



**CONSOLIDATED  
FINANCIAL STATEMENTS**  
AZUL S.A.  
2020





**AZUL S.A.**

**Individual and consolidated financial statements**

December 31, 2020

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## Management Comments

As always, I would like to start by thanking our crewmembers for their outstanding work and dedication during a very challenging 2020. Thanks to their incredible effort, sacrifice and support, we were able to end the year in a significantly stronger position than we could have imagined when the crisis began.

The Azul management plan was the principal tool that enabled us to actively manage our capacity, reduce fixed costs and engage all stakeholders to increase our liquidity through the year. As a result, I am proud to report that we ended December with cash (cash equivalents, short-term investments and accounts receivables) of over R\$4 billion, the highest balance since we founded Azul twelve years ago. This represents a robust platform from which we can now turn our attention to the future.

On the demand and capacity side, we made significant progress during the quarter. Our diversified fleet combined with our unique network advantages resulted in one of the fastest recoveries of any airline in the world. We ended the year with more than 90% of our domestic capacity recovered, while remaining true to our network strategy by being the only carrier in 80% of the routes we fly. As of March 2021, Azul is operating in 117 destinations, an impressive addition of 92 cities served in ten months.

Even more remarkable is that while recovering our network at this rapid pace, we saw a strong PRASK increase of 23% in the fourth quarter compared to the previous one, which is further evidence of the demand recovery and the sustainable competitive advantages of our business.

Our logistics business Azul Cargo Express continued to set revenue records. In the fourth quarter, revenues increased 64% compared to the same period last year. I am more proud of the contribution Azul has made in supporting Brazil in its COVID response. To-date we have transported more than 4 million vaccine doses and delivered more than 100 tons in medical equipment (oxygen cylinders, respirators, stretchers and hospital supplies) to critical areas all across the country.

Azul begins 2021 in a strong position, but we are also cognizant of the continuing uncertainty, and therefore we must maintain strong discipline in capacity, costs and cash. Brazil has begun its vaccination efforts with more than 7.6 million doses already applied, but there is still a long way to go. While COVID continues to impact lives all over Brazil, we have seen evidence from other countries that once the vaccine effect takes hold, the health situation improves quickly. As a result, we are optimistic that a similar recovery is ahead of us in the months to come.

One year ago today, we had R\$2.2 billion in cash, no vaccines on the horizon and we were flying only 70 flights a day. One year later, we have R\$4 billion in cash, 220 million vaccines arriving in the next four months and more than 700 flights a day. We have some challenges ahead, but we certainly feel confident in our competitive position.

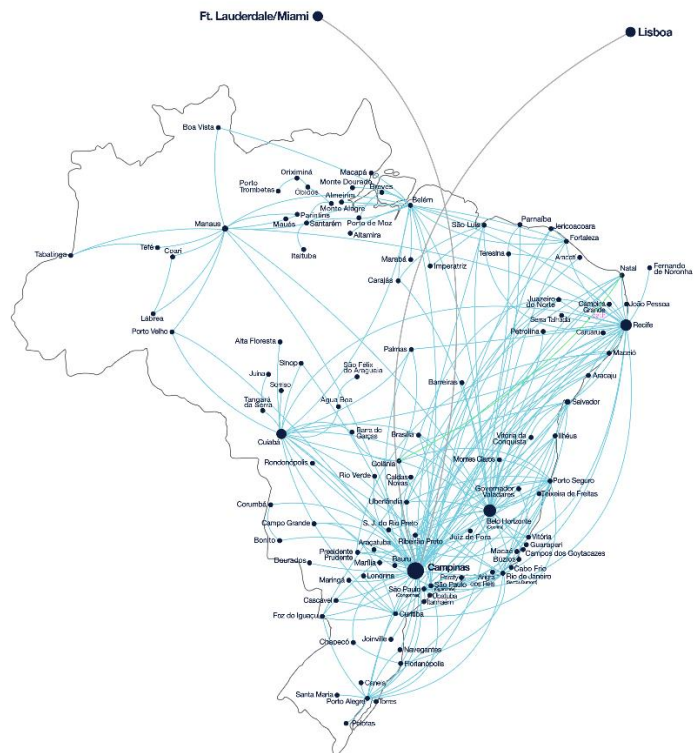
At Azul, we are proud of what we have created and are excited about the future. Our crewmembers are more passionate than ever, and we are confident that as we emerge stronger from this crisis, and we will continue to build and grow the best airline in the world.

***John Rodgerson, CEO of Azul S.A.***



## Azul in 2020

- ✓ Around 700 daily flights to a 117 destinations.
- ✓ 43% of domestic departures and 28% market share (RPK).
- ✓ Operating fleet of 162 aircraft with an average age of 8.3 years consisting of 56 E-Jets, 45 A320neos, 33 ATRs and 11 A330s e 17 Cessnas



## Macroeconomic Outlook

2020 started with an optimistic scenario of economic recovery from 2019. Due to the crisis and impacts of the COVID-19 pandemic, Brazil ended the year with a GDP retraction of 4.1%. The Brazilian real accumulates a strong devaluation of 30.7% of its value against the U.S. dollar year over year, at the same period. WTI price decreased 29.9%. According to Organization for Economic Cooperation and Development (OECD)'s forecast, in 2021, the Brazilian economy is likely to recover, with an expected GDP growth of 3.5% in and controlled inflation.

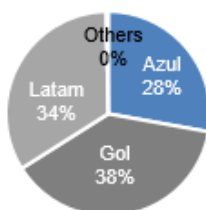




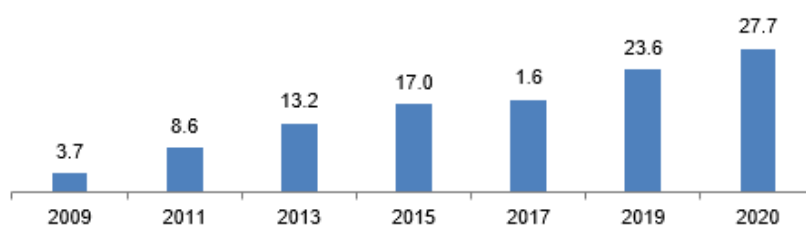
## Aviation market

The aviation sector was one of the most impacted by the COVID-19 pandemic. The shutdown of the global economy since the second half of March caused air travel around the world to be severely disrupted. In Brazil it was no different, and passenger demand contracted 90% in April, with a load factor reduction from 84.4% to 68.8% year over year. As a result, Azul reacted quickly to adjust its network by reducing the number of daily flights by 50% in the second half of March and by 90% in April year over year. After the exceptional challenges faced during the first months of the crisis, Azul quickly adapted the capacity to the new reality as the demand drop, always focused on the recovery. As the Brazilian economy reopens, the Company gradually rebuilds its network, ending the year with a capacity decrease of 43.1%, and a 45.5% RPK decrease, resulting in a load factor of 80%, a 3.5 percentage points reduction compared to 2019. In 2020, the Azul's domestic RPK share reached 27.7%.

Market Share (RPK, 2020)



Azul's Participation in the Domestic Market RPK (%)





## Environmental, Social and Governance (“ESG”) Responsibility

The table below presents Azul’s key ESG information, according to the Sustainability Accounting Standards Board (SASB) standard for the airline industry.

ESG KEY INDICATORS	2020	2019	% Δ
<b>Environmental</b>			
<b>Fuel</b>			
Total fuel consumed per ASK (GJ / ASK)	1,198.4	1,260.6	-4.9%
Total fuel consumed (GJ x 1000)	24,441	45,216	-45.9%
<b>Fleet</b>			
Average age of operating fleet <sup>1</sup>	8.3	5.8	42.8%
<b>Social</b>			
<b>Labor Relations</b>			
Employee gender: (%) male	58.6	59.0	-0.7%
(%) female	41.4	41.0	1.0%
Employee monthly turnover (%)	1.4	1.2	16.7%
% of employee covered under collective bargaining agreements	100	100	0.0%
Number and duration of strikes and lockout (# days)	0	0	n.a.
Volunteers	1,928	2,193	-12.1%
<b>Customer &amp; Company Behavior</b>			
Amount of legal and regulatory fines and settlements associated with anti-competitive practices	0	0	n.a.
<b>Safety</b>			
Number of accidents	0	0	n.a.
Number of governmental enforcement actions and aviation safety	0	0	n.a.
<b>Governance</b>			
<b>Management</b>			
Independent directors (%)	90.0	82.0	9.8%
Percent of board members that are women	10.0	9.0	11.1%
Board of directors average age	59	58	1.8%
Director meeting attendance (%)	88.2	87.9	0.3%
Board size	10	11	-9.1%
Participation of women in leadership positions (%)	37.6	39.4	-4.6%







## Consolidated Results

The following revised income statement and operating data should be read in conjunction with the annual results comments presented below. Prior periods have been restated to reflect adoption of the new IFRS 16 accounting standards.

Income statement (R\$ million) <sup>1</sup>	2020	2019	% Δ
<b>OPERATING REVENUES</b>			
Passenger	5,088.7	10,907.9	-53.3%
Cargo and other revenues	704.5	534.4	31.8%
<b>Total operating revenues</b>	<b>5,793.3</b>	<b>11,442.3</b>	<b>-49.4%</b>
<b>OPERATING EXPENSES</b>			
Aircraft fuel	1,508.8	3,085.6	-51.1%
Salaries, wages and benefits	1,426.6	1,868.4	-23.6%
Depreciation and amortization	1,726.4	1,591.4	8.5%
Landing fees	465.6	725.0	-35.8%
Traffic and customer servicing	288.3	476.5	-39.5%
Sales and marketing	329.8	444.1	-25.7%
Maintenance materials and repairs	449.8	281.6	59.7%
Other operating expenses	1,059.6	938.4	12.9%
<b>Total operating expenses</b>	<b>7,254.9</b>	<b>9,410.9</b>	<b>-22.9%</b>
<b>Operating income</b>	<b>(1,461.6)</b>	<b>2,031.4</b>	<b>n.a.</b>
<i>Operating Margin</i>	<i>-25.2%</i>	<i>17.8%</i>	<i>n.a.</i>
<b>FINANCIAL RESULT<sup>2</sup></b>			
Financial income	60.3	72.1	-16.3%
Financial expenses	(2,470.0)	(1,329.5)	85.8%
Derivative financial instruments	(1,452.1)	325.5	n.a.
Foreign currency exchange, net	(4,384.9)	(391.9)	1018.9%
Result from related party transactions, net	(713.8)	(17.0)	4109.4%
<b>Income before income taxes</b>	<b>(10,422.2)</b>	<b>690.6</b>	<b>n.a.</b>
Income tax and social contribution	(0.0)	(2.2)	-99.5%
Deferred income tax	242.5	135.4	79.1%
<b>Net income</b>	<b>(10,179.7)</b>	<b>823.7</b>	<b>n.a.</b>
<i>Net margin</i>	<i>-175.7%</i>	<i>7.2%</i>	<i>n.a.</i>
<b>Adjusted net income<sup>3</sup></b>	<b>(4,601.9)</b>	<b>845.5</b>	<b>n.a.</b>
<i>Adjusted net margin<sup>3</sup></i>	<i>-79.4%</i>	<i>7.4%</i>	<i>n.a.</i>
Weighted avg. of PN equivalent shares (million)	342.2	341.0	0.4%
Adjusted EPS	(13.45)	2.48	n.a.
Adjusted EPADR <sup>3</sup>	(7.83)	1.85	n.a.

<sup>1</sup> Adjusted for non-recurring items totaling R\$62.5 million gain in 2020 and R\$3.2 billion loss in 2019.

<sup>2</sup> Financial results adjusted for convertible debentures expenses.

<sup>3</sup> EPS and EPADR adjusted for unrealized derivatives results, foreign currency exchange. One ADR equals three preferred shares (PNs).





The table below sets forth the breakdown of our operating revenues and expenses on a per ASK basis for the periods indicated:

R\$ cents	2020	2019	% Δ
<b>Operating revenue per ASK<sup>1</sup></b>			
Passenger revenue	24.95	30.41	-18.0%
Cargo and other revenues	3.45	1.49	131.8%
<b>Operating revenue (RASK)</b>	<b>28.41</b>	<b>31.90</b>	<b>-11.0%</b>
<b>Operating expenses per ASK<sup>1</sup></b>			
Aircraft fuel	7.40	8.60	-14.0%
Salaries, wages and benefits	7.00	5.21	34.3%
Depreciation and amortization	8.46	4.44	90.8%
Landing fees	2.28	2.02	13.0%
Traffic and customer servicing	1.41	1.33	6.4%
Sales and marketing	1.62	1.24	30.6%
Maintenance materials and repairs	2.21	0.78	181.0%
Other operating expenses	5.20	2.62	98.6%
<b>Total operating expenses (CASK)</b>	<b>35.57</b>	<b>26.24</b>	<b>35.6%</b>
<b>Operating income per ASK (RASK - CASK)</b>	<b>(7.17)</b>	<b>5.66</b>	<b>n.a.</b>

<sup>1</sup> Adjusted for non-recurring items totaling R\$62.5 million gain in 2020 and R\$3.2 billion loss in 2019

<b>Operating Data</b>	<b>2020</b>	<b>2019</b>	<b>% Δ</b>
ASKs (million)	20,395	35,868	-43.1%
RPKs (million)	16,311	29,941	-45.5%
Load factor (%)	80.0%	83.5%	-3.5 p.p.
Average fare (R\$) <sup>1</sup>	343.9	394.2	-12.7%
Revenue passengers (thousands)	14,796	27,674	-46.5%
Block hours	266,881	495,362	-46.1%
Departures	158,070	295,354	-46.5%
Average stage length (km)	1,083	1,050	3.2%
Yield per passenger kilometer (cents)	31.20	36.43	-14.4%
RASK (cents)	28.41	31.90	-11.0%
PRASK (cents)	24.95	30.41	-18.0%
CASK (cents) <sup>2</sup>	35.57	26.24	35.6%
CASK ex-fuel (cents) <sup>2</sup>	28.17	17.63	59.8%

<sup>1</sup> Impacted by the reduced international network

<sup>2</sup> Adjusted for non-recurring items



*Operating Revenue:*

In 2020, Azul recorded an operating revenue of R\$5.8 billion, compared to R\$11.4 billion in 2019, representing a decrease of 49.4% year over year, due to the impact of the COVID-19 pandemic on passenger demand. RASK decreased 11.0% during the period compared to 2019. Cargo and other revenue increased 31.8%, totaling R\$704.5 million in 2020, compared to 2019, mainly due to the increase in cargo revenue, especially in e-commerce.

Passenger traffic (RPK) decreased 45.5%, compared to 2019, with a load factor of 80.0%. PRASK decreased 18.0%, mainly due to COVID-19 pandemic.

*Operating Expenses*

Total operating expenses, excluding non-recurring items, decreased 22.9% year over year, mainly due to lower capacity-related expenses and cost reduction initiatives. The breakdown of our main operating expenses is as follows:

- Aircraft fuel decreased 51.1% year over year to R\$1.5 billion, mostly due to the reduction in capacity and a 9.5% decrease in jet fuel prices.
- Salaries, wages and benefits decreased 23.6% year over year to R\$1.4 billion, mainly due to lower fixed salary costs from our labor agreements and lower capacity, partially offset by the higher non-cash accounting impact of long-term incentives, to be realized over a period of 8 years, which were driven by the increase in the stock price and corresponding volatility.
- Depreciation and amortization increased 8.5% to R\$1.6 billion, driven by the new aircraft in our fleet.
- Landing fees decreased 35.8% in 2020 compared to the same period last year, mostly due to the reduction in capacity year over year.
- Traffic and customer servicing expenses decreased 39.5% or R\$188.2 million, mostly due to the 46.5% reduction in the number of passengers transported in 2020 compared to 2019.
- Sales and marketing decreased 25.7%, mostly driven by a reduction of 46.5% in passenger revenue and marketing initiatives, partly offset by an increase in cargo express shipments, which have higher commission fees.
- Maintenance materials and repairs increased 59.7%, mostly driven by a 30.7% devaluation of the Brazilian real against the U.S. dollar and additional maintenance events in the quarter, performed to prepare the fleet for operational recovery, and which had been previously deferred.
- Other operating expenses increased 12.9% year over year, mostly due to the 30.7% devaluation of the Brazilian real against the U.S. dollar and the revision of several non-cash provisions.



## Liquidity and Financing

Azul closed the quarter with R\$4.0 billion in immediate liquidity, R\$1.7 billion higher than 3Q20 due to the capital raised in the 4Q20 through the convertible debenture issuance. Cash (including cash and cash equivalents and short-term investments) represents 69.6% of its last twelve months' revenue. The Company has no restricted cash nor minority interests in its subsidiaries. Considering deposits, maintenance reserves and other unencumbered assets, Azul's total liquidity was R\$7.9 billion as of December 31, 2020, and there is no significant debt repayments expected for the next twelve months.

<b>Liquidity (R\$ million)</b>	<b>2020</b>	<b>2019</b>	<b>% Δ</b>
Cash and cash equivalents	3,064.8	1,647.9	86.0%
Short-term investments	91.8	62.0	48.1%
Accounts receivable	875.4	1,165.9	-24.9%
<b>Immediate liquidity</b>	<b>4,032.0</b>	<b>2,875.8</b>	<b>40.2%</b>
<i>Cash as % of LTM revenues</i>	<i>69.6%</i>	<i>25.1%</i>	<i>+44.5 p.p.</i>
Long-term investments	854.5	1,397.7	-38.9%
Security deposits and maintenance reserves	1,554.0	1,651.5	-5.9%
Unencumbered assets	1,421.7	1,467.8	-3.1%
<b>Total Liquidity</b>	<b>7,862.2</b>	<b>7,392.8</b>	<b>6.3%</b>

Total debt increased 14.2% to R\$17.2 billion compared to 2019, mostly due to debt payments deferrals negotiated during the year and depreciation of the Brazilian real against US dollar.

As of December 31, 2020, Azul's average debt maturity excluding lease liabilities was 3.2 years with an average interest rate of 6.0%. Local and dollar-denominated obligations average interest rate was 6.2% and 5.4%, respectively.

<b>Loans and financing (R\$ million)<sup>1</sup></b>	<b>2020</b>	<b>2019</b>	<b>% Δ</b>
Operating lease liabilities	11,720.4	11,118.4	5.4%
Finance lease liabilities	800.4	988.3	-19.0%
Sublease receivables	(312.9)	(279.5)	12.0%
Other aircraft loans and financing	1,231.6	1,060.5	16.1%
<b>Loans and financing</b>	<b>3,709.3</b>	<b>2,457.6</b>	<b>50.9%</b>
Currency hedges	7.4	(321.7)	n.a.
<i>% of non-aircraft debt in local currency</i>	<i>44%</i>	<i>100%</i>	<i>-55.9 p.p.</i>
<b>Gross debt</b>	<b>17,156.1</b>	<b>15,023.5</b>	<b>14.2%</b>
<i>Short term</i>	<i>3,014.6</i>	<i>1,970.7</i>	<i>53.0%</i>
<i>Long term</i>	<i>14,141.5</i>	<i>13,052.9</i>	<i>8.3%</i>

<sup>1</sup> Considers the effect of hedges on debt, net of aircraft sublease receivables; excludes convertible debentures given strike price considerably lower than current stock price.





## AZUL S.A.

### Individual and consolidated financial statements

December 31, 2020

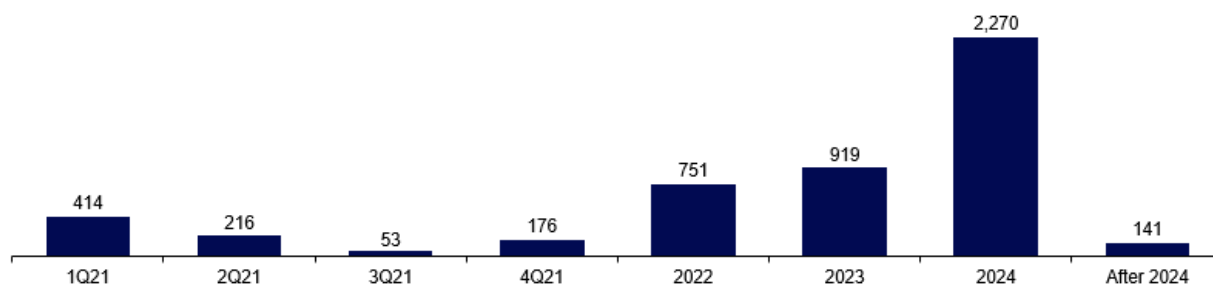
Azul's key financial ratios and debt amortization are presented below:

Key financial ratios (R\$ million)	2020	2019	% Δ
Cash <sup>1</sup>	4,886.5	4,273.5	14.3%
Gross debt <sup>2</sup>	17,156.1	15,023.5	14.2%
Net debt <sup>2</sup>	12,269.6	10,750.1	14.1%

<sup>1</sup> Includes cash and cash equivalents, accounts receivable and short-term and long-term investments.

<sup>2</sup> Excludes convertible debentures.

### Non-aircraft Debt Amortization 4Q20 (R\$ million)



## Fleet

As of December 31, 2020, Azul had a total passenger operating fleet of 162 aircraft and a contractual passenger fleet of 185 aircraft, with an average aircraft age of 8.3 years. Excluding 17 Cessna aircraft, the average aircraft age is 6.9. The 23 aircraft not included in our operating fleet consisted of 9 aircraft subleased to TAP and 1 subleased to Breeze, 12 Embraer E-Jets that were in the process of exiting the fleet and one A320neo family aircraft in the process of entering service.

### Total Passenger Contractual Fleet

Aircraft	2020	2019	% Δ
Airbus widebody	12	10	20.0%
Airbus narrowbody	45	41	9.8%
Embraer E2	9	4	125.0%
Embraer E1	63	70	-10.0%
ATRs	39	39	0.0%
Cessna	17	-	n.a.
<b>Total<sup>1</sup></b>	<b>185</b>	<b>164</b>	<b>12.8%</b>
<i>Aircraft under operating leases</i>	<i>156</i>	<i>147</i>	<i>6.1%</i>

<sup>1</sup> Includes 9 aircraft subleased to TAP and 1 subleased to Breeze



**Total Operating Fleet**

<b>Aircraft</b>	<b>2020</b>	<b>2019</b>	<b>% Δ</b>
Airbus widebody	11	10	10.0%
Airbus narrowbody	45	38	18.4%
Embraer E2	7	4	75.0%
Embraer E1	49	55	-10.9%
ATRs	33	33	0.0%
Cessna	17	-	n.a.
<b>Total</b>	<b>162</b>	<b>140</b>	<b>15.7%</b>





**AZUL S.A.**

**Individual and consolidated financial statements**

December 31, 2020

## **Declaration of the officers on the individual and consolidated financial statements**

In compliance with item VI of article 25 of CVM Instruction No. 480/09, as amended by CVM Instruction No. 586/17, the statutory officers declare that they have discussed, reviewed and approved the individual and consolidated financial statements of the Company for the year ended December 31, 2020, authorizing their completion on this date.

Barueri, March 1st, 2021.

John Peter Rodgerson  
Chief Executive Officer

Alexandre Wagner Malfitani  
Chief Financial and Investor Relations Officer

Antonio Flavio Torres Martins Costa  
Chief Operating Officer

Abhi Manoj Shah  
Chief Revenue Officer





**AZUL S.A.**

**Individual and consolidated financial statements**

December 31, 2020

## **Declaration of the officers on the independent auditor's report on the financial statements**

In compliance with item V of article 25 of CVM Instruction No. 480/09, as amended by CVM Instruction No. 586/17, the statutory officers declare that they have discussed, reviewed and approved the contents and opinions expressed in the independent auditor's report on individual and consolidated financial statements of the Company for the year ended December 31, 2020.

Barueri, March 1st, 2021.

John Peter Rodgerson  
Chief Executive Officer

Alexandre Wagner Malfitani  
Chief Financial and Investor Relations Officer

Antonio Flavio Torres Martins Costa  
Chief Operating Officer

Abhi Manoj Shah  
Chief Revenue Officer





## **Opinion of the Statutory Audit Committee**

### **Presentation and general information**

The Statutory Audit Committee is an advisory body directly linked to the Board of Directors, with operational autonomy and own budget, for advisory purposes, for:

- (i) Engaging and removing the independent auditor;
- (ii) Supervising the independent auditor's activities as to: (a) its independence; (b) the quality of the services provided; and (c) the adequacy of the services provided to meet the Company needs;
- (iii) Supervising the Company's internal controls and internal audit areas;
- (iv) Supervising the activities of the Company's financial statements preparation function;
- (v) Monitoring the quality and integrity of the Company's internal control mechanisms;
- (vi) Monitor the quality and integrity of the Company's quarterly information, interim and annual financial statements;
- (vii) Monitoring the quality and integrity of the information and measurements disclosed on the basis of adjusted accounting data and non-accounting data that add elements not addressed by the structure of the usual reports on the Company's financial statements;
- (viii) Assessing and monitoring the Company's risk exposures, and also requiring in-depth information about policies and procedures regarding: (a) management fees; (b) the use of Company assets; and (c) expenses incurred in the Company's name;
- (ix) Assessing and monitoring, together with management and the internal audit function, the adequacy of the Company transactions with related parties and their respective disclosures; and
- (x) Preparing the annual summarized report to be presented together with the financial statements, containing the description of: (a) its activities, the results and conclusions reached and recommendations made; and (b) any situations in which there is a significant disagreement among Company management, the independent auditor and the Audit Committee in relation to the Company's financial statements.

### **Summary of statutory audit committee activities in 2020**

#### **Internal audit**

- (i) Review and approval of the major Company risks presented by the Internal Audit;
- (ii) Analysis and approval of the planning of projects to be carried out in 2020;
- (iii) Monitoring of the audit matters, pending implementation in 2019;
- (iv) Analysis of the audit work carried out in light of inquiries of independent auditors;
- (v) Monitoring of the services carried out in 2020; and
- (vi) Analysis and authorization of request of adjustments to the audit plan due to the COVID-19 pandemic.







### Internal controls

- (i) Monitoring of internal control tests for certification to meet the requirements of Sections 302 and 404 of the Sarbanes-Oxley Act.

### Independent audit

- (i) Analysis and approval of the information provided by Ernst & Young Auditores Independientes S.S. for the year ended December 31, 2020; and
- (ii) Analysis of the planning and strategy of Ernst & Young Auditores Independientes S.S. for the year 2020.

### Individual and consolidated financial statements

- (i) Review and recommendation to the Board of Directors as to the approval of the quarterly and annual financial statements;
- (ii) Monitoring of the provisions for accounting risks and estimates;
- (iii) Analysis of the proposals for guarantees and approval to be resolved by the Board of Directors.

### Opinion of the Statutory Audit Committee

In compliance with the legal provisions, the Statutory Audit Committee reviewed the management report and the individual and consolidated financial statements for the year ended December 31, 2020. Based on this review and also considering the information and clarifications provided by the Company management and by Ernst & Young Auditores Independientes S.S. during the year, the Statutory Audit Committee expressed a favorable opinion on the management report and on the individual and consolidated financial statements for the year ended December 31, 2020, together with the audit opinion issued by Ernst & Young Auditores Independientes S.S., recommending the Board of Directors to approve them.

Barueri, March 1st, 2021.

Gilberto de Almeida Peralta  
Member of the Audit Committee

Sergio Eraldo de Salles Pinto  
Member of the Audit Committee

Gelson Pizzirani  
Member of the Audit Committee



**A free translation from Portuguese into English of Independent Auditor's Report on individual and consolidated financial statements prepared in Brazilian currency in accordance with the accounting practices adopted in Brazil**

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## **Independent auditor's report on individual and consolidated financial statements**

The Shareholders, Board of Directors and Officers

**Azul S.A.**

Barueri – São Paulo

### **Opinion**

We have audited the individual and consolidated financial statements of Azul S.A. ("Company"), which comprise the statement of financial position as at December 31, 2020, and the statements of operations, of comprehensive income, of changes in equity and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the Company's individual and consolidated financial position as at December 31, 2020, and its individual and consolidated financial performance and cash flows for the year then ended in accordance with the accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

### **Basis for opinion**

We conducted our audit in accordance with the Brazilian and International Standards on Auditing. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report. We are independent of the Company and its subsidiaries in accordance with the relevant ethical principles set forth in the Code of Professional Ethics for Accountants, the professional standards issued by Brazil's National Association of State Boards of Accountancy (CFC) and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Key audit matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the current year. These matters were addressed in the context of our audit of the individual and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter, including any commentary on the findings or outcome of our procedures, is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the individual and consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

### Maintenance Reserves

Under the lease agreements with aircraft lessors, the Company has agreed to carry out maintenance or to reimburse the lessor based on the actual state of repair of the fuselage, engines and parts with limited useful life.

Management assesses the recoverability of these deposits by comparing the amounts expected to be reimbursed when the next maintenance is performed. Amounts determined to be non-recoverable are recognized as expensed to the statement of operations for the year. As at December 31, 2020, according to Note 10, the balance of the maintenance reserves totaled R\$1,321,646 thousand (current and non-current).

Considering the magnitude of the amounts involved, in addition to the degree of judgment applied in determining the maintenance cost estimates to be incurred and the need for management to monitor the recoverability of these deposits, we consider this to be a key audit matter.

#### How our audit addressed this matter

Our audit procedures included, among others (i) sending confirmation letters to certain lessors regarding the balance of the maintenance reserve in each contract; (ii) selecting a sample of contracts and checking their respective terms; (iii) management's assessment of the recoverability of the provision for maintenance costs, which considers the recoverability of each deposit for each item, aircraft and lessor; (iv) assessing whether the disclosures in the financial statements, included in Notes 4.9.2 and 10, were adequate based on the applicable accounting standards.

Based on the result of audit procedures, which are consistent with management's assessment, we consider the accounting policies for measuring the provision for maintenance costs reasonable to support the judgments, estimates and information included in the context of the financial statements taken as a whole.

### Going concern assumption

The financial statements were prepared on a going concern basis, on the assumption that the Company is and will continue to be in operation for a foreseeable future at least 12 months after the balance sheet date. This assumption considers that management neither intends to liquidate the Company or to cease its operations or has no other realistic alternative but to do so. Notes 1.2 and 1.3 to the financial statements detail how the Company's management concluded that there is a reasonable expectation as to its going concern to support the preparation of the financial statements using this assumption.

The Company has negative working capital of R\$4,795,208 thousand, negative equity of R\$14,148,750 thousand, and reported losses in recent years, and management's assessment described in the aforementioned note includes measures already implemented and in progress to reverse the negative financial position. The calculations that support the assumptions of expected future profitability and cash flow require management to make judgments with a high degree of subjectivity, in addition to analyzing all new agreements signed by management, especially those with lessors and financial institutions. We have, therefore, used significant audit efforts in assessing the appropriateness of the use of the going concern assumption by the Company's management in the preparation of the financial statements and, therefore, this is considered a key audit matter.

How our audit addressed this matter:

Our audit procedures included, among others, (i) obtaining and analyzing the financial assessment prepared by the Company regarding the uncertainties that may cast doubt on its ability to continue as a going concern, and the assessment of the cash flow projections prepared by the Company for the 12 months after the reporting date; (ii) with the assistance of our valuation specialists, we reviewed the assumptions used in determining the cash flow projections, considering actual results, as well as the consistency of actual vs. budgeted figures for the previous periods; (iii) evaluating the agreements regarding delays and extensions of the maturity of lease agreements and of agreements with financial institutions; (iv) assessing the adequacy of the Company's disclosures included in Notes 1.2 and 1.3 to the individual and consolidated financial statements.

Based on the audit procedures performed, which are consistent with management's assessment, we consider the Company's judgment that there is no material uncertainty relating to the going concern assumption to be acceptable in the context of the financial statements taken as a whole.



## Other matters

### Statements of value added

The individual and consolidated statements of value added (SVA) for year ended December 31, 2020, prepared under the responsibility of Company management, and presented as supplementary information for IFRS purposes, were submitted to audit procedures conducted together with the audit of the Company's financial statements. To form our opinion, we evaluated if these statements are reconciled to the financial statements and accounting records, as applicable, and if their form and content comply with the criteria defined in Technical Pronouncement NBC TG 09 – Statement of Value Added. In our opinion, these statements of value added were prepared fairly, in all material respects, in accordance with the criteria defined in abovementioned accounting pronouncement, and are consistent in relation to the overall individual and consolidated financial statements.

### **Other information accompanying the individual and consolidated financial statements and the auditor's report**

Management is responsible for such other information, which comprises the Management Report.

Our opinion on the individual and consolidated financial statements does not cover the Management Report and we do not express any form of assurance conclusion thereon.

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

### **Responsibilities of management and those charged with governance for the individual and consolidated financial statements**

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



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

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

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

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

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

- Identified and assessed the risks of material misstatement of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control.
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.



- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

São Paulo, March 4, 2021.

ERNST & YOUNG  
Auditores Independentes S.S.  
CRC-2SP034519/O-6

Marcio D. Berstecher  
Accountant CRC-1SP259735/O-2





## AZUL S.A.

### Statements of financial position

As at December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$)

		Parent Company		Consolidated	
Assets	Note	12.31.20	12.31.19	12.31.20	12.31.19
Current assets					
Cash and cash equivalents	5	437,896	7,961	3,064,815	1,647,880
Short-term investments	6	-	20	91,819	62,009
Accounts receivable	7	-	78	875,382	1,165,866
Aircraft sublease receivables	8	-	-	123,455	75,052
Inventories	9	-	-	402,587	260,865
Assets held for sale		-	-	-	51,850
Security deposits and maintenance reserves	10	-	-	318,460	258,212
Taxes recoverable	11	13,931	1,310	133,706	139,668
Derivative financial instruments	20	-	-	79,216	168,148
Prepaid expenses	12	690	151	136,350	139,403
Other current assets		17,131	13,324	191,633	169,778
Total current assets		469,648	22,844	5,417,423	4,138,731
Non-current assets					
Long-term investments	6	-	1,236,828	854,462	1,397,699
Aircraft sublease receivables	8	-	-	189,482	204,452
Security deposits and maintenance reserves	10	-	-	1,235,582	1,393,321
Derivative financial instruments	20	-	-	349,093	657,776
Taxes recoverable	11	-	-	-	244,601
Prepaid expenses	12	-	-	18,192	22,216
Other non-current assets		32	3,617	149,508	497,567
Investments	14	793,541	813,065	-	-
Property and equipment and right of use	15	-	-	6,410,447	9,553,643
Intangible assets	16	-	-	1,170,268	1,087,484
Total non-current assets		793,573	2,053,510	10,377,034	15,058,759
Total assets		1,263,221	2,076,354	15,794,457	19,197,490





## AZUL S.A.

### Statements of financial position

As at December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$)

		Parent Company		Consolidated	
Liabilities and equity	Note	12.31.20	12.31.19	12.31.20	12.31.19
Current liabilities					
Loans and financing	17	-	-	858,332	481,227
Lease liabilities	18	-	-	2,272,349	1,585,233
Accounts payable	19	34,617	43	2,238,668	1,376,850
Accounts payable - supplier finance		-	-	157,801	249,727
Air traffic liability	21	-	-	2,488,872	2,090,222
Reimbursement to customers		-	-	221,342	4,032
Salaries, accruals and payroll charges		557	736	400,371	357,571
Insurance premiums payable		-	-	52,427	49,938
Taxes payable		16,412	537	55,260	49,060
Federal tax installment payment program		-	-	13,358	13,480
Derivative financial instruments	20	-	-	173,769	81,196
Provisions	22	-	-	853,810	323,441
Other current liabilities		72,538	26,822	426,272	200,043
Total current liabilities		124,124	28,138	10,212,631	6,862,020
Non-current liabilities					
Loans and financing	17	2,419,704	-	6,502,182	3,036,929
Lease liabilities	18	-	-	10,248,463	10,521,388
Accounts payable	19	-	-	323,059	-
Derivative financial instruments	20	-	-	247,265	228,994
Deferred income tax and social contribution	13	-	242,516	-	242,516
Federal tax installment payment program		-	-	108,519	119,300
Provisions	22	-	-	1,988,665	1,489,911
Provision for loss on investment	14	12,868,143	5,324,874	-	-
Other non-current liabilities		-	-	312,423	215,606
Total non-current liabilities		15,287,847	5,567,390	19,730,576	15,854,644
Equity					
	24				
Issued capital		2,246,367	2,243,215	2,246,367	2,243,215
Advance for future capital increase		20,625	-	20,625	-
Capital reserve		1,947,887	1,928,830	1,947,887	1,928,830
Treasury shares		(13,182)	(15,565)	(13,182)	(15,565)
Other comprehensive income		655	(159,261)	655	(159,261)
Accumulated losses		(18,351,102)	(7,516,393)	(18,351,102)	(7,516,393)
		(14,148,750)	(3,519,174)	(14,148,750)	(3,519,174)
Total liabilities and equity		1,263,221	2,076,354	15,794,457	19,197,490

The accompanying notes are an integral part of these individual and consolidated financial statements.





## AZUL S.A.

### Statements of profit or loss

Years ended December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$, except basic and diluted loss per share)

		Parent company		Consolidated	
		Years Ended			
	Note	12.31.20	12.31.19	12.31.20	12.31.19
Passenger revenue		-	-	5,039,607	10,907,889
Cargo transport and other revenue		-	-	704,519	534,428
Net revenue	27	-	-	5,744,126	11,442,317
Cost of services	28	-	-	(5,458,691)	(11,366,825)
Gross profit		-	-	285,435	75,492
Operating expenses					
Selling expenses		-	-	(351,316)	(471,312)
Administrative expenses		(42,624)	(19,612)	(864,026)	(799,580)
Other operational expenses		-	-	(469,174)	-
	28	(42,624)	(19,612)	(1,684,516)	(1,270,892)
Equity	14	(9,564,331)	(2,354,301)	-	-
Operating profit (loss)		(9,606,955)	(2,373,913)	(1,399,081)	(1,195,400)
Financial income	29	4,027	764	60,298	72,071
Financial expenses	29	(820,629)	(2,417)	(3,269,941)	(1,329,524)
Derivative financial instruments	20	-	-	(1,452,116)	325,452
Foreing currency exchange, net	29	61,152	9,213	(4,302,540)	(391,905)
		(755,450)	7,560	(8,964,299)	(1,323,906)
Result from related party transactions, net		(714,809)	(61,688)	(713,834)	(16,959)
Loss before income tax and social contribution		(11,077,214)	(2,428,041)	(11,077,214)	(2,536,265)
Current income tax and social contribution	13	(11)	(2,130)	(11)	(2,228)
Deferred income tax and social contribution	13	242,516	27,085	242,516	135,407
Net loss		(10,834,709)	(2,403,086)	(10,834,709)	(2,403,086)
Basic loss per common share - R\$		(0.42)	(0.09)	(0.42)	(0.09)
Diluted loss per common share - R\$		(0.42)	(0.09)	(0.42)	(0.09)
Basic loss per preferred share - R\$		(31.67)	(7.05)	(31.67)	(7.05)
Diluted loss per preferred share - R\$		(31.67)	(7.05)	(31.67)	(7.05)

The accompanying notes are an integral part of these individual and consolidated financial statements.





## AZUL S.A.

### Statements of comprehensive income

Years ended December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$, except basic and diluted loss per share)

	Note	Parent company and	
		Years Ended	
		12.31.20	12.31.19
Net loss		(10,834,709)	(2,403,086)
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent years:</b>			
Cash flows hedges	20	159,261	(5,292)
Post-employment benefit	22	655	-
Total comprehensive income for the year		(10,674,793)	(2,408,378)

The accompanying notes are an integral part of these individual and consolidated financial statements.





## AZUL S.A.

### Statements of changes in equity

Years ended December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$, except basic and diluted loss per share)

	Note	Issued capital	Advance for future capital increase	Treasury shares	Capital reserve	Other comprehensive income	Accumulated losses	Total
At December 31, 2018		2,209,415	-	(10,550)	1,918,373	(153,969)	(5,113,307)	(1,150,038)
Net loss		-	-	-	-	-	(2,403,086)	(2,403,086)
Cash flow hedge		-	-	-	-	(5,292)	-	(5,292)
<b>Total comprehensive income</b>		-	-	-	-	(5,292)	(2,403,086)	(2,408,378)
Share buyback	24	-	-	(12,853)	-	-	-	(12,853)
Share-based payment	26	33,800	-	7,838	10,457	-	-	52,095
At December 31, 2019		2,243,215	-	(15,565)	1,928,830	(159,261)	(7,516,393)	(3,519,174)
Net loss		-	-	-	-	-	(10,834,709)	(10,834,709)
Post-employment benefit	22	-	-	-	-	655	-	655
Cash flow hedge		-	-	-	-	159,261	-	159,261
<b>Total comprehensive income</b>		-	-	-	-	159,916	(10,834,709)	(10,674,793)
Share-based payment	26	3,152	20,625	2,383	19,057	-	-	45,217
At December 31, 2020		2,246,367	20,625	(13,182)	1,947,887	655	(18,351,102)	(14,148,750)

The accompanying notes are an integral part of these individual and consolidated financial statements



# AZUL S.A.

## Statements of cash flows

Years ended December 31, 2020 and 2019  
(In thousands of Brazilian reais – R\$)

	Parent company		Consolidated	
	Years Ended			
	12.31.20	12.31.19	12.31.20	12.31.19
<b>Cash flows from operating activities</b>				
Net loss	(10,834,709)	(2,403,086)	(10,834,709)	(2,403,086)
<b>Reconciliation of non-cash items</b>				
Depreciation and amortization	-	-	1,805,553	1,622,352
Impairment of assets and onerous liabilities	-	-	(757,554)	2,897,333
Unrealized derivative results	755,860	61,356	2,207,470	(367,753)
Share-based payment	-	2,623	22,909	17,239
Exchange differences, net	(39,682)	(15,671)	4,040,946	448,901
Interest (income) expenses on assets and liabilities	760,830	(212)	2,166,133	1,082,256
Related parties	-	-	687,531	(3,241)
Deferred income tax and social contribution	(242,516)	(27,085)	(242,516)	(135,407)
Provision for loss on maintenance reverses	-	-	419,843	8,417
Provisions	-	-	281,479	68,814
Sale and Leaseback	-	-	(16,224)	-
Result from modification of lease contracts	-	-	(902,888)	-
Proceeds from sale and/or disposal of property and equipment and intangible assets	-	-	621,415	106,914
Equity	9,564,331	2,354,301	-	-
<b>Net adjusted profit (loss)</b>	(35,886)	(27,774)	(500,612)	3,342,739
<b>Change in operating assets and liabilities</b>				
Accounts receivable	78	(43)	341,759	(98,803)
Aircraft sublease receivables	-	-	69,336	66,899
Inventories	-	-	(44,587)	(78,511)
Security deposits and maintenance reserves	-	-	(173,778)	(57,848)
Prepaid expenses	(539)	132	(25,089)	(24,483)
Taxes recoverable	(12,621)	2,097	251,962	(15,718)
Other assets	3,586	-	272,718	(103,233)
Rights and obligations with derivatives	-	-	(257,021)	(2,412)
Accounts payable	34,574	2	993,546	83,593
Accounts payable – supplier finance	-	-	(249,727)	86,949
Reimbursement to customers	-	-	212,542	4,043
Salaries, wages and benefits	(179)	441	40,093	113,563
Insurance premiums payable	7	-	2,489	14,939
Taxes payable	16,044	(14,567)	4,212	(8,417)
Federal installment payment program	-	-	(9,749)	27,326
Air traffic liability	-	-	394,618	421,802
Accrual for tax, civil and labor risks	-	-	(116,393)	(93,718)
Other liabilities	-	-	250,509	(112,578)
Interest paid	-	-	(480,294)	(969,061)
Income tax and social contribution paid	(304)	(2,434)	(304)	(2,434)
<b>Net cash provided by (used in) operating activities</b>	4,760	(42,146)	976,230	2,594,637
<b>Cash flows from investing activities</b>				
Short-term investments	-	(10,110)	(1,471,743)	(1,451,616)
Acquisition of short-term investments	-	24,160	1,513,613	1,816,862
Disposal of short-term investments	21	-	-	(51,028)
Loans granted to third parties	-	-	(38,713)	-
Acquisition of subsidiary, net of cash acquired	-	-	45,670	59,381
Proceeds from sale of property and equipment	-	-	(109,587)	(132,454)
Acquisition of intangible assets	-	-	(343,073)	(1,427,965)
Acquisition of property and equipment	-	-	-	-
<b>Net cash provided by (used in) investing activities</b>	21	14,050	(403,833)	(1,186,820)
<b>Cash flows from financing activities</b>				
Loans and financing				
Proceeds	1,702,155	-	1,936,223	592,312
Repayment	-	-	(192,408)	(174,304)
Lease payment	-	-	(834,086)	(1,372,701)
Proceeds from sale and leaseback	-	-	-	16,276
Advance for future capital increase	(1,300,000)	-	-	-
Capital increase due to exercise of stock options	23,777	37,767	23,777	37,767
Treasury shares	-	(12,853)	-	(12,853)
<b>Net cash provided by (used in) financing activities</b>	425,932	24,914	933,506	(913,503)
Exchange rate changes on cash and cash equivalents	(778)	(107)	(88,968)	(15,570)
<b>Net increase (decrease) in cash and cash equivalents</b>	429,935	(3,289)	1,416,935	478,744
<b>Cash and cash equivalents at beginning of the year</b>	7,961	11,250	1,647,880	1,169,136
<b>Cash and equivalents at end of the year</b>	437,896	7,961	3,064,815	1,647,880

The accompanying notes are an integral part of these individual and consolidated financial statements.





# AZUL S.A.

## Statements of value added

Years ended December 31, 2020 and 2019  
(In thousands of Brazilian reais – R\$)

		Parent company		Consolidated	
	Note	12.31.20	12.31.19	12.31.20	12.31.19
<b>Revenue</b>					
Passenger revenue		-	-	5,197,271	11,198,585
Cargo and other revenue		-	-	799,223	604,297
Reversal for expected losses		-	-	(1,415)	(1,993)
		-	-	5,995,079	11,800,889
<b>Inputs acquired from third parties</b>					
Aircraft fuel	28	-	-	(1,508,750)	(3,085,603)
Materials, energy, third-party services and other		(36,350)	(7,894)	(3,055,625)	(2,978,555)
Aircraft insurance		-	-	(61,786)	(33,404)
		(36,350)	(7,894)	(4,626,161)	(6,097,562)
<b>Gross value added</b>					
		(36,350)	(7,894)	1,368,918	5,703,327
<b>Retentions</b>					
Depreciation and amortization	28	-	-	(1,805,553)	(1,622,352)
Impairment				757,554	(2,897,333)
<b>Net value added produced by the Company</b>					
		(36,350)	(7,894)	320,919	1,183,642
<b>Value added received in transfers</b>					
Equity	14	(9,564,331)	(2,354,301)	-	-
Financial income	29	4,027	764	60,298	72,071
Result from related party transactions, net		(714,809)	(61,688)	(713,834)	(16,959)
		(10,275,113)	(2,415,225)	(653,536)	55,112
<b>Total value added to be distributed</b>					
		(10,311,463)	(2,423,119)	(332,617)	1,238,754
<b>Distribution of value added:</b>					
<b>Personal</b>					
		5,675	9,515	1,211,096	1,661,116
Salaries and wages		3,409	5,363	878,808	1,258,832
Benefits		2,115	3,838	260,154	296,247
F.G.T.S.		151	314	72,134	106,037
<b>Taxes, fees and contributions</b>					
		(241,905)	(22,752)	172,275	475,256
Federal		(241,905)	(23,573)	129,986	442,087
State		-	-	29,051	19,852
Municipal		-	821	13,238	13,317
<b>Third party capital remuneration</b>					
		759,476	(6,796)	9,118,721	1,505,468
Financial expenses	29	759,476	(6,796)	9,024,597	1,395,977
Rentals		-	-	94,124	109,491
<b>Shareholders' equity compensation</b>					
		(10,834,709)	(2,403,086)	(10,834,709)	(2,403,086)
Net loss		(10,834,709)	(2,403,086)	(10,834,709)	(2,403,086)

The accompanying notes are an integral part of these individual and consolidated financial statement







## AZUL S.A.

### Notes to the individual and consolidated financial statements

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

## 1. OPERATIONS

Azul S.A. (“Azul” or “Company”) is a corporation governed by its bylaws, by Law No. 6,404/76 and by the corporate governance level 2 listing regulation of B3 S.A. – Brasil, Bolsa, Balcão (“B3”). The Company was incorporated on January 3, 2008, and its core business comprises the operation of regular and non-regular airline passenger services, cargo or mail, passenger charter, provision of maintenance and hangarage services for aircraft, engines, parts and pieces, aircraft acquisition and lease, development of frequent-flyer programs, development of related activities and equity holding in other companies.

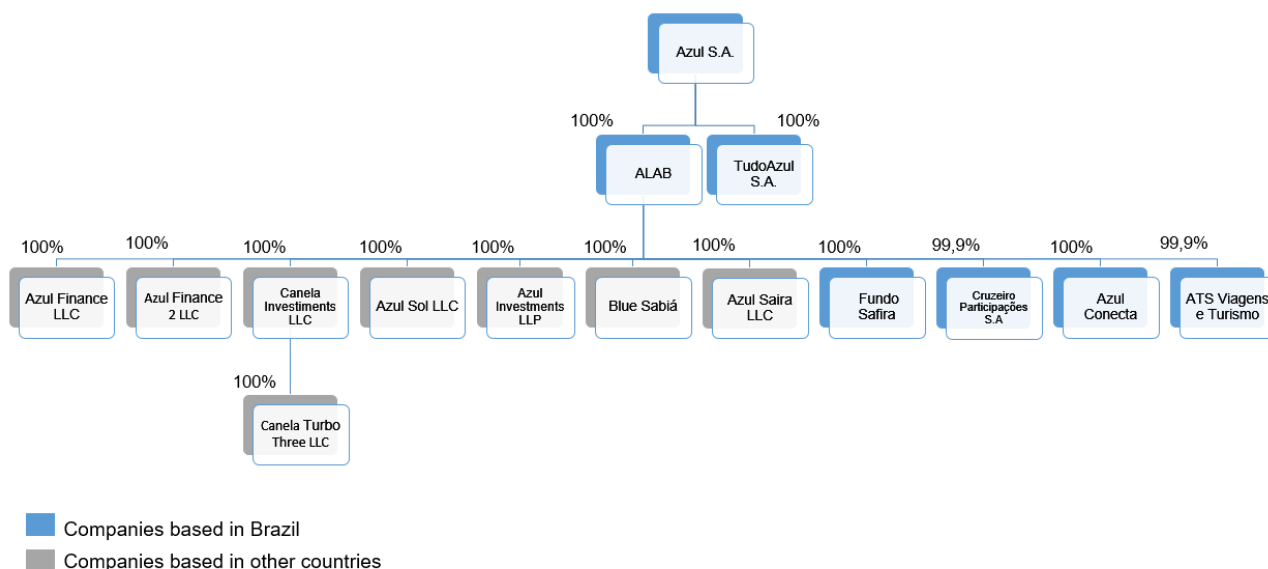
The Company carries out its activities through its subsidiaries, mainly Azul Linhas Aéreas Brasileiras S.A. (“ALAB”), which holds authorization from government authorities to operate as an airline.

The Company’s shares are traded on B3 and on the New York Stock Exchange (“NYSE”) under tickers AZUL4 and AZUL, respectively.

The Company is headquartered at Avenida Marcos Penteado de Ulhôa Rodrigues, 939, 9º andar, in the city of Barueri, state of São Paulo, Brazil.

### 1.1 Shareholding structure

The Company’s shareholding structure at December 31, 2020 is as follows:





## AZUL S.A.

### Notes to the individual and consolidated financial statements

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

The Company's shareholding structure and operating activities in which its subsidiaries are engaged at December 31, 2020 and 2019 and changes for the year are as follows:

Company	Type of investment	Main activity	Country	% equity interest	
				12.31.20	12.31.19
TudoAzul S.A.	Direct	Loyalty programs	Brazil	100.00%	100.00%
Azul Linhas Aéreas Brasileiras S.A. (ALAB)	Direct	Airline operations	Brazil	100.00%	100.00%
TwoTaxi Aéreo Ltda. (Azul Conecta) (a)	Indirect	Airline operations	Brazil	100.00%	-
ATS Viagens e Turismo Ltda.	Indirect	Package holidays	Brazil	99.90%	99.90%
Fundo Garoupa (b)	Indirect	Exclusive investment fund	Brazil	-	100.00%
Fundo Safira	Indirect	Exclusive investment fund	Brazil	100.00%	100.00%
Cruzeiro Participações S.A	Indirect	Holding of equity interests in other companies	Brazil	99.90%	99.90%
Azul Investments LLP	Indirect	Funding	USA	100.00%	100.00%
Azul SOL LLC	Indirect	Aircraft financing	USA	100.00%	100.00%
Azul Finance LLC	Indirect	Aircraft financing	USA	100.00%	100.00%
Azul Finance 2 LLC	Indirect	Aircraft financing	USA	100.00%	100.00%
Blue Sabiá LLC	Indirect	Aircraft financing	USA	100.00%	100.00%
Canela Investments LLC (Canela)	Indirect	Aircraft financing	USA	100.00%	100.00%
Canela 407 LLC (c)	Indirect	Aircraft financing	USA	-	100.00%
Canela 429 LLC (c)	Indirect	Aircraft financing	USA	-	100.00%
Canela Turbo Three LLC	Indirect	Aircraft financing	USA	100.00%	100.00%
Global AzulAirProjects, SGPS, S.A. (Global) (d)	Indirect	Equity holding in other companies	Portugal	-	45.45%
Daraland S.A. (e)	Indirect	Holding	Uruguay	-	100.00%
Encenta S.A. (Azul Uruguai) (e)	Indirect	Airline operations	Uruguay	-	100.00%
Azul Saíra LLC (f)	Indirect	Aircraft financing	USA	100.00%	-

(a) Subsidiary acquired on May 14, 2020 (see Note 2).

(b) Investment fund closed in January 2020.

(c) Subsidiaries closed in August 2020.

(d) Divestiture in October 2020.

(e) Subsidiary closed in December 2020.

(f) Subsidiary incorporated on December 7, 2020.

On December 7, 2020, the wholly-owned subsidiary of subsidiary ALAB, Azul Saíra, which is a co-essor in the sublease contract entered with Breeze Airways, was established as detailed in Note 23.6.

## 1.2 Impacts of the COVID-19 pandemic

The year 2020 brought a favorable environment to the Company with a good performance of sales and revenues, announcement of the new route to New York, and win of new key customers in the cargo transport. However, beginning March 11, 2020, when the World Health Organization ("WHO") classified the COVID-19 disease as a "public health emergency of international concern" and declared it a pandemic, a sharp rupture was noted in the global economic activity, unleashing an unprecedented economic crisis.





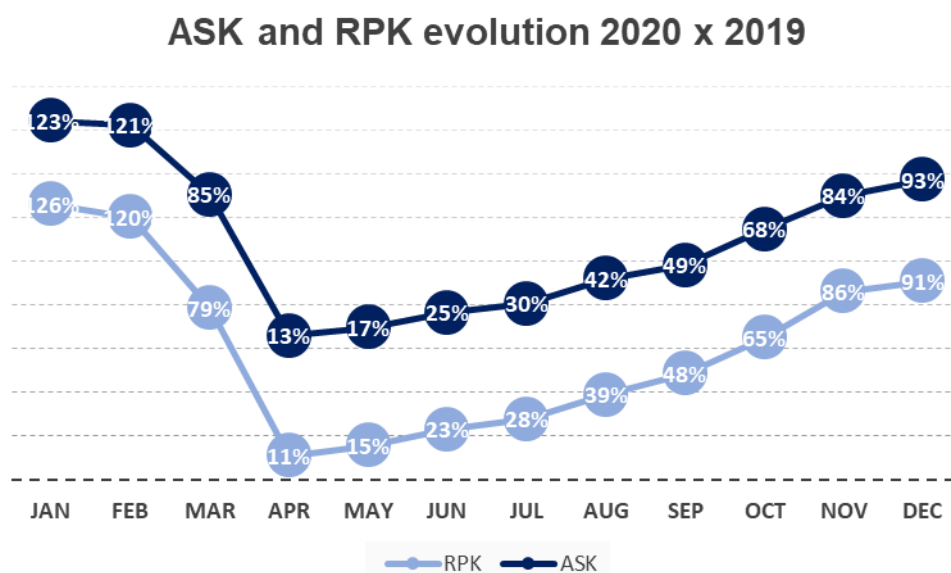
The speed of spread and contagion of the disease has caused countries around the world, including Brazil, to adopt measures to recommend social distancing, travel restrictions and the closure of borders. As a consequence, the airline industry was one of the first and hardest hit in its operations and results.

In order to face this absolutely challenging scenario, the Company, through its Executive Committee, started to monitor and establish operational and financial strategies to go through this period of crisis until the resumption of operations. The communication of these strategies was made in detail to the public through documents, whether Material News Release or Statements to the Market. The main actions include the following:

### 1.2.1 Resizing of the airline network

One of the first and most important actions taken by Management in response to the economic crisis unleashed by the COVID-19 pandemic, was the resizing of its airline network, with reductions in capacity that reached its peak in April 2020. At this moment, the volume of ASKs offered in the domestic market accounted for only 13% of the volume of the same period of 2019, represented by approximately 70 daily flights, and in turn the demand reduced to 11% of the total of the previous year.

Since the beginning of the pandemic, Management has monitored the resumption of demand and managed the offer of flights, reaching in December 2020, in the domestic market, 93% of the volume of ASKs offered in the domestic market in the same period of 2019, while demand corresponded to 91%. According to data from *FlightRadar24*, Brazil is one of the countries with the highest speed of recovery in the domestic commercial aviation market. During the year, the recovery of demand and supply in the domestic market compared to 2019 developed as shown graphically below:



Source: Prepared based on data available at: <https://www.anac.gov.br/assuntos/setor-regulado/empresas/envio-de-informacoes/relatorio-demanda-e-oferta-do-transporte-aereo-empresas-brasileiras>





The Company's Management continuously monitors all developments related to the COVID-19 pandemic, and will continue to make adjustments to the flight offer, if necessary, prioritizing above all the health and safety of all its crew and customers.

### 1.2.2 Cost reductions

During the year, the Company adopted several measures to reduce its fixed and variable costs, among which the following stand out:

- Suspension of hiring new crew members in the period between March and August 2020;
- Launch of the unpaid leave program, with the adhesion of more than 10,000 crew members, for periods between 30 and 120 days;
- Reduction of 50% to 100% in salaries for executive committee members and directors and of 25% for managers for the period between March and July 2020;
- Reduction of general salary expenses by 65% in the period between March and August 2020, due to adherence to Provisional Executive Order 936/20; and
- Collective bargaining agreement to reduce the working hours of pilots and flight attendants for 18 months, starting in June 2020, ended at the end of 2020, due to the speed of resumption of operations in the domestic market.

### 1.2.3 Strengthening of cash and liquidity

Throughout the year, with the evolution of the pandemic, Management endeavored to keep the cash levels necessary to face the crisis, requiring reaching new agreements with suppliers, bank creditors and lessors, as well as to access the capital market through issuance of debentures, as highlighted below:

- Postponement of payment of gain and profit sharing of 2019;
- Negotiation of new payment conditions with suppliers for cash preservation;
- Suspension of business travels and discretionary expenses;
- Negotiation to reduce aircraft parking fees;
- Agreement for postponement of delivery of 59 aircraft model E2;
- Agreement with lessors with a reduction of approximately 77% of the cash outflow for the period between April and December 2020, offset by slightly higher amounts from 2023 and extension of the contractual terms. As from such renegotiations, in accordance with the requirements of CPC 06 (R2) - Leases, equivalent to IFRS16, these contracts were remeasured and the lease liabilities reduced by R\$5,701,928 (see Note 18);
- Renegotiation of the conditions and maturities of debentures and obligations of FINAME; and





- Issuance of debentures convertible into shares in the amount of R\$ 1,745,900 with maturity in 5 years and interest of 7.5% in the first year and 6.0% from the second year, with semiannual settlements.

#### **1.2.4 Support from government and regulators**

Since the beginning of the pandemic, state and federal governments and regulators took certain actions in support of airline companies. Among these actions, the following stand out:

- Enactment of Provisional Executive Order No. 925/20, converted into Law No. 14,034 / 20, which extended the period for rebooking trips to a period of up to 18 months, as well as extended to 12 months, counted from the flight cancellation date, deadline for repayment;
- Change in the deadline for payment of navigation and airport fees;
- Allowance for canceling slots using the regularity index, in line with a similar decision with other civil aviation organizations and authorities; and
- Extension by 120 days of the term for renewal of qualifications of the technical crew.

#### **1.2.5 Support to the company and care with crew and customers**

- Free transportation of health professionals;
- Maximizing the use of the Tapete Azul to avoid agglomerations on boarding;
- Landing organized by rows to avoid crowds within the aircraft;
- Use of a mask by all our crew and daily check of body temperature;
- Distribution of hand sanitizer to our customers;
- Implementation of Honeywell's ultraviolet ray cleaning system in our aircraft; and
- Free transport of vaccines to the cities where we operate.

#### **1.2.6 COVID-19 impacts on the individual and consolidated financial statements**

In accordance with Official Memorandums No. 02/20, No. 03/20 and No. 01/21, issued by the Brazilian Securities and Exchange Commission ("CVM"), taking into consideration the economic scenario and the risks and uncertainties from the impacts of the economic and sanitary crisis unleashed by the COVID-19 pandemic, the following adjustments were recorded during the year:



**AZUL S.A.****Notes to the individual and consolidated financial statements**

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

Description of adjustments		Parent company	Consolidated
Decrease in lease liabilities	(a)	-	5,701,928
Write-off of right of use (leased property and equipment)	(a)	-	(4,799,040)
Loss on fair value of conversion right - TAP Bond	(b)	(637,639)	(637,639)
Interest expense on reimbursement to customers	(c)	-	(8,800)
Effects from the application of the equity method		894,088	-
Effect on profit for the year		256,449	256,449

Reclassifications		Consolidated
Airline traffic liability	(c)	(212,542)
Obligations with reimbursement to customers	(c)	212,542

- (a) During the year, the Company renegotiated 96% of the aircraft and engine lease contracts. Such renegotiations included the deferral of payments and changes in contractual terms, and as a consequence, it was necessary to apply the requirements for contractual modification contained in CPC 06 (R2) - Leases, equivalent to IFRS 16, which resulted in the reduction of the lease liability with a balancing item in the right of use and P&L for the year.
- (b) On August 10, 2020, as informed at the Extraordinary General Meeting, due to the crisis caused by the COVID-19 pandemic, the Portugal Government's negotiated an aid of € 1.2 billion for the airline TAP with the European Commission, conditional upon, among other factors, eliminating the right to convert senior bonds, since they would not be diluted by the Portugal Government's financial contribution. As a consequence, the elimination of the conversion right resulted in a loss recognized in the financial statements of R\$ 637,639, recorded under "Result from transactions with related parties, net"; and
- (c) The amounts corresponding to customer reimbursement obligations, provided for in Law No. 14,034/20, resulting from flight cancellation, were reclassified to the line item of reimbursement to customers, in current liabilities, and subsequently adjusted by the National Consumer Price Index ("INPC").

### 1.3 Capital structure and net working capital

At December 31, 2020, the Company had a negative equity position of R\$14,148,750 (R\$3,519,174 at December 31, 2019). The variation in the balance is mainly due to the following factors:

- Strong reduction in demand for airline tickets as a result of the COVID-19 pandemic;
- Devaluation of 28.9% of the real against the US dollar, in the year ended December 31, 2020, from R\$4.0307 to R\$5.1967, which significantly impacted the Company's result through the exchange variation expense in the amount of R\$4,302,540, recorded in the financial result, and increased fuel, maintenance and interest costs with leasing operations indexed to foreign currency; and
- Increase in financial expenses due to the issuance of convertible debentures, which, due to the appreciation of the Company's share, generated unrealized mark-to-market expenses for the conversion right of R\$755,354.





In turn, consolidated net working consolidated capital increased by R\$2,071,919, reaching a negative position of R\$4,795,208 at December 31, 2020 (R\$2,723,289 at December 31, 2019). The variation in the balance is related to the following factors:

- Significant reduction in the position of accounts receivable due to the social distancing behavior adopted by our customers during the COVID-19 pandemic;
- Increase in obligations to suppliers due mainly to the negotiations carried out by the Company during the crisis; and
- Significant increase in lease obligations, loans, provisions for redelivery and onerous contracts, also impacted by the 28.9% devaluation of the real against the US dollar.

The Company's management has taken several actions to obtain additional sources of liquidity, together with measures to contain non-essential operating expenses and cash outflows.

Such actions have proven to be efficient to withstand the economic slowdown presented due to the COVID-19 pandemic. Among them, the following stand out: the deferral through the renegotiation of 96% of the contracts that represent lease obligations, renegotiation of financial debts such as debentures and obligations with derivatives and, finally, on November 12, 2020, the Company concluded the process of issuing convertible debentures, raising a total of R\$1,745,900, which will ensure, in addition to the continuity of its operations, the expansion of its business, as detailed in Note 17.

Management continuously monitors the effects of the crisis and will continue to adopt measures to strengthen its cash position.

Management also evaluated and concluded that the Company is in a position to continue its operations and comply with its obligations, according to the contracted maturities. This assessment is based on the Company's business plan, approved by the Board of Directors on December 10, 2020, which in turn includes planned future actions, macroeconomic and aviation sector assumptions, such as: growth in gross domestic product, exchange rate and fuel price estimation.

Based on this conclusion, these financial statements were prepared based on the principle of going concern.

#### **1.4 Acceleration of fleet transformation**

In the last quarter of 2019, the Company's management approved the Embraer E195 phase-out plan ("E1"). The objective of the plan was to accelerate the replacement of its entire domestic E2 fleet, allowing the transport of a greater number of passengers with lower operating cost and less environmental impact, especially due to less fuel consumption. On the same date, the Company entered into agreements with the intention to sub-lease these assets to other air operators. The change in the intended use of the aircraft triggered an impairment review that resulted in the recognition of impairment of these assets of R\$2,075,582 and the constitution of an onerous liability of R\$821,751 at that time.

The COVID-19 pandemic triggered the postponement of aircraft delivery plans to sub-lessors. It should be noted that the signed letters of intent are still valid. In December 2020, the first aircraft was delivered according to the sublease agreement signed with Breeze Airways, and two more units







## AZUL S.A.

### Notes to the individual and consolidated financial statements

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

are scheduled to be delivered in the first quarter of 2021.

At December 31, 2020, we have as impairment base 51 aircrafts and 4 engines (54 aircrafts and 4 engines at December 31, 2019) and considering the updating of the Company's macroeconomic assumptions and business plans, the movements in the provision and the corresponding accounting balances are shown below:

The main assumptions used in the analysis included:

- Sublease revenue;
- Delivery and maintenance costs;
- residual value for own aircraft and under finance lease at the end of sublease contracts;
- Exchange rate;
- Pre-tax discount rate

#### 1.4.1 Breakdown of balances of provision for impairment and onerous liability

Description	Consolidated	
	12.31.20	12.31.19
Provision for impairment of ROU	(706,614)	(1,351,431)
Provision for impairment of aircraft and engines	(211,062)	(171,050)
Provision for impairment of rotables	(225,797)	(509,725)
Provision for impairment of inventories	(18,334)	(14,784)
Provision for impairment of other assets	(56,741)	(28,592)
Total provision for impairment of Company assets	(1,218,548)	(2,075,582)
Provision for onerous liabilities	(1,340,522)	(821,751)





## AZUL S.A.

### Notes to the individual and consolidated financial statements

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

#### 1.4.2 Movement of the provision for impairment and onerous liability

Description	Consolidated		
	Impairment of assets	Onerous liabilities	Total
<b>Balance at December 31, 2019</b>	(2,075,582)	(821,751)	(2,897,333)
Exchange differences	-	(213,280)	(213,280)
Interest expense - adjustment of the provision for onerous liabilities	-	(206,011)	(206,011)
Additions of onerous liabilities	-	(362,426)	(362,426)
Consumption of aircraft material and rotables / onerous liabilities	272,006	262,946	534,952
Maintenance reserve	(20,486)	-	(20,486)
Sale of aircraft	13,123	-	13,123
Renegotiation of lease contracts (lease modification)	581,926	-	581,926
Other	10,465	-	10,465
<b>Balance at December 31, 2020</b>	(1,218,548)	(1,340,522)	(2,559,070)

#### 1.5 Seasonality

The Company's operating revenues depend substantially on the general volume of passenger and cargo traffic, which is subject to seasonal changes. Our passenger revenues are generally higher during the summer and winter holidays, in January and July respectively, and in the last two weeks of December, which corresponds to the holiday season. Considering the distribution of fixed costs, this seasonality tends to cause variations in operating results between the quarters of the fiscal year.

### 2. BUSINESS COMBINATION

#### 2.1 Acquisition of Two Táxi Aéreo Ltda.

On May 14, 2020, the Company completed the acquisition of all the shares of Azul Conecta, previously called Two Táxi Aéreo Ltda. The transaction was approved without restrictions by the Brazilian Antitrust Authority ("CADE") on March 27, 2020. On April 30, 2020, through a power of attorney, the Company assumed control of Azul Conecta, therefore, the transfer control occurred before the closing date mentioned above, in accordance with CPC 15 - Business Combinations, equivalent to IFRS 3.

Azul Conecta offers regular passenger and cargo services to 39 destinations in Brazil, of which only seven were served by Azul. The acquired company also has 14 daily departure and arrival times on the auxiliary runway at Congonhas airport, the country's main domestic terminal. Its fleet consists of 17 own aircraft, model Cessna Caravan, a single-engine regional turboprop with a capacity for nine passengers.

The total nominal amount of the transaction was R\$ 123,000. Payment will be made in up to 30 monthly installments, ranging from R\$ 3,000 to R\$ 10,000, subject to certain contractual and market conditions, and a final payment of up to R\$ 30 million, which will be kept deposited in a bank account as a guarantee in favor of Company for a specified period.



**AZUL S.A.****Notes to the individual and consolidated financial statements**

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

This acquisition generated goodwill of R\$57,446 initially allocated to the line item “Goodwill for expected future profitability” in the consolidated financial statements. The conclusion of the analysis of the fair value of the assets acquired and liabilities assumed will be completed within the period of 12 months following the acquisition.

Azul Conecta contributed revenues of R\$14,505 and pre-tax losses of R\$25,966 from the acquisition date to December 31, 2020. Had the business combination occurred at the beginning of the year, revenue would have totaled R\$35,921 and pre-tax losses would be R\$35,881.

Description	Fair value of assets and liabilities
<b>Assets</b>	
Cash and cash equivalents	3,971
Accounts receivable	3,637
Inventories	1,624
Taxes recoverable	1,399
Other assets	458
Property and equipment (a)	74,205
	<u>85,294</u>
<b>Liabilities</b>	
Loans and financing	(16,540)
Accounts payable	(5,764)
Salaries, accruals and payroll charges	(2,707)
Taxes payable	(824)
Provision for tax, civil and labor risks (b)	(1,687)
Other liabilities	(650)
	<u>(28,172)</u>
Net assets acquired	<u>57,122</u>
Consideration at present value	<u>114,568</u>
Goodwill for expected future profitability	<u>57,446</u>
<b>Cash flows</b>	
Net cash acquired with subsidiary	3,971
Payment	<u>(42,684)</u>
Net cash flow from acquisition	<u>(38,713)</u>

(a) The Company carried out the fair value measurement of property and equipment based on conditions at the acquisition date. Goodwill recognized in this line item amounts to R\$56,820.

(b) The Company recognized R\$500 fair value from contingencies.





### **3. DECLARATION OF MANAGEMENT, BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**

The Company's individual financial statements have been prepared in accordance with accounting practices adopted in Brazil. The accounting practices adopted in Brazil include those included in the Brazilian corporation law and technical pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee ("CPC"), approved by the Federal Accounting Council ("CFC") and the Brazilian Securities and Exchange Commission ("CVM").

The Company's consolidated financial statements were prepared in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). The accounting practices adopted in Brazil include those included in the Brazilian corporation law and the technical pronouncements, guidelines and interpretations issued by the Brazilian FASB ("CPC"), and approved by the Brazil's National Association of State Boards of Accountancy ("CFC") and the Brazilian Securities and Exchange Commission ("CVM").

The Company's individual and consolidated financial statements have been prepared based on the real ("R\$") as a functional and presentation currency and are expressed in thousands of reais, unless otherwise indicated, as well as the disclosures of amounts in other currencies, when necessary, have also been made in thousands.

The preparation of the Company's individual and consolidated financial statements requires Management to make judgments, use estimates and adopt assumptions that affect the reported amounts of revenues, expenses, assets and liabilities. However, the uncertainty related to these judgments, assumptions and estimates could lead to results that require a significant adjustment to the carrying amount of certain assets and liabilities in future years. The Company reviews its judgments, estimates and assumptions on an ongoing basis.

Management, when preparing these individual and consolidated financial statements, used the following disclosure criteria: (i) regulatory requirements; (ii) relevance and specificity of the information on the Company's operations to users; (iii) informational needs of users of the individual and consolidated financial statements; and (iv) information from other entities participating in the passenger air transport market.

Management confirms that all relevant information specific to the individual and consolidated financial statements, and only such information, is being evidenced and corresponds to that used by Management when carrying out its business management activities.

The individual and consolidated financial statements have been prepared based on the historical cost, except for the following material items recognized in the statements of financial position:

- Short-term investments classified as cash and cash equivalents measured at fair value;
- Short-term investments comprising mainly exclusive investment funds, measured at fair value;
- TAP bonds;
- Right to convert obligations with debentures issued in 2020;





## **AZUL S.A.**

### **Notes to the individual and consolidated financial statements**

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

- Derivative financial instruments; and
- Investments accounted for under the equity method.

The approval and authorization for the issuance of these individual and consolidated financial statements took place at the Board of Directors' meeting held on March 1, 2021.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by the Company in the preparation of these individual and consolidated financial statements, which were applied consistently in the comparative years presented, are set out below.

##### **4.1 Consolidation**

The consolidated financial statements include information about the Company and its subsidiaries in which Azul held direct or indirect control. Control of a subsidiary is achieved when Azul is exposed, or has rights, to variable returns in such subsidiaries and have the power to influence the investee's operating and financial decisions.

The financial information of the subsidiaries has been prepared using the same accounting policies as the Company.

All related party assets and liabilities, equity, income, expenses and cash flows related to transactions between related parties are eliminated in full in the consolidation process.

##### **4.2 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, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred.

In the acquisition of a business, Management assesses the assets acquired and liabilities assumed in order to classify and allocate them according to the contractual terms, economic circumstances and relevant conditions at the acquisition date. Goodwill is initially measured as the excess of the consideration transferred over the fair value of the net assets acquired (identifiable assets and liabilities assumed, net). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units that are expected to benefit from the acquisition.

##### **4.3 Cash and cash equivalents**

This group includes cash balances, bank deposits and short-term investments with immediate liquidity, which are readily convertible into a known amount of cash with an insignificant risk of change in value. Financial investments classified in this group are measured at fair value through profit or loss.





#### 4.4 Short-term investments

In the presentation and measurement of financial assets, the Company considers the provisions of CPC 48 - "Financial Instruments", equivalent to IFRS 9, which determines that financial assets shall be initially measured at fair value less costs directly attributable to their acquisition. In turn, the subsequent measurement is divided into two categories:

##### 4.4.1 Amortized cost

Short-term investments are measured at amortized cost when all the following conditions are met:

- The Company plans to hold the financial asset in to collect cash flows set forth in contract;
- Contractual cash flows represent solely payments of interest and principal ("SPPI"); and
- The Company did not opt for the fair value methodology in order to eliminate measurement inconsistencies named "accounting mismatch".

##### 4.4.2 Fair value

- Through comprehensive income: short-term investments shall be measured at fair value through comprehensive income when both of the following conditions are met: (i) the Company plans to hold the financial asset to collect cash flows set forth in contract and sell the asset; and (ii) contractual cash flows represent SPPI;
- Through profit or loss: it is considered to be a residual category, i.e. the Company does not plan to hold the financial asset to collect cash flows set forth in contract and/or sell the asset, this shall be measured at fair value through profit or loss.

Financial instruments designated at fair value through profit or loss are designed to eliminate or significantly reduce an accounting mismatch, and are therefore measured at fair value.

#### 4.5 Accounts receivable

These are measured based on the invoiced amount, net of expected losses on receivables, and approximate the fair value given their short-term nature. With the adoption of CPC 48 - "Financial Instruments", equivalent to IFRS 9, as of January 1, 2018, the allowance for expected losses on receivables is now measured by applying the simplified approach, through the use of historical data, projecting the expected loss over the life of the contract and no longer based on the historical loss incurred, by segmenting the receivables portfolio into groups that have the same pattern of collection and according to the respective maturities. Additionally, for certain cases, the Company carries out individual analyses to assess the risks of collection of the receivables.





#### 4.6 Aircraft sublease receivables

The sublease receivable is a transaction whereby the lessee subleases the asset that is the subject of a lease to a third party, thus becoming an intermediate lessor. CPC 06 (R2) - Leases, equivalent to IFRS 16, requires an intermediate lessor to classify the sublease as finance or operating. Considering that the contracts entered into by the Company up to December 31, 2020 cover most of the term of the head lease, these were accounted for as follows:

- Derecognition of the right-of-use asset related to the head lease and recognition of the rights arising from the sublease contracts at present value;
- Recognition of any difference between the right of use written off and the rights arising from the sublease contract at present value in P&L for the year;
- Maintenance of the lease obligations of the host contract in the statement of financial position;
- Recognition of financial income over the term of the sublease; and
- Recognition of financial expenses relating to obligations of the host lease contract.

#### 4.7 Inventories

Inventory balances mainly comprise materials for maintenance and replacement of parts. Inventories are measured at average acquisition cost plus expenses such as non-recoverable taxes, customs expenses incurred in the acquisition, and expenses with transportation to the warehouse. Expenses with transfers between operational bases are not capitalized, if incurred. Provisions for obsolescence of inventories are recorded for items not expected to be realized.

#### 4.8 Assets held for sale

These are measured at the lower of their carrying amount and fair value, less costs to sell, and are not depreciated or amortized. Such items are only classified under this line item when the sale is highly probable and they are available for immediate sale in their present conditions. At December 31, 2020, the Company did not have items classified in this category. The item previously classified under this line item returned to the operation.

#### 4.9 Security deposits and maintenance reserves

##### 4.9.1 Security deposits

Security deposits are represented by amounts deposited by the Company to the lessors of aircraft, as required at the inception of the lease, as guarantee for the fulfillment of the lease contract. Security deposits are denominated in U.S. Dollars, do not bear interest and are not reimbursable at the end of the contracts







#### 4.9.2 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 lower of:

- the amount of the maintenance reserve held by the lessor associated with the specific maintenance event; or
- 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 performance of maintenance by the lessor. At the reporting 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 are held in assets, and the amounts identified as non-recoverable are considered as 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.

#### 4.10 Income tax and contribution

##### 4.10.1 Current taxes

In Brazil, current taxes comprise corporate income tax (“IRPJ”) and social contribution on profit (“CSLL”), which are calculated monthly based on the taxable profit, after offsetting tax loss carryforwards, limited to 30% of the taxable profit. A 15% rate is applied to that base, plus 10% for IRPJ and 9% for CSLL.

The income from foreign subsidiaries is subject to taxation in accordance with the rates and legislation in force. In Brazil such income is taxed in accordance with Law No. 12,973/14.

##### 4.10.2 Deferred taxes

Deferred taxes represent credits and debits on tax loss carryforwards, as well as temporary differences between the tax and accounting bases. Deferred tax and contribution assets and liabilities are classified as non-current. An impairment loss on these assets is recognized when the Company's internal studies indicate that the future use of these credits is not likely.

Deferred tax assets and liabilities are present net if there is a legally enforceable right to set off tax liabilities against tax assets, and if they are related to taxes levied by the same tax authority on the same taxable entity. Therefore, for presentation purposes, balances of tax assets and liabilities, which do not meet the legal criteria for realization, are disclosed separately. Deferred tax assets and liabilities shall be measured at the rates that are expected to be applicable in the period in which the asset is realized or the liability is settled, based on the tax rates and legislation in force at the reporting date. The projections of future taxable profits on tax loss carryforwards are prepared based on the business plans and are reviewed and approved annually by the Board of Directors.







On January 1, 2019, the interpretation of ICPC 22 - Uncertainty over Income Tax Treatments, equivalent to IFRIC 23, became effective, addressing the application of recognition and measurement requirements when there is uncertainty over income tax treatments.

The Company analyzed relevant tax decisions of higher courts and whether they conflict in any way with the positions adopted by the Company. For known uncertain tax positions, the Company reviewed the corresponding legal opinions and legal case and did not identify impacts to be recorded, since it concluded that the tax authorities are not likely to accept the positions adopted.

The Company will periodically evaluate the positions assumed in which there are uncertainties about the tax treatment adopted and will set up a provision when applicable.

#### **4.11 Investments**

In the individual financial statements, investments represent the Company's equity interest in subsidiaries. Investments are initially stated at cost and subsequently adjusted using the equity method.

#### **4.12 Property and equipment**

Property and equipment, including rotatable components (replacement parts), are stated at acquisition cost. Loan and financing costs are recorded as part of the costs of property and equipment in progress considering the weighted average rate of loans and financing in force at the capitalization date.

Depreciation is calculated according to the estimated economic useful life of each asset using the straight-line method. The estimated economic useful lives, residual values and depreciation methods are reviewed annually and the effects of any changes in estimates are accounted for prospectively.

The carrying amount of property and equipment is tested annually for impairment when facts or changes in circumstances indicate that the carrying amount is greater than the estimated recoverable amount. In turn, the carrying amount of the aircraft is tested for impairment annually, even if there are no circumstances that indicate the existence of impairment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from the continued use of the asset. Any gains or losses arising on the sale or derecognition of an item are determined by the difference between the amount received on the sale and the carrying amount of the asset and are recognized in profit or loss.

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 of the acquisition cost of the aircraft and related engines.

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





#### 4.12.1 Lease contracts

CPC 06 (R2) – Leases, equivalent to IFRS 16, establishes the principles for the recognition, measurement, presentation and disclosure of lease transactions and requires lessees to account for all leases in accordance with a single balance sheet model, similar to accounting for finance leases in accordance with CPC 06 (R1). The standard includes two exemptions from recognition for lessees - leases of “low value” assets and short-term leases, that is, leases with a term of 12 months or less.

At the inception of the lease, the lessee recognizes a liability to make payments (a lease liability) and an asset representing the right to use the underlying asset over the lease term (a right-of-use asset). Lessees must separately recognize interest expense on the lease liability and depreciation expense for the right-of-use asset.

Lessees must also reassess the lease liability in the event of certain events, for example, a change in the lease term, a change in future lease payment flows as a result of a change in an index or rate used to determine such payments. In general, the lessee must recognize the remeasurement amount of the lease liability as an adjustment to the right-of-use asset.

In determining the discount rate, the Company primarily used those contracted in funding operations that took place close to the date of start and/or modification of lease contracts, in the Brazilian and U.S. markets. For operations in the Brazilian market, the Company converted the cost of funding to the equivalent of one transaction in US dollars, adjusting this according to the country risk and the interest rate differential between Brazil and the United States of America. Thus, it was concluded that the built-in inflationary effects are very low, in addition to the fact that 99.4% of the Company's lease transactions are denominated in dollar.

#### 4.12.2 Sale and leaseback transactions

First, sale and leaseback transactions are analyzed within the scope of CPC 47 – Revenue from Contracts with Customers, equivalent to IFRS 15, in order to verify whether the performance obligation has been satisfied, and therefore to account for the sale of the asset. If this requirement is not met, it is a financing with the asset given as guarantee.

If the requirements related to the performance obligation set out in IFRS 15 are met, the Company measures a right-of-use asset arising from the sale and leaseback transaction in proportion to the carrying amount of the asset related to the right of use retained by the Company. Accordingly, only the gains or losses related to the rights transferred to the buyer-lessor are recognized.

#### 4.12.3 Componentization of aircraft

At the receipt and initial recognition of aircraft and/or right-of-use assets, the Company allocates the total cost of the aircraft between five major components; airframe, auxiliary power unit (“APU”), landing gear and two engines. The economic useful 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.

#### 4.12.4 Capitalization of heavy maintenance events

The Company has maintenance contracts for its engines that cover all significant maintenance events. Subsequent heavy maintenance events, which increase the useful lives of assets, are





capitalized and recognized as property and equipment or in addition to the right of use of assets. They are subsequently depreciated during the respective period of use or until the end of the lease. Repairs and other routine maintenance are recognized in profit or loss during the year in which they are incurred.

Additionally, the Company also has “power-by-the-hour” contracts, in which the amounts due to maintenance providers are calculated based on the hours flown, at the time of the maintenance event.

#### **4.12.5 Recognition of contractual obligations relating to return of aircraft (asset retirement obligation)**

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, upon the receipt of the aircraft, are recognized at present value, increasing the value of the asset as a balancing item to an obligation, as long as they can be reasonably estimated. Assets are depreciated on a straight-line basis over the lease contract term, while liabilities are updated by interest rates and exchange effects.

#### **4.12.6 Advance payments for acquisition of aircraft**

### **4.13 Intangible assets**

CPC 06 (R2) - Leases, equivalent to IFRS 16, establishes the principles for the recognition, measurement, presentation and disclosure of leasing operations and requires lessees to account for all leases according to a single balance sheet model, similar to accounting of financial leases along the lines of CPC 06 (R1). The standard includes two exemptions from recognition for lessees - leases of “low value” assets and short-term leases, that is, leases with a term of 12 months or less.

On the lease start date, the lessee recognizes a liability to make payments (a lease liability) and an asset representing the right to use the underlying asset during the lease term (a right-of-use asset). Lessees must separately recognize interest expense on the lease liability and the depreciation expense for the right-of-use asset.

Lessees are also required to reassess the lease liability in the event of certain events, for example, a change in the lease term, a change in future lease payment flows as a result of a change in an index or rate used to determine such payments. In general, the lessee should recognize the remeasurement value of the lease liability as an adjustment to the right-of-use asset

In determining the discount rate, the Company used as a primary basis those contracted in the funding operations that took place close to the start dates and / or modification of the lease agreements in the Brazilian and North American markets. For operations obtained in the Brazilian market, the Company converted the cost of funding to the equivalent of an operation in US dollars, adjusting this for the country risk and interest rate differential between Brazil and the United States of America. Thus, it was concluded that the built-in inflationary effects are very low, in addition to the fact that 99.4% of the Company's leasing obligations are determined in dollars.





#### 4.13.1 Finite useful life

Intangible assets acquired are measured at cost at the time of their initial recognition. After initial recognition, intangible assets with finite useful lives, generally software, are stated at cost, less accumulated amortization and accumulated impairment losses, where applicable. Intangible assets generated internally, excluding development costs, are not capitalized and the expense is reflected in the statement of profit or loss for the year in which it was incurred.

#### 4.13.2 Indefinite useful life

##### 4.13.2.1 Goodwill for expected future profitability

In this category, the amounts related to goodwill arising from business combinations of Tudo Azul S.A. (formerly TRIP Linhas Aéreas) and Azul Conecta are recorded. Goodwill is tested annually by comparing the carrying amount with the recoverable amount of the cash-generating unit. Management makes judgments and establishes assumptions to assess the impact of macroeconomic and operational changes, in order to estimate future cash flows and measure the recoverable amount of assets. No impairment has been recorded to date.

##### 4.13.2.2 Rights of operations in airports (slots)

In the business combination of Tudo Azul S.A., slots acquired were recognized at their fair values at the acquisition date and not amortized. The estimated useful life of these rights was considered indefinite due to several factors and considerations, including requirements and authorizations for permission to operate in Brazil and limited availability of usage rights at the most important airports in terms of air traffic volume. The carrying amount of these rights is assessed annually. No impairment has been recorded to date.

#### 4.14 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 that may indicate that an asset is impaired.

To assess the recoverability of an asset, it is necessary to estimate its recoverable amount. The recoverable amount of an asset or cash-generating unit is the higher of its fair value, less costs to sell and its value in use. When the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, a provision for impairment is set up by adjusting the carrying amount.

The previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount. The reversal is limited, so that the carrying amount of the asset does not exceed its recoverable amount, nor does it exceed the carrying amount previously determined, net of depreciation or amortization.

The Company operates a single cash-generating unit.

In estimating the asset's value in use, estimated future cash flows are discounted to present value, using a pre-tax discount rate that reflects the weighted average cost of capital for the cash-generating unit.





Aircraft and engines in operation are tested for impairment, by comparing the net carrying amount with the fair value indicated by specialized publications. After this comparison, Management concluded that there are no losses related to the right of use recorded in the asset, and therefore no provision for loss on these assets was recorded.

As disclosed in Note 1.4, the Company intends to sublease the E1 model aircraft, in accordance with its fleet transformation acceleration plan and, accordingly, a provision for impairment was established. The details and assumptions adopted are also included in that note to financial statements.

#### **4.15 Rights and obligations with derivatives**

Changes in interest rates, foreign exchange rates and aviation fuel prices expose the Company and its subsidiaries to risks that may affect their financial performance. In order to mitigate such risks, the Company contracts derivative financial instruments that may or may not be designated for hedge accounting and, if so, are classified as cash flow or fair value hedge.

##### **4.15.1 Derivative financial instruments not designated as hedge accounting**

The Company may contract derivative financial instruments that are not designated as hedge accounting when the objectives of Risk Management do not require such classification. Operations not designated as hedge accounting present the change in their fair value directly in the financial result.

##### **4.15.2 Derivative financial instruments designated as fair value hedge**

The instruments designated as fair value hedge aim to protect changes in the fair value of the hedged item, which may be an asset, a liability or a firm commitment.

The change in the fair value of a hedge instrument is recognized in the statement of profit or loss, as well as the change in the fair value of the hedged item attributable to the hedged risk.

##### **4.15.3 Derivative financial instruments designated as cash flow hedge**

The instruments designated as cash flow hedge aim to protect future results arising from changes in interest rates and foreign currency. The effectiveness of the variations is estimated based on statistical correlation methods and by the ratio between the hedge gains and losses and the variation of the hedged costs and expenses. The effective changes in fair value are recognized in equity in "Other comprehensive income", until the recognition of the result of the hedged item. The inefficiencies found in each reporting period are recognized in the financial result. Hedge transactions recorded in "Other comprehensive income" are net of tax effects.

##### **4.15.4 Derecognition and write-off of derivative financial instruments**

The hedge accounting is discontinued prospectively when the Company and its subsidiaries (i) cancel the hedge relationship; (ii) the derivative instrument expires or is sold, terminated or executed, (iii) when there is low predictability of realization of the hedged item, or (iv) when it no longer qualifies as hedge accounting. If the operation is discontinued, any gains or losses, previously recognized in "Other comprehensive income" and accumulated in equity up to that date, are immediately recognized in P&L for the year.





## **AZUL S.A.**

### **Notes to the individual and consolidated financial statements**

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#### **4.16 Loans and financing**

Loans and financing are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest method, with the exception of the embedded derivative contained in the convertible debentures, issued in November 2020, which is measured at fair value through profit or loss.

#### **4.17 Accounts payable and other**

These are initially recognized at fair value and subsequently increased, where applicable, by the corresponding charges and monetary and exchange variations incurred up to the end of the reporting period.

##### **4.17.1 Accounts payable – supplier finance**

Management negotiated with suppliers to extend the payment terms. As a result, the Company signed an agreement with financial institutions to allow the discounting of trade notes receivable 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, and the Company is neither refunded and/or benefited with discounts from the financial institution due to payment before the maturity date agreed upon with the supplier. There is no change in the bill subordination level in the event of judicial execution.

#### **4.18 Air traffic liability**

This represents the Company's obligations to provide air transport services and other ancillary services related to the main obligation with its customers, net of breakage revenue already recognized in profit or loss, as detailed in Note 21.

#### **4.19 Provisions**

##### **4.19.1 Provision for return of aircraft (asset retirement obligation)**

Aircraft negotiated under the operating lease modality regularly provide for contractual obligations establishing conditions for return. In these cases, the Company provides for the return costs, since these are present obligations, arising from past events and which will generate future disbursements, which are reliably measured. These expenses basically refer to expenses related to aircraft reconfiguration (interior and exterior), obtaining licenses and technical certifications, verifications of returns, painting, etc., as established in the contract. The estimated cost is initially recognized at present value in property and equipment and the balancing item of the provision for aircraft return is recorded in the "Provisions" account. After initial recognition, the liability is updated according to the capital remuneration rate estimated by the Company, with a corresponding entry recorded in the financial result. Any changes in the estimate of expenses to be incurred are recognized prospectively.







#### **4.19.2 Provision for onerous contract**

Onerous contract is that in which the unavoidable costs of meeting the contractual obligations exceed the economic benefits expected to be received over the same contract. In these cases, the present obligation under the contract is measured and recognized as a provision. However, before a separate provision for onerous contract is established, the Company assesses and recognizes any impairment loss that has occurred in the assets related to that contract in accordance with CPC 01 (R1) – Impairment of assets, equivalent to IAS 36.

#### **4.19.3 Provision for tax, civil and labor risks**

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

The Company is a party to several legal and administrative proceedings, mainly in Brazil. Assessments of the likelihood of loss in these cases include an analysis of the available evidence, the hierarchy of laws, the available case laws, the most recent court decisions and their significance in the legal system, as well as the assessment of external lawyers. Provisions are revised and adjusted to reflect changes in circumstances, such as the applicable statute of limitations, conclusions of tax inspections or additional exposures identified based on new matters or court decisions.

#### **4.20 Employee benefits**

##### **4.20.1 Executive bonus and employee profit sharing**

The Company's employees are entitled to profit sharing based on certain goals agreed annually, and executives based on statutory provisions proposed by the Board of Directors and approved by the shareholders. The amount of profit sharing is recognized in profit or loss for the year in which the goals are achieved.

##### **4.20.2 Share-based payment**

The Company offers executives share-based compensation plans to be settled with Company shares, according to which the Company receives services as consideration for stock options and restricted shares.

The cost of transactions with executives, settled with equity instruments and with awards, is measured based on the fair value at the date they were granted. To determine the fair value, the Company uses the Black-Scholes option pricing model, as detailed in Note 26.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the employee acquires the full right to the award (vesting date).





The cumulative expense recognized 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 ultimately vest. The expense or credit in the statement of profit or loss for the period is recognized in "Salaries, wages and benefits" and represents the movement in cumulative expense recognized as at the beginning and end of that year.

No expense is recognized for awards that do not ultimately vest, except for awards in which vesting is conditional on a market condition (condition connected to the Company's share price), which are treated as vested irrespective of whether the market conditions are met or not, provided that all other vesting conditions are met.

The cost of cash-settled transactions is initially measured at fair value at the grant date. This fair value is expensed over the period up to the maturity date, with the recognition of a corresponding liability. The liability is remeasured at fair value at the reporting date up to the settlement date, with the changes in fair value recognized in the statement of profit or loss for the year under "Salaries, wages and benefits".

#### **4.20.3 Post-employment benefits**

As of the year ended December 31, 2020, the Company started to recognize actuarial assets and liabilities related to health insurance benefits offered to its employees in accordance with CPC 33 (R1) - "Employee Benefits", equivalent to IAS 19. Actuarial gains and losses are recognized in other comprehensive income based on the actuarial report prepared by independent experts, while the benefits paid directly by the Company, the cost of current service and the cost of interest are recognized in profit or loss for the year.

Management assessed the impact of not adopting the standard in prior years and concluded that the effects were immaterial, not causing losses to users of the previously disclosed financial statements.

#### **4.21 Treasury shares**

Own equity instruments that are acquired (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 these equity instruments. Any difference between the carrying amount and the fair value, if the share is reissued, is recognized in the share premium.

#### **4.22 Revenue recognition**

##### **4.22.1 Passenger, cargo and auxiliary service revenue**

Passenger revenue is recognized when air transportation is actually provided. Tickets sold but not yet flown are recorded as air traffic liability, representing deferred revenue from tickets sold to be flown on a future date, net of breakage revenue estimate.







Breakage revenue consists of calculating, on a historical basis, tickets issued that will expire due to non-use, that is, passengers who have purchased tickets and are very likely not to use them. For the purposes of recognizing this revenue, the average terms are also considered provision of air transport services. At least annually, the calculations are reviewed in order to reflect and capture changes in customer behavior regarding ticket expiration.

Other revenues that include charter services, flight rescheduling fees, baggage dispatch and other additional services are recognized along with the primary passenger transport obligation.

#### **4.22.2 Frequent-flyer program revenue - TudoAzul**

Under the “TudoAzul” program, customers accrue points based on the amount spent on tickets flown. The amount of points earned depends on TudoAzul membership category, market, fare class and other factors, including promotional campaigns.

Through historical data, the Company estimates the points that will expire without being used and recognizes the corresponding revenue in the issue of the point (breakage) considering the average exchange term. With some exceptions, points generally expire two years after the date earned regardless of activity in the program member's account.

Upon the sale of a ticket, the Company recognizes a portion of 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 CPC 47 - Revenue from Contracts with Customers, equivalent to IFRS 15.

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 also sells frequent-flyer program points to customers and partners, including credit card companies, financial institutions and retail companies. The related revenue is deferred and recognized as passenger transport revenue when the points are redeemed and the related transport service occurs, based on the weighted average price of the points sold.

Points awarded or sold and not used are recorded in “Air traffic liability”.

#### **4.23 Financial income and expenses**

Financial income and expenses include interest income on amounts invested, exchange differences on assets and liabilities, changes in the fair value of financial assets measured at fair value through profit or loss, gains and losses on hedge instruments that are recognized in profit or loss, interest on loans and financing, interest on leases, commissions and bank charges, among others. Interest income and expenses are recognized in the statement of profit or loss using the effective interest method.

#### **4.24 Earnings (loss) per share**

Basic earnings (loss) per share are calculated by dividing profit or loss for the year attributed to the Company's controlling shareholders by the weighted average number of all classes of shares outstanding during the year.





Diluted earnings (loss) per share are calculated by adjusting the weighted average number of shares outstanding by instruments potentially convertible into shares, unless these adjustments are not dilutive.

#### 4.25 Segment information

An operating segment is a component of the Company that develops business activities to obtain revenues and incur expenses. The operating segments reflect the way in which the Company's Management reviews the financial information for decision-making. The Company's Management identified the operating segments that meet the quantitative and qualitative parameters of disclosure and mainly represent types of business.

Parameters	% net revenue	
	12.31.2020	12.31.2019
<b>Qualitative</b>		
Passenger service	n/a	n/a
<b>Quantitative</b>		
Passenger service	86.7%	94.9%
Cargo service	12.7%	4.7%
Other revenue	0.6%	0.4%

The Company regularly manages its business and makes resource allocation decisions considering the existence of only one operating segment, which is why only the information available for the cargo transportation segment is not being disclosed, as there is not a complete set of financial information being commonly prepared.

#### 4.26 Statement of value added ("SVA")

Its purpose is to evidence the wealth generated by the Company and its distribution during a given year, and is presented by the Company as required by Brazilian corporate law as part of its individual financial statements and as supplementary information to the consolidated financial statements, as it is not an expected nor mandatory statement according to IFRS standards. The SVA was prepared based on information obtained in the accounting records following the provisions contained in CPC 09 - Statement of value added.

#### 4.27 Significant accounting estimates

As disclosed in note 3, Management makes judgments that have a significant effect on the amounts recognized in the financial statements, namely:

- ticket breakage revenue and frequent-flyer programs (note 21);
- allowance for expected losses (note 7);
- annual impairment test of deferred taxes (note 13);





- analysis of recoverability of maintenance deposits (note 10);
- useful life of property and equipment and intangible assets with finite useful life (notes 15 and 16);
- annual impairment test of goodwill (note 16);
- slot recovery analysis (note 16);
- provision for post-employment benefits (note 22.4);
- provision for tax, civil and labor risks (note 22.2);
- provision for return of aircraft and engines (note 22.1);
- share-based payment (note 26).

The Company continuously revises the assumptions used in its accounting estimates. The effect of revisions to accounting estimates is recognized in the financial statements in the year in which such revisions are made.

#### **4.28 New accounting standards and interpretations adopted for the period**

On July 7, 2020, CVM, through Resolution No. 859, approved the revision of technical pronouncement CPC 06 (R2) - Leases, equivalent to IFRS 16, as a result of benefits granted (“lease concessions”) due to the COVID-19 pandemic. In certain renegotiations of its lease contracts, the Company adopted the provisions of said standard and the effects on these individual and consolidated financial statements are immaterial.

#### **4.29 New accounting standards and pronouncements not yet adopted**

There are no other standards and interpretations issued and not yet adopted that may, in Management’s opinion, have a significant impact on the profit or loss or equity disclosed by the Company.

#### **4.30 Foreign currency transactions**

Foreign currency transactions are recorded at the exchange rate in effect at the date the transactions take place. Monetary assets and liabilities designated in foreign currency are calculated based on the exchange rate in effect at the reporting date, and any difference resulting from currency conversion is recorded under the line item “Foreing currency exchange, net” in the statement of profit or loss for the year.





## AZUL S.A.

### Notes to the individual and consolidated financial statements

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

The exchange rates in Brazilian reais at the date of these individual and consolidated financial statements are as follows:

Description	Final rate		Average rate	
	12.31.20	12.31.19	12.31.20	12.31.19
U.S. dollar	5.1967	4.0307	5.1578	3.9461
Euro	6.3779	4.5305	5.8989	4.4159

## 5 CASH AND CASH EQUIVALENTS

Description	Effective interest rate p.a.	Parent company		Consolidated	
		12.31.20	12.31.19	12.31.20	12.31.19
Cash and bank deposits		21,417	5,926	465,054	308,958
Cash equivalents					
Bank Deposit Certificate – CDB	1.9%	416,479	2,029	2,216,592	156,593
Compromised operations	1.9%	-	-	361,183	1,160,795
Exclusive investment funds	1.2%	-	6	21,986	21,534
		437,896	7,961	3,064,815	1,647,880

## 6 SHORT-TERM INVESTMENTS

Description	Effective interest rate p.a.	Parent company		Consolidated	
		12.31.19	12.31.20	12.31.19	12.31.20
Exclusive investment funds	1.2%	6	62,972	40,766	
Investment funds	0.7%	14	28,847	21,243	
TAP Bonds	6.7%	1,236,828	854,462	1,236,828	
Other investments	-	-	-	160,871	
		1,236,848	946,281	1,459,708	
<b>Circulante</b>		20	91,819	62,009	
<b>Não circulante</b>		1,236,828	854,462	1,397,699	

Investment funds comprise Brazilian government bonds, bank notes, CDBs and debentures issued by companies with a risk rating between AAA and A+. Brazilian government bonds comprise National Treasury Bills ("LTN"), Financial Treasury Bills ("LFT") and National Treasury Notes ("NTN").

Short-term investments are classified as financial assets at fair value through profit or loss.

On January 9, 2020, with the effect of a "drop-down" of the TAP Bonds, The Company made a capital increase in the subsidiary ALAB, which was paid up through the transfer of the TAP Bonds at book value.





## AZUL S.A.

### Notes to the individual and consolidated financial statements

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## 7 ACCOUNTS RECEIVABLE

Description	Consolidated	
	12.31.20	12.31.19
<b>Local currency</b>		
Credit card companies	394,895	768,839
Cargo and travel agencies	146,854	127,509
Azul Viagens	56,870	88,410
TudoAzul program	65,522	56,485
Other	52,713	59,715
Total local currency	716,854	1,100,958
<b>Foreign currency</b>		
Credit card companies	8,927	4,439
Maintenance reserve	112,170	6,726
Airline partner companies	24,910	17,598
Insurance	7,150	24,112
Other	21,502	26,749
Total foreign currency	174,659	79,624
Total	891,513	1,180,582
Allowance for expected losses	(16,131)	(14,716)
Total net	875,382	1,165,866





The breakdown of accounts receivable by maturity, net of allowance for expected losses, is as follows:

Description	Consolidated	
	12.31.20	12.31.19
<b>Current (not past due)</b>		
Up to 30 days	476,378	734,218
31 to 60 days	69,729	110,392
61 to 90 days	46,007	82,142
91 to 180 days	86,215	170,182
181 to 360 days	65,386	46,945
Total current	743,715	1,143,879
<b>Past due</b>		
Up to 30 days	104,377	7,429
31 to 60 days	8,371	4,149
61 to 90 days	4,228	5,720
91 to 180 days	5,077	111
181 to 360 days	6,178	563
Over 360 days	3,436	4,015
Total past due	131,667	21,987
Total	875,382	1,165,866

The balance due up to 30 days was substantially received up to the date of approval of this financial statement

The movement of the allowance for expected losses is as follows:

Description	12.31.20	12.31.19
Balances at the beginning of the year	(14,716)	(12,723)
Business combination - Azul Conecta	(380)	-
Exclusions and reversals	(3,205)	(1,993)
Write-off of uncollectible amounts	2,170	-
Balances at the end of the year	(16,131)	(14,716)



**AZUL S.A.****Notes to the individual and consolidated financial statements**

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

**8 AIRCRAFT SUBLEASE RECEIVABLES**

Description	Consolidated	
	12.31.20	12.31.19
2020	-	98,152
2021	142,932	86,657
2022	62,547	47,136
2023	65,040	44,154
2024	65,188	44,154
2024 onwards	36,783	20,588
Gross lease receivables	372,490	340,841
Accrued interest	(59,553)	(61,337)
Net lease receivables	312,937	279,504
<b>Current</b>	123,455	75,052
<b>Non-current</b>	189,482	204,452

As at December 31, 2020, the amount of R\$34,457 was past due. No provision was established as the Company's cash comprises amounts referring to guarantee deposits and maintenance reserves advanced by the sub-lessor, and therefore there is a low risk of non-realization of such assets. There were no past due amounts as at December 31, 2019.

**9 INVENTORIES**

Description	Consolidated	
	12.31.20	12.31.19
Maintenance parts and materials	442,161	288,824
Flight attendance and uniforms	9,579	5,768
Provision for loss on inventories	(49,153)	(33,727)
Total net	402,587	260,865

Set out below is the movement of the provision for losses on inventories:

Description	Consolidated	
	12.31.20	12.31.19
Balances at the beginning of the year	(33,727)	(15,935)
Additions	(16,438)	(19,815)
Write-offs	1,012	2,023
Balances at the end of the year	(49,153)	(33,727)







## AZUL S.A.

### Notes to the individual and consolidated financial statements

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

## 10 SECURITY DEPOSITS AND MAINTENANCE RESERVES

The movement of security deposits and maintenance reserves for the years ended December 31, 2020 and 2019 is as follows:

Description	Consolidated		
	Maintenance reserve	Security deposit	Total
Balances 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)
Reimbursements	(210,356)	(113,137)	(323,493)
Exchange differences	52,454	2,928	55,382
Balances at December 31, 2019	1,498,898	152,635	1,651,533
Business combination - Azul Conecta	-	298	298
Additions	313,950	93,739	407,689
Impairment	(20,486)	-	(20,486)
Write-offs	(419,843)	-	(419,843)
Reimbursements	(476,588)	(43,519)	(520,107)
Exchange differences	425,715	29,243	454,958
Balances at December 31, 2020	1,321,646	232,396	1,554,042
<b>Current</b>	318,460	-	318,460
<b>Non-current</b>	1,003,186	232,396	1,235,582

Management assessed that the above balances are realizable in accordance with the business plan.

## 11 TAXES RECOVERABLE

	Parent company		Consolidated	
	12.31.20	12.31.19	12.31.20	12.31.19
IRPJ and CSSL recoverable	13,888	1,185	4,443	11,357
Withholding income tax	23	83	3,470	5,082
PIS and COFINS recoverable	-	-	123,005	323,457
ICMS recoverable	-	-	1,765	7,002
INSS recoverable	20	42	519	27,904
Other taxes recoverable	-	-	504	9,467
	13,931	1,310	133,706	384,269
<b>Current assets</b>	13,931	1,310	133,706	139,668
<b>Non-current assets</b>	-	-	-	244,601





## AZUL S.A.

### Notes to the individual and consolidated financial statements

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

## 12 PREPAID EXPENSES

Description	Parent Company		Consolidated	
	12.31.20	12.31.19	12.31.20	12.31.19
Insurance premiums	374	144	49,428	47,506
Expenses with leased aircraft and engines	-	-	28,351	39,989
Guarantee commission	-	-	40,678	16,332
Other	316	7	36,085	57,792
Total	690	151	154,542	161,619
Current	690	151	136,350	139,403
Non-current	-	-	18,192	22,216



**AZUL S.A.****Notes to the individual and consolidated financial statements**

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

**13 DEFERRED TAXES****13.1 Reconciliation of deferred tax assets (liabilities)**

Description	Parent company			Consolidated		
	12.31.19	Result	12.31.20	12.31.19	Resultado	12.31.20
<b>Temporary Differences</b>						
Fair value of Tap Bonds	(243,288)	243,288	-	(243,288)	217,156	(26,132)
Financial instruments	-	-	-	(201,738)	79,778	(121,960)
Deferred revenue TudoAzul Program	-	-	-	(148,963)	31,423	(117,540)
Depreciation of aircraft and engines	-	-	-	(48,899)	(4,283)	(53,182)
Exchange rate	(16,498)	16,498	-	(16,498)	16,498	-
Fair value of other instruments	-	-	-	(21,963)	21,963	-
Active temporary differences (*)	-	-	-	421,563	(102,749)	318,814
	(259,786)	259,786	-	(259,786)	259,786	-
<b>Tax Loss and CSLL negative base</b>						
Tax loss	12,699	(12,699)	-	12,699	(12,699)	-
Negative social contribution base	4,571	(4,571)	-	4,571	(4,571)	-
	17,270	(17,270)	-	17,270	(17,270)	-
<b>Total</b>	(242,516)	242,516	-	(242,516)	242,516	-

(\*) Deferred tax set up in the limit of the deferred obligations recognized





# AZUL S.A.

## Notes to the individual and consolidated financial statements

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

### 13.2 Reconciliation of the effective income tax rate

Description	Parent Company		Consolidated	
	12.31.20	12.31.19	12.31.20	12.31.19
Loss before income tax and social contribution	(11,077,214)	(2,428,041)	(11,077,214)	(2,536,265)
Combined nominal tax rate	34%	34%	34%	34%
Taxes calculated at nominal rates	3,766,253	825,534	3,766,253	862,330
<b>Adjustments to determine the effective rate</b>				
Profits from investments not taxed abroad	-	-	-	(10,341)
Equity method	(3,251,873)	(800,462)	-	-
(Unrecorded) benefit on tax loss carryforwards	-	-	(3,257,190)	(880,375)
Offset against PERT (a)	-	-	-	84,711
Permanent differences	(244,011)	(110)	(244,011)	76,958
Other	(27,864)	(7)	(22,547)	(104)
	242,505	24,955	242,505	133,179
Current income tax and social contribution	(11)	(2,130)	(11)	(2,228)
Deferred income tax and social contribution	242,516	27,085	242,516	135,407
Income tax and social contribution credit (expense)	242,505	24,955	242,505	133,179
<b>Effective rate</b>	2%	1%	2%	5%

(a) Tax Recovery Program ("PERT")





## AZUL S.A.

### Notes to the individual and consolidated financial statements

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The Company clears tax assets and liabilities if, and only if, it has a legal right to offset such assets when they are levied on the same legal entity and collected by the same tax authority.

The Company clears tax assets and liabilities if, and only if, it has a legal right to offset such assets when they are levied on the same legal entity and collected by the same tax authority.

The Company has tax losses that are available indefinitely to offset 30% of future taxable profits, as follows:

Description	Parent company		Consolidated	
	2020	2019	2020	2019
Tax losses and negative social contribution base - net	108,084	50,793	5,751,867	1,971,779
Income tax loss carryforwards (25%)	27,021	12,698	1,437,967	492,945
Negative bases of social contribution (9%)	9,728	4,571	517,668	177,460

## 14 INVESTMENTS

### 14.1 Parent company's direct investments

	Company shares	Company equity interest			
Description	Common	Paid-up capital	Voting capital	Equity	Loss for the year
At December 31, 2019					
ALAB	260,809,600	100%	100%	(5,324,874)	(2,375,023)
TudoAzul	80,542,264	100%	100%	23,333	(8,890)
At December 31, 2020					
ALAB	260,809,600	100%	100%	(12,868,143)	(9,544,807)
TudoAzul	80,542,264	100%	100%	26,377	(3,705)



**AZUL S.A.****Notes to the individual and consolidated financial statements**

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**14.2 Movement of the parent company's investments**

Description	ALAB	TudoAzul <sup>(b)</sup>
Balances at December 31, 2018	(2,959,176)	792,343
Share of profit (loss) of subsidiaries	(2,375,023)	(8,890)
Adjusted share of profit (loss) of subsidiaries (a)	-	29,612
Share-based reserve of subsidiary	7,537	-
Capitalization of capital reserve	7,080	-
Cash flow hedge	(5,292)	-
Balances at December 31, 2019	(5,324,874)	813,065
Share of profit (loss) of subsidiaries	(9,544,807)	(3,705)
Adjusted share of profit (loss) of subsidiaries (a)	-	(15,819)
Advance for future capital increase	1,300,000	-
Share-based reserve of subsidiary	19,415	-
Capital increase	520,552	-
Capitalization of capital reserve	2,161	-
Post-employment benefit	655	-
Cash flow hedge	158,755	-
Balances at December 31, 2020	(12,868,143)	793,541

(a) Refers to the amortization of the fair value resulting from the acquisition of Tudo Azul S.A., as well as amounts reimbursable by former shareholders.

(b) Includes goodwill for expected future profitability arising from the acquisition of Tudo Azul S.A. in 2012, in the amount of R\$753,502, which represents the consideration transferred, less the fair value of assets acquired and liabilities assumed, net.





**AZUL S.A.**

**Notes to the individual and consolidated financial statements**

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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

**15 PROPERTY AND EQUIPMENT**

		Consolidated						
	Weighted average rate (p.a.)	12.31.18	Acquisitions (c)	Disposals/wri te-offs	Transfers (b)	Impairment	12.31.19	12.31.20
Description								
Cost								
Aircraft and engines		2,706,529	97,814	259,986	(689,771)	-	(76,897)	2,297,661
Aircraft – ROU (a)		12,071,427	-	2,197,881	(25,741)	(4,736,892)	68,701	9,575,376
Engines and simulators – ROU		484,597	-	86,995	(38,160)	(6,515)	1,393	528,310
Restoration of aircraft and engines - ROU		423,194	-	290,785	(116,968)	-	-	597,011
Maintenance of aircraft and engines - ROU		1,374,925	-	168,513	(82,887)	(54,658)	8,614	1,414,507
Buildings and leasehold improvements		296,728	-	22,433	(2,104)	(975)	169,165	485,247
Properties – ROU		114,167	-	-	-	-	-	114,167
Equipment and facilities		176,814	780	21,324	(12,867)	-	(4,957)	181,094
Other – property and equipment		24,297	294	818	-	-	2,599	28,008
Other – ROU		42,391	-	109	(12,065)	-	-	30,435
Construction in progress		171,839	-	40,464	(4,485)	-	(174,188)	33,630
Advance payments for acquisition of aircraft		84,578	-	20,800	(13,434)	-	-	91,944
		17,971,486	98,888	3,110,108	(998,482)	(4,799,040)	(5,570)	15,377,390
Depreciation								
Aircraft and engines	8%	(612,124)	(24,214)	(207,908)	230,855	-	(11,345)	(624,736)
Aircraft – ROU	8%	(4,538,684)	-	(954,452)	25,741	-	(31,220)	(5,498,615)
Engines and simulators – ROU	14%	(231,625)	-	(67,191)	35,595	-	(1,392)	(264,613)
Restoration of aircraft and engines - ROU	9%	(145,546)	-	(37,315)	-	-	-	(182,861)
Maintenance of aircraft and engines - ROU	27%	(549,869)	-	(368,476)	32,729	-	(6,709)	(892,325)
Buildings and leasehold improvements	17%	(78,001)	-	(50,795)	35	-	-	(128,761)
Properties – ROU	9%	(64,042)	-	(10,565)	-	-	-	(74,607)
Equipment and facilities	12%	(97,990)	(326)	(21,191)	11,786	-	(196)	(107,917)
Other – property and equipment	11%	(16,654)	(142)	(2,792)	-	-	(18)	(19,606)
Other – ROU	16%	(34,776)	-	(6,717)	12,064	-	-	(29,429)
		(6,369,311)	(24,682)	(1,727,402)	348,805	-	(50,880)	(7,823,470)
Total property and equipment		11,602,175	74,206	1,382,706	(649,677)	(4,799,040)	(56,450)	7,553,920
Impairment		(2,048,532)	-	-	323,133	581,926	-	(1,143,473)
Total property and equipment, net		9,553,643	74,206	1,382,706	(326,544)	(4,217,114)	(56,450)	6,410,447







## AZUL S.A.

### Notes to the individual and consolidated financial statements

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		Consolidated				
Description	Weighted average rate (p.a.)	12.31.18	Acquisitions (c)	Disposals/write-offs	Transfers (b)	12.31.19
<b>Cost</b>						
Aircraft and engines		2,007,825	712,679	(222,745)	208,770	2,706,529
Aircraft – ROU (a)		8,232,475	4,031,436	(118,193)	(74,291)	12,071,427
Engines and simulators – ROU		336,731	147,866	-	-	484,597
Restoration of aircraft and engines - ROU		283,542	139,652	-	-	423,194
Maintenance of aircraft and engines - ROU		923,517	534,502	(88,102)	5,008	1,374,925
Buildings and leasehold improvements		146,315	124,181	(3,118)	29,350	296,728
Properties – ROU		105,754	8,413	-	-	114,167
Equipment and facilities		130,655	48,101	(2,091)	149	176,814
Other – property and equipment		22,035	2,267	(5)	-	24,297
Other – ROU		28,766	14,475	(850)	-	42,391
Construction in progress		81,023	319,275	-	(228,459)	171,839
Advance payments for acquisition of aircraft		112,923	55,649	(45,081)	(38,913)	84,578
		12,411,561	6,138,496	(480,185)	(98,386)	17,971,486
<b>Depreciation</b>						
Aircraft and engines	9%	(509,296)	(177,372)	74,544	-	(612,124)
Aircraft – ROU	11%	(3,691,143)	(928,018)	52,589	27,888	(4,538,684)
Engines and simulators – ROU	11%	(192,902)	(38,723)	-	-	(231,625)
Restoration of aircraft and engines - ROU	12%	(112,043)	(33,503)	-	-	(145,546)
Maintenance of aircraft and engines - ROU	33%	(290,617)	(304,356)	45,104	-	(549,869)
Buildings and leasehold improvements	17%	(53,030)	(25,157)	186	-	(78,001)
Properties – ROU	12%	(51,604)	(12,438)	-	-	(64,042)
Equipment and facilities	13%	(81,412)	(17,265)	687	-	(97,990)
Other – property and equipment	8%	(14,799)	(1,860)	5	-	(16,654)
Other – ROU	77%	(13,251)	(22,141)	616	-	(34,776)
		(5,010,097)	(1,560,833)	173,731	27,888	(6,369,311)
<b>Total property and equipment</b>		7,401,464	4,577,663	(306,454)	(70,498)	11,602,175
<b>Impairment</b>		-	(2,048,532)			(2,048,532)
<b>Total property and equipment, net</b>		7,401,464	2,529,131	(306,454)	(70,498)	9,553,643

(a) ROU – Right of use.

(b) Balance of aeronautical material transferred to "Inventories" in amount of R\$110,937 for the year ended December 31, 2020. Balance of available for sale transferred to "Property and equipment" in amount of R\$54,487.

(c) ROU acquisitions are net of credits obtained from aircraft and engine manufacturers.

During the year ended December 31, 2020, the Company carried out a sale and leaseback transaction for five of its own engines. The gain related to this operation corresponds to the amount of R\$17,104, recognized in the group of "Cost of services".

In accordance with CPC 06 (R2) - Leases, equivalent to IFRS 16, it was necessary to apply the requirements that deal with lease modification. The effects related to these modifications are represented by a reduction in the lease debt of R\$5,701,928, with a balancing item in right of use in the amount of R\$4,799,040, with the difference recognized in the statement of profit or loss in the group of "Cost of services" in the amount of R\$902,888.



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**16 INTANGIBLE ASSETS**

Set out below are the breakdown and the movement of intangible assets:

		Consolidated			
	Weighted average rate	12.31.19	Acquisitions	Disposals/write-offs	12.31.20
Description	(p.a.)				
Cost					
Goodwill for expected future profitability (a)	-	753,502	57,446	-	810,948
Airport operating license (b)	-	82,196	-	-	82,196
Software	-	489,904	109,587	(6,157)	593,334
		1,325,602	167,033	(6,157)	1,486,478
Amortization					
Software	16%	(238,118)	(78,151)	59	(316,210)
		(238,118)	(78,151)	59	(316,210)
Total intangible assets, net		1,087,484	88,882	(6,098)	1,170,268

	Consolidated				
	Weighted average rate	12.31.18	Additions	Disposals/write-offs	12.31.19
Description	(p.a.)				
Cost					
Goodwill for expected future profitability (a)	-	753,502	-	-	753,502
Airport operating license (b)	-	82,196	-	-	82,196
Software	-	357,457	132,447	-	489,904
		1,193,155	132,447	-	1,325,602
Amortization					
Software	17%	(176,599)	(61,519)	-	(238,118)
		(176,599)	(61,519)	-	(238,118)
Total intangible assets, net		1,016,556	70,928	-	1,087,484

(a) Goodwill for expected future profitability arises from the acquisition of Tudo Azul S.A. in 2012 and Azul Conecta in 2020. The amount of R\$ 810,948 refers to the consideration transferred, less the fair value of assets acquired and liabilities assumed, net.

(b) As part of the allocation of the purchase price for the acquisition of Tudo Azul S.A., the Company recognized the value of operating licenses for certain airports and has an indefinite useful life.

**16.1 Impairment of intangible assets without a finite useful life**

As at December 31, 2020, the Company performed annual impairment tests, through the discounted cash flow of the cash-generating unit. As disclosed in Note 4.14, the Company operates only a single cash-generating unit.

The assumptions used in the impairment tests of goodwill and other intangible assets are consistent with the Company's operating plans and internal projections, prepared for a period of five years. After this period, a perpetuity rate of growth of operating projections is assumed. Assumptions and projections are revised and approved by management. The discounted cash flow that determined the value in use of the cash-generating unit was prepared according to the Company's business plan approved by the Board of Directors on December 10, 2020.





The following assumptions were considered:

- Fleet and capacity: plan for operational fleet, utilization and capacity of aircraft in each route;
- Passenger revenue: historical revenue per seat per kilometer flown with growth in line with the Company's business plan;
- Operating costs: specific performance indicators by cost line, in line with the Company's business plan, as well as macroeconomic assumptions; and
- Investment needs: aligned with the Company's business plan.

The macroeconomic assumptions commonly adopted include the Gross Domestic Product ("GDP"), and projections of the US dollar, both obtained from the Focus Report issued by the Central Bank of Brazil, in addition to future kerosene barrel prices and interest rates, obtained from specific Bloomberg disclosures.

The result of the impairment test showed that the estimated recoverable amount is greater than the carrying amount allocated to the cash-generating unit and, therefore no adjustment of the recoverable amount to be recorded at December 31, 2020 was identified.

## 16.2 Sensitivity analysis of the impairment test of intangible assets without a finite useful life

	12.31.20		12.31.19	
	Goodwill for expected future profitability	Airport operating license	Goodwill for expected future profitability	Airport operating license
Carrying amount	810,948	82,196	753,502	82,196
Carrying amount – CGU	6,410,447	-	9,553,643	-
Value in use	32,227,871	1,726,007	34,595,386	3,219,401
Pre-tax discount rate	10.3%	8.5%	8.8%	9.8%
Growth rate in perpetuity	3.0%	3.0%	3.4%	3.4%





# AZUL S.A.

## Notes to the individual and consolidated financial statements

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

## 17 LOANS AND FINANCING

### 17.1 Movement of loans and financing

Parent company										
Description	Nominal rate p.a.	Effective rate p.a.	Maturity	12.31.19	Funding	Variation of conversion right	Payment of interest	Interest incurred	Exchange differences	Amortized cost
<b>In foreign currency - US\$</b>										
Debentures	6,0% a 7,5%	20.5%	Out/25	-	1,702,155	755,354	25,116	(82,358)	19,437	2,419,704
Total in R\$				-	1,702,155	755,354	25,116	(82,358)	19,437	2,419,704
<b>Current liabilities</b>				-						-
<b>Non-current liabilities</b>				-						2,419,704

Consolidated														
Description	Nominal rate p.a.	Effective rate p.a.	Maturity	12.31.19	Funding	Variation of conversion right	Debt acknowled- gment	Business combination - Azul Conecta	Payment of principal	Payment of interest	Interest incurred	Foreing currency exchange	Amortized cost	31.12.20
<b>In foreign currency - US\$</b>														
Working capital	1% to 5.9%	6.2%	Oct/24	1,727,882	4,682	-	-	-	(907)	(137,795)	132,033	504,766	6,183	2,236,844
Debentures	6.0% to 7.5%	20.5%	Oct/25	-	1,702,155	755,354	-	-	-	-	25,116	(82,358)	19,437	2,419,704
	4.7% to 6.0%													
Aircraft and engines	Libor 3M + 2.4% to 2.9% Libor 6M + 2%	5.6%	Mar/29	896,232	-	-	-	-	(111,703)	(23,880)	54,178	268,404	1,474	1,084,705
<b>In local currency - R\$</b>														
Working capital	5.0% to 10.7% CDI + 2% to 6% TJLP + 5%	4.1%	Dec/23	37,355	229,386	-	527,375	4,975	(58,746)	(3,366)	39,395	-	107	776,481
Debentures	CDI + 3%	2.9%	Dec/23	692,407	-	-	-	-	-	(18,459)	24,238	-	(7,282)	690,904
	6.0% to 6.5% Selic + 2.8% to 5.5% TJLP + 5%	6.1%	May/25	164,280	-	-	-	11,565	(21,052)	(10,241)	7,649	-	(325)	151,876
Total in R\$				3,518,156	1,936,223	755,354	527,375	16,540	(192,408)	(193,741)	282,609	690,812	19,594	7,360,514
<b>Current liabilities</b>				481,227										858,332
<b>Non-current liabilities</b>				3,036,929										6,502,182





# AZUL S.A.

## Notes to the individual and consolidated financial statements

December 31, 2020

(In thousands of Brazilian reais – R\$, unless otherwise indicated)

Consolidated											
Description	Nominal rate p.a.	Effective rate p.a.	Maturity	12.31.18	Funding	Payment of principal	Payment of interest	Interest incurred	Exchange differences	Amortized cost	12.31.19
<b>In foreign currency - US\$</b>											
Working capital	LIBOR + 0.88% to 5.90%	5.7%	Oct/24	1,656,947	-	(350)	(96,970)	94,610	70,629	3,016	1,727,882
Aircraft and engines	LIBOR + 2.55% to 6.07% US Treasury + 3.25%	5.5%	Mar/29	100,042	813,328	(43,795)	(24,047)	28,076	19,386	3,242	896,232
<b>In local currency - R\$</b>											
Working capital	5.0% 125% to 126% of CDI	7.2%	Dec/23	75,757	-	(37,752)	(5,059)	3,520	-	889	37,355
Debentures	117% and 122% of CDI	6.8%	Dec/23	730,519	-	(64,345)	(26,784)	49,808	-	3,209	692,407
Aircraft and engines	6.00% to 6.50 SELIC + 5.46% p.a.	4.5%	May/25	192,861	-	(29,864)	(12,738)	13,977	-	44	164,280
Total in R\$				2,756,126	813,328	(176,106)	(165,598)	189,991	90,015	10,400	3,518,156
<b>Current liabilities</b>				158,813							481,227
<b>Non-current liabilities</b>				2,597,313							3,036,929



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**17.5 Schedule of amortization of long-term debt**

Description	Consolidated	
	12.31.20	12.31.19
2021	-	539,378
2022	743,137	359,943
2023	914,343	277,465
2024	2,264,451	1,764,136
2025	2,551,701	62,164
After 2025	28,550	33,843
	6,502,182	3,036,929

**17.3 Debentures convertible into shares**

On November 12, 2020, the Company concluded the public offering for the distribution of debentures convertible into first-issue preferred shares, with security interest and additional personal guarantee of the Company, under CVM Instruction No. 400, with the following characteristics: total issue amount: (i) R\$ 1,745,900; (ii) issue date: October 26, 2020; (iii) term and maturity date: 5 years from the date of issue, maturing therefore on October 26, 2025; (iv) Conversion price: R\$ 32.2649 per preferred share, resulting in an initial conversion premium of 27.50%, calculated on the VWAP (Volume Weighted Average Price) of 30 trading sessions of the reference share of R\$ 25,3058.

The issuance of debentures is part of Azul's efforts to contain the economic impact of the COVID-19 pandemic on its operations and the Company expects to use the net proceeds obtained for working capital, expansion of its logistics activities and other strategic opportunities.

The debentures are redeemable, totally or partially, in cash at the Company's discretion at any time, after 36 months, if the last price reported by American Depositary Share (ADS) representing Azul's preferred share exceeds 130% of the conversion price for a specific period.

The debentures are guaranteed by the Company and its main operating subsidiary, ALAB, and are guaranteed by certain assets, including, but not limited to, intellectual property assets held by the guarantors and the TudoAzul frequent-flyer program, certain rights related to the right of use of the hangar and specific equipment necessary for maintenance of the hangar used by the Company and located at Viracopos airport.

As required by CPC 48 - Financial Instruments, equivalent to IFRS 9, the conversion right was measured at fair value through profit or loss as it is an embedded derivative. Thus, since the issuance of debentures, due to the strong recovery of the shares value, an expense of R\$755,354 was recognized. It should be noted that conversion rights are "in the money" with a high probability of execution by debenture holders.





#### 17.4 Covenants

As at December 31, 2020, the Company has loans and financing subject to covenants related to the Company's indebtedness level and the debt service coverage ratio.

Covenant related to:	Indicators for the measurement	Frequency of measurement
9 <sup>th</sup> issue of debentures 10 <sup>th</sup> issue of debentures	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1.2 (ii) Financial leverage less than or equal to 6.5.	Annual
Aircraft financing	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1.2 (ii) financial leverage less than or equal to 5.5.	Quarterly/Annual
Aircraft financing	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1.2 (ii) financial leverage less than or equal to 6.5.	Annual

Due to the impact caused by the COVID-19 pandemic, the Company previously requested a waiver to the counterparties, and obtained it in 2020. Therefore, the related debt is still classified in these financial statements according to the contractual flow originally established.







# AZUL S.A.

## Notes to the individual and consolidated financial statements

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### 18 LEASE LIABILITIES

#### 18.1 Movement of lease liabilities

Consolidated										
Description	Average payment term in years	Weighted average rate	12.31.19	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Exchange differences	12.31.20
<b>Lease without purchase option:</b>										
Aircraft and engines	7.89	22.19%	11,046,134	2,329,443	(5,327,038)	(1,162,869)	1,431,944	(4,912)	3,350,441	11,663,143
Other	2.12	8.11%	72,230	-	-	(21,741)	6,881	-	(92)	57,278
<b>Lease with purchase option:</b>										
Aircraft and engines	5.54	13.56%	988,257	-	(374,890)	(231,417)	130,326	-	288,115	800,391
Total in R\$			12,106,621	2,329,443	(5,701,928)	(1,416,027)	1,569,151	(4,912)	3,638,464	12,520,812
<b>Current liabilities</b>			1,585,233							2,272,349
<b>Non-current liabilities</b>			10,521,388							10,248,463

Consolidated										
Description	Average payment term in years	Weighted average rate	12.31.18	Additions	Payments	Interest incurred	Write-offs	Exchange differences		12.31.19
<b>Lease without purchase option:</b>										
Aircraft and engines	8.26	8.20%	7,725,397	4,153,314	(1,865,472)	726,613	(24,775)	331,057		11,046,134
Other	2.90	7.64%	82,545	22,888	(39,008)	8,628	(279)	(2,544)		72,230
<b>Lease with purchase option:</b>										
Aircraft and engines	4.24	6.15%	1,111,804	32,188	(269,988)	70,767	-	43,486		988,257
Total in R\$			8,919,746	4,208,390	(2,174,468)	806,008	(25,054)	371,999		12,106,621
<b>Current liabilities</b>			1,237,909							1,585,233
<b>Non-current liabilities</b>			7,681,837							10,521,388



**AZUL S.A.****Notes to the individual and consolidated financial statements**

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**18.2 Schedule of lease amortization**

Description	Consolidated	
	12.31.20	12.31.19
2020	-	2,481,457
2021	2,498,180	2,335,363
2022	3,206,765	2,406,701
2023	3,641,808	1,875,308
2024	3,610,754	1,560,055
After 2024	14,211,063	5,580,166
Minimum lease payment	27,168,570	16,239,050
Financial charges	(14,647,758)	(4,132,429)
Present value of minimum lease payments	12,520,812	12,106,621

During the year ended December 31, 2020, the Company renegotiated aircraft and engine lease contracts, which included the deferral of payments and changes in contractual terms. Accordingly, in accordance with CPC 06 (R2) - Leases, equivalent to IFRS 16, it was necessary to apply the requirements that deal with lease modification, which require remeasurement of the lease liability by means of a revised discount rate.

The application of such requirements resulted in the reduction of the debt at present value, with a balancing item in the amount of R\$4,799,040 in the corresponding right-of-use asset and the difference, a gain in the amount of R\$ 902,888 was recognized in profit or loss for the period.

**19 ACCOUNTS PAYABLE**

Description	Parent company		Consolidated	
	12.31.20	12.31.19	12.31.20	12.31.19
Accounts payable - local currency	32,096	43	1,612,933	952,439
Accounts payable - foreign currency	2,521	-	948,794	424,411
	34,617	43	2,561,727	1,376,850
<b>Current</b>	34,617	43	2,238,668	1,376,850
<b>Non-current</b>			323,059	

The increase in the balance of accounts payable is due to the renegotiation carried out by the Company with its partners to face the economic crisis caused by the COVID-19 pandemic.





**AZUL S.A.**

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**20 RIGHTS AND OBLIGATIONS WITH FINANCIAL INSTRUMENTS**

	Consolidated							
	Cash flow hedge		Fair value hedge	Derivatives not designated as hedge				Total <sup>(a)</sup>
	Interest rate swap	Options - foreign currency	Interest rate swap	Options - foreign currency	Interest rate swap	Fuel	Forward - foreign currency	
<b>Changes in fair value</b>								
Rights (obligations) with derivatives at 12.31.19	(7,129)	338,592	24,057	(35,487)	(62,803)	56,491	202,013	515,734
Gains (losses) recognized in result	(4,799)	(94,928)	24,421	(143,156)	(22,846)	(1,374,519)	163,711	(1,452,116)
Gains (losses) in OCI	7,129	152,132	-	-	-	-	-	159,261
Reclassification to debt	-	(218,979)	(43,485)	127,889	(101,136)	778,286	(15,200)	527,375
(Receipt) payment in cash	4,799	(176,817)	(2,744)	57,453	(82,706)	458,468	(1,432)	257,021
Rights (obligations) with derivatives at 12.31.20	-	-	2,249	6,699	(269,491)	(81,274)	349,092	7,275

	Consolidated							
	Cash flow hedge		Fair value hedge	Derivatives not designated as hedge				Total <sup>(a)</sup>
	Interest rate swap	Options - foreign currency	Interest rate swap	Options - foreign currency	Interest rate swap	Fuel	Forward - foreign currency	
<b>Changes in fair value</b>								
Rights (obligations) with derivatives at 12.31.18	(9,422)	246,323	20,080	(45,949)	(166,987)	(123,223)	233,564	154,386
Gains (losses) recognized in result	(4,072)	99,855	6,133	10,462	140,159	115,189	(42,274)	325,452
Gains (losses) in OCI	2,294	(7,586)	-	-	-	-	-	(5,292)
(Receipt) payment in cash	4,071	-	(2,156)	-	(35,975)	64,525	10,723	41,188
Rights (obligations) with derivatives at 12.31.19	(7,129)	338,592	24,057	(35,487)	(62,803)	56,491	202,013	515,734

(a) The movements of derivative transactions are disclosed on a net basis.





## AZUL S.A.

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	Consolidated		
	Interest rate swap	Options - foreign currency	Total
<b>Movement of equity method adjustment</b>			
Balance at December 31, 2019	7,129	152,132	159,261
Fair value adjustments during the period	2,918	-	2,918
Net reversals to P&L	(923)	(152,132)	(153,055)
Derecognition of hedged item	(9,124)		(9,124)
Balance at December 31, 2020	-	-	-

	Consolidated		
	Interest rate swap	Options-foreign currency	Total
<b>Movement of equity method adjustment</b>			
Balance at December 31, 2018	9,422	152,132	161,554
Fair value adjustments during the period	1,778	(99,855)	(98,077)
Net reversals to P&L	(4,071)	99,855	95,784
Balance at December 31, 2019	7,129	152,132	159,261

## 21 AIR TRAFFIC LIABILITY

	Consolidated	
Description	12.31.20	12.31.19
Cargo and passenger air traffic liability	1,550,579	1,294,263
Azul viagens	183,061	109,977
TudoAzul Program	755,232	685,982
	<u>2,488,872</u>	<u>2,090,222</u>

As determined by regulators, travel rescheduling may be carried out within a period corresponding to 18 months from the flight cancellation. As at December 31, 2020 there are no passenger transport obligations to be executed after the 12-month period subsequent to the date of these financial statements.

The air traffic liability balances are presented net of passenger revenue breakage and the TudoAzul program, corresponding to R\$ 372,534 at December 31, 2020 (R\$ 539,232 at December 31, 2019).





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(In thousands of Brazilian reais – R\$, unless otherwise indicated)

## 22 PROVISIONS

Description	Consolidated				Total
	Provisions for return of aircraft and engines	Provisions for tax, civil and labor risks	Provisions for onerous contract	Provisions for post-employment benefit	
Balance at December 31, 2018	669,041	80,983	-	-	750,024
Addition of provision	139,652	100,241	1,129,866	-	1,369,759
Write-offs and/or payments		(93,718)	(333,420)	-	(427,138)
Interest incurred	67,366	-	18,633	-	85,999
Exchange differences	28,036	-	6,672	-	34,708
Balance at December 31, 2019	904,095	87,506	821,751	-	1,813,352
Business combination - Azul Conecta	-	1,688	-	-	1,688
Additions	304,594	183,014	362,426	9,921	859,955
Write-offs and/or payments	(118,504)	(116,394)	(262,946)	-	(497,844)
Interest incurred	84,939	-	206,011	687	291,637
Changes in assumptions	-	-	-	(655)	(655)
Exchange differences	161,062	-	213,280	-	374,342
Balance at December 31, 2020	1,336,186	155,814	1,340,522	9,953	2,842,475
<b>Current</b>	106,944	-	746,866	-	853,810
<b>Non-current</b>	1,229,242	155,814	593,656	9,953	1,988,665

### 22.1 Provisions for return of aircraft and engines

These provisions consider the costs that meet the contractual conditions for the return of engines maintained under an operating lease, as well as for the costs to be incurred in reconfiguring aircraft when they are returned under the conditions established in the lease contracts. The balancing item of the establishment of these provisions is the right of use in property and equipment.

### 22.2 Provision for tax, civil and labor risks

The Company and its subsidiaries are parties to legal and administrative proceedings.

The Company's Management believes that the provision for tax, civil and labor risks, established in accordance with CPC 25 - Provisions, Contingent Liabilities and Contingent Assets, equivalent to IAS 37, is sufficient to cover possible losses on administrative and judicial proceedings. The balances of the proceedings with estimates of probable and possible losses are shown below:

Description	Consolidated			
	Probable loss		Possible loss	
	12.31..20	12.31..19	12.31.20	12.31.19
Tax	2,858	2,024	154,640	116,074
Civil	104,915	45,067	43,347	77,360
Labor	48,041	40,415	114,524	123,119
	155,814	87,506	312,511	316,553





Provisions are revised based on the evolution of lawsuits and the history of losses through the best current estimate for civil and labor claims.

The labor lawsuit presented below was assessed by Management and legal counselors as being significant and of possible risk at December 31, 2020:

- On February 22, 2017, the Labor Department of Justice filed a lawsuit against the Company alleging the violation of certain labor aspects, such as excessive daily workday and the absence of enjoyment of rest periods, for which approximately R\$ 66,000 in punitive damages. The lawsuit is awaiting a hearing.

The tax claims below are assessed by Management and legal counselors to be significant and of possible risk at December 31, 2020:

- The Company discusses the non-application of the additional charge of 1% of COFINS on imports of aircraft, parts and pieces, in the amount of R\$ 144,352 (R\$ 102,317 at December 31, 2019). The classification as possible risk results from the fact that there was no express revocation of the tax exemption (zero rate) granted to regular air transport companies.

### 22.3 Provision for onerous contract

The provision is related to the obligations arising from the fleet transformation plan, as detailed in Note 1.4.

### 22.4 Provision for post-employment benefit

The Company offers its employees a health care plan that, as a result of complying with current legislation, generates post-employment benefit obligations. The movements of actuarial assets and liabilities related to the post-employment benefit, prepared based on an actuarial report, are presented below:

	Consolidated 12.31.20
Actuarial liabilities at the beginning of the year	-
Current service cost recognized in P&L	9,921
Cost of interest recognized in P&L	687
Effect of change in financial assumptions	(962)
Effect of plan experience	307
Actuarial liabilities at the end of the year	9,953



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	<b>Consolidated</b>
	<b>12.31.20</b>
Actuarial assumptions	
Weighted average of assumptions to determine the defined benefit obligation	
Nominal discount rate p.a.	7.43%
Actual discount rate p.a.	3.80%
Estimated inflation rate in the long term p.a.	3.50%
HCCTR - Average nominal inflation rate p.a.	6.60%
HCCTR - Actual nominal inflation rate p.a.	3.00%
Mortality table	AT-2000 downrated by 10%

**23 RELATED PARTY TRANSACTIONS****23.1 Compensation of key management personnel**

Key management personnel comprise the directors, officers and members of the Executive Committee. The compensation and charges paid or payable for services are shown below:

	<b>Consolidated</b>	
<b>Description</b>	<b>12.31.20</b>	<b>12.31.19</b>
Salaries and charges	18,075	22,187
Bonus	11,717	7,255
Share-based payment plan	36,986	29,129
	<b>66,778</b>	<b>58,571</b>

**Sensitivity analysis: variations in share value**

	<b>Consolidated</b>	
<b>Description</b>	<b>Stock Price</b>	<b>Expense</b>
Net exposure at 12.31.20	R\$ 39.30	36,986
<b>Effect on result</b>		
Stock devaluation by -50%	R\$ 19.65	12,203
Stock devaluation by -25%	R\$ 29.48	21,807

The effect on the result referring to the share-based compensation plan is based on the variation of the Company's share value, which is updated each reporting period, and therefore does not represent a cash outflow in the current year, with a forecast for vesting and settlement in up to four years.

**23.2 Guarantees and pledges granted by the Parent Company**

The Company has granted guarantees on rental properties for some of its executives and the total amount involved is not significant.





## **AZUL S.A.**

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#### **23.3 Loan agreement**

On September 2, 2016, the Company signed a loan agreement with one of its shareholders. As at December 31, 2020, the balance of the loan receivable is R\$ 16,973 (R\$ 12,789 as at December 31, 2019). Interest corresponds to three-month LIBOR plus a fixed rate of 2.3% per year.

#### **23.4 Technology service sharing contract**

On January 1, 2013, the Company entered into a contract with Águia Branca Participações S.A., one of its shareholders, for the sharing of information technology resources for an indefinite period. The total amount of services acquired during the year ended December 31, 2020 was R\$ 51 (R\$ 50 at December 31, 2019), recorded under “Cost of services” in the statement of profit or loss. As at December 31, 2020 there were no amounts to be paid as a result of this transaction.

#### **23.5 Ticket sales contract**

On March 26, 2018, the Company entered into a ticket sales agreement with Caprioli Turismo Ltda., a travel agency owned by the Caprioli family (which holds an indirect stake in the Company through TRIP former shareholders), whereby Caprioli Turismo Ltda. is granted a R\$ 20,000 credit line for the purchase and resale of tickets for flights operated by the Company. This credit line is guaranteed by a non-interest bearing promissory note in the same amount payable.

#### **23.6 Sublease of aircraft receivable**

In December 2019, the Company signed a letter of intent for the sublease of up to 28 aircraft to the Breeze Aviation Group (“Breeze”), an airline founded by the controlling shareholder of Azul, headquartered in the United States. The transaction was voted and approved by 97% of the Azul's shareholders at the Extraordinary General Meeting held on March 2, 2020. Following good corporate practices, the controlling shareholder did not participate in the voting.

On December 29, 2020, the Company sub-leased an aircraft to Breeze and recorded a balance receivable of R\$ 24,167.

#### **23.7 Indemnities**

As at December 31, 2020, the Company has recorded a balance receivable from former shareholders of TRIP in the amount of R\$ 39,339 (R\$ 30,347 as at December 31, 2019). This balance refers to the reimbursement of expenses with legal proceedings originating prior to the merger between the companies and is recorded under “Other non-current assets”.





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**24 EQUITY****24.1 Equity**

Description	Company's capital	Parent Company	
		Quantity	
		Common shares	Preferred shares
At December 31, 2020	2,246,367	928,965,058	331,644,724
At December 31, 2019	2,243,215	928,965,058	329,568,166

As established in the Company's articles of incorporation, each common share is entitled to 1 (one) vote. Preferred shares of any class do not entitle to voting rights, however they do provide their holders:

- capital repayment priority;
- the right to be included in a public offer for the purchase of shares, due to the transfer of control of the Company, under the same conditions and for a price per share equivalent to seventy-five (75) times the price per share paid to the controlling shareholder;
- the right to receive amounts equivalent to seventy-five (75) times the price per common share after the division of the remaining assets among the shareholders; and
- the right to receive dividends equal to seventy-five (75) times the amount paid to each common share.

Company shareholding structure is presented below:

Shareholder	Parent company					
	12.31.20			12.31.19		
	Common shares	Preferred shares	% economic participation	Common shares	Preferred shares	% economic participation
David Neeleman	67.0%	1.2%	3.5%	67.0%	3.5%	5.8%
Acionistas Trip <sup>(a)</sup>	33.0%	5.5%	6.5%	33.0%	5.5%	6.5%
United Airlines Inc	-	8.1%	7.8%	-	8.2%	7.9%
Other	-	85.1%	82.1%	-	82.7%	79.7%
Treasury	-	0.1%	0.1%	-	0.1%	0.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

(a) This refers to Trip Participações S.A., Trip Investimentos Ltda. and Rio Novo Locações Ltda.

The Company is authorized by resolution of the Board of Directors to increase the issued capital regardless of statutory reform with the issue of up to 104,949,010 (one hundred and four million, nine hundred and forty-nine thousand and ten) new preferred shares. The Board of Directors will set the conditions for the issue, including price and payment term.





## AZUL S.A.

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#### 24.2 Treasury shares

Set out below is the movement of treasury shares:

Description	Parent company	
	Number of shares	R\$
December 31, 2018	332,980	10,550
Acquisition	301,008	12,853
Cancellation	(189,743)	(7,838)
December 31, 2019	444,245	15,565
Cancellation	(178,784)	(2,383)
December 31, 2020	265,461	13,182

#### 25 EARNINGS (LOSS) PER SHARE

Although there are differences between common and preferred shares as to voting and preemptive rights in the event of liquidation, the Company's preferred shares do not grant the right to receive fixed dividends. Preferred shares have economic power and the right to receive dividends 75 times greater than common shares. Accordingly, the Company considers that the economic power of preferred shares is greater than that of common shares. Therefore, the profit or loss for the period attributable to the controlling shareholders is allocated proportionally in relation to the total economic participation of the amount of common and preferred shares.

Basic earnings (loss) per share are calculated by dividing the profit or loss for the period attributable to the Company's controlling shareholders by the weighted average number of all classes of shares outstanding during the period.

Diluted earnings (loss) per share are calculated by adjusting the weighted average number of shares outstanding by instruments potentially convertible into shares. However, due to the losses reported in the year ended December 31, 2020, these instruments issued by the parent company have a non-dilutive effect and therefore were not considered in the total number of shares outstanding to determine the diluted loss per share.





## AZUL S.A.

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Description	Parent company	
	Years ended	
	12.31.20	12.31.19
<b>Numerator</b>		
Loss for the year	(10,834,709)	(2,403,086)
<b>Denominator</b>		
Weighted average number of common shares	928,965,058	928,965,058
Weighted average number of preferred shares	329,779,360	328,571,282
75 preferred shares (*)	75	75
Weighted average number of equivalent preferred shares (*)	342,165,561	340,957,483
Weighted average number of equivalent common shares (**)	25,662,417,083	25,571,811,221
Weighted average number of stock options and restricted shares	63,789,234	9,865,114
Weighted average of shares that would have been issued at average market price	4,705,897	6,805,600
Basic loss per common share	(0.42)	(0.09)
Diluted loss per common share	(0.42)	(0.09)
Basic loss per preferred share	(31.67)	(7.05)
Diluted loss per preferred share	(31.67)	(7.05)

(\*) This refers to the participation in the value of the Company's total equity, calculated as if all 928,965,058 common shares had been converted into 12,386,200 preferred shares at the conversion ratio of 75 common shares for each preferred share.

(\*\*) This refers to the participation in the value of the Company's total equity, calculated as if the weighted average of preferred shares had been converted into common shares at the conversion ratio of 75 common shares for each 1 preferred share.

## 26 SHARE-BASED PAYMENT

The Company has three additional compensation plans for its management: the Stock Option Plan, the Restricted Stock Option Plan and the Stock Purchase Plan ("Phantom"). All of them aim to stimulate and promote the alignment of the objectives of the Company, shareholders, management and employees, and mitigate the risks in the generation of value of the Company by the loss of its executives, strengthening their commitment and productivity in the long-term results.

### 26.1 Stock option plan

The options granted in the Stock Option Plan require an acquisition period between 4 and 5 years, exercisable at a rate between 20% and 25% per year and have an average duration of eight years. The estimated volatility was calculated based on the historical volatility of shares of airlines listed on the stock exchanges in Brazil and the rest of Latin America.

Date of grant	Total options granted	Total outstanding options	Share exercise price	Fair value of option on the date of grant	Estimated volatility of share price	Expected dividend	Risk-free return rate	Average remaining maturity (in years)
12/11/2009	5,032,800	296,470	R\$ 3.42	R\$ 1.93	47.67%	1.10%	8.75%	-
03/24/2011	1,572,000	84,000	R\$ 6.44	R\$ 4.16	54.77%	1.10%	12.00%	-
04/05/2011	656,000	8,960	R\$ 6.44	R\$ 4.16	54.77%	1.10%	12.00%	-
06/30/2014	2,169,122	786,197	R\$ 19.15	R\$ 11.01	40.59%	1.10%	12.46%	-
07/01/2015	627,810	231,638	R\$ 14.51	R\$ 10.82	40.59%	1.10%	15.69%	-
01/07/2016	820,250	385,980	R\$ 14.50	R\$ 10.14	43.07%	1.10%	12.21%	-
07/06/2017	680,467	490,355	R\$ 22.57	R\$ 12.82	43.35%	1.10%	10.26%	0.5
03/14/2017	9,343,510	3,824,610	R\$ 11.85	R\$ 4.82	50.64%	1.10%	11.32%	1.2
12.31.20	20,901,959	6,108,210						





## AZUL S.A.

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Set out below is the movement of the plan during the year ended December 31, 2020:

Description	Parent company and consolidated	
	Number of shares	Weighted average of exercise price (in R\$)
At December 31, 2018	11,190,829	
Cancelled	(69,085)	
Exercised	(2,936,976)	
At December 31, 2019	8,184,768	12.85
Exercised	(2,076,558)	11.45
At December 31, 2020	6,108,210	16.91
<b>Number of exercisable options at:</b>		
At December 31, 2020	2,158,658	15.12
At December 31, 2019	2,294,135	13.81

The expense recognized in the statement of profit or loss for the period corresponding to the stock option plan for the year ended December 31, 2020 was R\$9,489 (R\$12,742 as at December 31, 2019).

## 26.2 Restricted stock option plan

The shares granted in the Restricted Stock Option Plan require an acquisition period of 4 years, exercisable at the rate of 25% per year. The estimated volatility was calculated based on the historical volatility of shares of airlines listed on the stock exchanges in Brazil and the rest of Latin America.

Grants are measured based on the fair value of the share at the date premiums are granted.

Date of grant	Parent company and consolidated		
	Fair value of share (in reais)	Total granted	Total not exercised
06/30/2014	R\$ 21.00	487,670	3,967
07/01/2015	R\$ 21.00	294,286	4,047
07/01/2016	R\$ 21.00	367,184	7,722
07/06/2017	R\$ 24.17	285,064	59,080
08/07/2018	R\$ 24.43	291,609	129,860
08/05/2019	R\$ 51.65	170,000	115,774
06/19/2020	R\$ 21.80	1,382,582	1,332,555
		3,278,395	1,653,005





Set out below is the movement of the plan during the year ended December 31, 2020:

Description	Parent company and consolidated
	Number of shares
At December 31, 2018	729,593
Granted	170,000
Cancelled	(49,748)
Delivered	(260,451)
At December 31, 2019	589,394
Granted	1,382,582
Cancelled	(74,024)
Delivered	(244,947)
At December 31, 2020	1,653,005

The expense recognized in the statement of profit or loss for the period corresponding to the restricted stock option plan for the year ended December 31, 2020 was R\$13,421 (R\$6,152 as at December 31, 2019).

### 26.3 Stock purchase plan – Phantom

Phantom Shares plans require an acquisition period of between 3 and 4 years, have a duration of between 6 and 8 years and the exercise price must be equal to the lowest share price traded on the market during the thirty trading sessions prior to the date of the granting of options approved by the Compensation Committee. The estimated volatility was calculated based on the historical volatility of the Company's shares. No dividends are expected for this plan. The fair value of this liability is reviewed and updated in each reporting period, according to the change in the fair value of the benefit granted and the acquisition of the right to exercise.

Date of grant	Total granted	Total outstanding	Exercise price	Price at the date of grant	Current share price	Fair value at the date of grant	Estimated volatility of share price	Risk-free return rate	Average remaining maturity (in years)
08/07/2018	707,400	89,674	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.98	53.22%	3.02%	2.33
08/05/2019	405,000	14,201	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.98	53.22%	3.02%	2.33
04/30/2020	3,250,000	3,167,765	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.98	53.22%	3.02%	2.33
04/30/2020	1,600,000	1,585,401	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.63	53.22%	3.02%	3.33
12/31/2020	5,962,400	4,857,041							



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Set out below is the movement of the plan during the year ended December 31, 2020:

Description	Parent company and consolidated
	Total outstanding
At December 31, 2018	707,400
Granted	405,000
Cancelled	(47,889)
Settled	(98,603)
At December 31, 2019	965,908
Granted	4,793,582
Cancelled	(898,881)
Settled	(3,568)
At December 31, 2020	4,857,041

The expense recognized in the statement of profit or loss for the period corresponding to the stock option plan - phantom for the year ended December 31, 2020 was R\$28,842 (R\$13,373 as at December 31, 2019). As at December 31, 2020, the total obligation related to the plan is R\$62,351 (R\$11,647 as at December 31, 2019).

**27 Sales revenue**

Description	Consolidated	
	12.31.20	12.31.19
Passenger service	4,688,295	10,382,240
Frequent-flyer program revenue	508,976	818,572
Cargo service	764,108	552,084
Other revenue	35,115	49,986
Total gross revenue	5,996,494	11,802,882
Taxes levied	(252,368)	(360,565)
Net revenue	5,744,126	11,442,317

Revenues by geographical location are as follows:

Description	Consolidated	
	12.31.20	12.31.19
Domestic revenue	4,759,257	9,195,535
Foreign revenue	984,869	2,246,782
Net revenue	5,744,126	11,442,317



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**28 EXPENSES BY NATURE**

	Parent Company		Consolidated	
	12.31.20	12.31.19	12.31.20	12.31.19
<b>Cost of services</b>				
Aircraft fuel	-	-	(1,508,750)	(3,085,603)
Salaries and benefits	-	-	(1,242,812)	(1,593,645)
Airport charges	-	-	(465,606)	(724,971)
Provision of traffic services	-	-	(288,327)	(476,481)
Maintenance and repair materials	-	-	(464,566)	(354,105)
Depreciation and amortization	-	-	(1,262,407)	(1,557,596)
<i>Impairment</i>	-	-	757,554	(2,897,333)
Other	-	-	(983,777)	(677,091)
	-	-	(5,458,691)	(11,366,825)
<b>Selling expenses</b>				
Salaries and benefits	-	-	(21,487)	(27,233)
Advertising and publicity	-	-	(329,829)	(444,079)
	-	-	(351,316)	(471,312)
<b>Administrative expenses</b>				
Salaries and benefits	(6,274)	(10,897)	(162,338)	(247,524)
Depreciation and amortization	-	-	(83,371)	(64,756)
Other	(36,350)	(8,715)	(618,317)	(487,300)
	(42,624)	(19,612)	(864,026)	(799,580)
<b>Others operational expenses</b>				
Idleness - Depreciation and amortization	-	-	(459,775)	-
Other	-	-	(9,399)	-
	-	-	(469,174)	-
<b>Total</b>	(42,624)	(19,612)	(7,143,207)	(12,637,717)

As a consequence of the reduction in the number of flights operated and by analogy to the provisions of CPC 16 (R1) - Inventories, equivalent to IAS 2, expenses with depreciation of flight equipment not directly related to the revenues generated in the period called idleness were reclassified from “Costs of services provided” group to the “Cost of services” group





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## 29. FINANCIAL RESULT

Description	Parent company		Consolidated	
	12.31.20	12.31.19	12.31.20	12.31.19
<b>Financial income</b>				
interest on short-term investments	547	276	23,187	12,462
Sublease receivable	-	-	28,714	29,695
Other	3,480	488	8,397	29,914
	4,027	764	60,298	72,071
<b>Financial expenses</b>				
Interest on loans (a)	(16,948)	-	(270,057)	(195,688)
Interest on lease (a)	-	-	(1,438,825)	(732,723)
Interest on finance lease (a)	-	-	(130,326)	(73,284)
Interest on factoring credit card receivables	-	-	(25,715)	(13,477)
Interest on provision for return of aircraft	-	-	(283,797)	(88,015)
Interest and fines on other operations	(11,241)	(1,807)	(225,082)	(129,954)
Share conversion right	(755,354)	-	(755,354)	-
Guarantee commission	-	-	(38,484)	(30,977)
Borrowing cost	(28,264)	-	(44,671)	(12,549)
Other	(8,822)	(610)	(57,630)	(52,857)
	(820,629)	(2,417)	(3,269,941)	(1,329,524)
Derivative financial instruments, net	-	-	(1,452,116)	325,452
Monetary and exchange differences, net	61,152	9,213	(4,302,540)	(391,905)
Financial result, net	(755,450)	7,560	(8,964,299)	(1,323,906)

## 30. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Operating activities expose the Company and its subsidiaries to financial market risks related to fuel prices, foreign exchange rates, interest rates, credit and liquidity. Such risks can be mitigated through the use of swaps, futures and options, in the oil, US dollar and interest market.

The Company's management supervises the monitoring of the market, credit and liquidity risks.

All activities with financial instruments for risk management are carried out by specialists with skill, experience and adequate supervision. It is the Company's policy not to enter into derivative transactions for speculative purposes.







## AZUL S.A.

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#### 30.1 Accounting classification and fair value hierarchy of financial instruments

The accounting classifications of the Company's consolidated financial instruments and fair value hierarchy as at December 31, 2020 and 2019 are shown below:

		Consolidated			
		Carrying amount		Fair Value	
Description	Level	31.12.20	31.12.19	31.12.20	31.12.19
Assets					
Cash and cash equivalents	2	3,064,815	1,647,880	3,064,815	1,647,880
Accounts receivable	-	875,382	1,165,866	875,382	1,165,866
Aircraft sublease receivables	-	312,937	279,504	312,937	279,504
Short-term investments	2	946,281	1,459,708	946,281	1,459,708
Derivative financial instruments	2	428,309	825,924	428,309	825,924
Liabilities					
Accounts payable	-	(2,561,727)	(1,376,850)	(2,561,727)	(1,376,850)
Accounts payable - supplier finance	-	(157,801)	(249,727)	(157,801)	(249,727)
Reimbursement to customers	-	(221,342)	(4,032)	(221,342)	(4,032)
Loans and financing	-	(5,894,515)	(3,518,156)	(5,414,689)	(3,504,754)
Loans and financing - conversion rights	2	(1,465,999)	-	(1,465,999)	-
Lease liabilities	-	(12,520,812)	(12,106,621)	(12,520,812)	(12,106,621)
Derivative financial instruments	2	(421,034)	(310,190)	(421,034)	(310,190)

#### 30.2 TAP Bonds

On March 14, 2016, the Company acquired Series A convertible bonds issued by TAP ("TAP Bonds") in the amount of € 90 million. TAP Bonds mature in 10 years from their issue, with annual interest of 3.75% until September 20, 2016 and at the rate of 7.5% in the following years. The accrued interest shall be paid on the maturity date or until the early redemption of the securities, whichever is earlier.

On August 10, 2020, as informed at the Extraordinary General Meeting, due to the crisis caused by the COVID-19 pandemic, the Portugal Government's negotiated an aid of € 1.2 billion for TAP with the European Commission, such aid being conditional among other factors to the elimination of the right to convert senior bonds, since they would not be diluted by the Government's financial contribution. Accordingly, there are no other rights or obligations measured at fair value requiring level 3 information, according to the fair value hierarchy set out in CPC 46 (IFRS 13).

As a result, the elimination of the conversion right resulted in a loss of R\$ 637,639, recorded under "Result from related party transactions, net".

As at December 31, 2020, rights receivable related to TAP Bonds correspond to R\$854,462 (R\$1,236,828 as at December 31, 2019), as shown in Note 6.

#### 30.3 Derivative financial instruments

Derivative financial instruments, designated or not as hedge transactions, and their movements are presented in Note 20 to these financial statements.



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**30.4 Market risks****30.4.1 Interest rate risk**

As at December 31, 2020, the Company had swap contracts to hedge against the effect of fluctuations in interest rates on part of payments for finance leases. During the year ended December 31, 2020, the Company recognized a total gain from interest hedge transactions in the amount of R\$30,949 (R\$142,220 as at December 31, 2019).

**30.4.2 Aviation fuel price risk ("QAV")**

The price of QAV varies depending on the volatility of the price of crude oil and its derivatives. To mitigate losses linked to variations in the fuel market, the Company had, as at December 31, 2020, forward transactions on fuel. During the year ended December 31, 2020, the Company recognized total losses in the statement of profit or loss of R\$1,371,941 related to fuel derivatives (gain of R\$115,189 as at December 31, 2019).

**30.4.3 Foreign exchange risk**

The foreign exchange risk arises from the possibility of unfavorable exchange differences to which the Company's liabilities or cash flows are exposed. The Company constantly monitors the net exposure in foreign currency and evaluates the contracting of hedge transactions to protect the non-operating cash flow, projecting for a maximum period of up to 12 months, and a longer term if deemed appropriate, to minimize its exposure. During the year ended December 31, 2020, the Company recognized losses on foreign exchange derivative transactions in the amount of R\$74,371 (gain of R\$68,043 as at December 31, 2019).

They exposure to exchange differences is as follows:

Description	Consolidated			
	Exposure to US\$		Exposure to €	
	12.31.20	12.31.19	12.31.20	12.31.19
<b>Assets</b>				
Cash and cash equivalents and short-term investments - current	262,309	289,297	-	-
Security deposits and maintenance reserves	1,540,231	1,613,221	-	-
Aircraft sublease receivables	312,937	279,504	-	-
Long-term investment	-	160,871	854,462	1,236,828
Derivative rights	155,920	121,968	-	-
Other assets	293,526	244,355	-	-
<b>Total assets</b>	<b>2,564,923</b>	<b>2,709,216</b>	<b>854,462</b>	<b>1,236,828</b>
<b>Liabilities</b>				
Accounts receivable	(831,429)	(424,411)	-	-
Loans and financing - current and non-current	(5,741,253)	(2,624,114)	-	-
Lease liabilities	(12,463,426)	(12,034,392)	-	-
Derivative obligations	(81,274)	-	-	-
Other liabilities	(951,348)	(688,134)	-	-
<b>Total liabilities</b>	<b>(20,068,730)</b>	<b>(15,771,051)</b>	<b>-</b>	<b>-</b>
<b>Net exposure</b>	<b>(17,503,807)</b>	<b>(13,061,835)</b>	<b>854,462</b>	<b>1,236,828</b>
<b>Net exposure in foreign currency</b>	<b>(3,368,254)</b>	<b>(3,240,587)</b>	<b>133,972</b>	<b>273,000</b>





## AZUL S.A.

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### 30.5 Credit risk

Credit risk is inherent to the Company's operating and financial activities, mainly disclosed in cash and cash equivalents, short-term investments, accounts receivable, subleases receivable, security deposits, maintenance reserves and other financial assets included in other assets. Financial assets classified as cash and cash equivalents and short-term investments are deposited with counterparties that have a minimum investment grade rating in the assessment made by agencies S&P, Moody's or Fitch (between AAA and A+). Most of them are contracted on a commodities and futures exchange, which substantially mitigates credit risk. TAP Bonds are guaranteed by intellectual property rights and credits related to the TAP mileage program.

Credit limits are established for all customers based on internal classification criteria and the carrying amounts represent the maximum credit risk exposure. The credit quality of the customer is assessed based on an extensive internal credit rating system. Outstanding receivables from customers are frequently monitored by the Company.

Derivative financial instruments are contracted on the over-the-counter market (OTC) from counterparties with a minimum investment grade rating, or on commodities and futures exchanges (B3 and NYMEX), which substantially mitigates credit risk. The Company has an obligation to assess the risks of counterparties in financial instruments and to diversify the exposure periodically.

### 30.6 Liquidity risk

The maturity schedules of the Company's consolidated financial liabilities as at December 31, 2020 are as follows:

Description	Consolidated						
	12.31.20						
	Carrying amount	Contractual cash flows	2021	2022	2023	2024	2025 onwards
Accounts payable	2,561,727	2,561,727	2,238,668	156,889	83,670	41,168	41,332
Accounts payable – supplier finance	157,801	157,801	157,801	-	-	-	-
Loans and financing	7,360,514	7,439,673	874,925	767,353	935,286	2,276,106	2,586,003
Lease liabilities	12,520,812	27,168,570	2,498,180	3,206,765	3,641,808	3,610,754	14,211,063
Derivative obligations	421,034	421,034	173,768	70,577	66,570	110,119	-
Reimbursement to customers	221,342	221,342	221,342	-	-	-	-
	23,243,230	37,970,147	6,164,684	4,201,584	4,727,334	6,038,147	16,838,398

### 30.7 Sensitivity analysis of financial instruments

#### 30.7.1 Risk factor: Exchange rate differences

As at December 31, 2020, the Company adopted an exchange rate of R\$ 5.1967/US\$ 1.00 and R\$ 6.3779/€ 1.00, corresponding to the month's closing rate announced by the Central Bank of Brazil as a probable scenario. The table below shows the sensitivity analysis and the effect on the result of the exchange rate fluctuation in the amount exposed at December 31, 2020:





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Description	Consolidated			
	Exposure to US\$		Exposure to €	
	Rate	12.31.20	Rate	12.31.20
Net exposure at 12.31.20	5.1967	(17,503,807)	6.3779	854,462
<b>Effect on P&amp;L</b>				
Foreign currency devaluation by -50%	2.5984	8,751,904	3.1890	(427,231)
Foreign currency devaluation by -25%	3.8975	4,375,952	4.7834	(213,616)
Foreign currency appreciation by 50%	7.7951	(8,751,904)	9.5669	427,231
Foreign currency appreciation by 25%	6.4959	(4,375,952)	7.9724	213,616

### 30.7.2 Risk factor: changes in QAV prices

As at December 31, 2020, the Company has oil derivative contracts to protect future QAV consumption. The probable scenarios used by the Company are the market curves at the December 31, 2020 closing for derivatives that protect the fuel price risk. The table below shows the sensitivity analysis in US dollars of the fluctuation of QAV barrel prices:

Description	Consolidated	
	Exposure to HOA <sup>(a)</sup>	
	Price <sup>(b)</sup>	12.31.20
HOA reference price at 12.31.20	\$150	81,274
<b>Effect on P&amp;L</b>		
HOA devaluation by -50%	\$75	(98,454)
HOA devaluation by -25%	\$112	(45,667)
HOA appreciation by 50%	\$225	45,667
HOA appreciation by 25%	\$187	98,454

(a) HOA – Heating Oil

(b) Average price in US dollars, per gallon, projected for the next 12 months.

### 30.7.3 Risk factor: changes in interest rates

As at December 31, 2020, the Company held financial investments and debts linked to various types of rates. In the sensitivity analysis of non-derivative financial instruments, the impact on annual interest was only considered on positions with values and exposed to such fluctuations, according to the scenarios shown below:

Description	Consolidated			
	Exposure to CDI		Exposure to LIBOR rate	
	Rate p.a.	12.31.20	Rate p.a. <sup>(a)</sup>	12.31.20
Net exposure at 12.31.20	2.8%	1,113,627	2.7%	(650,740)
<b>Effect on P&amp;L</b>				
Interest rate devaluation by -50%	1.4%	(45,937)	1.3%	26,310
Interest rate devaluation by -25%	2.1%	(53,593)	2.0%	30,695
Interest rate appreciation by 50%	4.1%	45,937	4.0%	(26,310)
Interest rate appreciation by 25%	3.4%	53,593	3.4%	(30,695)

(a) Weighted rate.



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**30.8 Capital management**

The Company seeks capital alternatives in order to satisfy its operational needs, aiming at a capital structure that it considers adequate for the financial costs and the maturity dates of funding and its guarantees. The Company monitors its degree of financial leverage, which corresponds to net debt, including short and long-term loans, as shown below:

Description	Consolidated	
	12.31.20	12.31.19
Cash and cash equivalents	3,064,815	1,647,880
Short and Long term Investments	946,281	1,459,708
Aircraft sublease receivables	312,937	279,504
Loans and financing	(7,360,514)	(3,518,156)
Sublease liabilities	(12,520,812)	(12,106,621)
Net debt	(15,557,293)	(12,237,685)

**31. NON-CASH TRANSACTIONS**

Description	Consolidated
	12.31.20
Supplier finance	157,801
Derivative debt acknowledgment	527,375
Acquisition of property and equipment through financing (IFRS 16)	2,561,504
Decrease in lease liabilities	5,701,928

**32 .COMMITMENTS****32.1 Aircraft acquisition**

As at December 31, 2020, the Company had contractually assumed the commitment to acquire 132 aircraft, 94 directly from manufacturers and 38 from lessors (147 as at December 31, 2019, 94 directly from manufacturers and 53 from lessors). The related financial disbursements calculated at present value are shown below:

Description	Consolidated	
	12.31.20	12.31.19
2020	-	2,874,657
2021	1,941,843	3,059,087
2022	855,247	3,218,225
2023	565,661	3,476,235
2024	1,533,423	1,780,716
2025	1,351,477	1,728,555
After 2025	3,926,183	7,162,286
	10,173,834	23,299,761





**AZUL S.A.**

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**32.2 Letters of credit**

As at December 31, 2020, the Company issued letters of credit in the amount of US\$ 522 million (US\$ 529 million as at December 31, 2019), equivalent to R\$2,713,794 (R\$2,134,186 as at December 31, 2019) and bank guarantees in the amount of R\$38,270 (R\$50,432 as at December 31, 2019) related to security deposits, maintenance reserves and local guarantees.

\*\*\*\*\*

