

## Conference Call

Azul

### 4Q19 Earnings Results

March 12, 2020

**Operator:** Hello everyone and welcome to Azul's 4Q19 results conference call. My name is Greg and I will be your operator for today. This event is being recorded and all participants will be in a listen-only mode until we conduct a question and answer session following the Company's presentation. Should any participant need assistance during this call, please press \*0 to reach the operator.

I would like to turn the presentation over to Andrea Bottcher, Head of Investor Relations. Please proceed.

**Ms. Andrea Bottcher:** Thank you Greg and welcome all to Azul's 4Q earnings call. The results that we announce this morning, the audio of this call and the slides that we will reference are available on our IR website.

Presenting today will be David Neeleman, Azul's founder and Chairman and John Rodgeron, CEO; Alex Malfitani, our CFO and Abhi Shah, our Chief Revenue Officer are also here for the Q&A session.

Before turning the call over to David I would like to caution you regarding our forward-looking statements. Any matters discussed today that are not historical facts and particularly comments regarding the company's future plans, objectives and expected performance constitute forward-looking statements.

These statements are based on a range of assumptions that the company believes are reasonable; but are subject to uncertainties and risks that are discussed in detail in our CVM and SEC filings.

Also during the course of the call we will discuss non-IFRS performance measures, which should not be considered in isolation. With that I will turn the call over to David. David.

**Mr. David Neeleman:** Thanks Andrea. Hello everybody thanks for joining us on our 4Q 19 earnings call. As always I would like to start by thanking our crewmembers who work hard every day to provide our customers with the best travel experience in the industry. Thanks to their dedication we delivered another outstanding year of results ranking as one of the most profitable airlines in the world.

In light of the recent developments related to the coronavirus I think it is important to take a step back and highlight our investment case. When tough times come it is always better to be the most profitable airline in the world than unprofitable and that is obvious. Since our IPO we have consistently delivered on our promise to grow capacity on 60%, 16 to 2019, while doubling our Ebitda. As we look into the next few years we will continue to expand our margins.

Most importantly, especially during uncertain times like this we have a solid balance sheet with a comfortable cash position. On top of that we have the strongest and most defensible network in Brazil, being the only carrier with more than 70% of the rocks we fly, which has always served as well, especially during difficult times.

On slide four you can see the strength of our network, which received eight new destinations in 2019. Our superior customer service is another highlight of the year. I am on the several awards that we received one we are most proud of is the Trip Advisor recognize Azul as one of the top 10 best airlines in the world and the best airline in Latin America.

Moving to slide five it is important to note that we are no strangers to difficult times. With been tested and have a highly qualified management team in place, which has faced quite a few challenges before. I am confident that once again we will emerge stronger as we have before. John will go through the measures we are taking to prepare for the impact of the coronavirus. Of course we are monitoring the situation worldwide and I can say so far that we have had hardly any impact on our domestic demand.

The difficulty we are feeling with this virus is the uncertainty. Thankfully every day that passes the medical community and the scientists are learning more about who the virus affects the most, how it spreads and how long it will last. There are coronavirus cases in Brazil, we know it is coming. We are hopeful that the impact on Brazil will not be as severe as we have seen in the worst of the countries because of the form. Brazil has a warm climate with vast experience in dealing with tropical diseases such as Dengue and Zika. Brazilians are a lot more accustomed to dealing with crises and help challenges than people in the United States or Europe, they have withstood a lot. The health system is capable of handling these types of events. What is interesting to know is the relation the climate, the flu incidences in Brazil are 30 times lower than in the United States; so obviously the transmission is more in colder countries and that is also to the benefit of Brazil.

And then lastly Brazil is one of the youngest and healthiest populations in the world. So it really matters as well.

In summary the situation is expected to last for four months and we are preparing accordingly. We remain confident in our long-term targets and are prepared to act swiftly if the situation in Brazil deteriorates. We continue to do our best to deliver outstanding results to our shareholders, while at the same time taking care of our crewmembers and our customers. With that I will pass the floor over to John.

**Mr. John Rodgerson:** thanks David. I would also like to start out by thanking our crewmembers, who have once again delivered great results in 2019 and note that the focus now is to understand the potential impact of COVID-19, it was reassuring to note that in 2019 we were the most profitable airline in Brazil. We have the right strategy and the team to come out stronger, we are going to be okay.

As you can see on slide six we grew our top line revenue by 33% over 11 billion, while expending Ebit margin to 24.1% in 4Q. Ebitda reached record 1.2 billion, up 62% YoY. RASK on a stage-length adjusted basis increased 4.5% while CASK decreased 6.6%. Excluding the impact of the end of the payroll tax relief program CASK would have fallen almost 9%.

On slide seven I wanted to highlight the impairment charge that was recognized in 4Q. It was in line with the estimate that we announced earlier this year. As you know the replacement of E1s by E2s is value of creative for Azul, given the far superior economics of the E2s. We were also glad to see that the vast majority of our minority shareholders approved the acceleration of our fleet transformation. In fact, 97% of the votes received were in favor.

Moving on to slide eight as you know our business units Azul Cargo and TudoAzul play a key role in our future growth and margin expansion plan. Azul Cargo had another quarter of great results presenting revenue growth of 53% compared to 4Q 18, mostly driven by the increase in cargo volume and our expanding presence in e-commerce segment. We ended the year with a 23% share of cargo volume transported in Brazil, the second highest in the country, underlying the importance of our unique network reach.

TudoAzul, our loyalty program, had 41% increase in gross billings in 4Q ending the year with 12 million members. As David mentioned earlier, the impact in Brazil related to the virus might not be as severe as we are seeing in the northern hemisphere; nevertheless, during uncertain times like this it is difficult to predict what will happen. That is why it is critical to have a comfortable liquidity position to face potential shortcomings in demand that may occur.

As you can see on slide nine we have significant sources of liquidity and unencumbered assets. We currently have 1.6 billion in cash, of which none is restricted; we have 1.2 billion in accounts receivable composed of easy to advance

credit card receivables with no holdbacks; we have 1.7 billion in security deposits and maintenance reserves with our lessors; our assets also include our TudoAzul program, which is 100% owned by Azul. TudoAzul is a leverage. We also have the ability to do forward sales of points, if needed, to banks. In addition to our loyalty program we have our investment in TAP, a strategic asset, unique to Azul.

Our balance sheet is further strengthened by the fact that 100% of our working capital is in local currency, including the USD denominated unsecured bond, which is hedge in BRL. We have no PDP payments on aircraft Capex commitments due in 2020. We have no significant debt repayments in 2020 as well. In summary we have a very healthy liquidity position and we have always believed in the importance of holding a sizable cash cushion to face situations just like this.

On slide 10 you can see that in addition to our strong liquidity position of our operating cash flow adjusted for rent payments was 1.7 billion BRL in 2019 and we generated free cash flow of 270 million. Capex expenses consist mostly of spare parts and have maintenance shifts, so we have the flexibility to reduce Capex if needed in the short term.

Moving on to slide 11 over closing monitoring the potential impact of COVID-19 in our 2020 results, our top priority remains the health and safety of our crewmembers and our customers. As mentioned before our domestic bookings have remained stable and 97% of our flights are domestic and we are the largest airline in Brazil in terms of domestic departures.

Based on the best information available we are taking measures to reduce any potential impact. We are reducing international capacity by 20% to 30% to reflect a lower demand environment. We are preemptively reducing our domestic growth. We will continue to replace our E1s with E2s while putting all incremental deliveries on hold. We have also implemented a higher increase and have launched a nonpaid leave of absence program that we can use if the situation worsens. We are also negotiating new payment terms with all of our commercial partners. I think that is one great source that we have in Azul: we have great partners with our lessors, banks and our business partners like Airbus and Embraer that have been with us since the beginning.

Given the uncertainty related to the impact of the spread of the virus and the initiatives that we have implemented so far, we decided to suspend our original guidance until we have more visibility. As mentioned earlier, we are no strangers to short-term challenges and remain confident in our long term targets. In the meantime we will remain focused on protecting and building our cash position, while taking

care of our crewmembers and customers. With that, David, Alex, Abhi and I will answer your questions. I will turn the call over to the operator.

### Q&A Session

**Operator:** ladies and gentlemen thank you. We will now begin the question-and-answer session. If you have a question please press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue please press star two. For those following the call via webcast you may post your questions on the platform and they will be either answered during this call or by the Azul investor relations team after the conference is finished.

Our first question comes from Savi Syth with Raymond James. You may proceed.

**Ms. Savi Syth:** good morning everyone. If you were here in the US or... I think the headlines are dominated by COVID-19 and creating fear of flying. I was wondering if you can talk to us about I know you, David, you mentioned that generally resilient; but I was wondering if you can talk about Brazilians willing not to travel either domestically and internationally, if you are seeing an impact there?

**Mr. Neeleman:** Savi I will kind of start off. The headlines are not as here in Brazil, it is the third or fourth article when you open up, open up news sites over the last weeks. They are still trying to get more reforms passed in Congress and it has really been kind of the lead story here. That is what why we have seen the domestic demand holding up. I will turn over to Abhi to give you more detail and color on demand.

**Mr. Abhi Shah:** there is obviously a lot and I will talk about demand and I will talk about capacity at the same time, because I am pretty sure that is going to be the next question and so if I missed anything... Ask again. So yes, so overall I will start with international, because international is the easier piece actually. So we have seen a clear reduction in international demand, certainly due to the virus, as well the USD, both related. It is hard to differentiate one from the other - but there has been a clear reduction in international demand really since two weeks ago, right? Since the USD first started to climb.

So we have already made some strong adjustments, in fact we made them first week itself. I think on day three, like Wednesday two weeks ago we already had cut about 30% of our international long-haul flying.

So for example we delayed, we suspended Campinas to Porto in Portugal from September to March, we are now moving that forward based on the recent move of the USD and the recent news. We already had cut down many frequencies to Lisbon. We went from double daily on many days to single day the slide. We have gone from seven times a week to six times a week Orlando; Fort Lauderdale we had a daytime flight and we have cut that. So we really attacked our international on all markets, Argentina as well.

We have seen about a 20% to 30% reduction in... demand up to now and we have got so far 30% of our international capacity up to now. Of course, since last night the USD has jumped again and so we are evaluating again this morning... looking at what we can do. We are looking at the New York start date for example; we are looking at short-term frequencies, short-term cuts within the next 10 days and we will basically do what is needed to be done in terms of international.

So we are obviously, we have flights leaving from Campinas, from Belo Horizonte and from Recife. We will focus the capacity in Campinas, it is our strongest hub and it is our strongest point of local demand as well and we will cut everywhere else and use the seats in Campinas... accommodating passengers and things like that. I thought it was also important to note that so far we have not seen an increase in no-shows, we will see how it goes today; but up to now an increase in no-show rates or a significant increase in customers wanting to change or cancel. Most of the impact was on new bookings. So that is the international part.

When we moved to domestic as David said, as John said we really had not seen anywhere near the impact that we heard about in other countries. Our domestic bookings are relatively... You know, compared to YoY if I compare February and March will were well into the double-digit growth of domestic revenue, which was an encouraging sign as we exited Carnival and really got into March, which is the first business month of the year.

But of course, as the USD has come up and we have evaluated marginal capacity and one thing I do want to make very, very clear both international and domestic there are no brownie points for bravery, there is no reason to fly things that do not make sense, there is no reason to do any of that. We will match demand, we will match capacity with demand. I am not looking for any pride or anything like that. So we have already trimmed April based on what we saw on the USD last week. We are obviously look at it again April, May, June, it is probably where we will focus initially and then we will look at July onwards. We are looking at, we are going to concentrate our network in our hubs, so we will flow all the traffic over our hubs, BCP, Campinas, Belo Horizonte and Recife and if there are over flies we will cancel it, we will force it over the hubs. Anything that has any destinations served by multiple

hubs will only be served by one hub; anything that is high-frequency that we can reduce to a consolidate we will do that as well.

So that is kind of where we are in terms of domestic. Our growth projections of course they have come down and will continue to come down for the year and while we were looking at 20% of the year that has definitely come down and we are on 15% and I would say that keeps coming down as we make adjustments. So that is kind of where we are in general and again, I do not feel any bravery, any brownie points for flying more than what is needed. We will match flights with demand and we will know today, tomorrow, kind of how demand and all the actions that companies take in Brazil; but we will do what is needed.

**Ms. Syth:** that is helpful and then maybe just a quick question on is there a risk especially what you are seeing Europe or maybe the domestic, you know the aircraft that you are subleasing to TAP and planning to do for LOT and Breeze, reach around those aircraft, either going to be returned and not being taken?

**Mr. XXX:** as of right now Savi everything is on. I mean we have contractual commitments with Breeze, LOT and TAP in Portugal. So obviously it is a situation, what is happening; but I think we are seeing a lot of support from the EU for the airlines in Europe and so we are going to continue to have those aircraft exit our fleet.

**Ms. Syth:** great thank you.

**Operator:** our next question comes from Mike Anderg, Deutsche Bank.

**Mr. Mike Anderg:** I have a question on one of the points that you made in the press release around the outlook about. John, you mentioned you are going to continue the replacement of E1s to E2s; but then putting incremental deliveries on hold. Can you just square that statement? It seems like you are going to continue but then you are going to stop. What did you mean by that?

**Mr. Rodgerson:** we have roughly 28 aircraft going off property today (inaudible 19:37) we do have some contractual commitments to replace some of those with E2s... in terms of deliveries this year; but the network we believe this is a temporary adjustment because of coronavirus and so we really cannot take that many aircraft out of our fleet and not replace back some of that with E2s. So we will do that; but any incremental shells will not be coming.

**Mr. XXX:** okay good. So then how does that, like if we think about Capex for 2020 what was it coming into the year and what does that new number look like as today or is that still on flux?

**Mr. Rodgerson:** Mike, Alex can give the specifics; but keep in mind all these E2s are operating leases coming in with lower cash commitments than our current E1s, so these are all on operating lease and so there is no financing risk and there is no significant capital outlay to take these aircraft into our network.

**Mr. Anderg:** okay that is helpful.

**Mr. Alex Malfitani:** that is essentially, Mike, the Capex that we have planned for the year, which is roughly the same amount we had for 2019 was essentially like John said spare parts and maintenance events that today get capitalized and that will definitely depend on how much flying we are actually going to do in the year. So there we can certainly manage that number.

**Mr. Anderg:** okay great and then Alex since you, since you have E1s just when I think about where are you from a few hedge positions and as we think about certain coverage how are those hedges structured? Are you able to fully participate in the lower fuel price or is it by way of swaps or costs less collars and therefore are we going to see a situation or maybe you have to post cash collateral assets just to address that? Can you, any color on that would be great.

**Mr. Malfitani:** sure. As oil has been coming down we had an increase in, have been increasing our hedge position. That was before the Saudi Arabia announcement, so our average for the year is above what it is today; but we have no outstanding margin calls right now. So obviously it is very fluid; it is very volatile - but like we have been saying we have great partners, we have great banks among our partners and we believe that if it comes to that it will be something that we will be able to talk about and it will be part of a cash management we are focused on right now.

**Mr. Anderg:** and those when you think about, when you talk about margin cost today they typically several in this month or end of quarter? Or maybe it is a variety of settlement dates?

**Mr. Malfitani:** it varies. It can be daily, it can be monthly. It depends on the agreement, so that varies.

**Mr. Anderg:** ok and then just I look, I know you guys just did 24 operating margin, so it is almost crazy that I am asking this question. But I know John, you did talk about the receivables and you said no holdbacks. Presumably though you do have holdback provisions with your credit card processers and I do not know, if you can tell us maybe potential triggers it may be like the liquidity threshold, which as you enter you have a significant amount of liquidity and so I suspect that you are well above those thresholds that would trigger a holdback. Again, any color because



things are moving so quickly and we just want to make sure we have all our ducks on a row, thank you.

**Mr. Malfitani:** that is right and that is a very relevant question, Mike, because I think for everybody on the line that the way credit card receivables work in Brazil are very unique and they are significantly different from what may be you see in the US. I think it is worth spending a couple of minutes on that. So normally there are no holdbacks, no covenants, there is nothing. And the fact that the Brazilian economy has been structured on selling any kind of goods including tickets in installments, all been set up to offer these payments in installments; but also to be able to advance those receivables very easily right? So that is something that we have always been able to do.

And on addition to that there is also other liquidity source which we have also been using in the past, which is you can lever those receivables instead of advancing them and getting 99 cents on the dollar you can actually borrow against them and 3 USD on the USD right? And so that is a significant source of liquidity. So you know, if we are able to obviously maintain all of our credit limits and the risk appetite, which obviously is not the standard assumption that we have right now; but we could almost have 3.5 billion or more in credit lines that we could access right? Obviously we would need to negotiate those; but those are seen as very solid and very secure receivables that we are normally able to borrow again.

**Mr. Anderg:** and Alex you said 3 to 5 billion more BRL right? Did I hear that right?

**Mr. Malfitani:** 3.5. It is normally 3 to 1 that you get. So 3 USD for every USD in the receivable balance that you have. So roughly with our receivable balance it would be at about 3.5 billion BRL, as much of that amount.

**Mr. Anderg:** that is great, that is great. I am glad you highlighted that, thanks and good luck. You guys had a nice quarter, thank you.

**Operator:** our next question comes from Rogerio Araujo, UBS.

**Mr. Rogerio Araujo:** hi guys, thanks a lot for the opportunity. A couple of questions here, one is on tax convertible bond, it is now recognized that 1.5 billion BRL and also included in Azul's liquidity position. So in a moment that investors start to test some scenarios could you provide some color on how liquid this is? Also there is some local news stating that Azul's controller was negotiating the sale of his stake at TAP. So could Azul still in this scenario take the opportunity and make this investment liquid? So this is the first question thank you.

**Mr. Rodgeron:** Rogerio thanks for the question. First of all obviously we are in different times than we were at the end of 4Q right? So when we marked that

position; but it is a strategic asset. TAP is a strategic partner of ours, we own 45% of the company and it is very important to the economy in Portugal and TAP is going to be okay.

There were news flow, and David commented as well, that we are negotiating a sale of TAP. Obviously that is on hold with the current situation; but I think it shows that that asset is liquid at varying levels - but we need to get through this crisis before we are going to talk about that. But our TAP on today is totally unencumbered and there is a lot of people that would have interest in that asset. So that is what we included on our cash position and in addition to the TAP bond that we have we have got an enormous amount of cash, we have an enormous amount of receivables, we have an enormous amount of value in TudoAzul and so we have not levered ourselves up recently using our receivables like Alex said. So I think we are very comfortable with our position in TAP today.

**Mr. Araujo:** okay very clear and... Go ahead.

**Mr. Neeleman:** a comment on TAP. Obviously the European carriers are going through a challenge right now and the really good news for TAP is the Portuguese government is our partner there. They are obviously, no matter the return they get on TAP as far as just in payroll taxes and income taxes of the people who work there it is probably 0.5 to 1 billion USD/year. So it is enormous and then the billions of economic impact. So it is great to have a partner that has a huge vested interest in the airline when times get tough. So we have a great relationship with the government and we are working really closely to weather the storm here.

**Mr. Araujo:** okay very clear thank you. My second question is on the impairments that were already announced. There is some impairment in fixed assets, some in right of use and so we noticed there is some right of use for maintenance, so related to maintenance checks and motor maintenance and engine maintenance as well of 330 million BRL. Could you please provide some color on this maintenance impairment, how this is related to the E1s just for us to have some better view on also how to do this in the balance sheet? Thank you.

**Mr. Malfitani:** it is all very consistent. It is all related to the acceleration of the fleet transformation and the removal of the E1s and replacing them with E2s. Some of it was on our balance sheet already and we are going to incur some costs to remove these assets just in terms of preparing them to be utilized by another airline. So everything is related to the E1, everything is related to fleet transformation and some of it, the majority, the best majority of it was on the balance sheet; but some of it is the provision related to the actual removal of the aircraft.

**Mr. Araujo:** perfect thanks so much and good luck in this scenario. I wish you all the best, thank you.

**Mr. Malfitani:** thanks.

**Operator:** our next question comes from Stephen Trent from Citi. You may proceed.

**Mr. Stephen Trent:** hello everybody and thanks very much for taking my questions and I would actual Rogerio's best wishes as well. Just one or two from me. If you could refresh my memory regarding international flights out of Brazil is it the case that there is a 180-day regularity rate after which there would be some risk that the slots get taken over? If you could just give me some color how that works and what the regulator might be telling you guys as your... trimming some international?

**Mr. Shah:** Steve, Abhi here. The only place where we are slot constrained really is the Lisbon airport and we expect for this period that slots rules will be waived.

**Mr. XXX:** they have been already.

**Mr. Shah:** they have already been waived and so we are not expecting any impact in terms of these cancellations in the slots.

**Mr. Trent:** okay. I was imagining that they would waive, so that is good to hear, I appreciate that. And actually missed part of the call and apologies, the early part. Did you... I think you mentioned that maybe there would be some delay in some of the planes, your delivery of aircraft and if that is inaccurate it is also fair to say there is no penalty at all from the OEM if you guys to defer for some period of time? I just wanted to make sure my understanding is correct.

**Mr. Rodgerson:** that is right Steve. As I said we have great partners and Embraer and Airbus and we waited a long time for them to get their aircraft on time and they can wait for us. No incremental deliveries at this time. Let us get through this crisis and then we can talk about that at a future date.

**Mr. Trent:** well put John, let me leave it there and thanks for the time guys.

**Operator:** our next question comes from Gavin Mckiows with Amundi.

**Mr. Gavin Mckiows:** hi guys thanks for the call. Let us follow up on some of comments on dealing with partners, particularly lessor partners. Firstly can you just (inaudible 32:56) guides some on the annual interest on lease repayments for FY20, just given the pretty rough change in fleet mix towards the backend of last year, particularly I think it was John's comments regarding negotiating with partners? He also mentioned lessor partners early in your conversations with them; but I was wondering if you could point to the terms of what we could potentially expect or

perhaps even remind us about things you have done in the past... in the past in terms of... renegotiate lease with lessors? Thanks.

**Mr. XXX:** last year we had 1.9 billion in lease payments right? And we show that on one of our slides and we have 1.7 billion in maintenance reserves and deposits right? So you can get an idea of how much security our current lessors have and so it is a small industry. We have got great business partners that we have worked with through the last decade. So I think we are all in this together and I think the lessors know that these are uncertain times. We have done things the right way to the better part of 12 years right? So we raised a significant amount of capital for Azul; we raised 1.3 billion USD of capital to build Azul. We have got great business partners, we have bought local aircraft, we really trust in the lessors that we had this part of our book. So the OEMs on the engine side, it is a big family in this industry. So we are going through a turbulent time; but it is in everybody's best interest that Azul comes out stronger on the backhand. I am very confident it is in the lessors' best interest, it is in the banks' best interest and it is certainly in the Brazilian government's best interest. We have had a lot of conversations with them over the last 48 hours as things are changing. So when you take an aircraft from the lessor you are making a long-term commitment with that lessor, 10 to 12 years that we are together.

So what the lessors want? The lessors want Azul to be strong and we showed them that we are one of the most profitable airlines in the world, we are going to continue to be on the backside of this. A lot of questions about 'what happens if demand drops off?' Let us not forget that last year breakeven load factor was 63%, fuel is half of what it was right now. Of course we have the USD challenge right now, we obviously have the coronavirus challenge; but these are bumps along the road. We told our investors all along that the long-term vision of Azul is to be, to continue to expand margins and to be a lot stronger and so we are going to have to go through these moments of uncertainty, that is part of our business and most businesses are seeing that right now, not just the aviation industry.

So when we talked to the local government, talked about what our plans are, what we were doing, we are very much aligned to get through the latest storm that is the coronavirus.

**Mr. Malfitani:** and Gavin just to add this is not theoretical; we have been, over the last 12 years we have been through situations where we needed to renegotiate terms and payment schedules and things like that, especially before we went public. So we know from experience and from having weathered these scenarios together with our partners that a - they are very willing to help, they are very supportive; and it is mainly driven by the need. So it is hard for us to be able to tell you what they would be able to accept because it would very much depend on the situation right?

There will be no overreaching; but we also will need to work to the extent that the environment that we are working and forces us to. And they have all been more than well compensated with business from Azul right? We are a growing, profitable airline that in normal conditions is a very coveted business partner as well. That is a sort of the asset that we lever against in times like this and we have done it before and we are confident that we can do it now.

**Mr. Mckiows:** okay and just on the first part of my question could you just remind me on the lease repayment, 4.9 billion last year as you say; have you given guidance to what you would expect that to be based on the current fleet mix today for 2020?

**Mr. Malfitani:** we do not give guidance on the lease; but it is completely dependent on the fleet right? And as of right now the fleet is very much in flux and it will be adjusted as necessary.

**Mr. Mckiows:** great thank you.

**Operator:** our next question comes from Victor Mizusaki, Bradesco BBI.

**Mr. Victor Mizusaki:** hi. I have two questions here, the first one is a follow-up on the oil hedge position. I would like to understand if it is possible or not to rollover these contracts in order to reduce potential cash disbursement for 2020; and the second one if you think about the fleet transformation plan - and you have a slide showing Ebitda increase - can you confirm the assumption for oil price and how the current scenario can affect this potential Ebitda growth?

**Mr. Malfitani:** on the hedges yes, that is absolutely possible and we already have an agreement to do it. Obviously is very hard for you to just figure out what the price is right? So we are going to maybe need to wait for a couple of days just to see what sort of price we can do that forward roll at - but that is absolutely possible and that something that we have already discussed and gotten agreement on.

And then sorry, you are saying the Ebitdar estimate for fleet transformation? Is that the question?

**Mr. Mizusaki:** yes, I mean to understand how the current oil price can affect the decision to accelerate the replacement of E1s by E2s.

**Mr. Malfitani:** you know, theoretically speaking you have seen a bigger movement and fuel prices and oil know you have seen, even on the heating oil, so even on what we will probably see on jet fuel right? Crude is more volatile than the refined product and also you have had the dollar movements that was in the other direction. So fuel burn and fuel expense as of right now has probably come down on a net basis for a Brazilian airline; but the net result is and what you would see for example in a US

carrier. So for us the E2 is still a very valuable asset, and it still is much better to fly the E2 than to fly the E1.

**Mr. XXX:** and Victor, the lot of it comes from we are going to get incremental revenue for shell. We are actually flying those aircraft and in January it is much as 12 hours/day. They produce incremental revenue and the cash outlay for rent is actually less than we are paying for the E1s. So it is certainly a no-brainer in any fuel scenario to be taking the E2.

**Mr. Mizusaki:** okay thank you.

**Operator:** our next question comes from Josh Milberg with Morgan Stanley. You may proceed.

**Mr. Josh Milberg:** hey everyone, thank you guys for the call. I had a question just related to your accelerated fleet transformation and the impairment. Rogerio touched on this; but this quarter we saw how much of the impairment resulted from D&A proving greater than what is provisioned and John, on the last call I think you talked about that reflecting the sins of the past. I was just hoping you or Alex could elaborate a little on that point and just indicate why we can feel comfortable we will not see large aircraft-related impairments in the future.

**Mr. Malfitani:** absolutely. I think when John talks about this what he is saying is that we are very grateful to the E1 because it brought us here; but it is an aircraft that has very expensive rent and why is the rent expensive? Because of when we took delivery of the aircraft. The aircraft, we committed to get in this aircraft when the aviation market was essentially a sellers' market; there was not a lot of E1 slots available. We were a young airline that was just starting up and so our credit was nowhere near as strong as it is today and the cost of capital at that time was also very high. So when we made the commitments to the E2 everything was at the other end of the extreme. We took advantage of a very good market in terms of the price of the asset; our credit is at a record high level and the cost of capital came down significantly over the years. So when you look at it we are paying per month on an E1 more than we pay per month on an E2, which has lower fuel burn and more seats.

Your question whether there will be impairment in the future that is obviously very hard to gauge; but it is very unlikely because we are at the beginning of the lifecycle of the E2. It is a next-generation aircraft, we are at the front end of taking deliveries of this aircraft. We are going to get to 100% of our capacity coming from next-generation, probably seven or eight years ahead of our competition. So by the time they are trying to get their next GEN aircraft we will have already been flying these aircraft eight years. It will be essentially two thirds done with the leases of the first

aircraft. So we are at the front end of this curve, so it is a very, very different scenario from when we took the E1s. So it is really apples and oranges.

**Mr. Milberg:** okay got it, that was a very comprehensive response, really appreciate it.

**Mr. XXX:** thanks Josh.

**Operator:** ladies and gentlemen as a reminder, if you would like to pose a question please press the star key followed by the one key on your touchtone phone now.

Our next question comes from Bruno Amorim, Goldman Sachs.

**Mr. Bruno Amorim:** hi good morning everyone. My question is related to your capacity in the Brazilian domestic market. How should we think about the flexibility that you have and how much capacity could you realistically take out of the market if this additional move is necessary? Back in 2015 you had some airlines abroad which were able to absorb airplanes which were no longer helpful in Brazil from several airlines; but it seems that we are living in a different environment. So how should we think about the flexibility that you have in case you need to cut capacity in the Brazilian domestic market? Thank you.

**Mr. Shah:** Bruno yes, as I said I have no intention of flying empty airplanes and definitely not flying when demand is low. So we will definitely match capacity to demand. We have a lot of flexibility this year because we have in our program this year, as John said, 28 to 29 E1s coming out of our fleet and so we can choose how many of them we want to replace right? Based on what the demand scenario is. Right now our base case is that we want to replace as many of them as possible, because we think the E2 is a much better airplane for us, short-term and long-term; but we for we do see the demand environment deteriorating further and deteriorating drastically, which we have not seen so far; but in the case that it does happen we definitely have the choice of how many of those E1s we want to replace. So we actually have naturally a lot of flexibility this year in terms of how much of the capacity of the exiting airplanes we want to replace are not.

**Mr. XXX:** if I can just add to what Abhi said, keep in mind we are flying our A320Neos 15 to 16 hours/day, one of the highest in the world. We are flying our E2s 12 to 13 hours/day, one of the highest in the world. So there is a significant amount of capacity that can be ratcheted down if need be, and I think that is something we want to continue to highlight.

**Mr. Amorim:** thank you very much.

**Operator:** Ladies and gentlemen this concludes today's question-and-answer session. I would like to invite John to proceed with his closing statements. Please go ahead sir.

**Mr. Rodgerson:** I would like to thank everybody for being on the call today and listen to our story. You will not have a more dedicated management team than you have here. I bought shares this morning personally and all my colleagues have as well. We have been in a blackout, so we believe in the long-term strategy of Azul. We are going to get through this and close your eyes, in six months you are going to say 'wow, this was an unbelievable time to buy Azul stock because Azul is going places'. Thanks a lot everybody.

**Operator:** Ladies and gentlemen that does conclude the Azul conference call for today. Thank you very much for your participation and have a good day.

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