the Company's share incentive plans; (ii) omit references and definitions related to our initial public offering as they are no longer applicable; (iii) reflect the power of our board of directors to approve and amend the Company's share incentive plans, as well as to awards thereunder; (iv) omit the compensation committee's obligations with respect to the delivery and execution of restricted share agreements; (v) for purposes of reflecting the stock split that occurred on February 23, 2017, increase the total number of stock options that may be granted under the second stock option plan from 3,738,364 to 7,476,728 shares; (vi) change the exercise price of each share corresponding to the options granted under the second stock option plan so that it equals the lowest stock price traded in the stock market during the 30 trading sessions prior to the options grant approved by our board of directors; and (vii) change the maximum option exercise period to 10 years from the beginning of the applicable vesting period.

On March 10, 2017, we established our third stock option plan, authorizing the issuance of options resulting in up to 11,679,389 preferred shares. The beneficiaries of our third stock option plan are certain of our statutory officers, including our Chairman and controlling shareholder David Neeleman. Our board of directors may approve various programs under our third stock option plan and determine the strike price under each program. Our board of directors may also determine if the settlement of the exercise of options should be covered by an increase in our capital stock to issue new shares to be subscribed for by our eligible statutory officers or by treasury shares.

Under each program, our board of directors will determine the granting of options under our third stock option plan for each of our eligible statutory officers based on the achievement of certain milestones to be established by our board of directors with the guidance of our Compensation Committee. In the case of David Neeleman, the granting of options is conditioned on him maintaining a position as an officer or on our board of directors. The options granted to each beneficiary under the third stock option plan vest in five equal annual installments. Once vested, options under this program may be exercised during the 15 day period following the relevant annual vesting date.

As of December 31, 2019 one program has been approved under the third stock option plan:

- On March 14, 2017, our board of directors approved the first share based program authorizing options which when exercised will represent 9,343,510 preferred shares. The strike price for the first program is R$11.85 per preferred share.

The table below shows, as of December 31, 2019 the total number of stock options granted to all beneficiaries, and the number of options that have already vested, in each case after accounting for the stock splits carried out subsequent to the date of grant:

Stock Option Plans	Total Number/ Amount of Stock Options Granted	Number of Stock Options Outstanding
First Stock Option Plan		
First Program	5,032,800	303,700
Second Program	1,572,000	284,000
Third Program	656,000	12,460
Second Stock Option Plan		
First Program	2,169,122	861,197
Second Program	627,810	231,638
Third Program	820,250	391,176
Fourth Program	680,467	494,491
Third Stock Option Plan		
First Program	9,343,510	5,606,106

Restricted Share Units

On June 30, 2014, we also established our restricted share units, or RSUs, plan. Under the restricted share units plan, the participants were granted a fixed monetary amount which would be converted into a quantity of restricted preferred shares equal to the monetary value in the event of an IPO. The restricted share granted to each beneficiary under the plan vests in four equal annual installments. As of the pricing of our initial public offering, the beneficiaries became vested in the restricted shares. Prior to our initial public offering, at the end of each year of the vesting period, we paid the beneficiaries in cash the portion corresponding to the value of the restricted shares already vested, at fair value and without any additions. In 2018 and 2019, 299,659 and 260,451 restricted shares were transferred to our statutory officers, respectively.

On October 3, 2017, our shareholders, following our compensation committee's and board of directors' recommendation, approved the following amendments to the RSUs plan: (i) revise the definition of "Compensation Committee" to reflect its activities related to the organization, management and construction of any the Company's share incentive plans; (ii) omit references and definitions related to our initial public offering as they are no longer applicable; (iii) reflect the power of our board of directors to approve and amend our restricted share units plans, as well as to grant awards thereunder; (iv) omit the compensation committee's obligations related to delivery and execution of restrict stock agreements; and (v) for purposes of reflecting the stock split that occurred on February 23, 2017, increase the total number of restricted shares that may be granted under the RSUs plan from 934,591 to 1,869,182. In addition, our board of directors proposed to amend the RSUs plan to include the Company's option to, at the end of each vesting period of a restricted share award, at its sole discretion: (a) settle the obligations related to the restricted share award in cash, or (b) deliver to the award beneficiary the restricted shares held in treasury, through a private transaction.

On April 26, 2019, our shareholders, following our compensation committee's and board of directors' recommendation, approved an amendment to the RSUs plan with the purpose to set the maximum amount of RSU that may be subject to annual concession under the RSU Plan as 0.10% of the total preferred shares issued by the Company.

The table below shows, as of December 31, 2019, the total number of RSUs and the number of RSUs that have been granted and outstanding:

RSU Plan	Total RSUs Granted	Total RSUs Outstanding	Fair Value as of Grant Date (in *reais*)
First Program	487,670	7,934	R$ 21.00
Second Program	294,286	8,094	R$ 21.00
Third Program	367,184	75,527	R$ 21.00
Fourth Program	285,064	122,740	R$ 24.17
Fifth Program	291,609	205,099	R$ 24.43
Sixth Program	170,000	170,000	R$ 51.65

Virtual Stock Option Plan

On August 7, 2018, our Board of Directors approved the Virtual Stock Option Plan, or the Phantom Shares. The plan consists of a remuneration in cash, as there is no effective trading of the shares. There will be no issuance and/or delivery of shares for settlement of the plan. A liability to us is recorded monthly, based on the fair value of the Phantom Shares granted and the vesting period of such Phantom Shares, with an offsetting entry in the statement of income (loss). The fair value of this liability is reviewed and updated for each reporting period, in accordance with the change in the fair value of the benefit granted.

The options issued under each program of the Phantom Shares require a vesting period of 4 years. The options have an 8-year life and the exercise price shall be equal to the lowest stock price traded in the stock market during the 30 trading sessions prior to the options grant approval by our Compensation Committee. Expected volatility has been calculated based on historical volatility of airline shares listed on stock exchanges in Brazil and Latin America.

Virtual Stock Option Plan	Total Options Granted	Total Options Outstanding
First Program	707,400	560,908
Second Program	405,000	405,000

Directors' and Officers' Insurance

Our directors and officers have been covered by liability insurance since our inception. Our current directors' and officers' insurance policy, which we entered into on February 10, 2020, is provided by Generali Brasil Seguros. This policy covers damages or costs in the event our directors or officers suffer losses as a result of a lawsuit for alleged wrongful misconduct while acting in their capacity as directors or officers. The current policy expires on February 10, 2021 and we plan to renew it on such date. See "Item 7.B. Related Party Transactions—Arrangements with Directors and Officers."

C. Board Practices

Our bylaws determine that our board of directors shall be composed of five to 14 members. The members of our board of directors are elected at a shareholders' meeting in accordance with the terms and conditions of our bylaws, Brazilian corporate law, Shareholders' Agreement, and the regulations of the Level 2 segment of B3. The members of our board of directors are elected for terms of two consecutive years and can be re-elected and removed at any time by our shareholders at a shareholders' meeting. In addition, pursuant to our bylaws, the chairman of the board of directors will be appointed by our shareholders at a general shareholders' meeting. For more information on board practices, see "Item 6.A. Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors."

Audit Committee

Our audit committee is composed of three members who are elected by our board of directors and the majority of which must be independent members. According to our bylaws, at least two members of our audit committee shall be independent members of our board of directors. The members shall be appointed for a two-year term of office, being permitted reelection, with a limit of ten consecutive years in office. Upon reaching the ten consecutive year limit, members will become eligible to serve on this committee again after three years from the end of his or her last term of office. The audit committee is responsible for: (i) advising our board of directors regarding the selection of independent auditors, (ii) reviewing the scope of the audit and other services provided by our independent auditors, (iii) evaluating and monitoring related party transactions and (iv) evaluating our internal controls, among other things. The members of our audit committee are Gelson Pizzirani, Gilberto Peralta and Sérgio Eraldo de Salles Pinto (coordinator), all of whom are independent members of the audit committee under applicable SEC and NYSE rules. As of December 31, 2019 all members of our audit committee have either satisfied the independence requirements of the SEC and NYSE applicable to audit committees of foreign private issuers or qualified for an exemption under the applicable rules. At least one member of the audit committee is an audit committee "financial expert" within the meaning of the rules adopted by the SEC relating to the disclosure of financial experts on audit committees in periodic filings pursuant to the Exchange Act. The members of our audit committee are entitled to annual compensation in the form of a fixed salary.

Compensation Committee

Our compensation committee is composed of three members who are elected by our board of directors, two of which shall be independent members of the board of directors, according to the regulations of the Level 2 segment of B3. Our compensation committee's principal responsibilities include: (i) reviewing corporate goals, (ii) evaluating certain executive compensation arrangements as well as the performance of key executives, and (iii) recommending compensation, incentive-compensation and stock option, restricted share and virtual stock option plans to the board of executive officers. The current members of our compensation committee are David Neeleman, Sérgio Eraldo de Salles Pinto and Carolyn Luther Trabuco, all of whom are directors of our company. Their mandates are for an unlimited duration, until the board of directors replaces them. The members of our compensation committee are entitled to annual compensation in the form of a fixed salary. As a foreign private issuer, we are not required to comply with the SEC rules applicable to compensation committees.

Corporate Governance Committee

Our corporate governance committee was created on December 23, 2013 and is composed of three members who are elected by our board of directors. At least two members of the corporate governance committee shall be independent members of the board of directors, according to the regulations of the Level 2 segment of B3. The members of our corporate governance committee are Renan Chieppe, Michael Lazarus (coordinator) and Gelson Pizzirani. Our corporate governance committee's principal responsibilities include: (i) recommending to the board of directors a set of corporate governance guidelines applicable to us and supervising its enforcement, (ii) reviewing and approving our code of business conduct and ethics (which provides specific rules for the identification and administration of conflicts of interest applicable to all of our employees and our board of directors) on an annual basis, (iii) reviewing and expressing its opinion about potential conflicts of interest among members of the board of directors and us, considering, as applicable, the Regulation and to the Self-Regulatory Code on Mergers and Acquisitions issued by the Brazilian Takeover Panel (*Comitê de Aquisições e Fusões*), or CAF, or the Panel Code, and (iv) expressing an opinion about (a) the sale or transfer of our fixed assets in amounts, in *reais*, equivalent to or higher than 3% of the net earnings recorded in our financial statements, converted by the PTAX-800 rate of the day of the transaction, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein we operate; (b) any transaction between our shareholders, officers or related parties, their respective spouses, ascendants, relatives up to the third degree, its controlling entities, or persons under common control, on the one side, and us or our subsidiaries, on the other side, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein we operate; and (c) contracting any financial obligation not provided for in our or our subsidiaries'annual plan or budget, whose amount, in *reais*, is higher than US$200.0 million, converted by the PTAX-800 rate of the day of the transaction. In relation to these responsibilities, our corporate governance committee is in the process of analyzing and proposing a related party transactions policy to further govern potential conflicts of interests between us and our board of directors. The members of our corporate governance committee are entitled to annual compensation in the form of a fixed salary.

D. Employees

Overview

We believe that the quality of our employees, whom we refer to as crewmembers, promotes our success and growth potential. We believe we have created a strong service-oriented company culture, which is built around our values of safety, consideration, integrity, passion, innovation and excellence. We are dedicated to carefully select, train and maintain a highly productive workforce of considerate, passionate and friendly people who serve our customers and provide them with what we believe is the best flying experience possible. We reinforce our culture by providing an extensive orientation program for new crewmembers and instill in them the importance of customer service and the need to remain productive and cost efficient. Our crewmembers are empowered to not only meet our customers' needs and say "yes" to a customer, but to also listen to our customers and solve problems.

We communicate regularly with all of our crewmembers, keeping them informed about events at our offices through town hall meetings and question and answer sessions and soliciting feedback for ways to improve cooperation and their work environment. We conduct an annual crewmember survey and provide training for our leadership that focuses on crewmember engagement and empowerment. In addition, each of our executives adopts a city and is responsible for meeting with crewmembers on a periodic basis to be an additional source of corporate communication and assistance. Our executives also interact directly with our customers when traveling to obtain feedback and suggestions about the Azul experience.

We aspire to be the best customer service company in Brazil, and as a result, we believe our crewmembers are more likely to recommend us as a place to work to a friend or relative. We have good relations with our crewmembers and we have never experienced labor strikes or work stoppages.

We are focused on increasing the efficiency and productivity of our crewmembers. As of December 31, 2019, we had 93 FTEs per aircraft, compared with 143 for Gol. The following table sets forth the number of our crewmembers per category and the number of FTEs per aircraft at the end of the periods indicated:

	At December 31,		
Crewmembers	**2019**	**2018**	**2017**
Pilots	1,846	1,741	1,633
Flight attendants	2,936	2,351	2,217
Airport personnel	3,293	3,165	2,903
Maintenance personnel	2,217	2,063	1,835
Call center personnel	917	924	899
Others	1,980	1,563	1,391
Total	**13,189**	**11,807**	**10,878**
End-of-period FTEs per aircraft	93	94	89

We provide extensive training for our crewmembers that emphasizes the importance of safety. In compliance with Brazilian and international IATA safety standards, we provide training to our pilots, flight attendants, maintenance technicians, managers and administrators and customer service (airport and call center) crewmembers. We have implemented employee accountability initiatives both at the time of hiring and on an ongoing basis in order to maintain the quality of our crew and customer service. We currently operate four flight simulators and have an extensive training program at UniAzul, our training facility adjacent to Viracopos airport (see "Item 4.B. Business Overview—Airports and Other Facilities and Properties—Other Facilities and Properties" and "Item 4.B. Business Overview—Safety and Quality").

A national union represents all airline employees in Brazil. However, we do not have a direct collective bargaining agreement with any labor unions. Binding negotiations in respect of cost of living, wage and salary increases are conducted annually between the national union and an association representing all of Brazil's airlines. Work conditions and maximum work hours are regulated by government legislation and are not the subject of labor negotiations. In addition, we have no seniority pay escalation. Since our FTEs per aircraft is lower than that of our main competitor, any wage increases have a lower impact on us, thus making labor costs less significant to our operations. As a result, we believe our results of operations are less affected by labor costs than those of our main competitor.

Our compensation strategy is competitive and meant to retain talented and motivated crewmembers and align the interests of our crewmembers with our own. Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, psychosocial assistance under our *Anjo Azul* program, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), salary-deduction loans, bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft. We also benefit from generally lower labor costs in Brazil, when compared to other countries, which is somewhat offset by lower productivity due to government requirements over employee labor conditions and taxes on payroll.

To motivate our crewmembers and align their interests with our results of operations, we provide a leadership incentive plan based on the achievement of pre-defined company performance targets (*Programa de Recompensa*). We also have established a stock option plan for our leadership that vests over a four or five-year period. See "Item 6.B. Directors, Senior Management and Employees—Management Compensation— Stock-Based Incentive Plans."

E. Share Ownership

As of December 31, 2019, David Neeleman, who is the chairman of our board of directors and our controlling shareholder, holds directly and indirectly 622,406,638 of our common shares, representing 67% of the common shares of our capital stock, José Mario Caprioli dos Santos, our director, indirectly holds 167,455,107 of our common shares, representing 18% of our capital stock. Decio Luiz Chieppe and Renan Chieppe, our directors, indirectly hold 139,103,313 of our common shares, representing 15% of our capital stock.

For a description of our stock option plans granted to our directors and executive officers, see "Item 6.B. Directors, Senior Management and Employees—Management Compensation—Stock-Based Incentive Plans."

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

The tables below show the numbers of shares and percentage ownership held by (i) each person that is a beneficial owner of 5% or more of each class of our shares, (ii) all of our executive officers and directors as a group, (iii) certain other significant shareholders and (iv) all of our other minority shareholders. For a discussion of the differences in voting and other rights between our common and preferred shares, see "Item 10.B. Additional Information—Memorandum and Articles of Association—Rights of Our Common and Preferred Shares."

As of the December 31, 2019, 67.00% of our outstanding common stock was held by one record holder in the United States and approximately 58.69% of our outstanding preferred shares were traded in Brazil and 41.31% of our outstanding preferred shares were held as ADRs.

The following table shows the beneficial ownership of our capital stock following as of December 31, 2019.

Name	Common Shares	Percentage of Outstanding Common Shares	Total Preferred Shares	Percentage of Outstanding Preferred Shares	Percentage of Total Capital Stock	Economic Interest
David Neeleman[(1)]	622,406,638	67.00%	11,432,352	3.47%	50.36%	5.77%
Chieppe family[(2)]	139,103,313	14.97%	6,060,810	1.84%	11.53%	2.31%
Caprioli family[(3)]	167,455,107	18.03%	12,170,230	3.69%	14.27%	4.21%
Bozano Group[(4)]	—	—	5,007,726	1.52%	0.40%	1.46%
Calfinco[(5)]	—	—	26,995,316	8.19%	2.14%	7.89%
Others	—	—	267,237,392	81.09%	21.23%	78.15%
Executive officers and directors[(6)]	—	—	220,094	0.07%	0.02%	0.06%
Treasury	—	—	444,246	0.13%	0.04%	0.13%
Total	**928,965,058**	**100.00%**	**329,568,166**	**100.00%**	**100.00%**	**100.00%**

(1) Consists of shares beneficially owned by David Neeleman, founder and controlling shareholder of Azul. The record holders of these shares are David Neeleman and Saleb II Founder 1 LLC. David Neeleman is a U.S. resident and has a domicile in Brazil at Av. Marcos Penteado de Ulhôa Rodrigues, 939, 9th floor, Edifício Jatobá, Condomínio Castelo Branco Office Park, Tamboré, Barueri, 06460-040, São Paulo, Brazil. David Neeleman is our Chairman. The address for Saleb II Founder 1 LLC is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware 19801. David Neeleman's economic interest is 5.3%. David Neeleman, entered into a personal loan in 2019, in the total amount of US$30 million, using part of his Azul preferred shares as collateral. The impact of the COVID-19 pandemic in the markets triggered a margin call on his loan, and given the speed of the developments and the fact that Mr. Neeleman had no liquidity and no other investments in the sector, including TAP and Breeze, there was no time to access other sources of capital. Accordingly, Mr. Neeleman had to sell a portion of his preferred shares to satisfy the margin call on his loan. As a result, on April 14, 2020, the Company announced that David Neeleman's non-voting position was reduced from 11,432,352 preferred shares, representing 3.47% of this class of shares, to 2,116,004 preferred shares during the month of March 2020. There was no change in his voting position, represented by 622,406,638 common shares. Additionally, Mr. Neeleman reaffirmed that he did not actively sell any of his Azul shares.

(2) Consists of shares beneficially owned by Renan Chieppe and Decio Luiz Chieppe. The record holders of these shares are Trip Participações S.A., Trip Investimentos Ltda. and Rio Novo Locações Ltda. The address for Trip Participações S.A. is Rua José Alexandre Buaiz, 300, 17 e 18 andares, Enseada do Suá, CEP 29050-545, Vitória, Espírito Santo, Brazil. The address for Trip Investimentos Ltda. is Rodovia BR 262, km 5, s/n, CEP 29145-901, Cariacica, Espírito Santo, Brazil. The address for Rio Novo Locações Ltda. is Rodovia BR 262, Km 6,3, Sala 208, CEP 29157-405, Cariacica, Espírito Santo, Brazil. Renan Chieppe and Decio Luiz Chieppe are residents of Brazil and their address is Rua José Alexandre Buaiz, 300, Ed. Work Center, 18th floor, Enseada do Suá, Vitória, Espírito Santo, Brazil. Renan Chieppe and Decio Luiz Chieppe are members of our board of directors.

(3) Consists of shares beneficially owned by José Mario Caprioli dos Santos. The record holder of these shares is Trip Participações S.A. and Trip Investimentos Ltda. The address for Trip Participações S.A. is Rua José Alexandre Buaiz, 300, 17 e 18 andares, Enseada do Suá, CEP 29050-545, Vitória, Espírito Santo, Brazil. The address for Trip Investimentos Ltda. is Rodovia BR 262, km 5, s/n, CEP 29145-901, Cariacica, Espírito Santo, Brazil. José Mario Caprioli dos Santos is a resident of Brazil and his address is Av. Marcos Penteado de Ulhôa Rodrigues, 939, 9th floor, Edifício Jatobá, 06460-040, Tamboré Barueri, São Paulo, Brazil. He is our Institutional Relations Officer and a member of our board of directors.

(4) Consists of shares beneficially owned by Julio Rafael de Aragão Bozano. The record holders of these shares are Kadon Empreendimentos S.A. and Bozano Investments LLC. The address for Bozano Investments LLC and Kadon Empreendimentos S.A. is Rua Visconde de Ouro Preto, 5, 11º andar (parte), Botafogo, 22250-180, Rio de Janeiro, Brazil. Julio Rafael de Aragão Bozano is a resident of Brazil and his address is Rua Visconde de Ouro Preto, 5, 11º andar (parte), Botafogo, 22250-180, Rio de Janeiro, Brazil.

(5) Consists of shares owned beneficially and of record by Calfinco, Inc., a subsidiary of United. The address for Calfinco, Inc. is 233 S. Wacker Dr., Chicago, IL 60606.

(6) Consists of shares held by Carolyn Luther Trabuco, Sérgio Eraldo de Salles Pinto, and indirectly by John Rodgerson, the sole member of Saleb II Founder 11 LLC, and, as such, holder of voting and dispositive power with respect to the shares held by Saleb II Founder 11 LLC. However, shares held by David Neeleman, Renan Chieppe, Decio Luiz Chieppe and José Mario Caprioli dos Santos are not being reported as being held by executive officers and directors, as they are being reported as held by David Neeleman, the Chieppe family and the Caprioli family, respectively.

United Investment Agreement

On June 26, 2015, we entered into an investment agreement with United pursuant to which it, acting through a subsidiary, acquired 5,421,896 Class C preferred shares representing a 5%, non-voting economic interest in us. Such Class C preferred shares were converted on a one-to-one basis into Class A preferred shares on February 3, 2017, which were then simultaneously renamed "preferred shares" and subsequently subject to a two-for-one stock split on February 23, 2017, resulting in United holding 10,843,792 preferred shares through a subsidiary. Pursuant to this agreement, United has the right to elect one member of our board of directors, so long as it retains at least 50% of the shares it received on the date of its investment or as a result of conversion. United has designated a representative on our board effective as of January 28, 2016. See "Item 6.A. Directors and Senior Management—Board of Directors." United is a party to our Shareholders' Agreement, which provides for United's right to elect one director, so long as they hold at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016. For more information, see "Item 6.A. Directors and Senior Management—Board of Directors." On April 27, 2018, United closed a private preferred share transaction with Hainan to acquire 16,151,524 preferred shares of our company. This transaction increased United´s shareholding in us to 26,995,316 preferred shares, which represents 7.89% of our economic interest.

Registration Rights Agreement

On August 3, 2016, we entered into a fifth amended and restated registration rights agreement, or the Registration Rights Agreement, with our then principal shareholders that gave them certain rights to register additional preferred shares held by them with the SEC for future sale.

Under the Registration Rights Agreement, at any time commencing six months following the initial public offering of our shares, shareholders owning a majority of our preferred shares that are not registered under the Securities Act at that time and that are entitled to registration rights thereunder may require us to file a registration statement covering the sale or distribution of the preferred shares owned by them. We must also include in that registration statement any preferred shares owned by any other principal shareholders of our company.

Additionally, shareholders who own 35% of our preferred shares that are not registered under the Securities Act may require us to file a registration statement on Form F-3 at any time. We must also include in that registration statement any preferred shares owned by any other principal shareholders of our company.

Dividends

According to the bylaws of the Company, unless the right is waived by all shareholders, the shareholders are guaranteed a minimum mandatory dividend equal to 0.1% of net income of the Company after the deduction of legal reserve, contingency reserves, and the adjustment prescribed by Law 6404/1976 (Brazilian Corporate Law).

Interest on shareholders' equity, which is deductible for income tax purposes, may be deducted from the minimum mandatory dividends to the extent that it has been paid or credited. Interest on shareholders' equity is treated as dividend payments for accounting purposes.

Dividends are subject to approval by the Annual Shareholders Meeting.

The Company has not distributed dividends for the years ended December 31, 2019, 2018 and 2017.

B. Related Party Transactions

We currently engage in various transactions with related parties. These transactions are based on terms that reflect the terms that would apply to transactions with third parties.

Loan Agreement with David Neeleman

On September 2, 2016, we entered into an agreement, as lender, with our principal shareholder David Neeleman, as borrower, in the total principal amount of US$2.8 million, which bears interest at LIBOR plus 2.3% per annum and matures in September 2019. On August 2019, the maturity date of the Loan was amended to November 2020. This amendment was given a favorable opinion by the Governance Committee.

Shareholders' Agreement

General

On May 25, 2012, and as amended from time to time, our principal shareholder entered into an Investment Agreement with TRIP's former shareholders, referred to herein as the Investment Agreement, which provides TRIP's former shareholders with certain rights related to the control of our company. On June 26, 2015, the Investment Agreement was amended by the Fourth Amendment to the Investment Agreement to include Calfinco as a party, and on August 3, 2016, the Investment Agreement was amended by the Fifth Amendment to the Investment Agreement to include Hainan as a party. This agreement, as amended, provided that upon the effectiveness of an initial public offering, we and our current shareholders will be obligated in connection therewith to execute an agreed form of Shareholders' Agreement that is attached to the Investment Agreement, referred to herein as the Shareholders' Agreement. The Shareholders' Agreement was executed on September 1, 2017 and will remain in effect until the earlier of (i) twenty years as of the date of its execution or (ii) with respect to TRIP's former shareholders' rights under the Shareholders' Agreement, such time as TRIP's former shareholders together hold less than 5% of our common shares. For purposes of the discussion below, we refer to (i) Mr. Neeleman and TRIP's former shareholders together as the Principal Common Shareholders and (ii) Calfinco and Hainan together as the Principal Preferred Shareholders. All common shares held by the Principal Common Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, and all preferred shares held by the Principal Preferred Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, are subject to the Shareholders' Agreement.

Under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, a majority of TRIP's former shareholders is required in order to approve any changes that, by amending the following provisions of our bylaws, may materially affect the rights of TRIP's former shareholders:

- the quorum required for decisions of our board of directors;
- the powers of our board of directors; and
- the rules for calling, installing or reducing powers and other provisions regarding the meetings of our board of directors.

Furthermore, under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, changes to our bylaws that change the total number of directors of our board of directors, which must remain composed of 14 members, must necessarily be approved by a majority of TRIP's former shareholders. However, a majority of TRIP's former shareholders is not necessary to approve an amendment that increases the size of our board of directors if TRIP's former shareholders are guaranteed representation proportional to that which they had before such amendment.

In June 2018, we announced a secondary public offering pursuant to which Hainan sold 19,379,335 ADSs representing all of Hainan's preferred shares held in our company. The offering price was US$16.15 per ADS and no other shareholder of Azul sold its ADSs or preferred shares in the offering. As a result, Hainan is no longer bound to our Shareholders' Agreement nor has the right to appoint any members of our board of directors. Consequently, the three members of our board of directors appointed by Hainan and elected in 2016 resigned to their positions in June 2018, following the closing of the offering.

Election of Board Members

As a general rule, pursuant to the Shareholders' Agreement, a person who has a relationship (including as an investor, manager, executive, employee, consultant or representative) with any of our competitors or their subsidiaries may not serve as a member of our board, unless the competitor or its subsidiary is one of our shareholders or an affiliate of a shareholder.

Election of Board Members by David Neeleman

For so long as TRIP's former shareholders have the right to elect one or more directors pursuant to the mechanisms described above and subject to Calfinco's right to appoint members of the board of directors, Mr. Neeleman may appoint the remaining members of the board of directors of the Company along with their alternates, and may dismiss or replace any of those members. In the event that the other holders of common shares or preferred shares exercise their right for multiple vote procedure in the election of members of the board of directors, in accordance with Brazilian corporate law, the number of directors elected by such shareholders shall be deducted from the number of directors that Mr. Neeleman has the right to appoint. Directors nominated by Mr. Neeleman shall qualify as Independent Directors, except if the minimum number of Independent Directors have already been reached pursuant to the nominations by the other shareholders.

Furthermore, Mr. Neeleman, any of his permitted transferees or any company controlled by Mr. Neeleman shall abstain from voting in any resolution and from taking part in any decision related to the conversion of TAP bonds into TAP equity securities.

Election of Board Members by TRIP's Former Shareholders

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as TRIP's former shareholders collectively hold at least 20% of our common shares, they may appoint three directors, along with their alternates, and may dismiss or replace any of those three directors;
- if TRIP's former shareholders collectively hold at least 10%, but less than 20% of our common shares, they may appoint two directors, along with their alternates, and may dismiss or replace both of those directors; and
- if TRIP's former shareholders collectively hold at least 5%, but less than 10% of our common shares, they may appoint one director, plus an alternate, and may dismiss or replace such director.

Election of Board Members by Calfinco

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as Calfinco holds at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016, Calfinco may appoint one director, along with his or her alternate, and may dismiss or replace this director.

Transfers of Shares

The tag-along right and right of first offer described below do not apply to transfers of common shares to the Principal Preferred Shareholders or to affiliates of the Principal Common Shareholders. In addition, shareholders must, in any event, submit any request for the transfer of shares to ANAC for prior approval.

Tag-Along Rights

If Mr. Neeleman intends to sell any of his common shares to a third party, he must give TRIP's former shareholders an opportunity (i) to participate in the sale on the same terms and (ii) to sell an equivalent amount of common shares so that the proportion of common shares between Mr. Neeleman and TRIP's former shareholders remains the same. TRIP's former shareholders must give Mr. Neeleman the same opportunity if they intend to sell any of their common shares.

Rights of First Offer

If Mr. Neeleman intends to sell any common shares in such a manner that, after such sale, the common shares held by Mr. Neeleman come to represent less than 50% plus one of our common shares, in each subsequent sale of common shares, he must first offer those shares to TRIP's former shareholders before offering them to any third party. His offer to TRIP's former shareholders must specify the number of common shares he intends to sell, the intended price per share, the payment conditions and any other relevant conditions. TRIP's former shareholders may then purchase those shares at or above the specified terms, as described in the Shareholders' Agreement.

If TRIP's former shareholders wish to sell any of their common shares, they must first offer those shares to Mr. Neeleman before offering them to any third party. Their offer to Mr. Neeleman must specify the number of common shares they intend to sell, the intended price per share, the payment conditions and any other relevant conditions. Mr. Neeleman may then purchase those shares at or above the specified terms.

If either Mr. Neeleman or TRIP's former shareholders, as the case may be, decline the right of first offer, the seller may pursue the intended sale to the third party at or above the price originally contemplated.

Termination

The Shareholders' Agreement will remain in effect until the earlier of twenty years as of the date of its execution or, with respect to TRIP's former shareholders' rights under the Shareholders' Agreement, such time as TRIP's former shareholders together hold less than 5% of our common shares.

Rent Guarantees Given by ALAB

ALAB has guaranteed rent and other payments under three lease agreements for family housing in Brazil used by two of our executive officers.

Arrangements with Directors and Officers

We have entered into indemnity agreements with two of our directors pursuant to which we agree to indemnify and hold each of them harmless for certain losses arising out of their respective positions as directors excluding any willful misconduct, fraud or gross negligence, see "Item 6.B. Management Compensation—Directors' and Officers' Insurance."

Service Agreements with Águia Branca Participações S.A.

On January 1, 2013, we entered into an agreement with Águia Branca Participações S.A., one of our shareholders, for the sharing of information technology resources during an indefinite period, which was an extension of a similar agreement that TRIP entered into with Águia Branca Participações S.A., and on November 1, 2015, we entered into a services agreement with Águia Branca Participações S.A. for the hosting and use of information technology resources for a 24 month term, which has been renewed for an additional 12 month term. The amounts payable under these agreements are based on the services actually rendered. We paid R$50,118, R$49,900 and R$46,500 in connection with these agreements in 2019, 2018 and 2017, respectively.

Air Tickets Sales Agreement with Caprioli Turismo Ltda.

On March 26, 2018, we entered into a Tickets Sales Agreement with Caprioli Turismo Ltda., a travel agency owned by the Caprioli family (which owns an indirect participation in us through the TRIP's former shareholders), pursuant to which we granted Caprioli Turismo Ltda. a credit line of R$20,000.00 to purchase for resale tickets for the flights we operate. Such credit line is guaranteed by a promissory note, which does not bear interest, of the same amount payable to us.

Consulting Services Agreement with Plane View Partners

On April 16, 2020, our board of directors approved the hiring of Plane View Partners, an aviation consulting firm founded by one of our Board members, Mr. Henri Courpron, to support our fleet plan strategy and engage with aircraft manufacturers and lessors.

Transactions with Aigle Azur

We recorded in "Prepaid expenses" and "Trade and other receivables", the amount of R$11.8 million in 2019 and R$13.3 million in 2018, net of a provision for doubtful debts of R$5.1 million in 2019 and R$0 in 2018.

Strategic Partnership with TAP

For a description of our strategic partnership with TAP, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP."

Maintenance agreements

ALAB entered into Maintenance Agreements to aircraft with TAP Manutenção e Engenharia Brasil S/A ("TAP ME"). TAP ME is part of the same economic group as TAP. The total value of maintenance services acquired by the Company pursuant to such Maintenance Agreements during the year ended December 31, 2019, December 31, 2018 and December 31, 2017 was R$17.5 million, R$83.8 million and R$83.3 million. As of December 31, 2019 and December 31, 2018, the amount payable to TAP ME was R$0.1 million and R$5.7 million, and is recorded under Accounts Payable.

Codeshare Agreement

ALAB signed a codeshare agreement with United and TAP which will provide transport of passengers whose tickets have been issued by one of the airlines and the service is performed by the other.

Acquisition of TAP Bonds

In March 2016, following the privatization of TAP in 2015 through the initial acquisition of a controlling interest in TAP by Atlantic Gateway, a consortium jointly owned by our principal shareholder David Neeleman and other individuals, we invested €90 million in 7.5% bonds due March 2026 issued by TAP and convertible into TAP shares at our discretion. For more information on this investment and the conversion mechanism of TAP bonds into TAP shares, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP."

Put Right

The TAP bonds are subject to an optional put by us through which TAP has the obligation to redeem the TAP bonds held by us at no additional cost, in the event that as a result of the current review of the privatization arrangements by the Portuguese authorities (i) the Portuguese government acquires any or all of the TAP shares held by Atlantic Gateway pursuant to an existing call right other than as contemplated in connection with the final TAP structure described in "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP" or (ii) there is a decrease in the equity ownership of TAP by Atlantic Gateway other than as a result of the final TAP structure being reviewed. The TAP bonds (if not fully converted) are also subject to mandatory redemption by TAP at the earlier of (i) any initial public offering of equity securities by TAP or (ii) four years from the date of issuance of the TAP bonds, subject to the satisfaction of certain financial covenants by TAP, in which case TAP would have to pay us face value plus interest accrued until the mandatory redemption date.

TAP Board of Directors

Our founder and principal shareholder David Neeleman is a member of the board of directors of TAP.

Sublease of Aircraft to TAP

As part of our fleet optimization efforts, we leveraged our strategic partnership with TAP by subleasing, at a discount, 15 aircraft to TAP since 2016, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP". As a result of this sublease transaction, we recorded a provision for the obligation under onerous leases, for an amount of R$72.4 million for the year ended December 31, 2018 as we will receive a lower amount in lease payments from TAP than we will pay under the original lease agreements. See "Note 12 (h). Related Parties—Transaction with TAP" to our audited consolidated financial statements, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP."

Joint Venture with TAP

On February 6, 2020, we entered into a Cooperation Agreement with TAP. This transaction was approved by Azul shareholders on December 9, 2019 and was submitted to regulatory approvals in February 2020. On March 27, 2020 the Brazilian Administrative Council for Economic Defense (CADE – *Conselho Administrativo de Defesa Econômica*) approved the acquisition without imposing further obligations for the parties. The closing date of the transaction has not been determined as of the date of this filing and is subject to further developments following the impact of COVID-19.

Sublease of Aircraft to Breeze Aviation

On March 2, 2020 our shareholders approved the execution of up to 28 sublease agreements with Breeze Aviation, a U.S. start-up airline founded by our controlling shareholder. All E-Jets are expected to be phased out by the end of 2022 and will be subleased at least until the end of the original operating lease term.

Strategic Partnership with United

For a description of our strategic partnership with United, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—United."

Commercial Cooperation Agreement with United

In connection with United's investment, we also entered into a commercial cooperation agreement with United on June 26, 2015 which governs the expanded cooperation between both of our companies with respect to certain matters, including (i) code-sharing, (ii) loyalty programs, (iii) special terms relating to passengers and cargo, (iv) marketing programs, (v) corporate accounts and sales contracts, (vi) employee interline pass travel, (vii) service levels at specific airports, and (viii) the negotiation of a commercial joint venture between us and United whereby we would share resources with United and split revenue related to specified matters relating to our and their route networks in order to optimize profitability for both us and United. To date, this joint venture has not yet been established, and we and United continue discussing objectives, the type of joint venture, revenue sharing and other matters.

Code-Share Agreement with United

On June 26, 2015, ALAB entered into a Code-Share Agreement with United, the sole shareholder of Calfinco. The Code-share Agreement governs the terms and conditions of code-sharing and interlining arrangements between ALAB and United.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

See "Item 3.A. Selected Financial Data" and "Item 18. Financial Statements."

Legal Proceedings

We are subject to a number of proceedings in the Brazilian judicial and administrative court systems, almost all of which relate to civil and labor claims. We believe these proceedings are normal and incidental to the operation of a business in Brazil. We recognize provisions when (i) we have a present obligation as a result of a past event, (ii) it is probable that an outflow of resources will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of the obligation. The assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, recent court rulings and their relevance in the legal system and assessment of internal and external legal counsel.

When the Company is party in other judicial and administrative proceedings, a provision is set up for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, the most recent court decision and their relevance in the legal system, as well as the assessment of legal counsel.

For civil claims connected to litigation proceedings before small claims court classified as probable loss, our provisioning policy is based on fixed and pre-established criteria, estimated based on historical information on similar claims. For pending litigation proceedings before civil courts, the ascertainment of amounts under dispute is based on the amount the plaintiff has attributed to such dispute (subject to a R$30,000 limit for material damages and a R$5,000 limit for pain and suffering). As a result of these circumstances and subject to the possibility of further in-house counsel review of such provisions during the course of proceedings, the provisioned amounts may not correspond to the effective amounts under dispute.

As of December 31, 2019, we are party to approximately 16,353 civil claims of various types (deemed "active" under our criteria, which does not consider claims in which agreements were entered into or claims that are in their closing stage), in which the original aggregate amount claimed is approximately R$486.2 million. We have provisioned a total of R$45.1 million in respect of these civil claims. In addition, we are party to 2,587 legal proceedings relating to labor law issues of various types, for which the aggregate amount claimed is approximately R$310.6 million. We have provisioned a total of R$40.4 million in respect of these labor proceedings.

The Federal Labor Prosecution's Office filed a lawsuit against us on February 22, 2017, claiming that we allegedly violated certain labor regulations, including limitations on daily working hours and rest periods. It claimed approximately R$66 million in punitive damages. It also requested the grant of an injunction limiting overtime and enforcing legally required breaks, under penalty of R$5,000 per breach. The lawsuit has been suspended and we are in the process of negotiating a Conduct Adjustment Agreement (*Termo de Ajuste de Conduta*) with the Federal Labor Prosecutor's Office. We classify the probability of a loss as possible but expect our ultimate liability to be significantly lower than the amount originally claimed. We classify the probability of a loss as possible but expect our ultimate liability to be significantly lower than the amount originally claimed, limited to donations or values related to the TAC.

We are subject to approximately 34 lawsuits filed by the Public Prosecution's Office which have the potential to affect our business models because the majority of these lawsuits challenges day-to-day aspects of our business, including, but not limited to, plane ticket fares, no-show fees, rescheduling fees, contractual fines and the treatment of individuals with special needs. Of these lawsuits, nine relate to compliance with the Free Pass Law (*Lei do Passe Livre*), which essentially aims at compelling us to offer free travel to individuals with special needs and individuals who are demonstrably poor by making two seats available on each interstate flight. The Superior Court of Justice has merged these nine lawsuits into one single proceeding. On June 12, 2019, the processes related to the Free Pass Law were dismissed. The Public Prosecution´s Office appealed against the decision.

We are subject to 52 claims related to taxes of approximately R$19.3 million allegedly payable on imports of aircraft, flight simulators and aircraft parts. We believe, on the advice of counsel, that the chance of loss with respect to these proceedings is possible and have therefore not recorded any provisions in this regard.

As of December 31, 2019, we are also defendants to 78 judicial and administrative tax proceedings, in which the aggregate amount claimed was approximately R$421.0 million. Our attorneys have classified (i) five of these proceedings, representing approximately R$303.0 million of the abovementioned amount, as having a remote chance of loss, (ii) 70 of these proceedings, representing approximately R$116.0 million of the same abovementioned amount, as having a possible chance of loss, and (iii) one of these proceedings, representing R$2.0 million, as having a probable chance of loss. We have recorded a provision of R$2.0 million for tax proceedings.

We are the defendant in a tax foreclosure filed by the Brazilian federal government to collect air navigation fees relating to the period from January 2014 to March 2014, in the total amount of R$116.1 million. We posted a judicial bond to cover such debts and have filed its defense, which is still pending judgment. Our attorneys consider that losses with respect to this proceeding are not probable and we have therefore not recorded any provisions in this regard.

On August 8, 2016, we filed an annulment action together with LATAM requesting the annulment of a decision issued by CADE imposing a fine of R$9.7 million to both LATAM and us because of the late merger filing by the parties notifying the existence of a code-share agreement between LATAM and TRIP in effect from 2004 until 2013, which is still pending judgment. We have posted a judicial bond in the amount of R$7.7 million to guarantee our payment of this fine in the event of a decision that is adverse to us.

On May 2018, we and Aeroportos Brasil agreed to settle a collection action initiated by Aeroportos Brasil in July 2017. This proceeding was related to the noncompliance of contractual obligations by Aeroportos Brasil in connection with the construction of the new terminal at Viracopos airport and, as a result, our retention of 40% of the airport landing tariffs since February 2017. Pursuant to the settlement agreement, we agreed to carry out certain parts of the construction of the new terminal at Viracopos Airport using the airport landing tariffs retained from Aeroportos Brasil.

Additionally, on May 2018, we and Aeroportos Brasil agreed to settle a lawsuit for damages initiated by Aeroportos Brasil in October 2017. This proceeding was related to the noncompliance of contractual obligations in connection with a land concession at Viracopos airport, through which (i) Aeroportos Brasil undertook to level ground and build an ancillary runway, and (ii) Azul undertook to build a hangar and an apron area, as well as to remunerate Aeroportos Brasil for the land concession. According to the settlement, we and Aeroportos Brasil agreed to comply with our respective obligations set forth in the land concession agreement, and Aeroportos Brasil granted a twelve-month grace period for the payments due by us under the land concession agreement. In October 2019, we and Aeroportos Brasil agreed to amendment this agreement to establish that Azul will also be responsible for some activities to concluding the construction of the ancillary runway and other works directly related to them. As a result, Aeroportos Brasil extended the grace period for the beginning of the rental payment of the hangar area for more 17 months, totaling 37 months. We believe that the outcome of the proceedings to which currently we are a party will not, individually or in the aggregate, have a material adverse effect on our financial position, results of operations or cash flows.

Dividend Policy

For information regarding our dividend policy, see "Item 10.F. Dividends and Payment Agents—Dividend Policy."

B. Significant Changes

See "Item 4.A. History and Development of the Company."

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

In the United States, our preferred shares trade in the form of ADSs. Our ADSs trades on the NYSE under the symbol "AZUL" and the preferred shares trades on the B3 under the symbol "AZUL4." As of December 31, 2019 the ADSs represented approximately 34% of our preferred shares and 42% of our current global public float. Our ADSs began trading on the NYSE on April 11, 2017.

On April 29th, 2020, the last reported sale price of our preferred shares on the São Paulo Stock Exchange was R$17.12 per share.

B. Plan of Distribution

Not applicable.

C. Markets

Regulation of Brazilian Capital Markets

Pursuant to Brazilian Securities Law and Brazilian corporate law, the Brazilian capital market is regulated and supervised by the CMN, which has general authority over the stock exchanges and capital markets. The CMN regulates and supervises the activities of the CVM and has, among other powers, licensing authority over brokerage firms and also regulates foreign investment and foreign exchange transactions, according to the provisions of the Brazilian Securities Law and Law 4595, dated December 31, 1964, as amended. These laws and other rules and regulations together set the requirements for disclosure of information applying to issuers of securities listed on stock exchanges, the criminal penalties for insider trading and price manipulation, the protection of minority shareholders, licensing procedures, supervision of brokerage firms, and governance of the Brazilian stock exchanges.

Pursuant to Brazilian corporate law, a company may be publicly held and listed or privately held and unlisted. All publicly held companies are registered with the CVM and are subject to periodic reporting requirements and disclosure of material events. A company registered with the CVM is authorized to trade its securities on the B3 or on the Brazilian over-the-counter market. Shares listed on the B3 may not be simultaneously traded on Brazilian over-the-counter markets. Trading on the over-the-counter market implies direct off-stock exchange trades between investors through a financial institution registered with the CVM. No special application, other than registration with the CVM (and for organized over-the-counter markets, with the relevant over-the-counter market), is necessary for securities of a publicly held company to be traded on the over-the-counter market. Listing on the B3 requires a company to apply for registration with the B3 and the CVM.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary.

The trading of securities on the B3 may be suspended under certain circumstances, including as a result of the disclosure of material information. Trading may also be suspended at the request of the B3 or the CVM if there is any evidence that a company has provided inadequate information regarding a material fact or has provided inadequate responses to inquiries by the CVM or the stock exchange, among other reasons.

Trading on the B3

B3 trading sessions are conducted from 10:00 a.m. to 5:00 p.m. in an automated system known as PUMA Trading System. The B3 also permits trading from 5:45 p.m. to 7:00 p.m, in an online system known as “after market,” which is connected to traditional and online brokers. “After market” trading is subject to regulatory limits on price volatility and on the volume of preferred shares transacted by online brokers.

Sales of shares on the B3 are settled within three business days after the trading date. Generally, the seller is expected to deliver the shares to the B3 on the third business day after the trading date. Delivery and payment of the shares are made through the facilities of the Central Depository B3 (*Central Depositária B3*).

For a more efficient control of volatility of the BOVESPA Index, the B3 has adopted a circuit breaker system that suspends trading for 30 minutes to one hour if the BOVESPA Index falls below 10% and 15%, respectively, compared with the level at the close of trading on the preceding trading session. If the BOVESPA Index falls below 20%, the B3 may suspend trading for a period of time to be defined by it at the time of such event.

Corporate Governance Practices and the Level 2 Segment of B3

In 2000, the B3 introduced three special listing segments, known as Level 1, Level 2 and the *Novo Mercado*, aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the B3 by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by applicable Brazilian law. Our securities are listed on the Level 2 segment of B3. The main elements of this segment are described below:

To become a Level 2 segment of B3 company, in addition to the obligations imposed by applicable law, an issuer must comply with the following rules: (1) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading; (2) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, including (a) guaranteed access to all prospective investors, or (b) the allocation of at least 10% of the total offer to individuals or non-institutional investors; (3) comply with additional quarterly disclosure standards, such as disclosing related party transactions to the same level as required by the accounting standards used in the preparation of annual financial statements; (4) follow stricter disclosure policies with respect to transactions made by controlling shareholders, members of its board of directors, its executive officers and, if applicable, members of its fiscal council (*conselho fiscal*) and other technical or consulting committees involving securities issued by the issuer; (5) submit any existing shareholders' agreement and stock option plans to the B3; (6) make a schedule of corporate events available to shareholders; (7) grant tag-along rights for all shareholders in connection with a transfer of control of the company offering the same price paid per share of controlling block for each common share and preferred share; (8) grant voting rights to holders of preferred shares, at least in connection with the following matters: (a) transformation, merger, consolidation or spin-off of the Company; (b) execution of any agreement between the Company and its controlling shareholder, acting directly or through any third party, in the event such agreement must be approved by a shareholders' meeting, as provided by law or in the bylaws of the Company; (c) valuation of assets to be contributed to the capital stock of the Company in a capital increase; (d) appointment of the valuation company or institution that will determine the economic value of the Company; and (e) amendments or exclusions of bylaw provisions which eliminate or modify any of the matters above; (9) have a board of directors consisting of at least five members out of which a minimum of 20% of the directors must be independent and limit the term of all members to two years, reelection permitted; (10) not name the same individual for being both chairman of the board and the president, chief executive officer or other principal executive, observing the exceptions provided on corporate governance Level 2 segment of B3 listing regulation; (11) translate into English its annual and quarterly consolidated and unconsolidated financial statements; (12) if it elects to delist from the Level 2 segment of B3, conduct a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered will be the economic interest determined by an independent specialized firm with requisite experience); (13) adhere exclusively to the Market Arbitration Chamber for resolution of disputes between the company and its investors relating to or derived from the enforceability, validity, applicability, interpretation, breach and its effects, of the provisions of the Brazilian corporate law, the Company's bylaws, the rules published by the CMN, the Central Bank, the CVM, and other rules applicable to the Brazilian capital markets in general, including the Level 2 rules, the Level 2 listing agreement, the Level 2 sanctions regulation and the rules of the Market Arbitration Chamber of the B3; and (14) adopt and publish a code of conduct that establishes the principles and values that guide the company.

In addition, as a result of CMN Resolution 3792, dated as of September 24, 2009, as amended, shares issued by companies that adopt differentiated corporate practices, such as those whose securities are admitted for trading in the special segment of the *Novo Mercado* or whose listing classification is Level 1 or Level 2 in accordance with the regulations of the B3, may have a larger participation in the investment portfolio of private pension funds. As a result, companies that adopt differentiated corporate practices are an important and attractive investment for private pension funds, which are large investors in the Brazilian capital markets.

Investment in Our Preferred Shares By Non-residents Outside Brazil

Resolution 4373

Investors residing outside Brazil are authorized to purchase, *inter alia*, equity instruments, including our preferred shares, on the B3, provided that they comply with the registration requirements set forth in CMN Resolution 4373, and CVM Instruction 560.

With certain limited exceptions, and subject to the registration requirements set forth in CMN Resolution 4373 and CVM Instruction 560, CMN Resolution 4373 investors are permitted to carry out any type of transaction in the Brazilian financial capital markets involving a security traded on a Brazilian stock, future or organized over-the-counter, or OTC, market. Investments and remittances outside Brazil of gains, dividends, profits or other payments related to our shares are made through the foreign exchange market.

In order to become a CMN Resolution 4373 investor, an investor residing outside Brazil must:

- appoint one or more representatives in Brazil, which must be a financial institution duly authorized by the Central Bank, with powers to receive service of process related to any action regarding financial and capital market legislation, among others;
- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint one or more authorized custodians in Brazil for the investments, which custodian must be duly authorized by the CVM; and
- through its representative, register itself as a foreign investor with the CVM and register its investment with the Central Bank.

Securities and other financial assets held by foreign investors pursuant to CMN Resolution 4373 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM, as the case may be. In addition, securities trading by foreign investors is generally restricted to transactions involving securities listed on the Brazilian stock exchanges or traded in organized OTC markets licensed by the CVM.

In addition, an investor operating under the provisions of CMN Resolution 4373 must be registered with the Brazilian tax authorities pursuant to its Regulatory Instruction 1634, dated as of May 6, 2016. This registration process is undertaken by the investor's legal representative in Brazil.

Law 4131

Alternatively, foreign investors may also invest directly in Brazilian companies (e.g., through the establishment of a branch or a foreign company) under Law 4131, as amended, and may sell their shares in both public and private transactions. However, these investors are currently subject to a less favorable tax treatment on gains than foreign investors that invest in Brazil under CMN Resolution 4373.

A direct foreign investor under Law 4131 must:

- register as a foreign direct investor with the Central Bank;
- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint a tax representative in Brazil; and
- appoint a representative in Brazil for service of process with respect to suits based on Brazilian corporate law.

The Brazilian government decreased the rate of the Tax on Foreign Exchange Transactions (*Imposto sobre Operações de Crédito, Câmbio e Seguro, ou relativas a Títulos ou Valores Mobiliários*), or IOF/Exchange Tax, the tax related to certain foreign investments in Brazilian financial and capital markets, including investments made pursuant to CMN Resolution 4373, from 6% to 0%. Currently, currency exchange transactions carried out by CMN Resolution 4373 investors are subject to IOF/Exchange Tax at a rate of (i) 0%, in the case of variable income transactions carried out on the Brazilian stock, futures and commodities exchanges, and acquisitions of shares of Brazilian publicly-held companies through public offerings or subscription of shares related to capital contributions, provided that the issuing company has registered its shares for trading on the stock exchange, and (ii) 0%, in the case of the outflow of funds from Brazil related to these types of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market.

The IOF/Exchange Tax applies upon the conversion of foreign currency into Brazilian *reais* for purposes related to equity or debt investments by foreign investors in the Brazilian stock exchanges or the OTC market, private investment funds, Brazilian treasury notes and other fixed income securities. The Brazilian government is permitted to increase the rate of the IOF/Exchange Tax at any time, up to 25% of the amount of the foreign exchange transaction. However, any rate increase will only apply to transactions carried out after the rate increase and will not apply retroactively. For more information, see "—Taxation—Brazilian Tax Considerations—Income Tax—Tax on Foreign Exchange and Financial Transactions."

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and heightened volatility in the Brazilian capital markets and securities issued abroad by Brazilian companies. This uncertainty and other future events affecting the Brazilian economy and the actions of the Brazilian government may adversely affect us and the price of our preferred shares, including in the form of ADSs.

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

As of the December 31 2019, our total capital stock was R$2,243.2 million, fully paid-in and divided into 1,258,533,224 shares, all nominative, in book-entry form and without par value, consisting of 928,965,058 common shares and 329,568,166 preferred shares. As of December 31, 2019, we had 444,246 preferred shares held in our treasury.

B. Memorandum and Articles of Association

The following is a brief summary of certain significant provisions of our bylaws, Brazilian corporate law, and the rules and regulations of the CVM and of the Level 2 segment of B3. This discussion does not purport to be complete and is qualified by reference to our bylaws, and of those laws, rules and regulations. For a summary of certain of your rights as a shareholder of a company listed on the Level 2 segment of B3, see "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights" below.

Organization and Register

We are incorporated as a Brazilian *sociedade por ações* under the corporate name Azul S.A. Our headquarters are at Edifício Jatobá, 8th floor, Castelo Branco Office Park, Avenida Marcos Penteado de Ulhôa Rodrigues, 939, Tamboré, Barueri, São Paulo, SP 06460-040, Brazil. We are registered with the Board of Trade of the state of São Paulo under corporate registration number, or NIRE, number 35.300.361.130. We have been registered with the CVM as a publicly held corporation since April 7, 2017.

Our preferred shares are listed on the Level 2 segment of B3 since April 11, 2017. This listing requires us to comply with the corporate governance and disclosure rules of the Level 2 segment of B3 as summarized in the "Item 9.C.—Markets."

Corporate Purpose

The corporate purpose of our company, as stated in our bylaws, is as follows:

- to hold direct or indirect equity interest in other companies of any type whose activity is one of more of the following:
- operating national or international passenger, cargo or postal air transportation services under concessions granted by the competent authorities;
- operating activities incidental to passenger, cargo, and postal air transportation;
- carrying out aircraft, engine and other maintenance and repair services, whether for ourselves or for or third parties;
- providing hangar space for aircraft services;
- providing ground handling services, catering, and aircraft cleaning services;
- acquiring or renting aircraft or related assets;
- development and management of customer loyalty programs, whether for ourselves or for third parties;
- sale of awards redemption rights under customer loyalty program;
- providing tourism and travel services; and
- other activities incidental or related to the foregoing.

Shareholders' Agreement

General

On May 25, 2012, and as amended from time to time, our principal shareholder entered into an Investment Agreement with TRIP's former shareholders, referred to herein as the Investment Agreement, which provides TRIP's former shareholders with certain rights related to the control of our company. On June 26, 2015, the Investment Agreement was amended by the Fourth Amendment to the Investment Agreement to include Calfinco as a party, and on August 3, 2016, the Investment Agreement was amended by the Fifth Amendment to the Investment Agreement to include Hainan as a party. This agreement, as amended, provides that upon the effectiveness of an initial public offering, we and our current shareholders will be obligated in connection therewith to execute an agreed form of Shareholders' Agreement that is attached to the Investment Agreement, which shall become effective at such time, referred to herein as the Shareholders' Agreement. Pursuant to the form of Shareholders' Agreement that has been agreed to by us, our principal shareholder, TRIP's former shareholders, Calfinco and Hainan, the agreement, once it comes into effect, will remain in effect until the earlier of (i) twenty years as of the date of its execution or (ii) such time as TRIP's former shareholders together hold less than 5% of our common shares. For purposes of the discussion below, we refer to (i) Mr. Neeleman and TRIP's former shareholders together as the Principal Common Shareholders and (ii) Calfinco and Hainan together as the Principal Preferred Shareholders. All common shares held by the Principal Common Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, and all preferred shares held by the Principal Preferred Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, are subject to the Shareholders' Agreement.

Under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, a majority of TRIP's former shareholders is required in order to approve any changes that, by amending the following provisions of our bylaws, may materially affect the rights of TRIP's former shareholders:

- the quorum required for decisions of our board of directors;
- the powers of our board of directors; and
- the rules for calling, installing or reducing powers and other provisions regarding the meetings of our board of directors.

Furthermore, under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, changes to our bylaws that change the total number of directors of our board of directors, which must remain composed of 14 members, must necessarily be approved by a majority of TRIP's former shareholders. However, a majority of TRIP's former shareholders is not necessary to approve an amendment that increases the size of our board of directors if TRIP's former shareholders are guaranteed representation proportional to that which they had before such amendment.

In June 2018, we announced a secondary public offering pursuant to which Hainan sold 19,379,335 ADSs representing all of Hainan's preferred shares held in our company. The offering price was US$16.15 per ADS and no other shareholder of Azul sold its ADSs or preferred shares in the offering. As a result, Hainan is no longer bound to our Shareholders' Agreement nor has the right to appoint any members of our board of directors. Consequently, the three members of our board of directors appointed by Hainan and elected in 2016 resigned to their positions in June 2018, following the closing of the offering.

Election of Board Members

As a general rule, pursuant to the Shareholders' Agreement, a person who has a relationship (including as an investor, manager, executive, employee, consultant or representative) with any of our competitors or their subsidiaries may not serve as a member of our board, unless the competitor or its subsidiary is one of our shareholders or an affiliate of a shareholder.

Election of Board Members by David Neeleman

For so long as TRIP's former shareholders have the right to elect one or more directors pursuant to the mechanisms described above and subject to Calfinco's right to appoint members of the board of directors, Mr. Neeleman may appoint the remaining members of the board of directors of the Company along with their alternates, and may dismiss or replace any of those members. In the event that the other holders of common shares or preferred shares exercise their right for multiple vote procedure in the election of members of the board of directors, in accordance with Brazilian corporate law, the number of directors elected by such shareholders shall be deducted from the number of directors that Mr. Neeleman has the right to appoint. Directors nominated by Neeleman shall qualify as Independent Directors, except if the minimum number of Independent Directors have already been reached pursuant to the nominations by the other shareholders.

Furthermore, Mr. Neeleman, any of his permitted transferees or any company controlled by Mr. Neeleman shall abstain from voting in any resolution and from taking part in any decision related to the conversion of TAP bonds into TAP equity securities.

Election of Board Members by TRIP's Former Shareholders

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as TRIP's former shareholders collectively hold at least 20% of our common shares, they may appoint three directors, along with their alternates, and may dismiss or replace any of those three directors;
- if TRIP's former shareholders collectively hold at least 10%, but less than 20% of our common shares, they may appoint two directors, along with their alternates, and may dismiss or replace both of those directors; and
- if TRIP's former shareholders collectively hold at least 5%, but less than 10% of our common shares, they may appoint one director, plus an alternate, and may dismiss or replace such director.

Election of Board Members by Calfinco

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as Calfinco holds at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016, Calfinco may appoint one director, along with his or her alternate, and may dismiss or replace this director.

Transfers of Shares

The tag-along right and right of first offer described below do not apply to transfers of common shares to the Principal Preferred Shareholders or to affiliates of the Principal Common Shareholders. In addition, shareholders must, in any event, submit any request for the transfer of shares to ANAC for prior approval.

Tag-Along Rights

If Mr. Neeleman intends to sell any of his common shares to a third party, he must give TRIP's former shareholders an opportunity (i) to participate in the sale on the same terms and (ii) to sell an equivalent amount of common shares so that the proportion of common shares between Mr. Neeleman and TRIP's former shareholders remains the same. TRIP's former shareholders must give Mr. Neeleman the same opportunity if they intend to sell any of their common shares.

Rights of First Offer

If Mr. Neeleman intends to sell any common shares in such a manner that, after such sale, the common shares held by Mr. Neeleman come to represent less than 50% plus one of our common shares, in each subsequent sale of common shares, he must first offer those shares to TRIP's former shareholders before offering them to any third party. His offer to TRIP's former shareholders must specify the number of common shares he intends to sell, the intended price per share, the payment conditions and any other relevant conditions. TRIP's former shareholders may then purchase those shares at or above the specified terms, as described in the Shareholders' Agreement.

If TRIP's former shareholders wish to sell any of their common shares, they must first offer those shares to Mr. Neeleman before offering them to any third party. Their offer to Mr. Neeleman must specify the number of common shares they intend to sell, the intended price per share, the payment conditions and any other relevant conditions. Mr. Neeleman may then purchase those shares at or above the specified terms.

If either Mr. Neeleman or TRIP's former shareholders, as the case may be, decline the right of first offer, the seller may pursue the intended sale to the third party at or above the price originally contemplated.

Termination

The Shareholders' Agreement will remain in effect until the earlier of twenty years as of the date of its execution or such time as TRIP's former shareholders together hold less than 5% of our common shares.

Rights of our Common and Preferred Shares

Each of our common shares entitles the holder to cast one vote at our shareholders' meetings. Holders of our common shares that are fully paid-in may convert them into preferred shares, at the ratio of 75.0 common shares for 1.0 preferred share pursuant to our bylaws. However, the total number of preferred shares outstanding may never exceed 50% of our total shares.

Our preferred shares are non-voting, except with regard to certain limited matters for as long as we are listed on the Level 2 segment of B3, as described below under "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights."

Our preferred shares have the following additional rights as compared to our common shares:

- the right to participate in a public tender offer for control of Azul, on the same terms and conditions (taking into account the conversion ratio of 75.0 common shares to 1.0 preferred share) as are offered to our controlling shareholder (the minimum price per common or preferred share to be offered for such common or preferred shares shall be at least 75 times the price per share paid for the controlling stake);
- the right to receive, upon any liquidation of Azul, capital reimbursement priority over common shares in an amount equal to our capital stock multiplied by the dividend participation to which the preferred shares are entitled (as determined by the formula set forth in Paragraph (k) of Article 55 of our bylaws);
- the right to receive, upon any liquidation of Azul and after (i) any reimbursement provided by the capital reimbursement priority described above and (ii) the capital reimbursement of common shares in an amount equal to the total remaining assets payable to shareholders multiplied by the preferred shares' dividend participation; and
- the right to receive dividends 75 times greater than the dividends payable on each common share, as described in the section entitled "Item 10.F. Dividends and Payment Agents—Dividend Policy."

Reimbursement and Right of Withdrawal

Under Brazilian corporate law, "dissenting shareholders" including shareholders who have no voting rights have the right to withdraw from a company and receive full reimbursement for the value of all their shares in certain circumstances. For purposes of this right of withdrawal, "dissenting shareholders" include shareholders who vote against a specific resolution, as well as those who abstain from voting or fail to appear at the shareholders' meeting.

This right of withdrawal and reimbursement arises if any of the following matters are decided upon at a shareholders' meeting:

1. creation of a new class of preferred shares or a disproportionate increase in an existing class of preferred shares relative to other classes of shares, unless such action is provided for in or authorized by our bylaws, which, as of December 31, 2017, was not the case;
2. modification to the preference, privilege or conditions for redemption or amortization granted to one or more classes of preferred shares, or the creation of a new class of preferred shares with greater privileges than the existing classes of preferred shares;
3. reduction of the mandatory dividend;
4. consolidation or merger into another company;
5. participation in a group of companies (*grupo de sociedades*), as defined by Brazilian corporate law;
6. the transfer of all shares to another company or receipt of shares by another company, in such a way as to make the company whose shares were transferred a wholly-owned subsidiary of the other;
7. changes to our corporate purpose; or
8. a spin-off that results in (i) a change to our corporate purpose (unless the spun-off company's assets and liabilities are transferred to a company that has substantially the same corporate purpose); (ii) a reduction in any mandatory dividend (although in our case, our preferred shares do not carry mandatory dividends); or (iii) any participation in a group of companies.

In the case of items 1. and 2. above, only holders of the class or type of shares adversely affected may exercise a right of withdrawal.

The right of withdrawal also arises if a spin-off or merger occurs but the new company fails to register as a public stock corporation (and, if applicable, fails to list its shares on the stock exchange) within 120 days of the date of the shareholders' meeting that approved the spin-off or merger.

In the event that our shareholders approve any resolution for us to:

- consolidate or merge with another company;
- transfer all our shares to another company or acquire all the shares of another company; or
- become part of a group of companies,

then any dissenting shareholder may exercise a right of withdrawal, but only if that shareholder's class of shares fails to satisfy certain liquidity tests at the time of the shareholders' meeting approving the merger, acquisition, sale or consolidation.

The right of withdrawal expires 30 days after publication of the minutes of the shareholders' meeting that approved the relevant event. In addition, any resolution regarding items 1. or 2. above requires ratification by the majority of shareholders holding preferred shares at a special shareholders' meeting to be held within one year. In such cases, the 30-day deadline begins on the date of publication of the minutes of the special shareholders' meeting. If we were to believe that the exercise of withdrawal rights would be prejudicial to our financial stability, we would have ten days after the expiration of that 30-day deadline to reconsider the resolution that triggered the withdrawal rights.

Brazilian corporate law provides that in order for any withdrawal rights to be exercised, any shares to be withdrawn and redeemed must have a value greater than the book value per share, calculated by reference to the latest balance sheet approved at a shareholders' meeting. If more than 60 days have passed since the date of that balance sheet, the shareholders wishing to exercise the withdrawal right may request a new valuation.

The sale of our controlling stake in ALAB to a third party would be considered a change in our corporate purpose, which would give our shareholders withdrawal rights.

Capital Increases and Preemptive Rights

Each of our shareholders has preemptive rights to subscribe for any new shares that increase our capital stock (and any warrants or other securities convertible into new shares) in direct proportion to the equity interest held by them. Preemptive rights may be exercised during the period of up to 30 days following the publication of notice of the capital increase. If the capital increase applies in equal proportion to all existing types and classes of shares, each shareholder's preemptive rights would apply only to the type and class of shares currently held by such shareholder. If, however, an exercise of preemptive rights would result in a change to the proportional composition of our capital stock, the preemptive rights may be exercised over the types and classes identical to those already held by the shareholders only. The preemptive rights may only extend to any other shares if necessary to ensure the shareholders receive the same proportion of our capital stock as they had prior to the increase in capital. If the shares being issued are of types and classes that are different from the existing shares, each shareholder may exercise preemptive rights (in proportion to the shares currently held) over all the types and classes of shares being issued.

Our bylaws provide that the preemptive rights may be excluded, or the deadline for exercise may be shortened, if we issue shares (or warrants or other securities convertible into new shares) through a public offering or a sale on a stock exchange, or by means of an exchange for shares in a public tender offer or acquisition of control.

In addition, the grant of options to purchase shares under stock option plans does not give rise to preemptive rights.

Dividend Rights

Dividends are allocated and distributed in accordance with Brazilian corporate law and our bylaws. For more information on dividend rights, see "Item 10.F. Additional Information—Dividends and Payment Agents—Dividend Policy."

Voting Rights

Each of our common shares entitles the holder to cast one vote at our shareholders' meetings. Our preferred shares have no voting rights, except with regard to the following matters for as long as we are listed on the Level 2 segment of B3:

(i) any direct conversion, consolidation, spin-off or merger of Azul;

(ii) approval of any agreement between our company and our controlling shareholder(s) or parties related to the controlling shareholder, to the extent that Brazilian corporate law or our bylaws require that the agreement be submitted to the approval of a general shareholders' meeting;

(iii) the valuation of any assets to be contributed to our company in payment for shares issued in a capital increase;

(iv) the appointment of an expert to ascertain the value our shares in connection with (A) a mandatory tender offer; (B) a delisting and deregistration transaction; or (C) any decision to cease to adhere to the requirements of the Level 2 segment of B3;

(v) any change in, or the revocation of, provisions of our bylaws that results in the violation of certain requirements of the Level 2 segment of B3, as summarized in "Item 9.C—Markets;"

(vi) the matters set forth in the Panel Code;

(vii) any change in, or the revocation of, provisions of our bylaws that amends or modifies any of the requirements provided for in (A) Paragraphs Nine, Ten and Twelve of Article 5 (restricted voting rights attached to preferred shares); (B) Article 12 (extraordinary measures requiring shareholder approval); and (C) Article 14 (governance of special shareholders' meetings) of our bylaws;

(viii) any change in, or the revocation of, provisions of our bylaws that amends or modifies any of the requirements provided for in (A) Paragraph Two of Article 15 (compensation of officers); (B) Article 30 (composition of our compensation committee), (C) Article 31 (functions of our compensation committee); (D) Article 32 (composition of our corporate governance committee); and (E) Article 33 (functions of our corporate governance committee) of our bylaws; and

(ix) the compensation of our officers in accordance with Paragraph Two of Article 15 of our bylaws.

Items (i) through (vii) listed above are considered "special matters." Items (i) through (vi) require previous approval of a special preferred shareholders' meeting if our controlling shareholder holds shares representing a dividend percentage equal to or less than 50%, and item (vii) always requires previous approval of a special preferred shareholders' meeting.

In addition to the foregoing, the rights conferred on the preferred shareholders by the following articles of Brazilian corporate law may be exercised by our shareholders holding shares representing a percentage of dividend shares equal to the percentage of outstanding capital stock: (i) Article 4a—Introductory Paragraph (new valuation in the event of a public offer for the acquisition of shares for the closing of capital), (ii) Article 105 (filing lawsuits for access to corporate books), (iii) Sole Paragraph, Paragraph (c) and Paragraph (d) of Article 123 (convening an ordinary shareholders' meeting), (iv) Section Three of Article 126 (requesting a shareholders' directory), (v) Section One of Article 157 (requesting information from management at the annual shareholders' meeting), (vi) Section Four of Article 159 (filing a lawsuit against directors), (vii) Section Two of Article 161 (establishing a fiscal council), (viii) Section Six of Article 163 (requesting the provision of information by the fiscal council), (ix) Paragraph II of Article 206 (proposing a dissolution action), and (x) Paragraph 1(a) of Article 246 (filing an action for liability and redress against a parent company).

Under Brazilian corporate law, shares with no voting rights or restricted voting rights (which would include our preferred shares) carry unrestricted voting rights in the event the company fails, for three consecutive years, to pay the privileged minimum or fixed dividends to which the shares are entitled, if any. Our preferred shares are not entitled to privileged minimum or fixed dividends and accordingly do not carry unrestricted voting rights if our Company fails to distribute the mandatory dividend (which is applicable to both common and preferred shares).

Brazilian corporate law also provides that any change in the rights of preferred shareholders, or any creation of a class of preferred shares with greater privileges than the existing preferred shares, must be approved by the holders of common shares at a shareholders' meeting. Any such approval only becomes legally effective once it has been ratified by the majority of shareholders holding preferred shares at a special shareholders' meeting.

Under Brazilian corporate law, minority holders of our preferred shares (with no voting rights or restricted voting rights) jointly representing at least 10% of our total capital stock have the right to elect one member of our board of directors in a separate voting process. Preferred shareholders have the right to elect two members of our board of directors in a separate voting process, pursuant to our bylaws. In addition, minority shareholders whose holding of our common shares represents at least 15% of our total voting capital stock have the right to elect one director in a separate voting process. Holders of preferred shares and common shares that represent 10% of the total share capital may combine their holdings in order to benefit from these rights.

In addition, Brazilian corporate law provides that the following rights of shareholders may not be altered either in the bylaws or by shareholders' resolutions:

- the right of holders of common shares to vote at general shareholders' meetings;
- the right to participate in the distribution of dividends (including interest paid on our capital), and to share in our remaining assets in case of liquidation;
- the right to subscribe for shares (or securities convertible into shares) in the circumstances summarized above; and
- the withdrawal rights summarized above.

Rights other than these unalterable rights may be granted or excluded in the bylaws or by shareholders' resolutions.

Shareholders' Meetings

Our board of directors has the power to call shareholders' meetings. Notice of shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, the official newspaper of the state of São Paulo, and in a second newspaper of general circulation (currently *Diário Comercial*). Our shareholders' meetings are held at our headquarters, in the city of Barueri, state of São Paulo. Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares entitling them to vote.

Certain extraordinary matters must be approved by shareholders holding preferred shares through an extraordinary shareholders' meeting. In the first instance, our preferred shareholders representing at least 25% of our preferred shares may call an extraordinary shareholders' meeting. In the second instance, our preferred shareholders representing any number of our preferred shares may call an extraordinary shareholders' meeting, subject to the regulations of the Level 2 segment of B3. If a specific quorum is not required by Brazilian corporate law or the regulations of the Level 2 segment of B3, resolutions may pass by a majority vote of the preferred shareholders present.

For a summary of how a holder of ADSs may receive information regarding and attend shareholders' meetings, see the section entitled "Item 12.D.—American Depositary Shares."

Directors' Power to Vote Compensation

In accordance with our bylaws, shareholder vote at the general shareholders' meeting establishes the overall annual compensation of the management and the Board of Directors sets forth the individual compensation of each member of the Board of Directors and Board of Executive Officers.

Anti-Takeover Provisions

Differently from companies incorporated under the laws of the State of Delaware, the majority of Brazilian publicly-held companies do not employ "poison pill" provisions to prevent hostile takeovers. As most Brazilian companies have clearly identified controlling shareholders, hostile takeovers are rare and thus no developed body of case law addresses the limits on the ability of management to prevent or deter potential hostile bidders. Brazilian corporate law, Level 2 B3 rules and our bylaws require any party that acquires our control to extend a tender offer for common and preferred shares held by non-controlling shareholders at the same purchase price paid to the controlling shareholder. In addition, any shareholder whose equity interest reaches 30% of our outstanding common shares, or the Relevant Shareholding Level must effect a tender offer for all of our outstanding common shares, preferred shares and instruments convertible to our common shares or preferred shares, under the terms of the Self-Regulatory Code on Mergers and Acquisitions, or the Panel Code, issued by the Takeover Panel Sponsors Association—CAF, or CAF, which code we adhere to (see "Item 10.B. Memorandum and Articles of Association—Principal Differences between Brazilian and U.S. Corporate Governance Practices—Brazilian Takeover Panel (CAF)"). The price to be offered for our common shares in the tender offer will be the highest price paid for our common shares by the offer or during the twelve months prior to the day when the holder reached the Relevant Shareholding Level, adjusted for certain relevant corporate events such as dividends payments and stock splits. The price to be offered for each of our preferred shares and instruments convertible to our common shares in the tender offer will be a price 75 times higher than the price offered for each of our common shares. For more information on CAF, see "Item 10.B. Memorandum and Articles of Association—Principal Differences between Brazilian and U.S. Corporate Governance Practices—Brazilian Takeover Panel (CAF)."

Principal Differences between Brazilian and U.S. Corporate Governance Practices

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different to the standards applicable to U.S. listed companies. Under the NYSE rules, we are required only

- to have an audit committee or audit board that meets certain requirements, pursuant to an exemption available to foreign private issuers, as discussed below;
- to provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules; and
- to provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies.

A summary of the significant differences between our corporate governance practices and those required of U.S. listed companies is included below and under "Item 16.G. Corporate Governance."

Majority of Independent Directors

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the affirmative determination of the board of directors of the absence of a material relationship between a director and the listed company. Under the listing standards of Level 2 segment of B3, our board of directors must have at least five members, at least 20% of which must be independent. Also, Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE rules. Brazilian corporate law requires that our directors be elected by our shareholders at a shareholders' meeting.

Executive Sessions

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian corporate law does not have a similar provision. According to Brazilian corporate law, up to one-third of the members of the board of directors can be elected to officer positions. Our Chairman, David Neeleman, is a member of our board of directors. As a result, the non-management directors on our board do not typically meet in executive session.

Nominating Committee, Corporate Governance Committee and Compensation Committee

NYSE rules require that listed companies have a nominating/corporate governance committee and a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee's required purpose and detailing its required responsibilities—although as a company the majority of whose voting shares are held by another group, we would not be required to comply with this rule. The responsibilities of the nominating/corporate governance committee include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. The responsibilities of the compensation committee, in turn, include, among other things, reviewing corporate goals relevant to the chief executive officer's compensation, evaluating the chief executive officer's performance, approving the chief executive officer's compensation levels and recommending to the board compensation of other executive officers, incentive compensation and equity-based plans.

We are not required under applicable Brazilian corporate law to have a nominating committee, corporate governance committee and compensation committee. Aggregate compensation for our directors and executive officers is established by our common and preferred shareholders at annual shareholders' meetings, and our directors at board of directors' meeting are required to determine the allocation of the aggregate compensation among their members and the officers.

Audit Committee and Audit Committee Additional Requirements

NYSE rules require that listed companies have an audit committee that:

- is composed of a minimum of three independent directors who are all financially literate;
- meets the SEC rules regarding audit committees for listed companies;
- has at least one member who has accounting or financial management expertise, and
- is governed by a written charter addressing the committee's required purpose and detailing its required responsibilities.

The audit committee is elected by the board of directors.

Shareholder Approval of Equity Compensation Plans

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions to those plans (which may be approved for an undefined period), with limited exceptions. Under Brazilian corporate law, all stock option plans must be submitted for approval by the holders of our common shares. In addition, any issuance of new shares that exceeds our authorized share capital is subject to approval by holders of our common shares at a shareholders' meeting.

Corporate Governance Guidelines

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We comply with the corporate governance guidelines under applicable Brazilian law and the Level 2 segment of B3. We believe the corporate governance guidelines applicable to us under Brazilian law are consistent with the NYSE guidelines. We have adopted and observe the Policy of Material Fact Disclosure, which deals with the public disclosure of all relevant information as per CVM's Instruction 358 guidelines, and the Policy on Trading of Securities, which requires management to disclose all transactions relating to our securities, and which is required under Level 2 segment of B3.

Code of Business Conduct and Ethics

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Level 2 segment of B3 has a similar requirement.

We adopted a code of business conduct and ethics in May 2009, which regulates the conduct of our managers in connection with the disclosure and control of financial and accounting information and their access to privileged and non-public information. Our code of business conduct and ethics complies with the requirements of the Sarbanes-Oxley Act of 2002, the NYSE rules and Level 2 segment of B3 rules.

Internal Audit Function

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control.

Our internal auditing department works independently to conduct methodologically structured examinations, analysis, surveys and fact finding to evaluate the integrity, adequacy, effectiveness, efficiency and economy of the information systems processes and internal controls related to our risk management. The internal auditing department reports continually to our board of directors and audit committee and its activities are directly supervised by our audit committee, which acts under our board of directors, and is monitored by our audit and operational risk management superior committee. In carrying out its duties, the internal auditing department has access to all documents, records, systems, locations and people involved with the activities under review.

Brazilian Takeover Panel (CAF)

On January 21, 2014, we entered into an agreement to adhere to the Panel Code issued by CAF, a non-statutory non-for-profit entity organized under private law for the purpose of organizing, maintaining and administering the CAF. Our Company, shareholders, directors, fiscal council members and members of any other entity with technical or consultative functions created by statutory provision will have to respect the principles and rules of the Panel Code and comply with the decisions that may be taken by CAF under the Panel Code in respect of all tender offers, takeovers, stock takeovers, mergers or spin-offs in connection with a takeover.

The rights of any shareholder who fails to comply with the Panel Code may be suspended pursuant to a decision of the shareholders at the Annual General Meeting, including the right of the non-compliant shareholder to vote.

C. Material Contracts

Our material contracts are directly related to our operating activities, such as contracts relating to aircraft leases, fuel supply and other commercial agreements as well as contracts relating to our concession to operate as a commercial airline. We do not have material contracts that are not related to our operating activities.

D. Exchange Controls

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our preferred shares represented by our ADSs or the holders of our preferred shares from converting dividends, distributions or the proceeds from any sale of these preferred shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the preferred shares underlying our ADS and to remit the proceeds abroad.

Resolution 1927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of the ADSs are entitled to favorable tax treatment under certain circumstances. See "Item 10.E. Taxation—Brazilian Tax Considerations."

E. Taxation

The following summary contains a description of certain Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of preferred shares, including in the form of ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase preferred shares, including in the form of ADSs. The summary is based upon the tax laws of Brazil and regulations thereunder and on the tax laws of the United States and regulations thereunder as of December 31, 2019, which are subject to change.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. Holders (as defined below) of preferred shares, including in the form of ADSs. Prospective holders of preferred shares, including in the form of ADSs, should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of preferred shares, including in the form of ADSs, in their particular circumstances.

Brazilian Tax Considerations

The following discussion summarizes the main Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation, or a "Non-Resident Holder." This discussion is based on Brazilian law as currently in effect, which is subject to change, possibly with retroactive effect, and to differing interpretations. Any change in such law may change the consequences described below.

The tax consequences described below do not take into account the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. The discussion also does not address any tax consequences under the tax laws of any state or locality of Brazil.

The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, exchange, ownership and disposition of our preferred shares or ADSs. Prospective purchases are advised to consult their own tax advisors with respect to an investment in our preferred shares or ADSs in light of their particular investment circumstances.

Income Tax

Dividends

Historically, dividends paid by a Brazilian company, such as ourselves, including dividends paid to a Non-Resident Holder, have not been subject to withholding income tax in Brazil, to the extent that such amounts are related to profits generated as of January 1, 1996 (Law 9249, dated December 26, 1995). Dividends paid from profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, according to the tax legislation applicable to each corresponding year.

Law 11638, dated December 28, 2007, significantly altered Brazilian corporate law in order to align the acccounting practices adopted in Brazil, or Brazilian GAAP, more closely with. However, Law 11941, dated May 27, 2009, introduced the Transitory Tax Regime, or RTT, in order to render neutral, from a tax perspective, all the changes provided by Law 11638. Under the RTT, for tax purposes, legal entities should observe the accounting methods and criteria as they were on December 31, 2007. Law 12973, dated May 13, 2014, as amended, abolished the RTT and approved new rules aimed at permanently aligning the Brazilian tax system with IFRS as of January 1, 2015, including with respect to dividend distributions. For the 2014 fiscal year, taxpayers were entitled to elect to adopt the new rules or to continue adopting the RTT.

Under the RTT, there was controversy over how tax authorities would view certain situations, including whether dividends should be calculated in accordance with IFRS or the old Brazilian GAAP. It was debatable whether any dividend distributions made in accordance with IFRS in excess of the amount that could have been distributed had the profits been ascertained based on the old Brazilian GAAP would be subject to taxation in Brazil. In view of such controversy, Law 12973/2014 expressly stated that dividends calculated in accordance with IFRS based on profits ascertained between January 1, 2008 and December 31, 2013 would not be subject to taxation.

Notwithstanding the provisions of Law 12973/2014, Brazilian tax authorities issued Normative Ruling 1492, dated September 17, 2014, which provided that dividend distributions supported by IFRS profits ascertained in 2014 that exceeded the amount resulting from the adoption of the old Brazilian GAAP would be: (i) subject to withholding income tax based on progressive rates (0% to 27.5%) if paid to Brazilian individuals; (ii) added to the tax base of the corporate tax (IRPJ/CSL) of the beneficiary if paid to Brazilian companies; (iii) be subject to WHT at a 15% rate if paid to non-residents; or (iv) subject to WHT at a 25% rate if paid to non-residents that are based in blacklisted tax haven jurisdictions. However, this rule would only apply to taxpayers that have not elected to account for the effects of Law 12973/2014 (i.e., taxation based on IFRS standards) for the 2014 fiscal year.

Despite our belief that the tax exemption on dividends applies to dividends distributed by Brazilian companies out of profits ascertained in accordance with IFRS, if the provisions of Normative Ruling 1492/2014 are applicable, dividends ascertained in fiscal year 2014 based on IFRS that exceed the amount that would result from the adoption of the old Brazilian GAAP, for that calendar year, could be subject to withholding income tax, even if it were distributed in 2018 or later, at a rate of 15% or, if the Non-Resident Holder is domiciled in a Low or Nil Tax Jurisdiction (as defined below), 25%. For dividends paid out from profits ascertained in 2015 going forward, there are no such issues and dividends will be exempt, provided that they are distributed pursuant to Brazilian corporate law.

Interest on Shareholders' Equity

Law 9249, dated December 26, 1995, as amended, allows a Brazilian corporation, such as ourselves, to make distributions to shareholders of interest on shareholder's equity and treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, both of which are taxes levied on our profits, as far as the limits described below are observed. These distributions may be paid in cash. For tax purposes, this interest on net equity is limited to the daily pro rata variation of the TJLP (long-term interest rate), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50.0% of the net profits (after the social contribution on net profits and before taking into account the provision for corporate income tax and the amounts attributable to shareholders as interest on shareholders' equity) related to the period in respect of which the payment is made; and
- 50.0% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest on shareholders' equity to a Non-Resident Holder is subject to withholding income tax at the rate of 15.0%, or 25.0% in case of a resident of a Low or Nil Tax Jurisdiction (as defined below) or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Resident Holder (Normative Ruling 1455/14). These payments may be included, at their net value, as part of any mandatory dividend. The distribution of interest on shareholders' equity may be determined by our board of directors. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable Brazilian withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.

On September 30, 2015, the Brazilian federal government enacted Provisional Measure MP 694 in an attempt to increase the withholding income tax on interest on shareholders' equity from 15% to 18%. In addition, such provisional measure provided that the deductibility of interest on shareholders' equity should be limited to the lower amount of either (i) the TJLP or (ii) 5% of shareholders' equity. However, since Provisional Measure MP 694 was not converted into law by the Brazilian Senate within the relevant legal term, it did not produce any effects and was nullified. We cannot assure you that the Brazilian federal government will not try to increase the withholding income tax on interest on shareholders' equity in the future.

Low or Nil Tax Jurisdictions

According to Law 9430, dated December 27, 1996, as amended, Tax Favorable Jurisdiction is a country or location that (i) does not impose taxation on income, (ii) imposes income tax at a rate lower than 20%, or (3) imposes restrictions on the disclosure of shareholding composition or investment ownership.

Additionally, on June 24, 2008, Law 11727 introduced the concept of "privileged tax regime," which is defined as a tax regime that (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out substantial economic activity in the country or dependency or (b) contingent to the non-exercise of substantial economic activity in the country or dependency; (iii) does not tax or that taxes income generated abroad at a maximum rate of lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.

On November 28, 2014, the Brazilian tax authorities issued Ordinance 488, which decreased these minimum thresholds from 20% to 17% for specific cases. Under Ordinance 488, the 17% threshold applies only to countries and regimes aligned with international standards of fiscal transparency, in accordance with rules to be established by the Brazilian tax authorities.

We consider that the best interpretation of Law 11727/2008 that the new concept of "privileged tax regime" would be applicable solely for purposes of transfer pricing and thin capitalization rules. However, we are unable to ascertain whether or not the privileged tax regime concept will be extended to the concept of Low or Nil Tax Jurisdiction, though the Brazilian tax authorities appear to agree with our position, in view of the provisions of introduced by Normative Ruling 1037, dated as of June 4, 2010, as amended, which presents two different lists (Low or Nil Tax Jurisdictions—taking into account the non-transparency rules—and privileged tax regimes).

Notwithstanding the above, we recommend that you consult your own tax advisors regarding the consequences of the implementation of Law 11727, Normative Ruling 1037 and of any related Brazilian tax law or regulation concerning Low or Nil Tax Jurisdictions or "privileged tax regimes."

Taxation of Gains

According to Brazilian tax legislation, the capital gains tax applicable to Brazilian resident individuals should also apply to non-resident investors. In this sense, gains related to the sale or disposition of assets located in Brazil, such as our common shares, by a Non-Resident Holder, are subject to withholding income tax in Brazil, regardless of whether the sale or disposition is made by a Non-Resident Holder to another non-resident of Brazil or to a Brazilian resident.

As a general rule, capital gains realized as a result of a sale or disposition of common shares are equal to the positive difference between the amount realized on the sale or disposition and the respective acquisition costs of the common shares.

There is a controversy regarding the currency that should be considered for purposes of determining the capital gain realized by a Non-Resident Holder on a sale or disposition of shares in Brazil, more specifically, if such capital gain is to be determined in foreign or in local currency.

Under Brazilian law, income tax on such gains can vary depending on the domicile of the Non-Resident Holder, the type of registration of the investment by the Non-Resident Holder with the Central Bank and how the disposition is carried out, as described below.

Currently, capital gains realized by Non-Resident Holders on a sale or disposition of shares carried out on the Brazilian stock exchange (including the organized over-the-counter market) are:

- exempt from income tax when realized by a Non-Resident Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution 4373/14 of the Brazilian Monetary Council, or a 4373 Holder, and (2) is not resident or domiciled in a Low or Nil Tax Jurisdiction; or
- subject to income tax at a rate of 15% in any other case, including gains realized by a Non-Resident Holder that (1) is not a 4373 Holder and (2) is resident or domiciled a Low or Nil Tax Jurisdiction.

A withholding income tax of 0.005% will apply and shall be withheld by the intermediary institution (i.e., a broker) that receives the order directly from the Non-Resident Holder, which can be offset against the eventual income tax due on the capital gain. Such withholding does not apply to a 4373 Holder that is not resident or domiciled in a Low or Nil Tax Jurisdiction.

Any capital gains realized on the disposition of shares that are not carried out on the Brazilian stock exchange are:

- subject to the income tax at a rate of 15% when realized by a 4373 Holder that is not resident or domiciled in a Low or Nil Tax Jurisdiction;
- subject to income tax at progressive rates that vary from 15% to 22.5%, as further detailed below, when realized by a Non-Resident Holder that is not a 4373 Holder and is not resident or domiciled in a Low or Nil Tax Jurisdiction; and
- subject to income tax at a rate of up to 25% when realized by a Non-Resident Holder that is resident or domiciled in a Low or Nil Tax Jurisdiction.

In the cases above, if the capital gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with the intermediation of a financial institution the withholding income tax of 0.005% will apply and can be later offset against any income tax due on the capital gains.

In the case of redemption of shares or capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount effectively received by the Non-Resident Holder and the corresponding acquisition cost is treated, for tax purposes, as capital gains derived from sale or exchange of shares that is not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the rates of 15% up to 22.5%, or up to 25%, in case of beneficiaries resident or domiciled in a Low or Nil Tax Jurisdiction.

On September 22, 2015, the Brazilian federal government enacted Provisional Measure MP 692/2015, converted into Law 13259, of March 16, 2016, or Law 13259/2016, which introduced a regime based on the application of progressive tax rates for income taxation on capital gains recognized by Brazilian individuals on the disposition of assets in general. Under Law 13259/2016, effective as from January 1, 2017, the income tax rates on capital gains recognized by Brazilian individuals, which also applies to a Non-Resident Holder, would be: (i) 15% for the part of the gain that does not exceed R$5 million, (ii) 17.5% for the part of the gain that exceeds R$5 million but does not exceed R$10 million, (iii) 20% for the part of the gain that exceeds R$10 million but does not exceed R$30 million and (iv) 22.5% for the part of the gain that exceeds R$30 million.

As a general rule, the increased capital gains taxation regime should apply to transactions conducted outside of the Brazilian stock exchange or the organized OTC market. Also, as a general rule, a foreign investor who is a resident of or has a domicile in a Low or Nil Tax Jurisdiction would be subject to income tax at a rate of up to 25%, as mentioned above. However, although debatable, if the Non-Resident Holder is a 4373 Holder, it is possible to sustain that the income tax should not apply at progressive rates. Furthermore, as a general rule, gains recognized by a Non-Resident Holder in transactions executed on the Brazilian stock exchange or the organized OTC market should not be subject to the increased capital gains taxation under Law 13259.

In the case of a redemption of shares or a capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount received by a Non-Resident Holder and the acquisition cost of the shares redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the progressive rates, or the 25% flat rate mentioned above, as the case may be.

Any exercise of preemptive rights relating to shares or ADSs will not be subject to Brazilian withholding income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposition of shares or ADSs.

Sales of ADSs

Arguably, the gains realized by a Non-Resident Holder on the disposition of ADSs to another non-Brazilian resident are not subject to Brazilian tax, based on the argument that the ADSs would not constitute assets located in Brazil for purposes of Law 10833/2003. However, we cannot assure you how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Resident Holder on the disposition of ADSs to another non-Brazilian resident. As a result, gains on a disposition of ADSs by a Non-Resident Holder to Brazilian resident, or even to a Non-Resident Holder in the event that courts determine that the ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described above.

Gains on the exchange of ADSs for shares

Non-Resident Holders may exchange ADSs for the underlying shares, sell the shares on a Brazilian stock exchange and remit abroad the proceeds of the sale. As a general rule, the exchange of ADSs for shares is not subject to income taxation in Brazil.

Upon receipt of the underlying shares in exchange for ADSs, Non-Resident Holders may also elect to register with the Central Bank the U.S. dollar value of such shares as a foreign portfolio investment under 4373/2014, which will entitle them to the tax treatment referred above on the future sale of the shares.

Alternatively, the Non-Resident Holder is also entitled to register with the Central Bank the U.S. dollar value of such shares as a foreign direct investment under Law 4131/1962, in which case the respective sale would be subject to the tax treatment applicable to transactions carried out of by a Non-Resident Holder that is not a 4373 Holder.

Gains on the exchange of shares for ADSs

The deposit of shares in exchange for the ADSs by a Non-Resident Holder may be subject to Brazilian withholding income tax on capital gains if the acquisition cost is lower than the shares price verified on the exchange date. The capital gains ascertained by the Non-Resident Holder, in this case, should be subject to taxation at rates that vary from 15% to 22.5%, depending on the amount of the gain, as referred to above; or at 25% if realized by a Non-Resident Holder that is resident or domiciled in a Low or Nil Tax Jurisdiction. In certain circumstances, there may be arguments to sustain the position that such taxation is not applicable to 4,373 Holders that are not resident or domiciled in a Low or Nil Tax Jurisdiction.

Tax on Foreign Exchange and Financial Transactions

Foreign Exchange Transactions

Pursuant to Decree No. 6,306, dated December 14, 2007, as amended, or Decree No. 6,306/07, the conversion of Brazilian currency into foreign currency (e.g., for purposes of paying dividends and interest) and the conversion of foreign currency into Brazilian currency may be subject to the Tax on Foreign Exchange Transactions or IOF/Exchange. For most exchange transactions, the rate of IOF/Exchange is 0.38%. However, foreign currency exchange transactions related to the inflow of funds and outflow of funds into and out of Brazil in connection with investments carried out by a foreign investor (including a Non-Resident Holder, as applicable) for investment in the Brazilian financial and capital markets, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market are subject to IOF/Exchange tax at a zero percent rate. The Brazilian Government is permitted to increase the rate of the IOF/Exchange tax at any time up to 25% of the amount of the foreign exchange transaction. However, any increase in rates may only apply to transactions carried out after this increase in rate and not retroactively.

Furthermore, the IOF/Exchange is currently levied at a 0% rate on the withdrawal of ADSs into shares. Nonetheless, the Brazilian government is permitted to increase the rate at any time to a maximum of 25%, but only in relation to future transactions. However, any increase in rates may only apply to future foreign exchange transactions.

Tax on Transactions involving Bonds and Securities

Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or "IOF/Bonds," on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bond Tax applicable to transactions involving the transfer of shares traded on the Brazilian stock exchange with the purpose of the issuance of depositary receipts to be traded outside Brazil is currently zero, although the Brazilian government may increase such rate at any time up to 1.5% of the transaction amount per day, but only in respect of future transactions.

On December 24, 2013, the Brazilian government reduced the IOF/Bonds Tax to zero for transactions involving the deposit of shares which are issued by a Brazilian company admitted to trade on the Brazilian stock exchange with the specific purpose of enabling the issuance of depositary receipts traded outside Brazil. Any increase in this rate may only apply to future transactions.

Other Brazilian Taxes

There are no Brazilian federal inheritance, gift or succession taxes applicable on the ownership, transfer or disposition of shares by individuals or entities not domiciled in Brazil. Gift and inheritance taxes, however, may be levied by some states in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant state to individuals or entities that are resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes payable by holders of shares, or shares comprised of shares.

Material U.S. Federal Income Tax Consequences

The following discussion is a general discussion of the material U.S. federal income tax consequences relating to the acquisition, ownership and disposition of preferred shares, including in the form of ADSs. This discussion deals only with U.S. Holders (as defined below) that purchase the preferred shares, including in the form of ADSs, for cash and that hold preferred shares, including in the form of ADSs, as capital assets (generally, property held for investment). This discussion does not purport to address all of the tax considerations that may be relevant to U.S. Holders based upon their particular circumstances and may not apply to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks or other financial institutions, insurance companies, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities or arrangements for U.S. federal income tax purposes or investors in such entities or arrangements, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that hold preferred shares, including in the form of ADSs, as part of a straddle or hedging, constructive sale, integrated or conversion transactions for U.S. federal income tax purposes, a person that actually or constructively owns 10% or more of the total combined voting power or value in our stock, traders in securities that have elected the mark-to-market method of accounting for their securities, or persons whose functional currency is not the U.S. dollar).

The discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed U.S. Treasury regulations thereunder, published rulings and court decisions, and all subject to change at any time, perhaps with retroactive effect.

No assurance can be given that the Internal Revenue Service, or the IRS, will agree with the views expressed in this discussion, or that a court will not sustain any challenge by the IRS in the event of litigation. This discussion does not include any description of the tax laws of any state, local, municipal or non-U.S. government that may be applicable to a particular investor and does not consider the Medicare tax on net investment income or any aspects of U.S. federal tax law other than income taxation.

As used herein, the term "U.S. Holder" means a beneficial owner of a preferred share, including in the form of an ADS, that is, for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States; (b) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust (i) if a court within the United States can exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of that trust or (ii) the trust had a valid election in effect under current U.S. Treasury regulations to be treated as a U.S. person. If a partnership or an entity or an arrangement that is treated as a partnership for U.S. federal income tax purposes holds preferred shares, including in the form of ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners in partnerships that hold preferred shares, including in the form of ADSs, are encouraged to consult their tax advisors.

Except where specifically described below, this discussion assumes that we are not a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes. See the discussion under "—Passive Foreign Investment Company Considerations" below.

The discussion below assumes that the representations contained in the ADS deposit agreement are true and that the obligations in the ADS deposit agreement and any related agreements will be complied with in accordance with their terms. In general, for U.S. federal income tax purposes, U.S. Holders who own ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs. Accordingly, the surrender of ADSs in exchange for preferred shares (or vice versa) will not result in the realization of gain or loss for U.S. federal income tax purposes. The rest of this discussion assumes that a holder of an ADS will be treated for U.S. federal income tax purposes as directly holding the underlying preferred shares. The U.S. Treasury Department has expressed concern that depositaries for ADRs, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of U.S. foreign tax credits by U.S. Holders of such receipts or shares. These actions would also be inconsistent with claiming the reduced rate for "qualified dividend income" described below. Accordingly, the analysis regarding the availability of a U.S. foreign tax credit for Brazilian withholding taxes and availability of the reduced rate for qualified dividend income could be affected by future actions that may be taken by the depositary and the U.S. Treasury Department.

Each person considering the acquisition of preferred shares, including in the form of ADSs, is encouraged to consult its own independent tax advisor regarding the specific U.S. Federal, state, local and foreign income and other tax considerations of the acquisition, ownership and disposition of the preferred shares, including in the form of ADSs.

Taxation of Dividends and Other Distributions

Subject to the PFIC rules discussed below, distributions of cash or property with respect to preferred shares, including in the form of ADSs, (including any distributions paid in the form of interest on shareholders' equity for Brazilian tax purposes and the amount of any Brazilian taxes withheld on any such distribution, if any) will constitute ordinary dividend income to the extent of our current and accumulated earnings and profits (as determined for U.S. federal income tax purposes). Dividends generally will be includible in a U.S. Holder's gross income on the day on which the dividends are received by the depositary in the case of a holder of ADSs, or by the U.S. Holder in the case of a holder of preferred shares, not in the form of ADSs. Any distributions in excess of such earnings and profits will constitute a nontaxable return of capital and reduce a U.S. Holder's tax basis in such preferred shares or ADSs. To the extent such distributions exceed a U.S. Holder's tax basis in its preferred shares or ADSs, such excess will constitute capital gain and generally will be treated as described below under "Item 10.E. Taxation—Material U.S. Federal Income Tax Consequences—Sale or Other Taxable Disposition of Preferred Shares, Including in the Form of ADSs." Because we do not intend to maintain calculations of our earnings and profits on the basis of U.S. federal income tax principles, U.S. Holders should expect that any distribution paid generally will be reported to them as a dividend. Dividends on preferred shares, including in the form of ADSs, will not be eligible for the dividends received deduction allowed to U.S. corporations.

A U.S. Holder may be entitled, subject to a number of complex limitations and conditions (including a minimum holding period requirement), to claim a U.S. foreign tax credit in respect of any Brazilian income taxes withheld on dividends received in respect of the preferred shares, including those in the form of ADSs. A U.S. Holder who does not elect to claim a credit for any foreign income taxes paid during the taxable year may instead claim a deduction in respect of such income taxes provided the U.S. Holder elects to deduct (rather than credit) all foreign income taxes for that year. Dividends received in respect of preferred shares, including in the form of ADSs, generally will be treated as foreign-source income, subject to various classifications and other limitations and generally will be treated as passive category income for most U.S. Holders for purposes of the foreign tax credit limitation. However, for any period in which we are treated as a "United States-owned foreign corporation," a portion of any dividends paid by us during such period may be treated as U.S. source solely for purposes of the foreign tax credit. We would be treated as a United States-owned foreign corporation if 50% or more of the total value or total voting power of our shares is owned, directly, indirectly or by attribution, by United States persons. To the extent any portion of our dividends is treated as U.S.-source income pursuant to this rule, the ability of a U.S. Holder to claim a foreign tax credit for any Brazilian withholding taxes payable in respect of our dividends may be limited. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are encouraged to consult their own tax advisors regarding the availability of foreign tax credits under their particular circumstances.

Dividends paid in *reais* (including the amount of any Brazilian taxes withheld therefrom, if any) will be includible in a U.S. Holder's gross income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the *reais* are received by the depositary, in the case of a holder of ADSs, or by the U.S. Holder in the case of a holder of preferred shares not in the form of ADSs, regardless of whether the dividends are converted into U.S. dollars. If the *reais* are converted to U.S. dollars on the date of such receipt, a U.S. Holder generally will not recognize a foreign currency gain or loss. However, if the U.S. Holder converts the *reais* into U.S. dollars on a later date, the U.S. Holder must include in gross income any gain or loss resulting from any exchange rate fluctuations. The gain or loss will be equal to the difference between (i) the U.S. dollar value of the amount included in income when the dividend was received and (ii) the amount received on the conversion of the *reais* into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in a U.S. Holder's gross income to the date such payment is converted into U.S. dollars will be foreign currency gain or loss and will be treated as ordinary income or loss. Such gain or loss generally will be treated as income from sources within the United States. U.S. Holders are encouraged to consult their own independent tax advisors regarding the treatment of foreign currency gain or loss, if any, on any *reais* received that are converted into U.S. dollars on a date subsequent to receipt by the depositary or the U.S. Holder, as the case may be.

Distributions treated as dividends that are received by a non-corporate U.S. Holder (including an individual) from "qualified foreign corporations" generally qualify for a reduced maximum tax rate so long as certain holding period and other requirements are met. Dividends paid on preferred shares, including in the form of ADSs, should qualify for the reduced rate if we are treated as a "qualified foreign corporation." For this purpose, a qualified foreign corporation means any foreign corporation provided that: (i) the corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC (as discussed below), (ii) certain holding period requirements are met and (iii) either (A) the corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules or (B) the stock with respect to which such dividend was paid is readily tradable on an established securities market in the United States. The ADSs are listed on the NYSE and should be considered to be readily tradable on an established securities market in the United States. Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares not represented by ADSs will be treated as qualified dividend income because the preferred shares are not themselves listed on a U.S. exchange. U.S. Holders are encouraged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to the preferred shares, including in the form of ADSs.

Sale or Other Taxable Disposition of Preferred Shares, Including in the Form of ADSs

Subject to the PFIC rules discussed below, upon the sale or other taxable disposition of preferred shares, including in the form of ADSs, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and such U.S. Holder's tax basis in such preferred shares or ADSs. The amount realized on a sale or other taxable disposition of preferred shares, including in the form of ADSs, generally will be equal to the amount of cash or the fair market value of any other property received. The initial tax basis of a U.S. Holder's preferred shares, including in the form of ADSs, will be the U.S. dollar value of the *reais* denominated purchase price determined on the date of purchase. Gain or loss recognized by a U.S. Holder on such sale or other taxable disposition generally will be long-term capital gain or loss if, at the time of the sale or other taxable disposition, the preferred shares, including those in the form of ADSs, have been held for more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deduction of a capital loss is subject to limitations for U.S. federal income tax purposes.

If Brazilian income tax is withheld on the sale or other taxable disposition of preferred shares, including in the form of ADSs, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that sale or other taxable disposition before deduction of the Brazilian income tax. Capital gain or loss, if any, recognized by a U.S. Holder on the sale or other taxable disposition of preferred shares, including in the form of ADSs, generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a preferred share, including in the form of an ADS, that is subject to Brazilian income tax, the U.S. Holder may not be able to benefit from the foreign tax credit for that Brazilian income tax (i.e., because the gain from the disposition would be U.S. source), unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Brazilian income tax, provided that the U.S. Holder elects to deduct all foreign taxes paid or accrued for the taxable year. The rules governing foreign tax credits are complex and a U.S. Holder is encouraged to consult its own tax advisor regarding the availability of foreign tax credits under its particular circumstances.

Passive Foreign Investment Company Considerations

Special U.S. federal income tax rules apply to U.S. persons owning shares of a PFIC. A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either:

- at least 75% of its gross income is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets (other than gains from the disposition of property that is inventory) and gains from commodities and securities transactions. In addition, if the non-U.S. corporation owns, directly or indirectly, at least 25%, by value, of the shares of another corporation, it will be treated as if it holds directly its proportionate share of the assets and receives directly its proportionate share of the income of such other corporation.

The determination as to whether a non-U.S. corporation is a PFIC is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, the composition of the income and assets of the non-U.S. corporation from time to time and the nature of the activities performed by such non-U.S. corporation. Based on current estimates of our gross income and gross assets, the nature of our business and our current business plans (all of which are subject to change), we do not expect to be classified as a PFIC for our 2019 taxable year and our current taxable year (although the determination cannot be made until the end of such taxable year), and we intend to continue our operations in such a manner that we do not expect to be classified as a PFIC in the foreseeable future. There can be no assurance in this regard, because the PFIC determination is made annually and is based on the portion of our assets and income that is characterized as passive under the PFIC rules.

If we are or become a PFIC for any taxable year during which a U.S. Holder holds preferred shares, including in the form of ADSs, the U.S. Holder will be subject to special tax rules with respect to any "excess distributions" that the U.S. Holder receives and any gain realized from a sale or other disposition of the preferred shares, including those in the form of ADSs, unless the U.S. Holder makes a "mark-to-market" election or a "qualified electing fund," or QEF, election, as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder during the shorter of the three preceding taxable years or the U.S. Holder's holding period for the preferred shares, including those in the form of ADSs, will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder's holding period for the preferred shares, including those in the form of ADSs;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or "excess distribution" cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the preferred shares, including those in the form of ADSs, cannot be treated as capital, even if a U.S. Holder holds the preferred shares or ADSs as capital assets. If we were a PFIC, certain subsidiaries and other entities in which we have a direct or indirect interest may also be PFICs, or Lower-tier PFICs. Under attribution rules, U.S. Holders would be deemed to own their proportionate shares of Lower-tier PFICs and would be subject to U.S. federal income tax according to the rules described above on (i) certain distributions by a Lower-tier PFIC and (ii) a disposition of shares of a Lower-tier PFIC, in each case as if the U.S. Holder held such shares directly, even though such U.S. Holder had not received the proceeds of those distributions or dispositions.

If we are a PFIC, a U.S. Holder may avoid taxation under the rules described above by making a QEF election to include such U.S. Holder's share of our income on a current basis, provided that we furnish such U.S. Holder annually with certain tax information. If we conclude that we should be treated as a PFIC for any taxable year, we intend to notify each U.S. Holder of such conclusion. However, there can be no guarantee that we will be willing or able to provide the information needed by any U.S. Holder to make a QEF election with respect to the preferred shares, including in the form of ADSs.

If a U.S. Holder makes a QEF election, such U.S. Holder will generally be taxable currently on its pro rata share of our ordinary earnings and net capital gains (at ordinary income and capital gain rates, respectively) for each taxable year during which we are treated as a PFIC, regardless of whether or not such U.S. Holder receives distributions, so that the U.S. Holder may recognize taxable income without the corresponding receipt of cash from us with which to pay the resulting tax obligation. The basis in the preferred shares, including those in the form of ADSs, held by such U.S. Holder will be increased to reflect taxed but undistributed income. Distributions of income that were previously taxed will result in a corresponding reduction of tax basis in the preferred shares, including those in the form of ADSs, and will not be taxed again as distributions to the U.S. Holder.

Alternatively, a U.S. Holder of "marketable stock" (as defined below) in a PFIC may make a mark-to-market election with respect to such stock (but not for the shares of any Lower-tier PFIC) to elect out of the tax treatment discussed above. A U.S. Holder electing the mark-to-market regime generally would compute gain or loss at the end of each taxable year as if the preferred shares, including those in the form of ADSs, had been sold at fair market value. Any gain recognized by the U.S. Holder under mark-to-market treatment, or on an actual sale, would be treated as ordinary income, and the U.S. Holder would be allowed an ordinary deduction for any decrease in the value of its preferred shares, including those in the form of ADSs, as of the end of any taxable year, and for any loss recognized on an actual sale, but only to the extent, in each case, of previously included mark-to-market income not offset by previously deducted decreases in value. Any loss on an actual sale of preferred shares, including those in the form of ADSs, would be a capital loss to the extent in excess of previously included mark-to-market income not offset by previously deducted decreases in value. A U.S. Holder's tax basis in preferred shares, including those in the form of ADSs, will be adjusted to reflect any such income or loss amounts included in gross income. If a U.S. Holder makes such an election, the tax rules that apply to distributions by corporations that are not PFICs would apply to distributions by us, except that the reduced rate discussed above under "Item 10.E. Taxation—Taxation of Dividends and Other Distributions" would not apply.

The mark-to-market election is available only for "marketable stock," which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter ("regularly traded") on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. A non-U.S. securities exchange constitutes a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading listing, financial disclosure and other requirements set forth in the U.S. Treasury regulations. The NYSE is a qualified exchange. The ADSs are listed on the NYSE and, consequently, if the ADSs are regularly traded, the mark-to-market election would be available to a U.S. Holder of ADSs if we were treated as a PFIC. Our preferred shares are listed on the B3. It is unclear, however, whether the B3 would meet the requirements for a "qualified exchange." As mentioned above, however, the mark-to-market election will not be available for Lower-tier PFICs, so U.S. Holders would remain subject to the interest charge and other rules described above with respect to Lower-tier PFICs.

A U.S. Holder who owns preferred shares, including in the form of ADSs, during any taxable year that we are treated as a PFIC generally would be required to file IRS Form 8621. U.S. Holders are encouraged to consult their own tax advisors regarding the application of the PFIC rules to the preferred shares, including those in the form of ADSs, the availability and advisability of making a mark-to-market election to avoid the adverse tax consequences of the PFIC rules should we be considered a PFIC for any taxable year and the application of the reporting requirements on IRS Form 8621 to their particular situation.

U.S. Information Reporting and Backup Withholding

Dividend payments with respect to preferred shares, including in the form of ADSs, and proceeds from the sale, exchange or redemption of preferred shares, including in the form of ADSs, may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 24%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding and establishes such exempt status. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder's U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund in a timely manner with the IRS and furnishing any required information. U.S. Holders are encouraged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

In addition, U.S. Holders should be aware that additional reporting requirements apply (including a requirement to file IRS Form 8938, Statement of Specified Foreign Assets) with respect to the holding of certain foreign financial assets, including stock of foreign issuers which is not held in an account maintained by certain financial institutions, if the aggregate value of all of such assets exceeds US$50,000 at the end of the taxable year or US$75,000 at any time during the taxable year. The thresholds are higher for individuals living outside of the United States and married couples filing jointly. U.S. Holders are encouraged to consult their own tax advisors regarding the application of the information reporting rules to preferred shares, including in the form of ADSs, and the application of these additional reporting requirements for foreign financial assets to their particular situations.

F. Dividends and Payment Agents

Dividend Policy

Amounts Available for Distribution

According to Brazilian corporate law and our bylaws, our board of directors makes a recommendation to the annual shareholders' meeting regarding the allocation of our net income for the preceding fiscal year, and the shareholders' meeting decides upon the allocation. Under Brazilian corporate law, our board of directors may also approve intermediary dividend distributions.

Brazilian corporate law defines "net income" as the results for the fiscal year after deducting accrued losses, the provisions for income and social contribution taxes for that year and any amounts allocated to profit sharing payments to employees and management. Management is only entitled to any profit-sharing payment, however, after the shareholders are paid the mandatory dividend referred to below.

Reserve Accounts

Companies incorporated under Brazilian law generally have two main reserve accounts: a profit reserve account and a capital reserve account.

Profit Reserves

Profit reserves consist of a legal reserve, statutory reserve, contingency reserve, retained profit reserve and unrealized profit reserve, as described below.

The combined balance of our profit reserve accounts (other than the contingency reserve and the unrealized profits reserve) may not exceed our capital stock. If the balance does exceed capital stock, the shareholders' meeting must decide whether to use the excess to pay in subscribed but unpaid capital, to increase our share capital, or to pay dividends.

Legal Reserve

Brazilian corporate law requires us to maintain a legal reserve to which we must allocate 5.0% of our net income for each fiscal year until the aggregate amount of the reserve equals 20.0% of our capital stock. However, we are not required to make any allocations to our legal reserve in a year in which the legal reserve, when added to our other established capital reserves, exceeds 30.0% of our capital stock. The amounts allocated to the legal reserve must be approved by our shareholders in a shareholders' meeting, and may only be used to increase our capital stock or to offset losses. Therefore, they are not available for the payment of dividends.

Statutory Reserve

Brazilian corporate law allows us to allocate a portion of our net profits to discretionary reserve accounts established in accordance with our bylaws. As of December 31, 2019, we did not have a statutory reserve. If we establish these accounts, the bylaws must indicate the purpose, allotment criteria and maximum amount of the reserve. However, we may not allocate profits to these discretionary reserve accounts if this would affect the payment of the minimum mandatory dividend.

Contingency Reserve

Brazilian corporate law allows us to allocate a percentage of our net income to a contingency reserve for anticipated losses that are deemed probable in future years, if the amount of the losses can be estimated. Any amount so allocated must be reversed in the fiscal year in which any expected loss fails to occur as projected, or charged against in the event that the expected loss occurs. The amounts to be allocated to this reserve must be approved by our shareholders. As of December 31, 2019, we did not have a contingency reserve.

Retained Profit Reserve

Brazilian corporate law allows us to retain a portion of our net income, by a decision of our shareholders, provided that the retention is included in a capital expenditure budget that has been previously approved. The allocation of funds to this reserve cannot jeopardize the payment of the minimum mandatory dividends. As of December 31, 2019, we did not have a retained profit reserve.

Unrealized Profit Reserve

Under Brazilian corporate law, the amount by which the mandatory dividend exceeds the "realized" net income in a given year may be allocated to an unrealized profit reserve account, and the mandatory dividends may be limited to the "realized" portion of the net income. Brazilian corporate law defines "realized" net income as the amount by which net income exceeds the sum of (i) our net positive results, if any, from the equity method of accounting and (ii) the profits, gains or income that will be received by us after the end of the next fiscal year. The unrealized profit reserve can only be used to pay mandatory dividends. Profits recorded in the unrealized profit reserve, if realized and not absorbed by losses in subsequent years, must be added to the next mandatory dividend distributed after the realization. As of December 31, 2019, we did not have an unrealized profit reserve.

Capital Reserves

Our capital reserve consists of the premium reserve, tax incentives, and investment subsidies. Under Brazilian corporate law, capital reserves may only be used (i) to absorb losses that exceed retained earnings and profit reserves, (ii) to fund redemptions, refunds or repurchases of shares, (iii) to redeem founder shares, and (iv) to increase our share capital. As of December 31, 2019, we had R$1,928.8 billion allocated to the capital reserve account.

Payment of Dividends and Interest on Shareholders' Equity

Brazilian corporate law requires the bylaws of a Brazilian company to specify a minimum percentage of available profits to be allocated to the annual distribution of dividends, known as mandatory dividends. The mandatory dividend must be paid to shareholders either as dividends or as interest on shareholders' equity. The basis of the mandatory dividend is a percentage of income, adjusted according to Article 202 of Brazilian corporate law. Under our bylaws, we must distribute every year at least 0.1% of our adjusted net income from the previous fiscal year as a dividend.

Brazilian corporate law allows a company to suspend distribution of mandatory dividends if the board of directors advises the annual shareholders' meeting that the distribution would not be advisable given the company's financial condition. The fiscal council, if one is in place, must review any suspension of the mandatory dividend, and management must submit a report to the CVM setting forth the reasons for the suspension of dividends. Net income that is not distributed due to a suspension is allocated to a separate reserve account and, if not absorbed by subsequent losses, must be distributed as dividends as soon as the financial condition of the company permits.

Dividends

Brazilian corporate law and our bylaws require us to hold an annual shareholders' meeting by the fourth month following the closing of each fiscal year, in which, among other matters, shareholders must decide upon the distribution of annual dividends. The calculation of annual dividends is based on our audited consolidated financial statements for the immediately preceding fiscal year.

Each holder of shares at the time a dividend is declared is entitled to receive dividends. In our case, holders of preferred shares have the right to receive dividends that are 75 times greater than the dividends attributed to each common share. Under Brazilian corporate law, dividends are generally required to be paid within 60 days from the date on which the dividend is declared, unless the shareholders' resolution establishes another payment date. The dividend must be paid at the latest before the end of the year in which it is declared.

Shareholders have three years from the date of payment to claim their dividends or interest on shareholders' equity, after which the unclaimed dividends or interest revert to us.

Distributions of Interest on Shareholders' Equity

Brazilian corporations are permitted to pay interest on equity capital to shareholders and to treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution tax. The interest is calculated based on the TJLP, as set by the Central Bank from time to time, and cannot exceed the greater of 50% of net income (after deduction of the social contribution tax on net income, and without taking account of the distribution being made and any income tax deduction) for the period in relation to which the payment is made, or 50% of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made. The payment of interest on shareholders' equity represents an alternative form of dividend payment to shareholders. The amount distributed to shareholders as interest on shareholders' equity, net of any income tax, may be included as part of the mandatory dividend distribution. Brazilian corporate law requires us to pay shareholders an amount sufficient to ensure that the net amount they receive in respect of interest on shareholders' equity, after payment of the applicable withholding tax, plus the amount of declared dividends, is at least equivalent to the mandatory dividend amount.

G. Statements by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Exchange Act, applicable to foreign private issuers and, in accordance therewith, file reports and other information with the SEC. Accordingly, we will be required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy the reports and other information to be filed with the SEC at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, the SEC maintains an Internet website at http: //www.sec.gov, from which you can electronically access the registration statement and its materials.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. Registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we will be required to file annual reports on Form 20-F within the time period required by the SEC, which is currently four months from December 31, the end of our fiscal year. As a foreign private issuer, we are exempt from Exchange Act rules regarding proxy statements and short-swing profits.

We will provide the depositary with annual reports in English, which will include a review of operations and annual audited consolidated financial statements prepared in accordance with IFRS.

You may request a copy of our SEC filings, at no cost, by contacting us at our headquarters at Edifício Jatobá, 8th floor, Castelo Branco Office Park, Avenida Marcos Penteado de Ulhôa Rodrigues, 939, Tamboré, Barueri, São Paulo, Brazil, or by phone at the number +55 (11) 4831-2880, Attention: Investor Relations Department.

I. Subsidiary Information

For information on subsidiaries, see “Item 4.E. Organizational Structure” and “Note 1. Operations” to our audited consolidated financial statements as of and for the years ended December 31, 2019, 2018 and 2017 included in “Item 18. Financial Statements” and Exhibit 8.1 to this annual report.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

General

Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market prices. Any such changes may adversely affect the value of our financial assets and liabilities or our future cash flows and results of operations. We have entered into derivative contracts and other financial instruments for the purpose of hedging against variations in these factors.

We have also implemented policies and procedures to evaluate such risks and approve and monitor our derivative transactions. Our risk management policy was implemented on April 14, 2011 and was revised on March 09, 2020. It is our policy not to participate in any trading of derivatives for speculative purposes. We measure our financial derivative instruments at fair value which is determined using quoted market prices, standard option valuation models or values provided by the counterparty.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. The counterparties to our derivative transactions are major financial institutions with strong credit ratings and we do not expect the counterparties to fail to meet their obligations. We do not have significant exposure to any single counterparty in relation to derivative transactions, and we believe the credit exposure related to our counterparties is negligible.

Market risk includes three types of risk: interest rate, foreign currency and commodity price risk. The sensitivity analyses provided below do not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions we may take to mitigate our exposure to such changes.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market interest rates. Our exposure to the risk of changes in market interest rates refers primarily to long-term obligations (including lease liabilities and other financing) subject to variable interest rates. To manage this risk, we engage in interest rate swaps, whereby we agree to exchange, at specified intervals, the difference between the values of fixed and variable interest rates calculated based on the notional principal amount agreed between the parties. As of December 31, 2019, we had interest rate swap contracts designated as hedges and fair value hedges.

We utilize swap contracts designated as hedges to protect fluctuations of part of the payments of lease liabilities and loans and financing in foreign currency. The swap contracts are used to hedge the risk of variation in interest rates tied to contractual commitments executed. The essential terms of the swap contracts were agreed to be coupled with the terms of the hedged loans and financing and lease commitments. As of December 31, 2019, our hedges included interest rate swap contracts with a notional value of R$139.7 million that we receive a variable interest rate tied to LIBOR and pay fixed interest rates. The gain in the fair value of interest rate swap of R$24.1 million was recognized in financial expenses. As of December 31, 2019, our fair value hedges included interest rate swap contracts with a notional value of R$40.9 million, which provide that we receive a fixed interest rate and pay a variable rate corresponding to a percentage of CDI Rate on the notional value. The loss in the fair value of interest rate swap of R$7.1 million was recognized in financial expenses. There was no significant ineffectiveness recognized in the year ended December 31, 2019.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in foreign exchange rates. Our exposure to the risk of changes in exchange rates refers primarily to loans and lease liabilities indexed to the U.S. dollar (net of investments in U.S. dollars), maintenance reserves and to our TAP bonds denominated in Euros. Also, slightly over half of our operating expenses are either payable in or affected by the U.S. dollar, such as aviation fuel, aircraft operating lease payments and certain flight hour maintenance contract payments. Therefore, we enter into currency forward contracts for periods with a currency exposure of up to 12 months. Additionally, as part of our international operations, we maintain offshore bank accounts in U.S. dollars that serve as natural hedges. As of December 31, 2019, we held a U.S. dollar balance of cash and cash equivalents and short-term investments of R$289.3 million, representing 134% of our next twelve-month debt service payments indexed in U.S. dollars. We have derivative financial instruments that were not designated as hedges that included forward foreign currency contracts and foreign currency options. As of December 31, 2019, we had R$225.7 million of fixed notional value in forward foreign currency contracts at a rate of R$4.0307 for US$1.00. The fair value of these contracts was a loss of R$1,135 million for the year ended December 31, 2019, which was recorded as derivative financial instruments against financial expenses.

Commodity Price Risk

The volatility of aviation fuel prices is one of the most significant market risks for airlines. For the years ended December 31, 2019, 2018 and 2017 aviation fuel accounted for 24.4%, 33.6% and 28.6%, respectively, of our operating expenses, which are linked or denominated in U.S. dollars, are volatile and cannot be predicted with any degree of certainty as they are subject to many global and geopolitical factors. For example, oil prices experienced substantial variances beginning in 2009 and through June 2018. Airlines often use WTI crude or heating oil future contracts to protect their exposure to jet fuel prices. We attempt to mitigate fuel price volatility primarily through derivative financial instruments or a fixed price agreement with BR Distribuidora.

Credit Risk

Credit risk is inherent in our operating and financial activities and such risk is mainly represented in our trade receivables and cash and cash equivalents, including bank deposits. The credit risk associated with our trade receivables include values payable by the major credit card companies, which have a credit risk that is equal or better to our credit risk, and those from travel agencies, sales in installments and government, and individuals and other entities. We assess the corresponding risk of financial instruments and diversify our exposure. We also mitigate such risk by holding financial instruments with counterparties that have strong credit ratings, or that are hired in futures and commodities stock exchange.

COVID-19 may have an adverse effect on our operations and, given the uncertainty around the extent and timing of the potential future spread of the virus, we cannot reasonably estimate the impact to our future results of operations, cash flows or financial condition.

Liquidity Risk

Liquidity risk is the risk of not having sufficient net funds to meet our financial commitments as a result of a mismatch in term or volume between expected income and expenses. In order to manage the liquidity of our cash in local and foreign currency, assumptions of future receipts and disbursements are set which are monitored daily by our treasury department. We apply our funds in net assets (certificates of deposit and agribusiness credit bills).

The Company is monitoring the spread of COVID-19 and its potential impact in its operations. In terms of liquidity risk, as of December 31, 2019, the Company had R$2.9 billion in liquid assets consistent of cash, cash equivalents, short term investments and accounts receivable.

Sensitivity Analysis

Our sensitivity analysis measures the impact of interest rate risk, foreign currency risk, and commodity price risk on the results of operations considering two different scenarios: (i) the adverse scenario, which assumes that the relevant interest rate, foreign currency or commodity price will worsen by 25% and (ii) the remote scenario, which assumes that relevant interest rate, exchange rate or commodity price will worsen by 50%.

Risk Factor	Financial Instrument	Risk	As of December 31, 2019 Adverse Scenario	Remote Scenario
Financing	Interest rate	CDI, LIBOR or TJLP rate increase	(29,430)	(58,860)
Assets	Exchange rate	Euro rate decrease	(309,207)	(618,414)
Liabilities and aircraft leases	Exchange rate	U.S. dollar rate increase	(2,530,398)	(5,060,797)
Aircraft fuel	Cost per liter	WTI or Gulf Coast jet fuel	(261,317)	(582,002)

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable

C. Other Securities

Not applicable.

D. American Depositary Shares

American Depositary Shares

Citibank, N.A., as depositary, will register and deliver the ADSs. Each ADS represents the right to receive three preferred shares (which ratio may be changed, as described below) in registered form, deposited with the office of Banco Bradesco S.A. as custodian for the depositary. Each ADS will also represent the right to receive any other securities, cash or other property which may be received on behalf of the owner of the ADSs but not distributed by the depositary to the owners of ADSs because of legal restrictions or practical considerations. The principal executive office of the depositary is located at 388 Greenwich Street, New York, New York 10013.

The preferred shares are listed for trading on the Level 2 listing segment of the São Paulo Stock Exchange (*B3 S.A.—Bolsa de Valores, Mercadorias e Futuros*), or the B3, and the ADSs are listed for trading on the New York Stock Exchange.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. Brazilian law governs shareholder rights. The depositary, the custodian and their respective nominees will be the holders of the preferred shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder and beneficial owner rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt. For directions on how to obtain copies of those documents, see "Exhibit 2.1."

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name or through your broker or other financial institution, or (b) by holding ADSs in DRS. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly, by means of an ADR registered in your name. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on preferred shares or other deposited securities, after deducting its fees and expenses and any taxes and government charges. You will receive these distributions in proportion to the number of preferred shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our preferred shares) set by the depositary with respect to the ADSs.

- ***Cash***. The depositary will convert or cause to be converted any cash dividend or other cash distribution we pay on the preferred shares or any net proceeds from the sale of any preferred shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars, if it can do so on a practicable basis and can transfer such U.S. dollars to the United States and will distribute the amount thus received. If such conversions or transfers are not practical or lawful or if any government approval or license is needed and cannot be obtained, the deposit agreement allows the depositary to either distribute the foreign currency only to those ADS holders to whom it is possible to do so, or hold or cause the custodian to hold the foreign currency for the account of the ADS holders who have not been paid and such funds will be held for the respective accounts of the ADS holders. The depositary will not invest the foreign currency and will not be liable for any interest for the respective accounts of the ADS holders.

Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, will be deducted. See "Item 10.E—Taxation." If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

- ***Shares***. For any preferred shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing the right to receive such preferred shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional preferred shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell preferred shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed preferred shares sufficient to pay its fees and expenses in connection with that distribution. There can be no assurance that you will be given the opportunity to receive distributions under the same terms and conditions as the holders of preferred shares.
- ***Elective Distributions in Cash or Shares***. If we offer holders of our preferred shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice from us as described in the deposit agreement of such elective distribution by us, and if we have indicated that we wish to make such elective distribution available to you, has discretion to determine to what extent such elective distribution is lawful and reasonably practicable, and thus, whether it can be made available to you as a holder of the ADSs. The depositary will not make such elective distribution to you until we first timely instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is lawful to do so. The depositary could decide it is not lawful or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the preferred shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing the right to receive preferred shares in the same way as it does in a share distribution. The depositary will not be obligated to make available to you a method to receive the elective dividend in preferred shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of preferred shares.
- ***Rights to Purchase Additional Shares***. If we offer holders of our preferred shares any rights to subscribe for additional shares, the depositary shall, having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and determine whether it is lawful and reasonably practicable to make these rights available to you. The depositary will not make rights available to you unless we first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is lawful and reasonably practicable to do so, and such other documentation as is provided in the deposit agreement. If it is not lawful and reasonably practicable to make the rights available but it is lawful and reasonably practicable to sell the rights, the depositary will attempt to sell the rights and distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will establish procedures to distribute such rights and enable you to exercise the rights upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary shall not be obliged to make available to you a method to exercise such rights to subscribe for preferred shares (rather than ADSs).

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

There can be no assurance that you will be given rights on the same terms and conditions as the holders of preferred shares or be able to exercise such rights.

- ***Other Distributions***. Subject to receipt of timely notice and satisfactory documents by the depositary, as described in the deposit agreement, from us with our request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary may attempt to sell all or a portion of the distributed property sufficient to pay its fees and expenses in connection with that distribution. If any of the conditions above are not met, the depositary will attempt to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

The depositary is not responsible if it is unlawful or impracticable to make a distribution available to any ADS holders. We have no obligation to register ADSs, preferred shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, preferred shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our preferred shares or any value for them if we or the depositary determine that it is not lawful or not practicable for us or the depositary to make them available to you. The depositary will hold any cash amounts or property it is unable to distribute in a non-interest bearing account for the benefit of the applicable holders and beneficial owners of ADSs until a distribution can be effected or such amounts and property that the depositary holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States.

Deposit, Withdrawal and Cancellation

Which shares shall be accepted for deposit?

No preferred shares shall be accepted for deposit unless accompanied by confirmation or such additional evidence, if any is required by the depositary, that is reasonably satisfactory to the depositary and the custodian that all conditions to such deposit have been satisfied by the person depositing such preferred shares under the laws and regulations of Brazil and any necessary approval has been granted by the CVM, the Central Bank or any governmental body in Brazil, if any, which is then performing the function of the regulator of currency exchange.

The depositary shall not be required to accept for deposit or maintain on deposit with the custodian (a) any fractional preferred shares or fractional deposited securities, or (b) any number of preferred shares or deposited securities which, upon application of the ratio of ADSs to deposited securities, would give rise to fractional ADSs.

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits preferred shares or evidence of rights to receive preferred shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, and upon presentation of the applicable deposit certification, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto. Your ability to deposit shares and receive ADSs may be limited by U.S. and Brazilian legal considerations applicable at the time of deposit.

How do ADS holders cancel an ADS?

You may present (or provide appropriate instructions to your broker to present) your ADSs to the depositary for cancellation and then receive the corresponding number of underlying preferred shares at the custodian’s offices. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the preferred shares and any other deposited securities underlying the ADSs to you or a person you designate. The depositary may ask you to provide documents as the depositary may deem appropriate before it will cancel your ADSs and deliver the underlying preferred shares and any other property.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs and provided the continued availability of certified ADSs in the U.S., the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

If certain conditions in the deposit agreement are satisfied as further described below, you may instruct the depositary to vote the preferred shares or other deposited securities underlying your ADSs at any meeting at which holders of preferred shares or other deposited securities are entitled to vote pursuant to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the preferred shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the preferred shares. Our preferred shares have limited voting rights. See "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights."

Upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities (which provisions, if any, shall be summarized in pertinent part by us), to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the preferred shares or other deposited securities represented by such holder's ADSs; and (c) a brief statement as to the manner in which such instructions may be given. Voting instructions may be given only in respect of a number of ADSs representing an integral number of preferred shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified by the depositary in its notice to ADS holders. The depositary will endeavor, insofar as practicable and permitted under applicable law, the provisions of the deposit agreement, our bylaws and the provisions of or governing the deposited securities, to vote or cause the custodian to vote the preferred shares or other deposited securities (in person or by proxy) as you instruct. The depositary will only vote or attempt to vote as you instruct provided that if the depositary timely receives voting instructions from you that fail to specify the manner in which deposited securities are to be voted, you will be deemed to have instructed the depositary to vote in favor of the items in the voting instructions. Preferred shares or other deposited securities represented by ADSs for which no specific voting instructions are received by the depositary from the ADS holder shall not be voted except as provided below. Without limiting any of the foregoing, to the extent the depositary does not receive voting instructions from ADS holders, the depositary will take such actions as are necessary, upon our written request and subject to applicable law and the terms of the deposited securities, to cause the amount of shares represented by ADSs of those ADS holders to be counted for the purpose of satisfying applicable quorum requirements.

If (i) we make a timely request to the depositary as contemplated above and (ii) no timely voting instructions are received by the depositary from you with respect to the deposited securities represented by your ADSs on or before the date established by the depositary for such purpose, the depositary shall deem you to have instructed the depositary to give a discretionary proxy to a person designated by our board of directors with respect to such deposited securities and the depositary shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the deposit agreement, our bylaws and the provisions of the deposited securities, to give or cause the custodian to give a discretionary proxy to a person designated by our board of directors to vote such deposited securities; provided, however, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which our board of directors informs the depositary that (x) the we do not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of preferred shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the preferred shares underlying your ADSs. In addition, there can be no assurance that you will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our preferred shares.

The depositary and its agents are not liable for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the preferred shares underlying your ADSs are not voted as you request.

Compliance with Regulations

Information Requests

Each ADS holder and beneficial owner shall (a) provide such information as we or the depositary may request pursuant to law, including, without limitation, relevant Brazilian law, any applicable law of the United States of America, the rules and requirements of B3, our bylaws and other constitutive documents, any resolutions of our board of directors adopted pursuant to such bylaws, the requirements of any markets or exchanges upon which the preferred shares, ADSs or ADRs are listed or traded, or to any requirements of any electronic book-entry system by which the ADSs or ADRs may be transferred, regarding the capacity in which they own or owned ADSs, the identity of any other persons then or previously interested in such ADSs and the nature of such interest, and any other applicable matters, and (b) be bound by and subject to applicable provisions of the laws of Brazil, our bylaws and other constitutive documents, and the requirements of any markets or exchanges upon which the ADSs or preferred shares are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the ADSs or preferred shares may be transferred, to the same extent as if such ADS holder or beneficial owner held preferred shares directly, in each case irrespective of whether or not they are ADS holders or beneficial owners at the time such request is made.

Disclosure of Interests

Each ADS holder and beneficial owner shall comply with our requests pursuant to Brazilian law, the rules and requirements of the CVM and B3, and any other stock exchange on which the preferred shares are, or will be, registered, traded or listed or our bylaws and other constitutive documents, which requests are made to provide information, *inter alia*, as to the capacity in which such ADS holder or beneficial owner owns ADS and regarding the identity of any other person interested in such ADS and the nature of such interest and various other matters, whether or not they are ADS holders or beneficial owners at the time of such requests.

Delivery of Information to the CVM, the Central Bank and B3

We will comply with Brazil's Monetary Council Resolution 4373, dated as of September 29, 2013, and will furnish to the CVM, the Central Bank and the B3, whenever required, information or documents related to the approved ADR program, the deposited securities and distributions thereon. The depositary and the custodian may release such information or documents and any other information as required by local regulation, law or regulatory body request.

Ownership Restrictions

We may restrict transfers of the preferred shares where such transfer might result in ownership of preferred shares exceeding limits imposed by applicable laws or our bylaws. We may also restrict, in such manner as we deem appropriate, transfers of the ADSs where such transfer may result in the total number of preferred shares represented by the ADSs owned by a single ADS holder or beneficial owner of ADSs to exceed any such limits. We may, in our sole discretion but subject to applicable law, instruct the depositary to take action with respect to the ownership interest of any ADS holder or beneficial owner of ADSs in excess of the limits set forth in the preceding sentence, including, but not limited to, the imposition of restrictions on the transfer of ADSs, the removal or limitation of voting rights or mandatory sale or disposition on behalf of an ADS holder or beneficial owner of ADSs of the preferred shares represented by the ADSs of such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our bylaws. Notwithstanding the foregoing, neither we nor the depositary shall be obligated to ensure compliance with the foregoing ownership restrictions.

Reporting Obligations and Regulatory Approvals

Applicable laws and regulations, including those of the Central Bank, the CVM, the B3 and the Level 2 listing segment may require ADS holders and beneficial owners of preferred shares, including the ADS holders and beneficial owners of ADSs, to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. ADS holders and beneficial owners of ADSs are solely responsible for complying with such reporting requirements and obtaining such approvals, and pursuant to the deposit agreement, such holders and beneficial owners agree to make such determinations, file such reports, and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time and neither the depositary, the custodian nor we, nor any of their or our respective agents or affiliates shall be required to take any actions on behalf of such holders or beneficial owners to determine or satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

Fees and Expenses

As an ADS holder, you will be required to pay the following service fees to the depositary and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

Service	Fees
Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	Up to US$0.05 per ADS issued
Cancellation of ADSs, including in the case of termination of the deposit agreement	Up to US$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US$0.05 per ADS held
Distribution of ADSs pursuant to share dividends, free share distributions or exercise of rights	Up to US$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase ADSs	Up to US$0.05 per ADS held
Depositary operation and maintenance services	Up to US$0.05 per ADS held

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depositary and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- fees for the transfer and registration of preferred shares charged by the registrar and transfer agent for the preferred shares in Brazil (i.e., upon deposit and withdrawal of preferred shares);
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex, electronic and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when preferred shares are deposited or withdrawn from deposit);
- fees and expenses incurred in connection with the delivery or servicing of preferred shares on deposit;
- fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to preferred shares, deposited securities, ADSs and ADRs; and
- any applicable fees and penalties thereon.

The depositary fees payable upon the issuance and cancellation of ADSs are typically paid to the depositary by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depositary and by the brokers (on behalf of their clients) delivering the ADSs to the depositary for cancellation. The brokers in turn charge these fees to their clients. Depositary fees payable in connection with distributions of cash or securities to ADS holders and the depositary services fee are charged by the depositary to the holders of record of ADSs as of the applicable ADS record date.

The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

Until the applicable depositary fees and expenses are paid, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder. The depositary may sell preferred shares or other depositary property held with respect to your ADSs and use the proceeds to satisfy your obligations to pay its fees and expenses.

Certain of the depositary fees and charges (such as the depositary services fee) may become payable shortly after the closing of the ADS offering. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.

The depositary reimburses us for certain expenses we incur in connection with the ADR program. These reimbursable expenses currently include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. In this context, for the year ended December 31, 2019, Citibank N.A. reimbursed us approximately US$452,200.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable, or which become payable, on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register or transfer your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you. Your obligations under this paragraph shall survive any transfer of ADSs, any surrender of ADSs and withdrawal of deposited securities or the termination of the deposit agreement.

The depositary may refuse to issue ADSs, to deliver, transfer, split and combine ADSs or to release securities on deposit until all taxes and charges are paid by you. The depositary and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and such other information as the depositary and the custodian may require to fulfill legal obligations.

Each ADS holder will be responsible for the payment and/or reimbursement of any and all taxes effectively paid or incurred by us, the Depositary or the Custodian (including as a result of the execution of any symbolic foreign exchange transaction (*operação simbólica de câmbio*)) related to or as a result of a deposit of preferred shares and/or withdrawal or sale of deposited property by such ADS holder. Each ADS holder will be responsible for the reporting of any false or misleading information, or the failure to report required information relating to foreign exchange transactions to the custodian or the Central Bank, as the case may be, in connection with deposits or withdrawals of deposited securities.

If we change the nominal or par value of, split-up, cancel, consolidate or otherwise reclassify any of the deposited securities, or if we recapitalize, reorganize, merge, consolidate or sell our assets, any property which shall be received by the depositary or the custodian in exchange for, or in conversion of, or replacement of, or otherwise in respect of, the deposited securities shall, to the extent permitted by law, be treated as new deposited property under the deposit agreement, and the ADSs shall, subject to the provisions of the deposit agreement, any ADR(s) evidencing such ADSs and applicable law, represent the right to receive such additional or replacement deposited property. In connection with the foregoing, we may (i) issue and deliver additional ADSs as in the case of a stock dividend on the preferred shares, (ii) amend the deposit agreement and the applicable ADR(s), (iii) amend the applicable registration statement(s) in respect of the ADSs, (iv) call for the surrender of outstanding ADRs to be exchanged for new ADRs, and (v) take such other actions as are appropriate to reflect the transaction with respect to the ADSs.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. The depositary will not consider to be materially prejudicial to your substantial rights any modification or supplement that are reasonably necessary for the ADSs to be registered under U.S. laws, in each case without imposing or increasing the fees and charges you are required to pay. In addition, the depositary may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

How may the deposit agreement be terminated?

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreement. In such cases, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver preferred shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. At any time after the date of termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the *pro rata* benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depositary's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depositary and the custodian thereunder. The obligations of ADS holders and beneficial owners of ADSs outstanding as of the effective date of any termination shall survive such effective date of termination and shall be discharged only when the applicable ADSs are presented to the depositary for cancellation under the terms of the deposit agreement and the ADS holders have satisfied any and all of their obligations thereunder (including, but not limited to, any payment and/or reimbursement obligations which relate to prior to the effective date of termination but which payment and/or reimbursement is claimed after such effective date of termination).

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office at all reasonable times but solely for the purpose of communicating with other holders in the interest of business matters relating to the Company, the ADRs and the deposit agreement.

The depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed at any time or from time to time, when such action is deemed necessary or advisable by the depositary in connection with the performance of its duties under the deposit agreement or at our reasonable request to the extent not prohibited by law.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary and the custodian. We, the depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;

- are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, Brazil or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our bylaws or other constituent documents or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
- are not obligated to perform any act that is inconsistent with the terms of the deposit agreement;
- are not liable by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our bylaws or other constituent documents or provisions of or governing deposited securities;
- disclaim any liability for any action or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting preferred shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by any of us in good faith to be competent to give such advice or information;
- are not liable for any indirect, special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- are not obligated to appear in, prosecute or defend any action with respect to deposited property or the ADSs, except under the circumstances set forth in the deposit agreement; and
- are not liable for any action or failure to act by any ADS holder relating to the ADS holder's obligations under any applicable Brazilian law or regulation relating to foreign investment in Brazil in respect of a withdrawal or sale of deposited securities, including, without limitation, any failure to comply with a requirement to register such investment pursuant to the terms of any applicable Brazilian law or regulation prior to such withdrawal or any failure to report foreign exchange transactions to the Central Bank, as the case may be.

The depositary and any of its agents also disclaim any liability (i) with respect to Brazil's system of share registration and custody, including any liability in respect of the unavailability of deposited securities (or any distribution in respect thereof), (ii) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (iii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iv) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (v) for any tax consequences that may result from ownership of ADSs, preferred shares or deposited securities, or (vi) for any acts or omissions made by a successor depositary.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Requirements for Depositary Actions

Before the depositary will issue, deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of preferred shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any preferred shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with (A) any laws or governmental regulations relating to the execution and delivery of ADRs or ADSs or to the withdrawal or delivery of deposited securities and (B) regulations it may establish, from time to time, consistent with the deposit agreement and applicable laws, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we determine that it is necessary or advisable to do so.

Your Right to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying preferred shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of preferred shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our preferred shares;
- when you owe money to pay fees, taxes and similar charges;
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of preferred shares or other deposited securities; or
- other circumstances specifically contemplated by Section I.A.(l) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time).

This right of withdrawal may not be limited by any other provision of the deposit agreement.

The depositary shall not knowingly accept for deposit under the deposit agreement any preferred shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such preferred shares.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying preferred shares. This is called a pre-release of the ADSs. The depositary may also deliver preferred shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying preferred shares are delivered to the depositary. The depositary may receive ADSs instead of preferred shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person or entity to whom the pre-release is being made (a) represents to the depositary in writing that at the time of the pre-release transaction it or its customer owns the preferred shares or ADSs that are to be delivered by it under such pre-release transaction, (b) agrees to indicate the depositary as owner of such preferred shares or ADSs in its records and to hold such preferred shares or ADSs in trust for the depositary until such preferred shares or ADSs are delivered to the depositary or the custodian, (c) unconditionally guarantees to deliver such preferred shares or ADSs to the depositary or the custodian, as the case may be, and (d) agrees to any additional restrictions or requirements that the depositary deems appropriate; (2) at all times the pre-release is fully collateralized with cash, United States government securities or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. Each pre-release is subject to further indemnities and credit regulations as the depositary considers appropriate. In addition, the depositary will normally limit the number of ADSs that may be outstanding at any time as a result of pre-release to 30% of the aggregate number of ADSs then outstanding, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

Direct Registration System

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depositary to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depositary of prior authorization from the ADS holder to register such transfer.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

For information on certain defaults under our financing agreements see "Item 5.D Trend Information."

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

ITEM 15. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We carried out an evaluation under the supervision of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2019. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that as of December 31, 2019, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2019 based on the criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on such assessment and criteria, our management has concluded that our internal control over financial reporting was effective as of December 31, 2019.

The effectiveness of our internal control over financial reporting as of December 31, 2019, has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm who also audited our consolidated financial statements, as stated in their report included herein**.**

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

A. AUDIT COMMITTEE FINANCIAL EXPERT

Our board of directors has determined that Sérgio Eraldo de Salles Pinto, a member of our audit and corporate governance committee, meets the requirements of an "audit committee financial expert," as defined by the SEC, and is an independent member of the audit committee under applicable SEC and NYSE rules.

See Item 6: "Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors—Corporate Governance Committee."

B. CODE OF ETHICS

We currently have a code of ethics which has been accepted by all of our directors and executive officers and other personnel. Our Code of Ethics and Conduct is available on our website at http://ir.voeazul.com.br, under the "Corporate Governance—Code of ethics" tab. The information on our website is not incorporated into this annual report.

C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Ernst & Young Auditores Independentes S.S. is our independent registered public accounting firm. The table below sets forth the fees for services performed by Ernst & Young Auditores Independentes S.S. for the years ended December 31, 2019 and 2018 (including out-of-pocket expenses) and categorized by service in thousands of *reais*.

	Year Ended December,	
	2019	**2018**
Audit Fees(1)	4,377	4,795
Audit-Related Fees(2)	95	1,166
Tax Fees(3)	233	—
Total	**4,705**	**5,961**

(1) "Audit fees" in the above table are the fees billed in connection with the audit of our annual consolidated financial statements, the review of our quarterly financial information, and the statutory audits of subsidiaries.
(2) "Audit-related fees" in the above refer to services related to issuance of comfort letters in connection with our equity offering in 2018 and agreed upon procedures in 2019.
(3) "Tax Fees" refer to fees billed in connection with tax compliance services in 2019.

Our audit committee pre-approves all audit and non-audit services provided by our independent auditor pursuant to the Sarbanes-Oxley Act of 2002.

D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

G. CORPORATE GOVERNANCE

As a foreign private issuer, we may follow our home country's corporate governance practices in lieu of most of the NYSE's corporate governance listing standards. Pursuant to Section 303A.11 of the Listed Company Manual of the New York Stock Exchange, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. The table below discloses the significant differences between our corporate governance practices and the NYSE.

NYSE Standards	Our Corporate Governance Practices
Director Independence. Majority of board of directors must be independent. "Controlled companies," which would include our company if we were a U.S. issuer, are exempt from this requirement. A controlled company is one in which more than 50% of the voting power is held by an individual, group or another company, rather than the public. §303A.01	**Director Independence**. A majority of our board of directors qualify as independent directors under the listing rules of the Brazilian stock exchanges.
Executive Sessions. Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03	**Executive Sessions**. Our corporate governance practices do not require non-management directors to meet regularly in executive sessions without management and independent directors are not required to meet alone in an executive session at least once a year.
Nominating/Corporate Governance Committee. Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. "Controlled companies" are exempt from these requirements. §303A.04 As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.	**Governance Committee**. We have a Governance Committee consisting of three members, two of whom must qualify as independent directors under the listing rules of the Brazilian stock exchanges, that are elected by and report directly to our board of directors. The purpose, roles, duties and procedures of the Governance Committee are specified by the Governance Committee's Internal Regulations.
Compensation Committee. Compensation committee of independent directors is required, which must evaluate and approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. "Controlled companies" are exempt from this requirement. §303A.05 As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.	**Compensation Committee**. We have a Compensation Committee consisting of three members, two of whom must qualify as independent directors under the listing rules of the Brazilian stock exchanges, that are elected by and report directly to our board of directors. The purpose, roles, duties and procedures of the Compensation Committee are specified by the Compensation Committee's Internal Regulations.
Audit Committee. Audit committee satisfying the independence and other requirements of Exchange Act Rule 10A-3 and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07	**Audit Committee**. We have an Audit Committee composed of three members who are elected by our board of directors and, according to our bylaws, a majority of which must be independent members. The members are appointed for a two-year term of office, being permitted reelection, with a limit of ten consecutive years in office. Upon reaching the ten consecutive year limit, members will become eligible to serve on this committee again after three years from the end of his or her last term of office. The audit committee is responsible for: (i) advising our board of directors regarding the selection of independent auditors, (ii) reviewing the scope of the audit and other services provided by our independent auditors, (iii) evaluating and monitoring related party transactions and (iv) evaluating our internal controls, among other things. All of our Audit Committee members qualify as directors under the listing rules of the Brazilian stock exchanges and at least one member of the audit committee is an audit committee "financial expert" within the meaning of the SEC rules and regulations.
Equity Compensation Plans. Equity compensation plans require shareholder approval, subject to limited exemptions. §§303A.08 & 312.03	**Equity Compensation Plans**. Our equity based compensation plans require shareholder approval. The grants under the plans require approvals from the Compensation Committee and our board of directors.

NYSE Standards	Our Corporate Governance Practices
Shareholder Approval for Issuance of Securities. Issuances of securities (1) that will result in a change of control of the issuer, (2) that are to a related party or someone closely related to a related party, (3) that have voting power equal to at least 20% of the outstanding common stock voting power before such issuance or (4) that will increase the number of shares by at least 20% of the number of outstanding shares before such issuance require shareholder approval. §§312.03(b)-(d)	**Shareholder Approval for Issuance of Securities**. Issuances of securities require shareholder approval by absolute majority vote, with certain limited exceptions provided for in our bylaws.
Code of Business Conduct and Ethics. Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. The code must contain compliance standards and procedures that will facilitate the effective operation of the code. §303A.10	**Code of Business Conduct and Ethics**. Our Code of Ethics and Conduct, or the Code, last updated and approved by the Executive Committee and our board of directors on March 09. 2020, sets forth the ethical principles and standards of conduct that guide the businesses and decisions of the Company. The Code contains policies, standards, reporting procedures and other compliance procedures and established the Conduct Committee and Canal Confidencial to provide full transparency to and intensify the dissemination of the Code. The Conduct Committee is responsible for the management of the Code, ensuring its compliance and adequacy to the reality of the business environment of Azul. The Canal Confidencial consists of a direct communications platform that can be used by crewmembers to solve any doubts, obtain clarifications or file reports.
Conflicts of Interest. Determination of how to review and oversee related party transactions is left to the listed company. The audit committee or comparable body, however, could be considered the forum for such review and oversight. §307.00. Certain issuances of common stock to a related party require shareholder approval. §312.03(b)	**Conflicts of Interest**. Conflicts of interest and related party transactions are governed by the Related-Party Transactions Policy of Azul, which was approved by our board of directors in November 2017, and amended in November 2019. The policy sets forth the reporting requirements of key management, the review and oversight procedures of the legal department, the standards of evaluation and approval of related party transactions by the legal department or board of directors, including the Audit Committee and Governance Committee, as applicable, the required disclosure of certain related party transactions, and penalties for noncompliance with the policy. The policy also prohibits certain related party transactions and exempts certain other transactions from the requirements of the policy.
Solicitation of Proxies. Solicitation of proxies and provision of proxy materials is required for all meetings of shareholders. Copies of such proxy solicitations are to be provided to NYSE. §§402.00 & 402.04	**Solicitation of Proxies**. The solicitation of proxies and provision of proxy materials for the general shareholders' meeting are governed by Brazilian Corporate Law, our bylaws and the listing agreement signed with the NYSE.

H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

See our audited consolidated financial statements beginning on page F-1.

ITEM 19. EXHIBITS

Exhibit Number	Description
1.1**	Bylaws of the Registrant (English Translation)
2.d**	Description of the Securities
2.1*	Form of Deposit Agreement among the Registrant, Citibank, N.A., as depositary, and the Owners and Holders from time to time of American Depositary Shares issued thereunder (previously filed as Exhibit 4.1 of Form F-1 (File Nº. 333-220433) as filed with the SEC on September 12, 2017, and incorporated by reference herein).
2.2*	Indenture, dated as of October 26, 2017, among Azul Investments LLP, Azul S.A., Azul Linhas Aéreas Brasileiras S.A. and U.S. Bank National Association. (previously filed as Exhibit 2.2 of Form 20-F (File Nº. 001-38049) as filed with the SEC on April 27, 2018, as incorporated by reference herein.)
4.1†*	Purchase Agreement COM0041-08, dated as of March 11, 2008, between Embraer – Empresa Brasileira de Aeronáutica S.A. and Canela Investments LLC, including Amendment Nº. 1, dated as of April 30, 2008; Amendment Nº. 2, dated as of July 31, 2008; Amendment Nº. 3, dated as of October 21, 2008; Amendment Nº. 4, dated as of August 31, 2008; Amendment Nº. 5, dated as of November 25, 2008; Amendment Nº. 6, dated as of December 12, 2008; Amendment Nº. 7, dated as of December 23, 2008, Amendment Nº. 8; dated as of March 12, 2009; Amendment Nº. 9, dated as of October 30, 2009; Amendment Nº. 10, dated as of December 21, 2009; Amendment Nº. 11, dated as of October 26, 2010; Amendment Nº. 12, dated as of September 30, 2011, Amendment Nº. 13; dated as of November 9, 2011; Amendment Nº. 14, dated as of December 1, 2011; Amendment Nº. 15, dated as of January 20, 2012; Amendment Nº. 16, dated as of May 2, 2012; Amendment Nº. 17, dated as of July 11, 2012; Amendment Nº. 18, dated as of December 28, 2012; Amendment Nº. 19, dated as of April 9, 2013, Amendment Nº. 20; dated as of May 29, 2013; Amendment Nº. 21, dated as of June 26, 2013; Amendment Nº. 22, dated as of March 13, 2014; Amendment Nº. 23, dated as of April 1, 2014, Amendment Nº. 24; dated as of April 29, 2014; Amendment Nº. 25, dated as of May 23, 2014; Amendment Nº. 26, dated as of July 30, 2014; and Amendment Nº. 27, dated as of September 24, 2015. (previously filed as Exhibit 10.1 of Pre-Effective Amendment Nº. 1 to our registration statement on Form F-1 (File Nº. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).
4.2*	Sale and Purchase Contract, dated as of December 14, 2010, between Avions de Transport Régional and Canela Investments LLC, including the Amendment Nº. 1, dated as of December 22, 2011; and Amendment Nº. 2, dated as of December 4, 2012. (previously filed as Exhibit 10.2 of Pre-Effective Amendment Nº. 1 to our registration statement on Form F-1 (File Nº. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).

Exhibit Number	Description
4.3*	First Amendment to the Investment Agreement, dated as of August 15, 2012, between Azul S.A., Trip Participações S.A., Trip Investimentos Ltda. and Rio Novo Locações Ltda. (including the restated version of the Investment Agreement as Exhibit I); the Second Amendment to the Investment Agreement, dated as of December 27, 2013; the Third Amendment to the Investment Agreement, dated as of October 22, 2014; the Fourth Amendment to the Investment Agreement, dated as of June 26, 2015, between Azul S.A., Trip Participações S.A., Trip Investimentos Ltda., Rio Novo Locações Ltda. and Calfinco, Inc.; and the Fifth Amendment to the Investment Agreement, dated as of August 3, 2016, between Azul S.A., Trip Participações S.A., Trip Investimentos Ltda., Rio Novo Locações Ltda., Calfinco, Inc. and Hainan Airlines Holding Co. Ltd. (previously filed as Exhibit 10.7 of Pre-Effective Amendment Nº. 1 to our registration statement on Form F-1 (File Nº. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).
4.4*	A320 NEO Purchase Agreement, dated as of October 24, 2014, between Airbus S.A.S. and Azul Finance LLC., including Amendment Nº. 1 to the A320 NEO Purchase Agreement, dated as of December 21, 2015. (previously filed as Exhibit 10.9 of Pre-Effective Amendment Nº. 1 to our registration statement on Form F-1 (File Nº. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).
4.4.1*	Amendment Nº 2 to the A320 NEO Purchase Agreement dated as of July 20, 2018; Amendment Nº 3 to the A320 NEO Purchase Agreement, dated as of July 20, 2018 (previously filed as Exhibit 4.6.1 to Form 20-F/A (File Nº. 001-38049) as filed with the SEC on July 18, 2019 and incorporated by reference herein).
4.5†*	Purchase Agreement COM0384-14, dated as of December 30, 2014, between Embraer S.A. and Azul Finance 2 LLC., including Amendment Nº. 1, dated as of September 4, 2015; Amendment Nº. 2, dated as of March 2, 2016; and Amendment Nº. 3, dated as of March 31, 2016. (previously filed as Exhibit 10.10 of Pre-Effective Amendment Nº. 1 to our registration statement on Form F-1 (File Nº. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).
4.5.1†*	Amendment Nº. 4, dated as of December 22, 2016, to the Purchase Agreement COM0384-14, dated as of December 30, 2014, between Embraer S.A. and Azul Finance 2 LLC (previously filed as Exhibit 10.13 of Form F-1 (File Nº. 333-220433) as filed with the SEC on September 12, 2017, and incorporated by reference herein).
4.6†**	Contract for Sale and Other Covenants, dated as of November 28, 2019, between Petrobras Distribuidora S.A. and Azul Linhas Aéreas Brasileiras S.A.
8.1**	List of subsidiaries of the Company
12.1**	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
12.2**	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
13.1**	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
13.2**	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

(*) Previously filed.
(**) Filed herewith.
† Certain identified confidential information has been redacted from this exhibit because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

AZUL S.A.

By: /s/ John Peter Rodgerson
Name: John Peter Rodgerson
Title: Chief Executive Officer

By: /s/ Alexandre Wagner Malfitani
Name: Alexandre Wagner Malfitani
Title: Chief Financial Officer

Dated: April 30, 2020

Consolidated Financial Statements

Azul S.A.

December 31, 2019, 2018 and 2017
with Registered Public Accounting Firm

Consolidated financial statements

December 31, 2019, 2018 and 2017

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Azul S.A.

Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Azul S.A. (the "Company") as of December 31, 2019, 2018 and 2017, the related consolidated statements of net income (loss), other comprehensive income (loss), changes in equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board—IASB.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 30, 2020 expressed an unqualified opinion thereon.

Adoption of IFRS 16

As discussed in Note 3.19 to the consolidated financial statements, the Company changed its method of accounting for leases in 2019, due to the adoption of IFRS 16 – Leases, using the full retrospective method of adoption. As explained below, auditing the Company's leases accounting method change was a critical audit matter.

Basis for Opinion

These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Maintenance Reserve Deposits

Description of the Matter

At December 31, 2019, the balance of maintenance reserve deposits totaled R$1.4 billion. As explained in Note 3.11.b under the terms of lease agreements with aircraft lessors, the Company is contractually committed to maintain or reimburse the lessor based on the actual condition of the airframe, engines and limited life parts.

The recoverability of those deposits is assessed by Management based on the amounts that are expected to be reimbursed at the time of the next maintenance event, as disclosed in Note 13 to the consolidated financial statements. Amounts determined as non-recoverable are recognized as expenses in the statement of net income (loss).

Auditing the recoverable maintenance deposits is specially challenging due to the degree of judgment required in estimating the expected maintenance cost to be incurred and the applicable expected utilization of the aircraft.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over maintenance reserves. For example, we tested controls over the Company´s analysis of maintenance reserve recoverability, reconciliation of its balance to the accounting records, as well as related review controls.

To test the recoverability of the maintenance reserve deposits our audit procedures included, among others, confirming the balance of the maintenance reserve deposit for each individual contract with each respective lessor; tracing elements of actual maintenance cost incurred to supporting documentation and comparing that information with the Company's estimation of expected maintenance costs; evaluating the Company analysis of the recoverability of the maintenance reserve, which considers the recoverability for each deposit item and lessor; comparing relevant inputs in the Company´s estimate to contractual agreements with the lessors. We also evaluated the financial statements disclosures included in Notes 3.11.b and 13.

Fair Value of Convertible Bond Option

Description of the Matter

In 2016, the Company acquired bonds with the option to convert them into equity securities issued by TAP—Transportes Aéreos Portugueses SGPS S.A. ("TAP"). The fair value of this option was recognized in long-term investments. At December 31, 2019, the fair value of the bonds is R$ 1.2 billion, as disclosed in Note 24.

Auditing the fair value of that financial asset was specially challenging due to the level of judgment involved in the calculation of the fair value of the conversion feature within the bond, which is sensitive to several assumptions about future market conditions and future TAP's performance, such as discount rates, market volatility, revenue growth rates and operating margin.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over the estimation process of the fair value of the convertible bond option. For example, we tested the controls around the obtention of market inputs and the selection of the valuation model used by the Company. To test the fair value of the convertible bond option, our audit procedures included, among others, evaluating the assumptions underlying the fair value calculation prepared by Management; assessing the reasons for any changes in underlying assumptions and evaluating the adequacy of the valuation model used by Management, with the assistance of our valuation specialists. We also evaluated the financial statements disclosures included in Notes 24 and 12(h)(ii).

Leases – Adoption of IFRS 16

Description of the Matter

As discussed above and in Notes 3.7.1, 3.19 and 14 to the consolidated financial statements as at December 31, 2019, the Company adopted IFRS 16—Leases on January 1, 2019, applying the full retrospective method of adoption. Consequently, the comparative periods were restated and the accumulated effect of the initial adoption on January 1, 2017 was recorded in accumulated losses in equity. The IFRS 16 adoption resulted in the recognition of right-of-use assets, lease liabilities and accumulated losses in the statement of financial position as at January 1, 2017, among other impacts, described in Note 3.19.

Auditing certain aspects of the adoption of IFRS 16 was complex and challenging to audit, due to the significant amounts involved and judgment used by Management in the determination of the discount rate of the lease contracts, which is a key factor to determine the right-of-use assets and lease liabilities.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over leases. For example, we tested the controls around the identification of leases, the calculation of the right-of-use assets and lease liabilities, as well as related review controls.

To test the Company´s adoption of IFRS 16, our audit procedures included, among others, testing the completeness of the lease population; testing the accuracy of lease contract terms used by Management in their computations; evaluating the lease classification and involving of our valuation specialists to assist us in evaluating the discount rate used by Management. We also evaluated the financial statements disclosures included in Notes 3.7.1, 3.19 and 14.

Aircraft Impairment

Description of the Matter

As detailed in Note 1, in the year ended December 31, 2019, the Company recorded an impairment loss in the amount of R$2,032,307 thousand related to aircraft Embraer E195 which will be replaced by next-generation E2 aircraft, and a provision for onerous contracts in the amount of R$ 797,591 thousand. The methodology and technique used to determine the recoverable value of the E195 aircraft were based on the discounted cash flow of each aircraft, for which assumptions were made by Management that involved a high degree of judgement, mainly with respect to inflow and outflow of future cash flows and discount rate.

Auditing the impairment of those aircraft was specially challenging due to the uncertainties inherent to the estimation of their recoverable value, that required the use by Management of judgment in the assumptions behind its calculation. Changes in events and conditions affecting these assumptions may give rise to a significant impact to the Company’s financial statements.

How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over impairment assessment. For example, we tested controls around the inputs and the main assumptions used by the Company and in the computation of cash flow estimates.

To test the impairment of those aircraft our audit procedures included, among others, evaluating the methodologies and techniques used by Management; assessing the assumptions that supported the cash flow projections of the aircraft, including their consistency with contracts terms and projected costs; testing the underlaying data used in the determination of recoverable value and evaluating the discount rate used by Management with the assistance of our valuation specialists. We also evaluated the financial statements disclosures included in Note 1.

Passenger Revenue

Description of the Matter	As disclosed in Note 3.16, flight revenue is recognized upon effective rendering of the transportation service. Tickets sold and not used, corresponding to advanced ticket sales, are recorded in current liabilities (air traffic liability) and are recognized when used, on an accrual basis. The Company estimates the value of future refunds and exchanges, net of forfeitures for all unused tickets, once the flight date has already passed. These estimates are based on historical data and experience from past events.
	Auditing passenger revenue was complex due to the significant amounts involved, high volume of transactions and judgment involved in certain aspects of the recognition of revenue, such as the expectation of expiration of unused tickets (breakage), which is based on historical data, a key input for breakage recognition.
How We Addressed the Matter in our audit	We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over passenger revenue. For example, we tested controls around the ticket expiration historical data included in Management estimation.
	To test passenger revenue our audit procedures included, among others, inspecting manual journal entries included in the revenue accounts; observing passengers effectively boarding the flights and tracing the related tickets to the accounting records; comparing breakage rates with historical data; analyzing breakage rate trends over the years and recalculating revenue amounts recognized for unused tickets (breakage). We also evaluated the financial statements disclosures included in Notes 3.16 and 25.

/s/ ERNST & YOUNG
Auditores Independentes S.S.

We have served as the Company's auditor since 2009.

São Paulo, Brazil
April 30, 2020

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
Azul S.A.

Opinion on Internal Control over Financial Reporting

We have audited Azul S.A.'s internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Azul S.A. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's consolidated statements of financial position as of December 31, 2019, 2018 and 2017, and the related consolidated statements of net income (loss), other comprehensive income (loss), changes in equity, and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated April 30, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG
Auditores Independentes S.S.

São Paulo, Brazil
April 30, 2020

Azul S.A.

Consolidated statements of financial position
As of December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais)

	December 31,		
	2019	**2018 (Restated)**	**2017 (Restated)**
Assets			
Current assets			
Cash and cash equivalents (Note 6)	**1,647,880**	1,169,136	762,319
Short-term investments (Note 7)	**62,009**	517,423	1,036,148
Restricted investments	**—**	—	8,808
Trade and other receivables (Note 8)	**1,165,866**	1,069,056	914,428
Aircraft sublease receivables (Note 9)	**75,052**	73,671	57,768
Inventories (Note 10)	**260,865**	200,145	150,393
Assets held for sale (Note 14)	**51,850**	—	—
Security deposits and maintenance reserves (Note 13)	**258,212**	144,192	130,112
Taxes recoverable	**139,668**	283,841	112,891
Derivative financial instruments (Note 24)	**168,148**	6,654	10,345
Prepaid expenses (Note 11)	**139,403**	115,453	82,656
Other current assets	**169,778**	110,623	198,807
Total current assets	**4,138,731**	3,690,194	3,464,675
Non-current assets			
Long-term investments (Note 24)	**1,397,699**	1,287,781	835,957
Aircraft sublease receivables (Note 9)	**204,452**	288,067	308,824
Security deposits and maintenance reserves (Note 13)	**1,393,321**	1,402,528	1,129,015
Derivative financial instruments (Note 24)	**657,776**	588,726	410,477
Prepaid expenses (Note 11)	**22,216**	21,683	4,472
Taxes recoverable	**244,601**	—	—
Other non-current assets	**497,567**	397,398	169,816
Right-of-use – lease (Note 14)	**7,087,412**	4,926,326	4,377,725
Right-of-use – aircraft maintenance (Note 14)	**497,391**	632,900	374,384
Property and equipment (Note 14)	**1,968,840**	1,842,239	1,880,771
Intangible assets (Note 15)	**1,087,484**	1,016,556	961,000
Total non-current assets	**15,058,759**	12,404,204	10,452,441
Total assets	**19,197,490**	16,094,398	13,917,116

	December 31,		
	2019	**2018 (Restated)**	**2017 (Restated)**
Liabilities and equity			
Current liabilities			
Loans and financing (Note 17)	**481,227**	158,813	419,198
Lease liabilities (Note 18)	**1,585,233**	1,237,909	914,600
Accounts payable (Note 19)	**1,376,850**	1,287,661	971,750
Accounts payable – Supplier finance (Note 19)	**249,727**	162,778	—
Air traffic liability (Note 20)	**2,094,254**	1,672,452	1,287,434
Salaries, wages and benefits	**357,571**	244,008	246,336
Insurance premiums payable	**49,938**	34,999	24,411
Taxes payable	**49,060**	56,999	44,418
Federal tax installment payment program	**13,480**	9,749	9,772
Derivative financial instruments (Note 24)	**81,196**	180,975	48,522
Provisions (Note 21)	**323,441**	36,083	—
Other current liabilities	**200,043**	193,492	151,696
Total current liabilities	**6,862,020**	5,275,918	4,118,137
Non-current liabilities			
Loans and financing (Note 17)	**3,036,929**	2,597,313	2,159,241
Lease liabilities (Note 18)	**10,521,388**	7,681,837	6,428,893
Derivative financial instruments (Note 24)	**228,994**	260,019	378,415
Deferred income taxes (Note 16)	**242,516**	293,211	142,102
Federal tax installment payment program	**119,300**	95,705	105,431
Provisions (Note 21)	**1,489,911**	713,941	553,155
Other non-current liabilities	**215,606**	326,492	422,713
Total non-current liabilities	**15,854,644**	11,968,518	10,189,950
Equity			
Issued capital (Note 22)	**2,243,215**	2,209,415	2,163,377
Capital reserve	**1,928,830**	1,918,373	1,898,926
Treasury shares (Note 22)	**(15,565)**	(10,550)	(2,745)
Other comprehensive loss (Note 22)	**(159,261)**	(153,969)	(14,688)
Accumulated losses	**(7,516,393)**	(5,113,307)	(4,435,841)
	(3,519,174)	(1,150,038)	(390,971)
Total liabilities and equity	**19,197,490**	16,094,398	13,917,116

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

Azul S.A.

Consolidated statements of net income (loss)
Year ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais, except income (loss) per share)

	Year ended December 31,		
	2019	**2018 (Restated)**	**2017 (Restated)**
Operating revenue (Note 25)			
Passenger revenue	**10,907,889**	8,670,132	6,695,340
Cargo and other revenue	**534,428**	386,932	1,009,491
Total revenue	**11,442,317**	9,057,064	7,704,831
Operating expenses			
Aircraft fuel	**(3,085,603)**	(2,644,261)	(1,848,195)
Salaries, wages and benefits	**(1,868,402)**	(1,413,017)	(1,296,166)
Landing fees	**(724,971)**	(592,100)	(490,569)
Traffic and customer servicing	**(476,481)**	(395,394)	(357,841)
Sales and marketing	**(444,079)**	(368,663)	(309,540)
Maintenance materials and repairs	**(354,105)**	(250,105)	(484,156)
Depreciation and amortization (*)	**(3,670,884)**	(1,284,050)	(1,063,378)
Other operating expenses, net (*)	**(2,013,192)**	(915,850)	(612,194)
	(12,637,717)	(7,863,440)	(6,462,039)
Operating income (loss)	**(1,195,400)**	1,193,624	1,242,792
Financial result (Note 26)			
Financial income	**72,071**	74,522	128,272
Financial expense	**(1,329,524)**	(1,094,828)	(1,078,598)
Derivative financial instruments, net	**325,452**	298,094	(90,171)
Foreign currency exchange, net	**(391,905)**	(1,306,063)	34,859
	(1,323,906)	(2,028,275)	(1,005,638)
Result from related parties transactions, net	**(16,959)**	381,725	176,975
Net income (loss) before income tax and social contribution	**(2,536,265)**	(452,926)	414,129
Income tax and social contribution (Note 16)	**(2,228)**	(11,224)	2,875
Deferred income tax and social contribution (Note 16)	**135,407**	(171,581)	7,509
Net income (loss)	**(2,403,086)**	(635,731)	424,513
Basic net income (loss) per common share - R$ (Note 23)	**(0.09)**	(0.03)	0.02
Diluted net income (loss) per common share - R$ (Note 23)	**(0.09)**	(0.03)	0.02
Basic net income (loss) per preferred share - R$ (Note 23)	**(7.05)**	(1.88)	1.35
Diluted net income (loss) per preferred share - R$ (Note 23)	**(7.05)**	(1.88)	1.32

(*) Includes non recurring items consisting of impairment chage and one time costs related to the sublease of 53 E195 totalling R$2,873,157 (Note 1).

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

Azul S.A.

Consolidated statements of other comprehensive income (loss)
Year ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais)

	December 31,		
	2019	**2018 (Restated)**	**2017 (Restated)**
Net income (loss)	**(2,403,086)**	(635,731)	424,513
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Changes in fair value of cash flow hedges, net of tax	**(5,292)**	(139,281)	31,309
Total comprehensive income (loss)	**(2,408,378)**	(775,012)	455,822

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

Azul S.A.

Consolidated statements of changes in equity
Year ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais)

	Issued capital	Capital Reserve	Treasury shares	Cash flow hedge reserve	Accumulated losses	Total
December 31, 2016	1,488,601	1,290,966	—	(33,785)	(1,743,795)	1,001,987
Impact of adoption of IFRS 16 (Note 3)	—	—	—	(12,212)	(3,116,559)	(3,128,771)
January 1, 2017	1,488,601	1,290,966	—	(45,997)	(4,860,354)	(2,126,784)
Profit for the period	—	—	—	—	424,513	424,513
Other comprehensive income	—	—	—	31,309	—	31,309
Total comprehensive income	—	—	—	31,309	424,513	455,822
Issued capital (Note 22)	661,500	646,479	—	—	—	1,307,979
Issuance of shares due exercise of stock options (Note 22)	13,276	4,623	—	—	—	17,899
Share issuance costs (Note 22)	—	(71,283)	—	—	—	(71,283)
Treasury shares, net (Note 22)	—	—	(2,745)	—	—	(2,745)
Share-based payment expense (Note 28)	—	28,141	—	—	—	28,141
December 31, 2017	2,163,377	1,898,926	(2,745)	(14,688)	(4,435,841)	(390,971)
Impact of adoption of IFRS 9 (*)	—	—	—	—	(416)	(416)
Impact of adoption of IFRS 15 (**)	—	—	—	—	(41,319)	(41,319)
January 1, 2018	2,163,377	1,898,926	(2,745)	(14,688)	(4,477,576)	(432,706)
Loss for the period	—	—	—	—	(635,731)	(635,731)
Other comprehensive income	—	—	—	(139,281)	—	(139,281)
Total comprehensive income	—	—	—	(139,281)	(635,731)	(775,012)
Issuance of shares due exercise of stock options (Note 22)	46,038	1,596	—	—	—	47,634
Treasury shares, net (Note 22)	—	—	(7,805)	—	—	(7,805)
Share-based payment expense (Note 28)	—	17,851	—	—	—	17,851
December 31, 2018	2,209,415	1,918,373	(10,550)	(153,969)	(5,113,307)	(1,150,038)
Loss for the period	—	—	—	—	**(2,403,086)**	**(2,403,086)**
Other comprehensive income	—	—	—	**(5,292)**	—	**(5,292)**
Total comprehensive income	—	—	—	**(5,292)**	**(2,403,086)**	**(2,408,378)**
Issuance of shares due exercise of stock options (Note 22)	**33,800**	**3,967**	—	—	—	**37,767**
Treasury shares, net (Note 22)	—	—	**(5,015)**	—	—	**(5,015)**
Share-based payment expense (Note 28)	—	**6,490**	—	—	—	**6,490**
December 31, 2019	**2,243,215**	**1,928,830**	**(15,565)**	**(159,261)**	**(7,516,393)**	**(3,519,174)**

(*) The Company applied, for the first time, IFRS 9 in 2018, opting not to present comparative information showing retrospectively the results from the adoption of IFRS 9.

(**) The Company applied IFRS 15 for the first time in 2018, using the modified retrospective adoption method.

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

Azul S.A.

Consolidated statements of cash flows
Year ended December 31, 2019, 2018 and 2017
(In thousands of Brazilian reais)

	For the year ended December 31,		
	2019	2018 (Restated)	2017 (Restated)
Cash flows from operating activities			
Net income (loss) for the period	**(2,403,086)**	(635,731)	424,513
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities			
Depreciation, amortization and impairment	**3,670,884**	1,284,050	1,063,378
Unrealized hedge results	**(367,753)**	(298,799)	(9,287)
Share-based payment expenses	**17,239**	17,851	28,141
Exchange (gain) and losses on assets and liabilities denominated in foreign currency	**448,901**	1,243,882	(37,991)
Interest (income) and expenses on assets and liabilities	**1,082,256**	866,895	776,470
Related parties	**(3,241)**	76,949	(73,241)
Deferred income tax and social contribution	**(135,407)**	171,581	(7,509)
Allowance for doubtful accounts	**1,993**	5,168	1,586
Provision for inventory	**17,791**	3,259	(6,218)
Provisions	**897,831**	70,439	78,469
Loss (profit) on sale of property and equipment and de-recognition of lease contracts	**106,914**	246,069	(33,168)
Changes in operating assets and liabilities			
Trade and other receivables	**(98,803)**	(160,427)	(242,739)
Sublease receivables	**66,899**	**4,854**	**46,859**
Inventories	**(78,511)**	**(53,011)**	**(37,073)**
Security deposits and maintenance reserves	**(49,431)**	(65,030)	(168,940)
Prepaid expenses	**(24,483)**	(50,475)	(9,979)
Recoverable taxes	**(15,718)**	(170,950)	(68,403)
Other assets	**(103,233)**	(210,302)	(101,696)
Derivatives	**(2,412)**	(373,831)	(157,353)
Accounts payable	**87,636**	245,785	(95,097)
Accounts payable - Supplier finance	**86,949**	162,778	—
Salaries, wages and employee benefits	**113,563**	(2,328)	59,862
Insurance premiums payable	**14,939**	10,588	147
Taxes payable	**(8,417)**	12,581	(20,412)
Federal installment payment program	**27,326**	(8,722)	116,316
Air traffic liability	**421,802**	322,410	338,074
Provision taxes, civil and labor risks	**(93,718)**	(62,653)	(81,624)
Other liabilities	**(112,578)**	(42,680)	52,332
Interest paid	**(969,061)**	(845,297)	(821,173)
Income tax and social contribution paid	**(2,434)**	—	—
Net cash provided by operating activities	**2,594,637**	1,764,903	1,014,244
Cash flows from investing activities			
Short-term investment			
Acquisition of short-term investments	**(1,355,455)**	(2,843,002)	(3,673,743)
Disposal of short-term investments	**1,816,862**	3,387,015	3,044,183
Loan granted to third parties	**(51,028)**	—	
Disposal of long-term investments	**(96,161)**	—	1,122
Restricted investments, net	**—**	5,635	120,925
Proceeds from sale of property and equipment	**59,381**	363,157	177,316
Acquisition of intangibles	**(132,454)**	(100,204)	(56,148)
Acquisition of property and equipment	**(1,427,965)**	(1,086,442)	(695,032)
Net cash used in investing activities	**(1,186,820)**	(273,841)	(1,081,377)
Cash flows from financing activities			
Debentures			
Proceeds	**—**	700,000	200,000
Repayment	**(64,345)**	(168,098)	(1,153,230)
Loans and financing			
Proceeds	**592,312**	98,940	1,710,650
Repayment	**(109,959)**	(747,231)	(942,288)
Lease repayment	**(1,372,701)**	(1,082,239)	(795,010)
Proceeds from sale and leaseback	**16,276**	11,889	39,461
Issuance of shares due exercise of stock options	**37,767**	47,634	17,899
Treasury shares	**(12,853)**	(12,179)	(2,745)
Redemption of preferred shares	**—**	—	(44,655)
Issued capital, net of issued cost	**—**	—	1,213,373
Net cash used in by financing activities	**(913,503)**	(1,151,284)	243,455
Exchange gain (loss) on cash and cash equivalents	**(15,570)**	67,039	36,833
Net increase (decrease) in cash and cash equivalents	**478,744**	406,817	213,155
Cash and cash equivalents at the beginning of the period	**1,169,136**	**762,319**	549,164
Cash and cash equivalents at the end of the period	**1,647,880**	1,169,136	762,319

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

1. Operations

Azul S.A. ("Azul") is a corporation headquartered at Av. Marcos Penteado de Ulhôa Rodrigues, 939, in the city of Barueri, in the state of São Paulo, Brazil. Azul was incorporated on January 3, 2008 and is a holding company for providers of airline passenger and cargo services. Azul and its subsidiaries are collectively referred to as the "Company".

Azul Linhas Aéreas Brasileiras S.A. ("ALAB"), a 100% owned subsidiary incorporated on January 3, 2008, has operated passenger and cargo air transportation in Brazil since beginning operations on December 15, 2008. Canela Investments LLC ("Canela"), a 100% owned special purpose entity, headquartered in the state of Delaware, United States of America, was incorporated on February 28, 2008, to acquire aircraft outside of Brazil and lease them to ALAB.

The Company's shares are traded on the BM&FBOVESPA and American Depositary Share ("ADS") on the New York Stock Exchange ("NYSE").

The consolidated financial statements are comprised of the individual financial statements of the entities as presented below:

			% equity interest	
Entities	**Main activities**	**Country of incorporation**	**December 31, 2019**	**December 31, 2018**
Azul Linhas Aéreas Brasileiras S.A. (ALAB)	Airline operations	Brazil	100.0%	100.0%
Azul Finance LLC (a)	Aircraft financing	United States	100.0%	100.0%
Azul Finance 2 LLC (a)	Aircraft financing	United States	100.0%	100.0%
Blue Sabiá LLC (a)	Aircraft financing	United States	100.0%	100.0%
ATS Viagens e Turismo Ltda. (a)	Package holidays	Brazil	99.9%	99.9%
Azul SOL LLC (a)	Aircraft financing	United States	100.0%	100.0%
Azul Investment LLP (a)	Group financing	United States	100.0%	100.0%
Fundo Garoupa (b)	Exclusive investment fund	Brazil	100.0%	100.0%
Fundo Safira (a)	Exclusive investment fund	Brazil	100.0%	100.0%
Canela Investments LLC (Canela) (a) (c)	Aircraft financing	United States	100.0%	100.0%
Canela 336 LLC (d) (h)	Aircraft financing	United States	—	100.0%
Canela 407 LLC (d)	Aircraft financing	United States	100.0%	100.0%
Canela 429 LLC (d)	Aircraft financing	United States	100.0%	100.0%
Canela Turbo Three LLC (d)	Aircraft financing	United States	100.0%	100.0%
Daraland S.A. (a)	Holding	Uruguay	100.0%	100.0%
Encenta S.A. (Azul Uruguai) (e)	Airline operations	Uruguay	100.0%	100.0%
TudoAzul S.A.	Loyalty programs	Brazil	100.0%	100.0%
Cruzeiro Participações S.A	Participation in others societies	Brazil	99.9%	99.9%
Global AzulAirProjects, SGPS, S.A. (Global) (g)	Participation in others societies	Portugal	45.45%	—

(a) Azul's investment is held indirectly through ALAB.
(b) Azul's investment is held 4% directly and 96% through ALAB.
(c) Transfer of ownership from Azul to ALAB on December 1, 2017.
(d) ALAB's investments are held indirectly through Canela.
(e) Investments are held indirectly through Daraland.
(f) Subsidiary incorporated on February 6, 2018.
(g) The shares held by HACAIL were transferred to Global on July 1, 2019.
(h) Subsidiary ended August 15, 2019

As of December 31, 2019, the Company had a negative equity of R$3,519,174 (December 31, 2018 - R$1,150,038) and net current liabilities of R$2,723,289 (December 31, 2018 - R$1,519,560). The changes are mainly due to:

- Full retrospective adoption of IFRS 16 - Leases, with an impact of R$4,313,738 as of December 31, 2018 in total equity.
- The impairment of 53 Embraer E195 aircraft and associated assets, due to the acceleration of the transformation of the Company's fleet, with a negative impact of R$2,873,157 in statement of income (loss) in the year ended December 31, 2019.

As a result of the COVID-19 global pandemic which is affecting the economy on a global scale, the Company has implemented a number of measures to reduce costs to reflect the slowdown in the Brazilian economy while preserving its cash position, including:

i) capacity adjustments by reducing total capacity by over 90% compared to plan;

ii) fixed costs reduction through a 50% pay cut for executive officers and directors and a 25% salary reduction for managers and the launch of a successful leave of absence program with adhesion of over 10,000 crewmembers;

iii) suspension of aircraft deliveries during 2020; and

iv) active management of all areas of working capital, elimination of non-critical capital expenditures, renegotiation of payment terms with all commercial partners and the discussion of new credit facilities with financial institutions, in particular with the Brazilian Development Bank (BNDES), who announced a support package worth R$10 billion in credit lines for the Brazilian airline sector.

The Company anticipates that these initiatives to obtain additional sources of liquidity, along with measures to contain operational expenses and non-essential capital expenditures outflows, will provide resources to endure a prolonged downturn in demand. Management constantly evaluates the profitability of its operations and its financial position, acting in a solid and timely manner to adapt to the evolving circumstances triggered by governmental regulations and market dynamics in the face of the COVID-19 pandemic.

Acceleration of fleet transformation

In 2019, management approved the Embraer E195 phase-out plan, including the sublease of 53 E195 aircraft, following Azul's strategy to accelerate the replacement of its entire domestic fleet of E195 jets with larger, next-generation E2 aircraft that are more fuel-efficient due to new engine technology. This change to the intended use of the aircraft has triggered an impairment review.

A non-financial asset is impaired if its carrying amount exceeds its recoverable amount.

Under IFRS 16, Azul capitalizes the right-of-use of all aircraft previously held under operating leases and depreciates the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter.

Azul applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior periods was restated. Upon transition, Azul recognized a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability that were initially measured at the present value of the future lease payments recognized at the historical dollar exchange rate and discount rate. The lease liability is updated at each reporting period to reflect the current exchange rate, whilst the right-of-use carrying value remains at historical rates, in accordance with IAS 21 – The effects of changes in foreign exchange rates.

Recoverable amount is the higher of value in use and fair value less costs of disposal. The value in use of the E195 aircraft and related parts and equipment affected by the acceleration plan was determined using cash flow projections from the phase-out plan approved by senior management covering a seven-year period. The main assumptions used in the analysis included:

- Revenue from sublease contracts
- Delivery and ongoing maintenance costs
- Salvage value for finance lease and owned aircraft at the end of the sublease contracts
- Exchange rate of R$4.004/US$1.00
- US Dollar pre-tax discount rate of 10.6%

The fair value less cost to sell of the E195 fleet was determined using third party valuations and considering specific circumstances of the fleet such as aircraft age, maintenance requirements and condition resulting in a Level 3 classification in the fair value hierarchy.

As a result of the impairment analysis, the Company recorded an impairment of non current assets and right-of-use assets of R$2,032,207 recognized in "Depreciation, Amortization and Impairment". In addition in accordance with IAS 36, an impairment charge is not fully allocated if the assets do not have sufficient book value to absorb the charge in its entirety. Consequently, for this portion not absorbed, an additional net cash provision for onerous contract totaling R$797,591 was recognized in "Other expenses" in the statements of net income (loss), with a corresponding entry to "Provisions" in the balance sheet.

Furthermore, additional assets and liabilities were adjusted to reflect the impact of the accelerated fleet transformation plan including: i) R$91,826 write-off of prepayments and maintenance reserves not expected to be recoverable; ii) R$27,999 provision against inventory parts; iii) R$76,466 reversal of sale and leaseback accrued gains since the carrying value of the aircraft was reduced to its recoverable value.

The total impact of the impairment considering the related provisions and write-offs was R$54,211 per aircraft.

TwoFlex Acquisition

On February 21, 2020, our wholly-owned subsidiary, Azul Linhas Aéreas Brasileiras, and Two Taxi Aereo, "TwoFlex", announced that they have entered into a certain Quota Purchase Agreement under which we agreed to acquire the Brazilian regional carrier TwoFlex for the total purchase price of R$123 million. TwoFlex is a domestic airline based in Jundiaĺ, Brazil, founded in 2013 and offers regular passenger and cargo service to 39 destinations in Brazil, of which only three regional destinations are currently being served by Azul. TwoFlex also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo's downtown airport. Congonhas is a particularly coveted airport because of its proximity to São Paulo's business districts. Currently, our two larger competitors, Gol and LATAM, control most of the flights in Congonhas. TwoFlex's fleet is composed of 17 owned Cessna Caravan aircraft, a regional turboprop with a capacity of nine passengers. On March 27, 2020, the Brazilian Administrative Council for Economic Defense (CADE – *Conselho Administrativo de Defesa Econômica*) approved the acquisition without imposing further obligations for the parties. The parties are working towards the closing of the transaction, which we expect to occur in the near future.

2. Basis of preparation of financial statements

The consolidated financial statements of the Company for the years ended December 31, 2019, 2018 and 2017, were authorized for issuance by the executive board of directors on April 30, 2020.

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in Brazilian Reais, which is the functional currency of the Company.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

The financial statements were prepared using the historical cost basis, except for certain financial instruments, which are measured at fair value.

The Company has adopted all standards and interpretations issued by the IASB and the IFRS Interpretations Committee that were in effect on December 31, 2019.

3. Significant accounting policies

3.1. Basis for consolidation

The consolidated financial statements comprise the financial statements of Azul and its subsidiaries as of December 31, 2019. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

The Company re-assesses whether or not it controls an investee when facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when assets, liabilities, income and expenses of a subsidiary acquired during the year are included in the statements of net income (loss) from the date the Company gains control, and ceases on the date the Company loses control of the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to align their accounting policies with those of the Company. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

3.2. Cash and cash equivalents

Cash and cash equivalents are held in order to meet short-term cash commitments and not for investment or other purposes. The Company considers as cash equivalents deposits or instruments which are readily convertible into a known cash amount and subject to an insignificant risk of change in value. The Company considers as cash equivalents instruments with original maturities of less than three months.

3.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

3.3.1. Non-derivative financial assets—initial recognition and subsequent measurement

Initial recognition

Non-derivative financial assets, other than trade receivables, are measured at initial recognition at their fair value plus (in the case of a financial asset not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition of the financial asset.

Trade receivables that do not contain a significant financing component are measured at initial recognition at the transaction price.

Classification of financial instruments

Under IFRS 9, classification and measurement of financial instruments is based on the business model of the Company to manage financial assets and on the contractual cash flow characteristics of the financial assets.

Financial assets are classified in three categories:

(i) measured at amortized cost,

(ii) measured at fair value through other comprehensive income, and

(iii) measured at fair value through profit or loss

For a financial asset to be classified and measured at amortized cost or at fair value through other comprehensive income, it needs to give rise to cash flows that are "exclusively principal and interest payments" (also referred to as the "SPPI" test) on the principal amount outstanding. This evaluation is performed at instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets to generate cash flows. The business model determines whether cash flows will result from the collection of contractual cash flows, the sale of financial assets or both.

Purchases or sales of financial assets that require the delivery of assets within a period established by regulation or convention in the market (regular negotiations) are recognized on the trade date, that is, the date on which the Company undertakes to buy or sell the asset.

Business model assessment

The business model assessment requires classification of the asset in one of the business models defined by IFRS 9. The business models reflect how the Company manages the financial asset in order to generate cash flows on the basis of scenarios that the Company reasonably expects to occur. In order to perform the business model assessment, the Company has grouped financial assets in portfolios of assets that are managed together.

Management Objective	Measurement
Collect contractual payments over the life of the instrument	Amortized cost
Collecting contractual cash flows and selling financial assets	Fair value through other comprehensive income
Held for trading or measured in a fair value basis	Fair value through profit or loss

Contractual cash flow characteristics assessment

The contractual cash flow characteristic assessment requires to determine whether the contractual cash flows of the assets consists solely of payment of principal or interest on the principal amount outstanding “SPPI”. When the asset cash flows is SPPI, it will be subsequently measured following the result of the business model assessment. However when the asset cash flows is not SPPI, it will be measured at fair value through profit or loss irrespective of the result of the business model assessment.

Subsequent measurement of the financial assets of the Company

The criteria for subsequent measurement of the financial assets of the Company is presented below:

- At amortized cost – Financial assets at amortised cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired;

Financial assets at amortised cost includes: restricted investments, trade and other receivables other than credit card receivables, receivables from related parties, security deposits and maintenance reserves;

- At fair value through other comprehensive income (OCI) – For debt instruments at fair value through OCI, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in OCI. Upon derecognition, the cumulative fair value change recognised in OCI is recycled to profit or loss;
- At fair value thorough profit of loss – Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

Financial assets at fair value through profit or loss include:Financial instruments, short-term investments and the TAP Convertible Bonds presented under long-term investments

3.3.2. Non-derivative financial liabilities—initial recognition and subsequent measurement

Initial recognition

Financial liabilities are initially classified as financial liabilities at fair value through profit or loss, financial liabilities at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

Non-derivative financial liabilities are measured at initial recognition at its fair value less transaction costs that are directly attributable to the acquisition of the financial asset.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liability as at fair value through profit or loss.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in the statement of profit or loss.

All non-derivative financial liabilities of the Company at the reporting date are measured at amortized cost and consists of loans and financings and accounts payable, except for those designated as hedge item in a fair value hedge (Note 24).

3.3.3. Financial instruments and hedge accounting– Initial recognition and subsequent measurement

Initial recognition and subsequent measurement

The Company uses financial instruments, such as currency forward contracts options and NDF to hedge itself against the currency risk, heating oil swaps to hedge the fuel price risk and interest rate swaps to hedge against the interest risk. Financial instruments not designated as hedge instruments are recognized initially at fair value on the date when the derivative contract is entered into and are subsequently remeasured at fair value. The accounting for subsequent changes in fair value to derivatives that are hedge instruments in a hedge accounting depends of the nature of the item being hedged and the type of hedge relationship designated. Derivatives are presented as financial assets when the instrument's fair value is positive and as financial liabilities when fair value is negative.

Any gains or losses from changes in the fair value of derivatives not designated to hedge accounting during the year are recorded directly in profit or loss. The accounting treatments for derivatives designated as hedge instruments are presented in the next topic.

Hedge accounting

The following classifications are used for hedge accounting purposes:

- Fair value hedge when hedging against exposure to changes in fair value of recognized assets or liabilities, or an unrecognized firm commitment.
- Cash flow hedge when providing protection against changes in cash flows that is attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction which may affect the income or foreign currency risk in an unrecognized firm commitment.

On inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting, as well as the Company's objective and risk management strategy for undertaking the hedge. The documentation includes identification of the hedge instrument and item or transaction being hedged, the nature of the risk being hedged and risks excluded, and effectiveness assessment approach using prospect basis proving the existence of economic relationship between the hedged item and hedge instrument, that credit risk does not dominate the value changes that results from that economic relationship and how the hedge ratio is determined, including possible sources of ineffectiveness by performing a qualitative (when the critical terms of hedged item and hedge instrument match or are closely aligned – as nominal amount, maturity and underlying) or quantitative.

Hedges that meet the criteria for hedge accounting are accounted for as follows:

Fair value hedge

The gain or loss resulting from changes in fair value of a hedge instrument (for derivative hedge instrument) or the foreign exchange component of its carrying amount is recognized in profit or loss or other comprehensive income, if the hedging instruments hedges an equity instrument for which the Company has elected to present changes in fair value in other comprehensive income. The gain or loss on the hedged item shall adjust the carrying amount of the hedged item (for on-balance item) and be recognized in profit of loss.

If the hedged item is derecognized, the unamortized fair value is recognized immediately in profit or loss.

When an unrecognized firm sales commitment is designated as a hedged item in a hedge relationship, the change in fair value of the firm sales commitment attributable to the hedge risk is recognized as a financial asset or as a financial liability, with the recognition of a corresponding gain or loss in the statements of net income (loss). The accumulated balance in the statement of financial position resulting from successive changes in fair value of the firm sales commitment attributable to the hedged risk will be transferred to the balance of the hedged item upon its recognition (recognition of balance is either of accounts payable or accounts receivable).

The Company holds interest rate swaps to hedge against its exposure to changes in fair value of some of its aircraft financing (Note 24).

Cash flow hedge

The effective portion of a gain or loss from the hedge instrument is recognized directly in other comprehensive income. When the hedge ratio is not aligned, giving rise to ineffectiveness, but the risk management strategy is the same, the Company shall rebalance the hedge ratio in order to meet the hedge effectiveness requirements.

Any gain or loss remaining from the hedge instrument (as result of the rebalancing) is deemed an ineffectiveness and shall be recorded in profit or loss.

The amounts recorded in other comprehensive loss are transferred to the statement of net income (loss) in tandem with the hedged transaction impact on profit or loss. For example, when a forecasted sale occurs or when the income or expense being hedged is recognized. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recorded as other comprehensive loss are transferred to initial carrying amount of the non-financial assets or liability.

The Company shall discontinue hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria (after taking into account any rebalancing of the hedging relationship).

If the occurrence of the forecast transaction or firm commitment is no longer likely, the amounts previously recognized in other comprehensive loss are transferred to the statement of net income (loss). If the hedge instrument expires or is sold, terminated, exercised without replacement or rollover, or if its designation as a hedge is revoked, any cumulative gain or loss previously recognized in comprehensive loss remains deferred in other comprehensive loss until the forecast transaction or firm commitment affects profit or loss.

The Company uses swap contracts to hedge against its exposure to the risk of changes in floating rates related to its finance lease transactions and currency option to hedge the notional amount of debt denominated in foreign currency.

Current and non-current classification

Derivative instruments that are not classified as effective hedge instruments are classified as current, non-current or segregated into current or non-current portions based on the underlying contractual cash flows.

- When the Company expects to maintain a derivative as an economic hedge (and to not apply hedge accounting) for a period exceeding 12 months after the statement of financial position date, the derivative is classified as non-current (or segregated into current and non-current portions), consistent with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified in a manner consistent with the cash flows of the host contract.
- Derivative instruments that are designated as and are effective hedge instruments are classified consistently with the classification of the underlying hedged item. The derivative instrument is segregated into current and non-current portion only if a reliable allocation can be made.

3.3.4.Derecognition of financial assets and financial liabilities

Financial assets

Financial assets, or where appropriate, part of a financial asset or part of a group of similar financial assets, are derecognized when:

- The rights to receive cash flows from the assets have expired; or
- The Company has transferred their rights to receive cash flows of the assets and (a) the Company has substantially transferred all the risks and benefits of the assets, or (b) the Company has not transferred or retained substantially all the risks and benefits related to the assets, but has transferred control of the assets.

When the Company has transferred their rights to receive cash flows from assets and has not transferred all the risks and rewards relating to an asset, that asset is recognized to the extent of the continuing involvement of the Company. In this situation, the Company also recognizes an associated liability.

The transferred assets and associated liabilities are measured based on the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee on the assets transferred is measured by the original book value of the assets or the maximum payment that may be required from the Company, whichever is lower.

Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

When an existing financial liability is replaced by another from the same lender with substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability, with the difference in the corresponding book values recognized in the statements of net income (loss).

3.3.5.Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, to realize the assets and settle the liability simultaneously.

3.3.6.Impairment of financial assets

The Company recognizes an allowance for losses on financial assets for expected credit losses in line of IFRS 9 requirements.

Trade receivables and contract assets

The Company uses the simplified approach allowed by IFRS 9 to estimate the allowance for losses on trade receivables.

Under the simplified approach, the Company estimates expected credit losses over the life of the receivables at the reporting date (which in all cases have a contractual life shorter than 12 months) since they result from transactions with customers and do not have a significant financing component.

In estimating expected credit losses the Company considers credit card receivables as receivables with a low risk of default. Considering that it has a relevant history of no credit risk losses on such receivables and that it does not expect losses during the lifetime of those receivables no allowance has been recognized for those assets.

In order to estimate expected credit losses for other trade receivables and contract assets, the Company aggregates such assets in portfolios of receivables which share credit risk characteristics. The Company currently uses portfolios to estimate credit losses. For each portfolio, the Company measures the historic rate of losses (net of recoveries) on defaulted receivables over a relevant historic period considering that, generally, a receivable has defaulted when it is more than 90 days overdue. Such historical default rate for the portfolio is subsequently adjusted to incorporate an estimate of the impact of future economic conditions on past historic rates.

The estimate of the impact of future economic conditions is based on the observed correlation of defaults with macroeconomic indicators. The Company periodically reviews the historic period over which defaults are measured and, the relevant macroeconomic indicator to use and how the correlate with the experience of defaults.

Other financial assets

For other financial assets, the Company assesses individually for each counterparty whether there has been a significant increase in the credit risk of the asset since initial recognition or not. Such determination is based on information already available to the Company. If and when credit risk ratings of the counterparty are publicly available, such information is also taken into consideration.

For financial assets with no significant increase in credit risk, an estimate is made of expected credit losses that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For those assets with a significant increase in credit risk, the estimate is made of losses that result from default events that are possible over the lifetime of the asset.

An allowance for loss is recognized when the Company estimates that the risk of credit losses during the period exists. In measuring the allowance, the Company considers at least three scenarios (standard, optimistic and pessimistic) and for each an estimate of cash inflows (including cash inflows from collateral) is made. The resulting estimated cash flows for each scenario is discounted to present value to the reporting date and are probability-weighted based on a judgmental determination of the probability of each scenario.

3.3.7. Fair value of financial instruments

The fair value of financial instruments actively traded in organized financial markets is determined based on prices quoted in the market at close of business at the statement of financial position date, not including the deduction of transaction costs.

The fair value of financial instruments for which there is no active market is determined using valuation techniques. These techniques can include use of recent market transactions, references to the current fair value of other similar instruments, analysis of discounted cash flows, or other valuation models.

An analysis of the fair value of derivative financial instruments and more details about how they are calculated is described in Note 24.

3.4. Inventories

Inventories consist of aircraft maintenance parts, snack supplies and uniforms. Inventories are valued at cost or net realizable value, whichever is lower, net of any provision for inventory.

3.5. Taxes

Income tax expense, deferred tax assets and liabilities reflect management’s best assessment of estimated current and future taxes to be paid. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized and the tax rates used, based upon the likely timing and the level of future taxable profits together with future tax planning strategies. In Brazil, income tax is determined on each legal entity, that is, not on a consolidated basis.

Provisions for income tax and social contribution are based on the taxable income of the year considering the offset of tax loss carryforwards, up to the limit of 30% of annual taxable income. Tax rates and tax laws used to calculate the amounts are those in force at the statement of financial position dates. The income from foreign subsidiaries is subject to taxation pursuant to local tax rates and legislation. In Brazil, these incomes are taxed according to Law 12.973/14.

Deferred income taxes and social contribution arise from temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, which will result in taxable or deductible amounts in the future.

Deferred income tax assets and liabilities are measured at tax rates that are expected to be applicable in the year that the assets will be realized or the liability settled, based on tax rates (and tax law) enacted or substantially enacted on each statement of financial position date.

The book value of the deferred tax assets is presented net if there is a legal or contractual right to offset tax assets against tax liabilities and deferred taxes are related to the same taxable entity and is reviewed on each statement of financial position date and written off to the extent that it is no longer probable that taxable profits will be available to allow that all or part of the deferred taxes assets will be used.

Unrecognized deferred tax assets are reassessed on each statement of financial position date and are recognized to the extent that it becomes probable that future taxable profit will allow that the deferred tax assets be recovered.

Deferred income tax and social contribution relating to equity items are recognized directly in equity. The Company assesses on a regular basis the tax status of situations in which tax law requires interpretation and records provisions if appropriate.

3.6. Foreign currency transactions

The consolidated financial statements are presented in Brazilian reais (R$), which is the Company's functional currency.

Transactions in foreign currencies are initially translated into Brazilian reais using the exchange rates prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the exchange rates prevailing at the statement of financial position date.

Non-monetary items denominated in foreign currency at historical cost basis are translated into the functional currency using the exchange rates on the dates of original transactions. Non-monetary items denominated in foreign currency measured at fair value are translated using the exchange rates prevailing on the date of determination of fair value.

Differences arising on settlement or transaction of monetary items are recognized in the statement of net income (loss). Changes in fair value of the hedging instruments are recorded using the accounting treatment described in note 3.3.3 "Financial instruments".

3.7. Property and equipment

Assets included in property and equipment are stated at acquisition or construction cost including interest and other financial charges.

Depreciation is calculated using the straight-line method over the estimated useful lives of the assets as follows:

	Estimated useful lives
Aircraft	12 years
Furniture and fixtures	5 years
Aircraft equipment	12 years
Computer equipment and peripherals	5 years
Tools	5 years
Heavy maintenance – engines	3 to 8 years
Heavy maintenance – structural checks	2 to 10 years
Engines	12 years
Leasehold improvements	10 years
Simulators	20 years
Vehicles	5 years

The net book value and useful life of assets and the depreciation methods are reviewed at the end of each year and adjusted prospectively, if necessary.

The book value of property and equipment is tested for impairment when there is an indicator that the carrying value may be greater than the estimated recoverable amount.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Other operating expenses, net".

3.7.1.Lease

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities (except for the impact of changes in foreign exchange rates). The cost of right-of-use assets includes the amount of lease liabilities recognized at the discount rate and foreign exchange rate at commencement date, initial direct costs incurred, and lease payments made at or before the commencement date, plus the initial estimate of restoration costs expected to be incurred at the end of the contract, less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including insubstance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs. In 2018 and 2019, the total expenses related to the variable lease payments were immaterial.

In calculating the present value of lease payments, the Company uses the interest rate implicit in the lease and, when it is not readily available, the incremental borrowing nominal rate at the lease commencement date.

In determining the discount rate, the Company used, in each of the years in which assets were incorporated into the balance sheet, the cost of raising debt in the American and Brazilian markets. For operations in the Brazilian market, the Company converted the cost to the equivalent of a dollar transaction, adjusting for the country risk and interest rate differential between Brazil and United States. Thus, we understand that the inflationary effects are irrelevant, especially considering that 99.4% of the Company’s leases are determined in US dollars.

After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term. In 2018 and 2019, the total expenses related to the leases of low value assets were immaterial.

3.7.2.Sale and leaseback transaction

If the Company transfers the asset to another entity and leases it back from the buyer, the Company applies the requirements under IFRS 15 to determine if the transaction qualifies as a sale for which revenue is recognized, or whether the transaction is a collateralized borrowing.

If the transfer of the asset qualifies as a sale under IFRS 15, the Company measures a right-of-use asset arising from the leaseback as the proportion of the carrying amount of the asset that relates to the right-of-use retained. The gain (or loss) that the Company recognizes is limited to the proportion of the total gain (or loss) that relates to the rights transferred to the buyer-lessor.

If the transfer of the asset does not meet the requirements of IFRS 15 to be accounted for as a sale of the asset, the Company continues to recognize the transferred asset and recognizes a financial liability equivalent to the cash received from the transfer in accordance with the requirements of IFRS 9.

3.7.3.Sublease transaction

When the underlying asset is leased again by the Company to a third party, and the original lease remains in effect, the Company assesses whether it is a finance or operating sublease by analyzing the extent to which the lease transfers the risks and benefits inherent in the right of use.

Regardless of the sublease classification, the accounting for the lease liability of the original lease remains unchanged.

- Finance sublease: the Company de-recognizes the right of use asset and recognizes a sublease receivable. The difference between the net book value of depreciation of the right of use and the present value of the sublease receivable is recognized immediately in the income statement under the heading “Other operating expenses, net”.
- Operating sublease: the Company continues to recognize the right of use, which in turn continues to depreciate in accordance with the Company’s policy. Sublease revenue is recognized throughout the sublease contract under the heading “Cargo and other revenues”.

3.7.4.Aircraft and right-of-use decomponentization and capitalization of heavy maintenance events and structural checks

At the initial recognition of aircraft or right-of-use assets, the Company allocates the total cost of the aircraft between four major components; airframe, engines, heavy maintenance and structural checks. The useful economic life is the period extending up to the next heavy maintenance or structural check or the remaining useful life of the aircraft/engines or lease contract, whichever is shorter.

The Company has maintenance contracts for its engines that cover all significant maintenance events. The Company has "power-by-the-hour" type contracts, which estipulate a rate for maintenance per hour flown, which are paid in accordance with the total hours flown when maintenance occurs.

Subsequent heavy maintenance events and structural checks, which increase the useful lives of the assets, are capitalized and recognized as property and equipment or in addition to the right-of-use assets, according to the underlying asset. Subsequently they are depreciated during the respective period of use or until the end of the lease. Repairs and other routine maintenance are recognized in the maintenance expenses during the period in which they are incurred.

3.7.5. Capitalization of contractual obligations with aircraft return conditions

The costs resulting from the maintenance events that will be carried out immediately before the return of the aircraft to the lessors (defined as restoration events under IFRS 16) are recognized as provisions from the beginning of the contract, as long as they can be reasonably estimated. In addition, a right-of-use asset is recognized and depreciated on a straight-line basis over the lease term.

3.7.6. Advance payments for acquisition of aircraft

Advance payments for acquisition of aircraft are recorded in property and equipment, including interest and financial charges incurred during the aircraft manufacturing phase and improvements to third-party assets.

The Company receives credits from manufacturers when purchasing certain aircraft and engines, which can be used to pay for maintenance services. These credits are recorded as a reduction in the acquisition cost of related aircraft and engines, against a charge to other accounts receivable and then recorded as an expense or asset, when the credits are used for the additional acquisition of goods or services.

3.8. Business Combinations

The Company accounts for business combinations using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, based on its fair value on the acquisition date. Costs directly attributable to the acquisition are expensed as incurred. The assets acquired and liabilities assumed are measured at fair value, classified and allocated according to the contractual terms, economic circumstances and relevant conditions on the acquisition date. Goodwill is measured as the excess of the consideration transferred over the fair value of net assets acquired. If the consideration transferred is smaller than the fair value of net assets acquired, the difference is recognized as a gain on bargain purchase in the statement of net income (loss). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the years ended December 31, 2019 and 2018, the Company has not completed any business combination transaction.

For combinations between entities under common control, the Company accounts under the Predecessor Accounting Method. Assets and liabilities of the acquired entity are stated at predecessor carrying values. These intra-group transactions have no impact in the consolidated financial statements.

3.9. Intangible assets

Separately acquired intangible assets are measured at cost on initial recognition. After initial recognition, intangible assets are stated at cost, less any accumulated amortization and accumulated impairment losses. Internally generated goodwill are not capitalized.

The useful life of intangible assets is assessed as definite or indefinite.

Intangible assets with definite useful lives are amortized over their estimated useful lives and tested for impairment, whenever there is an indication of any loss in the economic value of the assets. The period and method of amortization for intangible assets with definite lives are reviewed at least at the end of each fiscal year or when there are indicators of impairment. Changes in estimated useful lives or expected consumption of future economic benefits embodied in the assets are considered to modify the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization of intangible assets with definite lives is recognized in the statements of net income (loss) in the expense category consistent with the use of intangible assets (Note 15).

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment at each year-end or whenever there is an indicator that their carrying amount cannot be recovered. The assessment is reviewed annually to determine whether the indefinite useful life continues to be supportable. If not, the change in useful life from the indefinite to definite is made on a prospective basis.

Gains and losses resulting from the disposal of intangible assets are measured as the difference between the net disposal proceeds and the book value of assets, and are recognized in the statements of net income (loss).

In connection with the acquisition of TudoAzul (former TRIP), the Company identified airport operating licenses as having indefinite useful lives. The fair value of Pampulha, Santos Dumont and Fernando de Noronha airports operating licenses were recognized at fair value at the acquisition date. Fair value of operating licenses was based on estimated discounted future cash flows. Operating licenses are considered to have indefinite useful lives due to several factors, including requirements for necessary permits to operate within Brazil and limited landing rights availability in Brazil’s most important airports regarding traffic volume.

3.10. Impairment of non-financial assets

The Company performs an annual review for impairment indicators in order to assess events or changes in economic, technological, or operating conditions which may indicate that an asset is not recoverable.

If any, those indicators are identified when performing the annual impairment testing and the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's (CGU) fair value less cost to sell or its value in use. When the carrying amount of intangibles exceed its recoverable amount, an impairment charge is recorded and the asset is written down to its recoverable amount.

The reversal of an impairment loss should be recognized if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment test was carried out. The amount of any reversal that can be recognized is restricted to increasing the relevant asset's carrying value to the carrying value that would have been recognized if the original impairment had not occurred.

The Company operates as a single CGU.

In estimating the value in use of assets, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the weighted average cost of capital for the industry in which the cash-generating unit operates. The fair value less cost to sell is determined, whenever possible, based on a firm sales agreement carried out on an arm's length basis between known and interested parties, adjusted for expenses attributable to asset sales, or when there is no firm sale commitment, based on the market price of an active market or most recent transaction price of similar assets.

The following assets have specific characteristics for impairment testing:

Goodwill

Goodwill is tested for impairment annually or when circumstances indicate that the carrying value may not be recoverable.

Impairment is determined for goodwill by assessing the recoverable amount of the single CGU taking the Company as a whole.

When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, and when circumstances indicate that the carrying value may be impaired.

3.11. Security deposits and maintenance reserves

a) Security deposits

Security deposits are guarantee deposits held as collateral related to aircraft lease contracts paid to lessors at the inception of the lease agreement that will be refunded to the Company when the aircraft is returned to the lessor at the end of the lease agreement. Security deposits are denominated in U.S. Dollars and do not bear interest.

b) Maintenance reserves

Certain master lease agreements provide that we pay maintenance reserves to aircraft lessors to be held as collateral in advance of the performance of major maintenance activities. Maintenance reserve deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lesser of (1) the amount of the maintenance reserve held by the lessor associated with the specific maintenance event or (2) the costs related to the specific maintenance event. Substantially all of these maintenance reserve payments are calculated based on a utilization measure, such as flight hours or cycles, and are used solely to collateralize the lessor for maintenance.

At the lease inception and at each statement of financial position date, we assess whether the maintenance reserve payments required by the master lease agreements are expected to be recovered through the performance of qualifying maintenance on the leased assets. Maintenance deposits expected to be recovered from lessors are reflected in security deposits and maintenance reserves in the accompanying statements of financial position. We assess recoverability of amounts currently on deposit with a lessor by comparing them to the amounts that are expected to be reimbursed at the time of the next maintenance event, and amounts not recoverable are considered maintenance costs. Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed (comparative figures, previously presented as non-current on its entirety, have been reclassifed to improve comparability between periods presented).

3.12. Provisions

Provisions are recognized when the Company has a present legal or constructive obligation, and as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

When the Company expects that the value of a provision will be reimbursed, in whole or in part, as for example under an insurance contract, the reimbursement is recognized as a separate asset but only when reimbursement is virtually certain. The expense relating to any provision is presented in the statements of net income (loss), net of any reimbursement.

The Company is party in other judicial and administrative proceedings. Provisions are set up for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, the most recent court decision and their relevance in the legal system, as well as the assessment of legal counsel.

If the Company identifies an onerous contract, a contract in which the unavoidable costs of meeting the obligations of the contract exceed the economic benefits expected to be received over the same contract, the present obligation under the contract is recognized and measured as a provision. However, before a separate provision for an onerous contract is established, the Company assesses and recognizes any impairment losses that have occurred on the assets related to that contract in accordance with IAS 36 – Impairment.

3.13. Treasury shares

Own equity instruments that are reacquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in the share premium.

3.14. Employee benefits

i) Executive bonus

The Company records a provision for executive bonus, which payment is contingent to meeting predefined goals and it is recorded under Salaries, wages and benefits.

ii) Share-based payment

The Company offered its executives share-based payments to be settled with Company shares, where the Company receives services provided by these professionals in consideration for share options and restricted stock units.

The cost of equity settled awards with employees is measured based on the fair value as of the grant date. In order to determine the fair value of share options, the Company uses the Black-Scholes option pricing model (Note 28).

The cost of equity-settled awards is recognized together with a corresponding increase in equity over the period in which performance and/or service conditions are fulfilled, ending on the date the employee acquires the full right to the award (vesting date). The cumulative expense for equity settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and management’s best estimate of the number of equity instruments that will be vested.

The expense or credit in the statement of the operations for the period is recorded in “Salaries, wages and benefits” and represents the change in the accumulated expense recognized in the period.

No expense is recognized for awards that do not vest, except for awards in which vesting is subject to a market or non-vesting condition. These are treated as vested, regardless of whether the market conditions are met or not, provided that all the other exercise conditions are met.

When the terms of an equity-settled award are modified, the minimum expense is that which would have been recognized had the terms not been modified. An additional expense is recognized for any modification that increases the total fair value of the share-based payment transaction or otherwise benefits the employee, as measured at the date of modification.

When an equity-settled award is cancelled, it is treated as having vested on the cancellation date and any expense not recognized for the award is immediately recognized. This includes any award in which the non-vesting conditions within the control of the Company or the counterparty are not met. However, if a new plan replaces the plan canceled and designated as a replacement award on the date of grant, the canceled plan and the new plan are treated as if they were a modification to the original plan, as described in the previous paragraph.

The cost of cash-settled transactions is measured initially at fair value at the grant date. This fair value is expensed over the service period with the recognition of a corresponding liability. The liability is remeasured to fair value at each reporting date up to, and including the settlement date, with changes in fair value recognized in the statement of the operations for the period in ‘Salaries, wages and benefits’.

3.15. Accounts payable - Supplier finance

The Company negotiated with suppliers to extend payment terms. As a result, the Company signed an agreement with financial institutions to allow the anticipation of trade receivables from its suppliers. Taking into account that the early receipt with financial institutions is an option for suppliers, this does not generate financial expenses for the Company, it does not require the mandatory participation of suppliers, and the Company is neither refunded and/nor benefited with discounts from the financial institution due to prepayment before the maturity date agreed upon with the supplier. There is no change in the bill subordination level in the event of judicial execution.

3.16. Revenue

Passenger tickets revenue is recognized upon effective rendering of the transportation service. Travel-related services revenue is recognized when the related transportation service is provided being classified as passenger revenue. Travel-related services include baggage fees, administrative charges, upgrades and other travel related charges.

The Company recognizes revenue for tickets and travel-related services sold upon the departure of the related scheduled flight and for tickets and travel-related services sold that are expected to expire unused (breakage). The Company estimates the value of future refunds and exchanges, net of forfeitures for all unused tickets, once the flight date has already passed. These estimates are based on historical data and experience from past events.

IFRS 15 requires disclosure of quantitative and qualitative information about transaction price allocation to unsatisfied or partially satisfied performance obligations. The Company decided to apply the practical expedient to not disclose such information as the performance obligations are part of contracts with expected duration of one year or less.

3.17. "TudoAzul" Program

Under the "TudoAzul" program, customers accrue points based on the amount spent on tickets flown. The amount of points earned depends on TudoAzul membership status, market, flight, day of week, advance purchase, booking class and other factors, including promotional campaigns. The Company recognizes revenue on points that are estimated to expire unused. Points in general expire two years after the date earned regardless of activity in the account.

Upon the sale of a ticket, the Company recognizes a portion of the ticket sales as revenue when the transportation service occurs and defers a portion corresponding to the points earned under the TudoAzul Program, in accordance with IFRS 15, Customer Loyalty Programs in the account "Air Traffic Liabilities".

The Company determines the estimated selling price of the air transportation and points as if each element had been sold on a separate basis and was therefore based on the stand alone selling price.

The Company sells points to customers and also to business partners, including co-branded credit cards, financial institutions and other businesses. The related revenue is deferred and recognized as passenger revenue when points are redeemed and the related transportation service occurs, based on the weighted average price of the points sold.

Sales of points are comprised of two components, transportation and marketing. Accordingly, we recognize the marketing component in "other revenue" based on contractual terms.

Points awarded or sold and not used are recorded in "Air traffic liability". The Company recognizes revenue for points sold and awarded that will never be redeemed by program members. The Company estimates such amounts annually based upon the latest available information regarding redemption and expiration patterns.

3.18. Segment information

IFRS 8 requires that operations are identified by segment based on internal reports that are regularly reviewed by the Company´s chief operating decision maker to allocate funds to segments and assess their performance.

The operations of the Company consist of air transportation services in Brazil. The Company's management allocates funds based on the consolidated results. The main revenue-generating assets of the Company are its aircraft, from which revenue is generated in Brazil. Other revenues are basically derived from cargo operations and all items are directly attributed to air transport services that are recognized in income for the year when the services are rendered.

Based on how the Company manages its business and the way in which fund allocation decisions are taken, the Company has only one operating segment for financial reporting purposes.

3.19. New and amended standards and interpretations

IFRS 16

IFRS 16 was issued in January 2016 and replaces IAS 17, *Leases*, IFRIC 4*, Determining whether an Agreement Contains a Lease*, SIC-15, *Operating leases-Incentives* and SIC-27 – *Evaluating the Substance of Transactions in the Legal Form of a Lease*.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Transition to IFRS 16

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. Azul applied the full retrospective transition approach on January 1, 2019 to each prior reporting period presented. Under the full retrospective method the comparative information was restated.

Azul elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. Azul has leases of certain equipment (i.e., personal computers, printing and photocopying machines as well as communicating equipment) that are considered of low value.

The impact of IFRS 16 adoption is presented as follows:

	December 31,2018			December 31,2017			January 01,2017		
	As reported	IFRS 16 Impact	As adjusted	As reported	IFRS 16 Impact	As adjusted	As reported	IFRS 16 Impact	As adjusted
Consolidated Balance Sheets									
Asset									
Current assets									
Sublease receivable (e)	—	73,671	73,671	—	57,768	57,768	—	52,278	52,278
Prepaid expenses (g)	163,829	(48,376)	115,453	109,784	(27,128)	82,656	97,501	(23,997)	73,504
Other-current assets (h)	111,714	(1,091)	110,623	199,225	(418)	198,807	—	—	—
Non-current assets									
Sublease receivable (e)	—	288,067	288,067	—	308,824	308,824	—	361,173	361,173
Other non-current assets (g), (h)	520,723	(123,325)	397,398	215,707	(45,891)	169,816			
ROU - leased aircraft and other assets (a), (b), (g), (j)	—	4,926,326	4,926,326	—	4,377,725	4,377,725	—	4,063,048	4,063,048
ROU - maintenance of leased aircraft (d), (g)	—	632,900	632,900	—	374,384	374,384	—	115,259	115,259
Property, plant and equipment (b)	3,289,219	(1,446,980)	1,842,239	3,325,535	(1,444,764)	1,880,771	3,439,980	(1,318,328)	2,121,652
Liabilities and equity									
Current liabilities									
Loans and financing (c)	335,051	(176,238)	158,813	568,234	(149,036)	419,198	985,238	(151,825)	833,413
Lease liabilities (a), (c)	—	1,237,909	1,237,909	—	914,600	914,600	—	790,819	790,819
Accounts payable (e)	1,166,291	121,370	1,287,661	953,534	18,216	971,750	1,034,317	19,789	1,054,106
Provisions (j)	—	36,083	36,083	—	—	—	—	—	—
Non-current liabilities									
Loans and financing (c)	3,370,971	(773,658)	2,597,313	2,921,653	(762,412)	2,159,241	3,049,257	(850,129)	2,199,128
Lease liabilities (a), (c)	—	7,681,837	7,681,837	—	6,428,893	6,428,893	—	6,242,168	6,242,168
Deferred income taxes (i)	443,894	(150,683)	293,211	326,911	(184,809)	142,102	181,462	(96,904)	84,558
Provisions (j), (e)	80,984	632,957	713,941	73,198	479,957	553,155	76,353	402,644	478,997
Other non-current liabilities (e), (h)	321,139	5,353	326,492	343,041	79,672	422,713	377,924	21,642	399,566
Equity									
Other comprehensive income (i)	(117,324)	(36,645)	(153,969)	(11,192)	(3,496)	(14,688)	(33,785)	(12,212)	(45,997)
Accumulated losses	(836,214)	(4,277,093)	(5,113,307)	(1,214,756)	(3,221,085)	(4,435,841)	(1,743,795)	(3,116,559)	(4,860,354)

(*) ROU - Right-of-use assets

Consolidated statement of net income (loss)	For the year ended December 31, 2018			For the year ended December 31, 2017		
	As reported	IFRS 16 Impact	As adjusted	As reported	IFRS 16 Impact	As adjusted
Operating revenue						
Cargo and other revenue (f)	483,225	(96,293)	386,932	1,094,157	(84,666)	1,009,491
Operating expense						
Maintenance materials and repairs (d)	(504,477)	254,372	(250,105)	(568,144)	83,988	(484,156)
Depreciation and amortization (a), (j)	(324,902)	(959,148)	(1,284,050)	(299,793)	(763,585)	(1,063,378)
Other operating expenses, net (h)	(875,148)	(6,268)	(881,416)	(572,497)	(4,078)	(576,575)
Other operating expenses, net - aircraft and other rent (a)	(1,509,947)	1,475,513	(34,434)	(1,181,731)	1,146,112	(35,619)
Financial result						
Financial income (e)	41,393	33,129	74,522	94,805	33,467	128,272
Financial expense (a), (j)	(410,207)	(684,621)	(1,094,828)	(524,033)	(554,565)	(1,078,598)
Foreign currency exchange, net (a), (e), (j)	(194,706)	(1,111,357)	(1,306,063)	57,871	(23,012)	34,859
Result from related parties transactions, net (e)	342,083	39,642	381,725	194,351	(17,376)	176,975
Income tax						
Income tax expense	(170,604)	(977)	(171,581)	(71,680)	79,189	7,509
Net income (loss)	420,277	(1,056,008)	(635,731)	529,039	(104,526)	424,513
Basic net income per common share – R$	0.02	(0.05)	(0.03)	0.02	(0.00)	0.02
Diluted net income per common share – R$	0.02	(0.05)	(0.03)	0.02	(0.00)	0.02
Basic net income per preferred share – R$	1.24	(3.13)	(1.88)	1.68	(0.33)	1.35
Diluted net income per preferred share – R$	1.23	(3.13)	(1.88)	1.64	(0.33)	1.32

Cash Flows	As reported	IFRS 16 Impact	As adjusted	As reported	IFRS 16 Impact	As adjusted
Cash flows from operating activities						
Net income (loss) for the period	420,277	(1,056,008)	(635,731)	529,039	(104,526)	424,513
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities						
Depreciation and amortization	324,902	959,148	1,284,050	299,793	763,585	1,063,378
Exchange (gain) and losses on assets and liabilities denominated in foreign currency	90,141	1,153,741	1,243,882	(62,236)	24,245	(37,991)
Interest (income) and expenses on assets and liabilities	182,274	684,621	866,895	222,127	554,343	776,470
Deferred income tax and social contribution	170,604	977	171,581	71,680	(79,189)	(7,509)
Changes in operating assets and liabilities						
Sublease receivables	–	4,854	4,854	–	46,859	46,859
Prepaid expenses	(71,723)	21,248	(50,475)	(20,017)	10,038	(9,979)
Other assets	(288,409)	78,107	(210,302)	(141,108)	39,412	(101,696)
Accounts payable	142,631	103,154	245,785	(93,524)	(1,573)	(95,097)
Other liabilities	31,639	(74,319)	(42,680)	(5,689)	58,021	52,332
Interest paid	(214,671)	(630,626)	(845,297)	(301,943)	(519,230)	(821,173)
Cash flows from investing activities						
Acquisition of property and equipment	(754,637)	(331,805)	(1,086,442)	(589,497)	(105,535)	(695,032)
Cash flows from financing activities						
Loan proceeds	–	–	–	1,750,111	(39,461)	1,710,650
Loan payment	(530,472)	(216,759)	(747,231)	(889,066)	(53,222)	(942,288)
Lease payment	(385,906)	(696,333)	(1,082,239)	(201,246)	(593,764)	(795,010)

a) The application of IFRS 16 to leases previously classified as operating leases under IAS 17, resulted in the recognition of right-of-use assets and lease liabilities. As a result, aircraft and other rent expenses have decreased, offset by an increase in depreciation and amortization expense, finance expense and foreign currency exchange expense.
b) Finance lease aircraft, previously recognized in property, plant and equipment, and are now presented as a right-of-use asset.
c) Finance lease liabilities, previously recognized as loans and financing, are now presented as lease liabilities,
d) Heavy maintenance and structural checks expenses related to aircraft under operating lease were previously recorded under Maintenance materials and repais expenses. Under IFRS 16, these expenses are capitalized and depreciated.
e) The Company, as a lessor, has classified its sublease agreements as finance leases and operating leases, dependending on the extent to which the lease transfers the risks and benefits inherent to the asset or right-of-use. For subleases classified as finance subleases, the leased assets have been de-recognized and a sublease receivables recorded. The provision for onerous contract of the 7 aircraft subleased to TAP, previously required under IAS 17 (Note 9), and was adjusted to reflect only the non avoidable costs non lease related. The revenue recorded for finance leases consists only of financial income and the sublease receivable balance is adjusted each accounting period for change to foreign exchange rates.
f) For subleases classified as operating subleases, the Company continues to recognize the right-of-use asset, which continues to depreciate in accordance with the Company's policy. Sublease revenue is recognized throught the sublease under the heading "Cargo and other revenues".
g) The Company had prepaid rent and maintenance expenses which have been incorporated in the right-of-use asset balances.
h) The Company had deferred sale and leaseback losses which, upon transition, were recognized as a loss at the time of the transaction and corresponding amortization expenses previously recognized under IAS 17 were reversed.
i) Deferred tax assets are recognized only to the extent that recovery is probable.
j) Costs resulting from maintenance events that will be carried out immediately before the aircraft is returned to lessors (defined as restoration events under IFRS 16), are recognized as provisions from the beginning of the contract, provided that they can be estimated reasonably, against the recognition of a right-of-use asset, which is depreciated on a straight-line basis over the lease.

The Company's aircraft lease rental payments are predominantly denominated in USD. While the Company's foreign currency cash flow risk for lease rental payments are unchanged, the adoption of IFRS 16 will result in foreign currency denominated lease liabilities recognized on the balance sheet revaluing in response to exchange rate fluctuations in the USD/BRL exchange rate.

Amendments to IFRS 9: *Prepayment Features with Negative Compensation*

Under IFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are solely payments of principal and interest on the principal amount outstanding (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Company.

Amendments to IAS 19: *Plan Amendment, Curtailment or Settlement*

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an Company is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event. A Company is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments had no impact on the consolidated financial statements of the Company as it did not have any plan amendments, curtailments, or settlements during the period.

Amendments to IAS 28: ***Long-term interests in associates and joint ventures***

The amendments clarify that a Company applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, a Company does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 *Investments in Associates and Joint Ventures*.

These amendments had no impact on the consolidated financial statements as the Company does not have longterm interests in its associate and joint venture.

IFRIC Interpretation 23 ***Uncertainty over Income Tax Treatment***

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 *Income Taxes*. It does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether a Company considers uncertain tax treatments separately
- The assumptions a Company makes about the examination of tax treatments by taxation authorities
- How a Company determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How a Company considers changes in facts and circumstances

The Company determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Company applies significant judgement in identifying uncertainties over income tax treatments. Since the Company operates in a complex multinational environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Company considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings in different jurisdictions include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Company determined, based on its tax compliance and transfer pricing study that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities.

The Interpretation did not have an impact on the consolidated financial statements of the Company.

Annual Improvements 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when a Company obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

A Company applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Company as there is no transaction where joint control is obtained.

IFRS 11 Joint Arrangements

A Company that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

A Company applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Company as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, a Company recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognized those past transactions or events.

Company applies the amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted. When the Company first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Since the Company's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Company.

IAS 23 Borrowing Costs

The amendments clarify that a Company treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

The Company applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the Company first applies those amendments. Company applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

Since the Company's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Company.

3.20. Standards issued but not yet effective

Amendments to IFRS 3: *Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments to the definition of material is not expected to have a significant impact on the Company consolidated financial statements.

Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures

Due to the changes in the interest rates used as market references – IBOR (Interbank Offered Rate), that will be terminated in future periods, there may be uncertainties in the evaluation of hedge accounting structures. Regulatory changes aim at minimizing possible impacts in these structures in the current scenario of prereplacement of rates. These changes are effective for the years beginning January 1, 2020. No significant impacts have been identified on the Consolidated Financial Statements of Company.

IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. This standard is not applicable to the Company.

4. Significant accounting judgments, assumptions and estimates

The preparation of consolidated financial statements of the Company requires management to make judgments and estimates and adopt assumptions that affect the reported amounts of revenue, expenses, assets, liabilities and disclosures of contingent liabilities at the date of the financial statements. Uncertainty relating to these assumptions and estimates could lead to amounts that require a significant adjustment to the book value of assets or liabilities affected in future periods.

In the process of applying the Company's accounting policies, management has made the following judgments, estimates and assumptions which have the most significant effect on the amounts recognized in the consolidated financial statements:

Estimates and assumptions

The main assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, involving a significant risk of causing a material adjustment of the book value of assets and liabilities within the next financial year, are discussed below:

Breakage

The Company recognizes revenue from tickets sold that are expected to expire unused based on historical data and experience. Estimating expected breakage requires management to make judgments, among other things, on the extent to which historical experience is an indication of customer behavior. Annually, or more frequently as the experience data suggests, management reassesses the historical data and makes required improvements.

Impairment of non-financial assets

An impairment loss exists when the book value of assets or cash-generating unit exceeds its recoverable amount, which is the higher of fair value less sales costs and value in use. The calculation of fair value less sales cost is based on information available of transaction of similar assets or market price less additional costs for disposing of assets.

The calculation of value in use is based on the discounted cash flow model. Cash flows are derived from the budget for the next five or seven years and do not include reorganization activities to which the Company have not yet committed or significant future investments that will improve the basis of assets of the cash-generating unit subject to the test.

The recoverable amount is affected by the discount rate used in the method of discounted cash flow and expected future cash receipts and growth rate used for extrapolation.

Transactions with share-based payments

The Company measures the cost of transactions settled with its own shares with employees based on the fair value of such shares at the grant date or at each reporting date, as applicable. The Company must estimate at each reporting date the quantity of awards expected to be vested considering performance and non-market vesting conditions. Estimating the fair value of share-based payments requires determining the most appropriate assessment model for the grant of shares, which depends on the terms and conditions of the grant. This also requires determining the inputs used in the valuation models, including the option's expected life, volatility, dividend income, and related assumptions. The assumptions and models used to estimate the fair value of share-based payments are disclosed in Note 28.

Provisions for tax, civil and labor risks

The Company recognizes provisions for civil and labor suits. The assessment of probability of loss includes assessing the available evidence and jurisprudence, the hierarchy of laws and most recent court decisions, and their relevance in the legal system, or the assessment of independent counsel. Provisions are reviewed and adjusted to take into account changes in circumstances such as the applicable limitation period, findings of tax inspections and additional exposures identified based on new issues or decisions of courts (Note 21).

Fair value of financial instruments

When the fair value of assets and liabilities presented in the statement of financial position cannot be obtained in an active market, it is determined using valuation techniques including the discounted cash flow model. The data for these methods is based on those prevailing in the market when possible. However, when it is not feasible, a certain level of judgment is required to establish fair value. Judgment includes considerations on the data used, for example, liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value of the financial instruments.

"TudoAzul" Program - Loyalty Plan

As described in Note 3.17, the Company accounts for "*TudoAzul*" loyalty program using the deferred revenue method. Under the deferred revenue method, the Company accounts for awarded points as a separately identifiable component of the sales transactions in which they are granted and recognizes *based on the relative individual selling price*. Deferred revenue, other than breakage on points, remains recognized until customers redeem their points, or when the points expire.

Provision for return of aircraft and engines

For aircraft under operating leases, the Company is contractually required to return the equipment at a predefined level of operational capability.

The aircraft return cost provision is estimated based on expenditures incurred in aircraft reconfiguration (interior and exterior), licensing and technical certification, painting etc., according to return terms.

The engine's return cost provision is estimated based on evaluation and minimum contractual conditions of the equipment that should be returned to the lessor, considering not only the historical costs incurred, but also the equipment conditions at the time of evaluation.

Determination of useful life and significant components of property and equipment and right-of-use

The Company believes that important aircraft parts need to be separated, including engines, their respective scheduled heavy maintenance and structural checks. These parts are depreciated in accordance with the useful lives defined in the fleet renovation plan and the maintenance schedule.

Discount rate used for the initial lease calculation

When calculating the present value of lease payments, the Company uses the interest rate implicit in the lease and, when this cannot be readily determined, the Company's incremental borrowing rate at the lease commencement date is used.

The incremental borrowing rate is calculated based on the risk-free interest rate for a similar term and a similar economic environment to the lease, as of the lease commencement date, adjusted for the risk spread of the Company and the collateral specific to the lease.

5. Financial risk management objectives and policies

The main financial liabilities of the Company, other than derivatives, are loans, debentures, lease payables and accounts payable. The main purpose of these financial liabilities is to finance operations as well as finance the acquisition of aircraft. The Company has trade accounts receivable and other accounts receivable that result directly from its operations. The Company also has investments available for trading and contracts for derivative transactions such as currency forwards, options and swaps in order to reduce the exposure to foreign exchange fluctuations.

The Company's senior management supervises the management of market, credit and liquidity risks.

All activities with derivatives for risk management purposes are carried out by experts with the appropriate skillset and experience and under senior management supervision. It is the Company's policy not to enter into derivatives transactions for speculative purposes.

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments exposed to market risk include loans payable, deposits, financial instruments measured at fair value through profit or loss and financial instruments.

On July 24, 2019, the Company entered in a structured derivative transaction to hedge US$28 million related to the release of a new financing tranche from Opic. The contracted structure was a full swap of principal and interest of all transaction flows at a rate of R$3.7731 and also includes sale of currency options at R$4.7500 for interest and principal. This operation was designated as economic hedge.

The table below shows the effects of our hedges designated as hedge accounting of our debt:

	December 31, 2019		
	Book value	**Fair Value – hedge instrument**	**Consolidated post hedge strategy**
Denominated in foreign currency - US$			
Aircraft and engine acquisition	**896,232**	**(10,971)**	**885,261**
Working capital	**1,727,882**	**(303,507)**	**1,424,375**
Denominated in local currency - R$			
Aircraft and engine acquisition (FINAME)	**164,280**	**(3,309)**	**160,971**
Working capital	**37,355**	—	**37,355**
Finance lease	—	—	—
Total in R$	**2,825,749**	**(317,787)**	**2,507,962**

The table below shows the indebtedness related to working capital denominated in foreign currency, designated as hedge accounting, considering the effects of the derivative instruments (exchanging the exposure for local currency) contracted by the Company:

Risk	Type of hedge	Hedged Item	Nominal amount	Hedge Instrument	Nominal amount	December 31, 2019 Carrying amount hedge item	 Fair Value – hedge instrument	 Debt Considering Hedge
1) Senior Notes Azul LLP								
Foreign exchange risk	Cash Flow Hedge	Principal US$ on Senior Notes Azul LLP	US$ 400 million	Currency Options - Floor 3,2865 Cap 4,7500	US$ 400 million	**1,605,914**	**(282,760)**	**1,323,154**
2) Proceeds in foreign currency								
Interest rate swap and foreign exchange risk	Fair value hedge	Principal & Interest on 4.131 Transaction	US$30 million	IRS - Interest Rate Swap (receives US Libor3M + spread & pays 108% CDI)	98,940	**121,968**	**(20,747)**	**101,221**
Total						**1,727,882**	**(303,507)**	**1,424,375**

The table below shows the indebtedness related to aircraft acquisition denominated in foreign currency, designated as hedge accounting, considering the effects of the derivative instruments (exchanging the exposure for local currency) contracted by the Company:

Risk	Type of hedge	Hedged Item	Nominal amount	Hedge Instrument	Nominal amount	December 31, 2019 Carrying amount - hedge item	 Fair Value – hedge instrument	 Debt Considering Hedge
Aircraft acquisition								
Interest rate swap and foreign exchange risk	Cash Flow Hedge	Principal US$ on OPIC	US$79 million	Currency Options - Floor 3,8070 Cap 4,7500	US$79 million	**594,586**	**(10,971)**	**583,615**
Interest rate swap and foreign exchange risk	Fair value hedge	Principal & Interest	R$76,200	IRS - Interest Rate Swap (fixed 6% to 58% and 61% of CDI)	R$76,200	**44,249**	**(3,309)**	**40,940**
						638,835	**(14,280)**	**624,555**

a.1) *Interest rate risk*

Interest rate risk is the risk that the fair value of future results of a financial instrument fluctuates due to changes in market interest rates. The exposure of the Company to the risk of changes in market interest rates refers primarily to long-term obligations subject to variable interest rates.

The Company manages interest rate risk by monitoring the future projections of interest rates on its loans, financing and debentures as well as on its operating leases. To mitigate this risk, the Company has used derivative instruments aimed at minimizing any negative impact of variations in interest rates.

Sensitivity to interest rates

The table below shows the sensitivity to possible changes in interest rates, keeping all other variables constant in the Company's income before taxes that are impacted by loans payable subject to variable interest rates. For the sensitivity analysis, the Company utilized the following assumptions:

- LIBOR based debt: weighted average interest rate of 5.34% p.a.
- CDI based debt: weighted average interest rate of 4.74% p.a.

We estimated the impact on profit and loss and equity for the year ended December 31, 2019 resulting from variation of 25% and 50% on the weighted average rates, as shown below:

	25%	-25%	50%	-50%
Interest expense	**29,430**	**(29,430)**	**58,860**	**(58,860)**

a.2) *Currency risk*

Currency risk is the risk that the fair value of future dollar denominated commitments vary according to the fluctuation of the foreign exchange rate. The exposure of the Company to changes in exchange rates relates primarily to the U.S dollar denominated loans, financing and leases, net of investments in the U.S. dollar, and also to revenues and operating expenses originated in U.S. dollar.

The Company is also exposed to changes in the exchange rate of the Euro through its investment in the TAP Convertible Bonds (Note 24).

The Company manages its currency risk by using financial instruments seeking to hedge up to twelve months of its projected non-operational activities.

The Company continuously monitors the net exposure in foreign currency and, when deemed appropriate, enters into arrangements to hedge the projected non-operating cash flow for up to 12 months to minimize its exposure. Additionally, the Company may enter into longer than 12 months derivative financial instruments to protect itself against currency and/or interest rate risks related to "Loans and financing".

The Company's nominal foreign exchange exposure is shown below:

	Exposure to U.S. dollar		Exposure to Euro	
	December 31,		December 31,	
	2019	2018 (Restated)	2019	2018
Assets				
Cash and cash equivalents and short-term Investments	**289,297**	356,174	**—**	—
Security deposits and maintenance reserves	**1,613,221**	1,513,963	**—**	—
Sublease receivables	**279,504**	361,738	**—**	—
Long-term investments	**160,871**	—	**1,236,828**	1,287,781
Financial instruments	**121,968**	116,564	**—**	—
Other assets	**244,355**	122,456	**—**	—
Total assets	**2,709,216**	2,470,895	**1,236,828**	1,287,781
Liabilities				
Accounts payable	**(424,411)**	(455,777)	**—**	—
Loans and financing (*)	**(2,624,114)**	(1,756,989)	**—**	—
Lease liabilities	**(12,034,392)**	(8,948,314)	**—**	—
Other liabilities	**(688,134)**	(44,925)	**—**	—
Total liabilities	**(15,771,051)**	(11,206,005)	**—**	—
Derivatives (NDF) – notional	**2,940,333**	2,186,356	**—**	—
Net exposure	**(10,121,502)**	(6,548,754)	**1,236,828**	1,287,781

(*) As of December 31, 2019, US dollar denominated working capital loans totaling R$2,158,933 were swapped to Brazilian Reais, yielding a non-realized gain of R$314,500 and resulting in a net US dollar exposure on Loans and Financing of R$465,181.

Sensitivity to exchange rates

At December 31, 2019, the Company used the closing exchange rate of R$4.0307/US$1.00 and R$4.5305/EUR1.00. We present below a sensitivity analysis considering a variation of 25% and 50% over the existing rates:

Exposure in US$	**25%** **R$5.0384/US$**	**-25%** **R$3.0230/US$**	**50%** **R$6.0461/US$**	**-50%** **R$2.0154/US$**
Effect on exchange rate variation	**(2,530,398)**	**2,530,398**	**(5,060,797)**	**5,060,797**

Exposure in EUR	**25%** **R$5.6631/EUR**	**-25%** **R$3.3979/EUR**	**50%** **R$6.7958/EUR**	**-50%** **R$2.2653/EUR**
Effect on exchange rate variation	**309,207**	**(309,207)**	**618,414**	**(618,414)**

a.3) *Risks related to variations in prices of aircraft fuel*

The volatility of prices of aircraft fuel is one of the most significant financial risks for airlines. The company's fuel price risk management aims to balance the airline exposure to its market peers, so that the airline is neither overly affected by a sudden increase in prices nor is unable to benefit from a substantial fall in fuel prices.

The Company manages the risk related to fuel price volatility either through forward-looking fixed-price contracts directly with a supplier, or derivative contracts negotiated with banks. The Company may use derivative contracts for oil or its sub-products.

Fuel price sensitivity

The table below sets out the sensitivity of the Company's fuel hedges to substantial changes in the oil markets, maintaining all other variables constant.

The analysis considers a change in oil prices, in Reais, relative to the market average for the current period and forecast the impact on the Company's financial instruments, stemming from a variation of 25% and 50% in the oil prices, using the closing exchange rate of R$4.0307/US$1.00 as follows:

Change in Oil prices in Reais	**25%**	**-25%**	**50%**	**-50%**
Impact on fuel hedges	**379,673**	**(261,317)**	**700,031**	**(582,002)**

a.4) *Risk related to changes in the fair value of TAP Convertible Bonds and investments in Global AzulAirProjects*

TAP Convertible Bonds contain a conversion option into shares of TAP. In addition *Global AzulAirProjects* retains 35.6% economic rights in Atlantic Gateway, which in turn retains 6.1% post-diluton economic interest in TAP. Therefore, the Company is exposed to changes in the fair value of TAP.

The acquisition of the TAP Convertible Bonds and the participation in Global AzulAirProjects is part of the commercial strategy of the Company of creating synergies between the Company and TAP by having the option to become a direct shareholder of TAP in case the stock price of TAP increases and it is economically advantageous to convert the debt into TAP shares.

b) Credit risk

Credit risk is inherent in operating and financial activities of the Company, mainly represented under the headings of trade receivables, cash and cash equivalents, including bank deposits.

The credit risk of "trade receivables" is comprised of amounts payable by major credit card companies, and also trade receivables from travel agencies, and sales payable in installments. The Company usually assesses the corresponding risks of financial instruments and diversifies the exposure.

Financial instruments are held with counterparties that are rated at least "A" in the assessment made by S&P, Moody's and Fitch, or, mostly, are hired in futures and commodities stock exchange, which substantially mitigates the credit risk.

TAP Convertible Bonds are secured by liens over certain intangible assets.

Additionally, the Company, under the non-binding agreement to acquire selected assets of Oceanair Linhas Aéreas SA ("Avianca Brasil,"), granted loans in the aggregate and non-adjusted total amount of R$52 million to Avianca Brasil, which have contractual guarantees of surety and chattel mortgage of equipment. Such loans are recorded under "Other assets" and must be paid with priority under the law and the judicial recovery plan of Avianca Brasil.

During the second quarter of 2019, there was an auction for the sale of isolated production units, pursuant to Avianca's judicial recovery plan, whose proceeds would primarily serve to repay the loans. To date, the judicial sale of isolated production units has not been completed, including in view of the decision of the National Civil Aviation Agency (ANAC) to redistribute slots.

The Company continues to monitor the evolution of the judicial recovery process of Avianca Brasil and its developments in order to verify the recoverability of the loans by this means, as well as adopting all applicable enforceable measures to collect the debtor and guarantors amounts.

c) Liquidity risk

Liquidity risk takes on two distinct forms: market and cash flow liquidity risk. The first is related to current market prices and varies in accordance with the type of asset and the markets where they are traded. Cash flow liquidity risk, however, is related to difficulties in meeting the contracted operating obligations at the agreed dates.

As a way of managing the liquidity risk, the Company invests its funds in liquid assets (government bonds, CDBs, and investment funds with daily liquidity), and the cash management policy establishes that the Company's and its subsidiaries' weighted average debt maturity should be higher than the weighted average maturity of the investment portfolio.

The schedule of financial liabilities held by the Company is as follows:

December 31, 2019	Immediate	Until 6 months	7 to 12 months	1 to 5 years	More than 5 years	Total
Loans and financing	**42,619**	**162,269**	**276,339**	**3,003,090**	**33,839**	**3,518,156**
Lease liabilities	**271,524**	**598,472**	**715,237**	**8,081,759**	**2,439,629**	**12,106,621**
Accounts payable	**975,465**	**277,388**	**123,997**	—	—	**1,376,850**
Accounts payable – Supplier finance	**249,727**	—	—	—	—	**249,727**
Liabilities from derivative transaction	**2,135**	**46,987**	**32,074**	**228,994**	—	**310,190**
	1,541,470	**1,085,116**	**1,147,647**	**11,313,843**	**2,473,468**	**17,561,544**

Capital management

The Company's assets may be financed through equity or third-party financing. If the Company opts for equity capital it may use funds from contributions by shareholders or through selling its equity instruments.

The use of third-party financing is an option to be considered mainly when the Company believes that the cost would be less than the return generated by an acquired asset. It is important to ensure that the Company maintains an optimized capital structure, provides financial solidity while providing for the viability of its business plan. As a capital-intensive industry with considerable investments in assets with a high aggregated value, it is natural for companies in the aviation sector to report a relatively high degree of leverage.

The Company manages capital through leverage ratios, which is defined by the Company as net debt divided by the sum of net debt and total equity. Management seeks to maintain this ratio at levels equal to or lower than industry levels. Management includes in the net debt the lease liabilities, the loans and financing (including debentures) less cash and cash equivalents, restricted cash, short and long-term investments, sublease receivables, deposits and current and non-current restricted investments.

The Company's capital structure is comprised of its net indebtedness defined as total loans and financing (including debentures) and operating leases net of cash and cash equivalents, restricted cash and others financial instruments. Capital is defined as equity and net indebtedness.

Under IFRS 16, at the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. During the fouth quarter 2019, the Company took delivery of thirteen aircraft under operating leases, increasing the 'Lease liabilities' by R$2,124,722. Although the liability is recognized in the balance sheet from delivery date, these aircraft generated nearly no Operating income (loss) during the quarter, as aircraft are required to go through certification and tests before joining the operating fleet of the Company.

The Company is not subject to any externally imposed capital requirements. The total capital as total net equity and net debt as detailed below:

	December 31,	
	2019	**2018 (Restated)**
Equity	**(3,519,174)**	(1,150,038)
Cash and cash equivalents (Note 6)	**(1,647,880)**	(1,169,136)
Short-term investments (Note 7)	**(62,009)**	(517,423)
Long-term investments (Note 24)	**(1,397,699)**	(1,287,781)
Sublease receivable (Nota 9)	**(279,504)**	(361,738)
Security deposits and maintenance reserves (Note 13)	**(1,651,533)**	(1,546,720)
Loans and financing (Note 17)	**3,518,156**	2,756,126
Lease liabilities (Note 18)	**12,106,621**	8,919,746
Net debt	**10,586,152**	6,793,074
Total capital	**7,066,978**	5,643,036

6. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	December 31,	
	2019	**2018**
Cash and bank deposits	**308,958**	370,262
Cash equivalents		
Bank Deposit Certificate – CDB	**1,317,388**	480,052
Investments funds	**21,534**	318,822
	1,647,880	1,169,136

The balances of cash and bank deposits represent amounts deposited in checking accounts with Brazilian and offshore banks.

The CDB investments are indexed to the Brazilian Interbank Deposit Certificate ("CDI") and are repayable on demand.

Investment funds are comprised of CDBs and repurchase agreements, denominated in Reais, with financial institutions (deposit certificates).

Cash equivalents investments are classified as financial assets at fair value through profit or loss.

7. Short term investments

Investments are comprised of:

	December 31,	
	2019	**2018**
Other short-term investments	**21,243**	16,039
Investment funds	**40,766**	501,384
	62,009	517,423

Investment funds are comprised of Brazilian government bonds and bank notes, denominated in Reais, with financial institutions (deposit certificates) and debentures issued by B and BB+ risk rated companies bearing an accumulated average interest rate of 100% of CDI – Interbank Deposit Certificate rate. Brazilian government bonds are comprised of National Treasury Bills ("LTN"), National Financial Bills ("LFT") and National Treasury Notes ("NTN").

Short-term investments are classified as financial assets at fair value through profit or loss.

8. Trade and other receivables

	December 31,	
	2019	**2018**
Trade and other receivables with customers	**1,142,704**	1,039,373
Trade and other receivables with others	**37,878**	42,406
	1,180,582	1,081,779
Allowance for doubtful accounts	**(14,716)**	(12,723)
	1,165,866	1,069,056

The changes in the allowance for doubtful accounts are as follows:

	December 31,	
	2019	**2018**
Balance at the beginning of the year	**12,723**	6,925
Increases	**5,532**	7,505
Reversals	**(3,539)**	(1,707)
Balance at the end of the year	**14,716**	12,723

The schedule of accounts receivables are as follows:

	December 31,	
	2019	**2018**
Not yet due	**1,151,963**	1,025,211
Up to 90 days	**13,903**	43,845
Over 91 days	**14,716**	12,723
	1,180,582	1,081,779

Accounts receivable from credit card companies are received in installments of up to twelve months. Installment receivables which are due more than 60 days amounted to R$495,707 at December 31, 2019 (December 31, 2018 – R$691,839). Average days-sales-outstanding was 31 days for the year ended December 31, 2019 (December 31, 2018 - 37 days). Generally, interest is charged on sales receivable in installments with more than six and ten months for domestic and international flights, respectively.

The Company enters into factoring transactions with banks or credit card management companies, in order to obtain funds for working capital. During the year ended December 31, 2019 the Company factored accounts receivable from credit cards with a face value of R$3,247,722 (December 31, 2018 - R$2,553,188). Because these receivables are from credit card companies and present a low credit risk, we were able to sell these receivables without any risk to the Company in the event of default by the customers. As such, the accounts receivable were derecognized in full and the discount interest cost recognized in the statement of net income (loss), under financial expenses, for an amount of R$6,449 for the year ended December 31, 2019 (December 31, 2018 - R$10,414).

9. Aircraft sublease receivables

The Company subleased fifteen aircraft to TAP and the amounts receivable are due as follows:

	December 31,	
	2019	**2018 (Restated)**
2019	—	102,660
2020	**98,152**	102,660
2021	**86,657**	91,908
2022	**47,136**	48,897
2023	**44,154**	42,446
After 2023	**64,742**	62,237
Lease receivables (gross)	**340,841**	450,808
Finance revenue (accrued)	**(61,337)**	(89,070)
Lease receivables (net)	**279,504**	361,738
Current	**75,052**	73,671
Non-current	**204,452**	288,067

As December 31, 2019 and 2018, there were no overdue amounts related to aircraft subleases receivables.

10. Inventories

	December 31,	
	2019	**2018**
Parts and maintenance materials	**288,824**	206,729
Catering and uniforms	**5,768**	9,351
Inventory provision (*)	**(33,727)**	(15,935)
	260,865	200,145

(*) As of December 31, 2019, the amount of R$27,999 refers to the provision related to the acceleration of the fleet transformation.

11. Prepaid expenses

	December 31,	
	2019	**2018 (Restated)**
Insurance premium	**47,506**	33,385
Aircraft and engine leases	**39,989**	28,234
Guarantee commission	**16,332**	20,682
Other	**57,792**	54,835
	161,619	137,136
Current	**139,403**	115,453
Non-current	**22,216**	21,683

12. Related parties

a) Compensation of key management personnel

Key management personnel include board of director members, officers and executive committee members. The compensation paid or payable to officers and directors services is as follows:

	For the year ended December 31,		
	2019	**2018**	**2017**
Salaries and wages	**22,187**	**16,275**	**17,377**
Bonus	**7,255**	**7,263**	**6,724**
Share-based option plans	**29,129**	**21,508**	**24,775**
	58,571	**45,046**	**48,876**

b) Guarantees granted

The Company granted guarantees for some property rental agreements entered into by executive officers. The amounts involved are not material.

c) Maintenance agreements

ALAB entered into Maintenance Agreements to aircraft with TAP Manutenção e Engenharia Brasil S/A (“TAP ME”). TAP ME is part of the same economic group as TAP.

The total value of maintenance services acquired by the Company pursuant to such Maintenance Agreements during the year ended December 31, 2019 was R$17,552 (December 31, 2018 – R$83,831 and December 31, 2017 – R$83,295).

As of December 31, 2019, the amount payable to TAP ME was R$97 (December 31, 2018 - 5,663) and is recorded under Accounts payable.

d) Codeshare Agreement

ALAB signed a codeshare agreement with United (a shareholder) and TAP which will provide transport of passengers whose tickets have been issued by one of the airlines and the service is performed by the other.

e) Transactions with Aigle Azur

On December 31, 2019, the Company recorded in “Prepaid expenses” and “Trade and other receivables”, the amount of R$11,794 (December 31, 2018 – R$13,330 and December 31, 2017 - 0), net of a provision for doubtful debts of R$5,055 (December 31, 2018 and 2017 – R$0).

f) Loan agreements receivable

On September 2, 2016 the Company entered into a loan agreement with a shareholder. On December 31, 2019 the amount of loan is R$12,789 (December 31, 2018 – R$12,042). This agreement bears interest at a rate of Libor plus 2.3% p.a. The term of the contract has been extended and will be paid in full in 2020.

g) Transactions with Breeze

In December 2019, the Company signed a letter of intent for the sublease of up to 28 aircraft to the Breeze Aviation Group, an airline founded by Azul’s controlling partner. The transaction was approved by Azul’s shareholders at an Extraordinary General Meeting on March 2, 2020. In 2019 there were no financial flows related to the transaction.

h) Transactions with TAP

i. Aircraft sublease

In March 2016, the Company subleased fifteen aircraft to its related party TAP. Seven of the fifteen leases had been executed at a time when the market for regional aircraft was higher than when the related seven subleases were executed. As a result, although the Company believes that the rates in these seven subleases represented approximate market rates at the time of their execution, the Company will receive from TAP an amount lower than the amount that the Company has to pay under the related leases.

As mentioned in note 3, in accordance with IFRS 16, an intermediate lessor records the head lease and sublease as two separate leases. The intermediary lessor is required to classify the sublease as financial or operating by reference to the right-of-use asset (and not by reference to the underlying asset).

As a result of this change, the Company reassessed the classification of its sublease agreements as finance leases, based on the remaining term and conditions of the head lease and sublease on the date of the initial adoption, thus derecognizing part of the provision for onerous contracts.

Over the year ended December 31, 2019, amounts received from TAP from the subleases amounted to R$126,149 (December 31, 2018 – R$112,046 and December 31, 2017 – R$113,391), and amounts paid to the lessors of the related aircrafts totaled R$140,588 (December 31, 2018 – R$129,958 and December 31, 2017 – R$138,042).

ii. TAP Convertible Bonds

On March 14, 2016, the Company acquired series A convertible bonds issued by TAP (the "TAP Convertible Bonds") for an amount of €90 million. The TAP Convertible Bonds are convertible, in whole or in part, at the option of Azul into new shares representing the share capital of TAP benefiting from enhanced preferential economic rights (the "TAP Shares"). Upon full conversion, the TAP Shares will represent 6.0% of the total and voting capital of TAP, with the right to receive dividends or other distributions corresponding to 41.25% of distributable profits of TAP.

The option is exercisable starting in July 2016. The TAP Convertible Bonds mature 10 years from their issuance and bear interest at an annual rate of 3.75% until September 20, 2016 and at rate of 7.5% thereafter. Accrued interest remains unpaid until the earlier of the maturity date or early redemption of the Bonds.

TAP has the right to early redeem the TAP Convertible Bonds if not yet converted and upon the earlier of (i) occurrence of an IPO, or (ii) 4 years from issuance of the TAP Convertible Bonds provided that TAP should be in compliance with certain financial covenants. The TAP Convertible Bonds will be redeemed at their principal amount together with the accrued unpaid interest.

The TAP Convertible Bonds, as well as the option to convert them into TAP Shares, were classified as a single financial asset recorded at changes in the fair value through profit or loss, in the amount of R$61,675 (Note 24) under "Result from related parties transactions, net", classified in "Long-term investments".

iii. Other Investments

On March 14, 2019, ALAB acquired 6.1% post-dilution economic shares in TAP from *Hainan Airlines Civil Aviation Investment Limited ("HACAIL")* for US$ 25 million or R$96,161. The current shares represents 20.0% and 35.6% of the voting rights and economic rights of Atlantic Gateway, respectively.

On July 1, 2019 HACAIL transferred the shares held in Atlantic Gateway to Global AzulAirProjects, SGPS, S.A.

The investment is recognized at fair value in the balance sheet under “Long term investments”. On December 31, 2019 the gain resulting from this transaction, in the amount of R$64,710, was fully recorded at fair value through profit or loss, under “Result from related parties transations, net”.

i) Service Agreements with Águia Branca Participações S.A.

On January 1, 2013, we entered into an agreement with Águia Branca Participações S.A., one of our shareholders, for the sharing of information technology resources during an indefinite period, which was an extension of a similar agreement that TRIP entered into with Águia Branca Participações S.A., and on November 1, 2015, we entered into a services agreement with Águia Branca Participações S.A. for the hosting and use of information technology resources for a 24 month term, which has been renewed for an additional 12 month term. The amounts payable under these agreements are based on the services actually rendered. We paid R$50,118, R$49,900 and R$46,500 in connection with these agreements in 2019, 2018 and 2017, respectively.

j) Air Tickets Sales Agreement with Caprioli Turismo Ltda.

On March 26, 2018, we entered into a Tickets Sales Agreement with Caprioli Turismo Ltda., a travel agency owned by the Caprioli family (which owns an indirect participation in us through the TRIP’s former shareholders), pursuant to which we granted Caprioli Turismo Ltda. a credit line of R$20,000.00 to purchase for resale tickets for the flights we operate. Such credit line is guaranteed by a promissory note, which does not bear interest, of the same amount payable to us.

k) Consulting Services Agreement with Plane View Partners

On April 16, 2020, our board of directors approved the hiring of Plane View Partners, an aviation consulting firm founded by one of our Board members, to support our fleet plan strategy and engage with aircraft manufacturers and lessors.

13. Security deposits and maintenance reserves

	December 31,	
	2019	2018
Security deposits	**152,635**	225,230
Maintenance reserve deposits	**1,498,898**	1,321,490
	1,651,533	1,546,720
Current assets	**258,212**	144,192
Non current assets	**1,393,321**	1,402,528

Security deposits and maintenance reserve deposits are denominated in US dollars and adjusted for changes to foreign exchange rates. Security deposits are related to aircraft lease contracts and will be refunded to the Company when the aircraft is returned at the end of the lease agreement. Maintenance reserve deposits are paid under certain aircraft leases to be held as collateral in advance of the performance of major maintenance activities and are reimbursable upon completion of the related maintenance event, under certain conditions.

The Company recognized a write-off in the “Maintenance materials and repairs” in the income statements line item for maintenance reserve deposits that are not likely to be reimbursed in relation to aircraft that went through their last maintenance event prior to their return.

The Company replaced some of its security deposits and maintenance reserves deposits with bank guarantees, and was refunded an amount of R$100,136 and R$76,931, respectively as of December 31, 2019 (December 31, 2018 - R$18,125 and R$106,875 respectively).

Presented below are the changes in the security deposits and maintenance reserve deposits balance:

	Maintenance reserves deposits	Security deposits	Total
Balance at December 31, 2017	1,078,135	180,992	1,259,127
Additions	317,698	39,593	357,291
Write-offs	(31,132)	(968)	(32,100)
Refunds/returns	(236,987)	(23,175)	(260,162)
Foreign exchanges variations	193,776	28,788	222,564
Balance at December 31, 2018	1,321,490	225,230	1,546,720
Additions	**343,727**	**37,614**	**381,341**
Write-offs	**(8,417)**	**—**	**(8,417)**
Refunds/returns	**(210,356)**	**(113,137)**	**(323,493)**
Foreign exchanges variations	**52,454**	**2,928**	**55,382**
Balance at December 31, 2019	**1,498,898**	**152,635**	**1,651,533**
Current assets	**258,212**	—	**258,212**
Non current assets	**1,240,686**	**152,635**	**1,393,321**

14. Property, equipment and right of the use assets

Property and equipment and right-of-use assets are mainly comprised of aircraft, engines and aircraft equipment.

As a result of the annual impairment analysis, the Company recorded impairment of non-current assets and assets in use in the amount of R$2,032,207 in 2019 under the heading "Depreciation, amortization and impairment" (Note 1).

In addition, one aircraft has been classified as held for sale as its carrying amount will be recovered principally through sale rather than through continuing use. The aircraft is available for immediate sale at its present condition and the sale is highly probable. The fair value less costs to sell the aircraft was estimated to be lower than the carrying amount and an impairment loss of R$16,325 has been recognized. The impaired carrying amount has been transferred to the "assets held for sale" line on the balance sheet.

14.1 Property and equipments

During the year ended December 31, 2019, the Company entered into a sale and leaseback transaction on an owned engine. The gain associated with this transaction, which resulted in an operating lease, amounted to R$6,260 and was recognized in "Other operating expenses, net".

During the year ended December 31, 2019, the Company sold one aircraft. The loss associated with the sale of R$15,854 was recognized in "Other operating expenses, net".

During the year ended December 31, 2018, the Company entered into a sale and leaseback transaction on an owned engine. The loss associated with the sale and leaseback transactions amounted to R$6,570 and was recorded on "Other operating expenses, net".

During the year ended December 31, 2018, the Company entered into seven aircraft sale transactions resulting in a net loss of R$144,251, recognized in "Other operating expenses, net".

a) Breakdown

	December 31, 2019			December 31, 2018 (Restated)
	Cost	Accumulated depreciation	Net amount	Net amount
Leasehold improvements	**296,728**	**(78,131)**	**218,597**	93,285
Equipment and facilities	**176,814**	**(106,235)**	**70,579**	49,243
Vehicles	**3,614**	**(1,535)**	**2,079**	2,207
Furniture and fixtures	**20,683**	**(15,119)**	**5,564**	5,029
Aircraft equipment	**1,856,138**	**(941,533)**	**914,605**	1,039,473
Aircraft and engines	**850,391**	**(349,392)**	**500,999**	459,056
Advance payments for acquisition of aircraft	**84,578**	—	**84,578**	112,923
Construction in progress	**171,839**	—	**171,839**	81,023
	3,460,785	**(1,491,945)**	**1,968,840**	1,842,239

b) Changes in property and equipment balances are as follows

	Cost				
	December 31, 2018 (Restated)	Acquisitions	Disposals/ Write-offs	Transfers	December 31, 2019
Leasehold improvements	146,315	**124,181**	**(3,118)**	**29,350**	**296,728**
Equipment and facilities	130,655	**48,101**	**(2,091)**	**149**	**176,814**
Vehicles	3,238	**376**	—	—	**3,614**
Furniture and fixtures	18,797	**1,891**	**(5)**	—	**20,683**
Aircraft equipment	1,378,352	**566,152**	**(72,835)**	**(15,531)**	**1,856,138**
Aircraft and engines	629,473	**146,527**	**(149,910)**	**224,301**	**850,391**
Advance payments for acquisition of aircraft	112,923	**55,649**	**(45,081)**	**(38,913)**	**84,578**
Construction in progress	81,023	**319,275**	—	**(228,459)**	**171,839**
	2,500,776	**1,262,152**	**(273,040)**	**(29,103)**	**3,460,785**

	Accumulated depreciation					
	December 31, 2018 (Restated)	Depreciation for the period	Disposals/ Write-offs	Transfers	Impairment	December 31, 2019
Leasehold improvements	(53,030)	**(25,157)**	**186**	—	**(130)**	**(78,131)**
Equipment and facilities	(81,412)	**(17,265)**	**687**	—	**(8,245)**	**(106,235)**
Vehicles	(1,031)	**(504)**	—	—	—	**(1,535)**
Furniture and fixtures	(13,768)	**(1,356)**	**5**	—	—	**(15,119)**
Aircraft equipment	(338,879)	**(143,550)**	**42,249**	—	**(501,353)**	**(941,533)**
Aircraft and engines	(170,417)	**(33,822)**	**32,295**	—	**(177,448)**	**(349,392)**
	(658,537)	**(221,654)**	**75,422**	—	**(687,176)**	**(1,491,945)**

14.2 Right of use – aircraft lease and others

a) Breakdown

	December 31, 2019			December 31, 2018 (Restated)
	Cost	Accumulated depreciation	Net Amount	Net Amount
Aircraft of operating lease	**10,901,791**	**(4,619,858)**	**6,281,933**	3,617,062
Aircraft of finance lease	**1,169,636**	**(916,173)**	**253,463**	924,272
Engines and simulators	**484,597**	**(235,495)**	**249,102**	143,829
Properties	**114,167**	**(64,042)**	**50,125**	54,150
Vehicles	**10,238**	**(7,127)**	**3,111**	2,521
Equipments	**20,088**	**(15,584)**	**4,502**	12,994
Transports	**12,065**	**(12,065)**	**—**	—
Restoration of aircraft and engines	**423,194**	**(178,020)**	**245,176**	171,498
	13,135,776	**(6,048,364)**	**7,087,412**	4,926,326

b) Changes in right of use assets balances

	Cost				
	December 31, 2018 (Restated)	Acquisitions	Disposals/ Write-offs	Transfers	December 31, 2019
Aircraft of operating lease	6,943,314	**4,002,981**	**(42,570)**	**(1,934)**	**10,901,791**
Aircraft of finance lease	1,289,161	**28,455**	**(75,623)**	**(72,357)**	**1,169,636**
Engines and simulators	336,731	**147,866**	**—**	**—**	**484,597**
Properties	105,754	**8,413**	**—**	**—**	**114,167**
Vehicles	7,999	**2,239**	**—**	**—**	**10,238**
Equipments	20,767	**171**	**(850)**	**—**	**20,088**
Transports	—	**12,065**	**—**	**—**	**12,065**
Restoration of aircraft and engines	283,542	**139,652**	**—**	**—**	**423,194**
	8,987,268	**4,341,842**	**(119.043)**	**(74,291)**	**13,135,776**

	Accumulated depreciation					
	December 31, 2018 (Restated)	Depreciations	Disposals/ Write-offs	Impairment	Transfers	December 31, 2019
Aircraft of operating lease	(3,326,252)	**(875,170)**	**42,570**	**(461,006)**	**—**	**(4,619,858)**
Aircraft of finance lease	(364,891)	**(52,848)**	**10,019**	**(536,341)**	**27,888**	**(916,173)**
Engines and simulators	(192,902)	**(38,723)**	**—**	**(3,870)**	**—**	**(235,495)**
Properties	(51,604)	**(12,438)**	**—**	**—**	**—**	**(64,042)**
Vehicles	(5,478)	**(1,649)**	**—**	**—**	**—**	**(7,127)**
Equipments	(7,773)	**(8,427)**	**616**	**—**	**—**	**(15,584)**
Transports	—	**(12,065)**	**—**	**—**	**—**	**(12,065)**
Restoration of aircraft and engines	(112,043)	**(33,503)**	**—**	**(32,474)**	**—**	**(178,020)**
	(4,060,943)	**(1,034.823)**	**53,205**	**(1,033,691)**	**27,888**	**(6,048,364)**

14.3 Right of use – maintenance

a) Breakdown

	December 31, 2019			December 31, 2018 (Restated)
	Cost	Accumulated depreciation	Net Amount	Net Amount
Checks	**201,712**	**(153,522)**	**48,190**	73,977
Checks in progress	**23,662**	**—**	**23,662**	—
Engines maintenance	**1,149,551**	**(724,012)**	**425,539**	558,923
	1,374,925	**(877,534)**	**497,391**	632,900

b) Changes in right of use maintenance balances

	Cost				
	December 31, 2018 (Restated)	Acquisitions	Disposals/ Write-offs	Transfers	December 31, 2019
Checks	143,866	**63,493**	**(9,971)**	**4,324**	**201,712**
Checks in progress	—	**45,527**	**(10,546)**	**(11,319)**	**23,662**
Engines maintenance	779,651	**425,482**	**(67,585)**	**12,003**	**1,149,551**
	923,517	**534,502**	**(88,102)**	**5,008**	**1,374,925**

	Accumulated Depreciation					
	December 31, 2018 (Restated)	Accumulated depreciation	Disposals/ Write-offs	Transfers	Impairment	December 31, 2019
Checks	(69,889)	**(49,313)**	**3,101**	**—**	**(37,421)**	**(153,522)**
Engines maintenance	(220,728)	**(255,043)**	**42,003**	**—**	**(290,244)**	**(724,012)**
	(290,617)	**(304,356)**	**45,104**	**—**	**(327,665)**	**(877,534)**

15. Intangible assets

a) Breakdown

	December 31, 2019			December 31, 2018
	Cost	Accumulated amortization	Net amount	Net amount
Goodwill (i)	**753,502**	**—**	**753,502**	753,502
Airport operating licenses (ii)	**82,196**	**—**	**82,196**	82,196
Software	**489,904**	**(238,118)**	**251,786**	180,858
	1,325,602	**(238,118)**	**1,087,484**	1,016,556

b) Changes in intangible assets balances are as follows:

	Costs				
	December 31, 2018	Acquisitions	Disposals/ Written-off	Transfers	December 31, 2019
Goodwill (i)	753,502	**—**	**—**	**—**	**753.502**
Airport operating licenses (ii)	82,196	**—**	**—**	**—**	**82,196**
Software	357,457	**132,447**	**—**	**—**	**489,904**
	1,193,155	**132,447**	**—**	**—**	**1,325,602**

	Accumulated amortization				
	December 31, 2018	Amortization for the year	Disposals/ Written-off	Transfers	December 31, 2019
Software	(176,599)	**(61,519)**	**—**	**—**	**(238,118)**
	(176,599)	**(61,519)**	**—**	**—**	**(238,118)**

(i) Refers to goodwill recorded in the acquisition of TudoAzul (former TRIP) in 2012. The amount of R$753,502 represents the excess of the consideration transferred over the fair value of the net assets acquired and liabilities assumed.
(ii) As part of the purchase price allocation of TudoAzul (former TRIP) acquisition, the Company recognized a separate intangible asset for the airport operating licenses. These intangible assets were deemed to have an indefinite life.

Impairment of goodwill and Airport operating licenses

The Company performed its annual impairment tests as of December 31, 2019. The Company assessed that the most appropriate method for estimating the recoverable amount of the Company's single CGU (cash-generating unit) is by using the income approach through the discounted cash flows method, resulting in the value in use.

In order to determine the book value of the CGU, the Company adds the intangible assets recorded, given that it will only generate economic benefits by using the combination of both.

The assumptions used in the impairment tests of goodwill and other intangible assets are consistent with the Company's operating plans and internal projections over a five-year period, and for longer periods the Company assumed growth rate in perpetuity.

These assumptions are both reviewed and approved by management. The discounted cash flow that determined the value of the CGU was prepared in accordance with the Company's business plan, which was approved in December 12, 2019.

The Company took into consideration the following assumptions:

- Fleet and capacity: considers operational fleet plan, aircraft utilization and capacity per flight;
- Passenger revenue: considers the historical revenue per flown seat kilometer assuming the Company's growth plan;
- Operational costs: considers key performance indicators per cost line, aligned with Company's growth plan as well as macroeconomic variables (as described below);
- Investment needs: aligned to the Company's business plan.

The Company also considered forecasted market variables such as GDP (source: Central Bank of Brazil), the U.S. Dollar to Brazilian reais exchange rate (source: Central Bank of Brazil), the price of a barrel of kerosene (source: Bloomberg) and interest rates (source: Bloomberg).

The Company prepared a sensitivity analysis considering the variations in the Earnings Before Interest and Tax ("EBIT") margin and the nominal discount rate as shown below:

	Variations		
Appreciation (depreciation)	**1.0%**	**0.0%**	**-1.0%**
Discount rate before taxes	**9.8%**	**8.8%**	**7.8%**
EBIT	**-9.5%**	**-10.5%**	**-11.5%**

The result of the impairment test, which includes a sensitivity analysis of the main variables, showed that the estimated recoverable amount is higher than carrying value of net assets allocated to the cash generating unit, and therefore no impairment was recognized as of December 31, 2019.

16. Income tax and social contribution

a) Income tax and social contribution

	For the year ended December 31,		
	2019	**2018 (Restated)**	**2017 (Restated)**
Loss before income tax and social contribution	**(2,536,265)**	(452,926)	414,129
Combined tax rate	**34%**	34%	34%
Income tax and social contribution statutory rate	**862,330**	153,995	(140,804)
Adjustments to calculate the effective tax rate:			
Taxable profit on foreign subsidiaries	**(3,020)**	(21,867)	(13,496)
Exchange differences on foreign subsidiaries	**(7,321)**	24,917	27,064
Unrecorded deferred tax on tax loss and on temporary differences	**(880,375)**	(400,187)	56,598
Deferred income tax on tax losses included in the PERT (*)	**84,712**	—	83,143
Permanent differences	**76,958**	65,971	(8,006)
Other	**(105)**	(5,634)	5,885
Total income tax and social contribution expenses	**133,179**	(182,805)	10,384
Current income tax and social contribution	**(2,228)**	(11,224)	2,875
Deferred income tax and social contribution	**135,407**	(171,581)	7,509
	133,179	(182,805)	10,384

(*) Tax Recovery Program (“PERT”)

b) Breakdown of deferred income tax and social contribution

	December 31,	
	2019	**2018 (Restated)**
Deferred taxes		
On temporary differences		
Provision for tax, civil and labor risks	**21,819**	27,524
Deferred revenue of TudoAzul program	**(148,963)**	(132,740)
Aircraft lease expense	**1,312,552**	1,371,421
Depreciation of aircraft and engines	**(48,899)**	(33,973)
Exchange rate	**(16,498)**	(13,397)
Deferred gain related to aircraft sold	**19,747**	37,628
Cash flow hedge	**53,977**	52,349
Fair value of TAP convertible bonds	**(243,288)**	(274,520)
Fair value of other investments	**(21,963)**	—
Other provisions	**116,810**	—
Financial instruments	**(201,738)**	(73,735)
Impairment	**989,242**	—
Fair value of aircraft	**—**	(397)
Fair value of slots	**—**	(27,947)
Other on business combination fair value adjustment	**—**	(2,707)
Others	**73,497**	61,993
Net deferred tax (liabilities)	**1,906,297**	991,500
Net deferred tax assets / (liabilities) on temporary adjustments recognized	**(259,785)**	(311,391)
Deferred tax assets recognized on net operating losses	**17,270**	18,180
Net deferred tax assets / (liabilities) – recognized	**(242,516)**	(293,211)

The Company offsets tax assets and liabilities only when has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same tax authority.

Deferred tax assets are recognized only to the extent that recovery is probable. As of December 31, 2019 the Company has recognized the amount of R$259,785.

The Company has income tax losses that are available indefinitely for offsetting against future taxable profits, as follows:

	December 31,	
	2019	**2018**
Net tax losses	**1,971,779**	1,829,244
Income tax loss carryforwards (25%)	**492,945**	457,311
Social contribution negative base tax carryforwards (9%)	**177,460**	164,632

Deferred income tax asset on tax losses at the amount of R$ 670,405 has not been recognized as there is no evidence of recoverability in the near future, except for R$17,270.

17. Loans and financing

	December 31	
	2019	**2018 (Restated)**
Loans	**2,825,749**	2,025,607
Debentures	**692,407**	730,519
	3,518,156	2,756,126
Current	**481,227**	158,813
Non-current	**3,036,929**	2,597,313

Interest-bearing loans, financing and debentures are measured at amortized cost, using the effective interest rate method.

17.1. Loans

	Guarantees	Interest	Final maturity	Loans December 31, 2019	Loans December 31, 2018 (Restated)	Fair value of designated derivatives (*) December 31, 2019	Fair value of designated derivatives (*) December 31, 2018 (Restated)
Denominated in foreign currency - US$							
Aircraft and engine acquisition	Chattel mortgage	LIBOR plus "spread" between 2.55% and 3.6% p.a. and fixed interest between 5.37% and 6.07%/ US Treasury + 3,25% p.a.	03/2029	**896,232**	100,042	**(10,971)**	—
Working capital (*) (a)	Receivables of Azul and no guarantees	LIBOR plus fixed interest of 0.88% p.a. and fixed of 5.90%p.a	10/2024	**1,727,882**	1,656,947	**(303,507)**	(266,404)
Denominated in local currency - R$							
Aircraft and engine acquisition (FINAME) (**)	Investments and chattel mortgage of aircraft	Fixed between 6.00% to 6.50% p.a. and SELIC plus 5.46% p.a.	05/2025	**164,280**	192,861	**(3,309)**	—
Working capital	Bail letter	5.0% fixed p.a and 125% to 126% of CDI	07/2021	**37,355**	73,376	**—**	—
Finance lease	Chattel mortgage	CDI plus fixed spread between 3.97% p.a. and 4.91% p.a.	11/2019	—	2,381	—	—
Total in R$				**2,825,749**	2,025,607	**(317,787)**	(266,404)
Current position				**233,487**	119,676	**—**	**—**
Non-current position				**2,592,262**	1,905,931	**(317,787)**	(266,404)

(*) Ilustrates the effect of hedges designated for hedge accounting, which are detailed in Note 24. The debt position considering the effects of the hedge can be seen on Note 5.
(**) FINAME are a special credit line from BNDES (the Brazilian development bank).

a) Senior notes

The Company issued US$400 million in unsecured senior notes in October 2017 at 5.875% per year and maturity on October 26, 2024. Interest on the notes will be payable semi-annually in arrears on April 26 and October 26 of each year, beginning on April 26, 2018.

On December 14, 2017, the total amount referring to the Senior Notes was exchanged from Dollars to Reais by means of swap derivative contracts and exchange options to protect interest expenses, and through exchange options to protect the principal amount.

As a result of the implementation of this hedge structure, on April 1, 2018, the Senior Notes are protected against foreign currency fluctuations, up to an exchange rate of R$4.7500 for US$1.00, and above this level will be exposed only to the difference between the effective exchange rate and R$ 4.7500. In addition, the Company will benefit from any upside from the devaluation of the Brazilian real in case the exchange rate is bellow R$3.2865 for US$1.00. The options were financed, yielding a total hedged cost of debt of 99.3% of CDI.

The result of the hedge recognized in the "Derivative financial instruments" asset and liability line itens and the consolidated debt position including the effect of the hedge is detailed in note 5.

The details of this transaction is following:

Options Structure	**Coupon Payments**		**Principal Payment**
Period	Apr/2018 to Apr/2019	Oct/2019 to Oct/2024	Oct/2024
Notional	US$12 million	US$12 million	US$400 million
Put option bought	—	3.2865	N/A
Call option bought	N/A	N/A	3.2865
Call option sold	—	4.7500	4.7500

	Senior notes	**Swap**
Currency	**US$**	**R$**
Amount	**US$400 million**	**R$1,314,600**
Interest	**Fixed**	**Floating**
Interest rate	**5.875%**	**99.3% of CDI**

b) Long term loans mature as follows:

	December 31,	
	2019	**2018 (Restated)**
2020	—	191,437
2021	**202,798**	59,875
2022	**270,899**	49,560
2023	**258,422**	37,016
After 2023	**1,860,143**	1,568,043
	2,592,262	1,905,931

c) The following assets serve as guarantees to secure the financing agreements

	December 31,	
	2019	**2018 (Restated)**
Equipment and right of use assets (carrying value) used as collateral (Note 14)	**7,285,497**	5,144,219

d) The undrawn borrowing facilities available in the future for setting capital commitments amounted R$198,714 as of December 31, 2019. Facilities are available exclusively for the funding of Embraer E195 jets engine maintenance costs.

17.2. Debentures

	Guarantees	Interest	Final maturity	December 31, 2019	December 31, 2018
Eight issue	Credit cards receivable	CDI + 1.50% p.a.	01/2019	—	40,758
Nine issue	Credit cards receivable	122% of CDI	12/2021	**495,548**	493,990
Tenth issue	Credit cards receivable	117% of CDI	12/2023	**196,859**	195,771
Total				**692,407**	730,519
Current position				**247,740**	39,137
Non-current position				**444,667**	691,382

Long term debentures mature as follows:

	December 31, 2019	December 31, 2018
2020	—	296,338
2021	**336,580**	296,777
2022	**89,044**	49,131
2023	**19,043**	49,136
	444,667	691,382

17.3 Covenants

As of December 31, 2019 the Company had an outstanding balance of R$1,366,842 in "loans and financing" subject to financial covenants related to leverage and debt coverage ratios.

Covenants relate to	Ratios measured	Ratios measured
9th issuance of debentures 10th issuance of debentures	(i) adjusted debt coverage ratio (ICSD) equal or higher to 1.2; and (ii) leverage ratio equal or lower than 6.5.	Annually
Aircraft financing	(i) adjusted debt coverage ratio (ICSD) equal or higher to 1.2; and (ii) leverage ratio equal or lower than 5.5.	Quarterly

As of December 31, 2019 the Company was in compliance with all the covenants related to financial transactions.

18. Lease liabilities

	December 31, 2019	December 31, 2018 (Restated)
Aircraft	**11,686,481**	8,582,974
Engine and simulators	**347,911**	254,227
Property	**60,648**	65,151
Vehicles	**7,615**	14,668
Equipments	**3,089**	2,726
Transports	**877**	—
	12,106,621	8,919,746
Current liability	**1,585,233**	1,237,909
Non-current liability	**10,521,388**	7,681,837

The Company entered into sublease transactions of 15 aircraft with TAP and of December 31, 2019 has recorded in "Aircraft sublease receivable" the amount of R$279,504 (December 31, 2018 - R$361,738) (Note 9).

The movement schedule for lease liabilities are as follows:

	Weighted average rate (p.a.)	December 31, 2018 (Restated)	Additions	Payments	Interest Accrual	Disposals	Foreign Exchange	December 31, 2019
Right-of-use leases without purchase option								
Aircraft and engines	8.20%	7,725,397	**4,153,314**	**(1,865,472)**	**726,613**	**(24,775)**	**331,057**	**11,046,134**
Others	7.64%	82,545	**22,888**	**(39,008)**	**8,628**	**(279)**	**(2,544)**	**72,230**
Right-of-use leases with purchase option	6.15%	1,111,804	**32,188**	**(269,988)**	**70,767**	—	**43,486**	**988,257**
Total		8,919,746	**4,208,390**	**(2,174,468)**	**806,008**	**(25,054)**	**371,999**	**12,106,621**

The leases have an average repayment (in years) are as follows:

	December 31, 2019	2018 (Restated)
Aircraft and engines		
Right-of-use leases without purchase option	**8.26**	7.33
Right-of-use leases with purchase option	**4.24**	5.22

The future minimum payments and the present value of the minimum lease liabilities are as follows:

	December 31, 2019	2018
2019	—	1,957,371
2020	**2,481,457**	1,828,394
2021	**2,335,363**	1,726,072
2022	**2,406,701**	1,798,733
2023	**1,875,308**	1,293,654
2024	**1,560,055**	992,525
After 2024	**5,580,166**	2,324,962
Minimum lease payments	**16,239,050**	11,921,711
Financial expenses	**(4,132,429)**	(3,001,965)
Net present value of minimum lease payments	**12,106,621**	8,919,746

The following are the amounts recognized in statement of net income (loss):

	Consolidated 2019	2018 (Restated)	2017 (Restated)
Depreciation expense of right-of-use assets	**(1,034,823)**	(973,084)	(790,737)
Interest expense on lease liabilities	**(806,008)**	(625,906)	(556,781)
Finance income on lease receivalbes	**29,695**	33,129	33,467
Expense relating to short-term leases	**(79,855)**	(34,434)	(35,619)
Total amount recognized	**(1,890,991)**	(1,600,295)	(1,349,670)

Some finance leases were designated as a cash flow hedge object. The Company used interest rate swaps to convert the post-fixed rate Libor into a fixed-rate exposure, hedging the volatility of future cash flow. Interest rate swaps have the same maturity and common terms as the finance leases.

19. Accounts payable

	December 31,	
	2019	**2018**
Local currency	**1,202,166**	994,662
Foreign currency	**424,411**	455,777
	1,626,577	1,450,439

20. Air traffic liability

Air traffic liability is comprised of the following:

	December 31,	
	2019	**2018**
Advance ticket sales	**1,408,272**	1,099,978
TudoAzul program	**685,982**	572,474
	2,094,254	1,672,452

21. Provisions

	Return of aircraft and engines	Provision for taxes, civil and labor risks	Provision for onerous contract	Total
Balance at December 31, 2017	479,957	73,198	—	553,155
Provisions recognized	44,199	70,438	—	171,701
Utilized provisions	—	(62,653)	—	(62,653)
Amortization of financial expense	57,064	—	—	57,064
Foreign exchanges variations	87,821	—	—	87,821
Balance at December 31, 2018 (Restated)	669,041	80,983	—	750,024
Provisions recognized	**139,652**	**100,241**	**1,129,866**	**1,369,759**
Utilized provisions	**(333,420)**	**(93,718)**	—	**(427,138)**
Amortization of financial expense	**67,366**	—	**18,633**	**85,999**
Foreign exchanges variations	**28,036**	—	**6,672**	**34,708**
Balance of December 31, 2019	**570,675**	**87,506**	**1,155,171**	**1,813,352**
Current	**68,888**	—	**254,553**	**323,441**
Non-current	**501,787**	**87,506**	**900,618**	**1,489,911**

21.1. Return of aircraft and engines

The provision for the return of aircraft and engines is based on the estimated future costs to be incurred in order to meet the contractual conditions for the return of engines and aircraft maintained under an operating lease.

21.2. Provision for taxes, civil and labor risks

The Company is party to certain labor, civil and tax lawsuits for which appeals have been filed. Based on the Company's external and internal legal counsels' opinion, management believes that the recorded provisions are sufficient to cover probable losses. In addition, the Company has made judicial deposits when required by court.

These provisions are as follows:

	December 31,	
	2019	2018
Taxes	**2,024**	1,962
Civil	**45,067**	44,960
Labor	**40,415**	34,061
	87,506	80,983

The total amount of claims, which according to management represent losses that are reasonably possible but not probable, for which no provision was recorded are as follow:

	December 31,	
	2019	2018
Taxes	**116,074**	87,384
Civil	**77,360**	43,203
Labor	**123,119**	135,311
	316,553	265,898

a) Tax proceedings: The Company has tax proceedings related to additional charge of 1% of COFINS on imports of aircraft and engines, in accordance with the provisions of Law 10,865/04, the application of COFINS at a zero rate for imports of aircraft and parts. Management believes that the risk of loss is possible and therefore no provision was recorded for such amounts.

b) Civil lawsuits: The Company is party to various types of civil lawsuits for compensation claims in relation to flight delays, cancellations of flights, luggage and damage loss, amongst others.

c) Labor lawsuits: The Company is party to various types of labor lawsuits related to overtime, additional remuneration for undertaking hazardous activities, safety related payments, amongst others.

The Labor Prosecution's Office filed on February 22, 2017 a lawsuit against the Company claiming that it had violated certain labor regulations, including limitations on daily working hours and rest periods. The claim totals approximately R$66,000 in punitive damages. The lawsuit is currently waiting for hearing and the Company is negotiating an agreement. The Company classifies the likelihood of loss as possible.

21.3 Provision for onerous contract

Provision for impairment charge recognized in 2019 that exceeds assets net book value in relation to onerous contracts (Note 1).

22. Equity

a) Issued capital and authorized shares, all registered and without par value

	Company's capital is - R$	Common shares	Preferred shares
At December 31, 2019	**2,243,215**	**928,965,058**	**329,568,166**
At December 31, 2018	2,209,415	928,965,058	326,631,190

Each common share entitles its holder to 1 (one) vote in the General Shareholders' Meeting. Preferred shares of any class are not entitled to vote. Preferred shares have: i) priority of reimbursement of capital upon liquidation; ii) the right to be included in a public offering of the Company for a purchase of shares upon transfer of the Company's control for the same conditions as the common shareholders and for a price per share equivalent to seventy-five (75) times the price per share paid to the controlling shareholder; iii) in case of the Company's liquidation, the right to receive amounts equivalent to seventy-five (75) times the price per common share upon splitting of the remaining assets among the shareholders; and iv) the right to receive dividends in an amount equivalent to seventy-five (75) times the price paid per common share.

Issuance of shares and issued capital

During the year ended December 31, 2019, the Company issued 2,936,976 preferred shares (December 31, 2018 – 4,877,470) in the amount of R$33,800 (December 31, 2018 – R$46,038) in connection with the exercise of stock options.

b) Capital reserve

The share-based payment reserve is used to recognize the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their compensation. For the year ended December 31, 2019, the Company recognized compensation expense for an amount of R$18,894 (December 31, 2018 – R$22,930 and December 31, 2017 – R$29,889).

c) Dividends

According to the by-laws of the Company, unless the right is waived by all shareholders, the shareholders are guaranteed a minimum mandatory dividend equal to 0.1% of net income of the Company after the deduction of legal reserve, contingency reserves, and the adjustment prescribed by Law No. 6,404/76 (Brazilian Corporate Law). If the Company has accumulated losses, there will be no distribution of dividends.

Interest paid on equity, which is deductible for income tax purposes, may be deducted from the minimum mandatory dividends to the extent that it has been paid or credited. Interest paid on equity is treated as dividend payments for accounting purposes.

The Company has not distributed dividends for the year ended on exercice ended on December 31, 2019, 2018 and 2017.

d) Other comprehensive loss

Changes in fair value of derivative instruments designated as cash flow hedges are recognized in other comprehensive loss, net of tax effects, for a loss of R$159,261 and R$153,969, as of December 31, 2019 and 2018 respectively.

e) Treasury shares

	Number of shares	R$
At December 31, 2017	103,000	2,745
Purchased	447,000	12,179
Cancelled	(217,020)	(4,374)
At December 31, 2018	332,980	10,550
Purchased	**301,008**	**12,853**
Cancelled	**(189,742)**	**(7,838)**
December 31, 2019	**444,246**	**15,565**

23. Income (loss) per share

Basic earnings or loss per common share are calculated by dividing net income (loss) attributable to the equity holders of Azul by the weighted average number of common shares outstanding during the year ended December 31, 2019, 2018 and 2017, including the conversion of the weighted average number of preferred shares outstanding during the year ended into common shares.

Diluted earnings or loss per common share are calculated by dividing the net income (loss) attributable to the equity holders of Azul, by the weighted average number of common shares outstanding during the year ended December 31, 2019, 2018 and 2017, including the conversion of the weighted average number of preferred shares outstanding during the years into common shares, plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

Basic earnings or loss per preferred share are calculated by dividing net income (loss) attributable to the equity holders of Azul by the weighted average number of preferred shares outstanding during the year ended December 31, 2019, 2018 and 2017, including the conversion of the weighted average number of common shares outstanding during the years into preferred shares**.**

Diluted earnings or loss per preferred share are calculated by dividing the net income (loss) attributable to the equity holders of Azul, by the weighted average number of preferred shares outstanding during the year ended December 31, 2019, 2018 and 2017, including the conversion of the weighted average number of common shares outstanding during the years into preferred shares, plus the weighted average number of preferred shares that would be issued on conversion of all the dilutive potential preferred shares into preferred shares.

The following table shows the calculation of income or loss per common and preferred share in thousands, except for values per share:

	For the year ended December 31,		
	2019	**2018 (Restated)**	**2017 (Restated)**
Numerator			
Net income (loss)	**(2,403,086)**	(635,731)	424,513
Denominator			
Weighted average number of common shares	**928,965,058**	928,965,058	928,965,058
Weighted average number of preferred shares	**328,571,282**	325,310,485	303,200,642
75 preferred shares (*)	**75.0**	75.0	75.0
Weighted average number of preferred equivalent shares (*)	**340,957,483**	337,696,686	315,586,842
Weighted average number of common equivalent shares (**)	**25,571,811,221**	25,327,251,414	23,669,013,177
Weighted average number of shares based payment	**9,865,114**	11,530,390	15,446,459
Weighted average number of shares that would have been issued at average market price	**6,805,600**	6,400,619	9,253,991
Basic net loss per common share	**(0.09)**	(0.03)	0.02
Diluted net loss per common share	**(0.09)**	(0.03)	0.02
Basic net loss per preferred share	**(7.05)**	(1.88)	1.35
Diluted net loss per preferred share	**(7.05)**	(1.88)	1.32

(*) Refers to a participation in the total equity value of the Company, calculated as if all 928,965,058 common shares outstanding had been converted into 12,386,200 preferred shares at the conversion ratio of 75 common shares to 1.0 preferred share.

(**) Refers to a participation in the total equity value of the Company, calculated as if the weighted average preferred shares outstanding had been converted into common shares at the conversion ratio of 75 common shares to 1.0 preferred share

24. Derivative financial instruments

The Company has the following financial instruments:

	Level	Book value December 31, 2019	Book value December 31, 2018 (Restated)	Fair value December 31, 2019	Fair value December 31, 2018 (Restated)
Assets:					
Cash and cash equivalents (Note 6)	2	**1,647,880**	1,169,136	**1,647,880**	1,169,136
Trade and other receivables (Note 8)	2	**1,165,866**	1,069,056	**1,165,866**	1,069,056
Aircraft sublease receivables (Note 9) (*)	2	**279,504**	361,738	**279,504**	361,738
Short-term investments (Note 7)	2	**62,009**	517,423	**62,009**	517,423
Long term investments	3	**1,397,699**	1,287,781	**1,397,699**	1,287,781
Derivative financial instruments (*)	2	**825,924**	595,380	**825,924**	595,380
Liabilities:					
Accounts payable (Note 19)	2	**1,626,577**	1,450,439	**1,626,577**	1,450,439
Loans and financing (Note 17)(*)	2	**3,518,156**	2,756,126	**3,504,754**	2,742,359
Lease liabilities (Note 18) (*)	2	**12,106,621**	8,919,746	**12,106,621**	8,919,746
Derivative financial instruments (*)	2/3	**310,190**	440,994	**310,190**	440,994

(*) Includes current and non-current.

The carrying value of trade, aircraft sublease receivable and other receivables and accounts payable approximate their fair value largely due to the short-term maturity of these instruments.

24.1 Long term Investments

The Company has the following long term financial investments evaluated at fair value:

	December 31, 2019	December 31, 2018
Bond TAP	**1,236,828**	1,287,781
Other investments (Note 12 (g)(iii))	**160,871**	—
	1,397,699	1,287,781

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as of December 31, 2019 and 2018 are shown below:

Non-listed equity investments -Level 3 financial assets

Valuation technique	Significant unobservable inputs	Rate	Sensitivity of the input to fair value (amounts in millions of reais)
Discounted cash flow method	Long-term growth rate for cash flows for subsequent years	December 31, 2019: 2.5% (December 31, 2018: 1.9%)	10bps (2018 – 10bps) increase (decrease) in the growth rate would result in an increase (decrease) in the fair value of R$24 (December 31, 2018 - R$3)
	Cost of equity	December 31, 2019: 13.6% (December 31, 2018: 12.2%)	50bps increase in cost of equity would result in a reduction in the fair value of R$18 (December 31, 2018 - R$23).
			50bps reduction in cost of equity would result in an increase in the fair value of R$20 (December 31, 2018 - R$25).

Level 3 financial assets reconciliation

Changes in the fair value of the TAP Convertible Bonds is detailed below:

	December 31,	
	2019	**2018**
Balance at the beginning of the period	**1,287,781**	835,957
Foreign currency exchange gain (loss) (*)	**10,723**	48,365
Interest accrual (Note 12.g.ii) (**)	**30,184**	29,630
Net present value of debt component (Note 12.g.ii) (**)	**116,912**	13,219
Fair value of call-option (Note 12.g.ii) (**)	**(208,772)**	360,610
Balance at the end of the period	**1,236,828**	1,287,781

(*) recorded in the “Foreign currency exchange, net” in the income statements line item.
(**) recorded in the “Result from related parties transactions, net” in the income statements line item.

Changes in the fair value of other investments are detailed below:

	December 31,	
	2019	**2018**
Balance at the beginning of the period	**—**	—
Acquisition	**96,161**	—
Fair value of other investments (*)	**64,710**	—
Balance at the end of the period	**160,871**	—

(*) recorded in the “Result from related parties transactions, net” in the income statements line on the acquisition.

24.2 Derivative financial instruments

	December 31, 2019		December 31, 2018	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cash flow hedge				
Interest rate swap contract	**—**	**(7,129)**	—	(9,422)
Foreign currency options	**338,592**	**—**	246,323	—
Fair value hedge				
Interest rate swap contract	**24,057**	**—**	21,813	(1,732)
Derivatives not designated as hedge				
Interest rate swap contract	**203,636**	**(266,439)**	93,606	(260,593)
Forward foreign currency contract	**203,148**	**(1,135)**	233,638	(74)
Heating oil forward contracts	**56,491**	**—**	—	(123,224)
Foreign currency options	**—**	**(35,487)**	—	(45,949)
	825,924	**(310,190)**	595,380	(440,994)

The maturity of the derivative financial instruments held by the Company is as follows:

December 31, 2019	Immediate	Until 6 months	7 to 12 months	1 to 5 years	Total
Assets from derivative transactions	**3,354**	**89,580**	**75,214**	**657,776**	**825,924**
Liabilities from derivative transactions	**(2,135)**	**(46,987)**	**(32,074)**	**(228,994)**	**(310,190)**
Total financial instruments	**1,219**	**42,593**	**43,140**	**428,782**	**515,734**

Cash flow hedge

Definition	Origin of Risk	Risks designated for hedge	Hedge instrument	Recognition
Hedge of exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect the Company's results.	Finance lease of aircraft with post-fixed interest rates	Interest Rate (Libor USD)	Cash Flow Swap - swapping post-fixed interest rate to pre-fixed.	• Protected item: Amortized cost - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities (MtM) in contra-entry profit (accrual) and other comprehensive income (MtM).
	Senior Notes denominated in foreign currency (only amortization)	Exchange Variation of dolar	Foreign currency options	• Protected item: Amortized cost - Liabilities in contra-entry result. • Hedge instrument: Fair value - Asset / Liability (MtM), in income statement (Intrinsic Value), offsetting the effect of the exchange variation on debt and other comprehensive income in Equity (Value in time)

As of December 31, 2019 and 2018, the Company had interest rate swaps designated as cash flow hedges to hedge against the effect of changes in the interest rate on a portion of the finance leases payments and forward foreign currency contractfor the protection of the Senior Notes principal denominated in foreign currency and the principal of OPIC in the next 12 months.

On April 16, 2019, the Company designated for cash flow hedge accounting options with notional in the amount of US$79 million contracted for the purpose of protecting the principal of Opic.

The positions were:

December 31, 2019	Notional amount	Asset position	Liability position	Fair value
Cash flow hedge:				
Loans and financing	**40,872**	**LIBOR US$**	**Fixed rate**	**(7,129)**
Foreign currency options	**1,614,211**	**US$**	**R$**	**338,592**
	1,655,083			**331,463**

December 31, 2018	Notional amount	Asset position	Liability position	Fair value
Cash flow hedge:				
Loans and financing	57,805	**LIBOR US$**	**Fixed rate**	(9,422)
Foreign currency options	1,314,600	**US$**	**R$**	246,323
	1,372,405			236,901

The critical terms of the swap contracts matched with the terms of the hedged loans. Considering all transactions were deemed effective, the fair value changes on cash flow hedge were recorded in other comprehensive loss against financial instruments in liabilities or assets.

The gains and losses of hedge items (accrual of interest and exchange variation – finance lease and senior notes respectively) are impacted monthly, and are therefore offset monthly by the hedge instruments.

Factors that may influence hedge effectiveness include: i) the time difference between the hedging instrument and the hedged item and ii) the counterparty's credit risk substantially impacts the fair value of the derivative instrument, but not the hedged object (Senior Notes).

Changes in other comprehensive loss (cash flow hedge reserve) are detailed below:

		December 31,	
	2019	2018 (Restated)	2017 (Restated)
Balance at the beginning of the period	**(153,969)**	(14,688)	(33,785)
Transactions settled during the period	**4,389**	6,444	6,435
New transactions recognized in income statement	**(7,353)**	(215,765)	—
Fair value adjustment	**(2,328)**	70,040	12,662
Balance at the end of the period	**(159,261)**	(153,969)	(14,688)

Fair value hedge

Definition	Origin of Risk	Risks designated for hedge	Hedge instrument	Recognition
Hedge of exposure to changes in the fair value of recognized asset or liability or unrecognized firm commitment.	Finance lease of aircraft with pre-fixed interest rates	Interest rate	Cash Flow Swap - swapping pre-fixed interest rate to post-fixed.	• Protected item: Fair value - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities in contra-entry result (MtM).
	Debt instruments denominated in US$	Exchange Rate and Interest Rate	Cash Flow Swap - swapping US $ + Spread to reais at% CDI.	• Protected item: Fair value - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities in contra-entry result (MtM).

As of December 31, 2019 the Company had fixed to floating interest rate swap contracts with a notional amount of R$139,702 (December 31, 2018 - R$163,353). These contracts entitle the Company to receive fixed interest rates and pay floating interest based on CDI.

Adjustment to fair value of these contracts resulted in the recognition of an unrealized gain of R$24,057 (December 31, 2018 – R$20,081 and December 31, 2017 – loss of R$4,723) which was recorded as financial income. The impact on the statement of net income (loss) was offset by a negative adjustment on the debt hedged. There was no ineffectiveness during the year ended December 31, 2019.

Derivatives not designated as hedge accounting

i) *Forward foreign currency contract*

The Company is exposed to foreign currency risk in USD exchange rate, and therefore entered into NDF contracts registered at CETIP with renowned banks.

During the year ended December 31, 2019, the Company had entered into NDF contracts of US$426 million to protect itself from currency fluctuations (December 31, 2018 - US$375 million) that generated an unrealized gain of R$202,013 (December 31, 2018 – R$233,564 and December 31, 2017 – R$219,930).

ii) *Foreign currency options*

On December 31, 2019 the Company also has currency options with notional of US$195 million (December 31, 2018 – US$159 million), of which US$118 million (December 31, 2018 - US$129 million) are in connection with the Senior Notes hedge and US$30 million (December 31, 2018 - US$30 million) in connection to a dollar loan and US$47 million refers the OPIC operations. As of December 31, 2019, these options generated an unrealized loss of R$35,487 (December 31, 2018 – R$45,949 and December 31, 2017 – R$160,464).

iii) *Interest rate swap contract*

As of December 31, 2019 the Company had interest rate swap contracts in connection with the Senior Notes and the loan of OPIC. Changes in fair value of these instruments resulted in the recognition of an unrealized loss of R$62,803 (December 31, 2018 - R$166,987 and December 31, 2017 - R$380,946).

iv) *Heating oil forward contracts*

As of December 31, 2019, the Company also had average NDF contracts on over-the-counter (OTC) Market with eight different counterparties on the local market indexed to Heating Oil forward contract traded on the NYMEX, on monthly tranches, with a notional value of R$1,244,869 (December 31, 2018 - R$804,929). The fair value of these instruments amounted to an unrealized gain of R$56,491 (December 31, 2018 – loss of R$123,224 and December 31, 2017 – gain of R$4,469).

Fair value of financial instruments

The Company applies the following hierarchy to determine the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: other techniques for which all data that have significant effect on the fair value recorded are observable, directly or indirectly;

Level 3: techniques that use data that have significant effect on fair value recorded that are not based on observable market data.

Assets measured at fair value	December 31, 2019	Level 1	Level 2	Level 3
Financial assets at fair value				
Cash and cash equivalents (Note 6)	**1,647,880**	—	**1,647,880**	—
Short-term investments	**62,009**	—	**62,009**	—
Long-term investments (b)	**1,397,699**	—	—	**1,397,699**
Interest rate swap contract - fair value hedge option (a)	**24,057**	—	**24,057**	—
Interest rate swap contract- not designated as hedge	**203,636**	—	**203,636**	—
Forward foreign currency contract	**203,148**	—	**203,148**	—
Foreign currency options	**338,592**	—	**338,592**	—
Fuel term contract	**56,491**	—	**56,491**	—

Liabilities measured at fair value	December 31, 2019	Level 1	Level 2	Level 3
Financial liabilities at fair value				
Interest rate swap contract - cash flow hedge	**(7,129)**	—	**(7,129)**	—
Interest rate swap contract- not designated as hedge	**(266,439)**	—	**(266,439)**	—
Foreign currency options	**(35,487)**	—	**(35,487)**	—
Fuel term contract	**(1,135)**	—	**(1,135)**	—

Assets measured at fair value	December 31, 2018	Level 1	Level 2	Level 3
Financial assets at fair value				
Cash and cash equivalents (Note 6)	1,169,136	—	1,169,136	—
Short-term investments	517,423	—	517,423	—
Long-term investments (b)	1,287,781	—	—	1,287,781
Interest rate swap contract - fair value option (a)	21,813	—	21,813	—
Interest rate swap contract- not designated as hedge	93,606	—	93,606	—
Forward foreign currency contract	233,638	—	233,638	—
Foreign currency options	246,323	—	246,323	—

Liabilities measured at fair value	December 31, 2018	Level 1	Level 2	Level 3
Financial liabilities at fair value				
Interest rate swap contract - cash flow hedge	(9,422)	—	(9,422)	—
Interest rate swap contract - fair value option (a)	(1,732)	—	(1,732)	—
Interest rate swap contract- not designated as hedge	(260,593)	—	(260,593)	—
Foreign currency options	(45,949)	—	(45,949)	—
Forward foreign currency contract	(74)	—	(74)	—
Heating oil forward contracts	(123,224)	—	(123,224)	—

(a) Portion of the balances consist of loans from FINAME PSI, and standard FINAME presented at their value adjusted by the hedged risk, applying fair value hedge accounting rules.

(b) The Company calculated the fair value of the call option based on a valuation for TAP and binomial model considering the term of option, discount rate and the market volatility of publicly traded comparable airlines, calculated on a 2 years average. The resulting amount of the binomial model calculated in Euros was converted into Reais using the period-end exchange rate. See Note 24.

25. Operating revenue

	For the year ended December 31,		
	2019	2018 (Restated)	2017 (Restated)
Revenue			
Passenger revenue	**11,198,585**	9,029,960	6,985,044
Cargo and other revenue	**604,297**	430,725	1,054,761
Gross revenue	**11,802,882**	9,460,685	8,039,805
Taxes levied on			
Passenger revenue	**(290,696)**	(359,828)	(289,704)
Cargo and other revenue	**(69,869)**	(43,793)	(45,270)
Total taxes	**(360,565)**	(403,621)	(334,974)
Net revenue	**11,442,317**	9,057,064	7,704,831

26. Financial result

	For year ended December 31,		
	2019	2018 (Restated)	2017 (Restated)
Financial income			
Interest on short-term investments (a)	**12,462**	31,947	50,604
Sublease receivable	**29,695**	33,129	33,467
Other	**29,914**	9,446	44,201
	72,071	74,522	128,272
Financial expenses			
Interest on loans (a)	**(195,688)**	(164,294)	(235,184)
Interest on lease (a)	**(732,723)**	(606,076)	(484,300)
Interest on finance lease (a)	**(73,284)**	(75,313)	(72,481)
Interest on factoring credit card and travel agencies receivables	**(13,477)**	(10,625)	(36,188)
Interest on other operations	**(129,954)**	(79,822)	(110,375)
Guarantee commission	**(30,977)**	(26,187)	(24,880)
Loan costs amortization	**(12,549)**	(23,169)	(36,598)
Amortization of financial expenses	**(88,015)**	(56,827)	(41,439)
Other	**(52,857)**	(52,515)	(37,153)
	(1,329,524)	(1,094,828)	(1,078,598)
Derivative financial instruments, net	**325,452**	298,094	(90,171)
Foreign exchange result, net	**(391,905)**	(1,306,063)	34,859
Net financial expenses	**(1,323,906)**	(2,028,275)	(1,005,638)

(a) Interest and expenses on assets and liabilities, in the cash flow statement on December 31, 2019 - R$1,082,256 (December 31, 2018 - R$866,895 and December 31, 2017 – R$776,470) are registred in this lines.

27. Commitments

a) Commitments for future acquisition of aircraft

The Company has purchase commitments for the acquisition of 94 aircraft (December 31, 2018 – 94), under which the following futures payments will be made:

	December 31,	
	2019	2018
Up to one year	**2,815,674**	243,857
From one to five years	**10,031,346**	10,695,827
More than five years	**2,625,245**	3,960,657
	15,472,265	14,900,341

b) Commitments for future acquisition of aircraft – lessor placement

The Company has purchase commitments for the acquisition of 53 aircraft (December 31, 2018 – 75), under which the following futures payments will be made:

	December 31,	
	2019	2018
Up to one year	**195,981**	218,775
From one to five years	**2,963,355**	3,386,676
More than five years	**4,232,251**	4,887,708
	7,391,587	8,493,159

c) Letter of credits

As of December 31, 2019, the Company had issued letters of credit totaling US$529 million (December 31, 2018 - US$282 million) equivalent to R$2,134,186 (December 31, 2018 – R$1,091,744) and bank guarantees in the amount of R$50,432 (December 31, 2018 – R$47,676) in relation to security deposits, maintenance reserves and local sureties.

28. Share-based option plan

28.1. Equity-settled awards

28.1.1 First share option plan

The first share option plan ("First Option Plan") of the Company was approved on a Shareholders' Meeting held on December 11, 2009. The plan has a term of 10 years, and no option may be granted after this period.

Exercise conditions of options issued under the First Option Plan require in addition to a vesting period of 4 years, the occurrence of an initial public offering (IPO) of the shares of the Company.

28.1.2 Second share option plan

The second share option plan ("Second Option Plan") was approved on a Shareholders' Meeting held on June 30, 2014, as amended.

Exercise conditions of options issued under the programs of the Second Option Plan, prior to Azul's IPO, require in addition to a vesting period of 4 years, the occurrence of an initial public offering (IPO) of the shares of the Company. Additionally, the options have an 8-year life.

The options issued under the programs of the Second Option Plan, after Azul's IPO, require a vesting period of 4 years. The options have a 10-year life and the exercise price shall equal to the lowest stock price traded in the stock market during the thirty (30) trading sessions prior to the options grant approved by the Board of Directors.

28.1.3 Third share option plan

The third share option plan ("Third Option Plan") was approved on a Shareholders' Meeting held on March 10, 2017.

Exercise conditions of options issued under the Third Option Plan require a vesting period of 5 years. The options have a 5-year life and options can only be exercised within15 days after each vesting anniversary.

28.1.4 Information about the fair value of share options and expense

The grant-date fair value of share options has been measured using the Black-Scholes model. Expected volatility has been calculated based on historical volatility of airline shares listed on stock exchanges in Brazil and Latin America. The inputs are mentioned below.

	First Option Plan		
	1st program	2nd program	3rd program
Total options granted	5,032,800	1,572,000	656,000
Date of compensation committee	Dec 11, 2009	Mar 24, 2011	April, 05, 2011
Total options outstanding	303,700	284,000	12,460
Option exercise price	R$3.42	R$6.44	R$6.44
Option fair value as of grant date	R$1.93	R$4.16	R$4.16
Estimated volatility of the share price	47.67%	54.77%	54.77%
Expected dividend	1.10%	1.10%	1.10%
Risk-free rate of return	8.75%	12.00%	12.00%
Average remaining maturity (in years)	—	—	—
Maximum life of the option	Undetermined	Undetermined	Undetermined
Expected term considered for valuation	7 years	7 years	7 years

	Second Option Plan				Third Option Plan
	1st program	2nd program	3rd program	4th program	1st program
Total options granted	2,169,122	627,810	820,250	680,467	9,343,510
Date of compensation committee	June 30, 2014	July 01, 2015	July 01, 2016	July 06, 2017	Mar 14, 2017
Total options outstanding	861,197	231,638	391,176	494,491	5,606,106
Option exercise price	R$19.15	R$14.51	R$14.50	R$22.57	R$11.85
Option fair value as of grant date	R$11.01	R$10.82	R$10.14	R$12.82	R$4.82
Estimated volatility of the share price	40.59%	40.59%	43.07%	43.35%	50.64%
Expected dividend	1.10%	1.10%	1.10%	1.10%	1.10%
Risk-free rate of return	12.46%	15.69%	12.21%	10.26%	11.32%
Average remaining maturity (in years)	—	—	0.4	1.5	2.2
Maximum life of the option	8 years	8 years	8 years	10 years	5 years
Expected term considered for valuation	4.5 years	4.5 years	4.5 years	5.5 years	5 years

Changes in stock options are disclosed below:

	Number of stock options	Weighted average exercise price (in reais)	
Balance as of December 31, 2017	16,250,687	R$	11.69
Cancelled	(182,388)	R$	18.48
Exercised	(4,877,470)	R$	9.44
Balance as of December 31, 2018	11,190,829	R$	12.55
Cancelled	**(69,085)**	**R$**	**20.70**
Exercised	**(2,936,976)**	**R$**	**11.51**
Balance as of December 31, 2019	**8,184,768**	**R$**	**12.85**
Number of options exercisable as of:			
December 31, 2019	**2,294,135**	**R$**	**13.81**
December 31, 2018	2,572,640	R$	11.60

Share-based compensation expense recognized in the statement of net income (loss) during the year ended December 31, 2019 with respect to the share options amounted to R$12,742 (December 31, 2018 – R$16,677 and December 31, 2017 – R$19,862).

28.2 Restricted share units

The Shareholders' Meeting held on June 30, 2014 approved a restricted share unit plan ("RSU Plan"). Under the terms of the RSU Plan participants were granted a fixed monetary amount (in Reais) which would be settled in a quantity of preferred shares determined by dividing the monetary amount by the price per share of the preferred shares at IPO.

Exercise conditions of RSUs require, in addition to a vesting period of four years, the occurrence of an IPO of the shares of the Company for the RSUs to become exercisable. At the date of the IPO, the monetary amount of the awards was converted into units based on the IPO date fair value of the preferred shares. The related liability was reclassified to equity in line with the post IPO settlement method.

Subsequent grants are measured based on the grant date fair value of the awards.

28.2.1 Information about the fair value of RSUs and expense

	Date of compensation committee	Total shares granted	Total shares outstanding	Fair value as of grant date (in reais)	
1st program	June 30, 2014	487,670	**7,934**	R$	21.00
2nd program	July 01, 2015	294,286	**8,094**	R$	21.00
3rd program	July 01, 2016	367,184	**75,527**	R$	21.00
4th program	July 06, 2017	285,064	**122,740**	R$	24.17
5th program	August 07, 2018	291,609	**205,099**	R$	24.43
6th program	August 05, 2019	170,000	**170,000**	R$	51.65
		1,895,813	**589,394**		

Changes in RSU are disclosed below:

	Number of RSU
As of December 31, 2017	809,946
Granted	291,609
Cancelled	(72,303)
Exercised	(299,659)
As of December 31, 2018	729,593
Granted	**170,000**
Cancelled	**(49,748)**
Exercised	**(260,451)**
As of December 31, 2019	**589,394**

Share-based compensation expensed recognized in the statement of net income (loss) during the year ended December 31, 2019 with respect to the RSU amounted to R$6,152 (December 31, 2018 - R$6,254 and December 31, 2017 – R$10,027).

28.3 Virtual Stock Option Plan

On August 7, 2018, the Compensation Committee approved the Virtual Stock Option Plan ("Phantom Shares"). The plan consists of a remuneration in cash, as there is no effective trading of the shares. There will be no issue and / or delivery of shares for settlement of the plan. A liability is recorded monthly, based on the fair value of the Phantom Shares granted and the vesting period, with an offsetting entry in the income statement. The fair value of this liability is reviewed and updated for each reporting period, in accordance with the change in the fair value of the benefit granted.

The options issued under the programs of the Phantom Shares, require a vesting period of 4 years. The options have an 8-year life and the exercise price shall equal to the lowest stock price traded in the stock market during the thirty (30) trading sessions prior to the options grant approval by the Compensation Commitee.Expected volatility has been calculated based on historical volatility of airline shares listed on stock exchanges in Brazil and Latin America.

28.3.1 Information about the fair value of share options and expense

The fair value of share options has been measured using the Black-Scholes model using the informations below.

	Phantom Shares	
	1st program	2nd program
Total options granted	707,400	405,000
Date of compensation committee	August 7, 2018	August 5, 2019
Total options outstanding	560,908	405,000
Option exercise price	R$20.43	R$42.09
Option fair value	R$40.41	R$25.34
Estimated volatility of the share price	34.00%	38.8%
Expected dividend	1.10%	1.10%
Risk-free rate of return	6.40%	6.40%
Average remaining maturity (in years)	2.6	3.6
Maximum life of the option	8 years	8 years
Expected term considered for valuation	6 years	4.5 years

Changes in virtual stock option plan are disclosed below:

	Number of stock options
As of December 31, 2018	707,400
Granted	**405,000**
Cancelled	**(47,889)**
Paid	**(98,603)**
As of December 31, 2019	**965,908**

The liability recorded as of December 31, 2019 is R$11,647 (December 31, 2018- R$1,596) and is presented in the consolidated statement of financial position under “Salaries, wage and benefits”.

Share-based compensation expense recognized in the statement of net income (loss) during the year ended December 31, 2019 with respect to the Phantom Shares amounted to R$13,373 (December 31, 2018 – R$1,184 and December 31, 2017 – R$0).

29. Subsequent events

On March 24, 2020, Azul announced that from March 25, 2020 to April 30, 2020, it expects to operate 70 non-stop flights per day to 25 cities, representing a 90% reduction of its consolidated planned capacity in terms of ASKs for the month of April, in light of the uncertainty due to the COVID-19 pandemic that is affecting the demand for air traffic. Azul also announced several measures to reduce fixed costs and preserve its cash position as described below.

Measures for costs and expenses reduction.

- Executive management team salary cut of 50% and managers salary cut of 25% until situation normalizes;
- Hiring freeze;
- Payment deferral of 2019 bonus and profit sharing;
- An increase of crewmembers joining the Company’s voluntary unpaid leave program with over 10,500 requests approved as of March 31, 2020;
- Suspension of travel and discretionary spending;
- Grounding of surplus aircraft; and
- Suspending all new aircraft deliveries.

Measures for balance sheet and cash flow management

In addition to taking aggressive steps to reduce operating costs, the Company is also working to strengthen its liquidity position by preserving cash, including:

- Actively managing all areas of working capital;
- Eliminating all non-critical capital spend;
- Negotiating new payment terms with its commercial partners; and
- Discussing new credit facilities with financial institutions, including the Brazilian Development Bank (BNDES), who announced a support package worth R$10 billion in credit lines for the Brazilian airline sector.

The Company anticipates that these initiatives to obtain additional sources of liquidity, along with measures to contain operational expenses and non-essential capex outflows, will provide ample resources to endure a prolonged downturn in demand during several months. However, it is not possible to guarantee their sufficiency and complete implementation, as some of them depend on third parties actions and decisions.

New measures may still be implemented by Azul, as the extent of the impact of COVID-19 on Azul's operational and financial performance is still uncertain and will depend on future developments, including the duration and spread of the outbreak and related travel advisories and restrictions and the impact of the COVID-19 on overall demand for air travel, all of which cannot be predicted.

Management continues to monitor the Company's profitability and its financial position, taking actions to sustain its ability to continue with its operations in the foreseeable future.

On February 21, 2020, Azul Linhas Aéreas Brasileiras, a wholly-owned subsidiary of Azul S.A, and Two Taxi Aereo, "TwoFlex", announced that they have entered into a certain Quota Purchase Agreement under which Azul agreed to acquire the Brazilian regional carrier TwoFlex for the total purchase price of R$123 million. TwoFlex is a domestic airline based in Jundiaí, Brazil, founded in 2013 and offers regular passenger and cargo service to 39 destinations in Brazil, of which only three regional destinations are currently being served by Azul. TwoFlex also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo's downtown airport. Congonhas is a particularly coveted airport because of its proximity to São Paulo's business districts. Currently, Azul's two larger competitors, Gol and LATAM, control most of the flights in Congonhas. TwoFlex's fleet is composed of 17 owned Cessna Caravan aircraft, a regional turboprop with a capacity of 9 passengers. On March 27, 2020, the Brazilian Administrative Council for Economic Defense (CADE - *Conselho Administrativo de Defesa Econômica*) approved the acquisition without imposing further obligations for the parties. The parties are working towards the closing of the transaction, which we expect to occur in the near future.

On February 6, 2020, as announced to the market, the Company signed a Joint Venture agreement with TAP, in order to increase connectivity between the Brazilian domestic market and the European market, the transaction will be submitted for regulatory approvals.

Exhibit 1.1

BYLAWS

AZUL S.A.

Publicly-held Company
Corporate Taxpayers' Register (CNPJ/MF) No. 09.305.994/0001-29
Board of Trade (NIRE): 35.300.361.130 – CVM 24112

BY-LAWS

Chapter I
Name, Duration, Headquarters, Corporate Purpose, and Venue

Article 1 – **Azul S.A.** ("Company") is a corporation governed by these Bylaws and applicable law, particularly Law No. 6.404, of December 15, 1976, as amended ("Brazilian Corporate Law") and the Corporate Governance Level 2 Listing Regulation of B3 S.A. – *Brasil, Bolsa, Balcão* ("B3") ("Level 2 Regulation").

Paragraph 1 – Once admitted to the special listing segment of B3, namely, Corporate Governance Level 2, the Company, its shareholders, Management and Members of the Fiscal Council, if one is installed, are subject to the provisions under Level 2 Regulation and to the Self-Regulatory Code on Mergers and Acquisitions issued by the Brazilian Takeover Panel *(Comitê de Aquisições e Fusões – CAF)* ("Panel Code").

Paragraph 2 – The Company, its shareholders, Management and Members of the Fiscal Council, as well as members of any technical or advisory committees established under theses bylaws are required and indeed commit to mold their actions to the standards and requirements expressed in the principles and rules of the Panel Code, and to defer to the regulatory and supervisory authority of the Panel, and abide by the Panel decisions regarding tender offers, mergers, share-for-share mergers, consolidations and spin-offs followed by mergers under its authority.

Paragraph 3 – The Shareholders' General Meetings shall be convened to decide on the suspending the rights, including voting rights, of any shareholder in breach of the main provision of Paragraph 2 of Article 1, pursuant to article 120 of the Brazilian Corporate Law.

Article 2 – The Company's duration is indefinite.

Article 3 – The Company's headquarters and venue are located in the city of Barueri, State of São Paulo, at Avenida Marcos Penteado de Ulhôa Rodrigues, 939, 8th floor, Edifício Jatobá, Bairro de Tamboré, Zip Code 06460-040.

Sole Paragraph – Upon resolution of the Board of Directors, the Company may open or close branches, agencies, offices and representation offices, and any other facilities to conduct its activities anywhere in Brazil or abroad.

Article 4 – The Company's corporate purpose includes hold direct or indirect interest in any type of companies whose activities include to (a) explore scheduled and non-scheduled air transportation services of passengers, cargo and mailbags, in Brazil and abroad, according to the concessions granted by the relevant authorities, (b) explore additional air charter transportation activities for passengers, cargo and mailbags, (c) render services of maintenance and repair of own and third-party aircrafts, motors, items and parts, (d) render services of aircraft hangar, (e) render services of runway, flight attendance and aircraft cleaning, (f) purchase and lease aircrafts and other related assets, (g) develop and manage its own customer loyalty program or customer loyalty programs of third parties, (h) sell redemption rights regarding awards under the customer loyalty program, (i) explore Travel Agency and Tourism businesses, (j) develop other activities that are connected, incidental, additional or related to the above-mentioned activities; and (k) hold interest in other companies.

Chapter II
Capital Stock and Shares

Article 5 – The Company's share capital, totally paid up in Brazilian currency, two billion, two hundred and forty-three million, two hundred and fifteen thousand, fourteen Reais and forty cents (R$ 2,243,215,014.40), divided into one billion, two hundred and fifty-eight million, five hundred and thirty-three thousand, two hundred and forty-four (1,258,533,224) shares, all registered and without par value, out of which nine hundred and twenty-eight million, nine hundred and sixty-five thousand, fifty-eight (928,965,058) are common shares and three hundred and twenty-nine million, five hundred and sixty-eight thousand, one hundred and sixty-six (329,568,166), are preferred shares.

Paragraph 1 – All the Company's shares are registered shares, which may be recorded as book-entry shares, in which case they will be kept in deposit accounts opened in the name of their holders with a financial institution duly authorized by the Brazilian Securities Commission ("CVM"). Shareholders may be required to pay a fee, as provided in paragraph 3 of Article 35 of the Brazilian Corporate Law.

Paragraph 2 – Each common share entitles its holder to one (1) vote in resolutions taken at Shareholders' General Meetings.

Paragraph 3 – Common shares are convertible into preferred shares, at the discretion of their respective shareholders, in the proportion of seventy-five (75) common shares per one (1) preferred share, provided they are fully paid-up and there is no violation of the legal proportion between common and preferred shares.

Paragraph 4 – Shareholders intending to convert their common shares into preferred shares shall sign and send a written notice to the Company's Investor Relations Officer informing the number of common shares to be converted. After receipt of the notice, the Company shall promptly inform the other common shareholders, in writing, and grant them a fifteen-day period to exercise their right to convert their common shares, also through a signed written notice sent to the Company's Investor Relations Officer, informing the number of common shares to be converted.

Paragraph 5 – Shareholders who fail to send the notice to the Company within the period above shall be deemed as having no intention of exercising their right to convert their Shares.

Paragraph 6 – If more than one shareholder promptly informs their intention to convert their common shares into preferred shares, and the number of preferred shares intended for conversion, plus the number of preferred shares that have already been issued by the end of the period to exercise the right to convert the shares, exceeds the maximum number of preferred shares eligible to be issued pursuant to Article 15, Paragraph 2 of the Brazilian Corporate Law, the common shares shall be converted into preferred shares up to the maximum number of preferred shares pursuant to Article 15, on a prorated basis of the respective interest of common shares held by each shareholder of the Company at the end of the period to exercise the right to convert the shares.

Paragraph 7 – Any amendment to the provisions of Paragraph 3 hereof, related to the proportion between common and preferred shares in the conversion referred to in the aforementioned Paragraph, is subject to prior approval of the holders of preferred shares at a special General Shareholders' Meeting, pursuant to Paragraph 1 of Article 136 of the Brazilian Corporate Law.

Paragraph 8 – In case of conversion of preferred shares, pursuant to Paragraph 3 of this Article 5, the Company shall record the conversion in its books.

Paragraph 9 – Preferred shares entitle their holders to restricted voting rights exclusively in the following matters:

(i) transformation, incorporation, merger or spin-off of the Company;

(ii) approval of agreements between the Company and the Controlling Shareholder, directly or through third parties, as well as any other companies in which the Controlling Shareholder has interest, whenever decided in a general meeting pursuant to the law or the Bylaws;

(iii) evaluation of assets allocated to pay-up the Company's capital increase;

(iv) selection of an expert institution or company for the determination of the Economic Value of the Company, as provided for by Sole Paragraph of Article 46 hereof;

(v) amendment to or revocation of the provisions hereof that amend or modify any of the requirements provided for in Item 4.1. of the Level 2 Regulation, except that such voting right shall prevail while the Level 2 Corporate Governance Listing Agreement is in effect;

(vi) the matters set forth on the Panel Code;

(vii) amendment to or revocation of the provisions hereof that amend or modify any of the requirements provided for in this Paragraph Nine, as well as in Paragraphs Ten to Twelve of this Article 5 and in Articles 12 to 14;

(viii) the global compensation of the management of the Company, pursuant to Paragraph Two of Article 15 below; and

(ix) amendment to or revocation of the provisions hereof that amend or modify any of the requirements provided for in Paragraph Two of Article 15 and in Articles 29 to 32.

Paragraph 10 – Each of the matters indicated in Items (i) to (vii) of Paragraph Nine of this Article 5 are, for purposes of this Bylaws and pursuant to this Paragraph Ten, "Special Matter(s)" and shall be approved in accordance with this Paragraph Ten. The approval of the Special Matters provided for in items (i) to (vi) of Paragraph Nine of this Article 5 by the General Shareholders' Meeting is subject to prior approval at a special Shareholders' Meeting, as provided for in Chapter IV of this Bylaws, in case the Controlling Shareholder holds shares issued by the Company representing, as a whole, Dividends Distribution equivalent or inferior to fifty percent (50%). The approval of the Special Matter provided for in item (vii) of the Paragraph Nine of this Article 5 by the General Shareholders' Meeting shall always be subject to the prior approval of the special Shareholders' Meeting.

Paragraph 11 – The rights granted in articles (i) 4-A *caput*, (ii) 105, (iii) 123, sole paragraph, (c) and (d); (iv) 126, paragraph 3; (v) 157, paragraph 1; (vi) 159, paragraph 4; (vii) 161, paragraph 2; (viii) 163, paragraph 6; (ix) 206, II, (b); and (x) 246, paragraph 1, (a), all of them provided for in the Brazilian Corporate Law, may be exercised by shareholders representing the percentage of the Dividends Distribution equivalent to the percentage of capital stock or outstanding shares, as the case may be, established in such articles of the Brazilian Corporate Law.

Paragraph 12 – The following preferences and advantages are granted to preferred shares issued by the Company:

(i) right to receive dividends in amounts equal to seventy-five (75) times the amount of dividends attributed to the common shares;

(ii) right to be included in a takeover bid resulting from the Disposal of the Company's Control under the same conditions and for a price per share equal to seventy-five (75) times the price per common share paid to the Disposing Controlling Shareholder; and

(iii) in case the Company is wound up, capital refund priority over the common shares, in the amount corresponding to the multiplication of the Company's share capital by the Dividends Distribution to which the preferred shares issued by the Company are entitled to. After the priority refund over the capital for preferred shares and the refund of the capital over the common shares, the preferred shares will have right to refund of amounts equivalent to the multiplication of the remaining assets to which the shareholder is subject to due to the Dividends Distribution that the preferred shares would be entitled to. For the sake of clarification, the amounts paid to preferred shares as priority shall be considered for purposes of the calculation of the total amount to be paid to the preferred shares in case of the Company's wind up.

Paragraph 13 – The shareholders have preemptive rights, in proportion of their respective interests in the Company's share capital, to subscribe for shares, debentures convertible into shares or warrants issued by the Company, pursuant to Article 171 of the Brazilian Corporate Law, provided that the exercise period established by the General Shareholders' Meeting is above thirty (30) days.

Paragraph 14 – In case shareholders' withdrawal, the amount to be paid by the Company as refund of the shares held by the withdrawing shareholders in the hypothesis authorized by the Brazilian Corporate Law, shall correspond to the economic value of such shares, to be verified in accordance with the evaluation procedure accepted by the Brazilian Corporate Law, whenever such amount is lower than the equity value verified in accordance with article 45 of the Brazilian Corporate Law.

Paragraph 15 – The issue of founder's shares by the Company is prohibited.

Article 6 – Upon resolution of the Board of Directors, the Company may increase its capital stock, irrespective of any amendments to the Bylaws, through the issue of up to one hundred and four million, nine hundred and forty-nine thousand and ten (104,949,010) new preferred shares. The Board of Directors shall establish the conditions of the issuance, including the price and term for payment.

Paragraph 1 – The Company may, within the limits of its authorized capital and pursuant to a plan approved at the General Shareholders' Meeting, grant stock options to its officers and employees, or to individuals providing services to the Company or to its Subsidiaries.

Paragraph 2 – At the discretion of the Board of Directors, excluding preemptive rights or reducing the exercise period provided for by Paragraph 4 of Article 171 of the Brazilian Corporate Law, shares, debentures convertible into shares or warrants may be issued, and their placement shall be made through sale in stock exchange, public subscription or share exchange in public offering of transfer of control, pursuant to applicable law, within the limits of the authorized capital.

Article 7 – Every shareholder purchasing shares issued by the Company, even if they are already a shareholder or Group of Shareholders (as defined in Article 54 hereof), is required to proceed with the disclose provided for in Article 12 of CVM Instruction 358, dated January 3, 2002, as amended, when the disclosure is required. Without prejudice of other penalties as provided for by law and the rules of the CVM, shareholders who fail to comply with this requirement may have their rights suspended, pursuant to Article 120 of the Brazilian Corporate Law and Article 11, Item "(r)," hereof, which suspension shall be cancelled as soon as such requirement is complied with.

Chapter III
General Shareholders' Meetings

Article 8 – The General Shareholders' Meetings shall be convened, annually, on an ordinary basis, in the four (4) months immediately following the end of the fiscal year, to discuss the matters provided for by law and, on an extraordinary basis, whenever the Company's interests so require. Such meetings shall be called, installed and held as provided for by applicable law and these Bylaws.

Sole Paragraph – The General Shareholders' Meetings shall be called pursuant to Article 124 of the Brazilian Corporate Law, and installed and presided over by the Chair of the Board of Directors or, in his absence or disqualification, any member of the Board of Directors or, in their absence, any officer of the Company attending the meeting, appointed by the Shareholders. The Chair of the General Shareholders' Meetings shall appoint the secretary, who is not required to be a shareholder of the Company.

Article 9 – Except in case of qualified quorum provided for by law, resolutions at General Shareholders' Meetings shall be taken by absolute majority vote, pursuant to restrictions established under the Brazilian Corporate Law and these Bylaws.

Paragraph 1 – The minutes of the General Shareholders' Meetings shall be drafted in summary form, except when otherwise decided by the Chair of the Meeting, of all facts taking place, including dissents and complaints, with the transcription of resolutions taken, and shall be published omitting the signatures of the shareholders, pursuant to Paragraph 1 of Article 130 of the Brazilian Corporate Law.

Paragraph 2 – The General Shareholders' Meeting may only decide on matters of the agenda included in the call notice, except as provided by the Brazilian Corporate Law.

Article 10 – Shareholders may be represented in the General Shareholders' Meeting by proxy pursuant to Article 126 of the Brazilian Corporate Law, which proxy shall have been granted within one (1) year before the meeting, to a shareholder, Company Management member, lawyer, financial institution or investment fund manager representing syndicate members, if applicable. The shareholder shall send to the Company, at least forty-eight (48) hours before the Meeting is held, the proxy, duly executed pursuant to applicable law and these Bylaws. The shareholder or its legal representative shall attend the General Shareholders' Meeting with the relevant identification document or a document confirming its legal representation powers, as applicable.

Sole Paragraph – Without prejudice to the foregoing, by the time the meeting is opened, the proxy or legal representative who attends the meeting with the documents mentioned in the head provision hereof may attend and vote, even if they failed to submit such documents in advance.

Article 11 – The General Shareholders' Meeting, in addition to the obligations imposed by law, according to the quorum provided for by these Bylaws and applicable law, shall:

a) examine the management accounts for the last fiscal year;

b) examine, discuss and vote the financial statements, based on the opinion of the Fiscal Council, if one is installed, and other documents, pursuant to applicable law;

c) elect and dismiss the members of the Board of Directors;

d) subject to Article 5, Paragraph 9, Item (viii) hereof, establish the overall annual compensation of the members of the Board of Directors, Board of Executive Officers and Fiscal Council, if one is installed, provided that, in any case, the compensation is not different from that established in the Company's annual business plans or budget;

e) decide, according to the proposal presented by the management, about the allocation of net income for the fiscal year and the distribution of dividends;

f) amend the Bylaws, subject to Article 5, Paragraphs 9 and 10 hereof;

g) approve share incentive plans for the Company's management and employees, as well as of the management and employees of the Company's subsidiaries or individuals providing services to the Company or its subsidiaries;

h) decide on (i) capital increases above the limits of the authorized capital, or capital decreases and (ii) the appraisal of assets used to pay for the Company's capital increase, subject to Article 5, Paragraph 9, Item (iii) hereof;

i) subject to Article 5, Paragraph 9, Item (i) hereof, decide on the consolidation, spin-off, conversion, merger or the merger of shares involving the Company, as well as on the transfer of a significant part of the assets of the Company that leads to interruption of its activities;

j) decide on the issue of shares or any securities by the Company, establishing the respective issue price and amount, as provided for by Article 6 hereof, or other securities, as applicable;

k) decide on redemption, repayment, stock splits or reverse stock splits of shares by the Company or any securities issued by the Company;

l) decide on repurchase and/or trading of shares issued by the Company and derivatives referenced thereto, to the extent that such effectiveness is not subject to the Shareholders' Meeting prior approval, pursuant to the rules issued by the CVM;

m) decide on in-court or out-of-court corporate reorganization or filing for bankruptcy;

n) decide on dissolution or liquidation of the Company, or suspension of such liquidation, and appoint the liquidator and the Fiscal Council that shall operate during the liquidation period;

o) distribute dividends above the minimum mandatory dividend or pay interest on shareholders' equity above the amount established by the Company's annual business plans or budget;

p) subject to Article 5, Paragraph 9, Item (iv) hereof, choose, among a list of companies appointed by the Board of Directors, the expert company responsible for preparing an appraisal report of the Company's shares, if the Company is delisted or exits the Level 2, pursuant to Chapter VIII hereof;

q) decide on any other matter submitted by the Board of Directors;

r) without prejudice to Article 19, XVII, decide on the approval of agreements entered into between the Company and the Controlling Shareholder, directly or through third parties, as well as with other companies in which the Controlling Shareholder is a stakeholder; and

s) suspend the exercise of shareholders' rights, pursuant to Article 120 of the Brazilian Corporate Law and these Bylaws, including Article 1, paragraph 3, and Article 7 hereof, in which cases, the shareholder(s) whose rights are subject to suspension shall not vote.

Chapter IV
Special Meeting

Article 12 —Pursuant to Paragraph 10 of the Article 5 hereof, the approval of a Special Matter on a General Meeting may depend on the prior approval by holders of preferred shares on a special meeting ("Special Meeting").

Article 13 – The provisions of Sole Paragraph of Article 8 related to the calling, chairman of the meeting and appointment of secretary, as well as the rules of representation provided for in Article 10 and its Sole Paragraph in relation to the General Meetings shall also apply to the Special Meetings.

Article 14 – The Special Meeting shall be installed, on first call, with the presence of shareholders representing, at least, twenty-five percent (25%) of the preferred shares and, on a second call, with the presence of shareholders representing any amount of preferred shares, with exception to the hypothesis provided for in the Level 2 Regulation. The resolutions shall be taken by the majority of the present shareholders, if different quorum is not required by the Brazilian Corporate Law. The minutes of the Special Meeting shall record the number of votes of the shareholders entitled to the right to vote in favor and against each resolution and shall indicate the total participation of the shareholders that voted in favor or against each resolution.

Chapter V
Management

Article 15 – The Company shall be managed by a Board of Directors and a Board of Executive Officers, according to the duties and powers attributed by applicable law and these Bylaws.

Paragraph 1 – The positions of Chairman of the Board of Directors and CEO or main officer of the Company shall not be held by the same person, except (i) in case of vacancy, pursuant to item 5.4 of the Level 2 Regulation; and (ii) on an exceptional case and for purposes of this transition, up to a maximum period of three (3) years counted as of the beginning of the dealing with securities issued by the Company in the Level 2.

Paragraph 2 – The General Shareholders' Meeting shall establish the overall annual compensation of the management, subject to Article 5, Paragraph 9, Item (viii), and the Board of Directors shall sets forth the individual compensation of each member of the Board of Directors and Board of Executive Officers.

Paragraph 3 – The management's investiture shall be made upon the execution of the Investiture Instrument (*Termo de Posse*) drawn up in the Company's books, within thirty (30) days from their election, with no guarantee of office.

Paragraph 4 – The investiture of members of the Board of Directors and Board of Executive Officers shall be made upon the execution of the Management's Statement of Consent, as required by the Level 2 Regulation and the Panel Code, pursuant to applicable law.

Paragraph 5 – The management shall remain in office until the investiture of their successors, unless otherwise resolved by the General Shareholders' Meeting or Board of Directors, as applicable.

Paragraph 6 – Except for the provisions of these Bylaws and applicable law, meetings of management bodies shall be held with the attendance of the majority of their respective members and resolutions thereof shall be deemed valid if taken by majority vote of the attending members.

Section I
Board of Directors

Article 16 – The Board of Directors is composed of at least five (5) and at most fourteen (14) members, whether shareholders of the Company or not, whether resident in Brazil or not, all elected and dismissible by the General Meeting, with a unified term of office of two (2) years, reelection being permitted.

Paragraph 1 – At least two (2) or twenty percent (20%) of members of the Board of Directors, whichever is greater, shall be Independent Directors and expressly declared as such in the minutes of the General Shareholders' Meeting that elects them. Director(s) elected pursuant to Article 141, Paragraphs 4 and 5 of the Brazilian Corporate Law and Paragraph 3 below shall also be deemed Independent Director(s).

Paragraph 2 – When the calculation of the above percentage results in a fraction, it shall be rounded to a whole number pursuant to the Level 2 Regulation.

Paragraph 3 – If the Board of Directors consists of five (5) members and the position of board member becomes vacant for any reason, the remaining board members shall appoint an alternate member who shall remain in office as acting board member until the next General Shareholders' Meeting, when the new member shall be elected. The new member shall remain in office until the end of the unified term of office. For purposes of this Paragraph, vacancy shall occur in case of dismissal, death, resignation, confirmed disqualification, or disability.

Article 17 – The Meetings of the Board of Directors shall be held, ordinarily, every quarter. However, it may be held as required by the Company, whenever called by the Chair of the Board of Directors or any two (2) members of the Board of Directors, jointly, through a written notice sent at least two (2) days in advance. The notice may be sent by any authorized means with return receipt, including e-mail, indicating the date, time and a summary agenda.

Paragraph 1 – The Board of Directors may meet by conference call or videoconference. In such cases, board members attending the meeting shall vote by letter, *facsimile* or e-mail with digital certification.

Paragraph 2 – Meetings of the Board of Directors shall be installed by at least the majority of the incumbent board members to be deemed duly called and adopt valid resolutions. In any event, the meeting of the Board of Directors shall be deemed duly called if attended by all incumbent board members, irrespective of compliance with call formalities pursuant to these Bylaws.

Paragraph 3 – The meetings of the Board of Directors shall be presided over by the Chairman of the Board of Directors, who shall appoint the secretary. In case of temporary absence of the Chairman of the Board of Directors, the Vice-chairman or any other member appointed by the majority of the directors shall preside over the meeting, in which case, there shall be no casting vote.

Paragraph 4 – The officers and independent auditors may be called to attend the meetings of the Board of Directors in order to make any necessary clarifications.

Paragraph 5 – Decisions of the Board of Directors shall be made by affirmative vote of, at least, the majority of attending members.

Paragraph 6 – The minutes of the meetings of the Board of Directors shall be drafted in the minutes book and signed by all attending Directors. The minutes of the meetings of the Board of Directors including decisions intended to be effective before third parties shall be filed with the public register of companies and published pursuant to Article 289 of the Brazilian Corporate Law.

Paragraph 7 – Members of the Board of Directors shall have flawless reputation and, unless allowed by the General Shareholders' Meeting, they cannot be elected if they have or represent any interest that conflicts with the interests of the Company. Members of the Board of Directors shall not exercise voting rights in case of supervening conflict of interest with the Company.

Paragraph 8 – Members of the Board may not have access to information or attend meetings of the Board of Directors to discuss matters on which they have or represent any interest that conflicts with the interests of the Company, and the exercise of their voting rights shall be expressly forbidden.

Paragraph 9 – The Chairman and Vice-chairman of the Board of Directors shall be appointed by the General Shareholders' Meeting at the time of election of board members.

Paragraph 10 – The Chairman of the Board of Directors (or whoever replaces him for any of the reasons provided for in Paragraphs 11 and 12 of this Article) has the casting vote in the resolutions of the Board of Directors, in addition to his own vote, in case of tie vote.

Paragraph 11 – In case of temporary disqualification, the Chairman of the Board of Directors shall be replaced by the Vice-chairman or, if the Vice-chairman is absent, any other Director appointed by the Chairman or by the other Directors if no one is appointed.

Paragraph 12 - If the position of Chairman of the Board of Directors becomes vacant, the Vice-chairman shall take and remain in office until the board members elect a new Chairman, who shall remain in office for the remaining term of office.

Paragraph 13 – The members of the Board of Directors shall not leave their offices for more than thirty (30) consecutive calendar days, under penalty of losing their offices, unless the Board of Directors authorizes them to do so.

Article 18 – The Board of Directors may create Committees, consisting of Management members and/or other persons that are not members of the Management of the Company, to assist it in its duties. The Board of Directors shall establish the scope, members and form of operation of each Committee at the resolution that approves the creation of the Committees.

Article 19 – In addition to the matters provided for in Article 142 of the Brazilian Corporate Law and other provisions hereof, the Board of Directors shall:

I – approve the annual and pluriannual budgets, business plan, strategic plans and expansion projects;

II – approve the acquisition, sale, transfer or encumbrance of the Company's fixed assets and the pledge of guarantees in amounts greater than three percent (3%) of the net earnings recorded in the Company's consolidated financial statements of the last fiscal year, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein the Company operates, subject to Article 32 hereof;

III – decide on the issuance of shares or any other securities by the Company, their respective issue prices and the number of shares or other securities whenever such decisions may be made by the Board of Directors, pursuant to applicable law;

IV – authorize the Company to pledge guarantees for third-party obligations in amounts greater than three percent (3%) of the net earnings recorded in the Company's consolidated financial statements of the last fiscal year, except for guarantees incurred by companies operating in the same industry wherein the Company operates in the ordinary course of their businesses;

V – call the General Shareholders' Meeting of the Company;

VI – grant stock options and restricted stocks to the Management and employees of the Company or its subsidiaries, without preemptive rights to shareholders, pursuant to the conditions of programs approved at General Shareholders' Meetings;

VII – authorize the issue of the Company's shares, within the limits authorized in Article 6 hereof, setting forth issue conditions, including price and payment period, and exclude (or reduce the term for exercise of) preemptive rights in issues of shares, warrants and convertible debentures, which placement occurs through the sale in stock exchange, public subscription or public offering for transfer of control, pursuant to applicable law;

VIII – appoint and dismiss independent auditors. The external auditors shall prepare information to the Board of Directors, upon request of the Board of Directors and within its powers. The Board of Directors may request clarifications whenever necessary;

IX – set forth overall guidelines for the Company's business, including business targets and strategies to be pursued by the Company, ensuring their adequate execution;

X – elect and dismiss the Company's officers and establish their roles, and appoint the Investor Relations Officer;

XI – inspect the administration of Officers, examine, at any time, the Company's books and documents, request information about executed agreements, or to be executed, and any other acts;

XII – express an opinion about the Management's report and the Board of Executive Officers' accounts and decide on submitting them to the General Shareholders' Meeting;

XIII – analyze the Company's quarterly results;

XIV – express a prior opinion about any proposal to be submitted to a resolution of the General Shareholders' Meeting;

XV – approve the negotiation, assignment, transfer or sale of any intangible assets;

XVI – approve the establishment of any type of security or personal guarantee on the Company's fixed assets in amounts greater than three percent (3%) of the net earnings recorded in the Company's consolidated financial statements of the last fiscal year, except in case of judicial attachment, seizure or arrest;

XVII – approve the Related Parties Transactions Policy and the implementation of any transaction in accordance with the provisions of such policy, subject to Article 32 hereof, provided that mergers, share-for-share mergers, consolidations and spin-off followed by a merger, with related parties, shall be regulated by the Panel Code

XVIII – approve the contracting of financial obligations not included in the annual plan or budget of the Company or its Subsidiaries, which amounts are greater than three percent (3%) of the net earnings recorded in the Company's consolidated financial statements of the last fiscal year, subject to Article 32 hereof;

XIX – decide on the issue of ordinary debentures, not convertible into shares, as well as on the issue of commercial papers and warrants;

XX – define the list of three companies specialized in economic appraisal of companies, to prepare an appraisal report of the Company's shares in the event of a tender offer for delisting as a publicly-held company or exiting Level 2, in accordance with the provisions of the Panel Code;

XXI – authorize the Company's Board of Executive Officers to file for bankruptcy or request in-court or out-of-court reorganization of the Company after approval of the General Shareholders' Meeting;

XXII – decide on any financial restructuring directly or indirectly involving the Company or its Subsidiaries;

XXIII – approve the Code of Ethic and Conduct of the Company;

XXIV – decide on any matters submitted by the Board of Executive Officers;

XXV – agree or disagree on any public offering for the purchase of shares issued by the Company, through a substantiated opinion disclosed within fifteen (15) days of publication of the notice about the public offering of shares, which opinion shall include, at least: (i) the price of the public offering for the purchase of shares; (ii) the convenience and opportunity of the public offering for the purchase of shares in terms of the interests of the group of shareholders and liquidity of their securities; (iii) the impact of the public offering on the interests of the Company; (iv) the strategic plans disclosed by the offeror in connection with the Company; (v) the description of the relevant changes in the financial status of the Company, occurred since the date of the last financial statements or quarterly information released to the market; (vi) other relevant aspects for the shareholder's decision; and (iv) other items considered relevant by the Board of Directors, as well as information required pursuant to the rules of the CVM; and

XXVI – decide on the repurchase and/or trading of shares issued by the Company and derivatives referenced thereto, except for the provision of Article 11, item (l) hereto.

Section II
Board of Executive Officers

Article 20 –The Company's Board of Executive Officers shall consist of at least two (2) and no more than seven (7) members elected by the Board of Directors, residents in Brazil, who are not required to be shareholders of the Company, as follows: one (1) Chief Executive Officer (CEO); one (1) Vice-chief Financial Officer; one (1) Investor Relations Officer; and up to four (4) Executive Officers, who are not required to have any specific designation. The accumulation of positions is permitted.

Paragraph 1 – The Executive Officers are elected by majority vote of the members of the Board of Directors for a term of office of two (2) years, with permitted reelection. The investiture of members of the Board of Executive Officers shall be made upon the execution of the respective investiture instrument drawn up in the Company's books, as provided for by Article 15, Paragraph 4 hereof. The Board of Executive Officers shall consist of professionals of confirmed experience and ability to act in their respective areas of expertise. Moreover, such professionals shall meet the requirements set forth by law and these Bylaws to perform their duties.

Paragraph 2 – The Officers may be dismissed, at any time, by the Board of Directors. Once an Officer is dismissed, the Board of Directors shall elect an alternate Officer for the remaining term of office within ten (10) days of the vacancy. Also, in case of temporary disqualification or absence of any Officer for more than sixty (60) days, the Board of Directors shall promptly meet to elect an alternate Officer for the remaining term of office. The CEO shall serve as replacement of the relevant Officer during his absence or while the elected alternate does not take office, as applicable.

Paragraph 3 – The position of Investor Relations Officer may be served by an Investor Relations Officer or, cumulatively, by any Officer.

Paragraph 4 – The Board of Directors shall appoint an Investor Relations Officer among the Officers of the Company, who shall be in charge of the disclosure of relevant acts or facts in connection with the Company's business, as well as of relations of the Company with the market and regulatory and inspection entities.

Paragraph 5 – The CEO shall coordinate the activities of the Board of Executive Officers and supervise all the Company's activities.

Paragraph 6 – The Vice-chief Financial Officer shall analyze, monitor and evaluate the Company's financial performance, according to resolutions taken at the General Shareholders' Meeting and meetings of the Board of Directors and the business plan; provide information on the performance of the Company, from time to time, to the General Shareholders' Meeting and the Board of Directors; coordinate the preparation of the Company's financial statements and the annual management's report and present them to the external auditors, Board of Directors and Fiscal Council, if one is installed.

Paragraph 7 – The Investor Relations Officer, among other duties that may be established, has the power to (i) reservedly represent the Company before the CVM, shareholders, investors, stock exchanges, the Central Bank of Brazil and other agencies related to capital markets activities; (ii) plan, coordinate and guide the relationship and the communication between the Company and its investors, the CVM and entities in which the securities of the Company are admitted to trading; (iii) propose guidelines and rules on the investor relations of the Company; (iv) comply with the requirements set forth by the capital markets applicable law and disclose to the market material information about the Company and its businesses, in accordance with the law; (v) safe keep the corporate books and ensure the accuracy of the records; (vi) supervise the services carried out by the depositary financial institution holding the shares of the shareholding structure, such as payment of dividends and bonus, purchase, sale and transfer of shares, among others; (vii) ensure the compliance with and performance of the corporate governance rules, bylaws and the applicable law in connection with the securities market; and (viii) individually or in group, carry out the regular management acts of the Company.

Paragraph 8 – Without prejudice to the duties that the Board of Directors may set forth to the other officers, the CEO may set forth other duties to such officers.

Article 21 – The Board of Executive Officers shall meet when convened by its CEO or by any member of the Board of Executive Officers, whenever the corporate interests so demand, upon a five (5) days' prior notice sent by letter with acknowledgment receipt, *facsimile* or e-mail. The attendance of all officers shall allow the meetings of the Board of Executive Officers to be held regularly, irrespective of any calling. The meetings shall be held with the attendance of the majority of its members, and the respective resolutions shall be taken by majority vote of the attending members, except in case of a draw, when the CEO shall have the casting vote to approve or reject the matter under discussion.

Paragraph 1 – The meetings of the Board of Executive Officers shall be presided over by the CEO.

Paragraph 2 – The members of the Board of Executive Officers may meet by conference call or videoconference. In such cases, board members attending the meeting shall vote by letter, *facsimile* or e-mail with digital certification. The meetings of the Board of Executive Officers shall be drafted in the appropriate book and signed by all attending Officers.

Article 22 – The Board of Executive Officers has the power to represent the Company, manage the corporate business in general and practice all necessary or convenient acts for such purpose, except for those which power is attributed by law or by these Bylaws to the Shareholders' Meeting or the Board of Directors. In exercising their duties, the Officers may carry out all transactions and perform all acts necessary to achieve the purposes of their titles, as provided for hereunder as to the form of representation, jurisdictional amount for certain acts, and general business guidelines set forth by the Board of Directors, including discussing and approving the use of funds; settling claims; waiving; assigning rights; acknowledging debts; reaching agreements; making commitments; undertaking obligations; entering into agreements; purchasing, selling and burdening personal property and real estate; providing collaterals, guarantees and sureties; issuing, indorsing, pledging, discounting, withdrawing and accommodating securities in general; opening, transferring and closing accounts in credit institutions; all of which may also be performed by a duly authorized attorney-in-fact, pursuant to the legal restrictions and those set forth herein.

Article 23 – The Board of Executive Officers also has the power to:

a) comply and enforce compliance with these Bylaws and the resolutions of the Board of Directors and Shareholders' Meeting;

b) represent the Company, as plaintiff and defendant, according to the duties and powers set forth herein and by the Shareholders' Meeting;

c) discuss the opening, closing and change of addresses of branches, agencies, offices or representation offices of the Company in Brazil or abroad;

d) submit, on an annual basis, to the review of the Board of Directors, the Management Report and the accounts of the Board of Executive Officers, together with the report of the independent auditors, as well as with the proposal for the use of revenue assessed abroad;

e) prepare and propose, to the Board of Directors, the business, operating and investment plans of the Company, as well as the annual budget;

f) prepare the strategic planning of the Company and issue their respective rules;

g) prepare and propose to the Board of Directors, with the support of the Governance Committee, the Code of Ethic and Conduct;

h) decide on any matter that is not attributed to the reserved power of the Shareholders' Meeting or Board of Directors, as well as on any divergences among its members; and

i) present, on a quarterly basis, to the Board of Directors, a detailed economic, financial and equity balance sheets of the Company and its subsidiaries.

Article 24 – The representation of the Company, in any act that creates a responsibility to the Company or release third parties from obligations undertaken with the Company, including the representation of the Company in court, as plaintiff or defendant, is attributed to: (i) the CEO, solely; (ii) any two (2) Officers together; or (iii) one (1) solely attorney-in-fact with special powers, provided that such attorney-in-fact has been appointed by the CEO, pursuant to Article 25 hereof.

Sole Paragraph – The Company may be represented by a sole Officer or attorney-in-fact (i) in the shareholders' meetings or meetings of partners of companies in which it participates; (ii) in acts or transactions of the Company abroad; (iii) before agencies of any level of government, councils or professional associations of workers' unions; and (iv) in any regular act that does not create a responsibility to the Company.

Article 25 – The powers of attorney shall be granted on behalf of the Company by the CEO solely, and they shall specify the granted powers and, except for those powers of attorney for judicial purposes (*ad judicia*), they shall have a limited term of up to one (1) year, pursuant to the limits set forth by the Board of Directors, these Bylaws, or applicable law.

Sole Paragraph – In the absence of any determination as to the term of the powers of attorney granted by the Company, a term of one (1) year shall be presumed.

Article 26 – The acts of any Officer, attorney-in-fact or employee that involve the Company in obligations and businesses or transactions outside the Company's purpose are expressly prohibited and shall be void and ineffective in what concerns the Company.

Section III
Audit Committee

Article 27 – The Audit Committee, a consulting body directly related to the Board of Directors, shall consist of at least three (3) members, most of them independent members, pursuant to legislation in force. Of the independent members of the Audit Committee, (i) at least two (2) shall be Independent Members, of whom at least one (1) shall have been appointed as coordinator of such committee; and (ii) at least one (1) of the independent members shall have proven experience in corporate accounting matters. The Board of Directors shall approve the regulation applicable to the Audit Committee, setting forth rules to convene, install and vote the meetings of the committee, as well as the frequency of meetings, duration of terms of office, and member's eligibility requirements, among other matters.

Article 28 – The Audit Committee has the power to, among others:

a) express an opinion about the hiring and dismissal of the independent auditor for preparation of an external independent audit or any other service;

b) supervise the activities of the independent auditors to evaluate: (i) their independence; (ii) the quality of the services provided; and (iii) the suitability of the services provided to the Company's requirements;

c) supervise the internal controls and internal audit departments of the Company;

d) supervise the activities concerning the preparation of the financial statements of the Company;

e) monitor the quality and integrity of the mechanisms of internal control of the Company;

f) monitor the quality and integrity of quarterly information, interim financial information and financial statements of the Company;

g) monitor the quality and integrity of information and measurements disclosed based on adjusted accounting data and non-accounting data that add unforeseen elements to the regular reporting structure of the financial statements of the Company;

h) evaluate and monitor the Company's exposure to risks, including to require detailed information about policies and procedures related to: (i) management's compensation; (ii) the use of Company's assets; and (iii) expenses incurred on behalf of the Company;

i) evaluate and monitor, together with the management and the internal audit department, the suitability of the related-party transactions carried out by the Company and their respective records; and

j) prepare an annual report, in summary form, to be presented together with the financial statements, including the description of: (i) its activities, the results and conclusions reached and recommendations made; and (ii) any situation presenting a significant divergence between the management of the Company, the independent auditors and the Audit Committee in connection with the financial statements of the Company.

Section IV
Compensation Committee

Article 29 – The Compensation Committee, a consulting body directly related to the Board of Directors, shall consist of three (3) members appointed by the Board of Directors, and its regulation shall be approved at a meeting of the Board of Directors, setting forth rules to convene, install and vote the meetings of the committee, as well as the frequency of meetings, duration of terms of office, and member's eligibility requirements, among other matters.

Paragraph 1 – At least two (2) members of the Compensation Committee shall be Independent Members.

Paragraph 2 – The Compensation Committee shall be coordinated by one of its independent members, who will be entitled to call special meetings and establish the relevant agenda.

Article 30 – The Compensation Committee shall organize, manage and interpret the share incentive plans and settle any issues not provided for in such plans or any conflicts related thereto.

Section V
Governance Committee

Article 31 – The Governance Committee, a consulting body directly related to the Board of Directors, shall consist of three (3) members appointed by the Board of Directors, setting forth rules to convene, install and vote the meetings of the committee, as well as the frequency of meetings, duration of terms of office, and member's eligibility requirements, among other matters.

Paragraph 1 – At least two (2) members of the Governance Committee shall be Independent Members.

Paragraph 2 – The Governance Committee shall be coordinated by one of its independent members, who will be entitled to call special meetings and establish the relevant agenda.

Article 32 – The Governance Committee shall:

a) recommend to the Board of Directors a set of corporate governance guidelines applicable to the Company and supervise its enforcement, supervising its implementation;

b) review and approve the Code of Ethic and Conduct of the Company;

c) review and propose to the Board of Officers a Transactions With Related Parties Police, considering the Panel Code;

d) review and express its opinion about potential conflicts of interest among members of the Board of Directors and the Company; and

e) express an opinion about (I) the sale or transfer of the Company's fixed assets in amounts greater than three percent (3%) of the net earnings recorded in the Company's consolidated financial statements of the last fiscal year, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein the Company operates; (II) any transaction between Company's shareholders, officers or related parties, their respective spouses, ascendants, relatives up to the third degree, its Controlling Entities, or persons under common Control on one side, and the Company or its Subsidiaries on the other side, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein the Company operates; and (III) contracting any financial obligation not provided for in the annual plan or budget of the Company or its subsidiaries, which amount, in *Reais*, is greater than two hundred million dollars (US$200,000,000.00), converted by the PTAX rate published by the Central Bank on its webpage on the day of the transaction.

Chapter VI
Fiscal Council

Article 33 – The Company shall have a non-permanent Fiscal Council consisting of three (3) members and their respective alternates, shareholders or not, elected by the Shareholders' Meeting that approves its installation, which Meeting shall also determine the compensation of the members of the Fiscal Council, within the legal limit. The Fiscal Council may be installed in fiscal years wherein shareholders request it, pursuant to the applicable provisions of the Brazilian Corporate Law.

Paragraph 1 – The Fiscal Council, if one is installed, shall have its duties attributed by law.

Paragraph 2 – The members of the Fiscal Council shall take office upon the execution of their respective terms, in the appropriate book.

Paragraph 3 – The tenure of the members of the Fiscal Council shall be subject to the prior execution of the Term of Consent (*Termo de Anuência*) of the Members of the Fiscal Council pursuant to the Level 2 Regulation and the Panel Code, as well as in compliance with applicable law.

Paragraph 4 – The members of the Fiscal Council shall be replaced, when absent and disqualified, by their respective alternates. In case the offices of members of the Fiscal Council become vacant, their respective alternates shall replace them. In case there are no alternates, the Shareholders' Meeting shall be called to proceed with the election of a member to take the vacant office.

Paragraph 5 – In addition to the disqualification cases provided for by law, anyone who maintains a relationship with a company that may be considered a competitor of the Company may not be elected as member of the Fiscal Council of the Company. The election of a person who is, among others: (a) an employee, shareholder or member of a corporate, technical or fiscal body of a competitor, Parent Company or Subsidiary of a competitor; (b) the spouse or relative within the second degree of a member of a management, technical or fiscal body of a competitor, Parent Company or Subsidiary of a competitor.

Paragraph 6 – The compensation of the members of the Fiscal Council shall be established by the Shareholders' Meeting that elects them, pursuant to Paragraph 3 of Article 162 of the Brazilian Corporate Law.

Article 34 – When installed, the Fiscal Council shall meet, pursuant to applicable law, whenever necessary and shall review, at least on a quarterly basis, the financial statements.

Paragraph 1 – Irrespective of any formalities, a meeting that has been attended by all members of the Fiscal Council shall be deemed regularly called.

Paragraph 2 – The Fiscal Council shall decide by the absolute majority vote, with the attendance of the majority of its members.

Paragraph 3 – All decisions of the Fiscal Council shall be included in the minutes drafted in the respective book of Minutes and Opinions of the Fiscal Council and signed by all attending members.

Chapter VII
Fiscal Year, Balance Sheet, Net Income and Dividends

Article 35 – The fiscal year shall coincide with the calendar year, beginning on January 1 and ending on December 31 of each year.

Paragraph 1 – At the end of each fiscal year, the Board of Executive Officers shall prepare a general balance sheet, as well as the other financial statements, pursuant to applicable law and the Level 2 Listing Regulation.

Paragraph 2 – Together with the financial statements for the fiscal year then ended, the Board of Directors shall submit to the General Shareholders' Meeting for approval the proposal of allocation of net income, in accordance with the provisions hereunder.

Paragraph 3 – The Board of Directors may request the Board of Executive Officers to prepare Balance Sheets at any time, and approve the distribution of interim dividends based on income assessed, pursuant to applicable law. At any time, the Board of Directors may also decide on the distribution of interim dividends to be charged from the retained earnings or income reserve, pursuant to applicable law. If distributed, these dividends may be charged from the minimum mandatory dividend.

Article 36 – The Company may, with the approval of the Board of Directors, pay to its shareholders interest on shareholders' equity, pursuant to Article 9, Paragraph 7, of Law No. 9,249/95 and other applicable laws and regulations, which may be deducted from the minimum mandatory dividend. Any payment made in accordance herewith shall be included, for all purposes, in the amount of dividends distributed by the Company.

Article 37 – Any accumulated losses and reserves for income tax and social contribution on net income shall be deducted from the income of the fiscal year, before any equity payment is made.

Paragraph 1 – The retained net income determined pursuant to the head provision hereof shall be used as follows:

I – five percent (5%) shall be allocated to the legal reserve, which shall not exceed twenty percent (20%) of the subscribed capital stock. During the fiscal year wherein the balance of the legal reserve plus the capital reserves, as provided for by Paragraph 1 of Article 182 of the Brazilian Corporate Law, exceeds thirty percent (30%) of the capital stock, the allocation of part of the net income of the fiscal year to the legal reserve shall not be mandatory;

II – as an amount allocated to form contingency reserves and for the reversal of such reserves as established in previous years;

III – zero point one percent (0.1%) of the balance of the net income, after the deductions referred to above and the adjustment provided for by Article 202 of the Brazilian Corporate Law, shall be distributed to the shareholders as mandatory minimum dividend; and

IV – the remaining balance, after eventual profit retention, based on the budget approved by the Shareholders' Meeting, pursuant to Article 196 of the Brazilian Corporate Law and Article 39 hereof, shall be distributed as dividend.

Paragraph 2 – The minimum mandatory dividend shall not be paid to shareholders for the fiscal year wherein the management of the Company informs the Shareholders' Meeting that such payment is not compatible with the financial condition of the Company, provided that Article 202, Paragraphs 4 and 5 of the Brazilian Corporate Law is complied with.

Paragraph 3 – Dividends, except if decided otherwise, shall be paid within sixty (60) days from the date their distribution has been approved and, in any case, within the fiscal year.

Article 38 – Dividends and interest on shareholders' equity not received within three (3) years from the date they are made available to shareholders shall be reverted to the Company.

Article 39 – The Board of Executive Officers of the Company Shall prepare, on an annual basis, before the beginning of each fiscal year, a written business plan to the Company, that shall include as attachments the operating budgets per line item and capital expenditure (capex) budgets for the following fiscal year, as well as margins for the compensation of the Board of Executive Officers. The business plan shall be submitted to the Board of Directors for approval, at least thirty (30) days before the beginning of the fiscal year.

Chapter VIII
Transfer of Control, Delisting as a Publicly-held Company and Exiting Level 2

Article 40 – The transfer of Control of the Company, through one sole transaction or through successive transactions, shall be carried out under the precedent or subsequent condition that the Acquiror undertakes to carry out a public offering for the purchase of shares and other securities convertible into shares of the other shareholders of the Company, under the terms and conditions set forth by applicable law and the Level 2 Listing Regulation and the Panel Code, in order to ensure preferred shareholders the same conditions and price per preferred share equal to seventy-five (75) times the price per common share paid to the Selling Controlling Shareholder and to the other common shareholders the same conditions and price per common share paid to the Selling Controlling Shareholder.

Sole Paragraph – The public offering provided for hereby shall also be required in the following cases:

(i) onerous assignment of subscription rights of shares and other securities or rights relating to securities convertible into shares that may result in the Transfer of Control of the Company; or

(ii) transfer of Control of a company that holds the Controlling Power of the Company, in which case the Selling Controlling Shareholder shall inform B3 the value attributed to the Company in such transfer and attach documents that confirm such value.

Article 41 – The individual or entity that acquires the Controlling Power, as a result of a private share purchase agreement entered into with the Controlling Shareholder, for any number of shares, shall be required to: (i) carry out the public offering mentioned in Article 40 above; and (ii) pay, pursuant to the provisions below, an amount equal to the difference between the price of the public offering and the price per share purchased in stock exchange in the six (6) months before the date of acquisition of the Controlling Power, as adjusted to the payment date. Such amount shall be distributed among the persons who sold shares of the Company in the trading days the Acquiror performed the acquisitions, prorated to the daily selling net balance of each share. Such distribution shall be performed by B3, pursuant to its regulations.

Article 42 – The Company shall not record: (a) any transfers of equity interest to the Acquiror or to those that may come to hold the Controlling Power while such shareholder(s) do(es) not sign the Term of Consent of the Controlling Entities referred to in the Level 2 Regulation and the Panel Code; and (b) in its headquarters, the Shareholders' Agreement that provides for the exercise of the Controlling Power while its signatories don't sign the Term of Consent of the Controlling Entities referred to in Item "a" above.

Article 43 - A shareholder which attains an ownership interest of thirty percent (30%) of the shares of voting stock ("Material Ownership Interest") shall be required to carry out a material ownership tender offer for all other shares and securities convertible into shares issued by the Company, pursuant to the Panel Code.

Paragraph 1 – The tender offer price for common shares must be equivalent to the highest purchase price the acquirer may have paid for voting shares within the period of twelve (12) months preceding the date of the Material Tender Offer trigger, with adjustments to account for corporate actions such as distributions of dividends and interest on shareholders' equity, bonus issues, stock splits and reverse splits, but not any corporate action defined as corporate restructuring transactions.

Paragraph 2 – The tender offer price for preferred shares and securities convertible into preferred shares, post conversion, shall be equivalent to seventy-five (75) times the tender offer price for common shares.

Article 44 – In the tender offer to be carried out by the Controlling Shareholder or by the Company to delist as a publicly-held company, the minimum price to be offered shall correspond to the Economic Value assessed in an appraisal report provided for by Article 46 hereof or as defined in Article 60 of the Panel Code, whichever is higher, pursuant to applicable law and regulations.

Article 45 – The exit of the Company from Level 2 shall be (i) previously approved at a Board of Officers' Meeting; and (ii) informed to B3 through a written thirty-day notice.

Sole Paragraph – If the exit of the Company from Level 2 is approved in order to allow its securities to be admitted for trading outside Level 2, or due to a corporate restructuring in which the securities of the surviving company, in accordance with the Panel Code, are not admitted for trading in Level 2 within one hundred twenty days (120) from the date of the shareholders' meeting that approved such transaction, the Controlling Shareholder shall carry out a public offering to purchase the shares of the remaining shareholders of the Company for, at least, the respective Economic Value, to be assessed in an appraisal report prepared pursuant to Article 46 hereof, in compliance with applicable law and regulations.

Article 46 – The appraisal report referred to in Article 44 and Article 45, sole paragraph, hereof shall be prepared by an expert institution or firm, with proven experience and independence as to the decision power of the Company, its management and Controlling Shareholders, which appraisal report shall also meet the requirements set forth by Article 8, Paragraph 1, of the Brazilian Corporate Law, and include the liability referred to in Article 8, Paragraph 6, of the Brazilian Corporate Law and comply with the principles and rules of the Panel Code. The choice of expert institution or firm responsible for the assessment of the Economic Value of the Company shall be exclusively made by the Shareholders' Meeting, based on the list of three companies presented by the Board of Directors, pursuant to the Panel Code. Blank votes shall not be regarded and each share, irrespective of its type or class, shall be entitled to one vote. The decision shall be made by majority vote of the shareholders representing the Outstanding Shares attending the Shareholders' Meeting that discusses the matter. Such Shareholders' Meeting shall be attended, on first call, by at least twenty percent (20%) of the total Outstanding Shares, in accordance with the quorum provided for by Article 125 of the Brazilian Corporate Law or, on second call, by any number of shareholders representing the Outstanding Shares. The costs of preparation of the appraisal report shall be fully paid by the offeror.

Article 47 – The Controlling Shareholder shall be dismissed from carrying out the public offering to purchase shares referred to in the Sole Paragraph of Article 40 hereof if the Company exits Level 2 due to the execution of an agreement on the participation of the Company in the special segment of B3 called *Novo Mercado* ("*Novo Mercado*") or if the surviving company of a corporate restructuring obtains the authorization to trade its securities in *Novo Mercado* within one hundred twenty (120) days from the date of the Shareholders' Meeting that approved such transaction.

Article 48 – In the absence of a Controlling Shareholder, if the exit of the Company from Level 2 is approved in order to allow its securities to be admitted to trading outside Level 2, or due to a corporate restructuring in which the securities of the surviving company are not admitted for trading in Level 2 or *Novo Mercado* within one hundred twenty days (120) from the date of the shareholders' meeting that approved such transaction, exit from Level 2 shall be subject to a public offering to purchase shares in the same conditions set forth by the Sole Paragraph of Article 45 above.

Paragraph 1 – Such Shareholders' Meeting shall set forth the responsible party(ies) for carrying out the public offering to purchase shares, which party(ies), if attending the meeting, shall expressly undertake the obligation to carry out the offering.

Paragraph 2 – In the absence of appointed responsible parties to carry out the public offering to purchase shares, in case of a corporate restructuring in which the securities of the surviving company are not admitted for trading in Level 2, the shareholders that voted for the corporate restructuring shall carry out the public offering.

Article 49 – The exit of the Company from the Corporate Governance Level 2 due to noncompliance with the obligations set forth by the Level 2 Regulation is subject to the completion of the public offering to purchase shares for, at least, the Economic Value of the shares, to be assessed by the appraisal report referred to in Article 44 hereof, pursuant to applicable law and regulations.

Paragraph 1 – The Controlling Shareholder shall carry out the public offering for the purchase of shares provided for by the head provision hereof.

Paragraph 2 – In the absence of a Controlling Shareholder and if the exit from Level 2 referred to in the head provision above results from a resolution of the Shareholders' Meeting, the shareholders that voted for the resolution that caused the respective noncompliance shall carry out the public offering of shares provided for by the head provision above.

Paragraph 3 – In the absence of a Controlling Shareholder and if the exit from Level 2 referred to in the head provision hereof occurs as a result of an act or fact of management, the Management of the Company shall call a Shareholders' Meeting whose agenda shall be the voting on how to remedy the noncompliance with obligations set forth in the Level 2 Regulation or, if applicable, the exit of the Company from Level 2.

Paragraph 4 – If the Shareholders' Meeting referred to in Paragraph 3 above approves the exit of the Company from Level 2, such Shareholders' Meeting shall set forth the responsible party(ies) for carrying out the public offering to purchase shares as provided for by the head provision hereof, which party(ies), if attending the meeting, shall expressly undertake the obligation to carry out the offering.

Article 50 – A sole tender offer may be carried out, aiming at more than one of the purposes provided for by this Chapter VIII, the Level 2 Regulation, the Panel Code, or the regulation issued by the CVM, provided that it is possible to match the procedures of all types of tender offers, without prejudice to the offerees, and with the authorization of the CVM as required by applicable law.

Article 51 – The shareholders responsible for carrying out the tender offer provided for by this Chapter VIII, the Level 2 Regulation, the Panel Code or the regulation issued by the CVM may ensure its completion through any shareholder or third party. The shareholder shall not be exempt from the obligation to carry out the tender offer until it is completed, pursuant to applicable rules.

Sole Paragraph – Notwithstanding the provisions of Chapter VIII of this Bylaws, the provisions of Level 2 Regulation shall prevail over the provisions of the Bylaws in case of prejudice of rights of the offerees under the offerings referred to in the above Articles.

Chapter IX
Arbitration

Article 52 – The Company, its shareholders, Management and members of the Fiscal Council undertake to settle, through arbitration with the Market Arbitration Chamber (*Câmara de Arbitragem do Mercado*), any and all dispute or controversy that may arise between them, especially related to or deriving from the application, validity, effectiveness, interpretation, violation, as well as their effects, of the Brazilian Corporate Law, the Bylaws of the Company, the rules passed by the Brazilian Monetary Council (*Conselho Monetário Nacional)*, the Central Bank of Brazil and the CVM, as well as other rules applicable to the activities of the capital markets in general, in addition to those of the Level 2 Regulation, the Arbitration Regulation, the Sanctions Regulation and the Level 2 Participation Agreement.

Sole Paragraph – Without prejudice to the validity of this arbitration clause, provisional measures and injunctions shall be requested by the Parties, before the Arbitration Court is established, from the Judicial Branch, pursuant to Item 5.1.3 of the Arbitration Regulation of the Market Arbitration Chamber.

Chapter X
Liquidation and Dissolution

Article 53 – The Company shall be liquidated in the cases provided for by law or upon decision of the Shareholders' Meeting.

Sole Paragraph – The Board of Directors shall set forth the form of liquidation and appoint the liquidator. The Fiscal Council shall be active during the liquidation period.

Chapter XI
Definitions

Article 54 – For purposes of these Bylaws, upper case words shall have the following meanings, without prejudice to other terms herein defined:

(a) "Controlling Shareholder" means the Controlling Shareholder(s) or the Group of Shareholders that exercise the Controlling Power on the Company;

(b) "Selling Controlling Shareholder" means the Controlling Shareholder at the time of the Transfer of Control of the Company;

(c) "Control Stock" means the block of shares that directly or indirectly ensures its holders the individual and/or shared exercise of the Controlling Power of the Company;

(d) "Outstanding Shares" means all shares issued by the Company, except those held by the Controlling Shareholder, persons connected to it, and by the Management of the Company, as well as shares held in treasury;

(e) "Acquiror" means the entity to which the Selling Controlling Shareholder transfers the Control Stock through a Transfer of Control of the Company.

(f) "Transfer of Control of the Company" means the onerous transfer of the Control Stock to a third party;

(g) "Independent Member" shall have the meaning attributed in the Level 2 Regulation;

(h) "Control" (as well as related terms such as "Controlling Power," "Controlling Entities," "under common Control" or "Subsidiaries") means the power effectively used to guide the corporate activities and the activities of the bodies of the Company, directly or indirectly, *de facto et de jure*, irrespective of the equity interest held. There is a rebuttable presumption of Control for the individual or Group of Shareholders holding shares representing the majority of votes of attending members in the past three (3) shareholders' meetings of the Company, even if they do not hold the majority of the voting stock.

(i) "Derivatives" mean securities traded in futures markets or other assets backed by or derived from securities issued by the Company;

(j) "Group of Shareholders" mean the group of people: (i) bound by voting contracts or agreements of any kind, directly or through Subsidiaries, Controlling Entities or companies under common Control; or (ii) among whom there is a direct or indirect relationship of Control; or (iii) who are under common Control;

(k) "Other Corporate Rights" mean: (i) usufruct or *fideicommissum* on the shares issued by the Company; (ii) call, subscription or exchange options, of any kind, that may result in the purchase of shares issued by the Company; or (iii) any other right that ensure the shareholder permanent or temporary political or equity rights on the shares issued by the Company; and

(l) "Economic Value" means the value of the Company and its shares, as may be determined by an expert firm through an acknowledged method or based on other criterion that may be defined by the CVM.

Chapter XII
General Provisions

Article 55 – Omissions hereunder shall be solved by the Shareholders' Meeting and governed pursuant to the Brazilian Corporate Law and the Level 2 Regulation and the Panel Code, provided that the Panel Code provisions shall prevail over the provisions of these Bylaws with respect to the specific matters of the Panel Code.

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Exhibit 2.d

DESCRIPTION OF SECURITIES

REGISTERED UNDER SECTION 12 OF THE EXCHANGE ACT

As of December 31, 2019, Azul S.A. had the following securities registered pursuant to Section 12(b) of the Exchange Act:

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

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

Unless otherwise indicated or the context otherwise requires, "Azul" "we," "us," "our" or the "Company" refer to Azul S.A. and its consolidated affiliates. The term "Brazil" refers to the Federative Republic of Brazil and the phrase "Brazilian government" refers to the federal government of Brazil. "Central Bank" refers to Banco Central do Brasil. References in the annual report to "real," "*reais*" or "R$" refer to the Brazilian real, the official currency of Brazil and references to "U.S. dollar," "U.S. dollars" or "US$" refer to U.S. dollars, the official currency of the United States. All references to "ADSs" are to American Depositary Shares, each representing one preferred share, without par value. The ADSs are evidenced by American Depositary Receipts, or "ADRs." All references herein to the "*real*," "*reais*" or "R$" are to the Brazilian *real*, the official currency of Brazil. All references to "US$," "dollars" or "U.S. dollars" are to United States dollars.

Capitalized terms used but not defined herein have the meanings given to them in Azul S.A.'s Annual Report on Form 20-F for the fiscal year ended December 31, 2019, or our 2019 Form 20-F, and in the deposit agreement, which is an exhibit to our 2019 Form 20-F.

PREFERRED SHARES

In the United States, our preferred shares trade in the form of ADSs. Our ADSs trades on the NYSE under the symbol "AZUL" and the preferred shares trades on the B3 under the symbol "AZUL4." As of December 31, 2019, the ADSs represented approximately 34% of our preferred shares and 42% of our current global public float. Our ADSs began trading on the NYSE on April 11, 2017.

On April 19, 2017, we concluded our initial public offering of 96,239,837 preferred shares (including in the form of ADRs), which consisted of both an international offering and a Brazilian offering. On September 14, 2017, we announced our follow-on equity offering by certain selling shareholders of 40,630,186 preferred shares in a global offering, consisting of an international offering and a Brazilian offering. The preferred shares were offered directly and in the form of ADRs. One of the selling shareholders also granted a 30-day option to purchase up to 4,063,019 shares, which was exercised on September 15, 2017 with respect to 4,063,017 preferred shares.

Share Capital

As of the December 31 2019, our total capital stock was R$2,240.5 million, fully paid-in and divided into 1,258,533,224 shares, all nominative, in book-entry form and without par value, consisting of 928,965,058 common shares and 329,568,166 preferred shares. Holders of our common shares that are fully paid-in may convert them into preferred shares, at the ratio of 75.0 common shares for 1.0 preferred share pursuant to our bylaws. However, the total number of preferred shares outstanding may never exceed 50% of our total shares.

As of December 31, 2019, we had 444,246 preferred shares held in our treasury. Our preferred shares are listed on the Level 2 segment of B3 since April 11, 2017. This listing requires us to comply with the corporate governance and disclosure rules of the Level 2 segment of B3 as summarized in the "Item 9.C.—Markets" of our 2019 Form 20-F.

Rights of our Preferred Shares

Our preferred shares are non-voting, except with regard to certain limited matters for as long as we are listed on the Level 2 segment of B3.

Our preferred shares have the following additional rights as compared to our common shares:

- the right to participate in a public tender offer for control of Azul, on the same terms and conditions (taking into account the conversion ratio of 75.0 common shares to 1.0 preferred share) as are offered to our controlling shareholder (the minimum price per common or preferred share to be offered for such common or preferred shares shall be at least 75 times the price per share paid for the controlling stake);
- the right to receive, upon any liquidation of Azul, capital reimbursement priority over common shares in an amount equal to our capital stock multiplied by the dividend participation to which the preferred shares are entitled (as determined by the formula set forth in Paragraph (k) of Article 55 of our bylaws);
- the right to receive, upon any liquidation of Azul and after (i) any reimbursement provided by the capital reimbursement priority described above and (ii) the capital reimbursement of common shares in an amount equal to the total remaining assets payable to shareholders multiplied by the preferred shares' dividend participation; and
- the right to receive dividends 75 times greater than the dividends payable on each common share, as described in the section below entitled "Dividends Rights".

Reimbursement and Right of Withdrawal

Under Brazilian corporate law, "dissenting shareholders" including shareholders who have no voting rights have the right to withdraw from a company and receive full reimbursement for the value of all their shares in certain circumstances. For purposes of this right of withdrawal, "dissenting shareholders" include shareholders who vote against a specific resolution, as well as those who abstain from voting or fail to appear at the shareholders' meeting.

This right of withdrawal and reimbursement arises if any of the following matters are decided upon at a shareholders' meeting:

1. creation of a new class of preferred shares or a disproportionate increase in an existing class of preferred shares relative to other classes of shares, unless such action is provided for in or authorized by our bylaws, which, as of December 31, 2017, was not the case;
2. modification to the preference, privilege or conditions for redemption or amortization granted to one or more classes of preferred shares, or the creation of a new class of preferred shares with greater privileges than the existing classes of preferred shares;
3. reduction of the mandatory dividend;
4. consolidation or merger into another company;
5. participation in a group of companies (*grupo de sociedades*), as defined by Brazilian corporate law;
6. the transfer of all shares to another company or receipt of shares by another company, in such a way as to make the company whose shares were transferred a wholly-owned subsidiary of the other;
7. changes to our corporate purpose; or
8. a spin-off that results in (i) a change to our corporate purpose (unless the spun-off company's assets and liabilities are transferred to a company that has substantially the same corporate purpose); (ii) a reduction in any mandatory dividend (although in our case, our preferred shares do not carry mandatory dividends); or (iii) any participation in a group of companies.

In the case of items 1. and 2. above, only holders of the class or type of shares adversely affected may exercise a right of withdrawal.

The right of withdrawal also arises if a spin-off or merger occurs but the new company fails to register as a public stock corporation (and, if applicable, fails to list its shares on the stock exchange) within 120 days of the date of the shareholders' meeting that approved the spin-off or merger.

In the event that our shareholders approve any resolution for us to:

- consolidate or merge with another company;
- transfer all our shares to another company or acquire all the shares of another company; or
- become part of a group of companies,

then any dissenting shareholder may exercise a right of withdrawal, but only if that shareholder's class of shares fails to satisfy certain liquidity tests at the time of the shareholders' meeting approving the merger, acquisition, sale or consolidation.

The right of withdrawal expires 30 days after publication of the minutes of the shareholders' meeting that approved the relevant event. In addition, any resolution regarding items 1. or 2. above requires ratification by the majority of shareholders holding preferred shares at a special shareholders' meeting to be held within one year. In such cases, the 30-day deadline begins on the date of publication of the minutes of the special shareholders' meeting. If we were to believe that the exercise of withdrawal rights would be prejudicial to our financial stability, we would have ten days after the expiration of that 30-day deadline to reconsider the resolution that triggered the withdrawal rights.

Brazilian corporate law provides that in order for any withdrawal rights to be exercised, any shares to be withdrawn and redeemed must have a value greater than the book value per share, calculated by reference to the latest balance sheet approved at a shareholders' meeting. If more than 60 days have passed since the date of that balance sheet, the shareholders wishing to exercise the withdrawal right may request a new valuation.

The sale of our controlling stake in Azul Linhas Aéreas Brasileiras S.A. to a third party would be considered a change in our corporate purpose, which would give our shareholders withdrawal rights.

Capital Increases and Preemptive Rights

Each of our shareholders has preemptive rights to subscribe for any new shares that increase our capital stock (and any warrants or other securities convertible into new shares) in direct proportion to the equity interest held by them. Preemptive rights may be exercised during the period of up to 30 days following the publication of notice of the capital increase. If the capital increase applies in equal proportion to all existing types and classes of shares, each shareholder's preemptive rights would apply only to the type and class of shares currently held by such shareholder. If, however, an exercise of preemptive rights would result in a change to the proportional composition of our capital stock, the preemptive rights may be exercised over the types and classes identical to those already held by the shareholders only. The preemptive rights may only extend to any other shares if necessary to ensure the shareholders receive the same proportion of our capital stock as they had prior to the increase in capital. If the shares being issued are of types and classes that are different from the existing shares, each shareholder may exercise preemptive rights (in proportion to the shares currently held) over all the types and classes of shares being issued.

Our bylaws provide that the preemptive rights may be excluded, or the deadline for exercise may be shortened, if we issue shares (or warrants or other securities convertible into new shares) through a public offering or a sale on a stock exchange, or by means of an exchange for shares in a public tender offer or acquisition of control.

In addition, the grant of options to purchase shares under stock option plans does not give rise to preemptive rights.

Dividend Rights

Dividends are allocated and distributed in accordance with Brazilian corporate law and our bylaws. According to Brazilian corporate law and our bylaws, our board of directors makes a recommendation to the annual shareholders' meeting regarding the allocation of our net income for the preceding fiscal year, and the shareholders' meeting decides upon the allocation. Under Brazilian corporate law, our board of directors may also approve intermediary dividend distributions.

Brazilian corporate law defines "net income" as the results for the fiscal year after deducting accrued losses, the provisions for income and social contribution taxes for that year and any amounts allocated to profit sharing payments to employees and management. Management is only entitled to any profit sharing payment, however, after the shareholders are paid the mandatory dividend referred to below.

Brazilian corporate law requires the bylaws of a Brazilian company to specify a minimum percentage of available profits to be allocated to the annual distribution of dividends, known as mandatory dividends. The mandatory dividend must be paid to shareholders either as dividends or as interest on shareholders' equity. The basis of the mandatory dividend is a percentage of income, adjusted according to Article 202 of Brazilian corporate law. Under our bylaws, we must distribute every year at least 0.1% of our adjusted net income from the previous fiscal year as a dividend. Brazilian corporate law allows a company to suspend distribution of mandatory dividends if the board of directors advises the annual shareholders' meeting that the distribution would not be advisable given the company's financial condition. The fiscal council, if one is in place, must review any suspension of the mandatory dividend, and management must submit a report to the CVM setting forth the reasons for the suspension of dividends. Net income that is not distributed due to a suspension is allocated to a separate reserve account and, if not absorbed by subsequent losses, must be distributed as dividends as soon as the financial condition of the company permits.

Brazilian corporate law and our bylaws require us to hold an annual shareholders' meeting by the fourth month following the closing of each fiscal year, in which, among other matters, shareholders must decide upon the distribution of annual dividends. The calculation of annual dividends is based on our audited consolidated financial statements for the immediately preceding fiscal year. Each holder of shares at the time a dividend is declared is entitled to receive dividends. In our case, holders of preferred shares have the right to receive dividends that are 75 times greater than the dividends attributed to each common share. Under Brazilian corporate law, dividends are generally required to be paid within 60 days from the date on which the dividend is declared, unless the shareholders' resolution establishes another payment date. The dividend must be paid at the latest before the end of the year in which it is declared.

Shareholders have three years from the date of payment to claim their dividends or interest on shareholders' equity, after which the unclaimed dividends or interest revert to us.

Voting Rights

Each of our common shares entitles the holder to cast one vote at our shareholders' meetings. Our preferred shares have no voting rights, except with regard to the following matters for as long as we are listed on the Level 2 segment of B3:

(i) any direct conversion, consolidation, spin-off or merger of Azul;

(ii) approval of any agreement between our company and our controlling shareholder(s) or parties related to the controlling shareholder, to the extent that Brazilian corporate law or our bylaws require that the agreement be submitted to the approval of a general shareholders' meeting;

(iii) the valuation of any assets to be contributed to our company in payment for shares issued in a capital increase;

(iv) the appointment of an expert to ascertain the value our shares in connection with (A) a mandatory tender offer; (B) a delisting and deregistration transaction; or (C) any decision to cease to adhere to the requirements of the Level 2 segment of B3;

(v) any change in, or the revocation of, provisions of our bylaws that results in the violation of certain requirements of the Level 2 segment of B3, as summarized in "Item 9.C—Markets" of our 2019 Form 20-F;

(vi) the matters set forth in the Panel Code;

(vii) any change in, or the revocation of, provisions of our bylaws that amends or modifies any of the requirements provided for in (A) Paragraphs Nine, Ten and Twelve of Article 5 (restricted voting rights attached to preferred shares); (B) Article 12 (extraordinary measures requiring shareholder approval); and (C) Article 14 (governance of special shareholders' meetings) of our bylaws;

(viii) any change in, or the revocation of, provisions of our bylaws that amends or modifies any of the requirements provided for in (A) Paragraph Two of Article 15 (compensation of officers); (B) Article 30 (composition of our compensation committee), (C) Article 31 (functions of our compensation committee); (D) Article 32 (composition of our corporate governance committee); and (E) Article 33 (functions of our corporate governance committee) of our bylaws; and

(ix) the compensation of our officers in accordance with Paragraph Two of Article 15 of our bylaws.

Items (i) through (vii) listed above are considered "special matters." Items (i) through (vi) require previous approval of a special preferred shareholders' meeting if our controlling shareholder holds shares representing a dividend percentage equal to or less than 50%, and item (vii) always requires previous approval of a special preferred shareholders' meeting.

In addition to the foregoing, the rights conferred on the preferred shareholders by the following articles of Brazilian corporate law may be exercised by our shareholders holding shares representing a percentage of dividend shares equal to the percentage of outstanding capital stock: (i) Article 4a—Introductory Paragraph (new valuation in the event of a public offer for the acquisition of shares for the closing of capital), (ii) Article 105 (filing lawsuits for access to corporate books), (iii) Sole Paragraph, Paragraph (c) and Paragraph (d) of Article 123 (convening an ordinary shareholders' meeting), (iv) Section Three of Article 126 (requesting a shareholders' directory), (v) Section One of Article 157 (requesting information from management at the annual shareholders' meeting), (vi) Section Four of Article 159 (filing a lawsuit against directors), (vii) Section Two of Article 161 (establishing a fiscal council), (viii) Section Six of Article 163 (requesting the provision of information by the fiscal council), (ix) Paragraph II of Article 206 (proposing a dissolution action), and (x) Paragraph 1(a) of Article 246 (filing an action for liability and redress against a parent company).

Under Brazilian corporate law, shares with no voting rights or restricted voting rights (which would include our preferred shares) carry unrestricted voting rights in the event the company fails, for three consecutive years, to pay the privileged minimum or fixed dividends to which the shares are entitled, if any. Our preferred shares are not entitled to privileged minimum or fixed dividends and accordingly do not carry unrestricted voting rights if our Company fails to distribute the mandatory dividend (which is applicable to both common and preferred shares).

Brazilian corporate law also provides that any change in the rights of preferred shareholders, or any creation of a class of preferred shares with greater privileges than the existing preferred shares, must be approved by the holders of common shares at a shareholders' meeting. Any such approval only becomes legally effective once it has been ratified by the majority of shareholders holding preferred shares at a special shareholders' meeting.

Under Brazilian corporate law, minority holders of our preferred shares (with no voting rights or restricted voting rights) jointly representing at least 10% of our total capital stock have the right to elect one member of our board of directors in a separate voting process. Preferred shareholders have the right to elect two members of our board of directors in a separate voting process, pursuant to our bylaws. In addition, minority shareholders whose holding of our common shares represents at least 15% of our total voting capital stock have the right to elect one director in a separate voting process. Holders of preferred shares and common shares that represent 10% of the total share capital may combine their holdings in order to benefit from these rights.

In addition, Brazilian corporate law provides that the following rights of shareholders may not be altered either in the bylaws or by shareholders' resolutions:

- the right of holders of common shares to vote at general shareholders' meetings;
- the right to participate in the distribution of dividends (including interest paid on our capital), and to share in our remaining assets in case of liquidation;
- the right to subscribe for shares (or securities convertible into shares) in the circumstances summarized above; and
- the withdrawal rights summarized above.

Rights other than these unalterable rights may be granted or excluded in the bylaws or by shareholders' resolutions.

Shareholders' Meetings

Our board of directors has the power to call shareholders' meetings. Notice of shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, the official newspaper of the state of São Paulo, and in a second newspaper of general circulation (currently *Diário Comercial*). Our shareholders' meetings are held at our headquarters, in the city of Barueri, state of São Paulo. Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares entitling them to vote.

Certain extraordinary matters must be approved by shareholders holding preferred shares through an extraordinary shareholders' meeting. In the first instance, our preferred shareholders representing at least 25% of our preferred shares may call an extraordinary shareholders' meeting. In the second instance, our preferred shareholders representing any number of our preferred shares may call an extraordinary shareholders' meeting, subject to the regulations of the Level 2 segment of B3. If a specific quorum is not required by Brazilian corporate law or the regulations of the Level 2 segment of B3, resolutions may pass by a majority vote of the preferred shareholders present.

Shareholders' Agreement

General

On May 25, 2012, and as amended from time to time, our principal shareholder entered into an Investment Agreement with TRIP's former shareholders, referred to herein as the Investment Agreement, which provides TRIP's former shareholders with certain rights related to the control of our company. On June 26, 2015, the Investment Agreement was amended by the Fourth Amendment to the Investment Agreement to include Calfinco as a party, and on August 3, 2016, the Investment Agreement was amended by the Fifth Amendment to the Investment Agreement to include Hainan as a party. This agreement, as amended, provided that upon the effectiveness of an initial public offering, we and our current shareholders will be obligated in connection therewith to execute an agreed form of Shareholders' Agreement that is attached to the Investment Agreement, referred to herein as the Shareholders' Agreement. The Shareholders' Agreement was executed on September 1, 2017 and will remain in effect until the earlier of (i) twenty years as of the date of its execution or (ii) with respect to TRIP's former shareholders' rights under the Shareholders' Agreement, such time as TRIP's former shareholders together hold less than 5% of our common shares. For purposes of the discussion below, we refer to (i) Mr. Neeleman and TRIP's former shareholders together as the Principal Common Shareholders and (ii) Calfinco and Hainan together as the Principal Preferred Shareholders. All common shares held by the Principal Common Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, and all preferred shares held by the Principal Preferred Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, are subject to the Shareholders' Agreement.

Under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, a majority of TRIP's former shareholders is required in order to approve any changes that, by amending the following provisions of our bylaws, may materially affect the rights of TRIP's former shareholders:

- the quorum required for decisions of our board of directors;
- the powers of our board of directors; and
- the rules for calling, installing or reducing powers and other provisions regarding the meetings of our board of directors.

Furthermore, under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, changes to our bylaws that change the total number of directors of our board of directors, which must remain composed of 14 members, must necessarily be approved by a majority of TRIP's former shareholders. However, a majority of TRIP's former shareholders is not necessary to approve an amendment that increases the size of our board of directors if TRIP's former shareholders are guaranteed representation proportional to that which they had before such amendment.

Election of Board Members by David Neeleman

For so long as TRIP's former shareholders have the right to elect one or more directors pursuant to the mechanisms described above and subject to Calfinco's right to appoint members of the board of directors, Mr. Neeleman may appoint the remaining members of the board of directors of the Company along with their alternates, and may dismiss or replace any of those members. In the event that the other holders of common shares or preferred shares exercise their right for multiple vote procedure in the election of members of the board of directors, in accordance with Brazilian corporate law, the number of directors elected by such shareholders shall be deducted from the number of directors that Mr. Neeleman has the right to appoint. Directors nominated by Mr. Neeleman shall qualify as Independent Directors, except if the minimum number of Independent Directors have already been reached pursuant to the nominations by the other shareholders.

Furthermore, Mr. Neeleman, any of his permitted transferees or any company controlled by Mr. Neeleman shall abstain from voting in any resolution and from taking part in any decision related to the conversion of TAP bonds into TAP equity securities.

Election of Board Members by TRIP's Former Shareholders

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as TRIP's former shareholders collectively hold at least 20% of our common shares, they may appoint three directors, along with their alternates, and may dismiss or replace any of those three directors;
- if TRIP's former shareholders collectively hold at least 10%, but less than 20% of our common shares, they may appoint two directors, along with their alternates, and may dismiss or replace both of those directors; and
- if TRIP's former shareholders collectively hold at least 5%, but less than 10% of our common shares, they may appoint one director, plus an alternate, and may dismiss or replace such director.

Election of Board Members by Calfinco

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as Calfinco holds at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016, Calfinco may appoint one director, along with his or her alternate, and may dismiss or replace this director.

Transfers of Shares

The tag-along right and right of first offer described below do not apply to transfers of common shares to the Principal Preferred Shareholders or to affiliates of the Principal Common Shareholders. In addition, shareholders must, in any event, submit any request for the transfer of shares to ANAC for prior approval.

Tag-Along Rights

If Mr. Neeleman intends to sell any of his common shares to a third party, he must give TRIP's former shareholders an opportunity (i) to participate in the sale on the same terms and (ii) to sell an equivalent amount of common shares so that the proportion of common shares between Mr. Neeleman and TRIP's former shareholders remains the same. TRIP's former shareholders must give Mr. Neeleman the same opportunity if they intend to sell any of their common shares.

Rights of First Offer

If Mr. Neeleman intends to sell any common shares in such a manner that, after such sale, the common shares held by Mr. Neeleman come to represent less than 50% plus one of our common shares, in each subsequent sale of common shares, he must first offer those shares to TRIP's former shareholders before offering them to any third party. His offer to TRIP's former shareholders must specify the number of common shares he intends to sell, the intended price per share, the payment conditions and any other relevant conditions. TRIP's former shareholders may then purchase those shares at or above the specified terms, as described in the Shareholders' Agreement.

If TRIP's former shareholders wish to sell any of their common shares, they must first offer those shares to Mr. Neeleman before offering them to any third party. Their offer to Mr. Neeleman must specify the number of common shares they intend to sell, the intended price per share, the payment conditions and any other relevant conditions. Mr. Neeleman may then purchase those shares at or above the specified terms.

If either Mr. Neeleman or TRIP's former shareholders, as the case may be, decline the right of first offer, the seller may pursue the intended sale to the third party at or above the price originally contemplated.

Termination

The Shareholders' Agreement will remain in effect until the earlier of twenty years as of the date of its execution or, with respect to TRIP's former shareholders' rights under the Shareholders' Agreement, such time as TRIP's former shareholders together hold less than 5% of our common shares.

AMERICAN DEPOSITARY SHARES

The following summary contains a description of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement with Citibank, N.A., our depositary, and the form of American Depositary Receipt, which is filed as an exhibit to our 2019 Form 20-F. The depositary will register and deliver the ADSs. The principal executive office of the depositary is located at 388 Greenwich Street, New York, New York 10013.

Each ADS represents the right to receive three preferred shares (which ratio may be changed, as described below) in registered form, deposited with the office of Banco Bradesco S.A. as custodian for the depositary. Each ADS will also represent the right to receive any other securities, cash or other property which may be received on behalf of the owner of the ADSs but not distributed by the depositary to the owners of ADSs because of legal restrictions or practical considerations.

The preferred shares are listed for trading on the Level 2 listing segment of the São Paulo Stock Exchange (*B3 S.A.—Bolsa de Valores, Mercadorias e Futuros*), or the B3, and the ADSs are listed for trading on the New York Stock Exchange.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depositary may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depositary to the ADS holders entitled thereto.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. Brazilian law governs shareholder rights. The depositary, the custodian and their respective nominees will be the holders of the preferred shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depositary, you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder and beneficial owner rights as well as the rights and obligations of the depositary. The laws of the State of New York govern the deposit agreement and the ADSs.

Holding the ADSs

How will you hold your ADSs?

You may hold ADSs (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name or through your broker or other financial institution, or (b) by holding ADSs in DRS. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly, by means of an ADR registered in your name. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

Dividends and Other Distributions

How will you receive dividends and other distributions on the shares?

The depositary has agreed to pay to you the cash dividends or other distributions it or the custodian receives on preferred shares or other deposited securities, after deducting its fees and expenses and any taxes and government charges. You will receive these distributions in proportion to the number of preferred shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our preferred shares) set by the depositary with respect to the ADSs.

- ***Cash***. The depositary will convert or cause to be converted any cash dividend or other cash distribution we pay on the preferred shares or any net proceeds from the sale of any preferred shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars, if it can do so on a practicable basis and can transfer such U.S. dollars to the United States and will distribute the amount thus received. If such conversions or transfers are not practical or lawful or if any government approval or license is needed and cannot be obtained, the deposit agreement allows the depositary to either distribute the foreign currency only to those ADS holders to whom it is possible to do so, or hold or cause the custodian to hold the foreign currency for the account of the ADS holders who have not been paid and such funds will be held for the respective accounts of the ADS holders. The depositary will not invest the foreign currency and will not be liable for any interest for the respective accounts of the ADS holders.

Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, will be deducted. If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

- ***Shares***. For any preferred shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing the right to receive such preferred shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional preferred shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell preferred shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed preferred shares sufficient to pay its fees and expenses in connection with that distribution. There can be no assurance that you will be given the opportunity to receive distributions under the same terms and conditions as the holders of preferred shares.
- ***Elective Distributions in Cash or Shares***. If we offer holders of our preferred shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice from us as described in the deposit agreement of such elective distribution by us, and if we have indicated that we wish to make such elective distribution available to you, has discretion to determine to what extent such elective distribution is lawful and reasonably practicable, and thus, whether it can be made available to you as a holder of the ADSs. The depositary will not make such elective distribution to you until we first timely instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is lawful to do so. The depositary could decide it is not lawful or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the preferred shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing the right to receive preferred shares in the same way as it does in a share distribution. The depositary will not be obligated to make available to you a method to receive the elective dividend in preferred shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of preferred shares.

- ***Rights to Purchase Additional Shares***. If we offer holders of our preferred shares any rights to subscribe for additional shares, the depositary shall, having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and determine whether it is lawful and reasonably practicable to make these rights available to you. The depositary will not make rights available to you unless we first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is lawful and reasonably practicable to do so, and such other documentation as is provided in the deposit agreement. If it is not lawful and reasonably practicable to make the rights available but it is lawful and reasonably practicable to sell the rights, the depositary will attempt to sell the rights and distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will establish procedures to distribute such rights and enable you to exercise the rights upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary shall not be obliged to make available to you a method to exercise such rights to subscribe for preferred shares (rather than ADSs).

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

There can be no assurance that you will be given rights on the same terms and conditions as the holders of preferred shares or be able to exercise such rights.

- ***Other Distributions***. Subject to receipt of timely notice and satisfactory documents by the depositary, as described in the deposit agreement, from us with our request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary may attempt to sell all or a portion of the distributed property sufficient to pay its fees and expenses in connection with that distribution. If any of the conditions above are not met, the depositary will attempt to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

The depositary is not responsible if it is unlawful or impracticable to make a distribution available to any ADS holders. We have no obligation to register ADSs, preferred shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, preferred shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our preferred shares or any value for them if we or the depositary determine that it is not lawful or not practicable for us or the depositary to make them available to you. The depositary will hold any cash amounts or property it is unable to distribute in a non-interest bearing account for the benefit of the applicable holders and beneficial owners of ADSs until a distribution can be effected or such amounts and property that the depositary holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States.

Deposit, Withdrawal and Cancellation

Which shares shall be accepted for deposit?

No preferred shares shall be accepted for deposit unless accompanied by confirmation or such additional evidence, if any is required by the depositary, that is reasonably satisfactory to the depositary and the custodian that all conditions to such deposit have been satisfied by the person depositing such preferred shares under the laws and regulations of Brazil and any necessary approval has been granted by the CVM, the Central Bank or any governmental body in Brazil, if any, which is then performing the function of the regulator of currency exchange.

The depositary shall not be required to accept for deposit or maintain on deposit with the custodian (a) any fractional preferred shares or fractional deposited securities, or (b) any number of preferred shares or deposited securities which, upon application of the ratio of ADSs to deposited securities, would give rise to fractional ADSs.

How are ADSs issued?

The depositary will deliver ADSs if you or your broker deposits preferred shares or evidence of rights to receive preferred shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, and upon presentation of the applicable deposit certification, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto. Your ability to deposit shares and receive ADSs may be limited by U.S. and Brazilian legal considerations applicable at the time of deposit.

How do ADS holders cancel an ADS?

You may present (or provide appropriate instructions to your broker to present) your ADSs to the depositary for cancellation and then receive the corresponding number of underlying preferred shares at the custodian's offices. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the preferred shares and any other deposited securities underlying the ADSs to you or a person you designate. The depositary may ask you to provide documents as the depositary may deem appropriate before it will cancel your ADSs and deliver the underlying preferred shares and any other property.

How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs and provided the continued availability of certified ADSs in the U.S., the depositary will execute and deliver to you an ADR evidencing those ADSs.

Voting Rights

How do you vote?

If certain conditions in the deposit agreement are satisfied as further described below, you may instruct the depositary to vote the preferred shares or other deposited securities underlying your ADSs at any meeting at which holders of preferred shares or other deposited securities are entitled to vote pursuant to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the preferred shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the preferred shares. Our preferred shares have limited voting rights.

Upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities (which provisions, if any, shall be summarized in pertinent part by us), to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the preferred shares or other deposited securities represented by such holder's ADSs; and (c) a brief statement as to the manner in which such instructions may be given. Voting instructions may be given only in respect of a number of ADSs representing an integral number of preferred shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified by the depositary in its notice to ADS holders. The depositary will endeavor, insofar as practicable and permitted under applicable law, the provisions of the deposit agreement, our bylaws and the provisions of or governing the deposited securities, to vote or cause the custodian to vote the preferred shares or other deposited securities (in person or by proxy) as you instruct. The depositary will only vote or attempt to vote as you instruct provided that if the depositary timely receives voting instructions from you that fail to specify the manner in which deposited securities are to be voted, you will be deemed to have instructed the depositary to vote in favor of the items in the voting instructions. Preferred shares or other deposited securities represented by ADSs for which no specific voting instructions are received by the depositary from the ADS holder shall not be voted except as provided below. Without limiting any of the foregoing, to the extent the depositary does not receive voting instructions from ADS holders, the depositary will take such actions as are necessary, upon our written request and subject to applicable law and the terms of the deposited securities, to cause the amount of shares represented by ADSs of those ADS holders to be counted for the purpose of satisfying applicable quorum requirements.

If (i) we make a timely request to the depositary as contemplated above and (ii) no timely voting instructions are received by the depositary from you with respect to the deposited securities represented by your ADSs on or before the date established by the depositary for such purpose, the depositary shall deem you to have instructed the depositary to give a discretionary proxy to a person designated by our board of directors with respect to such deposited securities and the depositary shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the deposit agreement, our bylaws and the provisions of the deposited securities, to give or cause the custodian to give a discretionary proxy to a person designated by our board of directors to vote such deposited securities; provided, however, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which our board of directors informs the depositary that (x) the we do not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of preferred shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the preferred shares underlying your ADSs. In addition, there can be no assurance that you will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our preferred shares.

The depositary and its agents are not liable for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the preferred shares underlying your ADSs are not voted as you request.

Payment of Taxes

You will be responsible for any taxes or other governmental charges payable, or which become payable, on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register or transfer your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you. Your obligations under this paragraph shall survive any transfer of ADSs, any surrender of ADSs and withdrawal of deposited securities or the termination of the deposit agreement.

The depositary may refuse to issue ADSs, to deliver, transfer, split and combine ADSs or to release securities on deposit until all taxes and charges are paid by you. The depositary and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and such other information as the depositary and the custodian may require to fulfill legal obligations.

Each ADS holder will be responsible for the payment and/or reimbursement of any and all taxes effectively paid or incurred by us, the Depositary or the Custodian (including as a result of the execution of any symbolic foreign exchange transaction (*operação simbólica de câmbio*)) related to or as a result of a deposit of preferred shares and/or withdrawal or sale of deposited property by such ADS holder. Each ADS holder will be responsible for the reporting of any false or misleading information, or the failure to report required information relating to foreign exchange transactions to the custodian or the Central Bank, as the case may be, in connection with deposits or withdrawals of deposited securities.

If we change the nominal or par value of, split-up, cancel, consolidate or otherwise reclassify any of the deposited securities, or if we recapitalize, reorganize, merge, consolidate or sell our assets, any property which shall be received by the depositary or the custodian in exchange for, or in conversion of, or replacement of, or otherwise in respect of, the deposited securities shall, to the extent permitted by law, be treated as new deposited property under the deposit agreement, and the ADSs shall, subject to the provisions of the deposit agreement, any ADR(s) evidencing such ADSs and applicable law, represent the right to receive such additional or replacement deposited property. In connection with the foregoing, we may (i) issue and deliver additional ADSs as in the case of a stock dividend on the preferred shares, (ii) amend the deposit agreement and the applicable ADR(s), (iii) amend the applicable registration statement(s) in respect of the ADSs, (iv) call for the surrender of outstanding ADRs to be exchanged for new ADRs, and (v) take such other actions as are appropriate to reflect the transaction with respect to the ADSs.

Amendment and Termination

How may the deposit agreement be amended?

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. The depositary will not consider to be materially prejudicial to your substantial rights any modification or supplement that are reasonably necessary for the ADSs to be registered under U.S. laws, in each case without imposing or increasing the fees and charges you are required to pay. In addition, the depositary may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

How may the deposit agreement be terminated?

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreement. In such cases, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver preferred shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. At any time after the date of termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the *pro rata* benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depositary's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depositary and the custodian thereunder. The obligations of ADS holders and beneficial owners of ADSs outstanding as of the effective date of any termination shall survive such effective date of termination and shall be discharged only when the applicable ADSs are presented to the depositary for cancellation under the terms of the deposit agreement and the ADS holders have satisfied any and all of their obligations thereunder (including, but not limited to, any payment and/or reimbursement obligations which relate to prior to the effective date of termination but which payment and/or reimbursement is claimed after such effective date of termination).

Books of Depositary

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office at all reasonable times but solely for the purpose of communicating with other holders in the interest of business matters relating to the Company, the ADRs and the deposit agreement.

The depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed at any time or from time to time, when such action is deemed necessary or advisable by the depositary in connection with the performance of its duties under the deposit agreement or at our reasonable request to the extent not prohibited by law.

Limitations on Obligations and Liability

Limits on our Obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary and the custodian. We, the depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, Brazil or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our bylaws or other constituent documents or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
- are not obligated to perform any act that is inconsistent with the terms of the deposit agreement;
- are not liable by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our bylaws or other constituent documents or provisions of or governing deposited securities;
- disclaim any liability for any action or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting preferred shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by any of us in good faith to be competent to give such advice or information;
- are not liable for any indirect, special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- are not obligated to appear in, prosecute or defend any action with respect to deposited property or the ADSs, except under the circumstances set forth in the deposit agreement; and
- are not liable for any action or failure to act by any ADS holder relating to the ADS holder’s obligations under any applicable Brazilian law or regulation relating to foreign investment in Brazil in respect of a withdrawal or sale of deposited securities, including, without limitation, any failure to comply with a requirement to register such investment pursuant to the terms of any applicable Brazilian law or regulation prior to such withdrawal or any failure to report foreign exchange transactions to the Central Bank, as the case may be.

The depositary and any of its agents also disclaim any liability (i) with respect to Brazil’s system of share registration and custody, including any liability in respect of the unavailability of deposited securities (or any distribution in respect thereof), (ii) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (iii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iv) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (v) for any tax consequences that may result from ownership of ADSs, preferred shares or deposited securities, or (vi) for any acts or omissions made by a successor depositary.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

Your Right to Receive the Shares Underlying Your ADSs

You have the right to cancel your ADSs and withdraw the underlying preferred shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of preferred shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our preferred shares;
- when you owe money to pay fees, taxes and similar charges;
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of preferred shares or other deposited securities; or
- other circumstances specifically contemplated by Section I.A.(l) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time).

This right of withdrawal may not be limited by any other provision of the deposit agreement.

The depositary shall not knowingly accept for deposit under the deposit agreement any preferred shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such preferred shares.

Pre-release of ADSs

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying preferred shares. This is called a pre-release of the ADSs. The depositary may also deliver preferred shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre- release is closed out as soon as the underlying preferred shares are delivered to the depositary. The depositary may receive ADSs instead of preferred shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person or entity to whom the pre-release is being made (a) represents to the depositary in writing that at the time of the pre-release transaction it or its customer owns the preferred shares or ADSs that are to be delivered by it under such pre-release transaction, (b) agrees to indicate the depositary as owner of such preferred shares or ADSs in its records and to hold such preferred shares or ADSs in trust for the depositary until such preferred shares or ADSs are delivered to the depositary or the custodian, (c) unconditionally guarantees to deliver such preferred shares or ADSs to the depositary or the custodian, as the case may be, and (d) agrees to any additional restrictions or requirements that the depositary deems appropriate; (2) at all times the pre-release is fully collateralized with cash, United States government securities or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. Each pre-release is subject to further indemnities and credit regulations as the depositary considers appropriate. In addition, the depositary will normally limit the number of ADSs that may be outstanding at any time as a result of pre-release to 30% of the aggregate number of ADSs then outstanding, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

Ownership Restrictions

We may restrict transfers of the preferred shares where such transfer might result in ownership of preferred shares exceeding limits imposed by applicable laws or our bylaws. We may also restrict, in such manner as we deem appropriate, transfers of the ADSs where such transfer may result in the total number of preferred shares represented by the ADSs owned by a single ADS holder or beneficial owner of ADSs to exceed any such limits. We may, in our sole discretion but subject to applicable law, instruct the depositary to take action with respect to the ownership interest of any ADS holder or beneficial owner of ADSs in excess of the limits set forth in the preceding sentence, including, but not limited to, the imposition of restrictions on the transfer of ADSs, the removal or limitation of voting rights or mandatory sale or disposition on behalf of an ADS holder or beneficial owner of ADSs of the preferred shares represented by the ADSs of such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our bylaws. Notwithstanding the foregoing, neither we nor the depositary shall be obligated to ensure compliance with the foregoing ownership restrictions.

Exhibit 4.6

ENGLISH TRANSLATION OF CONTRACT OF SALE AND OTHER COVENANTS

CERTAIN IDENTIFIED INFORMATION HAS BEEN EXCLUDED FROM THIS EXHIBIT BECAUSE IT IS BOTH (i) NOT MATERIAL AND (ii) WOULD BE COMPETITIVELY HARMFUL IF PUBLICLY DISCLOSED. CONFIDENTIAL PORTIONS OF THIS EXHIBIT ARE DESIGNATED BY [*****].

CONTRACT FOR SALE AND OTHER COVENANTS, ENTERED INTO BETWEEN:

PETROBRAS DISTRIBUIDORA S.A., HEADQUARTERED AT RUA CORREIA VASQUES, Nº 250 – 6º ANDAR BAIRRO CIDADE NOVA, IN THE CITY OF RIO DE JANEIRO, STATE OF RIO DE JANEIRO, CEP 20211-14-, ENROLLED WITH THE CORPORATE TAXPAYERS’ REGISTRY (CNPJ) UNDER NO. 34.274.233/0001-02, HEREBY REPRESENTED IN CONFORMITY WITH ITS BYLAWS, BY ITS AVIATION MARKET EXECUTIVE MANAGER, LUIS MARCELO MOTTA DE ASSUMPÇÃO FREITAS, AND BY ITS AVIATION MARKETING MANAGER, RODRIGO MOTA GUIMARÃES, HEREINAFTER REFERRED TO AS “BR”.

AND, ON THE OTHER SIDE, AZUL LINHAS AÉREAS BRASILEIRAS S/A, A CORPORATION DULY INCORPORATED UNDER THE LAWS OF BRAZIL, HEADQUARTERED AT AVENIDA MARCOS PENTEADO DE ULHOA RODRIGUES, 939, TORRE JATOBÁ, 9º ANDAR, TAMBORÉ, IN THE CITY OF BARUERI, STATE OF SÃO PAULO, ENROLLED WITH THE CORPORATE TAXPAYERS’ REGISTRY (CNPJ) UNDER NO. 09.296.295/0001-60, HEREBY REPRESENTED BY ITS ATTORNEY-IN-FACT, DULY ELECTED PURSUANT TO ITS BYLAWS, HEREINAFTER REFERRED TO AS “PROMISSEE-PURCHASER.” BEFORE THE SAME WITNESSES, THE REPRESENTATIVES OF THE PARTIES HERETO AGREE AS FOLLOWS:

ARTICLE 1 – SUBJECT MATTER

1.1 BR promises to sell to the PROMISSEE-PURCHASER and the PROMISSEE- PURCHASER promises to purchase from BR, during a period of [*****], that is, until [*****], the monthly minimum quantities of Aviation Kerosene, at the places and in the volume percentages set forth in Annex I hereto.

1.1.1 The Parties represent they are aware of the retroactive effects of rights and obligations arising out of this Agreement as of December 12, 2018, as far as it concerns the measurement, at end of the contract, of the total volume purchased by the Promissee-Purchaser

1.1.2 As from the effective date of this Contract, the Contract for Sale and Other Covenants for supply of Aviation kerosene – QAV-1, entered into on 05.25.2016, is deemed to have been terminated.

1.1.3 The product set forth in Item 1.1 is intended for the consumption of the PROMISSEE-PURCHASER at the places set forth in Annex I hereto.

[*****] Confidential material redacted

1.2 The term of this Contract may be renewed for equal and successive periods, upon the execution of an amendment by the Parties.

ARTICLE 2 – PRICE AND CONTRACTUAL ADJUSTMENT

2.1 The product that is the subject matter of this Contract will be sold by BR to the PROMISSEE-PURCHASER and invoiced at the price practiced by BR, in effect on the day and place of delivery, according to the price list monthly disclosed by BR to the PROMISSEE-PURCHASER. This price list will be sent by BR to the PROMISSEE-PURCHASER [*****] before the price effective date, in excel format, including all formulas that are used to calculate the price.

2.2 In the price formation of Aviation Kerosene in Brazil, the price of the producer must comply with the Ordinances (*Portarias*) issued by the Ministry of Mines and Energy and by the Brazilian Agency of Oil, Natural Gas and Biofuels (*Agência Nacional do Petróleo, Gas Natural e Biocombustíveis* – ANP), as well as applicable law.

2.3 The price of the producer P-45 (refinery price) will be added by:

2.3.1 The portion referred to as "fixed differential," whose price in R$/liter (*Reais* per liter) is set forth in Annex I hereto (which Annex, initialed by the Parties, is an integral part hereof), adjusted annually by the Brazilian Broad Consumer Price Index (*Índice de Preços ao Consumidor Amplo* – IPCA) published by the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística* – IBGE), corresponding to the index accumulated in the past twelve (12) months, published in December. The base date of adjustment is January 1 of each year.

2.3.1.1At any time, as agreed by the Parties, the amount of the "fixed differential" portion may be changed, with regards to each airport listed in Annex I hereto and new airports where the PROMISSEE-PURCHASER may fuel with BR, so as to maintain the weighted average differential of the total volume of the bases indicated by the Parties..

2.3.1.2The pricing of the "fixed differential" portion for new airports must be negotiated by the Parties.

2.3.2 The variable lease portion charged by the Brazilian Airport Infrastructure Company (*Empresa Brasileira de Infraestrutura Aeroportuária* – INFRAERO), the Brazilian airport authority, or by the company in charge of the administration of the airport, in the amount set forth by them.

2.3.3 The rate of the tax on goods and services (*Imposto sobre Circulação de Mercadorias* e *Serviços* – ICMS), payable in accordance with the rates of each Brazilian State and any other taxes and fees provided by law.

2.3.4 Financial charges corresponding to [*****] of the variation in the Interbank Deposit rate (DI) per month, relating to the payment term granted to the PROMISSEE-PURCHASER.

ARTICLE 3 – SPECIAL PRICING

3.1 The special pricing of the "Fixed Price" is optional and will take into account market conditions for the period in which it will apply, pursuant to the process described in Item 3.2 and Subitems. The PROMISSEE-PURCHASER may freely choose the period of establishment of the fixed price, within at least [*****] and at most [*****], limited to the end of the term hereof. In the event the PROMISSEE-PURCHASER intends to qualify for this pricing option, the PROMISSEE-PURCHASER must request assessment rounds from BR on any business day before [*****].

3.1.1 The "fixed price" category will only be applied to the price of the producer P-45 (refinery price).

3.2 The following procedures must be followed in the assessment rounds in order to allow the PROMISSEE-PURCHASER to review the feasibility of the special pricing of the fixed price to be applied, as set forth in Item 3.1:

3.2.1 Upon request of offer of a fixed price, the PROMISSEE-PURCHASER must choose to receive the offer of the fixed price that will be in effect in month (n), in U.S. dollars or *Reais* per liter, net of PIS, COFINS, ICMS and any other included taxes. BR must inform the rates in effect in the relevant month to the PROMISSEE-PURCHASER.

3.2.2 U.S. dollar amounts will be converted to *Reais* per liter using the average selling exchange rate of the U.S. dollar of the period [*****], as published by the Central Bank of Brazil.

3.2.3 Day D: the PROMISSEE-PURCHASER will request from BR, in writing, the following parameters: monthly volume and period intended, per distribution hub with free allocation by the PROMISSEE-PURCHASER among the airports that are part of each hub;

3.2.4 Day D+1: by 12:00 p.m. (Brasília time) of the business day following the day set forth in Item 3.2.3, BR will inform, in writing, the following parameters: price and monthly volume that can be sold at the "fixed price," within the requested period, per point of supply, and the PROMISSEE-PURCHASER will confirm, in writing, by 12:20 p.m. (Brasília time) of the same day, its intention to contract per point of supply, at special prices;

[*****] Confidential material redacted

3.2.5 BR will confirm, in writing, by 4:00 p.m. (Brasília time) of the same day set forth in Item 3.2.4, the monthly volume effectively accepted at the special pricing per point of supply, within the requested period.

3.2.6 In case of more than one round in which the PROMISSEE-PURCHASER effectively accepts this pricing, the fixed price in effect for the agreed period will be calculated as the weighted average of prices and monthly volumes agreed in the n-rounds, in accordance with the formula below, including four decimal places.

[*****]
[*****]

3.3 The monthly volume effectively accepted by the PROMISSEE-PURCHASER at the special "fixed price" must be primarily and fully collected at each point of supply. In the event such contracted volume is not collected, for any reason, the PROMISSEE-PURCHASER will be responsible for paying a fine to BR, calculated based on [*****].

3.4 The volume to be supplied at the fixed price in a certain month cannot exceed [*****] of the volume delivered in the same month of the previous year or [*****], at the distribution hub chosen by the PROMISSEE-PURCHASER, whichever is higher.

3.4.1 BR may, at its discretion, suspend the negotiation of the fixed price or restrict the volume to be negotiated.

ARTICLE 4 – PAYMENT

4.1 The Aviation Kerosene sold by BR will be measured upon delivery and invoiced on behalf of the PROMISSEE-PURCHASER, as follows:

* Supply from [*****] will be paid on [*****];
* Supply from [*****]will be paid on [*****];
* Supply from [*****] will be paid on [*****].

4.2 The Parties agree that the payment term is set forth due to current market conditions and the financial backing of the PROMISSEE-PURCHASER with BR. The Parties mutually agree to re-examine the payment term in the event current market conditions and/or the financial backing of the PROMISSEE- PURCHASER with BR change.

4.2.1. The Parties agree that the payment term and the respective financial charge described in clauses 4.1 and 2.3.4 above shall be valid for supplies until [*****]. After such date, both of them will be gradually reduced as per the table below:

Supply		**Maturity Date**	**Financial Charge for the Payment Term**
From	**Until**		
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]
[*****]	[*****]	[*****]	[*****]

4.2.2 After the conclusion of the transition of terms and charges mentioned hereinabove, all supplies will be invoiced with financial charges corresponding to [*****] of the monthly variation in the Interbank Deposit rate (DI), under the following conditions:

* Supply from [*****] will be paid on [*****];
* Supply from [*****] will be paid on [*****].
* Supply from [*****] will be paid on [*****].

[*****] Confidential material redacted

4.3 Payments will be made through bank deposit or bank electronic transfer (TED) to the account held at Banco do Brasil, [*****] or at the BR´s headquarters located in the city of Rio de Janeiro or at a place expressly indicated by BR for this purpose.

4.4 In the event of delay in payment of invoices, the PROMISSEE-PURCHASER will pay to BR [*****], plus [*****] and a fine of [*****]. Interest for late payment will be payable as of the due date of the relevant invoices.

4.5 In the event of delay in payment of invoices, BR may demand early payment from the PROMISSEE-PURCHASER.

4.6 The Parties agree that BR may request the early payment of amounts payable by the PROMISSEE-PURCHASER hereunder to the financial institution with which the PROMISSEE-PURCHASER entered into an Agreement for the Prepayment of Receivables under Credit Assignment Transactions – Confirming.

ARTICLE 5 – ELETRONIC FILES

5.1 During the term hereof, BR will generate electronic files that will be sent daily via FTP to the PROMISSEE-PURCHASER. These files will inform the amount of Aviation Kerosene purchased by the PROMISSEE-PURCHASER for its aircrafts and other data (number of the invoice (*Nota Fiscal*), date, place of refueling, unit price, total amount of the *Nota Fiscal*, flight number, aircraft prefix, etc.), which will be used to issue invoices.

5.2 In order to protect the confidentiality of the files and facilitate the access of the PROMISSEE-PURCHASER, BR made available the website ftp.br-petrobras.com.br ("Website"), through which the PROMISSEE-PURCHASER has daily access to the files.

5.3 BR agrees that:

(i) the PROMISSEE-PURCHASER may copy, use, and store files, even after the termination of the Agreement, for a period provided by applicable law;

(ii) the network server of the PROMISSEE-PURCHASER and its appointed employees, through their desktop computers, are authorized to access the Website on a personal basis through individual passwords provided by BR to each of them;

(iii) the area intended for storage of information of the PROMISSEE-PURCHASER will not be shared with other institutions, and only the PROMISSEE-PURCHASER and BR may store and/or handle the files;

(iv) employees of the PROMISSEE-PURCHASER must obtain the files at the Website of BR within one hundred eighty (180) days from the date of their issuance;

(v) any information exchanged between the PROMISSEE-PURCHASER and BR must be encrypted before its transfer to the Website.

(vi) the PROMISSEE-PURCHASER and BR will share a password, known only by each of them, in order to decrypt information.

5.4 Moreover, BR acknowledges that the PROMISSEE-PURCHASER is not responsible for the availability and management of its FTP servers.

5.5 In the event the information made available by BR at the Website is not complete or presents any inconsistency, BR will provide such information subsequently, as soon as possible.

5.6 The Parties also agree, even after termination hereof, not to use and/or disclose to third parties the contents of the files, of the Agreement, and their relationship due to the confidentiality of the information involved and made available, under penalty of the applicable sanctions. Any undue disclosure will subject the Infringing Party to the payment or redress regarding all losses confirmedly incurred by the other Party, including pain and suffering or competitive injury, and other losses resulting from administrative or judicial proceedings, and civil and criminal liability, which will be assessed in the due course of the relevant judicial or administrative proceeding.

ARTICLE 6 – AIRCRAFT FUEL DRAINAGE

6.1 BR may drain the fuel from aircraft tanks, upon request of the PROMISSEE-PURCHASER at the airports where this type of operation is available, as listed in Annex II hereto.

6.2 The request for fuel drainage must be sent to the employee or reseller of BR responsible for the airport where the operation will be conducted. The request must be made in writing, signed by an employee of the PROMISSEE-PURCHASER, or via email including the employee's identification. BR will provide and maintain an updated list of contact managers at its bases, included in Annex II hereto.

[*****] Confidential material redacted

6.3 The request for fuel drainage must be received within the advance period set forth by BR to provide the service, as included in Annex II hereto.

6.4 The product that is drained from the aircraft tank must be returned to the same aircraft [*****]. BR will provide to the PROMISSEE-PURCHASER a proof of Drainage and Return of the fuel to the aircraft tank.

6.4.1 – In the event the drained volume may not be returned to the same aircraft due to operating reasons, the same shall be stored and timely analyzed for further return to any other aircraft of the PROMISSEE-PURCHASER.

6.4.2 – The drained product shall remain stored, with due regard to the maximum volumes defined for each airport, in function of the operating capacities of each of them, which are described in Annex II.

6.4.2.1– [*****]

6.4.2.2– At Pampulha airport, BR will use a tank truck of 20m3 for receiving the drained product where the volume to be drained exceeds 10% of the capacity of the CTA´s tank available for the operation.

6.4.2.3– A complete certification of the product will be made, according to the parameters set forth in Annex A to NBR 15.216, when the CTA´s tank is a level that is close to its maximum volume.

6.4.3 – In the event of suspected contamination of the product drained from the aircraft, the fuel must be submitted for analysis, storage, and possible disposal, as applicable.

6.4.4 – The costs regarding the analysis, storage, and disposal will be previously informed to the PROMISSEE-PURCHASER and will be borne by BR.

6.5 In the event the PROMISSEE-PURCHASER fails to fulfill any of the conditions set forth above, BR reserves the right not to conduct the operations of fuel drainage, upon written notice to the PROMISSEE-PURCHASER.

6.6 For the fuel drainage operations of the aircrafts of the PROMISSEE- PURCHASER, the Parties agree that a fixed price per fuel drainage operation will be charged, in the amount of [*****] plus a variable amount per liter of fuel drained, corresponding to the fixed differential price practiced at the airport.

6.6.1. The conditions set forth in Item 6.6 above will only apply in the event more than [*****] ([*****]) fuel drainage operations per month are conducted in the aircraft.

ARTICLE 7 – OBLIGATIONS OF BR

The specific obligations of BR are set forth below:

7.1 BR agrees to provide the Aviation Kerosene required to meet the monthly total consumption contracted by the PROMISSEE-PURCHASER for all aircraft in its fleet, at the locations set forth in Annex I hereto, at times compatible with the relevant flights in Brazil, included in the HOTRAN (transport time) published by the Brazilian Civil Aviation Agency (*Agência Nacional de Aviação Civil*), and abroad, pursuant to local rules, as well as all other non-regular flights, charter flights, training flights and repositioning flights of the PROMISSEE-PURCHASER that require fuel.

7.1.1 BR will reimburse the PROMISSEE-PURCHASER for all direct expenses to which it may give cause, resulting solely from delays in fueling in excess of [*****] ([*****]) minutes, pursuant to ANAC Resolution 400, up to the limit of [*****] ([*****]) per event, and pay a fine of [*****] ([*****]) per event, provided that the expenses arising from the delays are confirmedly caused by BR solely, do not arise from an Act of God or force majeure reason, and thatthe relevant flights have been informed to the BR team at least [*****] ([*****]) hours in advance. In the cases of flights to Portugal, in addition to the reimbursement and fine mentioned hereinabove, BR will fully reimburse the PROMISSEE-PURCHASER for all direct expenses it may give cause to before the Portuguese airport authorities, arising solely from fueling delays of more than [*****] ([*****]) minutes.

7.1.2. BR agrees to pay to the PROMISSEE-PURCHASER the amount of [*****] ([*****]) per flight whose aircraft is not fueled, in addition to reimbursement of direct expenses to which it may give cause, arising solely from cancellation of the fueling operation, pursuant to ANAC Resolution 400, including, but not limited to the payment of indemnities and attorney´s fees, provided that BR is confirmedly to be solely responsible for the failure to fuel aircrafts at the locations where BR has fueling facilities, that the failure to fuel does not arise from an Act of God or force majeure reason, and that BR has not formally communicated the non-availability of the product at least [*****] ([*****]) hours in advance. In cases of flights to Portugal whose aircraft is not fueled, in addition to the reimbursement and fine mentioned hereinabove, BR will fully reimburse the PROMISSEE-PURCHASER for all the direct expenses to which it may give cause before the Portuguese airport authorities, arising solely from the referred failure to fuel the aircraft.

[*****] Confidential material redacted

7.1.3 Changes in the air network increasing by more than [*****] ([*****]) the number of flights requiring concomitant fueling at a certain airport must be formally notified by the PROMISSEE-PURCHASER, at least [*****] ([*****]) days in advance, for analysis of BR´s capacity to meet the demand.

7.1.4 BR is not required to indemnify the PROMISSEE-PURCHASER for [*****], nor for the payment of attorney´s fees.

7.2 BR agrees to maintain the quality and the readiness of its service according to the standards set forth for this type of operation, placing all possible efforts and resources towards the good provision of the services contracted hereunder.

7.3 BR agrees to maintain the quality of the Aviation Kerosene within technical specifications, free of water or other contaminants, making periodic test reports available as required to confirm such quality.

7.3.1 Respond to quality audits conducted by the PROMISSEE-PURCHASER within the period mutually agreed and comply with the items of the IOSA checklist.

7.3.2 The PROMISSEE-PURCHASER may request from BR, at any time, the result of the quality assessments conducted on the fuel used in the aircraft of the PROMISSEE-PURCHASER, and BR will send it to the PROMISSEE-PURCHASER, within [*****] ([*****]) hours after the request, or [*****] ([*****]) hours in case the safety of the flight may be compromised.

7.3.3 Item 10.2 below will apply in the event the irregularity mentioned above is found by BR.

7.4 BR agrees to comply with, and cause its employees and agents to comply with, all legal and regulated orders concerning its activity as Distributor of Oil Byproducts, especially Resolutions, Ordinances (*Portarias*), and other acts issued by the Federal Government.

7.5 BR will not be held liable for any lack of Aviation Kerosene at the locations and times referred to in Item 7.1.1 in the event this lack of Aviation Kerosene results from governmental acts and any other events of force majeure or Acts of God. In these cases, BR will put in its best efforts to maintain the supply to the PROMISSEE-PURCHASER.

7.5.1 Scheduled strikes of employees of BR or outsourced service providers that may impair the supply of fuel provided hereunder will not be deemed an Act of God.

7.6 BR agrees to reimburse, directly or through an insurance company, [*****].

7.7 BR agrees to conduct the fuel drainage operations requested by the PROMISSEE-PURCHASER in accordance with the conditions set forth in this Agreement.

7.8 BR shall dispose of the Kerosene waste generated from the line maintenance activities carried out by the PROMISSEE-PURCHASER.

7.9 At all times the PROMISSEE-PURCHASER obtains benefits under an ICMS Special Regime or extends an existing Special Regime, the PROMISSEE-PURCHASER must immediately submit it to BR, which, after analysis, will proceed with the parameterization of the BR system . The companies shall endeavor their best efforts for the parameterization term be as short as possible, never exceeding the deadline of [*****] ([*****]) calendar days, counted from the first business day following the notification from the PROMISSEE-PURCHASER to BR. Until such time as said parameterization of the Br system is completed, invoicing of expenses shall be suspended until the parameterization is concluded, in order to avoid issuances based on outdated parameters.

7.9.1 With regard to the analysis mentioned above, a representation letter may be requested to be delivered, in the form provided by BR, which must include at least the following information:

7.9.1.1The PROMISSEE-PURCHASER agrees to immediately ([*****]) and primarily notify BR in the event of any change and/or revocation of the regime or its applicability, especially, but not exclusively, any cause that may result in loss of the tax benefit.

7.9.1.2In the event deficiency notices are issued under tax proceedings, or collection notices are issued under judicial or administrative proceedings, against BR, because the State believes that the Special Regime does not apply or due to a change and/or revocation of the Special Regime or its applicability that is not informed by the PROMISSEE-PURCHASER to BR, the PROMISSEE-PURCHASER agrees to be the main debtor, bearing all resulting burden.

7.9.1.3The PROMISSEE-PURCHASER is hereby informed that the obligation set forth above includes, but is not limited to, the recognition of additional invoices issued to collect the difference between the product's full tax amount and reduced tax amount as a result of a tax benefit or special regime, regarding all operations conducted in the last [*****], due to a judicial decision rendered in a lawsuit relating to diffuse or concentrated control of constitutionality that may declare, in full or in part, the unconstitutionality of **rules that support the special regime or tax benefit**.

7.9.1.4The PROMISSEE-PURCHASER agrees, through this representation, within the scope of the operation described herein, to [*****].

[*****] Confidential material redacted

7.9.1.5[*****], BR being solely required to timely notify the PROMISSEE-PURCHASER about these events, in order for the payments to be effected within [*****] ([*****]) days after said notice.

7.9.2 In the event of error in the formation of the price due to misinterpretation of the legislation/special regime or the parameterization of the system by BR, BR must promptly make the relevant adjustments to its system and request the authorization of tax authorities to reimburse the PROMISSEE-PURCHASER for these amounts upon a discount included in the next invoice to be issued by BR to the PROMISSEE-PURCHASER.

7.9.3 At all times required, BR must present the list of invoices (*Notas Fiscais*) and the price impact relating to the special regime within [*****] ([*****]) business days from the date the inconsistency is found.

7.9.4 Any acquisition of ICMS credits as a result of Special Regimes must be negotiated, and discounts granted to the PROMISSEE-PURCHASER will be negotiated on a case-by-case basis.

7.10 [*****]

ARTICLE 8 – OBLIGATIONS OF THE PROMISSEE-PURCHASER

8.1 The specific obligations of the PROMISSEE-PURCHASER, and other obligations implicitly or explicitly included herein, are set forth below:

8.1.1 The PROMISSEE-PURCHASER will purchase from BR, during the term hereof, the minimum volumes of Aviation Kerosene, at the locations and in the volumes specified in Annex I hereto.

8.1.2 The PROMISSEE-PURCHASER will pay the amounts corresponding to the supplies provided by BR, pursuant to Article 2 hereof.

8.1.3 The PROMISSEE-PURCHASER will not assign, subrogate, negotiate or in any way transfer this Agreement or any rights or obligations hereunder, under penalty of the sanctions set forth herein.

8.1.4 The PROMISSEE-PURCHASER will comply with and cause the compliance with all laws and regulations, ordinances and rules in effect relating to the performance of its activities. The PROMISSEE-PURCHASER is responsible for the payment of any amounts or losses incurred by BR, directly or indirectly, as a result of the non-performance of this obligation.

8.2 Considering that the quality of the Aviation Kerosene of BR is appropriate, assuring the quality standard of the supplied product to the PROMISSEE- PURCHASER, the PROMISSEE-PURCHASER agrees to verify the quality control of the product received and the exact compliance herewith, notably in terms of safety, health and environmental rules.

8.3 The PROMISSEE-PURCHASER agrees to previously notify BR in the event of any change and/or revocation of the special regime or its applicability, and of any cause that may result in the loss of this tax incentive.

8.3.1 In the event deficiency notices are issued under tax proceedings, or collection notices are issued under judicial or administrative proceedings, *against BR,* due to a change and/or revocation of the Special Regime or its applicability that is not informed by the PROMISSEE-PURCHASER to BR, the [*****].

8.3.2 The PROMISSEE-PURCHASER is hereby aware that the obligation set forth above includes, but is not limited to, [*****], due to a judicial decision rendered in a lawsuit relating to diffuse or concentrated control of constitutionality that may declare, in full or in part, the unconstitutionality of the application of the tax benefit.

8.3.3 The PROMISSEE-PURCHASER agrees to reimburse BR for [*****], BR being solely required to timely notify the PROMISSEE-PURCHASER about these situations to allow payment arrangements.

8.4 BR is required to complete the “Form for Identification of Related Parties”, which is an integrant part of this Agreement as Annex III, declares and undertakes full responsibility, under the penalties of law, for the information provided.

ARTICLE 9 – TAXES

9.1 All taxes (taxes, fees, tax or quasi-fiscal contributions and any emoluments) directly or indirectly arising from this Agreement or its performance will be exclusively payable by the Party responsible for such taxes, pursuant to applicable tax law, without any right to reimbursement by the other Party, at any title.

[*****] Confidential material redacted

ARTICLE 10 – TERMINATION

10.1 This Agreement may be terminated by operation of law, at the discretion of the non-breaching party, irrespective of notice or judicial or extrajudicial notification. The penalty set forth in Item 10.3, subitem 10.3.1 and Article 11 will be imposed on the breaching party in the following events:

10.1.1 Judicial or extrajudicial liquidation of any of the Parties;

10.1.2 Petition or proposition of judicial or extrajudicial reorganization; filing for, adjudication or confirmation of bankruptcy; conversion from reorganization to bankruptcy or legitimate protest of an issuance or co-obligation instrument of the PROMISSEE-PURCHASER, without cancelation within the legal term.

10.1.3 Delay by the PROMISSEE-PURCHASER regarding the payment of the product purchase invoice to BR, after a term of [*****] ([*****]) [*****] is elapsed from the due date.

10.1.4 Failure by the breaching party, once notified to cure its noncompliance, to do so within the period set forth in the relevant notice.

10.1.5 Failure by the PROMISSEE-PURCHASER to fulfill its obligation to purchase the volume percentages of Aviation Kerosene set forth in Item 1.1 and specified in Annex I hereto.

10.2 In the event of non-compliance with any articles or conditions set forth herein, the breaching party will be notified to cure the non-compliance within [*****] ([*****])[*****] under penalty of default, in which case the non-breaching party may terminate this Agreement, without prejudice to the penalty of payment of the fine set forth in Item 10.3.1 by the breaching party to the non-breaching party.

10.3 The Party that causes the termination of this Agreement or fails to comply with any provision hereof will be subject to the payment of a termination fine corresponding to [*****], as follows:

[*****]

ARTICLE 11 – ACT OF GOD AND FORCE MAJEURE

11.1 The enforceability of this Agreement will be suspended due to force majeure or Act of God that prevents its performance by any of the Parties. Performance hereof will be resumed as soon as the event that caused the suspension of its enforceability ceases to exist.

11.2 In the event of the abovementioned suspension, the term hereof will be automatically extended for the time required to offset the time of suspension of enforceability.

11.3 Once the suspension has ended, this Agreement will be automatically terminated in the event of breach of any of the obligations hereby assumed by the Parties, and the fine set forth in Item 10.3 and subitem 10.3.1 hereof will be applied to the breaching party.

ARTICLE 12 – REGULATORY AGENCY

12.1 The PROMISSEE-PURCHASER agrees to reimburse BR for any fines that may be imposed on BR due to confirmed non-compliance, exclusively by the PROMISSEE-PURCHASER, of orders and instructions of the Brazilian Oil Agency (*Agência Nacional de Petróleo* – ANP) and/or other agencies that are competent to regulate the sale and distribution of oil by-products, ethanol, and the by-products of other sources of energy.

12.2 The supply of Aviation Kerosene included in Item 1.1 is subject to the same usual market conditions of supply and the changes that are imposed by ANP and/or other agencies that are competent to regulate the supply of oil by-products, ethanol, and the by-products of other sources of energy, including in connection with prices, delivery and payment terms.

ARTICLE 13 – SUCCESSION

13.1 The obligations assumed hereunder extend to the assignees and/or successors of the Parties and all persons that may operate the relevant business and/or is sub-rogated in the activity of the PROMISSEE- PURCHASER, at any title. The Parties will only be released from these obligations upon written consent from the other Party.

[*****] Confidential material redacted

ARTICLE 14 – SOCIAL FUNCTION OF THE AGREEMENT

14.1 In all activities related to the performance hereof, BR must not employ child labor, pursuant to Item XXXIII of Article 7 of the Brazilian Federal Constitution, or labor in conditions similar to that of slavery. BR must include a specific provision in this regard in the agreements entered into with its suppliers of inputs and/or service providers, under penalty of fine or termination hereof, without prejudice to other applicable measures.

14.2 In recruiting and hiring its work force, the PROMISSEE-PURCHASER must not exercise any kind of discrimination relating to race/ethnicity, color, age, gender, marital status, as well as political opinion, ideology, philosophy and/or religion, or for any other reason, under penalty of termination hereof, irrespective of applicable penalties.

ARTICLE 15 – AMENDMENT TO THE BYLAWS

15.1 In the event the PROMISSEE-PURCHASER amends its bylaws reflecting a change of its trade name, assignment or change in its control, the PROMISSEE-PURCHASER must notify BR of the fact within [*****] ([*****])[*****] through the Registry of Deeds and Documents.

ARTICLE 16 – VALUE OF THE AGREEMENT

16.1 The Parties attribute to this Agreement the value of [*****] ([*****]).

ARTICLE 17 – CONTRACTUAL GOOD FAITH

17.1 The PROMISSEE-PURCHASER and BR represent, for all legal purposes and effects, that the conditions set forth herein are the result of the negotiation between them.

ARTICLE 18 – CONFIDENTIALITY

18.1 The Parties agree that the conditions set forth herein cannot be provided or disclosed to third parties and guarantee that only employees that effectively need to know these conditions will have access to them.

18.2 The Parties agree to keep the confidentiality of the information referred to in Item 18.1 for up to three (3) years from the date of termination hereof.

18.3 Information requested by any governmental body or agency may be provided, as well as information requested pursuant to applicable law. Nonetheless, in any event, the relevant Party must inform the other Party to allow it to oppose the request. Failure to inform the other Party constitutes a breach of contract.

ARTICLE 19 – ENVIRONMENTAL LIABILITY

19.1 The PROMISSEE-PURCHASER undertakes to comply with environmental laws and regulations, as well as to obtain and maintain the validity of all licenses, authorizations, and studies required for the full development of its activities. The PROMISSEE-PURCHASER also agrees to adopt the applicable measures and procedures in order to remove any aggression, danger or risk of damage to the environment that may be caused by its activities, including outsourced activities.

19.1.1 For purposes hereof, the term “environment” or expressions related to environmental liability include all other matters regulated by applicable rules, such as public health, urban planning, historical/cultural heritage, and environmental management.

19.2 The PROMISSEE-PURCHASER and its representatives are exclusively subject to the sanctions imposed by environmental rules and liable for any and all damage to the environment exclusively caused by the PROMISSEE-PURCHASER, as a result of its activities or losses of any nature, especially due to defects, usage, packaging, products and equipment it owns or holds under loans, leases or other means, even if transferred to third parties not included herein.

19.2.1 The environmental liability of the PROMISSEE-PURCHASER covers all sanctions and requirements provided in Law No. 9.605/98 and other laws or normative acts that currently provide or may provide in the future for environmental matters.

19.2.2 The environmental liability of the PROMISSEE-PURCHASER for damages exclusively caused by it, or originated during the term hereof and any term extensions, remains even if the effects of the damages become known or occur after termination hereof.

[*****] Confidential material redacted

19.2.3 [*****]

19.2.4 In the event the PROMISSEE-PURCHASER breaches the environmental rules or fails do take the measures required to avoid environmental damages or losses, BR may, at its discretion, immediately suspend the Agreement until the PROMISSEE- PURCHASER takes the relevant required measures.

19.2.5 In the event of any environmental damage exclusively caused by the PROMISSEE-PURCHASER, the PROMISSEE-PURCHASER agrees to immediately inform the competent authorities and take all measures required to remediate and minimize environmental damage and impact. The PROMISSEE-PURCHASER also agrees to immediately and efficiently inform BR of the relevant damage and any notices, process, and infringement notices that it receives, and such fact will not imply the assumption of any liability by BR.

ARTICLE 20 – FCPA and SOX

20.1 The PARTIES declare to have accessed, read and understood the other Party´s Code of Ethics and Conduct, available from the electronic address: http://ri.voeazul.com.br/download_arquivos.asp?id arquivo=B5B13BDD-4111-4147-86A1-7143E78A4988, as well as declare to be aware that violation of these internal rules of each Party will imply immediate termination of this Agreement, and, further, that they will be held liable for the damages caused, including for acts performed by their Employees, whom the Parties are committed to inform about the referred Codes.

20.2 The Parties declare that they expressly comply with the applicable laws, as far as the Rules for Prevention of Money Laundering and Terrorist Financing and of Corruption and Harmful Acts Against the National and Foreign Public Administration are concerned, and that they will immediately notify each other of any act or fact related to this Agreement which violates the referred rules, BR being entitled to take all the necessary actions.

20.3 The Parties represent and warrant by themselves, and by their respective partners, directors and employees that, upon the performance of the clauses hereof, as well as in the conduction of their respective businesses, they abide by the rules set forth in the Antitrust Law (Law no. 12.529/2011 and any other that may be used as amendment or revocation thereof, especially the free enterprise and free competition principles, and that they do not perform any conduct or act whatsoever, with the purpose of or which may produce the following effects, even though they are not achieved, (i) limit, distort or otherwise impair free competition or free enterprise; (ii) dominate a relevant market of products or services; (iii) discretionarily increase profits; and (iv) abusively exercise a dominant position.

20.4 The Parties are committed to, either directly or through their directors, officers, agents, employees, representatives or third parties hired by it, including subcontractors, refrain from performing and, further, report any possible practice on the part of their employees or representatives of any actions or failure to act that constitute fraud, corruption or violation of laws, including, without limitation, Law no. 12.846/13 and Law no. 9613/98, as well as the Brazilian Criminal Code.

20.5 In case of any conflict between the internal rules of BR and those of the PROMISSEE-PURCHASER, it is hereby agreed that each Party shall comply with the provisions set forth in its Code of Conduct, it being pointed out that, to the extent such conflict creates hindrances to the performance of this Agreement, the Parties agree to submit such conflicts to their respective managements in order to be settled.

ARTICLE 21 – JURISDICTION

21.1 The Parties hereby select the jurisdiction of the courts of the city of Rio de Janeiro, State of Rio de Janeiro, at the exclusion of any other. In the event of a dispute, the breaching party will bear all judicial and extrajudicial expenses and attorney’s fees [*****].

21.2 IN WITNESS WHEREOF, the Parties executed this Agreement in three (3) counterparts of the same content in the presence of two (2) witnesses, in order to produce their due legal effects.

[*****] Confidential material redacted

Rio de Janeiro, November 28, 2019.

/s/ Rodrigo Mota Guimarães

PETROBRAS DISTRIBUIDORA S.A.
Rodrigo Mota Guimarães
Aviation Market Marketing Manager

/s/ Alexandre Wagner Malfitani

AZUL LINHAS AÉREAS BRASILEIRAS S.A.
Alexandre Wagner Malfitani
Attorney-in-fact

WITNESSES:

/s/ Ana Leticia F. Da Cunha

Ana Leticia F. Da Cunha
ID (CPF): 109.681.066-25

/s/ Adrianny C.N. Silva

Adrianny C.N. Silva
ID (CPF): 520.121.298-03

ANNEX I

[*****]

ANNEX II

[*****]

ANNEX III

[*****]

[*****] Confidential material redacted

Exhibit 8.1

Subsidiaries of Azul S.A.

The following chart lists each of our subsidiaries which we owned, directly or indirectly, as of December 31, 2019:

Entities	Country of incorporation
Azul Linhas Aéreas Brasileiras S.A. (ALAB)	Brazil
Azul Finance LLC[(a)]	United States
Azul Finance 2 LLC[(a)]	United States
Blue Sabiá LLC[(a)]	United States
ATS Viagens e Turismo Ltda.[(a)]	Brazil
Azul SOL LLC[(a)]	United States
Azul Investments LLP[(a)]	United States
Fundo Garoupa[(b)]	Brazil
Fundo Safira[(a)]	Brazil
Canela Investments LLC (Canela)[(a)(c)]	United States
Canela 407 LLC[(d)]	United States
Canela 429 LLC[(d)]	United States
Canela Turbo Three LLC[(d)]	United States
Daraland S.A.[(a)]	Uruguay
Encenta S.A. (Azul Uruguay)[(e)]	Uruguay
Global AzulAir Projects, SGPS, S.A. (Global)[(a)]	Portugal
Atlantic Gateway, SGPS, Lda.[(f)]	Portugal
Tudo Azul S.A.	Brazil
Cruzeiro Participações S.A.[(a)]	Brazil

(a) Azul's investments are held indirectly through ALAB.
(b) Azul's investment is held 4% directly and 96% through ALAB.
(c) Transfer of ownership from Azul to ALAB on December 1, 2017.
(d) ALAB's investments are held indirectly through Canela.
(e) ALAB's investments are held indirectly through Daraland.
(f) ALAB's investments are held indirectly through Global.

Exhibit 12.1

CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a) AS ADOPTED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT

I, John Peter Rodgerson, certify that:

1. I have reviewed this annual report on Form 20-F of Azul S.A. (the "company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: April 30, 2020

By: /s/ John Peter Rodgerson
Name: John Peter Rodgerson
Title: Chief Executive Officer

Exhibit 12.2

CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a) AS ADOPTED UNDER SECTION 302 OF THE SARBANES-OXLEY ACT

I, Alexandre Wagner Malfitani, certify that:

1. I have reviewed this annual report on Form 20-F of Azul S.A. (the "company");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;

4. The company's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Dated: April 30, 2020

By: /s/ Alexandre Wagner Malfitani
Name: Alexandre Wagner Malfitani
Title: Chief Financial Officer

Exhibit 13.1

Azul S.A.
Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Azul S.A. (the “company”) is filing with the U.S. Securities and Exchange Commission, on the date hereof, its annual report on Form 20-F for the fiscal year ended December 31, 2019 (the “Report”). Pursuant to Exchange Act Rules 13a - 14(b) or 15d - 14(b) and to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of the company hereby certifies, to such officer´s knowledge, that:

(a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

By: /s/ John Peter Rodgerson
Name: John Peter Rodgerson
Title: Chief Executive Officer

Dated: April 30, 2020

A signed original of this written statement required by Section 906 has been provided to the company and will be retained by the company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.

Exhibit 13.2

Azul S.A.
Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Azul S.A. (the "company") is filing with the U.S. Securities and Exchange Commission, on the date hereof, its annual report on Form 20-F for the fiscal year ended December 31, 2019 (the "Report"). Pursuant to Exchange Act Rules 13a - 14(b) or 15d - 14(b) and to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of the company hereby certifies, to such officer´s knowledge, that:

(a) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(b) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the company.

By: /s/Alexandre Wagner Malfitani
Name: Alexandre Wagner Malfitani
Title: Chief Financial Officer

Dated: April 30, 2020

A signed original of this written statement required by Section 906 has been provided to the company and will be retained by the company and furnished to the U.S. Securities and Exchange Commission or its staff upon request.