Interim Condensed Consolidated Financial Statements
(Unaudited)

Azul S.A.

March 31, 2020

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Unaudited Interim condensed consolidated financial statements

March 31, 2020

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Consolidated statements of financial position
As of March 31, 2020 and December 31, 2019
(In thousands of Brazilian reais)

	March 31, 2020 (Unaudited)	**December 31, 2019**
Assets		
Current assets		
Cash and cash equivalents (Note 6)	**529,236**	1,647,880
Short-term investments (Note 7)	**738,141**	62,009
Trade and other receivables	**909,004**	1,165,866
Aircraft sublease receivables (Note 8)	**106,955**	75,052
Inventories	**380,205**	260,865
Assets held for sale (Note 11)	**51,850**	51,850
Security deposits and maintenance reserves (Note 10)	**368,628**	258,212
Taxes recoverable	**55,573**	139,668
Derivative financial instruments (Note 18)	**100,084**	168,148
Prepaid expenses	**192,406**	139,403
Other current assets	**140,460**	169,778
Total current assets	**3,572,542**	4,138,731
Non-current assets		
Long-term investments (Note 18)	**937,194**	1,397,699
Aircraft sublease receivables (Note 8)	**237,956**	204,452
Security deposits and maintenance reserves (Note 10)	**1,836,579**	1,393,321
Derivative financial instruments (Note 18)	**643,642**	657,776
Prepaid expenses	**21,635**	22,216
Taxes recoverable	**327,726**	244,601
Deferred income taxes (Note 12)	**20,590**	
Other non-current assets	**534,628**	497,567
Right-of-use – leases (Note 11)	**7,200,948**	7,087,412
Right-of-use – aircraft maintenance (Note 11)	**474,449**	497,391
Property and equipment (Note 11)	**1,920,129**	1,968,840
Intangible assets	**1,088,898**	1,087,484
Total non-current assets	**15,244,374**	15,058,759
Total assets	**18,816,916**	19,197,490

	March 31, 2020 (Unaudited)	December 31, 2019
Liabilities and equity		
Current liabilities		
Loans and financing (Note 13)	**1,874,774**	481,227
Lease liabilities (Note 14)	**2,406,900**	1,585,233
Accounts payable	**2,009,901**	1,376,850
Accounts payable – Supplier finance	**99,460**	249,727
Air traffic liability	**1,693,092**	2,094,254
Salaries, wages and benefits	**383,433**	357,571
Insurance premiums payable	**38,122**	49,938
Taxes payable	**44,367**	49,060
Federal tax installment payment program	**13,510**	13,480
Derivative financial instruments (Note 18)	**310,423**	81,196
Provisions (Note 15)	**717,920**	323,441
Other current liabilities	**161,987**	200,043
Total current liabilities	**9,753,889**	6,862,020
Non-current liabilities		
Loans and financing (Note 13)	**2,926,586**	3,036,929
Lease liabilities (Note 14)	**13,446,307**	10,521,388
Derivative financial instruments (Note 18)	**325,433**	228,994
Deferred income taxes (Note 12)	**-**	242,516
Federal tax installment payment program	**117,167**	119,300
Provisions (Note 15)	**1,656,384**	1,489,911
Other non-current liabilities	**237,873**	215,606
Total non-current liabilities	**18,709,750**	15,854,644
Equity		
Issued capital (Note 16)	**2,245,075**	2,243,215
Capital reserve	**1,932,996**	1,928,830
Treasury shares (Note 16)	**(15,565)**	(15,565)
Other comprehensive loss (Note 16)	**(142,209)**	(159,261)
Accumulated losses	**(13,667,020)**	(7,516,393)
Total equity	**(9,646,723)**	(3,519,174)
Total liabilities and equity	**18,816,916**	19,197,490

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

Azul S.A.

Interim consolidated statements of net income (loss) (Unaudited)
Three months ended March 31, 2020 and 2019
(In thousands of Brazilian reais, except net income (loss) per share)

	For the three months ended March 31,	
	2020	**2019 (Restated)**
Operating revenue		
Passenger revenue	**2,653,419**	2,434,413
Cargo and other revenue	**149,256**	107,579
Total operating revenue	**2,802,675**	2,541,992
Operating expenses		
Aircraft fuel	**(764,310)**	(695,142)
Salaries, wages and benefits	**(478,077)**	(457,611)
Landing fees	**(201,907)**	(168,092)
Traffic and customer servicing	**(135,202)**	(108,748)
Sales and marketing	**(109,419)**	(91,501)
Maintenance materials and repairs	**(140,709)**	(54,268)
Depreciation and amortization	**(480,665)**	(384,993)
Other operating expenses, net	**(333,587)**	(242,465)
	(2,643,876)	(2,202,820)
Operating income (loss)	**158,799**	339,172
Financial result (Note 19)		
Financial income	**12,887**	18,277
Financial expense	**(438,470)**	(284,089)
Derivative financial instruments, net	**(1,281,616)**	126,040
Foreign currency exchange, net	**(4,233,800)**	(90,274)
	(5,940,999)	(230,046)
Result from related parties transactions, net	**(618,517)**	(52,857)
Net income (loss) before income tax and social contribution	**(6,400,717)**	56,269
Income tax and social contribution (Note 12)	**(13,016)**	(374)
Deferred income tax and social contribution (Note 12)	**263,106**	61,394
Net income (loss)	**(6,150,627)**	117,289
Basic net income (loss) per common share - R$ (Note 17)	**(0.24)**	0.01
Diluted net income (loss) per common share - R$ (Note 17)	**(0.24)**	0.01
Basic net income (loss) per preferred share - R$ (Note 17)	**(17.98)**	0.35
Diluted net income (loss) per preferred share - R$ (Note 17)	**(17.98)**	0.34

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

Azul S.A.

Interim consolidated statement of comprehensive income (Unaudited)
Three months ended March 31, 2020 and 2019
(In thousands of Brazilian reais)

	For the three months ended March 31,	
	2020	**2019 (Restated)**
Net income (loss)	**(6,150,627)**	117,289
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of cash flow hedges, net of tax	**17,052**	(22,684)
Total comprehensive income (loss)	**(6,133,575)**	94,605

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

Azul S.A.

Interim consolidated statements of changes in equity (Unaudited)
Three months ended March 31, 2020 and 2019
(In thousands of Brazilian reais)

	Issued capital	Capital Reserve	Treasury shares	Cash flow hedge reserve	Accumulated losses	Total
December 31, 2018	2,209,415	1,918,373	(10,550)	(153,969)	(5,113,307)	(1,150,038)
Income for the period	-	-	-	-	117,289	117,289
Other comprehensive loss	-	-	-	(22,684)	-	(22,684)
Total comprehensive loss	-	-	-	(22,684)	117,289	94,605
Issuance of shares due exercise of stock options (Note 16)	5,342	(1,228)	-	-	-	4,114
Share-based payment expense (Note 21)	-	3,078	-	-	-	3,078
March 31, 2019 (restated)	2,214,757	1,920,223	(10,550)	(176,653)	(4,996,018)	(1,048,241)

	Issued capital	Capital Reserve	Treasury shares	Cash flow hedge reserve	Accumulated losses	Total
December 31, 2019	**2,243,215**	**1,928,830**	**(15,565)**	**(159,261)**	**(7,516,393)**	**(3,519,174)**
Loss for the period	**-**	**-**	**-**		**(6,150,627)**	**(6,150,627)**
Other comprehensive loss	**-**	**-**	**-**	**17,052**		**17,052**
Total comprehensive loss	**-**	**-**	**-**	**17,052**	**(6,150,627)**	**(6,133,575)**
Issuance of shares due exercise of stock options (Note 16)	**1,860**	**-**	**-**			**1,860**
Share-based payment expense (Note 21)	**-**	**4,166**	**-**			**4,166**
March 31, 2020	**2,245,075**	**1,932,996**	**(15,565)**	**(142,209)**	**(13,667,020)**	**(9,646,723)**

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

Azul S.A.

Interim consolidated statements of cash flows (Unaudited)
Three months ended March 31, 2020 and 2019
(In thousands of Brazilian reais)

	For the three months ended March 31,	
	2020	**2019 (Restated)**
Cash flows from operating activities		
Net income (loss) for the period	**(6,150,627)**	117,289
Adjustments to reconcile net income (loss) to cash flows provided by (used in) operating activities		
Depreciation, amortization and impairment	**480,665**	384,993
Unrealized hedge results	**1,248,956**	(146,937)
Share-based payment expenses	**4,166**	3,078
Exchange (gain) and losses on assets and liabilities denominated in foreign currency	**4,225,402**	106,533
Interest expenses on assets and liabilities	**373,898**	239,482
Related parties	**599,197**	
Deferred income tax and social contribution	**(263,106)**	(61,394)
Allowance for doubtful accounts	**2,777**	1,360
Provision for inventory	**1,996**	1,516
Provisions	**38,892**	15,301
Loss on sale of property and equipment and de-recognition of lease contracts	**41,265**	75,704
Changes in operating assets and liabilities		
Trade and other receivables	**254,085**	(284,406)
Sublease receivables	**(65,407)**	24,525
Inventories	**(36,832)**	(26,243)
Security deposits and maintenance reserves	**(84,568)**	14,977
Prepaid expenses	**(52,422)**	(21,034)
Recoverable taxes	**970**	(19,731)
Other assets	**(7,743)**	(27,637)
Derivatives	**(322,182)**	44,799
Accounts payable	**632,780**	(76,531)
Accounts payable - Supplier finance	**(150,267)**	52,708
Salaries, wages and employee benefits	**25,862**	65,798
Insurance premiums payable	**(11,816)**	(15,736)
Taxes payable	**(4,389)**	(26,445)
Federal installment payment program	**(2,103)**	19,986
Air traffic liability	**(401,162)**	15,330
Provision taxes, civil and labor risks	**(35,927)**	(12,247)
Other liabilities	**(15,811)**	17,605
Interest paid	**(283,317)**	(194,904)
Income tax and social contribution paid	**(304)**	(479)
Net cash provided by operating activities	**42,928**	287,260
Cash flows from investing activities		
Short-term investment		
Acquisition of short-term investments	**(924,728)**	(444,957)
Disposal of short-term investments	**245,534**	567,893
Disposal of long-term investments		(96,161)
Acquisition of intangibles	**(26,211)**	(23,766)
Acquisition of property and equipment	**(222,587)**	(458,224)
Net cash used in investing activities	**(927,992)**	(455,215)

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Interim consolidated statements of cash flows (Unaudited)
Three months ended March 31, 2020 and 2019
(In thousands of Brazilian reais)

	For the three months ended March 31,	
	2020	**2019 (Restated)**
Cash flows from financing activities		
Debentures		
Repayment	**-**	(40,133)
Loans and financing		
Proceeds	**-**	291,977
Repayment	**(25,132)**	(33,564)
Lease repayment	**(148,302)**	(312,504)
Proceeds from sale and leaseback	**5,801**	-
Issuance of shares due exercise of stock options	**1,860**	4,114
Net cash (used in) from financing activities	**(165,773)**	(90,110)
Exchange gain (loss) on cash and cash equivalents	**(67,807)**	(2,683)
Net increase (decrease) in cash and cash equivalents	**(1,118,644)**	(260,748)
Cash and cash equivalents at the beginning of the period	**1,647,880**	1,169,136
Cash and cash equivalents at the end of the period	**529,236**	908,388

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

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

1. Operations

Azul S.A. ("Azul") is a corporation headquartered at Av. Marcos Penteado de Ulhôa Rodrigues, 939, in the city of Barueri, in the state of São Paulo, Brazil. Azul was incorporated on January 3, 2008 and is a holding company for providers of airline passenger and cargo services. Azul and its subsidiaries are collectively referred to as the "Company".

Azul Linhas Aéreas Brasileiras S.A. ("ALAB"), a 100% owned subsidiary incorporated on January 3, 2008, has operated passenger and cargo air transportation in Brazil since beginning operations on December 15, 2008. Canela Investments LLC ("Canela"), a 100% owned special purpose entity, headquartered in the state of Delaware, United States of America, was incorporated on February 28, 2008, to acquire aircraft outside of Brazil and lease them to ALAB.

The consolidated financial statements are comprised of the individual financial statements of the entities as presented below:

			% equity interest	
Entities	**Main activities**	**Country of incorporation**	**March 31, 2020 (Unaudited)**	**December 31, 2019**
Azul Linhas Aéreas Brasileiras S.A. (ALAB)	Airline operations	Brazil	100.0%	100.0%
Azul Finance LLC (a)	Aircraft financing	United States	100.0%	100.0%
Azul Finance 2 LLC (a)	Aircraft financing	United States	100.0%	100.0%
Blue Sabiá LLC (a)	Aircraft financing	United States	100.0%	100.0%
ATS Viagens e Turismo Ltda. (a)	Package holidays	Brazil	99.9%	99.9%
Azul SOL LLC (a)	Aircraft financing	United States	100.0%	100.0%
Azul Investment LLP (a)	Group financing	United States	100.0%	100.0%
Fundo Garoupa (b)	Exclusive investment fund	Brazil	-	100.0%
Fundo Safira (a)	Exclusive investment fund	Brazil	100.0%	100.0%
Canela Investments LLC (Canela) (a) (b)	Aircraft financing	United States	100.0%	100.0%
Canela 407 LLC (b)	Aircraft financing	United States	100.0%	100.0%
Canela 429 LLC (b)	Aircraft financing	United States	100.0%	100.0%
Canela Turbo Three LLC (b)	Aircraft financing	United States	100.0%	100.0%
Daraland S.A. (a)	Holding	Uruguay	100.0%	100.0%
Encenta S.A. (Azul Uruguai) (c)	Airline operations	Uruguay	100.0%	100.0%
TudoAzul S.A.	Loyalty programs	Brazil	100.0%	100.0%
Cruzeiro Participações S.A (a)	Participation in others societies	Brazil	99.9%	99.9%
Global AzulAirProjects, SGPS, S.A. (Global) (a)	Participation in others societies	Portugal	45.45%	45.45%

(a) Azul's investment is held indirectly through ALAB.
(b) ALAB's investments are held indirectly through Canela.
(c) Investments are held indirectly through Daraland.
(d) Exclusive Investment fund ended January, 2020

1.1 COVID-19 Immediate Response

In response to developments related to the spread of COVID-19, the Company has implemented measures to focus on the safety of our customers and crewmembers, while at the same time seeking to mitigate the impact on our financial results and liquidity position.

Crewmembers and customers safety

To keep crewmembers and customer safe, Azul has adopted the following actions:

- Crewmembers required to wear masks at all times and customers required to use masks or face coverings during the flight.
- Availability of sanitizing wipes and gel for crewmembers and customers.
- Enhanced cleaning procedures after each flight focusing on all customer touch-points.
- Enhanced deep cleanings during airplane overnights focusing on all crewmember work areas.
- Reduced onboard food and beverage service to limit contact.
- Free flights to medical professionals fighting the virus.
- Flexibility to rebook flights or receive travel credits valid for one year.

Capacity adjustments

Since the onset of the pandemic, Azul reacted quickly to make short-term adjustments to its network by cutting capacity by 50% in the second half of March. On March 26th, Azul was the first airline in Brazil to implement an essential air network, reducing its 950 daily flight schedule to 70 daily departures. The Company is only operating flights that generate enough revenue to cover its variable cost. For the weeks of May 4th and May 11th, Azul increased its schedule to 90 and 115 daily departures, respectively, by identifying additional viable markets. Still, the Company expects capacity to be down 75% to 85% year over year in 2Q20.

Cash preservation and cost structure optimization

Azul’s quick reaction to reduce capacity contributed to a significant reduction in variable cost, which represents approximately 60% of operating expenses. The Company’s fixed costs consist mostly of aircraft leases and salaries.

Aircraft Leases. The Company is negotiating the deferral of aircraft lease payments to match its expected demand profile over the next 18 to 24 months. Approximately 90% of Azul’s fleet is under operating leases, which gives the Company more flexibility to work with its partners during this uncertain environment.

Salaries. The Company expects to reduce its salaries expense by over 50% in the second quarter. More than 10,500 crewmembers joined the Company's voluntary unpaid leave program representing 78% of Azul's total workforce as of March 31, 2020, more than any other airline in Brazil. Azul also implemented the Governments' new job protection measure starting in May, reflecting salary cuts and contract suspension in exchange for government assistance for up to 90 days. In addition, Azul applied pay cuts between 50% and 100% for executive officers and directors and a 25% salary reduction for managers. The Company also deferred profit sharing payments and canceled bonus payments.

Capex and other. Since late March, Azul suspended all non-essential investments including pre-delivery deposits. In addition, all new aircraft deliveries have been suspended. The Company is also working to strengthen its liquidity position by negotiating with its partners and suppliers to postpone and extend payment terms.

As of March 31, 2020, the Company had a negative equity of R$9,646,723 (December 31, 2019 - R$3,519,174) and net current liabilities of R$6,181,347 (December 31, 2019 - R$2,723,289). The reasons for the negative equity is mainly due to:

i. Full retrospective adoption of IFRS 16 - Leases, with an impact of R$4,313,738 as of December 31, 2018 in total equity.

ii. The impairment of 53 Embraer E195 aircraft and associated assets, due to the acceleration of the transformation of the Company's fleet, with a negative impact of R$2,873,157 in statement of income (loss) in the year ended December 31, 2019.

iii. Approximately 29% devaluation of the Real against the US Dollar, resulting in a net exchange variation loss of R$4,233,800 in the quarter ended March 31, 2020.

The Company anticipates that the COVID 19 response initiatives to obtain additional sources of liquidity, along with measures to contain operational expenses and non-essential capital expenditures outflows, will provide resources to endure a prolonged downturn in demand. Management constantly evaluates the profitability of its operations and its financial position, acting in a solid and timely manner to adapt to the evolving circumstances triggered by governmental regulations and market dynamics in the face of the COVID-19 pandemic.

1.2 Acceleration of fleet transformation

In 2019, management approved the Embraer E195 phase-out plan, including the sublease of 53 E195 aircraft, following Azul's strategy to accelerate the replacement of its entire domestic fleet of E195 jets with larger, next-generation E2 aircraft that are more fuel-efficient due to new engine technology. This change to the intended use of the aircraft has triggered an impairment review.

A non-financial asset is impaired if its carrying amount exceeds its recoverable amount.

Under IFRS 16, Azul capitalizes the right-of-use of all aircraft previously held under operating leases and depreciates the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter.

Azul applied the full retrospective method of adoption on January 1, 2019, under which the comparative information from prior periods was restated. Upon transition, Azul recognized a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability that were initially measured at the present value of the future lease payments recognized at the historical dollar exchange rate and discount rate. The lease liability is updated at each reporting period to reflect the current exchange rate, whilst the right-of-use carrying value remains at historical rates, in accordance with IAS 21 – The effects of changes in foreign exchange rates.

Recoverable amount is the higher of value in use and fair value less costs of disposal. The value in use of the E195 aircraft and related parts and equipment affected by the acceleration plan was determined using cash flow projections from the phase-out plan approved by senior management covering a seven-year period. The main assumptions used in the analysis included:

- Revenue from sublease contracts
- Delivery and ongoing maintenance costs
- Salvage value for finance lease and owned aircraft at the end of the sublease contracts
- Exchange rate of R$4.004/US$1.00
- US Dollar pre-tax discount rate of 10.6%

The fair value less cost to sell of the E195 fleet was determined using third-party valuations and considering specific circumstances of the fleet such as aircraft age, maintenance requirements and condition resulting in a Level 3 classification in the fair value hierarchy.

As a result of the impairment analysis, the Company recorded an impairment of non current assets and right-of-use assets of R$2,032,207 recognized in “Depreciation, Amortization and Impairment”. In addition in accordance with IAS 36, an impairment charge is not fully allocated if the assets do not have sufficient book value to absorb the charge in its entirety. Consequently, for this portion not absorbed, an additional net cash provision for onerous contract totaling R$797,591 was recognized in “Other operating expenses” in the statements of net income (loss), with a corresponding entry to “Provisions” in the balance sheet.

Furthermore, additional assets and liabilities were adjusted to reflect the impact of the accelerated fleet transformation plan including: i) R$91,826 write-off of prepayments and maintenance reserves not expected to be recoverable; ii) R$27,999 provision against inventory parts; iii) R$76,466 reversal of sale and leaseback accrued gains since the carrying value of the aircraft was reduced to its recoverable value.

The total impact of the impairment considering the related provisions and write-offs was

R$54,211 per aircraft.

1.3 TwoFlex Acquisition

On May 14th, Azul closed the acquisition of TwoFlex for a purchase price of R$123 million. Payment will be made in up to 30 monthly installments ranging from R$3 million to R$10 million subject to certain contractual and market conditions, and a final payment of up to R$30 million, which shall be kept deposited in a banking account as collateral in favor of the Company for a determined period. The transaction has been approved without restrictions by the Brazilian Administrative Council for Economic Defense (CADE – Conselho Administrativo de Defesa Econômica) on March 27, 2020.

TwoFlex offers regular passenger and cargo service to 39 destinations in Brazil, of which only seven regional destinations are currently being served by Azul. The airline also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo’s downtown airport. Its fleet is composed of 17 owned Cessna Caravan aircraft, and one regional turboprop with a capacity of 9 passengers.

1.4 Seasonality

Our operating revenues are substantially dependent on overall passenger and cargo traffic volume, which is subject to seasonal and other changes in traffic patterns. Our passenger revenues are generally higher in the first and fourth quarters of each year, during the southern hemisphere’s spring and summer.

2. Basis of preparation of financial statements

The consolidated financial statements of the Company for the three months ended March 31, 2020, were authorized for issuance by the executive board of directors on May 11, 2020.

The consolidated financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and in Brazilian Reais, which is the functional currency of the Company.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Company presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements.

The financial statements were prepared using the historical cost basis, except for certain financial instruments, which are measured at fair value.

The Company has adopted all standards and interpretations issued by the IASB and the IFRS Interpretations Committee that were in effect on March 31, 2020. The interim condensed consolidated financial statements were prepared using the historical cost basis, except for the valuation of certain financial instruments which are measured at fair value.

3. Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those used in the preparation of the Company's annual consolidated financial statements for the year ended December 31, 2019.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Company's annual financial statements at December 31, 2019.

3.1. New and amended standards and interpretations

Amendments to IFRS 3: *Definition of a Business*

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 *Business Combinations* to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Company will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: *Definition of Material*

In October 2018, the IASB issued amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.
The amendments to the definition of material is not expected to have a significant impact on the Company's consolidated financial statements.

Amendments to IFRS 9 – Financial Instruments, IAS 39 – Financial Instruments: Recognition and Measurement and IFRS 7 – Financial Instruments: Disclosures

Due to the changes in the interest rates used as market references – IBOR (Interbank Offered Rate), that will be terminated in future periods, there may be uncertainties in the evaluation of hedge accounting structures. Regulatory changes aim at minimizing possible impacts in these structures in the current scenario of prereplacement of rates. These changes are effective for the years beginning January 1, 2020. No significant impacts have been identified on the Consolidated Financial Statements of Company.

IFRS 17 *Insurance Contracts*

In May 2017, the IASB issued IFRS 17 *Insurance Contracts* (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure.

IFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. This standard is not applicable to the Company.

4. Restatement of financial statements

The Company applied the full retrospective transition approach for the IFRS 16 adoption on January 1, 2019. On December 31, 2019, upon conclusion of the adoption adjustments, the Company opted to improve the disclosure of quarterly, individual and consolidated information, of March 31, 2019. Management improved the controls related to the adoption of IFRS 16 / CPC 06 (R2), especially in relation to the aircraft and engines redelivery provision, which is based on the estimated future costs to be incurred in order to meet the contractual conditions for the return of engines and aircraft maintained under operating leases, which resulted in improved accounting information throughout 2019. Consequently, in accordance with the provisions of IAS 8 / CPC 23 - Accounting Practices, Changes in Accounting Estimates and Correction of Errors, due to the effects of adjustments to IFRS 16 that were concluded by the Company for the year ended on December 31 January 2019, and disclosed in its Annual Financial Statements, the Company is restating the corresponding amounts for the three months ended March 31, 2019, so that there is an adequate comparative basis in the quarterly information.

The individual and consolidated balance sheet as of December 31, 2018, was restated in the financial statements of December 31, 2019 with the retrospective adoption of CPC 06 (R2) and IFRS 16. For this reason, the opening balance sheet is not presented in this restatement of the interim information for the three months ended March 31, 2019.

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

The effects of IFRS 16 adjustments in the three months ended March 31, 2019 are shown below:

	March 31,2019		
	As reported	Adjustments	As restated
Consolidated Statement of Financial Position			
Asset			
Current assets			
Prepaid expenses (b)	152,601	(5,712)	146,889
Non-current assets			
ROU - leased aircraft and other assets (a), (b), (c)	5,280,848	105,186	5,386,034
ROU - maintenance of leased aircraft (b)	756,887	(10,130)	746,757
Property, plant and equipment (b), (c)	1,978,703	64,260	2,042,963
Liabilities and equity			
Current liabilities			
Lease liabilities (b)	1,301,329	(3,850)	1,297,479
Accounts payable (b)	1,195,662	15,462	1,211,124
Provisions (a)	-	37,179	37,179
Other current liabilities (b)	212,213	1.091	213.304
Non-current liabilities			
Loans and financing (c)	2,882,440	44,260	2,926,700
Lease liabilities (c)	8,120,070	(50,121)	8,069,949
Provisions (a)	84,038	677,066	761,104
Other non-current liabilities (b)	316.550	8,872	325.422
Equity			
Accumulated losses (a), (b), (c)	(4,419,663)	(576,355)	(4,996,018)

Consolidated statement of net income (loss)	For the three months ended March 31, 2019		
	As reported	Adjustments	As restated
Operating expense			
Aircraft fuel (c)	(697,444)	2,302	(695,142)
Aircraft and other rent (c)	(18,806)	18,806	-
Maintenance materials and repairs (c)	(51,270)	(2,998)	(54,268)
Depreciation and amortization (a), (b), (c)	(388,566)	3,573	(384,993)
Other operating expenses, net (c)	(224,355)	(18,110)	(242,465)
Financial result			
Financial expense (a), (b)	(269,098)	(14,991)	(284,089)
Foreign currency exchange, net (a), (b)	(81,303)	(8,971)	(90,274)
Net income (loss)	137,678	(20,389)	117,289
Basic net income per common share - R$	0.01	(0.00)	0.01
Diluted net income per common share - R$	0.01	(0.00)	0.01
Basic net income per preferred share - R$	0.41	(0.06)	0.35
Diluted net income per preferred share - R$	0.40	(0.06)	0.34

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

	For the three months ended March 31, 2019		
Cash Flows	**As reported**	**Adjustments**	**As adjusted**
Cash flows from operating activities			
Net income (loss) for the period	137,678	(20,389)	117,289
Adjustments to reconcile net income (loss) to cash flows provided by operating activities			
Depreciation and amortization	388,566	(3,573)	384,993
Exchange (gain) and losses on assets and liabilities denominated in foreign currency	97,562	8,971	106,533
Interest (income) and expenses on assets and liabilities	224,491	14,991	239,482
Loss on sale of property and equipment and de-recognition of lease contracts	27,738	47,966	75,704
Changes in operating assets and liabilities			
Other liabilities	(5,882)	23,487	17,605
Cash flows from investing activities			
Acquisition of property and equipment	(401,689)	(56,535)	(458,224)
Cash flows from financing activities			
Proceeds from sale and leaseback	14,918	(14,918)	-

a) Provision for the return of aircraft and engines - Costs resulting from maintenance events that will be carried out immediately before the return of aircraft to lessors (defined as restoration events for the purposes of IFRS 16), are recognized as provisions from the beginning of the contract, provided they can be reasonably estimated, against the right to use the aircraft, which is depreciated on a straight-line basis over the lease.

b) Corrections to implementation balances, accounting for sale and leaseback transactions and updating of floating rates for operating leases.

c) Reclassifications between Balance Sheet, Income Statement lines and between quarters in 2019.

5. Financial risk management objectives and policies

The main financial liabilities of the Company, other than derivatives, are loans, debentures, lease liabilities and accounts payable. The main purpose of these financial liabilities is to finance operations as well as finance the acquisition of aircraft. The Company has trade accounts receivable and other accounts receivable that result directly from its operations. The Company also has investments available for trading and contracts for derivative transactions such as currency forwards, options and swaps in order to reduce the exposure to foreign exchange fluctuations.
The Company's senior management supervises the management of market, credit and liquidity risks.

All activities with derivatives for risk management purposes are carried out by experts with the appropriate skillset and experience and under senior management supervision. It is the Company’s policy not to enter into derivatives transactions for speculative purposes.

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

a) Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk consists of three types of risk: interest rate risk, currency risk and other price risk, such as equity price risk and commodity risk. Financial instruments exposed to market risk include loans payable, deposits and financial instruments.

The table below shows the effects of our hedges designated as hedge accounting of our debt:

	March 31, 2020 (Unaudited)		
	Book value	**Hedge strategy**	**Consolidated post hedge strategy**
Denominated in foreign currency - US$			
Aircraft and engine acquisition	**1,148,228**	**-**	**1,148,228**
Working capital	**2,260,402**	**(285,240)**	**1,975,162**
Denominated in local currency - R$			
Aircraft and engine acquisition (FINAME)	**157,503**	**(3,141)**	**154,362**
Working capital	**533,505**	**-**	**533,505**
Finance lease			
Total in R$	**4,099,638**	**(288,381)**	**3,811,257**

The table below shows the indebtedness related to working capital denominated in foreign currency, designated as hedge accounting, considering the effects of the derivative instruments (exchanging the exposure for local currency) contracted by the Company:

						March 31, 2020 (Unaudited)		
Risk	**Type of hedge**	**Hedged Item**	**Nominal amount**	**Hedge Instrument**	**Nominal amount**	**Carrying amount hedge item**	**Intrinsic value**	**Debt Considering Hedge**
1) Senior Notes Azul LLP								
Foreign exchange risk	Cash Flow Hedge	Principal US$ on Senior Notes Azul LLP	US$ 200 million	Currency Options - Floor 3,2865 Cap 4,7500	US$ 200 million	**2,103,369**	**(285,240)**	**1,818,129**

The table below shows the indebtedness related to aircraft acquisition denominated in foreign currency, designated as hedge accounting, considering the effects of the derivative instruments (exchanging the exposure for local currency) contracted by the Company:

						March 31, 2020 (Unaudited)		
Risk	**Type of hedge**	**Hedged Item**	**Nominal amount**	**Hedge Instrument**	**Nominal amount**	**Carrying amount - hedge item**	**Fair Value – hedge instrument**	**Debt Considering Hedge**
Aircraft acquisition								
Interest rate swap and foreign exchange risk	Fair value hedge	Principal & Interest	R$76,200	IRS - Interest Rate Swap (fixed 6% to 58% and 61% of CDI)	R$76,200	**42,016**	**(3,141)**	**38,875**

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

a.1) *Interest rate risk*

Interest rate risk is the risk that the fair value of future results of a financial instrument fluctuates due to changes in market interest rates. The exposure of the Company to the risk of changes in market interest rates refers primarily to long-term obligations subject to variable interest rates.

The Company manages interest rate risk by monitoring the future projections of interest rates on its loans, financing and debentures as well as on its operating leases. To mitigate this risk, the Company has used derivative instruments aimed at minimizing any negative impact of variations in interest rates.

Sensitivity to interest rates

The table below shows the sensitivity to possible changes in interest rates, keeping all other variables constant in the Company's income before taxes that are impacted by loans payable subject to variable interest rates.

For the sensitivity analysis, the Company utilized the following assumptions:

- LIBOR based debt: weighted average interest rate of 4.88% p.a.
- CDI based debt: weighted average interest rate of 3.87% p.a.

We estimated the impact on profit and loss and equity for the three months ended March 31, 2020 resulting from variation of 25% and 50% on the weighted average rates, as shown below:

	25%	**-25%**	**50%**	**-50%**
Interest expense	**7,330**	**(7,330)**	**14,660**	**(14,660)**

a.2) *Currency risk*

Currency risk is the risk that the fair value of future dollar denominated commitments vary according to the fluctuation of the foreign exchange rate. The exposure of the Company to changes in exchange rates relates primarily to the U.S dollar denominated loans, financing and leases, net of investments in the U.S. dollar, and also to revenues and operating expenses originated in U.S. dollar.

The Company is also exposed to changes in the exchange rate of the Euro through its investment in the TAP Convertible Bonds (Note 18).

The Company manages its currency risk by using financial instruments seeking to hedge up to twelve months of its projected non-operational activities.

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

The Company continuously monitors the net exposure in foreign currency and, when deemed appropriate, enters into arrangements to hedge the projected non-operating cash flow for up to 12 months to minimize its exposure. Additionally, the Company may enter into longer than 12 months derivative financial instruments to protect itself against currency and/or interest rate risks related to "Loans and financing".

The Company's nominal foreign exchange exposure is shown below:

	Exposure to U.S. dollar		Exposure to Euro	
			December 31,	
	March 31, 2020 (Unaudited)	**December 31, 2019**	**March 31, 2020 (Unaudited)**	**December 31, 2019**
Assets				
Cash and cash equivalents and short-term Investments	**73,759**	289,297	**-**	-
Security deposits and maintenance reserves	**2,166,555**	1,613,221	**-**	-
Sublease receivables	**344,911**	279,504	**-**	-
Long-term investments	**113,074**	160,871	**824,120**	1,236,828
Financial instruments	**-**	121,968	**-**	-
Other assets	**336,169**	244,355	**-**	-
Total assets	**3,034,468**	2,709,216	**824,120**	1,236,828
Liabilities				
Accounts payable	**(813,411)**	(424,411)	**-**	-
Loans and financing (*)	**(3,408,630)**	(2,624,114)	**-**	-
Lease liabilities	**(15,786,899)**	(12,034,392)	**-**	-
Other liabilities	**(891,154)**	(688,134)	**-**	-
Total liabilities	**(20,900,094)**	(15,771,051)	**-**	-
Derivatives (NDF) – notional	**1,345,164**	2,940,333	**-**	-
Net exposure	**(16,520,462)**	(10,121,502)	**824,120**	1,236,828

Sensitivity to exchange rates

At March 31, 2020, the Company used the closing exchange rate of R$5.1987/US$1.00 and R$5.7264/EUR1.00. We present below a sensitivity analysis considering a variation of 25% and 50% over the existing rates:

Exposure in US$	**25% R$6.4984/US$**	**-25% R$3.8990/US$**	**50% R$7.7981/US$**	**-50% R$2.5994/US$**
Effect on exchange rate variation	**(4,130,116)**	**4,130,116**	**(8,260,232)**	**8,260,232**

Exposure in EUR	**25% R$7.1580/EUR**	**-25% R$4.2948/EUR**	**50% R$8.5896/EUR**	**-50% R$2.8632/EUR**
Effect on exchange rate variation	**206,030**	**(206,030)**	**412,060**	**(412,060)**

a.3) *Risks related to variations in prices of aircraft fuel*

The volatility of prices of aircraft fuel is one of the most significant financial risks for airlines. The company's fuel price risk management aims to balance the airline exposure to its market peers, so that the airline is neither overly affected by a sudden increase in prices nor is unable to benefit from a substantial fall in fuel prices.

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

The Company manages the risk related to fuel price volatility either through forward-looking fixed-price contracts directly with a supplier, or derivative contracts negotiated with banks. The Company may use derivative contracts for oil or its sub-products.

Fuel price sensitivity

The table below sets out the sensitivity of the Company's fuel hedges to substantial changes in the oil markets, maintaining all other variables constant.

The analysis considers a change in oil prices, in Reais, relative to the market average for the current period and forecast the impact on the Company's financial instruments, stemming from a variation of 25% and 50% in the oil prices, using the closing exchange rate of R$5.1987/US$1.00 as follows:

Change in Oil prices in Reais	25%	-25%	50%	-50%
Impact on fuel hedges	**85,532**	**(85,532)**	**171,0064**	**(171,064)**

a.4) *Risk related to changes in the fair value of TAP Convertible Bonds and investments in Global AzulAirProjects*

TAP Convertible Bonds contain a conversion option into shares of TAP. In addition *Global AzulAirProjects* retains 35.6% economic rights in Atlantic Gateway, which in turn retains 6.1% post-diluton economic interest in TAP. Therefore, the Company is exposed to changes in the fair value of TAP.

The acquisition of the TAP Convertible Bonds and the participation in Global AzulAirProjects is part of the commercial strategy of the Company of creating synergies between the Company and TAP by having the option to become a direct shareholder of TAP in case the stock price of TAP increases and it is economically advantageous to convert the debt into TAP shares.

b) Credit risk

Credit risk is inherent in operating and financial activities of the Company, mainly represented under the headings of trade receivables, cash and cash equivalents, including bank deposits.

The credit risk of "trade receivables" is comprised of amounts payable by major credit card companies, and also trade receivables from travel agencies, and sales payable in installments. The Company usually assesses the corresponding risks of financial instruments and diversifies the exposure.

Financial instruments are held with counterparties that are rated at least "A" in the assessment made by S&P, Moody's and Fitch, or, mostly, are hired in futures and commodities stock exchange, which substantially mitigates the credit risk.

TAP Convertible Bonds are secured by liens over certain intangible assets.

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

Additionally, the Company, under the non-binding agreement to acquire selected assets of Oceanair Linhas Aéreas S.A. (“Avianca Brasil,”), granted loans in the aggregate and non-adjusted total amount of R$52 million to Avianca Brasil, which have contractual guarantees of surety and chattel mortgage of equipment. Such loans are recorded under “Other assets” and must be paid with priority under the law and the judicial recovery plan of Avianca Brasil.

During the second quarter of 2019, there was an auction for the sale of isolated production units, pursuant to Avianca's judicial recovery plan, whose proceeds would primarily serve to repay the loans. To date, the judicial sale of isolated production units has not been completed, including in view of the decision of the National Civil Aviation Agency (ANAC) to redistribute slots. The Company continues to monitor the evolution of the judicial recovery process of Avianca Brasil and its developments in order to verify the recoverability of the loans by this means, as well as adopting all applicable enforceable measures to collect the debtor and guarantors amounts.

c) Liquidity risk

Liquidity risk takes on two distinct forms: market and cash flow liquidity risk. The first is related to current market prices and varies in accordance with the type of asset and the markets where they are traded. Cash flow liquidity risk, however, is related to difficulties in meeting the contracted operating obligations at the agreed dates.

As a way of managing the liquidity risk, the Company invests its funds in liquid assets (government bonds, CDBs, and investment funds with daily liquidity), and the cash management policy establishes that the Company’s and its subsidiaries’ weighted average debt maturity should be higher than the weighted average maturity of the investment portfolio.

The maturity schedule of financial liabilities held by the Company is as follows:

March 31, 2020 (Unaudited)	Immediate	Until 6 months	7 to 12 months	1 to 5 years	More than 5 years	Total
Loans and financing	251,180	40,283	1,583,311	2,902,261	24,325	4,801,360
Lease liabilities	442,009	762,895	1,201,996	8,641,764	4,804,543	15,853,207
Accounts payable	1,610,112	269,655	130,134	-	-	2,009,901
Accounts payable – Supplier finance	99,460	-	-	-	-	99,460
Liabilities from derivative transaction	101,578	157,831	51,014	325,433	-	635,856
	2,504,339	1,230,664	2,966,455	11,869,458	4,828,868	23,399,784

Capital management

The Company’s assets may be financed through equity or third-party financing. If the Company opts for equity capital it may use funds from contributions by shareholders or through selling its equity instruments.

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

The use of third-party financing is an option to be considered mainly when the Company believes that the cost would be less than the return generated by an acquired asset. It is important to ensure that the Company maintains an optimized capital structure, provides financial solidity while providing for the viability of its business plan. As a capital-intensive industry with considerable investments in assets with a high aggregated value, it is natural for companies in the aviation sector to report a relatively high degree of leverage.

The Company manages capital through leverage ratios, which is defined by the Company as net debt divided by the sum of net debt and total equity. Management seeks to maintain this ratio at levels equal to or lower than industry levels. Management includes in the net debt the lease liabilities, the loans and financing (including debentures) less cash and cash equivalents, restricted cash, short and long-term investments, sublease receivables, deposits and current and non-current restricted investments.

The Company's capital structure is comprised of its net indebtedness defined as total loans and financing (including debentures) and operating leases net of cash and cash equivalents, restricted cash and others financial instruments. Capital is defined as equity and net indebtedness.

Under IFRS 16, at the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. During the quarter ended March 31, 2020, the Company took delivery of three aircraft and two engines under operating leases, increasing the 'Lease liabilities' by R$391,284. Although the liability is recognized in the balance sheet from delivery date, these aircraft generated nearly no Operating income (loss) during the quarter, as aircraft are required to go through certification and tests before joining the operating fleet of the Company.

The Company is not subject to any externally imposed capital requirements. The total capital as total net equity and net debt as detailed below:

	March 31, 2020 (Unaudited)	**December 31, 2019**
Equity	**(9,646,723)**	(3,519,174)
Cash and cash equivalents (Note 6)	**(529,236)**	(1,647,880)
Short-term investments (Note 7)	**(738,141)**	(62,009)
Long-term investments (Note 18)	**(937,194)**	(1,397,699)
Sublease receivable (Nota 8) (*)	**(344,911)**	(279,504)
Security deposits and maintenance reserves (Note 10) (*)	**(2,205,207)**	(1,651,533)
Loans and financing (Note 13) (*)	**4,801,360**	3,518,156
Lease liabilities (Note 14) (*)	**15,853,207**	12,106,621
Net debt	**15,899,878**	10,586,152
Total capital	**6,253,155**	7,066,978

(*) Includes current and non-current

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

6. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	March 31, 2020 (Unaudited)	December 31, 2019
Cash and bank deposits	**4,381**	308,958
Cash equivalents		
Bank Deposit Certificate – CDB	**282,166**	1,317,388
Investments funds	**242,689**	21,534
	529,236	1,647,880

The balances of cash and bank deposits represent amounts deposited in checking accounts with Brazilian and offshore banks.

The CDB investments are indexed to the Brazilian Interbank Deposit Certificate (“CDI”) and are repayable on demand.

Investment funds are comprised of CDBs and repurchase agreements, denominated in Reais, with financial institutions (deposit certificates).

Cash equivalents investments are classified as financial assets at fair value through profit or loss.

7. Short term investments

Investments are comprised of:

	March 31, 2020 (Unaudited)	December 31, 2019
Other short-term investments	**37,962**	21,243
Investment funds	**700,179**	40,766
	738,141	62,009

Investment funds are comprised of Brazilian government bonds and bank notes, denominated in Reais, with financial institutions (deposit certificates) and debentures issued by B and BB+ risk rated companies bearing an accumulated average interest rate of 100% of CDI – Interbank Deposit Certificate rate. Brazilian government bonds are comprised of National Treasury Bills (“LTN”), National Financial Bills (“LFT”) and National Treasury Notes (“NTN”).

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

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

8. Aircraft sublease receivables

The Company subleased fifteen aircraft to TAP and the amounts receivable are due as follows:

	March 31, 2020 (Unaudited)	December 31, 2019
2020	**102,289**	98,152
2021	**111,769**	86,657
2022	**60,795**	47,136
2023	**56,948**	44,154
2024	**56,948**	44,154
After 2024	**26,892**	20,588
Lease receivables (gross)	**415,641**	340,841
Finance revenue (accrued)	**(70,730)**	(61,337)
Lease receivables (net)	**344,911**	279,504
Current	**106,955**	75,052
Non-current	**237,956**	204,452

As March 31, 2020 the amount of R$3,413 (December 31, 2019 – R$0), were overdue less than 30 days related to aircraft subleases receivables.

9. Related parties

a) Compensation of key management personnel

Key management personnel include board of director members, officers and executive committee members. The compensation paid or payable to officers and directors services is as follows:

	Three months ended March 31,	
	2020	2019 (*) (restated)
	(Unaudted)	
Salaries and wages	**4,310**	6,333
Share-based option plans	**3,403**	4,016
	7,713	10,349

(*) Virtual Stock Option Plan is demonstrated based on the amounts paid during the period.

b) Guarantees granted

The Company granted guarantees for some property rental agreements entered into by executive officers. The amounts involved are not material.

c) Maintenance agreements

ALAB entered into Maintenance Agreements to aircraft with TAP Manutenção e Engenharia Brasil S/A (“TAP ME”). TAP ME is part of the same economic group as TAP.

The total value of maintenance services acquired by the Company pursuant to such Maintenance Agreements during the three months ended March 31, 2020 was R$1,969 (March 31, 2019 – R$7,584).

As of March 31, 2020, the amount payable to TAP ME was R$1.160 (December 31, 2019 – R$97) and is recorded under Accounts payable.

d) Codeshare Agreement

ALAB signed a codeshare agreement with United (a shareholder) and TAP which will provide transport of passengers whose tickets have been issued by one of the airlines and the service is performed by the other.

e) Transactions with Aigle Azur

On March 31, 2020, the Company classified the balance to the allowance for doubtful debts the amount of R$18,320 (December 31, 2019 - R$5,055).

f) Loan agreements receivable

On September 2, 2016 the Company entered into a loan agreement with a shareholder. On December 31, 2019 the amount of loan is R$16,238 (December 31, 2019 – R$12,789). This agreement bears interest at a rate of Libor plus 2.3% p.a. The term of the contract has been extended and will be paid in full in 2020.

g) Transactions with Breeze

In December 2019, the Company signed a letter of intent for the sublease of up to 28 aircraft to the Breeze Aviation Group, an airline founded by Azul's controlling partner. The transaction was approved by Azul's shareholders at an Extraordinary General Meeting on March 2, 2020. In 2020 and 2019 there were no financial flows related to the transaction.

h) Transactions with TAP

i. Aircraft sublease

In March 2016, the Company subleased fifteen aircraft to its related party TAP. Seven of the fifteen leases had been executed at a time when the market for regional aircraft was higher than when the related seven subleases were executed. As a result, although the Company believes that the rates in these seven subleases represented approximate market rates at the time of their execution, the Company will receive from TAP an amount lower than the amount that the Company has to pay under the related leases.

In accordance with IFRS 16, an intermediate lessor records the head lease and sublease as two separate leases. The intermediary lessor is required to classify the sublease as financial or operating by reference to the right-of-use asset (and not by reference to the underlying asset).

As a result of this change, the Company reassessed the classification of its sublease agreements as finance leases, based on the remaining term and conditions of the head lease and sublease on the date of the initial adoption, thus derecognizing part of the provision for onerous contracts.

During the three months ended March 31, 2020, amounts received from TAP from the subleases amounted to R$23,599 (March 31, 2019 – R$29,240), and amounts paid to the lessors of the related aircraft totaled R$4,760 (March 31, 2019 – R$33.628). In March 31, 2020, the Company had amounts receivable from TAP of R$8,929 and a lease payable to lessors of R$34,972.

ii. TAP Convertible Bonds

On March 14, 2016, the Company acquired series A convertible bonds issued by TAP (the “TAP Convertible Bonds”) for an amount of €90 million. The TAP Convertible Bonds are convertible, in whole or in part, at the option of Azul into new shares representing the share capital of TAP benefiting from enhanced preferential economic rights (the “TAP Shares”). Upon full conversion, the TAP Shares will represent 6.0% of the total and voting capital of TAP, with the right to receive dividends or other distributions corresponding to 41.25% of distributable profits of TAP.

The option is exercisable starting in July 2016. The TAP Convertible Bonds mature 10 years from their issuance and bear interest at an annual rate of 3.75% until September 20, 2016 and at rate of 7.5% thereafter. Accrued interest remains unpaid until the earlier of the maturity date or early redemption of the Bonds.

TAP has the right to early redeem the TAP Convertible Bonds if not yet converted and upon the earlier of (i) occurrence of an IPO, or (ii) 4 years from issuance of the TAP Convertible Bonds provided that TAP should be in compliance with certain financial covenants. The TAP Convertible Bonds will be redeemed at their principal amount together with the accrued unpaid interest.

The TAP Convertible Bonds, as well as the option to convert them into TAP Shares, were classified as a single financial asset classified in “Long-term investments” recorded at changes in the fair value through profit or loss. The adjusted of first quarter, in the amount of R$550,302 was registerd under “Result from related parties transactions, net”.

iii. Other Investments

On March 14, 2019, ALAB acquired 6.1% post-dilution economic shares in TAP from Hainan Airlines Civil Aviation Investment Limited (“HACAIL”) for US$ 25 million or R$96,161. The current shares represent 20.0% and 35.6% of the voting rights and economic rights of Atlantic Gateway, respectively.

The investment is recognized at fair value in the statement of financial position under "Long-term investments". On March 31, 2020 the gain resulting from this transaction, in the amount of R$47,900 (March 31, 2019 – R$0), was fully recorded at fair value through profit or loss, under "Result from related parties transations, net".

i) Service Agreements with Águia Branca Participações S.A.

On January 1, 2013, we entered into an agreement with Águia Branca Participações S.A., one of our shareholders, for the sharing of information technology resources during an indefinite period, which was an extension of a similar agreement that TRIP entered into with Águia Branca Participações S.A., and on November 1, 2015, we entered into a services agreement with Águia Branca Participações S.A. for the hosting and use of information technology resources for a 24 month term, which has been renewed for an additional 12 month term. The amounts payable under these agreements are based on the services actually rendered. respectively.

j) Air Tickets Sales Agreement with Caprioli Turismo Ltda.

On March 26, 2018, we entered into a Tickets Sales Agreement with Caprioli Turismo Ltda., a travel agency owned by the Caprioli family (which owns an indirect participation in us through the TRIP’s former shareholders), pursuant to which we granted Caprioli Turismo Ltda. a credit line of R$20,000.00 to purchase for resale tickets for the flights we operate. Such credit line is guaranteed by a promissory note, which does not bear interest, of the same amount payable to us.

k) Consulting Services Agreement with Plane View Partners

On April 16, 2020, our board of directors approved the hiring of Plane View Partners, an aviation consulting firm founded by one of our Board members, to support our fleet plan strategy and engage with aircraft manufacturers and lessors.

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

10. Security deposits and maintenance reserves

	March 31, 2020 (Unaudited)	December 31, 2019
Security deposits	**216,077**	152,635
Maintenance reserve deposits	**1,989,130**	1,498,898
	2,205,207	1,651,533
Current assets	**368,628**	258,212
Non current assets	**1,836,579**	1,393,321

Security deposits and maintenance reserve deposits are denominated in US dollars and adjusted for changes to foreign exchange rates. Security deposits are related to aircraft lease contracts and will be refunded to the Company when the aircraft is returned at the end of the lease agreement. Maintenance reserve deposits are paid under certain aircraft leases to be held as collateral in advance of the performance of major maintenance activities and are reimbursable upon completion of the related maintenance event, under certain conditions.

The Company recognized a write-off in the “Maintenance materials and repairs” in the statements of net income (loss) for maintenance reserve deposits that are not likely to be reimbursed in relation to aircraft that went through their last maintenance event prior to their return.

The Company replaced some of its security deposits with bank guarantees, and was refunded an amount of R$1,742 (December 31, 2019 - R$100,136 and R$76,931 of its security deposits and maintenance reserves respectively).

Presented below are the changes in the security deposits and maintenance reserve deposits balance:

	Maintenance reserves deposits	Security deposits	Total
Balance at December 31, 2018	1,321,490	225,230	1,546,720
Additions	343,727	37,614	381,341
Write-offs	(8,417)	-	(8,417)
Refunds/returns	(210,356)	(113,137)	(323,493)
Foreign exchanges variations	52,454	2,928	55,382
Balance at December 31, 2019	1,498,898	152,635	1,651,533
Additions	**113,751**	**34,839**	**148,590**
Write-offs	**(2,887)**	**-**	**(2,887)**
Refunds/returns	**(55,184)**	**(5,951)**	**(61,135)**
Foreign exchanges variations	**434,552**	**34,554**	**469,106**
Balance at March 31, 2020	**1,989,130**	**216,077**	**2,205,207**
Current assets	**368,628**	**-**	**368,628**
Non current assets	**1,620,502**	**216,077**	**1,836,579**

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

11. Property, equipment and right-of-use assets

Property and equipment and right-of-use assets are mainly comprised of aircraft, engines and aircraft equipment.

As a result of the annual impairment analysis, the Company recorded impairment of non-current assets and assets in use in the amount of R$2,032,207 in 2019 under the heading “Depreciation, amortization and impairment” (Note 1).

In addition, one aircraft has been classified as held for sale as its carrying amount will be recovered principally through sale rather than through continuing use. The aircraft is available for immediate sale at its present condition and the sale is highly probable. The impaired carrying amount has been transferred to the “assets held for sale” line on the statement of financial position.

11.1 Property and equipment

During the three months ended March 31, 2020, the Company entered into a sale and leaseback transaction on an owned engine. The gain associated with this transaction, which resulted in an operating lease, amounted to R$4,437 and was recognized in “Other operating expenses, net”.

a) Breakdown

	March 31, 2020 (Unaudited)			December 31, 2019
	Cost	**Accumulated depreciation**	**Net amount**	**Net amount**
Leasehold improvements	**304,771**	**(87,155)**	**217,616**	218,597
Equipment and facilities	**186,287**	**(111,365)**	**74,922**	70,579
Vehicles	**3,614**	**(1,674)**	**1,940**	2,079
Furniture and fixtures	**21,092**	**(15,566)**	**5,526**	5,564
Aircraft equipment	**1,826,261**	**(990,984)**	**835,277**	914,605
Aircraft and engines	**856,298**	**(359,232)**	**497,066**	500,999
Advance payments for acquisition of aircraft	**90,403**	**-**	**90,403**	84,578
Construction in progress	**197,379**	**-**	**197,379**	171,839
	3,486,105	**(1,565,976)**	**1,920,129**	1,968,840

b) Changes in property and equipment balances are as follows

	Cost				
	December 31, 2019	**Acquisitions**	**Disposals/ Write-offs**	**Transfers (*)**	**March 31, 2020 (Unaudited)**
Leasehold improvements	296,728	**9,623**	**(1,930)**	**350**	**304,771**
Equipment and facilities	176,814	**9,569**	**(96)**	**-**	**186,287**
Vehicles	3,614	**-**	**-**	**-**	**3,614**
Furniture and fixtures	20,683	**409**	**-**	**-**	**21,092**
Aircraft equipment	1,856,138	**86,025**	**(33,237)**	**(82,665)**	**1,826,261**
Aircraft and engines	850,391	**75,641**	**(70,059)**	**325**	**856,298**
Advance payments for acquisition of aircraft	84,578	**19,259**	**(13,434)**	**-**	**90,403**
Construction in progress	171,839	**28,301**	**(248)**	**(2,513)**	**197,379**
	3,460,785	**228,827**	**(119,004)**	**(84,503)**	**3,486,105**

(*) Balance of aeronautical material transferred to the item “Inventories” R$84,503 in the three months ended March 31, 2020.

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

	Accumulated depreciation				
	December 31, 2019	Depreciation for the period	Disposals/ Write-offs	Transfers	March 31, 2020 (Unaudited)
Leasehold improvements	(78,131)	**(9,024)**	**-**	**-**	**(87,155)**
Equipment and facilities	(106,235)	**(5,174)**	**44**	**-**	**(111,365)**
Vehicles	(1,535)	**(139)**	**-**	**-**	**(1,674)**
Furniture and fixtures	(15,119)	**(447)**	**-**	**-**	**(15,566)**
Aircraft equipment	(941,533)	**(54,725)**	**5,274**	**-**	**(990,984)**
Aircraft and engines	(349,392)	**(9,840)**	**-**	**-**	**(359,232)**
	(1,491,945)	**(79,349)**	**5,318**	**-**	**(1,565,976)**

11.2 Right-of-use – aircraft lease and others

a) Breakdown

	March 31, 2020 (Unaudited)			December 31, 2019
	Cost	Accumulated depreciation	Net Amount	Net Amount
Aircraft of operating lease	**12,426,846**	**(5,788,023)**	**6,638,823**	6,535,396
Engines and simulators	**493,476**	**(237,721)**	**255,755**	249,102
Properties	**114,167**	**(66,919)**	**47,248**	50,125
Vehicles	**10,238**	**(7,423)**	**2,815**	3,111
Equipments	**20,088**	**(17,650)**	**2,438**	4,502
Transports	**12,065**	**(12,065)**	**-**	-
Restoration of aircraft and engines	**440,948**	**(187,079)**	**253,869**	245,176
	13,517,828	**(6,316,880)**	**7,200,948**	7,087,412

b) Changes in right-of-use assets balances

	Cost				
	December 31, 2019	Acquisitions	Disposals/ Write-offs	Transfers	March 31, 2020 (Unaudited)
Aircraft of operating lease	12,071,427	**381,160**	**(25,741)**	**-**	**12,426,846**
Engines and simulators	484,597	**22,100**	**(13,221)**	**-**	**493,476**
Properties	114,167	**-**	**-**	**-**	**114,167**
Vehicles	10,238	**-**	**-**	**-**	**10,238**
Equipments	20,088	**-**	**-**	**-**	**20,088**
Transports	12,065	**-**	**-**		**12,065**
Restoration of aircraft and engines	423,194	**17,754**	**-**	**-**	**440,948**
	13,135,776	**421,014**	**(38,962)**	**-**	**13,517,828**

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

	Accumulated depreciation				
	December 31, 2019	Depreciations	Disposals/ Write-offs	Transfers	March 31, 2020 (Unaudited)
Aircraft of operating lease	(5,536,031)	**(277,733)**	**25,741**	**-**	**(5,788,023)**
Engines and simulators	(235,495)	**(15,447)**	**13,221**	**-**	**(237,721)**
Properties	(64,042)	**(2,877)**	**-**	**-**	**(66,919)**
Vehicles	(7,127)	**(296)**	**-**	**-**	**(7,423)**
Equipments	(15,584)	**(2,066)**	**-**	**-**	**(17,650)**
Transports	(12,065)	**-**	**-**	**-**	**(12,065)**
Restoration of aircraft and engines	(178,020)	**(9,059)**	**-**	**-**	**(187,079)**
	(6,048,364)	**(307,478)**	**38,962**		**(6,316,880)**

11.3 Right-of-use – maintenance

a) Breakdown

	March 31, 2020 (unaudited)			December 31, 2019
	Cost	Accumulated depreciation	Net Amount	Net Amount
Checks	**204,291**	**(161,842)**	**42,449**	48,190
Checks in progress	**19,010**	**-**	**19,010**	23,662
Engines maintenance	**1,187,241**	**(774,251)**	**412,990**	425,539
	1,410,542	**(936,093)**	**474,449**	497,391

b) Changes in right-of-use maintenance balances

	Cost				
	December 31, 2019	Acquisitions	Disposals/ Write-offs	Transfers	March 31, 2020 (Unaudited)
Checks	201,712	**3,923**	**(5,483)**	**4,139**	**204,291**
Checks in progress	23,662	**2,910**	**(1,878)**	**(5,684)**	**19,010**
Engines maintenance	1,149,551	**61,522**	**(25,377)**	**1,545**	**1,187,241**
	1,374,925	**68,355**	**(32,738)**	**-**	**1,410,542**

	Accumulated Depreciation				
	December 31, 2019	Accumulated depreciation	Disposals/ Write-offs	Transfers	March 31, 2020 (Unaudited))
Checks	(153,522)	**(10,179)**	**1,859**	**-**	**(161,842)**
Engines maintenance	(724,012)	**(64,470)**	**14,231**	**-**	**(774,251)**
	(877,534)	**(74,649)**	**16,090**	**-**	**(936,093)**

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

12. Income tax and social contribution

a) Income tax and social contribution expense reconciliation

	For the three months ended March 31, 2020	2019 (Restated)
	(Unaudited))	
Income (loss) before income tax and social contribution	**(6,400,717)**	56,269
Combined tax rate	**34%**	34%
Income tax and social contribution statutory rate	**2,176,244**	(19,131)
Adjustments to calculate the effective tax rate:		
Taxable profit on foreign subsidiaries	**(26,278)**	-
Profits from investments not taxed abroad	**33,933**	(13,745)
Unrecorded deferred tax on tax loss and on temporary differences	**(1,956,039)**	50,945
Deferred income tax on tax losses included in the PERT (*)	**-**	22,424
Permanent differences	**22,100**	20,260
Other	**130**	267
Income tax and social contribution	**250,090**	61,020
Current income tax and social contribution	**(13,016)**	(374)
Deferred income tax and social contribution	**263,106**	61,394
Credit (expense) income tax and social contribution expense	**250,090**	61,020
Effective rate	**4%**	(108)%

(*) Tax Recovery Program ("PERT")

b) Breakdown of deferred income tax and social contribution

	March 31, 2020 (Unaudited)	December 31,2019
Deferred taxes		
On temporary differences		
Provision for tax, civil and labor risks	**22,829**	21,819
Deferred revenue of TudoAzul program	**(144,970)**	(148,963)
Aircraft lease expense	**-**	189,691
Depreciation of aircraft and engines	**(52,362)**	(48,899)
Exchange rate	**8,962**	(16,498)
Deferred gain related to aircraft sold	**20,237**	19,747
Fair value of TAP convertible bonds	**(52,861)**	(243,288)
Fair value of other investments	**(5,677)**	(21,963)
Other provisions	**143,293**	116,810
Financial instruments	**(15,256)**	(201,738)
Others	**84.764**	73,497
Income tax losses carry forward and negative basis of social contribuition		
Income tax losses carry forward	**8,552**	12,698
Negative basis of social contribution	**3,079**	4,570
Net deferred tax assets / (liabilities) – recognized	**20,590**	(242,516)

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

The Company offsets tax assets and liabilities only when has a legally enforceable right to offset current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities related to income taxes levied by the same tax authority.

Deferred tax assets with temporary differences are recognized only to the extent that their realization is probable. As of March 31, 2020, the Company has a balance of deferred income tax and social contribution assets on temporary difference, in the amount of R$3,685,829, have not been recognized as there is no evidence of recoverability in the near future, except for R$8,959. The Company has income tax losses that are available indefinitely for offsetting against future taxable profits, as follows:

	March 31 2020 (Unaudited)	December 31, 2019
Net tax losses	**3.248.958**	1,971,779
Income tax loss carryforwards (25%)	**812.240**	492,945
Social contribution negative base tax carryforwards (9%)	**292.406**	177,460

Deferred income tax asset on tax losses at the amount of R$1,104,645 has not been recognized as there is no evidence of recoverability in the near future, except for R$11,631.

13. Loans and financing

	March 31, 2020 (Unaudited)	December 31, 2019
Loans	**4,099,638**	2,825,749
Debentures	**701,722**	692,407
	4,801,360	3,518,156
Current	**1,874,774**	481,227
Non-current	**2,926,586**	3,036,929

Interest-bearing loans, financing and debentures are measured at amortized cost, using the effective interest rate method.

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

13.1. Loans

				Loans		Fair value of designated derivatives (*)	
						December 31,	
	Guarantees	Interest	Final maturity	March 31, 2020 (Unaudited)	December 31, 2019	March 31, 2020 (Unaudited)	December 31, 2019
Denominated in foreign currency - US$							
Aircraft and engine acquisition	Chattel mortgage	LIBOR plus "spread" between 2.55%p.a. and 3.60% p.a. and fixed interest between 4.00%p.a. and 6.07%p.a./ US Treasury + 3,25% p.a.	03/2029	**1,148,228**	896,232	**-**	(10,971)
Working capital (*) (a)	Receivables of Azul and no guarantees	LIBOR plus fixed interest of 0.88% p.a. and fixed of 5.90%p.a	10/2024	**2,260,402**	1,727,882	**(285,240)**	(303,507)
Denominated in local currency - R$							
Aircraft and engine acquisition (FINAME) (**)	Investments and chattel mortgage of aircraft	Fixed between 6.00%p.a. to 6.50% p.a. and SELIC plus 5.46% p.a.	05/2025	**157,503**	164,280	**(3,141)**	(3,309)
Working capital	Bail letter	Fixed between 5.0% p.a and 12.7%p.a.and 125% to 126% of CDI	07/2021	**533,505**	37,355	**-**	
Total in R$				**4,099,638**	2,825,749	**(288,381)**	(317,787)
Current position				**1,618,505**	233,487	**-**	-
Non-current position				**2,481,133**	2,592,262	**(288,381)**	(317,787)

(*) Ilustrates the effect of hedges designated for hedge accounting, which are detailed in Note 18. The debt position considering the effects of the hedge can be seen on Note 5.

(**) FINAME are a special credit line from BNDES (the Brazilian development bank).

a) Senior notes

The Company issued US$400 million in unsecured senior notes in October 2017 at 5.875% per year and maturity on October 26, 2024. Interest on the notes will be payable semi-annually in arrears on April 26 and October 26 of each year, beginning on April 26, 2018.

On December 14, 2017, the total amount referring to the Senior Notes was exchanged from Dollars to Reais by means of swap derivative contracts and exchange options to protect interest expenses, and through exchange options to protect the principal amount.

As a result of the implementation of this hedge structure, on April 1, 2018, the Senior Notes are protected against foreign currency fluctuations, up to an exchange rate of R$4.7500 for US$1.00, and above this level will be exposed only to the difference between the effective exchange rate and R$4.7500. In addition, the Company will benefit from any upside from the devaluation of the Brazilian real in case the exchange rate is bellow R$3.2865 for US$1.00. The options were financed, yielding a total hedged cost of debt of 99.3% of CDI.

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

In March 2020, the Company undid part of the hedge structure, selling half of the hedge instruments. As a result, half of the exposure related to Senior Notes, equivalent to US$200 million, is protected under the terms mentioned above and the rest fluctuating with the dollar exchange rate for the period.

The result of the hedge recognized in the "Derivative financial instruments" asset and liability line itens and the consolidated debt position including the effect of the hedge is detailed in note 5.

The details of this transaction is following:

Options Structure	**Coupon Payments**		**Principal Payment**
Period	Apr/2018 to Apr/2019	Oct/2019 to Oct/2024	Oct/2024
Notional	US$12 million	US$6 million	US$200 million
Put option bought	-	3.2865	N/A
Call option bought	N/A	N/A	3.2865
Call option sold	-	4.7500	4.7500

	Senior notes	**Swap**
Currency	**US$**	**R$**
Amount	**US$200 million**	**R$657,300**
Interest	**Fixed**	**Floating**
Interest rate	**5.875%**	**99.8% of CDI**

b) Long term loans mature as follows:

	March 31, 2020 (Unaudited)	**December 31, 2019**
2021	**68,582**	202,798
2022	**78,541**	270,899
2023	**61,433**	258,422
2024	**2,135,072**	1,764,136
After 2024	**137,505**	96,007
	2,481,133	2,592,262

c) The following assets serve as guarantees to secure the financing agreements

	March 31, 2020 (Unaudited)	**December 31, 2019**
Equipment (carrying value) used as collateral (Note 11)	**497,066**	500,999

d) The undrawn borrowing facilities available in the future for setting capital commitments amounted R$256,296 as of March 31, 2020 (December 31, 2019 – R$198,714). Facilities are available exclusively for the funding of Embraer E190 and E195 jets e ngine maintenance costs.

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

13.2. Debentures

	Guarantees	Interest	Final maturity	March 31, 2020 (Unaudited)	December 31, 2019
Nine issue	Credit cards receivable	122% of CDI	12/2021	**502.791**	495,548
Tenth issue	Credit cards receivable	117% of CDI	12/2023	**198.931**	196,859
Total				**701.722**	692,407
Current position				**256.269**	247,740
Non-current position				**445.453**	444,667

Long term debentures mature as follows:

	March 31, 2020 (Unaudited)	December 31, 2019
2021	**337,401**	336,580
2022	**89,026**	89,044
2023	**19,026**	19,043
	445,453	444,667

13.3 Covenants

The Company has restrictive clauses in some of its financing contracts. As of March 31, 2020, it did not reach the minimum standards established by a financing agreement, and, therefore, the Company reclassified the amount of R$783,444 previously recorded in non-current to current liabilities, in order to comply with international accounting standards defined in IAS 1 - Presentation of Financial Statements. The Company obtained a waiver from the financial institution after the end of the quarter, with no debt acceleration or early redemption event.

14. Lease liabilities

	March 31, 2020 (Unaudited)	December 31, 2019
Aircraft	**15,338,655**	11,686,481
Engine and simulators	**448,139**	347,911
Property	**57,860**	60,648
Equipments	**5,508**	7,615
Vehicles	**2,746**	3,089
Transports	**299**	877
	15,853,207	12,106,621
Current liability	**2,406,900**	1,585,233
Non-current liability	**13,446,307**	10,521,388

The Company entered into sublease transactions of 15 aircraft with TAP and as of March 31, 2020 has recorded in “Aircraft sublease receivable” the amount of R$344,911 (December 31, 2019 - R$279,504) (Note 8).

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

The movement schedule for lease liabilities are as follows:

	Weighted average rate (p.a.)	December 31, 2019	Additions	Payments	Interest Accrual	Foreign Exchange	March 31, 2020 (Unaudited)
Right-of-use leases without purchase option							
Aircraft and engines	8.19%	11,046,134	**404,603**	**(368,049)**	**246,890**	**3,206,013**	**14,535,591**
Others	7.64%	72,230	**-**	**(7,086)**	**1,164**		**66,308**
Right-of-use leases with purchase option	6.15%	988,257	**-**	**(38,933)**	**17,712**	**284,272**	**1,251,308**
Total		12,106,621	**404,603**	**(414,068)**	**265,766**	**3,490,285**	**15,853,207**

The leases have an average repayment (in years) are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019
Aircraft and engines		
Right-of-use leases without purchase option	**8.15**	8.26
Right-of-use leases with purchase option	**4.25**	4.24

The future minimum payments and the present value of the minimum lease liabilities are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019
2020	**2,737,387**	2,481,457
2021	**3,074,512**	2,335,363
2022	**3,161,394**	2,406,701
2023	**2,478,352**	1,875,308
2024	**2,064,825**	1,560,055
After 2024	**7,577,787**	5,580,166
Minimum lease payments	**21,094,257**	16,239,050
Financial expenses	**(5,241,050)**	(4,132,429)
Net present value of minimum lease payments	**15,853,207**	12,106,621

The following are the amounts recognized in statement of net income (loss):

	For the three months ended March 31, 2020	2019
	(Unaudited)	
Depreciation expense of right-of-use assets	**(307,480)**	(249,949)
Interest expense on lease liabilities	**(265,766)**	(186,020)
Finance income on lease receivalbes	**7,495**	7,847
Expense relating to short-term leases	**(26,575)**	(18,806)
Total amount recognized	**(592,326)**	(446,928)

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

Some finance leases were designated as a cash flow hedge object. The Company used interest rate swaps to convert the post-fixed rate Libor into a fixed-rate exposure, hedging the volatility of future cash flow. Interest rate swaps have the same maturity and common terms as the finance leases.

15. Provisions

	Return of aircraft and engines	Provision for taxes, civil and labor risks	Provision for onerous contract	Total
Balance at December 31, 2018	669,041	80,983	-	750,024
Provisions recognized	139,652	100,241	1,129,866	1,369,759
Utilized provisions	(333,420)	(93,718)	-	(427,138)
Amortization of financial expense	67,366	-	18,633	85,999
Foreign exchanges variations	28,036	-	6,672	34,708
Balance at December 31, 2019	570,675	87,506	1,155,171	1,813,352
Provisions recognized	**17,754**	**38,892**	**-**	**56,646**
Utilized provisions	**(271)**	**(35,926)**	**(15,646)**	**(51,843)**
Amortization of financial expense	**15,273**	**-**	**32,215**	**47,488**
Foreign exchanges variations	**170,179**	**-**	**338,482**	**508,661**
Balance at March 31, 2020 (Unaudited)	**773,610**	**90,472**	**1,510,222**	**2,374,304**
Current	**88,215**	**-**	**629,705**	**717,920**
Non-current	**685,395**	**90,472**	**880,517**	**1,656,384**

15.1. Return of aircraft and engines

The provision for the return of aircraft and engines is based on the estimated future costs to be incurred in order to meet the contractual conditions for the return of engines and aircraft maintained under an operating lease.

15.2. Provision for taxes, civil and labor risks

The Company is party to certain labor, civil and tax lawsuits for which appeals have been filed. Based on the Company's external and internal legal counsels' opinion, management believes that the recorded provisions are sufficient to cover probable losses. In addition, the Company has made judicial deposits when required by court.

These provisions are as follows:

	March 31, 2020 (Unaudited)	December 31, 2019
Taxes	**2,035**	2,024
Civil	**50,199**	45,067
Labor	**38,238**	40,415
	90,472	87,506

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

The total amount of claims, which according to management represent losses that are reasonably possible but not probable, for which no provision was recorded are as follow:

	March 31, 2020 (Unaudited)	December 31, 2019
Taxes	**119,518**	116,074
Civil	**91,672**	77,360
Labor	**120,539**	123,119
	331,729	316,553

a) Tax proceedings: The Company has tax proceedings related to additional charge of 1% of COFINS on imports of aircraft and engines, in accordance with the provisions of Law 10,865/04, the application of COFINS at a zero rate for imports of aircraft and parts. Management believes that the risk of loss is possible and therefore no provision was recorded for such amounts.

b) Civil lawsuits: The Company is party to various types of civil lawsuits for compensation claims in relation to flight delays, cancellations of flights, luggage and damage loss, amongst others.

c) Labor lawsuits: The Company is party to various types of labor lawsuits related to overtime, additional remuneration for undertaking hazardous activities, safety related payments, amongst others.

The Labor Prosecution's Office filed on February 22, 2017 a lawsuit against the Company claiming that it had violated certain labor regulations, including limitations on daily working hours and rest periods. The claim totals approximately R$66,000 in punitive damages. The lawsuit is currently waiting for hearing and the Company is negotiating an agreement. The Company classifies the likelihood of loss as possible.

15.3 Provision for onerous contract

Provision for impairment charge recognized in 2019 that exceeds assets net book value in relation to onerous contracts (Note 1).

16. Equity

a) Issued capital and authorized shares, all registered and without par value

	Company's capital is - R$	Common shares	Preferred shares
At March 31, 2020 (Unaudited)	**2,245,075**	**928,965,058**	**329,703,517**
At December 31, 2019	2,243,215	928,965,058	329,568,166

Each common share entitles its holder to 1 (one) vote in the General Shareholders' Meeting. Preferred shares of any class are not entitled to vote. Preferred shares have: i) priority of reimbursement of capital upon liquidation; ii) the right to be included in a public offering of the Company for a purchase of shares upon transfer of the Company's control for the same conditions as the common shareholders and for a price per share equivalent to seventy-five (75) times the price per share paid to the controlling shareholder; iii) in case of the Company's liquidation, the right to receive amounts equivalent to seventy-five (75) times the price per common share upon splitting of the remaining assets among the shareholders; and iv) the right to receive dividends in an amount equivalent to seventy-five (75) times the price paid per common share.

Issuance of shares and issued capital

During the three months ended March 31, 2020, the Company issued 135,351 preferred shares (December 31, 2019 – 2,936,976) in the amount of R$1,860 (December 31, 2019 – R$33,800) in connection with the exercise of stock options.

b) Capital reserve

The share-based payment reserve is used to recognize the value of equity-settled share-based payments provided to employees, including key management personnel, as part of their compensation. For the three months ended March 31, 2020, the Company recognized compensation expense for an amount of R$4,166 (March 31, 2019 – R$4,733).

c) Dividends

According to the by-laws of the Company, unless the right is waived by all shareholders, the shareholders are guaranteed a minimum mandatory dividend equal to 0.1% of net income of the Company after the deduction of legal reserve, contingency reserves, and the adjustment prescribed by Law No. 6,404/76 (Brazilian Corporate Law). If the Company has accumulated losses, there will be no distribution of dividends.

Interest paid on equity, which is deductible for income tax purposes, may be deducted from the minimum mandatory dividends to the extent that it has been paid or credited. Interest paid on equity is treated as dividend payments for accounting purposes.

The Company has not distributed dividends for the three months ended March 31, 2020 and year ended December 31, 2019.

d) Other comprehensive income (loss)

Changes in fair value of derivative instruments designated as cash flow hedges are recognized in other comprehensive loss, for a loss of R$142,209 and R$159,261 as of March 31, 2020 and December 31, 2019 respectively.

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

e) Treasury shares

	Number of shares	R$
As of December 31, 2018	332,980	10,550
Purchased	301,008	12,853
Cancelled	(189,742)	(7,838)
As of December 31, 2019	444,246	15,565
Purchased	-	-
As of March 31, 2020	**444,246**	**15,565**

17. Income (loss) per share

Basic earnings or loss per common share are calculated by dividing net income (loss) attributable to the equity holders of Azul by the weighted average number of common shares outstanding during the three months ended March 31, 2020 and 2019, including the conversion of the weighted average number of preferred shares outstanding during the year ended into common shares.

Diluted earnings or loss per common share are calculated by dividing the net income (loss) attributable to the equity holders of Azul, by the weighted average number of common shares outstanding during the three months ended March 31, 2020 and 2019, including the conversion of the weighted average number of preferred shares outstanding during the years into common shares, plus the weighted average number of common shares that would be issued on conversion of all the dilutive potential common shares into common shares.

Basic earnings or loss per preferred share are calculated by dividing net income (loss) attributable to the equity holders of Azul by the weighted average number of preferred shares outstanding during the three months ended March 31, 2020 and 2019, including the conversion of the weighted average number of common shares outstanding during the years into preferred shares.

Diluted earnings or loss per preferred share are calculated by dividing the net income (loss) attributable to the equity holders of Azul, by the weighted average number of preferred shares outstanding during the three months ended March 31, 2020 and 2019, including the conversion of the weighted average number of common shares outstanding during the years into preferred shares, plus the weighted average number of preferred shares that would be issued on conversion of all the dilutive potential preferred shares into preferred shares.

The following table shows the calculation of income or loss per common and preferred share in thousands, except for values per share:

	For the three months ended March 31,	
	2020	**2019 (Restated)**
	(Unaudited)	
Numerator		
Net income (loss)	**(6,150,627)**	117,289
Denominator		
Weighted average number of common shares	**928,965,058**	928,965,058
Weighted average number of preferred shares	**329,670,399**	327,175,146
75 preferred shares (*)	**75.0**	75.0
Weighted average number of preferred equivalent shares (*)	**342,056,600**	339,561,347
Weighted average number of common equivalent shares (**)	**25,654,244,983**	25,467,101,008
Weighted average number of share based payment	**8,666,493**	11,332,156
Weighted average number of shares that would have been issued at average market price	**5,997,809**	7,311,101
Basic net income (loss) per common share	**(0.24)**	0.01
Diluted net income (loss) per common share	**(0.24)**	0.01
Basic net income (loss) per preferred share	**(17.98)**	0.35
Diluted net income (loss) per preferred share	**(17.98)**	0.34

(*) Refers to a participation in the total equity value of the Company, calculated as if all 928,965,058 common shares outstanding had been converted into 12,386,200 preferred shares at the conversion ratio of 75 common shares to 1.0 preferred share.

(**) Refers to a participation in the total equity value of the Company, calculated as if the weighted average preferred shares outstanding had been converted into common shares at the conversion ratio of 75 common shares to 1.0 preferred share

18. Derivative financial instruments

The Company has the following financial instruments:

		Book value		Fair value	
	Level	**March 31, 2020 (Unaudited)**	**December 31, 2019**	**March 31, 2020 (Unaudited)**	**December 31, 2019**
Assets:					
Cash and cash equivalents (Note 6)	**2**	**529,236**	1,647,880	**529,236**	1,647,880
Trade and other receivables	**2**	**909,004**	1,165,866	**909,004**	1,165,866
Aircraft sublease receivables (Note 8) (*)	**2**	**344,911**	279,504	**344,911**	279,504
Short-term investments (Note 7)	**2**	**738,141**	62,009	**738,141**	62,009
Long term investments	**3**	**937,194**	1,397,699	**937,194**	1,397,699
Derivative financial instruments (*)	**2**	**743,726**	825,924	**743,726**	825,924
Liabilities:					
Accounts payable	**2**	**2,109,393**	1,626,577	**2,109,393**	1,626,577
Loans and financing (Note 13) (*)	**2**	**4,801,360**	3,518,156	**4,771,533**	3,504,754
Lease liabilities (Note 14) (*)	**2**	**15,853,207**	12,106,621	**15,853,207**	12,106,621
Derivative financial instruments (*)	**2 and 3**	**635,856**	310,190	**635,856**	310,190

(*) Includes current and non-current.

The carrying value of trade, aircraft sublease receivable and other receivables and accounts payable approximate their fair value largely due to the short-term maturity of these instruments.

18.1 Long term Investments

The Company has the following long-term financial investments evaluated at fair value:

	March 31, 2020 (Unaudited)	December 31, 2019
Bond TAP	**824,120**	1,236,828
Other investments (Note 9 (g)(iii))	**113,074**	160,871
	937,194	1,397,699

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as of March 31, 2020 and December 31, 2019 are shown below:

Non-listed equity investments -Level 3 financial assets

Valuation technique	Significant unobservable inputs	Rate	Sensitivity of the input to fair value (amounts in millions of reais)
Discounted cash flow method	Long-term growth rate for cash flows for subsequent years	March 31, 2020 – 1.4% (Unaudited) (December 31, 2019: 2.5%)	10bps increase (decrease) in the growth rate would result in an increase (decrease) in the fair value of R$15 (December 31, 2019 - R$ R$24)
	Cost of equity	March 31, 2020 - 15.7% (Unaudited) (December 31, 2019: 13.6%)	50bps increase in cost of equity would result in a reduction in the fair value of R$0.3 (December 31, 2019 – R$18).
			50bps reduction in cost of equity would result in an increase in the fair value of R$0.3 (December 31, 2019 – R$20).

Level 3 financial assets reconciliation

Changes in the fair value of the TAP Convertible Bonds is detailed below:

	March 31, 2020 (Unaudited)	December 31, 2019
Balance at the beginning of the period	**1,236,828**	1,287,781
Foreign currency exchange gain (loss) (*)	**137,594**	10,723
Interest accrual (Note 9.g.ii) (**)	**8,781**	30,184
Net present value of debt component (Note 9.g.ii) (**)	**(222,252)**	116,912
Fair value of call-option (Note 9.g.ii) (**)	**(336,831)**	(208,772)
Balance at the end of the period	**824,120**	1,236,828

(*) recorded in the “Foreign currency exchange, net” in the statements of net income (loss).
(**) recorded in the “Result from related parties transactions, net” in the statements of net income (loss).

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

Changes in the fair value of other investments are detailed below:

	March 31, 2020 (Unaudited)	December 31, 2019
Balance at the beginning of the period	**160,871**	-
Acquisition	**-**	96,161
Fair value of other investments (*)	**(47,797)**	64,710
Balance at the end of the period	**113,074**	160,871

(*) recorded in the "Result from related parties transactions, net" in the statements of net income (loss).

18.2 Derivative financial instruments

	March 31, 2020 (Unaudited)		December 31, 2019	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Cash flow hedge				
Interest rate swap contract	**-**	**(9,792)**	-	(7,129)
Foreign currency options	**243,807**	**-**	338,592	-
Fair value hedge				
Interest rate swap contract	**3,141**	**-**	24,057	-
Derivatives not designated as hedge				
Interest rate swap contract	**326,400**	**(353,592)**	203,636	(266,439)
Forward foreign currency contract	**170,378**	**-**	203,148	(1,135)
Heating oil forward contracts	**-**	**(225,508)**	56,491	-
Foreign currency options	**-**	**(46,964)**	-	(35,487)
	743,726	**(635,856)**	825,924	(310,190)

The maturity of the derivative financial instruments held by the Company is as follows:

March 31, 2020 (Unaudited)	Immediate	Until 6 months	7 to 12 months	1 to 5 years	Total
Assets from derivative transactions	**48,044**	**621**	**51,419**	**643,642**	**743,726**
Liabilities from derivative transactions	**(101,578)**	**(157,831)**	**(51,014)**	**(325,433)**	**(635,856)**
Total financial instruments	**(53,534)**	**(157,210)**	**405**	**318,209**	**107,870**

Cash flow hedge

Definition	Origin of Risk	Risks designated for hedge	Hedge instrument	Recognition
Hedge of exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability or a highly probable forecasted transaction that could affect the Company's results.	Finance lease of aircraft with post-fixed interest rates	Interest Rate (Libor USD)	Cash Flow Swap - swapping post-fixed interest rate to pre-fixed.	• Protected item: Amortized cost - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities (MtM) in contra-entry profit (accrual) and other comprehensive income (MtM adjusted).
	Half of Senior Notes denominated in foreign currency (only amortization)	Exchange Variation of dolar	Foreign currency options	• Protected item: Amortized cost - Liabilities in contra-entry result. • Hedge instrument: Fair value - Asset / Liability (MtM), in the statement of net income (loss) (Intrinsic Value), offsetting the effect of the exchange variation on debt and other comprehensive income in Equity (Value in time)

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

As of December 31, 2019, the Company had interest rate swaps designated as cash flow hedges to hedge against the effect of changes in the interest rate on a portion of the finance leases payments and forward foreign currency contract for the protection of the Senior Notes principal denominated in foreign currency and the principal of OPIC in the next 12 months. During the three months ended March 31, 2020, the Company ended part of its operations, remaining only with foreign currency option contracts to protect half of the Senior Notes principal in foreign currency.

On April 16, 2019, the Company designated for cash flow hedge accounting options with notional in the amount of US$79 million contracted for the purpose of protecting the principal of Opic. On March 31, 2020 this transaction was ended.

The positions were:

March 31, 2020 (Unaudited)	**Notional amount**	**Asset position**	**Liability position**	**Fair value**
Cash flow hedge:				
Loans and financing	**38,406**	**LIBOR US$**	**Fixed rate US$**	**(9,792)**
Foreign currency options	**657,300**	**US$**	**R$**	**243,807**
	695,706			**234,015**

December 31, 2019	**Notional amount**	**Asset position**	**Liability position**	**Fair value**
Cash flow hedge:				
Loans and financing	40,872	LIBOR US$	Fixed rate US$	(7,129)
Foreign currency options	1,614,211	US$	R$	338,592
	1,655,083			331,463

The critical terms of the swap contracts matched with the terms of the hedged loans. Considering all transactions were deemed effective, the fair value changes on cash flow hedge were recorded in other comprehensive loss against financial instruments in liabilities or assets.

The gains and losses of hedge items (accrual of interest and exchange variation – finance lease and senior notes respectively) are impacted monthly, and are therefore offset monthly by the hedge instruments.

Factors that may influence hedge effectiveness include: i) the time difference between the hedging instrument and the hedged item and ii) the counterparty's credit risk substantially impacts the fair value of the derivative instrument, but not the hedged object (Senior Notes).

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

Changes in other comprehensive loss (cash flow hedge reserve) are detailed below:

	March 31, 2020 (Unaudited)	December 31, 2019
Balance at the beginning of the period	**(159,261)**	(153,969)
Transactions settled during the period	**806**	4,389
New transactions recognized in the statement of net income (loss)	**-**	(7,353)
Fair value adjustment	**16,246**	(2,328)
Balance at the end of the period	**(142,209)**	(159,261)

Fair value hedge

Definition	Origin of Risk	Risks designated for hedge	Hedge instrument	Recognition
Hedge of exposure to changes in the fair value of recognized asset or liability or unrecognized firm commitment.	Finance lease of aircraft with pre-fixed interest rates	Interest rate	Cash Flow Swap - swapping pre-fixed interest rate to post-fixed.	• Protected item: Fair value - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities in contra-entry result (MtM).
	Debt instruments denominated in US$	Exchange Rate and Interest Rate	Cash Flow Swap - swapping US $ + Spread to reais at% CDI.	• Protected item: Fair value - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities in contra-entry result (MtM).

As of March 31, 2020 the Company had fixed to floating interest rate swap contracts with a notional amount of R$38,757 (December 31, 2019 - R$139,702). These contracts entitle the Company to receive fixed interest rates and pay floating interest based on CDI.

Adjustment to fair value of these contracts resulted in the recognition of an unrealized gain of R$3,141 (December 31, 2019 – R$24,057) which was recorded as financial income. The impact on the statement of net income (loss) was offset by a negative adjustment on the debt hedged. There was no ineffectiveness during the three months ended March 31, 2020.

Derivatives not designated as hedge accounting

i) Forward foreign currency contract

The Company is exposed to foreign currency risk in exchange rate, and therefore entered into NDF contracts registered at CETIP with renowned banks.

During the three months ended March 31, 2020, the Company had entered into NDF contracts of US$370 million to protect itself from currency fluctuations (December 31, 2019 - US$426 million) that generated an unrealized gain of R$170,378 (December 31, 2019 – R$202,013).

ii) *Foreign currency options*

On March 31, 2020 the Company also has currency options with notional of US$59 million (December 31, 2019 – US$118 million) in connection with the Senior Notes.

On December 31, 2019, currency options refers to the amount of US$30 million in connection to a dollar loan and US$47 million refers the OPIC operations. On March 31, 2020 this transaction was ended.

As of March 31, 2020, these options generated an unrealized loss of R$46,964 (December 31, 2019 – R$35,487).

iii) Interest rate swap contract

As of March 31, 2020 the Company had interest rate swap contracts in connection with the Senior Notes. OPIC´s operation on December 31, 2019 was ended. Changes in fair value of these instruments resulted in the recognition of an unrealized loss of R$27,192 (December 31, 2019 - R$62,803).

iv) Heating oil forward contracts

As of March 31, 2020, the Company also had average NDF contracts on over-the-counter (OTC) Market with six different counterparties on the local market indexed to Heating Oil forward contract traded on the NYMEX, on monthly tranches, with a notional value of R$568,109 (December 31, 2019 - R$1,244,869). The fair value of these instruments amounted to an unrealized loss of R$225,508 (December 31, 2019 – gain of R$56,491)

Fair value of financial instruments

The Company applies the following hierarchy to determine the fair value of financial instruments:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: other techniques for which all data that have significant effect on the fair value recorded are observable, directly or indirectly;

Level 3: techniques that use data that have significant effect on fair value recorded that are not based on observable market data.

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

Assets measured at fair value	March 31, 2020 (Unaudited)	Level 1	Level 2	Level 3
Financial assets at fair value				
Cash and cash equivalents (Note 6)	**529,236**	**-**	**529,236**	-
Short-term investments	**738,141**	**-**	**738,141**	**-**
Long-term investments (b)	**937,194**	**-**	**-**	**937,194**
Interest rate swap contract - fair value hedge option (a)	**3,141**	**-**	**3,141**	**-**
Interest rate swap contract- not designated as hedge	**326,400**	**-**	**326,400**	**-**
Forward foreign currency contract	**170,378**	**-**	**170,378**	**-**
Foreign currency options	**243,807**	**-**	**243,807**	**-**

Liabilities measured at fair value	March 31, 2020 (Unaudited)	Level 1	Level 2	Level 3
Financial liabilities at fair value				
Interest rate swap contract - cash flow hedge	**(9,792)**	**-**	**(9,792)**	**-**
Interest rate swap contract- not designated as hedge	**(353,592)**	**-**	**(353,592)**	**-**
Foreign currency options	**(46,964)**	**-**	**(46,964)**	**-**
Fuel term contract	**(225,508)**	**-**	**(225,508)**	**-**

Assets measured at fair value	December 31, 2019	Level 1	Level 2	Level 3
Financial assets at fair value				
Cash and cash equivalents (Note 6)	1,647,880	-	1,647,880	-
Short-term investments	62,009	-	62,009	-
Long-term investments (b)	1,397,699	-	-	1,397,699
Interest rate swap contract - fair value hedge option (a)	24,057	-	24,057	-
Interest rate swap contract- not designated as hedge	203,636	-	203,636	-
Forward foreign currency contract	203,148	-	203,148	-
Foreign currency options	338,592	-	338,592	-
Fuel term contract	56,491	-	56,491	-

Liabilities measured at fair value	December 31, 2019	Level 1	Level 2	Level 3
Financial liabilities at fair value				
Interest rate swap contract - cash flow hedge	(7,129)	-	(7,129)	-
Interest rate swap contract- not designated as hedge	(266,439)	-	(266,439)	-
Foreign currency options	(35,487)	-	(35,487)	-
Fuel term contract	(1,135)	-	(1,135)	-

(a) Portion of the balances consist of loans from FINAME PSI, and standard FINAME presented at their value adjusted by the hedged risk, applying fair value hedge accounting rules.

(b) The Company calculated the fair value of the call option based on a valuation for TAP and binomial model considering the term of option, discount rate and the market volatility of publicly traded comparable airlines, calculated on a 2 years average. The resulting amount of the binomial model calculated in Euros was converted into Reais using the period-end exchange rate. See Note 18.

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

19. Financial result (Unaudited)

	For three months ended March 31,	
	2020	**2019 (Restated)**
Financial income		
Interest on short-term investments (a)	**2,826**	3,233
Sublease receivable	**7,495**	7,847
Other	**2,566**	7,197
	12,887	18,277
Financial expenses		
Interest on loans (a)	**(54,584)**	(44,383)
Interest on lease (a)	**(248,054)**	(167,266)
Interest on finance lease (a)	**(17,712)**	(18,754)
Interest on factoring credit card and travel agencies receivables	**(8,404)**	(2,967)
Interest on other operations	**(42,040)**	(15,536)
Guarantee commission	**(5,565)**	(8,234)
Loan costs amortization	**(3,810)**	(2,622)
Amortization of financial expenses	**(47,489)**	(15,893)
Other	**(10,812)**	(8,434)
	(438,470)	(284,089)
Derivative financial instruments, net	**(1,281,616)**	126,040
Foreign currency exchange, net	**(4,233,800)**	(90,274)
Net financial expenses	**(5,940,999)**	(230,046)

(a) Interest and expenses on assets and liabilities, in the cash flow statement on March 31, 2020 - R$373,898 (March 31, 2019 - R$239,482) are registred in this lines.

20. Commitments

a) Commitments for future acquisition of aircraft

The Company has purchase commitments for the acquisition of 94 aircraft (December 31, 2019 – 94), under which the following futures payments will be made:

	March 31, 2020 (Unaudited)	**December 31, 2019**
Up to one year	**3,136,790**	2,672,368
From one to five years	**11,180,081**	7,991,923
More than five years	**1,791,527**	1,633,473
	16,108,399	12,297,764

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

b) Commitments for future acquisition of aircraft – lessor placement

The Company has purchase commitments for the acquisition of 50 aircraft (December 31, 2019 – 53), under which the following futures payments will be made:

	March 31, 2020 (Unaudited)	**December 31, 2019**
Up to one year	**223,565**	202,289
From one to five years	**4,349,669**	3,542,340
More than five years	**9,014,655**	7,257,368
	13,587,889	11,001,997

c) Letter of credits

As of March 31, 2020 the Company had issued letters of credit totaling US$523 million (December 31, 2019 - US$529 million) equivalent to R$2,721,046 (December 31, 2019 – R$2,134,186) and bank guarantees in the amount of R$38,093 (December 31, 2019 – R$50,432) in relation to security deposits, maintenance reserves and local sureties.

21. Share-based option plans

21.1. Equity-settled awards

21.1.1 First share option plan

The first share option plan ("First Option Plan") of the Company was approved on a Shareholders' Meeting held on December 11, 2009. The plan has a term of 10 years, and no option may be granted after this period.

Exercise conditions of options issued under the First Option Plan require in addition to a vesting period of 4 years, the occurrence of an initial public offering (IPO) of the shares of the Company.

21.1.2 Second share option plan

The second share option plan ("Second Option Plan") was approved on a Shareholders' Meeting held on June 30, 2014, as amended.

Exercise conditions of options issued under the programs of the Second Option Plan, prior to Azul's IPO, require in addition to a vesting period of 4 years, the occurrence of an initial public offering (IPO) of the shares of the Company. Additionally, the options have an 8-year life.

The options issued under the programs of the Second Option Plan, after Azul's IPO, require a vesting period of 4 years. The options have a 10-year life and the exercise price shall equal to the lowest stock price traded in the stock market during the thirty (30) trading sessions prior to the options grant approved by the Board of Directors.

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

21.1.3 Third share option plan

The third share option plan ("Third Option Plan") was approved on a Shareholders' Meeting held on March 10, 2017.

Exercise conditions of options issued under the Third Option Plan require a vesting period of 5 years. The options have a 5-year life and options can only be exercised within 15 days after each vesting anniversary.

21.1.4 Information about the fair value of share options and expense

The grant-date fair value of share options has been measured using the Black-Scholes model. Expected volatility has been calculated based on historical volatility of airline shares listed on stock exchanges in Brazil and Latin America. The inputs are mentioned below.

	First Option Plan		
	1st program	2nd program	3rd program
Total options granted	5,032,800	1,572,000	656,000
Date of compensation committee	Dec 11, 2009	Mar 24, 2011	April 5, 2011
Total options outstanding	298,300	284,000	8,960
Option exercise price	R$3.42	R$6.44	R$6.44
Option fair value as of grant date	R$1.93	R$4.16	R$4.16
Estimated volatility of the share price	47.67%	54.77%	54.77%
Expected dividend	1.10%	1.10%	1.10%
Risk-free rate of return	8.75%	12.00%	12.00%
Average remaining maturity (in years)	-	-	-
Maximum life of the option	Undetermined	Undetermined	Undetermined
Expected term considered for valuation	7 years	7 years	7 years

	Second Option Plan				Third Option Plan
	1st program	2nd program	3rd program	4th program	1st program
Total options granted	2,169,122	627,810	820,250	680,467	9,343,510
Date of compensation committee	June 30, 2014	July 1, 2015	July 1, 2016	July 6, 2017	Mar 14, 2017
Total options outstanding	786,197	231,638	387,464	490,355	5,562,503
Option exercise price	R$19.15	R$14.51	R$14.50	R$22.57	R$11.85
Option fair value as of grant date	R$11.01	R$10.82	R$10.14	R$12.82	R$4.82
Estimated volatility of the share price	40.59%	40.59%	43.07%	43.35%	50.64%
Expected dividend	1.10%	1.10%	1.10%	1.10%	1.10%
Risk-free rate of return	12.46%	15.69%	12.21%	10.26%	11.32%
Average remaining maturity (in years)	-	-	0.2	1.2	1.9
Maximum life of the option	8 years	8 years	8 years	10 years	5 years
Expected term considered for valuation	4.5 years	4.5 years	4.5 years	5.5 years	5 years

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

Changes in stock options are disclosed below:

	Number of stock options	Weighted average exercise price (in reais)
Balance as of December 31, 2018	11,190,829	R$12.55
Cancelled	(69,085)	R$20.70
Exercised	(2,936,976)	R$11.51
Balance as of December 31, 2019	8,184,768	R$12.85
Exercised	**(135,351)**	**R$13.74**
Balance as of March 31, 2020 (Unaudited)	**8,049,417**	**R$12.83**
Number of options exercisable as of:		
March 31, 2020 (Unaudited)	**3,769,455**	**R$12.68**
December 31, 2019	2,294,135	R$13.81

Share-based compensation expense recognized in the statement of net income (loss) during the three months ended March 31, 2020 with respect to the share options amounted to R$2,429 (March 31, 2019 – R$3,327).

21.2 Restricted share units

The Shareholders' Meeting held on June 30, 2014 approved a restricted share unit plan ("RSU Plan"). Under the terms of the RSU Plan participants were granted a fixed monetary amount (in Reais) which would be settled in a quantity of preferred shares determined by dividing the monetary amount by the price per share of the preferred shares at IPO.

Exercise conditions of RSUs require, in addition to a vesting period of four years, the occurrence of an IPO of the shares of the Company for the RSUs to become exercisable. At the date of the IPO, the monetary amount of the awards was converted into units based on the IPO date fair value of the preferred shares. The related liability was reclassified to equity in line with the post IPO settlement method.

Subsequent grants are measured based on the grant date fair value of the awards.

21.2.1 Information about the fair value of RSUs and expense

	Date of compensation committee	Total shares granted	Total shares outstanding	Fair value as of grant date (in reais)
1st program	June 30, 2014	487,670	**7,934**	R$21.00
2nd program	July 01, 2015	294,286	**8,094**	R$21.00
3rd program	July 01, 2016	367,184	**75,527**	R$21.00
4th program	July 06, 2017	285,064	**122,740**	R$24.17
5th program	August 07, 2018	291,609	**201,416**	R$24.43
6th program	August 05, 2019	170,000	**165,545**	R$51.65
		1,895,813	**581,256**	

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

Changes in RSU are disclosed below:

	Number of RSU
As of December 31, 2018	729,593
Granted	170,000
Cancelled	(49,748)
Exercised	(260,451)
As of December 31, 2019	589,394
Cancelled	**(8,138)**
As of March 31, 2020 (Unaudited)	**581,256**

Share-based compensation expensed recognized in the statement of net income (loss) during the three months ended March 31, 2020 with respect to the RSU amounted to R$1,737 (March 31, 2019 – R$1,406).

21.3 Virtual Stock Option Plan

On August 7, 2018, the Compensation Committee approved the Virtual Stock Option Plan ("Phantom Shares"). The plan consists of a remuneration in cash, as there is no effective trading of the shares. There will be no issue and / or delivery of shares for settlement of the plan. A liability is recorded monthly, based on the fair value of the Phantom Shares granted and the vesting period, with an offsetting entry in the statement of net income (loss). The fair value of this liability is reviewed and updated for each reporting period, in accordance with the change in the fair value of the benefit granted.

The options issued under the programs of the Phantom Shares, require a vesting period of 4 years. The options have an 8-year life and the exercise price shall equal to the lowest stock price traded in the stock market during the thirty (30) trading sessions prior to the options grant approval by the Compensation Commitee. Expected volatility has been calculated based on historical volatility of airline shares listed on stock exchanges in Brazil and Latin America.

21.3.1 <u>Information about the fair value of share options and expense</u>

The fair value of share options has been measured using the Black-Scholes model using the informations below.

	Phantom Shares	
	1st program	2nd program
Total options granted	707,400	405,000
Date of compensation committee	August 7, 2018	August 5, 2019
Total options outstanding	557,340	405,000
Option exercise price	R$20.43	R$42.09
Option fair value	R$5.13	R$1.37
Estimated volatility of the share price	43.5%	43.5%
Expected dividend	1.10%	1.10%
Risk-free rate of return	3.65%	3.65%
Average remaining maturity (in years)	2.3	3.3
Maximum life of the option	8 years	8 years
Expected term considered for valuation	6 years	4.5 years

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

Changes in virtual stock option plan are disclosed below:

	Number of stock options
As of December 31, 2018	707,400
Granted	**405,000**
Cancelled	**(47,889)**
Paid	**(98,603)**
As of December 31, 2019	**965,908**
Paid	**(3,568)**
As of March 31, 2020 (Unaudited)	**962,340**

The liability recorded as of December 31, 2019 is R$1,742 (December 31, 2019- R$11,647) and is presented in the consolidated statement of financial position under "Salaries, wage and benefits".

Share-based compensation expense recognized in the statement of net income (loss) during the trhee months ended March 31, 2020 with respect to the Phantom Shares amounted to R$2,131 (March 31, 2019 – R$730).

22. Subsequent events

- On May 11, 2020 the Company obtained a waiver for the Guarantor's Covenants from the United States International Development Finance Corporation for the accounting periods ending on March 31, 2020, June 30, 2020, September 30, 2020 and December 31, 2020.

- On May 14, 2020, The Company closed the acquisition of TwoFlex for a purchase price of R$123 million. Payment will be made in up to 30 monthly installments ranging from R$3 million to R$10 million subject to certain contractual and market conditions, and a final payment of up to R$30 million, which shall be kept deposited in a banking account as collateral in favor of the Company for a determined period. The transaction has been approved without restrictions by the Brazilian Administrative Council for Economic Defense (CADE – Conselho Administrativo de Defesa Econômica) on March 27, 2020.