Interim Condensed Consolidated Financial Statements
(Unaudited)

Azul S.A.

March 31, 2019

Unaudited Interim condensed consolidated financial statements

March 31, 2019

Contents

Azul S.A.

Interim Consolidated Balance Sheets
As of March 31, 2019 (Unaudited) and December 31, 2018 (Restated)
(In millions of Brazilian reais)

	March 31, 2019 (Unaudited)	December 31, 2018 (Restated)
Assets		
Current assets		
Cash and cash equivalents (Note 5)	**908,388**	1,169,136
Short-term investments (Note 6)	**396,823**	517,423
Trade and other receivables	**1,352,102**	1,069,056
Aircraft sublease receivables (Note 7)	**65,201**	73,671
Inventories	**224,872**	200,145
Taxes recoverable	**303,572**	283,841
Derivative financial instruments (Note 16)	**64,547**	6,654
Prepaid expenses	**152,601**	121,165
Other current assets	**117,632**	111,714
Total current assets	**3,585,738**	3.552,805
Non-current assets		
Long-term investments (Note 16)	**1,327,034**	1,287,781
Aircraft sublease receivables (Note 7)	**272,012**	288,067
Security deposits and maintenance reserves (Note 9)	**1,540,743**	1,546,720
Derivative financial instruments (Note 16)	**541,911**	588,726
Prepaid expenses	**9,437**	21,683
Other non-current assets	**421,452**	397,398
Right of use – leasing (Note 10)	**5,280,848**	4,818,522
Right of use – aircraft maintenance (Note 10)	**756,887**	622,241
Property and equipment (Note 10)	**1,978,703**	1,842,239
Intangible assets	**1,027,316**	1,016,556
Total non-current assets	**13,156,343**	12,429,933
Total assets	**16,742,081**	15,982,738

	March 31, 2019 (Unaudited)	December 31, 2018 (Restated)
Liabilities and equity		
Current liabilities		
Loans and financing (Note 12)	**155,739**	158,854
Leasing payable (Note 13)	**1,301,329**	1,258,776
Accounts payable	**1,195,662**	1,272,194
Accounts payable – Forfaiting	**215,486**	162,778
Air traffic liability	**1,687,782**	1,672,452
Salaries, wages and benefits	**309,806**	244,008
Insurance premiums payable	**19,263**	34,999
Taxes payable	**30,075**	56,999
Federal tax installment payment program	**9,749**	9,749
Derivative financial instruments (Note 16)	**56,333**	180,975
Other current liabilities	**212,213**	193,492
Total current liabilities	**5,193,437**	5,245,276
Non-current liabilities		
Loans and financing (Note 12)	**2,882,440**	2,597,313
Leasing payable (Note 13)	**8,120,070**	7,686,672
Derivative financial instruments (Note 16)	**269,923**	260,019
Deferred income taxes (Note 11)	**254,241**	293,211
Federal tax installment payment program	**93,268**	95,705
Provision for tax, civil and labor risk (Note 22)	**84,038**	80,984
Other non-current liabilities	**316,550**	317,666
Total non-current liabilities	**12,020,530**	11,331,534
Equity		
Issued capital (Note 14)	**2,214,757**	2,209,415
Capital reserve	**1,920,223**	1,918,373
Treasury shares (Note 14)	**(10,550)**	(10,550)
Other comprehensive loss (Note 14)	**(176,653)**	(153,969)
Accumulated losses	**(4,419,663)**	(4,557,341)
	(471,886)	(594,072)
Total liabilities and equity	**16,742,081**	15,982,738

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

Azul S.A.

Interim consolidated statement of operations (Unaudited)
Three months ended March 31, 2019 and 2018
(In thousands of Brazilian reais, except income (loss) per share)

	For the three months ended March 31,	
	2019	**2018**
Operating revenue		
Passenger revenue	**2,434,413**	2,111,803
Other revenue	**107,579**	80,127
Total revenue (Note 17)	**2,541,992**	2,191,930
Operating expenses		
Aircraft fuel	**(697,444)**	(577,240)
Salaries, wages and benefits	**(457,611)**	(333,770)
Aircraft and other rent	**(18,806)**	(7,970)
Landing fees	**(168,092)**	(144,914)
Traffic and customer servicing	**(108,748)**	(98,092)
Sales and marketing	**(91,501)**	(84,384)
Maintenance materials and repairs	**(51,270)**	(108,404)
Depreciation and amortization	**(388,566)**	(296,253)
Other operating expenses, net (Note 19)	**(224,355)**	(167,523)
	(2,206,393)	(1,818,550)
Operating income	**335,599**	373,380
Financial result		
Financial income	**18,277**	20,217
Financial expense	**(269,098)**	(231,109)
Financial instruments, net	**126,040**	13,497
Foreign currency exchange, net	**(81,303)**	(43,727)
	(206,084)	(241,122)
Result from related parties transactions, net (Note 8)	**(52,857)**	60,729
Net income before income tax and social contribution	**76,658**	192,987
Income tax and social contribution (Note 11)	**(374)**	(1,324)
Deferred income tax and social contribution (Note 11)	**61,394**	(19,379)
Net income	**137,678**	172,284
Basic net income per common share - R$ (Note 14)		
Diluted net income per common share - R$ (Note 14)	**0.01**	0.01
Basic net income per preferred share - R$ (Note 14)	**0.01**	0.01
Diluted net income per preferred share - R$ (Note 14)	**0.41**	0.51
	0.40	0.51

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

Azul S.A.

Interim consolidated statements of other comprehensive income (Unaudited)
Three months ended March 31, 2019 and 2018
(In thousands of Brazilian reais)

	For the three months ended March 31,	
	2019	**2018**
Net income	**137,678**	172,284
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Changes in fair value of cash flow hedges, net of tax	**(22,684)**	538
Total comprehensive income	**114,994**	172,822

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

Azul S.A.

Interim consolidated statements of other changes in equity (Unaudited)
Three months ended March 31, 2019 and 2018
(In thousands of Brazilian reais)

	Issued capital	Capital Reserve	Treasury shares	Cash flow hedge reserve	Accumulated losses	Total
December 31, 2017	2,163,377	1,898,926	(2,745)	(11,192)	(1,214,756)	2.833.610
Impact of adoption of IFRS 9 (Note 3)	-	-	-	-	(416)	(416)
Impact of adoption of IFRS 15 (Note 3)	-	-	-	-	(41,319)	(41.319)
Impact of adoption of IFRS 16 (Note 3)	-	-	-	(3,496)	(2,766,185)	(2,769,681)
January 1, 2018 (restated)	2,163,377	1,898,926	(2,745)	(14,688)	(4,022,676)	22,194
Profit for the period	-	-	-	-	172,284	172,284
Other comprehensive income	-	-	-	538	-	538
Total comprehensive income	-	-	-	538	172,284	172,822
Issued capital (Note 14)	19,137	(11,144)	-	-	-	7,993
Issuance of shares due to the exercise of stock options (Note 21)	-	-	(1,330)	-	-	(1,330)
Treasury shares, net (Note 14)	-	7,603	-	-	-	7,603
March 31, 2018 (restated)	2,182,514	1,895,385	(4,075)	(14,150)	(3,850,392)	209,282

	Capital Reserve	Treasury shares	Cash flow hedge reserve	Accumulated losses	Total	Capital Reserve
December 31, 2018 (restated)	**2,209,415**	**1,918,373**	**(10,550)**	**(153,969)**	**(4,557,341)**	**(594,072)**
Profit for the period	**-**	**-**	**-**	**-**	**137,678**	**137,678**
Other comprehensive income	**-**	**-**	**-**	**(22,684)**	**-**	**(22,684)**
Total comprehensive income	**-**	**-**	**-**	**(22,684)**	**137,678**	**114,994**
Issued capital (Note 14)	-	-	-	**-**	-	-
Issuance of shares due to the exercise of stock options (Note 21)	**5,342**	**(1,228)**	**-**	**-**	**-**	**4,114**
Treasury shares, net (Note 14)	**-**	**3,078**	**-**	**-**	**-**	**3,078**
March 31, 2019	**2,214,757**	**1,920,223**	**(10,550)**	**(176,653)**	**(4,419,663)**	**(471,886)**

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

Azul S.A.

Interim consolidated statement of cash flows (Unaudited)
Three months ended March 31, 2019 and 2018
(In thousands of Brazilian reais)

	For the three months ended March 31,	
	2019	**2018**
Cash flows from operating activities		
Net income for the period	**137,678**	172,284
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities		
Depreciation and amortization	**388,566**	296,253
Write-off of fixed assets and intangibles	**19,168**	3,381
Results unrealized from financial instruments	**(102,138)**	(14,834)
Share-based payment expenses	**3,078**	7,603
Exchange (gain) and losses on assets and liabilities denominated in foreign currency	**97,562**	37,275
Interest (income) and expenses on assets and liabilities	**224,491**	121,566
Deferred income tax and social contribution	**(61,394)**	19,379
Allowance for doubtful accounts	**1,360**	1,598
Provision for tax, civil and labor risks (Note 22)	**15,301**	14,232
Provision for inventory	**1,516**	756
Profit on sale of property and equipment (Note 10)	**8,570**	(731)
Changes in operating assets and liabilities		
Trade and other receivables	**(284,406)**	(253,913)
Inventories	**(26,243)**	(25,501)
Sublease receivables	**24,525**	12,301
Security deposits and maintenance reserves	**14,977**	(63,369)
Prepaid expenses	**(21,034)**	2,873
Recoverable taxes	**(19,731)**	4,349
Other assets	**(27,637)**	29,233
Accounts payable	**(76,531)**	27,672
Accounts payable - Forfaiting	**52,708**	-
Salaries, wages and employee benefits	**65,798**	4,081
Insurance premiums payable	**(15,736)**	(4,910)
Taxes payable	**(26,445)**	(14,202)
Federal installment payment program	**19,986**	(2,406)
Air traffic liability	**15,330**	(78,587)
Provision taxes, civil and labor risks (Note 22)	**(12,247)**	(10,112)
Other liabilities	**(5,882)**	(23,780)
Interest paid	**(194,904)**	(165,913)
Income tax and social contribution paid	**(479)**	(271)
Net cash (used) provided by operating activities	**215,807**	96,307
Cash flows from investing activities		
Short-term investment		
Acquisition of short-term investments	**(444,957)**	(572,183)
Disposal of short-term investments	**567,893**	988,555
Disposal of long-term investments	**(96,161)**	-
Restricted investments, net	-	5,083
Proceeds from sale of property and equipment	-	45,660
Acquisition of intangibles	**(23,766)**	(10,859)
Acquisition of property and equipment (Note 10)	**(401,689)**	(263,430)
Net cash used in investing activities	**(398,680)**	192,826
Cash flows from financing activities		
Debentures		
Repayment	**(40,133)**	(40,080)
Loans and financing		
Proceeds	**291,977**	-
Repayment	**(33,564)**	(59,429)
Lease repayment	**(312,504)**	(223,180)
Proceeds from sale and leaseback	**14,918**	-
Issuance of shares due exercise of stock options	**4,114**	7,993
Treasury shares	**-**	(1,330)
Net cash provided by financing activities	**(75,192)**	(316,026)
Exchange gain (loss) on cash and cash equivalents	**(2,683)**	3,514
Net increase (decrease) in cash and cash equivalents	**(260,748)**	(23,379)
Cash and cash equivalents at the beginning of the period	**1,169,136**	762,319
Cash and cash equivalents at the end of the period	**908,388**	738,940

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, 2019**	**December 31, 2018**
Azul Linhas Aéreas Brasileiras S.A. (ALAB)	Airline operations	Brazil	100.0%	100.0%
Azul Finance LLC (a)	Aircraft financing	United States	100.0%	100.0%
Azul Finance 2 LLC (a)	Aircraft financing	United States	100.0%	100.0%
Blue Sabiá LLC (a)	Aircraft financing	United States	100.0%	100.0%
ATS Viagens e Turismo Ltda. (a)	Package holidays	Brazil	99.9%	99.9%
Azul SOL LLC (a)	Aircraft financing	United States	100.0%	100.0%
Azul Investment LLP (a)	Group financing	United States	100.0%	100.0%
Fundo Garoupa (b)	Exclusive investment fund	Brazil	100.0%	100.0%
Fundo Safira (a)	Exclusive investment fund	Brazil	100.0%	100.0%
Fundo Azzurra (a)	Exclusive investment fund	Brazil	-	100.0%
Canela Investments LLC (Canela) (a) (c)	Aircraft financing	United States	100.0%	100.0%
Canela 336 LLC (d)	Aircraft financing	United States	100.0%	100.0%
Canela 407 LLC (d)	Aircraft financing	United States	100.0%	100.0%
Canela 429 LLC (d)	Aircraft financing	United States	100.0%	100.0%
Canela Turbo Three LLC (d)	Aircraft financing	United States	100.0%	100.0%
Daraland S.A. (a)	Holding	Uruguay	100.0%	100.0%
Encenta S.A. (Azul Uruguai) (e)	Airline operations	Uruguay	100.0%	100.0%
TudoAzul S.A.	Loyalty programs	Brazil	100.0%	100.0%
Cruzeiro Participações S.A	Participation in others societies	Brazil	99.9%	99.9%
Hainan Airlines Civil Aviation Investment Limited (“HACAIL”)	Participation in others societies	China	45.5%	-

(a) Azul’s investment is held indirectly through ALAB.
(b) Azul’s investment is held 4% directly and 96% through ALAB.
(c) Transfer of ownership from Azul to ALAB on December 1, 2017.
(d) ALAB’s investments are held indirectly through Canela.
(e) Investments are held indirectly through Daraland.
(f) Subsidiary incorporated on February 6, 2018.

2. Basis of preparation of financial statements

The consolidated financial statements of the Company for the three months ended March 31, 2019, were authorized for issuance by the executive board of directors on May 6, 2019.

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, 2019. 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. 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, 2018 except for the new standards adopted on January 1, 2019, presented as follows.

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, 2018.

3.1. New accounting policies or standards adopted on January 1, 2019

CPC 06 (IFRS 16) - Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17, *Leases*, IFRIC 4*, Determining whether an Agreement Contains a Lease*, SIC-15, *Operating leases-Incentives* and SIC-27 – *Evaluating the Substance of Transactions in the Legal Form of a Lease*.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single model in the balance sheet, similar to accounting for finance leases under IAS 17. The standard includes two elective exemptions of recognition for lessees - Leases of ‘low-value’ assets (e.g. personal computers) and short-term leases (i.e. one that does not include a purchase option and has a lease term at commencement date of 12 months or less), the lessee should recognize the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis if that basis is representative of the pattern of the lessee’s benefits, similar to the current accounting for operating leases.

Lessees are also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee generally recognizes the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset

Under IFRS 16, Azul capitalizes the right of use of all aircraft and other assets such as properties, vehicles and equipment currently held under operating leases. Azul recognizes a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability that is initially measured at the present value of the future lease payments representing its obligation to make lease payments. Operating lease expenses are replaced by a depreciation expense on right-of-use assets recognized and an interest expense as the interest rate implicit in Azul’s lease liabilities. When the interest rate implicit in the lease cannot be readily determined, Azul’s incremental borrowing rate are used as an alternative.

IFRS 16 is effective for annual periods beginning on or after January 1, 2019.

Transition to IFRS 16

A lessee can apply IFRS 16 either by a full retrospective approach or a modified retrospective approach. Azul applied the full retrospective transition approach to each prior reporting period presented. Under the full retrospective method the comparative information was restated.

Azul elects to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. Azul has leases of certain equipment (i.e., personal computers, printing and photocopying machines as well as communicating equipment) that are considered of low value.

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

The impact of IFRS 16 adoption for period ended as of December 31, 2018 is presented as follows:

	As reported	IFRS 16 Impact	As adjusted
Consolidated Balance Sheets			
Asset			
Current assets			
Finance lease receivables (a)	-	73,671	73,671
Prepaid expenses (b)	163,829	(42,664)	121,165
Non-current assets			
Finance lease receivables (a)	-	288,067	288,067
Other non-current assets (c)	520,723	(123,325)	397,398
Property, plant and equipment (d)	3,289,219	(1,446,980)	1,842,239
Right of use assets - leased aircraft and other assets (d), (e)	-	4,818,522	4,818,522
Right of use assets - maintenance of leased aircraft (c), (f)	-	622,241	622,241
Liabilities and equity			
Current liabilities			
Accounts payable (g), (h)	1,166,291	105,903	1,272,194
Current maturities of lease liabilities (e), (i)	176,197	1,082,579	1,258,776
Non-current liabilities			
Long-term obligations under lease liabilities (e), (j)	773,694	6,912,978	7,686,672
Other non-current liabilities (g), (h)	321,139	(3,473)	317,666
Deferred income taxes (j)	443,894	(150,683)	293,211
Equity			
Other comprehensive income	(117,324)	(36,645)	(153,969)
Accumulated losses	(836,214)	(3,721,127)	(4,557,341)

The impact of IFRS 16 adoption for the three months ended on March 31, 2018 is presented as follows:

	As reported	IFRS 16 Impact	As adjusted
Consolidated statement of net income			
Operating revenue			
Cargo and other revenue (a)	101,597	(21,470)	80,127
Operating expense			
Aircraft and other rent (e)	(327,080)	319,110	(7,970)
Maintenance materials and repairs (f)	(123,303)	14,899	(108,404)
Depreciation and amortization (e)	(81168)	(215,085)	(296,253)
Financial result			
Financial revenue (e)	12,447	7,770	20,217
Financial expense (e)	(89,436)	(141,673)	(231,109)
Foreign currency exchange, net (e)	(215)	(43,512)	(43,727)
Related Parties transactions	57,865	2,864	60,729
Income tax			
Income tax expense	(58,216)	38,837	(19,379)

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

Net income	**210,545**	**(38,261)**	**172,284**
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$	**0.63**	**(0.11)**	**0.51**
Diluted net income per preferred share - R$	**0.62**	**(0.11)**	**0.51**

Cash Flows

	As reported	IFRS 16 Impact	As adjusted
Cash flows from operating activities			
Net income for the period	210,545	(38,261)	172,284
Adjustments to reconcile net loss to cash flows provided by (used in) operating activities			
Depreciation and amortization	81,168	215,085	296,253
Exchange (gain) and losses on assets and liabilities denominated in foreign currency	(9,744)	47,022	37,278
Interest (income) and expenses on assets and liabilities	(18,864)	140,430	121,566
Deferred income tax and social contribution	58,216	(38,837)	19,379
Changes in operating assets and liabilities			
Sublease receivables	-	12,301	12,301
Prepaid expenses	343	2,530	2,873
Other assets	(113,676)	142,909	29,233
Accounts payable	(5,830)	33,502	27,672
Other liabilities	(3,678)	(20,102)	(23,780)
Other liabilities	(25,591)	(140,322)	(165,913)
Cash flows from investing activities			
Acquisition of property and equipment	(88,790)	(174,640)	(263,430)
Cash flows from financing activities			
Loans and financing			
Payment	(100,995)	41,566	(59,429)
Lease payment	-	(223,180)	(223,180)

a) The Company, as a lessor, has reassessed its sublease agreements as finance lease. The leased assets have been derecognized and finance lease asset receivables recognized. This change in accounting changes the timing of recognition of the related revenue (recognized as finance income).

b) The Company had prepaid rent that is now derecognized as it is now amortized within the line item lease liabilities.

c) The Company outsources maintenance activities and the payments made under the Engine Flight Hour ("EFH") contract were recorded as a deposit or prepaid expense to the extent recoverable through future maintenance activities. When the underlying maintenance event occurs (replacing of LLPs), the Company previously accounted for the maintenance expense in accordance with the Company's policy (i.e. expense as incurred for operating leases). Such prepaid expenses are now being presented within the line item Right of use assets - maintenance of leased aircraft.

d) Aircraft held under finance lease arrangements previously presented within property, plant and equipment is now presented within the line item right-of-use-assets.

e) The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and leases liabilities. It resulted in a decrease in rent expenses and an increase in depreciation and amortization expense, in interest expense and foreign currency exchange.

f) Before adopting IFRS 16, expenses related to heavy maintenance and structural checks performed on aircraft under operating lease were recognized under Maintenance materials and repairs within the Consolidated Statement of Operations. Now such heavy maintenance and structural checks performed on aircraft previously classified as operating leases are capitalized and depreciation of such assets in line with accounting policies applicable to owned aircraft is recognized.

g) Provision for onerous operating lease contracts required under IAS 17 has been derecognized.

h) A provision for maintenance costs to recover the value of the asset related to the period in which the aircraft currently subleased were operated by the Company has been recorded.

i) i) Lease liability on leases previously classified as finance leases in accordance with IAS 17 and previously presented within borrowings is now presenting in the separate line lease liabilities.

j) Deferred tax assets are recognized only to the extent that recovery is probable.

The Company's aircraft lease rental payments are predominantly denominated in USD. While the Company's foreign currency cash flow risk for lease rental payments are unchanged, the adoption of IFRS 16 will result in foreign currency denominated lease liabilities recognized on the balance sheet revaluing in response to exchange rate fluctuations in the USD/BRL exchange rate.

IFRIC 23 – Uncertainty over income tax treatments

The Interpretation IFRIC 23 addresses the application of requirements in IAS 12 "Income Taxes" when there is uncertainty over the acceptance of income tax treatments by the tax authority.
The interpretation clarifies that, if it is not probable that the tax authority will accept the income tax treatments, the amounts of tax assets and liabilities shall be adjusted to reflect the best resolution of the uncertainty.

IFRIC 23 is effective since January 1, 2019, based on the evaluation made by the Company's Management concluded that there are no impacts or needs of additional disclosures in this interim financial information arising from the application of this interpretation.

4. Financial risk management objectives and policies

The main financial liabilities of the Company, other than derivatives, are loans, debentures 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 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 skills, experience and appropriate supervision. It is the Company's policy not to enter into derivatives transactions for speculative purposes.

a) Market risk

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

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

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

	March 31, 2019 (unaudited)		
	Book value	Fair Value – hedge instrument	Consolidated post hedge strategy
Denominated in foreign currency - US$			
Purchase of aircraft	**389,291**	**-**	**389,291**
Working capital	**1,690,737**	**(253,806)**	**1,436,931**
Denominated in local currency - R$			
Purchase of aircraft (FINAME)	**186,066**	**-**	**186,066**
Working capital	**66.058**	**-**	**66,058**
Finance lease	**2,730**	**-**	**2,730**
Total in R$	**2,334,882**	**(253,806)**	**2,081,076**

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, 2018		
Risk	Type of hedge	Hedged Item	Nominal amount	Hedge Instrument	Nominal amount	Carrying amount - hedge item	Fair Value – hedge instrument	Debt Considering Hedge
1) Senior Notes Azul LLP								
Foreign exchange risk	Cash Flow Hedge	Principal US$ on Senior Notes Azul LLP	US$ 400 million	Currency Options - Floor 3,2865 Cap 4,7500	US$ 400 million	**1,571,479**	**(232,288)**	**1,339,191**
2) Proceeds in foreign currency								
Interest rate swap	Fair value hedge	Principal & Interest on 4.131 Transaction	US$30 million	IRS - Interest Rate Swap (receives US Libor3M + spread 1,034% & pays 108% CDI)	98,940	**119,258**	**(21,518)**	**97,740**
Total						**1,690,737**	**(253,806)**	**1,436,931**

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.

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

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 4.0% p.a.
- CDI based debt: weighted average interest rate of 6.9% p.a.

We estimated the impact on profit and loss and equity for the three months ended March 31, 2019 resulting from variation of 25% and 50% on the weighted average rates, as shown below:

	25%	-25%	50%	-50%
Interest expense	**15,049**	**(15,049)**	**30,098**	**(30,098)**

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 and financing, net of investments in the U.S. dollar, and also to 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 8).

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

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

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

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

	Exposure to U.S. dollar		Exposure to Euro	
	March 31, (Unaudited)		March 31, (Unaudited)	
	2019	**2018**	**2019**	**2018**
Assets				
Cash and cash equivalents and short-term Investments	**240,381**	356,174	**-**	-
Security deposits and maintenance reserves	**1,507,243**	1,513,963	**-**	-
Sublease receivables	**337,213**	361,738	**-**	-
Long-term investments (Note 21)	**-**	-	**1,180,772**	1,287,780
Financial instruments	**119,258**	116,564	**-**	-
Other assets	**292,775**	122,456	**-**	-
Total assets	**2,496,870**	2,470,895	**1,180,772**	1,287,780
Liabilities				
Accounts payable	**(472,622)**	(334,407)	**-**	-
Loans and financing (*)	**(2,092,690)**	(1,756,989)	**-**	-
Lease payables	**(9,421,399)**	(8,945,448)	**-**	-
Other liabilities	**(50,935)**	(50,278)	**-**	-
Total liabilities	**(12,037,646)**	(11,087,122)	**-**	-
Derivatives (NDF) – notional	**2,524,867**	2,186,356	**-**	-
Net exposure	**(7,015,909)**	(6,429,871)	**1,180,772**	1,287,780

(*) As of March 31, 2019, US dollar denominated working capital loans totaling R$ 1,690,737 were swapped to Brazilian Reais, resulting in an total debt in Reais of R$ 2,462,822.

Sensitivity to exchange rates

At March 31, 2019, the Company used the closing exchange rate of R$3.8967/US$1.00 and R$4.3760/EUR1.00. We present below a sensitivity analysis considering a variation of 25% and 50% over the existing rates:

Exposure in US$	**25%** **R$4.8709/US$**	**-25%** **R$2.9225/US$**	**50%** **R$5,8451/US$**	**-50%** **R$1,9484/US$**
Effect on exchange rate variation	**(1,753,985)**	**1,753,985**	**(3,507,970)**	**3,507,970**

Exposure in EUR	**25%** **R$5.4700/EUR**	**-25%** **R$3.2820/EUR**	**50%** **R$6.5640/EUR**	**-50%** **R$2.1880/EUR**
Effect on exchange rate variation	**295,193**	**(295,193)**	**590,386**	**(590,386)**

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 capitalize on a substantial fall in fuel prices.

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

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

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 as of December 31, 2018.

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, as follows:

Change in Oil prices in Reais	**25%**	**-25%**	**50%**	**-50%**
Impact on fuel hedges	**194,309**	**(192,315)**	**388,810**	**(384,364)**

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

Since the TAP Convertible Bonds contain a conversion option into shares of TAP, the Company is exposed to changes in the fair value of TAP.

The acquisition of the TAP Convertible Bonds 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 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 connection with Avianca Brasil's judicial recovery process, on March 11, 2019, Azul signed a non-binding agreement to acquire selected assets of Avianca Brasil. Azul prepaid R$52 million to Avianca Brazil backed by contractual guarantees. This amount was recorded under "Other Receivables". The Company is monitoring the judicial recovery process, including the recoverability of the amounts prepaid.

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

c) Liquidity risk

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

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

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

March 31, 2019	Immediate	Until 6 months	7 to 12 months	1 to 5 years	More than 5 years	Total
Loans and financing	84,258	32,485	38,996	1,302,626	1,579,814	3,038,179
Accounts payable	695,983	334,487	165,192	-	-	1,195,662
Accounts payable – Forfaiting	215,486	-	-	-	-	215,486
Liabilities from derivative transaction	23,484	8,723	24,126	269,923	-	326,256
Provisions	-	-	-	84,038	-	84,038
	1.019,211	375,695	228,314	1,656,587	1,579,814	4,859,621

Capital management

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

The use of third-party financing is an option to be considered mainly when the Company believes that the cost would be less than the return generated by an acquired asset. It is important to ensure that the Company maintains an optimized capital structure, provides financial solidity while providing for the viability of its business plan. As a capital-intensive industry with considerable investment in assets with a high aggregated value, it is natural for companies in the aviation sector to report a 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 loans and financing (includes debentures) less cash and cash equivalents, restricted cash, short and long-term investments and current and noncurrent restricted investments.

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

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

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,	
	March 31 2018 (Unaudited)	**March 31, 2018 (Restated)**
Equity	**(471,886)**	(594,072)
Cash and cash equivalents (Note 6)	**(908,388)**	(1,169,136)
Short-term investments (Note 7)	**(396,823)**	(517,423)
Long-term investments (Note 21)	**(1,327,034)**	(1,287,781)
Restricted financial investments (Note 8)	**3,038,179**	2,756,131
Loans and financing (Note 17)	**9,421,399**	8,945,448
Net debt	**9,827,333**	8,727,239
Total capital	**9,355,447**	8,133,167

5. Cash and cash equivalents

Cash and cash equivalents are comprised of the following:

	March 31, 2019 (Unaudited)	**December 31, 2018**
Cash and bank deposits	**247,931**	370,262
Cash equivalents		
Bank Deposit Certificate – CDB	**474,372**	480,052
Investments funds	**186,085**	318,822
	908,388	1,169,136

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

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

Investment funds are comprised of CDB's investments 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.

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

6. Short-term investments

Investments are comprised of:

	March 31, 2019 (Unaudited)	December 31, 2018
Other short-term investments	**146,847**	16,039
Investment funds	**249,976**	501,384
	396,823	517,423

Investment funds are comprised of Brazilian government bonds and bank notes, denominated in Reais, with financial institutions (deposit certificates) and debentures issued by B and BB+ risk rated companies bearing an accumulated average interest rate of100% 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.

7. Aircraft sublease receivables

	Consolidated	
	March 31, 2019 (unaudited)	December 31, 2018
2019	**68,796**	102,660
2020	**103,240**	102,660
2021	**92,427**	91,908
2022	**49,173**	48,897
2023	**42,686**	42,446
After 2023	**62,191**	62,237
Lease receivables (gross)	**418,513**	450,808
Finance revenue (not incured)	**(81,300)**	(89,070)
Lease receivables (net)	**337,213**	361,738
Current	**65,201**	73,671
Non-current	**272,012**	288,067

As of March 31, 2019 and December 31, 2018, there were no overdue amounts related to aircraft subleases receivables.

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

8. Related parties

i) Compensation of key management personnel

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

	For the three months ended March 31, (Unaudited)	
	2019	**2018**
Salaries and wages	**6,333**	3,974
Share-based option plans	**4,746**	6,035
	11,079	10,009

ii) Guarantees granted

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

iii) 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 Agreementsduring the year ended March 31, 2019 was R$7,584 (March 31, 2018 – R$ 16,170).

As of March 31, 2019, the amount payable to TAP ME was R$1,794 (December 31, 2018 – R$5,663) and is recorded under Accounts payable.

iv) Codeshare Agreement

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

v) Transactions with Aigle Azur

On March 31, 2019, the Company recorded in “Prepaid expenses”, the amount of R$42,995 (December 31, 2018 – R$13,330).

vi) Loan agreements receivable

On September 2, 2016 the Company entered into a loan agreement with a shareholder in the amount of US$2.8 million (March 31, 2019 - R$12,268). This agreement bears interest at a rate of Libor plus 2.3% p.a. and will be paid in full in 2019.

vii) Transactions with TAP

i. Aircraft sublease

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

As mentioned in note 3, in accordance with IFRS 16 an intermediate lessor records the main 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 the principal lease (and not by reference to the underlying asset as was the case under IAS 17).

As a result of this change, the Company reassessed the classification of its sub-lease agreements as financial leases, based on the remaining terms and conditions of the main lease and sublease on the date of the initial adoption, thus derecognizing the provision for an onerous contract.

Over the three months ended March 31, 2019, amounts received from TAP from the subleases amounted to R$29,240 (March 31, 2018 – R$25,009), and amounts paid to the lessors of the related aircrafts totaled R$33,628 (March 31, 2018 – R$28,875).

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.

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

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

The TAP Convertible Bonds, as well as the option to convert them into TAP Shares, were classified as a single financial asset recorded at changes in the fair value through profit or loss, in the amount of R$100,359 under “Result from related parties transactions, net”, classified in “Long term investments”.

iii. Other Investments

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

The gain resulting from this transaction, in the amount of R$50,101, was fully recorded at fair value through profit or loss, under "Result from related parties transations, net", classified in "Long term investments".

viii) Guarantees

ALAB entered into a Deed of Guarantee and Indemnity as of September 15, 2017, in connection with the obligations and liabilities related to the operating lease agreements of three A350-900XW aircraft entered into by Hong Kong Airlines and Beijing Capital Airlines, companies of the HNA Group, ex-shareholder of the Company, and Wilmington Trust SP Services (Dublin) Limited.

9. Security deposits and maintenance reserves

	March 31, 2019 (Unaudited)	**December 31, 2018**
Security deposits	**197,276**	225,230
Maintenance reserve deposits	**1,343,467**	1,321,490
	1,540,743	1,546,720

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.

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

As of March 31, 2019 maintenance reserve deposits are likely to be recoverable as they are lower than the expected cost of the related next maintenance event that the reserves are intended to collateralize. During the three months ended March 31, 2019 the Company recognized a write-off of R$223 (December 31, 2018 - R$31,132) in the "Maintenance materials and repairs" in the income statements line itemfor maintenance reserve deposits that are not likely to be reimbursed in relation to aircraft that went through their last maintenance event prior to their return.

The Company replaced some of its security deposits and maintenance reserves deposits with bank guarantees, and was refunded an amount of R$25,843 and R$20,495, respectively as of March 31, 2019 (December 31, 2018 - R$18,125 and R$106,875 respectively).
Presented below are the changes in the security deposits and maintenance reserve deposits balance:

	Maintenance reserves deposits	**Security deposits**	**Total**
Balance at December 31, 2017	1,078,135	180,992	1,259,127
Additions	317,698	39,593	357,291
Write-offs	(31,132)	(968)	(32,100)
Refunds/returns	(236,987)	(23,175)	(260,162)
Foreign exchanges variations	193,776	28,788	222,564
Balance at December 31, 2018	1,321,490	225,230	1,546,720
Additions	**93,782**	**1,100**	**94,882**
Write-offs	**(223)**	**-**	**(223)**
Refunds/returns	**(79,975)**	**(29,661)**	**(109,636)**
Foreign exchanges variations	**8,393**	**607**	**9,000**
Balance at March 31, 2019	**1,343,467**	**197,276**	**1,540,743**

10. Property, equipment and right of the use assets

Property and equipment are mainly comprised of "aircraft and engines" and aircraft equipment. "Aircraft and engines" refers to owned aircraft and capitalized heavy maintenance and structural checks related to owned aircraft.

As of March 31, 2019 the Company performed an impairment analysis. No impairment of property and equipment was recognized as a result of such impairment analysis.

For owned aircraft, the Company employs the deferral method that results in the capitalization of heavy maintenance and structural checks. Under this method, the cost of major maintenance and structural checks are capitalized and amortized as a component of depreciation and amortization expense until the next major maintenance event.

The next major maintenance and structural check event is estimated based on the average maintenance costs and timing of the next scheduled maintenance event as suggested by the manufacturer and according to the fleet's historical performance in the Company, and may change based on changes in aircraft utilization and changes in suggested manufacturer maintenance intervals.

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

In addition, these assumptions can be affected by unplanned incidents that could damage a major component to the extent that would require a major maintenance event prior to a scheduled maintenance event.

10.1 Property and equipments

During the three months ended March 31, 2019, the Company entered into a sale and leaseback transaction on an owned engine. The loss associated with the sale and leaseback transactions which resulted in finance leases amounted to R$ 8,570 was recorded in "Other liabilities" and will be recognized in the statement of operations over the average lease term of 120 months.

During three months ended March 31, 2018, the Company entered into one aircraft sale transaction. The gain associated with the aircraft sale and leaseback transactions, net of selling expenses of R$731 was recognized in "Other operating expenses, net".

a) Breakdown

	March 31, 2019 (Unaudited)			December 31, 2018 (Restated)
	Cost	Accumulated depreciation	Net amount	Net amount
Leasehold improvements	**168,726**	**(57,428)**	**111,298**	93,285
Equipment and facilities	**138,625**	**(84,967)**	**53,658**	49,243
Vehicles	**3,238**	**(1,153)**	**2,085**	2,207
Furniture and fixtures	**19,395**	**(13,804)**	**5,591**	5,029
Aircraft equipment	**1,503,336**	**(368,456)**	**1,134,880**	1,039,473
Aircraft and engines	**636,083**	**(186,543)**	**449,540**	459,056
Advance payments for acquisition of aircraft	**129,334**	**-**	**129,334**	112,923
Construction in progress	**92,317**	**-**	**92,317**	81,023
	2,691,054	**(712,351)**	**1,978,703**	1,842,239

b) Changes in property and equipment balances are as follows

	Cost				
	December 31, 2018 (Restated)	Acquisitions	Disposals/ Write-offs	Transfers	March 31, 2019 (Unaudited)
Leasehold improvements	146,315	**14,666**	**(143)**	**7,888**	**168,726**
Equipment and facilities	130,655	**8,151**	**(210)**	**29**	**138,625**
Vehicles	3,238	**-**	**-**	**-**	**3,238**
Furniture and fixtures	18,797	**598**	**-**	**-**	**19,395**
Aircraft equipment	1,378,352	**144,993**	**(7,149)**	**(12,860)**	**1,503,336**
Aircraft and engines	629,473	**69,954**	**(76,173)**	**12,829**	**636,083**
Advance payments for acquisition of aircraft	112,923	**16,411**	**-**	**-**	**129,334**
Construction in progress	81,023	**19,841**	**(661)**	**(7,886)**	**92,317**
	2,500,776	**274,614**	**(84,336)**	**-**	**2,691,054**

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

	Accumulated depreciation				
	December 31, 2018 (Restated)	Depreciation for the period	Disposals/ Write-offs	Transfers	March 31, 2019 (Unaudited)
Leasehold improvements	(53,030)	**(4,406)**	**8**	**-**	**(57,428)**
Equipment and facilities	(81,412)	**(3,664)**	**109**	**-**	**(84,967)**
Vehicles	(1,031)	**(122)**	**-**	**-**	**(1,153)**
Furniture and fixtures	(13,768)	**(36)**	**-**	**-**	**(13,804)**
Aircraft equipment	(338,879)	**(31,445)**	**1,868**	**-**	**(368,456)**
Aircraft and engines	(170,417)	**(22,777)**	**6,651**	**-**	**(186,543)**
	(658,537)	**(62,450)**	**8,636**	**-**	**(712,351)**

10.2. Right of use – aircraft lease and others

a) Breakdown

	March 31,2019 (Unaudited)			December 31, 2018 (Restated)
	Cost	Accumulated depreciation	Net Amount	Net Amount
Aircraft	**8,832,287**	**(3,779,005)**	**5,053,282**	4,620,057
Engines and simulators	**372,681**	**(209,008)**	**163,673**	128,800
Properties	**105,754**	**(54,801)**	**50,953**	54,150
Vehicles	**7,999**	**(5,906)**	**2,093**	2,521
Equipments	**20,767**	**(9,920)**	**10,847**	12,994
	9,339,488	**(4,058,640)**	**5,280,848**	4,818,522

b) Changes in property and equipment balances

	Cost				
	December 31, 2018 (Restated)	Acquisitions	Disposals/ Write-offs	Transfers	March 31, 2019 (Unaudited)
Aircraft	8,151,910	680,377	**-**	**-**	**8,832,287**
Engines and simulators	328,421	44,260	**-**	**-**	**372,681**
Properties	105,754	-	**-**	**-**	**105,754**
Vehicles	7,999	-	**-**	**-**	**7,999**
Equipments	20,767	-	**-**	**-**	**20,767**
	8,614,851	724,637	**-**	**-**	**9,339,488**

	Consolidado Depreciação acumulada				
	December 31, 2018 (Restated)	Depreciations	Disposals/ Write-offs	Transfers	March 31, 2019 (Unaudited)
Aircraft	(3,531,853)	**(247,152)**	**-**	**-**	**(3,779,005)**
Engines and simulators	(199,621)	**(9.387)**	**-**	**-**	**(209,008)**
Properties	(51,604)	**(3,197)**	**-**	**-**	**(54,801)**
Vehicles	(5,478)	**(428)**	**-**	**-**	**(5,906)**
Equipments	(7,773)	**(2,147)**	**-**	**-**	**(9,920)**
	(3,796,329)	**(262,311)**	**-**	**-**	**(4,058,640)**

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

10.3. Right of use – aircraft maintenance owned and lease

a) Breakdown

	March 31, 2019 (unaudited)			December 31, 2018
	Cost	Accumulated depreciation	Net Amount	Net Amount
Checks	**144,253**	**(73,877)**	**70,377**	66,146
Engines maintenance	**947,404**	**(260,893)**	**686,510**	556,095
	1,091,657	**(334,770)**	**756,887**	622,241

b) Changes in property and equipment balances

	Cost				
	December 31, 2018 (Restated)	Acquisitions	Disposals/ Write-offs	Transfers	March 31, 2019 (Unaudited)
Checks	132,597	**11,656**	**-**	**-**	**144.253**
Engines maintenance	775,457	**171,947**	**-**	**-**	**947,404**
	908,054	**183,603**	**-**	**-**	**1,091,657**

	Accumulated Depreciation				
	December 31, 2018 (Restated)	Accumulated depreciation	Disposals/ Write-offs	Transfers	March 31, 2019 (Unaudited)
Checks	(66,451)	**(7,426)**	**-**	**-**	**(73,877)**
Engines maintenance	(219,362)	**(41,531)**	**-**	**-**	**(260,894)**
	(285,813)	**(48,957)**	**-**	**-**	**(334,770)**

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

11. Income tax and social contribution

a) Income tax and social contribution

	For the three months ended March 31,	
	2019 (Unaudited)	**2018 (restated)**
Income/(loss) before income tax and social contribution	**76,658**	192,987
Combined tax rate	**34%**	34%
Income tax and social contribution statutory rate	**(26,064)**	(65,616)
Adjustments to calculate the effective tax rate:		
Exchange differences on foreign subsidiaries	**(13,745)**	(11,887)
Unrecorded deferred tax on tax loss and on temporary differences	**57,878**	32,338
Deferred Income Tax on Tax Losses included in the PERT (*)	**22,424**	-
Permanent differences	**20,260**	16,536
Other	**267**	7,926
Total income tax and social contribution expenses	**61,020**	(20,703)
Current income tax and social contribution	**(374)**	(1,324)
Deferred income tax and social contribution	**61,394**	(19,379)
	61,020	(20,703)

(*) Tax Recovery Program ("PERT")

b) Breakdown of deferred income tax and social contribution

	March 31, 2019 (Unaudited)	**December 31, 2018 (Restated)**
Deferred taxes		
On temporary differences		
Provision for tax, civil and labor risks	**28,563**	27,524
Deferred revenue of TudoAzul program	**(130,673)**	(132,740)
Aircraft lease expense	**236,289**	124.267
Depreciation of aircraft and engines	**(39,293)**	(33.973)
Exchange rate	**(11,234)**	(13,397)
Deferred gain related to aircraft sold	**29,538**	34,241
Cash flow hedge (*)	**60,062**	52,349
Fair value of TAP convertible bonds	**(237,944)**	(274,520)
Fair value of other investments	**(17,034)**	-
Financial instruments	**(127,790)**	(73,735)
Fair value of aircraft	**(388)**	(397)
Fair value of slots	**(27,947)**	(27,947)
Other on business combination fair value adjustment	**(2,315)**	(2,707)
Others	**27,970**	61,993
Net deferred tax (liabilities)	**(212,196)**	(259,041)
Deferred tax assets not recognized	**(972,117)**	(1,109,708)
Deferred tax assets on net operating losses	**18,017**	18,180
Net deferred tax (liabilities)	**(254,241)**	(293,211)

(*) Deferred tax recorded in "Other comprehensive income (loss)"

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

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

Deferred tax assets are recognized only to the extent that recovery is probable. Therefore, the Company has not recognized the amounts that exceed the current evidence of recovery, at the amount of R$ 972,117.

The Company has income tax losses that are available indefinitely for offsetting against future taxable profits, as follows:

	March 31, 2019 (Unaudited)	**December 31, 2018**
Net tax losses	**2,085,925**	1,829,244
Income tax loss carryforwards (25%)	**521,481**	457,311
Social contribution negative base tax carryforwards (9%)	**187,733**	164,632

Deferred income tax asset on tax losses at the amount of R$ 691,198 has not been recognized as there is no evidence of recoverability in the near future, except for R$ 18,017.

12. Loans and financing

	March 31, 2019 (Unaudited)	**December 31, 2018 (Restated)**
Loans	**2,334,882**	2,025,612
Debentures	**703,297**	730,519
	3,038,179	2,756,131
Non-current	**2,882,440**	2,597,277
Current	**155,739**	158,854

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)

12.1. Loans

				Consolidated		Fair value of designated derivatives (*)	
	Guarantees	Interest	Final maturity	March 31, 2019 (Unaudited)	December 31, 2018 (Restated)	March 31, 2019 (Unaudited)	December 31, 2018 (Restated
Denominated in foreign currency - US$							
Purchase of aircraft	Chattel mortgage	LIBOR plus "spread" between 2.55% and 3.6% p.a. and fixed interest of 6.07%	03/2024	**389,291**	100,042	**-**	-
Working capital (*) (a)	Receivables of Azul and cash collateral	LIBOR plus fixed interest of 0.88% p.a. and fixed of 5.90%p.a	10/2024	**1,690,737**	1,656,947	**(253,806)**	(266,404)
Denominated in local currency - R$							
Purchase of aircraft (FINAME) (**)	Investments and chattel mortgage of aircraft	Fixed between 6.00% to 6.50% p.a. and SELIC plus 5.46% p.a.	05/2025	**186,066**	192,861	**-**	-
Working capital	Receivables of Azul	5.0% fixed p.a and 125% to 126% of CDI	07/2021	**66,058**	73,376	**-**	-
Finance lease	Chattel mortgage	CDI plus fixed spread between 3.97% p.a. and 4.91% p.a.	11/2019	**2,730**	2,386	**-**	-
Total in R$				**2,334,882**	2,025,612	**(253,806)**	(266,404)
Current position				**144,831**	119,717	**-**	-
Non-current position				**2,190,051**	1,905,895	**(253,806)**	(266,404)

(*) Ilustrates the effect of hedges designated for hedge accounting, which are detailed in Note 16. The debt position considering the effects of the hedge can be seen on Note 4.

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

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

a) Senior notes

The Company issued US$400 million in unsecured senior notes in October 2017at 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 hedging cost of 99.3% of CDI.

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

The details of this transaction is following:

Options Structure	**Coupon Payments**		**Principal Payment**
Period	Apr/2018 to Apr/2019	Oct/2019 to Oct/2024	Oct/2024
Notional	US$12 million	US$12 million	US$400 million
Put option bought	-	3.2865	N/A
Call option bought	N/A	N/A	3.2865
Call option sold	-	4.7500	4.7500

	Senior notes	**Swap**
Currency	**US$**	**R$**
Amount	**US$400 million**	**R$1,314,600**
Interest	**Fixed**	**Floating**
Interest rate	**5.875%**	**99.3% of CDI**

b) Long term loans mature as follows:

	March 31, 2019 (Unaudited)	**December 31, 2018 (Restated)**
2020	**167,989**	191,437
2021	**108,544**	59,875
2022	**144,683**	49,560
2023	**132,068**	37,016
After 2023	**1,636,767**	1,568,007
	2,190,051	1,905,895

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

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Restated)
Property and equipment (carrying value) used as collateral (Note 10)	**454,161**	459,056

12.2. Debentures

	Guarantees	Interest	Final maturity	March 31, 2019 (Unaudited)	December 31, 2018
Eight issue	Credit cards receivable	CDI + 1.50% p.a.	01/2019	**-**	40,758
Nine issue	Credit cards receivable	122% of CDI	12/2021	**503,715**	493,990
Tenth issue	Credit cards receivable	117% of CDI	12/2023	**199,582**	195,771
Total				**703,297**	730,519
Current position				**10,908**	39,137
Non-current position				**692.389**	691,382

Long term debentures mature as follows:

	March 31, 2019 (Unaudited)	December 31, 2018
2020	**247,431**	296,338
2021	**336,750**	296,777
2022	**89,104**	49,131
2023	**19,104**	49,136
	692,389	691,382

13. Lease Liabilities

	Consolidated	
	March 31, 2019 (Unaudited)	December 31, 2018
Aircrafts	**9,064,807**	8,612,521
Engine and simulators	**278,052**	250,381
Property	**62,227**	65,156
Vehicles	**2,277**	2,726
Equipments	**14,036**	14,664
	9,421,399	8,945,448

(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, 2018	Additions	Payments	Interest Accrual	Foreign Exchange	March 31, 2019
Right of use leases without purchase option							
Aircraft and engines	8.82%	7,722,484	680,377	(431,666)	165,075	57,202	8,193,472
Others	7.64%	82,545	-	(5,551)	1,546	-	78,540
Right of use leases with purchase option	7.28%	1,140,419	44,260	(61,534)	20,094	6,148	1,149,387
Total		8,945,448	724,637	(498,751)	186,715	63,350	9,421,399
Current liabilities		1,258,776					1,301,329
Non-current liabilities		7,686,672					8,120,070

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

	March 31, 2019 (Unaudited)	December 31, 2018
2019	**1,164,456**	1,899,200
2020	**1,985,756**	1,871,245
2021	**1,884,877**	1,771,158
2022	**1,921,145**	1,807,304
2023	**1,406,557**	1,295,882
2024	**1,091,365**	982,735
Posterior a 2024	**3,128,572**	1,168,870
Pagamento mínimo de arrendamento	**12,582,728**	10,796.398
Encargos financeiros	**(3,161,329)**	(1,850,950)
Valor presente dos pagamentos mínimos de arrendamento	**9,421,399**	8,945,448
Circulante	**1,301,329**	1,258,776
Não circulante	**8,120,070**	7,686,672

Some financial 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 financial leases (note 16).

14. 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, 2019 (unaudited)	**2,214,757**	**928,965,058**	**327,175,146**
At December 31, 2018	2,209,415	928,965,058	326,631,190

Conversion of shares

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, 2019, the Company issued 543,956 preferred shares (December 31, 2018 – 4,877,470) in the amount of R$5,432 (December 31, 2018 – R$13,276) in connection with the exercise of stock options.

b) Capital reserve

i. 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, 2019, the Company recognized compensation expense for an amount of R$4,733 (March 31, 2018 – R$6,865).

ii. As of March 31, 2019, the Company realized the amount of R$5,315 related to 561,395 shares issued to the Company's key management personnel, in connection with the share based option plan, not yet fully paid.

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 on March 31, 2019.

d) Other comprehensive loss

Changes in fair value of derivative instruments designated as cash flow hedges are recognized in other comprehensive loss, net of tax effects, for aloss of R$176,652 and R$153,969, as of March 31, 2019 and December 31, 2018 respectively.

d) Treasury shares

	Number of shares	R$
At December 2017	103,000	2,745
Purchased	447,000	12,179
Cancelled	(217,020)	(4,374)
December 31, 2018	332,980	10,550
March 31, 2019	**332,980**	**10,550**

15. Income 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018, 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:

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

	For the three months ended March31,	
	2019 (Unaudited)	**2018 (Restated)**
Numerator		
Net income	**137,678**	172.284
Denominator		
Weighted average number of common shares	**928,965,058**	928,965,058
Weighted average number of preferred shares	**326,928,827**	323,453,830
75 preferred shares (*)		75.0
Weighted average number of preferred equivalent shares (*)	**339,315,028**	335,840,031
Weighted average number of common equivalent shares (**)	**25,448,627,108**	25,188,002,333
Weighted average number of stock option and restricted shares	**11,332,156**	15,360,523
Weighted average number of shares that would have been issued at average market price	**7,311,101**	10,335,905
Basic net income per common share	**0.01**	0.01
Diluted net income per common share	**0.01**	0.01
Basic net income per preferred share	**0.41**	0.51
Diluted net income per preferred share	**0.40**	0.51

(*) 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

16. Long term investments and Derivative financial instruments

The Company has the following financial instruments:

		Book value		Fair value	
	level	**March 31, 2019 (Unaudited)**	**December 31, 2018 (Restated)**	**March 31, 2019 (Unaudited)**	**December 31, 2018 (Restated)**
Assets:					
Short-term investments (Note 7)	**2**	**396.823**	517,423	**396,823**	517,423
Long term investments	**3**	**1.327.034**	1,287,781	**1,327,034**	1,287,781
Financial instruments	**2**	**606.458**	595,380	**606,458**	595,380
Liabilities:					
Loans and financing (Note 12)(*)	**2**	**3,038,179**	2,756,131	**2,991,672**	2,742,359
Lease Liabilities (Note 13)	**2**	**9,421,399**	8,945,448	**9,421,399**	8,945,448
Financial instruments	**2/3**	**326,256**	440,994	**326,256**	440,994

(*) Includes current and non-current.

The carrying value of cash equivalents, short and long-term investments, restricted investments, trade and other receivables and accounts payable approximate their fair value largely due to the short-term maturity of these instruments.

16.1 Long term Investments

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

	March 31, 2019 (unaudited))	December 31, 2018 (restated)
Bond TAP	**1,180,772**	**1,287,781**
Other investments (Note 8 (vii)(iii))	**146,262**	**-**
	1,327,034	**1,287,781**

Description of significant unobservable inputs to valuation:

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at March 31, 2019 and December 31, 2018 are shown below:

Non-listed equity investments -Level 3 financial assets

Valuation technique	Significant unobservable inputs	Rate	Sensitivity of the input to fair value (amounts in millions of brazilian reais)
Discounted cash flow method	Long-term growth rate for cash flows for subsequent years	March 31, 2019: 1.9% December 31, 2018: 1.8%	10bps (2018 – 10bps) increase (decrease) in the growth rate would result in an increase (decrease) in the fair value of R$3 (December 31, 2018 - R$3)
	Cost of equity	March 31, 2019: 12.2% December 31, 2018: 12,2%	50bps increase in cost of equity would result in a reduction in the fair value of R$22 (December 31, 2018 - 23). 50bps reduction in cost of equity would result in an increase in the fair value of R$24 (December 31, 2018 - 25).

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

Level 3 financial assets reconciliation

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

	March 31, 2019 (unaudited)	December 31, 2018 (restated)
Balance at the beginning of the period	**1,287,781**	835,957
Foreign currency exchange gain (loss) (*)	**(5,670)**	48,365
Interest accrual (Note 8.f.ii) (**)	**6,073**	29,630
Net present value adjustment (Note 8.f.ii) (**)	**4,663**	13,219
Fair value of call-option (Note 8.f.ii) (**)	**(112,075)**	360,610
Balance at the end of the period	**1,180,772**	1,287,781

(*) recorded in the "Foreign currency exchange, net" in the income statements line item.
(**) recorded in the "Result from related parties transactions, net" in the income statements line item.

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

	March 31, 2019 (unaudited)	December 31, 2018
Balance at the beginning of the period	**-**	-
Acquisition	**96,161**	-
Fair value of other investments (*)	**50,101**	-
Balance at the end of the period	**146,262**	-

(*) recorded in the "Result from related parties transactions, net" in the income statements line on the acquisition (Note 8).

16.2 Derivative financial instruments

	March 31, 2019 (Unaudited)		December 31, 2018	
	Assets	Liabilities	Assets	Liabilities
Cash flow hedge				
Interest rate swap contract	**-**	**(9,312)**	-	(9,422)
Foreign currency options	**232,288**	**-**	246,323	-
Fair value hedge				
Interest rate swap contract	**23,483**	**(1,965)**	21,813	(1,732)
Derivatives not designated as hedge				
Interest rate swap contract	**78,569**	**(274,640)**	93,606	(260,593)
Forward foreign currency contract	**272,096**	**-**	233,638	(74)
Heating oil forward contracts	**22**	**-**	-	(123,224)
Foreign currency options	**-**	**(40,339)**	-	(45,949)
	606,458	**(326,256)**	595,380	(440,994)

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

March 31, 2019 (Unaudited)	Immediate	Until 6 months	7 to 12 months	1 to 5 years	More than 5 years	Total
Assets from derivative transactions	**27,043**	**8,532**	**28,972**	**541,911**	**-**	**606,458**
Liabilities from derivative transactions	**(23,484)**	**(8,723)**	**(24,126)**	**(269,923)**	**-**	**(326,256)**
Total financial instruments	**3,559**	**(191)**	**4,846**	**271,988**	**-**	**280,202**

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

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.	Financial leasing of aircraft with post-fixed interest rates	Interest Rate (Libor USD)	Cash Flow Swap - swapping post-fixed interest rate to pre-fixed.	• Protected item: Amortized cost - Liabilities in contra-entry result. • Hedge instrument: Fair value - Assets / Liabilities (MtM) in contra-entry profit (accrual) and other comprehensive income (MtM).
	Senior Notes denominated in foreign currency (only amortization)	Exchange Variation of dolar	Foreign currency options	• Protected item: Amortized cost - Liabilities in contra-entry result. • Hedge instrument: Fair value - Asset / Liability (MtM), in income statement (Intrinsic Value), offsetting the effect of the exchange variation on debt and other comprehensive income in Equity (Value in time)

As of March 31, 2019 and 2018, the Company had interest rate swaps designated as cash flow hedges to hedge against the effect of changes in the interest rate on a portion of the finance leases payments and forward foreign currency contractfor the protection of the Senior Notes principal denominated in foreign currency in the next 12 months.

The positions were:

March 31, 2019 (Unaudited)	**Notional amount**	**Asset position**	**Liability position**	**Fair value**
Cash flow hedge:				
Loans and financing	**57,805**	**LIBOR US$**	**Fixed rate**	**(9,312)**
Foreign currency options	**1.314,600**	**US$**	**R$**	**232,288**
	1,372,405			**222,976**
December 31, 2018	**Notional amount**	**Asset position**	**Liability position**	**Fair value**
Cash flow hedge:				
Loans and financing	57,805	**LIBOR US$**	**Fixed rate**	(9,422)
Foreign currency options	1,314,600	**US$**	**R$**	246,323
	1,372,405			236,901

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

The gains and losses of hedge items (accrual of interest and exchange variation – financial 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, 2019 (Unaudited)	December 31, 2018 (restated)
Balance at the beginning of the year	**(153,969)**	(14,688)
Transactions settled during the period	**762**	6,444
New transactions recognized in income statement	**-**	(215,765)
Fair value adjustment	**(23,446)**	70,040
Deferred tax effect	**-**	-
Balance at the end of the year	**(176,653)**	(153,969)

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.	Financial leasing 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, 2019 the Company had fixed to floating interest rate swap contracts with a notional amount of R$163.353 (December 31, 2018 - R$163,353). These contracts entitle the Company to receive fixed interest rates and pay floating interest based on CDI.

Adjustment to fair value of these contracts resulted in the recognition of an unrealized gain of R$21,518 (December 31, 2018 – R$20,081) which was recorded as financial income. The impact on the statement of operations was offset by a negative adjustment on the debt hedged. There was no ineffectiveness during the three months ended March 31, 2019.

Derivatives not designated as hedge accounting

i) *Forward foreign currency contract*

The Company is exposed to the foreign currency risk, and therefore entered into currency forward contracts, options and foreign currency swaps.

During the three months ended March 31, 2019, the Company had entered into NDF contracts of US$459 million to protect itself from currency fluctuations (December 31, 2018 - US$375 million)that generated an unrealized gain of R$272,096 (December 31, 2018 – R$233,564).

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

ii) *Foreign currency options*

The Company also has currency options with notional of US$159 million (December 31, 2018 – US$159 million), of which US$129 million are in connection with the Senior Notes hedge and US$30 million (December 31, 2018 - US$30 million) in connection to a dollar loan. As of March 31, 2019, these options generated an unrealized loss of R$40,339 (December 31, 2018 – gain of R$ 45,949).

On April 1, 2018, the Company designated for cash flow hedge accounting options with notional in the amount of US$ 400 million contracted for the purpose of protecting the principal of Senior Notes and was presented on topic "Cash Flow Hedge".

iii) Interest rate swap contract

As of March 31, 2019 the Company had interest rate swap contracts in connection with the Senior Notes. Changes in fair value of these instruments resulted in the recognition of an unrealized loss of R$196,071 (December 31, 2018 - R$166,987).

iv) Heating oil forward contracts

As of March 31, 2019, the Company also had average NDF contracts on over-the-counter (OTC) Market with three 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$790,328 (December 31, 2018 - R$804,929). The fair value of these instruments amounted to an unrealized gain of R$ 22 (December 31, 2018 – loss of R$123,224)

Fair value of financial instruments

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

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

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

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

Assets measured at fair value	**March 31, 2019 (Unaudited)**	**Level 1**	**Level 2**	**Level 3**
Financial assets at fair value				
Short-term investments	**396,823**	-	396,823	-
Restricted investments (a)	**1,327,034**	-	**-**	**1,327,034**
Interest rate swap contract - fair value hedge option (b)	**23,483**	-	23,483	-
Interest rate swap contract- not designated as hedge	**78,569**	-	78,569	-
Forward foreign currency contract	**272,096**	-	272,096	-
Foreign currency options	**232,288**	-	232,288	-
Fuel term contract	**22**		22	

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

Liabilities measured at fair value	March 31, 2019 (Unaudited)	Level 1	Level 2	Level 3
Financial liabilities at fair value				
Interest rate swap contract - cash flow hedge	**(9,312)**	**-**	**(9,312)**	**-**
Interest rate swap contract - fair value hedge option (b)	**(1,965)**	**-**	**(1,965)**	**-**
Interest rate swap contract- not designated as hedge	**(274,640)**	**-**	**(274,640)**	**-**
Foreign currency options	**(40,339)**	**-**	**(40,339)**	**-**

Assets measured at fair value	December 31, 2018	Level 1	Level 2	Level 3
Financial assets at fair value				
Short-term investments	517,423	-	517,423	-
Long-term investments (c)	1,287,781	-	-	1,287,781
Interest rate swap contract - fair value option (b)	21,813	-	21,813	-
Interest rate swap contract- not designated as hedge	93,606	-	93,606	-
Forward foreign currency contract	233,638	-	233,638	-
Foreign currency options	246,323	-	246,323	-

Liabilities measured at fair value	Level 1	Level 2	Level 3	Level 3
Financial liabilities at fair value				
Interest rate swap contract - cash flow hedge	(9,422)	-	(9,422)	-
Interest rate swap contract - fair value option (b)	(1,732)	-	(1,732)	-
Interest rate swap contract- not designated as hedge	(260,593)	-	(260,593)	-
Foreign currency options	(45,949)	-	(45,949)	-
Forward foreign currency contract	(74)	-	(74)	-
Heating oil forward contracts	(123,224)	-	(123,224)	-

(a) Includes current and non-current.
(b) 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.
(c) 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 21

17. Operating revenue (unaudited)

	For the three months ended March 31, 2019 (Unaudited)	2018 (Restated)
Revenue		
Passenger revenue	**2,504,044**	2,199,416
Other revenue	**120,119**	86,983
Gross revenue	**2,624,163**	2,286,399
Taxes levied on		
Passenger revenue	**(69,631)**	(87,613)
Other revenue	**(12,540)**	(6,856)
Total taxes	**(82,171)**	(94,469)
Net revenue	**2,541,992**	2,191,930

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

18. Financial result (unaudidted)

	Three months ended March 31, 2019 (Unaudited)	Three months ended March 31, 2018 (Restated)
Financial income		
Interest on short-term investments	**3,233**	10,959
Sublease	**7,847**	7,770
Other	**7,197**	1,488
	18,277	20,217
Financial expenses		
Interest on loans (a)	**(44,383)**	(47,708)
Interest on leasing (a)	**(186,922)**	(141,673)
Interest on factoring credit card and travel agencies receivables	**(2,967)**	(2,377)
Interest on other operations	**(15,536)**	(18,935)
Guarantee commission	**(8,234)**	(5,788)
Loan costs amortization	**(2,622)**	(5,669)
Other	**(8,434)**	(8,959)
	(269,098)	(231,109)
Derivative financial instruments, net	**126,040**	13,497
Foreign exchange result, net	**(81,303)**	(43,727)
Net financial expenses	**(206,084)**	(241,121)

(a) Interest and expenses on assets and liabilities on March 31, 2019 - R$224,491 (March 31, 2018 - R$120,974)

19. Other operating expenses, net

	Three months ended March 31, 2019	Three months ended March 31, 2018
Accommodation and meals	**(59,674)**	(51,037)
IT services	**(57,576)**	(45,331)
Professional services	**(23,547)**	(19,814)
Taxes, civil and labor risks	**(13,194)**	(12,140)
Aircraft insurance	**(7,004)**	(5,431)
Flights interrupted	**(18,083)**	(11,666)
Write-off of fixed assets and intangibles	**(6,663)**	(4,526)
Others	**(38,614)**	(17,578)
	(224,355)	(167,523)

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

20. Commitments

a) Commitments for future acquisition of aircraft

The Company has purchase commitments for the acquisition of 94 aircraft (December 31, 2018 – 94), under which the following futures payments will be made:

	March 31, 2019 (Unaudited)	December 31, 2018
Up to one year	**245,235**	243,857
From one to five years	**10,943,433**	10,695,827
More than five years	**3,723,886**	3,960,657
	14,912,554	14,900,341

b) Letter of credits

As of March 31, 2019, the Company had issued letters of credit totaling US$308 million (December 31, 2018 - US$282 million) equivalent to R$1,200,693 (December 31, 2018 – R$1,091,744) and bank guarantees in the amount of R$47,677 in relation to security deposits, maintenance reserves and local sureties.

c) Guarantees

ALAB entered into a Deed of Guarantee and Indemnity as of September 15, 2017, in connection with the obligations and liabilities related to the operating lease agreements of three A350-900XW aircraft entered into by Hong Kong Airlines and Beijing Capital Airlines, companies of the HNA Group, ex-shareholder of the Company, and Wilmington Trust SP Services (Dublin) Limited.

21. Share-based option plan

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.

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

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.

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 within15 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, 05, 2011
Total options outstanding	769,520	335,600	37,560
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	10 years	10 years	10 years
Expected term considered for valuation	7 years	7 years	7 years

	Second Option Plan				Third Option Plan
	1st program	2nd program	3rd program	4rd program	1st program
Total options granted	2,169,122	627,810	820,250	680,467	9,343,510
Date of compensation committee	June 30, 2014	July 01, 2015	July 01, 2016	July 06, 2017	Mar 14, 2017
Total options outstanding	987,185	305,137	490,885	611,124	7,343,999
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	2.2	2.9
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, 2017	16,250,687	R$11.69
Cancelled	(182,388)	R$18.48
Exercised	(4,877,470)	R$9,44
Balance as of December 31, 2018	11,190,829	R$12.55
Cancelled	**(28,313)**	**R$19.81**
Exercised	**(543,956)**	**R$9.82**
Balance as of March 31, 2019 (unaudited)	**10,618,560**	**R$12.67**
Number of options exercisable as of:		
March 31, 2019 (unaudited)	**3.772.438**	**R$12,22**
December 31, 2018	2,572,640	R$11.60

Share-based compensation expense recognized in the statement of operations during the three months ended March 31, 2019 with respect to the share options amounted to R$3,327 (Março 31, 2018 - R$5,238) recognized in income statement.

21.2 Restricted share units

The Shareholders' Meeting held on June 30, 2014 approved a restricted share units 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. The Company can settle the portion of the RSUs for which the vesting period was completed in cash or in shares. The fair value of the award, prior to the IPO, was determined at each statement of financial position date as the monetary amount of the awards in Reais discounted from the earliest date at which the Company could settle the amount in cash using the risk-free interest rate and the obligation was recorded as a liability.

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.

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

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)
1 st program	June30, 2014	487,670	11,902	R$21.00
2nd program	July 01, 2015	294,286	63,498	R$21.00
3rd program	July 01, 2016	367,184	153,152	R$21.00
4th program	July 06, 2017	285,064	193,435	R$24.17
5th program	August 07, 2018	291,609	291,609	R$24.43
		1,725,813	713,596	

Changes in RSU are disclosed below:

	Number of RSU
As of December 31, 2017	809,946
Granted	291,609
Cancelled	(72,303)
Paid	(299,659)
As of December 31, 2018	729,593
Cancelled	**(15,997)**
As of March 31, 2019 (unaudited)	**713,596**

Share-based compensation expensed recognized in the statement of operations during the year ended December 31, 2018 with respect to the RSU amounted to R$1,406 (December 31, 2018 - R$1,627) recognized in income statement.

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

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 income statement. The fair value of this liability is reviewed and updated for each reporting period, in accordance with the change in the fair value of the benefit granted.

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

21.3.1 Information about the fair value of share options and expense

The fair value of share options on March 31, 2019 has been measured using the Black-Scholes model using the informations below.

	Phantom Shares
	1st program
Total options granted	707,400
Date of compensation committee	August 7, 2018
Total options outstanding	707,400
Option exercise price	R$20.43
Option fair value	R$9.85
Estimated volatility of the share price	34.00%
Expected dividend	1.10%
Risk-free rate of return	6.40%
Average remaining maturity (in years)	3.3
Maximum life of the option	8 years
Expected term considered for valuation	6 years

The liability recorded as of March 31, 2019 is R$1,914 (December 31, 2018- R$1,596) and is presented in the consolidated statement of financial position under “Salaries, wage and benefits”.

Share-based compensation expensed recognized in the statement of operations during the three months ended March 31, 2019 with respect to the Phantom Shares amounted to R$730 (March 31, 2018 - R$0) recognized in income statement.

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

22. 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, 2019 (Unaudited)	December 31, 2018
Taxes	**1,978**	1,962
Civil	**46,740**	44,960
Labor	**35,320**	34,062
	84,038	80,984

Changes in these provisions are as follows:

	Total
Balance at December 31, 2017	73,198
Provisions recognized	70,439
Utilized provisions	(62,653)
Balance at December 31, 2018	80,984
Provisions recognized	**15,301**
Utilized provisions	**(12,247)**
Balance of March 31, 2019 (unaudited)	**84,038**

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, 2019 (Unaudited)	December 31, 2018
Taxes	**89,270**	87,384
Civil	**49,579**	43,203
Labor	**133,000**	135,311
	271,849	265,898

The Company's management, together with its legal counsel, analyzes the proceedings on a case-by-case basis and records the amount of the provision for labor, civil and tax risk based on the probable cash disbursement for the related proceedings.

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 and parts. Management believes that the chances 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, and others.

c) Labor lawsuits:the Company is party to various types of labor lawsuits, related to overtime, additional remuneration for undertaking hazardous activities and safety related payments and 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 suspended and the Company is negotiating an agreement and classifies the likelihood of loss as possible.