

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER
THE SECURITIES EXCHANGE ACT OF 1934

For the month of June 2023

Commission File Number: 001-38049

Azul S.A.

(Name of Registrant)

**Edifício Jatobá, 8th Floor, Castelo Branco Office Park
Avenida Marcos Pentead de Ulhôa Rodrigues, 939
Tamboré, Barueri, São Paulo, SP 06460-040, Brazil
+55 (11) 4831 2880**

(Address of Principal Executive Office)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F ☒

Form 40-F ☐

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Yes ☐

No ☒

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Yes ☐

No ☒

EXHIBIT INDEX

Exhibit	Description of Exhibit
<u>99.1</u>	<u>Recent Developments and Operating and Financial Review</u>
<u>99.2</u>	<u>Unaudited interim condensed consolidated financial statements of Azul S.A. as of March 31, 2023, and for the three-month periods ended March 31, 2023 and 2022</u>

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 13, 2023

Azul S.A.

By: /s/ ALEXANDRE WAGNER MALFITANI

Name: Alexandre Wagner Malfitani

Title: Chief Financial Officer

RECENT DEVELOPMENTS

Proposed Lease and OEM Supplier Restructuring

In January 2023, Azul S.A. (“Azul” or the “Company”) commenced negotiations with its aircraft lessors and aircraft and engine original equipment manufacturers (“OEMs”) aimed at obtaining the short-term deferral of certain lease payments and securing the long-term reprofiling of certain lease payments and other OEM-related payment obligations.

Azul’s proposals to restructure its obligations with certain aircraft lessors and OEMs contemplate (i) the elimination of lease payment obligations that had previously been deferred during the COVID-19 pandemic, (ii) a permanent reduction in lease payments from original contractual lease rates to agreed-upon current market rates, (iii) the deferral of certain payments to lessors and OEMs, as well as certain obligations under supplier agreements, and (iv) other concessions including improved end-of-lease compensation obligations and aircraft return conditions, the elimination of future maintenance reserves payments, and the negotiated early termination of certain aircraft leases.

On March 5, 2023, Azul announced that, subject to satisfaction of certain conditions, it had reached commercial agreements with lessors representing more than 90% of Azul’s aggregate payment obligations under its existing lease agreements. Each commercial agreement is subject to entering into binding definitive agreements which, in certain cases, may include entering into forbearance and/or deferral agreements prior to the execution of binding definitive agreements. Azul’s lessors have also generally conditioned the effectiveness of the restructuring of Azul’s obligations with lessors on the restructuring of certain of Azul’s debt obligations (which may be achieved through the consummation of the Exchange Offers (as defined below)), as well as the raising of additional debt or equity financing before or after consummation of the Exchange Offers. If the conditions to effectiveness of the restructured lease and other obligations are not satisfied, Azul would be required to comply with the terms of the existing lease agreements and agreements with OEMs, including resumption of payments under the original contractual payment rates and schedules.

In connection with this proposed restructuring, under the commercial agreements reached, Azul currently expects to issue to certain lessors and OEMs (i) approximately US\$400 million in aggregate principal amount of senior unsecured notes maturing in 2030, and (ii) an equity instrument convertible into preferred shares in the amount of approximately US\$600 million at a valuation of R\$36.00 per preferred share. The new senior unsecured notes are expected to be issued by a wholly-owned subsidiary of Azul (which may be the Existing Notes Issuer (as defined below)) and are expected to be guaranteed by Azul and Azul Linhas Aéreas Brasileiras S.A. (“Azul Linhas”). The equity instrument is expected to be subject to a lock-up provision until the second half of 2024 and is expected to be released and convert in fourteen quarterly installments, starting at the end of the lock-up period and ending in the second half of 2027. The equity instrument is expected to include upside and downside limitations, whereby if the trading price of Azul’s preferred shares is lower than R\$36.00 at the time of measurement, Azul would be required to compensate holders for the difference by issuing additional preferred shares or through cash settlement. If the trading price of Azul’s preferred shares is higher than certain thresholds, the number of preferred shares issuable pursuant to the equity instrument will be reduced, thereby lowering dilution to existing shareholders. Given its lock-up and conversion periods, and upside and downside limitations, Azul currently expects that the equity instrument will be temporarily recognized as a liability on its balance sheet.

On April 4, 2023, (i) Azul Linhas and certain lessors of aircraft (the “Relevant Lessors”) entered into a forbearance agreement (the “Forbearance Agreement”), and (ii) Azul Linhas, as lessee, Azul, as guarantor, and the Relevant Lessors entered into a global partial deferral agreement (the “Deferral Agreement”), in each case in connection with leases of 57 aircraft (the “Relevant Leases”). Pursuant to the Deferral Agreement, the Relevant Lessors agreed to defer certain payments due to be made by Azul Linhas between January 1, 2023 and June 30, 2023 under the Relevant Leases, which totaled US\$114.3 million in rent and other amounts due and payable to the Relevant Lessors. Pursuant to the terms of the Deferral Agreement, the final payment of the deferred lease payments covered by the Deferral Agreement is scheduled to commence on July 1, 2023 with a payment of approximately US\$50.0 million and is scheduled to be concluded by December 1, 2024. Pursuant to the Forbearance Agreement, the Relevant Lessors agreed to forbear from exercising certain rights arising in respect of defaults under the Relevant Leases until July 31, 2023, subject to certain conditions and the earlier termination of such forbearance in certain circumstances (including termination events related to Azul’s efforts to restructure its aircraft lease and debt obligations and debt capital markets instruments, as well as the raising of additional debt or equity financing).

Azul is in various stages of finalizing definitive binding documentation with lessors and OEMs to implement the commercial agreements referred to above. As of the date hereof, Azul is current on payments or has entered into binding forbearance agreements in connection with certain payment and other defaults, in each case, under aircraft leases that represent in aggregate approximately 80% of Azul's aggregate payment obligations under its existing lease agreements.

In order for the proposed restructuring of Azul's obligations with lessors and OEMs to become effective, Azul will be required to conclude binding definitive agreements with the relevant lessors and OEMs and Azul will be required to satisfy various conditions. If Azul is unable to satisfy such requirements and the conditions upon which the proposed restructuring is contingent, including restructuring certain of its debt obligations (which may be achieved through the consummation of the Exchange Offers) and the raising of additional debt or equity financing, Azul may seek to extend forbearance agreements, obtain further waivers, renegotiate the terms of its proposed restructuring or seek to comply with the original terms of the agreements which are subject to the proposed restructuring. There can be no assurance that Azul's lessors or OEMs would not enforce contractual payment terms or otherwise exercise remedies in respect of such aircraft lease agreements or other financings and agreements.

Azul is also subject to risks associated with failure to comply with the covenants and restrictions contained in its financing agreements and other agreements. Many of such agreements contain events of default relating, among other things, to non-payment, cross-default, cross-acceleration and the restructuring, readjustment and rescheduling of debt. Failure to comply with such covenants and restrictions or the triggering of events of default, including as a result of the events and risks referred to herein, may result in counterparties enforcing the terms of agreements or exercising remedies under such agreements. In such circumstances, cross-default and/or cross-acceleration provisions in Azul's financing and other agreements could be triggered, which could result in enforcement action being taken under such financings and other agreements. See also "Item 3. Key Information—D. Risk Factors—Risks Relating to our Business and the Brazilian Civil Aviation Industry—We may not be able to comply with the covenants and restrictions contained in our financing agreements, which could result in declaration of an event of default and acceleration of the maturity of indebtedness, causing an adverse effect on us" in Azul's annual report on Form 20-F for the fiscal year ended December 31, 2022, as filed with the U.S. Securities and Exchange Commission (the "SEC") on April 20, 2023 (the "2022 Form 20-F").

Exchange Offers and Solicitations of Consents

On June 13, 2023, Azul Investments LLP (the "Existing Notes Issuer") launched: (i) an offer to exchange 5.875% Senior Notes due 2024 issued by Existing Notes Issuer (the "Existing 2024 Notes") for 11.500% Senior Secured Second Out Notes due 2029 to be issued by Azul Secured Finance LLP (the "New Notes Issuer") (the "New 2029 Notes"), and (ii) an offer to exchange 7.250% Senior Notes due 2026 issued by Existing Notes Issuer (the "Existing 2026 Notes" and, together with the Existing 2024 Notes, the "Existing Notes") for 10.875% Senior Secured Second Out Notes due 2030 to be issued by the New Notes Issuer (together with the New 2029 Notes, the "New Notes"), in each case subject to the satisfaction or waiver of certain conditions (the "Exchange Offers"). There can be no assurance that the conditions to either or both of the Exchange Offers will be satisfied or waived, or that either or both of the Exchange Offers will be consummated. The Exchange Offers will be made only to certain eligible holders of Existing Notes. Simultaneously with the Exchange Offers, the Issuer is soliciting consents from eligible holders of the Existing Notes to certain proposed amendments to the terms of the Existing Notes.

We have entered into a Transaction Support Agreement (the "Transaction Support Agreement") dated June 13, 2023, between Azul and certain of its subsidiaries and an ad hoc group of holders of Existing Notes (the "Supporting Noteholders"). Subject to the terms and conditions set forth in the Transaction Support Agreement, the Supporting Noteholders have agreed to tender their Existing Notes in the Exchange Offers and deliver consents to the proposed amendments to the terms of the Exchange Offers. The Supporting Noteholders represent 65.5% of the aggregate principal amount of the Existing 2024 Notes and 65.8% of the aggregate principal amount of the Existing 2026 Notes outstanding as of the date hereof.

The New Notes will be guaranteed by the Company and its subsidiaries Azul Linhas, IntelAzul S.A. ("IntelAzul"), ATS Viagens e Turismo Ltda. ("Azul Viagens"), Azul IP Cayman Holdco Ltd. ("IP Holdco"), and Azul

IP Cayman Ltd (“IP Co”). IP Holdco and IP Co will be exempted companies incorporated with limited liability under the laws of the Cayman Islands.

The New Notes will be secured on a “second out” basis by, among other assets, (i) certain receivables generated by the TudoAzul program (Azul Linhas’ loyalty program) and the Azul Viagens travel package business, (ii) certain intellectual property of the TudoAzul program and the Azul Viagens business, and (iii) certain intellectual property of Azul and certain of its subsidiaries (together, the “Shared Collateral”). If the Exchange Offers are consummated and the New Notes are issued, certain existing indebtedness and obligations of the Company and its subsidiaries will be secured by the Shared Collateral on a first lien basis, subject to the terms of an intercreditor agreement in connection with the Shared Collateral. The New Notes will also be secured by (i) certain receivables generated by the Azul Cargo business (Azul’s cargo transportation services business), and (ii) certain intellectual property of the Azul Cargo business (together, the “Azul Cargo Collateral” and together with the Shared Collateral, the “Collateral”). In addition, subject to certain conditions, additional indebtedness of the Company and certain of its subsidiaries is permitted to be secured by the Shared Collateral on a “first out” or “second out” basis and certain additional indebtedness of the Company and its subsidiaries is permitted to be secured by the Azul Cargo Collateral on a “first out” basis.

The purpose of the Exchange Offers is to refinance a portion of the Existing Notes in order to optimize Azul’s debt capital structure as part of the execution of its recapitalization strategy.

The offering of the New Notes pursuant to the Exchange Offers has not been and will not be registered under the Securities Act of 1933, as amended (the “Securities Act”). The New Notes may not be offered or sold absent registration under, pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The New Notes will be offered for exchange only (i) to “qualified institutional buyers” as defined in Rule 144A under the Securities Act, and (ii) outside the United States, to persons other than “U.S. persons” as defined in Rule 902 under the Securities Act in compliance with Regulation S under the Securities Act.

Convertible Debentures Amendments

On October 26, 2020, Azul issued R\$1,745.9 million in aggregate principal amount of convertible debentures (the “Convertible Debentures”). Certain of the Collateral intended to secure the obligations to be secured by the Collateral pursuant to the Exchange Offers (including the New Notes, the Convertible Debentures and certain lease obligations (the “Secured Lease Obligations”)) is currently pledged as collateral securing the Convertible Debentures. In addition, the terms of the Convertible Debentures require that a portion of the intellectual property intended to be contributed to IP Co continue to be held by IntelAzul. Furthermore, certain other terms of the Convertible Debentures would prevent Azul and its subsidiaries from consummating the Exchange Offers and issuance of the New Notes by the New Notes Issuer on the terms contemplated by the Exchange Offers. Therefore, in order for the Exchange Offers to be consummated and for the New Notes to be issued by the New Notes Issuer, certain amendments (the “Convertible Debentures Amendments”) are required to be made to the indenture (*escritura de emissão de debêntures*) governing the Convertible Debentures and certain collateral and other documents are required to be amended or replaced in respect of the Convertible Debentures in order for the Shared Collateral to secure the obligations to be secured by the Collateral pursuant to the Exchange Offers (including the New Notes, the Convertible Debentures and the Secured Lease Obligations).

Consummation of the Exchange Offers is conditional upon, among other things, the Convertible Debentures Amendments being implemented in accordance with the terms of the Convertible Debentures and the related agreements (the “Convertible Debentures Amendments Condition”). There can be no assurance that the Convertible Debentures Amendments Condition will be satisfied. The Convertible Debentures Amendments require the consent of holders of at least 75% of the aggregate principal amount of the Convertible Debentures to be obtained in a general meeting of holders of the Convertible Debentures (the “Debentureholder Meeting”).

Knighthead Capital Management, LLC (“Knighthead”) and Certares Management LLC (“Certares”) currently hold substantially all of the aggregate principal amount of the Convertible Debentures. On June 13, 2023, Azul entered into a debentureholder consent support agreement with an entity through which Knighthead and Certares hold the Convertible Debentures (the “Support Agreement”). Pursuant to the Support Agreement, subject to certain terms and conditions, the entity through which Knighthead and Certares hold the Convertible Debentures agreed, among other things, to (i) support the approval of the Convertible Debentures Amendments, (ii) be present (or be present via proxy) at the Debentureholder Meeting, (iii) vote (or cause to be voted) all of its Convertible Debentures in favor of the Convertible Debentures Amendments at the Debentureholder Meeting, and (iv) not transfer its Convertible Debentures prior to the conclusion of the Debentureholder Meeting.

As a condition to agreeing to enter into the Support Agreement and to vote in favor of the Convertible Debentures Amendments, Knighthood and Certares required that certain amendments be made to the commercial terms of the Convertible Debentures. Therefore, in addition to the Convertible Debentures Amendments that are a condition to the consummation of the Exchange Offers, the following additional amendments to the terms of the Convertible Debentures, among others, are proposed to be approved in the Debentureholder Meeting (each of which shall be effective as from the first closing date of the Exchange Offers):

- The maturity date of the Convertible Debentures will be extended to October 26, 2028.
 - The New Notes Issuer, Azul Viagens, IntelAzul, IP Co and IP HoldCo will be added as guarantors of the Convertible Debentures.
 - The rate of interest payable on the Convertible Debentures will be 10.5% per annum, except that (i) with effect from the closing date of the first incurrence of permitted “first out” debt that is secured by the Collateral after the first closing date of the Exchange Offers (the “New First Priority Financing Closing Date”), the rate of interest payable on the Convertible Debentures will be the same rate of interest as the New First Priority Financing, and (ii) in the event that the New First Priority Financing Closing Date does not occur by September 30, 2023, the rate of interest payable on the Convertible Debentures will be a rate of interest per annum equal to the average yield to maturity on the New 2029 Notes for the 10 trading days prior to September 30, 2023 minus 200 basis points (i.e., 2.0%).
 - On the first interest payment date under the Convertible Debentures after the New First Priority Financing Closing Date (the “True-Up Date”), Azul or holders of the Convertible Debentures, as applicable, will make a payment to the other party (which may be netted against any other payment due on such date) to “true-up” such other party in an amount equal to the difference between the interest actually paid by Azul under the Convertible Debentures and the same rate of interest as the New First Priority Financing from the Closing Date to the True-Up Date; provided that if New First Priority Financing Closing Date has not occurred by September 30, 2023, neither party shall have any obligation to make any “true-up” payment.
 - Within a specified number of days following the New First Priority Financing Closing Date, Azul will be required to repurchase the equivalent of US\$100.0 million in aggregate principal amount of the Convertible Debentures (plus PIK interest paid thereon) at a repurchase price equal to 120% of the principal amount thereof, and accrued and unpaid interest. PIK interest accrued and was paid as additional principal amount on the Convertible Debentures at a rate of 7.500% per annum based on a year with 360 days.
 - In the three months following the New First Priority Financing Closing Date, Azul shall have the right, exercisable at its sole discretion, to repurchase the equivalent of US\$60.0 million in aggregate principal amount of the Convertible Debentures (plus PIK interest paid thereon) at a repurchase price equal to 130% of the principal amount thereof, and accrued and unpaid interest.
 - The conversion price applicable to the Convertible Debentures shall be amended to a new initial conversion price calculated as a 30% premium to the 20-day volume weighted average price of Azul’s preferred shares for the 20 trading days commencing on the earlier of (i) the New First Priority Financing Closing Date, and (ii) July 31, 2023; provided that the conversion price shall not exceed R\$29.00 per preferred share and shall not be lower than R\$20.00 per preferred share. In addition, certain amendments will be made to the anti-dilution protections provided in favor of the holders of the Convertible Debentures.
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- The Convertible Debentures will be amended to update and replace the existing collateral provisions to provide that (i) the Convertible Debentures are secured by the Shared Collateral, and (ii) the Convertible Debentures shall continue to be secured by (a) a fiduciary transfer (*alienação fiduciária*) in respect of specific equipment necessary for maintenance of our hangar at Viracopos airport, and (b) a fiduciary assignment (*cessão fiduciária*) in respect of the right of use of the hangar at Viracopos airport. In connection therewith, the Convertible Debentures will also be amended to remove an existing provision that permits certain collateral securing the Convertible Debentures to be released in certain circumstances.
- The Convertible Debentures will be amended to remove the provision that, upon the occurrence of an event of default under the Convertible Debentures, Azul is required to pay to IntelAzul a license fee in respect of the relevant intellectual property in the amount of US\$40.0 million per annum, payable monthly.
- Unless the holders of the Convertible Debentures otherwise consent, Azul and its subsidiaries will only be entitled to incur the Indebtedness under a New First Priority Financing if (i) pricing or signing of the New First Priority Financing occurs no later than July 31, 2023, and (ii) Azul and its subsidiaries enter into binding framework agreements (or equivalent documents) for permanent amendments to leases and other obligations with certain of its aircraft lessors and original equipment manufacturers that are consistent with certain agreed principles, it being understood that the effectiveness of the proposed amendments shall be subject to the satisfaction of certain conditions that can only be satisfied after closing of the New First Priority Financing. The terms of the Convertible Debentures will also be amended to include certain additional restrictions on the incurrence of Indebtedness that can be secured by the Shared Collateral.
- The terms of the Convertible Debentures will be amended to include make-whole fundamental change provisions that provide holders of the Convertible Debentures the right to require Azul to repurchase their Convertible Debentures at 100% of the principal amount thereof in connection with the occurrence of certain fundamental changes, including certain change of control transactions, certain merger and other transactions, certain events of liquidation or dissolution, or certain delisting events. In addition, the conversion price of the Convertible Debentures shall be amended to reflect a make-whole redemption premium for a conversion of the Convertible Debentures in connection with such fundamental change. In connection with the occurrence of certain public merger and acquisition transactions, subject to the consent of the holders of the Convertible Debentures, the Convertible Debentures will be amended, or the Convertible Debentures will be replaced with a new convertible or exchangeable bond, so that the underlying equity (i.e., the reference property) of the Convertible Debentures or such replacement convertible or exchangeable bond is the consideration received by Azul's preferred shareholders in connection with such transaction. In connection with the addition of the aforementioned make-whole fundamental change provisions, the Convertible Debentures will be amended to remove any existing event of default under the Convertible Debentures that would be triggered upon any change of control or other fundamental change of the Azul or its subsidiaries.

Issuance of Non-Convertible Debentures

On June 1, 2023, Azul Linhas, as issuer, the Company, as guarantor, Vórtx Distribuidora de Títulos e Valores Mobiliários Ltda., as fiduciary agent for the holders of the debentures, and Raizen S.A. as intervening party, entered into an indenture (*escritura de emissão de debêntures*) in respect of the 11th issuance by Azul Linhas of non-convertible debentures in an aggregate principal amount of up to R\$600.0 million (or US\$118.1 million based on the commercial selling rate published by the Central Bank of Brazil on March 31, 2023, which was R\$5.0804 per US\$1.00). The offering of the debentures is being made to professional investors only, and is being made only within Brazil. There will be no offering or sale of the debentures in any jurisdiction other than Brazil.

The debentures are issued by Azul Linhas and guaranteed by the Company, and are secured over specified amounts of credit card receivables generated by Azul Linhas in respect of the purchase of airline tickets by customers. The maturity date of the debentures is June 1, 2024. The rate of interest on the debentures is equal to the CDI Rate plus 6.00% per annum. The "CDI Rate" is the daily average rate of inter-banking deposits, "over extra group," expressed in annual percentage, calculated and published daily by the Brazilian Stock Exchange (B3 S.A. – *Brasil, Bolsa, Balcão*) (the "B3"). Interest on the debentures is payable monthly, together with certain monthly amortization payments of principal.

The net proceeds of the issuance of the debentures will be used exclusively to fund payments for fuel supplied to Azul Linhas by Raízen S.A., including the funding of payments made by Azul Linhas to Raízen S.A. since May 2, 2023 for the purchase of fuel. Raízen S.A. has agreed that if an event of default under the debentures occurs and is continuing, subject to certain cure periods, Raízen S.A. will be required to cease all supplies of fuel to Azul Linhas and its affiliates.

We currently expect that closing of the issuance of the debentures will occur during the week commencing June 12, 2023, subject to the terms of, and the satisfaction of certain conditions under, a best efforts placing pursuant to a distribution agreement dated June 2, 2023.

OPERATING AND FINANCIAL REVIEW

The following discussion of Azul's results as of March 31, 2023 and for the three-month period ended March 31, 2023 and 2022, respectively, should be read in conjunction with (i) our 2022 Form 20-F and, in particular, "Item 4. Information on the Company" and "Item 5. Operating and Financial Review and Prospects" and (ii) the unaudited interim condensed consolidated financial statements of Azul S.A. as of March 31, 2023 and for the three-month period ended March 31, 2023 and 2022, respectively, included as Exhibit 99.2 to this Report on Form 6-K. In this Report on Form 6-K, the terms "Azul," "the Company," "we," "us" and "our" refer to Azul S.A., a sociedade por ações incorporated under the laws of Brazil, and its subsidiaries on a consolidated basis, unless the context requires otherwise.

Results of Operations

The financial data for the three-month period ended March 31, 2023 and 2022, respectively, set out in the table below are derived from our unaudited interim condensed consolidated financial statements included as Exhibit 99.2 to this Report on Form 6-K, which were prepared in accordance with IAS 34—Interim Financial Reporting, as issued by the International Accounting Standards Board.

	For the Three-Month Period Ended March 31,		Percent Change
	2023	2022	
	(Unaudited)		
	(in thousands of Brazilian reais)		
Net revenue:			
Passenger revenue	4,169,871	2,842,969	46.7%
Other revenues	308,457	350,072	(11.9)%
Total revenue	4,478,328	3,193,041	40.3%
Operating expenses:			
Aircraft fuel	(1,673,402)	(1,188,966)	40.7%
Salaries and benefits	(537,472)	(434,221)	23.8%
Airport fees	(262,361)	(199,107)	31.8%
Passenger expenses	(195,596)	(132,970)	47.1%
Maintenance	(157,896)	(160,268)	(1.5)%
Advertising and publicity	(173,997)	(126,851)	37.2%
Depreciation and amortization	(567,653)	(522,038)	8.7%
Insurance	(19,398)	(18,768)	3.4%
Rental	(15,212)	(35,077)	(56.6)%
Other	(707,310)	(524,619)	34.8%
Total operating expenses	(4,310,297)	(3,342,885)	28.9%
Operating profit (loss)	168,031	(149,844)	n.a.
Financial result:			
Financial income	53,466	48,914	9.3%
Financial expenses	(1,257,584)	(1,024,158)	22.8%
Derivative financial instruments, net	(274,972)	306,042	n.a.
Foreign currency exchange, net	574,418	3,486,094	(83.5)%
Financial result	(904,672)	2,816,892	n.a.
Net (loss) profit for the period	(736,641)	2,667,048	n.a.

The components of our results of operations for the three-month period ended March 31, 2023 compared to the three-month period ended March 31, 2022 are as described below.

In the three-month period ended March 31, 2023, we reported an operating profit of R\$168.0 million, compared to an operating loss of R\$149.8 million in the three-month period ended March 31, 2022. Our operating profit for the three-month period ended March 31, 2023 included non-recurring items, which include gains and expenses that management considers non-recurring in nature, mainly extraordinary and one-time events related to the

COVID-19 pandemic, such as: (i) employee layoffs and expenses related to flight cancellations and rescheduling and tax provisions, (ii) write-off of prepaid expenses losses due to the termination of maintenance contracts in 2022 and beginning of 2023, and (iii) fleet adjustments related to the restructuring of our obligations with lessors and OEMs (see “Recent Developments—Proposed Lease and OEM Supplier Restructuring”), including: (a) expenses and loss provisions recognized in relation to the return of aircraft and engines, (b) losses on maintenance reserves, (c) gains recognized due to the modification of lease agreements, (d) direct expenses related to consulting, financial advisor and legal fees, and (e) costs incurred in relation to unused fleet.

In the three-month period ended March 31, 2023, we reported a net loss of R\$736.6 million, compared to a net profit of R\$2,667.0 million in the three-month period ended March 31, 2022. The gain in 2022 was mainly driven by the appreciation of the Brazilian *real* against U.S. dollar, that resulted in the recognition of a foreign exchange gain of R\$3,486.1 million in the first quarter of 2022.

The table below sets forth a breakdown of our net revenue and expenses on a per-ASK basis (“available seat kilometers,” or “ASKs,” represents aircraft seating capacity multiplied by the number of kilometers the aircraft is flown) for the periods indicated:

	For the Three-Month Period Ended March 31,		Percent Change
	2023	2022	
	(per ASK in R\$ cents)		
Net revenue:			
Passenger revenue	38.6	31.4	23.1%
Other revenues	2.9	3.9	(26.0)%
Net revenue	41.5	35.2	17.7%
Operating expenses:			
Aircraft fuel	15.5	13.1	18.1%
Salaries and benefits	5.0	4.8	3.9%
Airport fees	2.4	2.2	10.6%
Passenger expenses	1.8	1.5	23.5%
Maintenance	1.5	1.6	(10.0)%
Advertising and publicity	1.6	1.4	15.1%
Depreciation and amortization	5.3	5.8	(8.7)%
Other	6.9	6.4	7.6%
Total operating expenses, net	39.9	36.7	8.6%

Total Revenue

Total revenue increased 40.3%, or R\$1,285.3 million, to R\$4,478.3 million in the three-month period ended March 31, 2023, from R\$3,193.0 million in the three-month period ended March 31, 2022, as explained below.

The table below sets forth our passenger revenue and selected operating data for the periods indicated:

	For the Three-Month Period Ended March 31,		Percent Change
	2023	2022	
Passenger revenue (in millions of Brazilian <i>reais</i>)	4,169,871.0	2,842,969.0	46.7%
Available seat kilometers (ASKs) (millions)	10,798.9	9,063.8	19.1%
Load factor (%)	79.6%	80.4%	(0.9)%
Passenger revenue per ASK (R\$ cents) (PRASK) ⁽¹⁾	38.6	31.4	23.1%
Operating revenue per ASK (R\$ cents) (RASK) ⁽²⁾	41.5	35.2	17.7%
Number of departures	78,739.0	67,981.0	15.8%
Block hours	137,702.6	117,301.3	17.4%

(1) PRASK - passenger revenue per available seat kilometer

(2) RASK - revenue per available seat kilometers

Passenger Revenue

Passenger revenue increased 46.7%, or R\$1,326.9 million, from R\$2,843.0 million in the three-month period ended March 31, 2022 to R\$4,169.9 million in the three-month period ended March 31, 2023, mainly due to (i) a 23.1% increase in PRASK compared to the three-month period ended March 31, 2022, which was enabled by our rational capacity deployment as shown by a 6.0% increase in domestic ASKs and a 120.7% increase in international ASKs, recovering from 2019 levels, and (ii) the sustainable competitive advantages of our business model of connecting Brazil as market leader in 94% of our routes as of December 31, 2022.

Other Revenues

Other revenues decreased 11.9%, or R\$41.6 million, from R\$350.1 million in the three-month period ended March 31, 2022 to R\$308.5 million in the three-month period ended March 31, 2023. This decrease was mainly due to the 7.5% decrease in Azul Cargo's revenue as a result of the redeployment of widebody aircraft from dedicated cargo operations to passenger service to take advantage of the faster-than-expected recovery in international passenger travel. For the three-month period ended March 31, 2023, we had a 33% share of cargo volume transported in Brazil, compared to 33% for the three-month period ended March 31, 2022, according to the Brazilian National Civil Aviation Agency (*Agência Nacional de Aviação Civil*), resulting from the support and the capillarity of our network provided to our cargo business.

Operating Expenses

Operating expenses increased 28.9%, or R\$967.4 million, from R\$3,342.9 million in the three-month period ended March 31, 2022, to R\$4,310.3 million in the three-month period ended March 31, 2023, mainly due to (i) a 23.6% increase in fuel prices, and (ii) a 19.1% increase in our total capacity, in each case partially offset by a reduction in fuel burn, and cost reduction initiatives.

Aircraft Fuel. Aircraft fuel expenses increased 40.7%, or R\$484.4 million, from R\$1,189.0 million in the three-month period ended March 31, 2022, to R\$1,673.4 million in the three-month period ended March 31, 2023, mainly due to (i) a 23.6% increase in fuel prices and (ii) a 19.1% increase in our total capacity, partially offset by a reduction in fuel burn as a result of our more efficient next-generation fleet.

Salaries and Benefits. Salaries and benefits increased 23.8%, or R\$103.3 million, from R\$434.2 million in the three-month period ended March 31, 2022, to R\$537.5 million in the three-month period ended March 31, 2023, mostly due to a 19.1% increase in our total capacity, and the increase in salaries as a result of collective bargaining agreements with labor unions applicable to all airline employees in Brazil in 2023.

Airport Fees. Airport fees increased 31.8%, or R\$63.3 million, from R\$199.1 million in the three-month period ended March 31, 2022, to R\$262.4 million in the three-month period ended March 31, 2023, primarily due to the increase in our capacity, especially the 120.7% increase in international capacity, which drove higher fees, as airport fees for international flights are higher than for domestic flights.

Passenger expenses. Passenger expenses increased 47.1%, or R\$62.6 million, from R\$133.0 million in the three-month period ended March 31, 2022, to R\$195.6 million in the three-month period ended March 31, 2023, primarily due to the resumption of Azul's renowned onboard service after a two-year suspension due to the COVID-19 pandemic, a 15.8% increase in the number of departures, and the fact that inflation was higher in the three-month period ended March 31, 2023 than in the three-month period ended March 31, 2022.

Maintenance. Maintenance decreased 1.5%, or R\$2.4 million, from R\$160.3 million in the three-month period ended March 31, 2022, to R\$157.9 million in the three-month period ended March 31, 2023, mostly due to savings from the insourcing of maintenance events and from the renegotiation of our engine maintenance agreements.

Advertising and publicity. Advertising and publicity increased 37.2%, or R\$47.1 million, from R\$126.9 million in the three-month period ended March 31, 2022, to R\$174.0 million in the three-month period ended March 31, 2023, mostly driven by an increase in credit card fees and commissions as a result of a 46.7% growth in passenger

revenue, and the increase in international traffic which generates higher distribution costs (mainly through higher commissions and global distribution system costs associated with international traffic).

Depreciation and Amortization. Depreciation and amortization increased 8.7%, or R\$45.6 million, from R\$522.0 million in the three-month period ended March 31, 2022, to R\$567.7 million in the three-month period ended March 31, 2023, mostly driven by the increase in the size of our fleet compared to the first quarter of 2022.

Insurance. Insurance increased 3.4%, or R\$0.6 million, from R\$18.8 million in the three-month period ended March 31, 2022, to R\$19.4 million in the three-month period ended March 31, 2023, mainly due to an increase in passenger traffic estimates in the three-month period ended March 31, 2023, as compared to the first quarter of 2022, as insurance premiums are based in part upon forward-looking estimates of passenger traffic levels.

Rental. Rental decreased 56.6%, or R\$19.9 million, from R\$35.1 million in the three-month period ended March 31, 2022, to R\$15.2 million in the three-month period ended March 31, 2023, mainly due to cost savings from the renegotiation of our contracts.

Other. Other expenses increased 34.8%, or R\$182.7 million, from R\$524.6 million in the three-month period ended March 31, 2022, to R\$707.3 million in the three-month period ended March 31, 2023, primarily due to the 19.1% increase in capacity and higher training expenses as we increased our operations in the first quarter of 2023, partially offset by a 44% reduction in our international cargo capacity, lower claims in the period, and the 0.7% average appreciation of the Brazilian *real* against the U.S. dollar. In the three-month period ended March 31, 2023, other operating expenses were also impacted by non-recurring items totaling R\$294.4 million, due to the fleet adjustments related to the restructuring of our obligations with lessors and OEMs (see “Recent Developments—Proposed Lease and OEM Supplier Restructuring”), in addition to advisors’ fees and other related expense items, and a one-time adjustment related to an engine maintenance agreement terminated in the first quarter of 2023 which is expected to be replaced before the end of 2023, when this amount is expected to be reversed.

Operating Profit (Loss)

For the three-month period ended March 31, 2023, our operating profit was R\$168.0 million, compared to an operating loss of R\$149.8 million for the three-month period ended March 31, 2022, due to the factors described above.

Financial Results

Financial Income. Financial income increased 9.3%, or R\$4.6 million, from R\$48.9 million in the three-month period ended March 31, 2022, to R\$53.5 million in the three-month period ended March 31, 2023, mostly due to an increase in interest on cash and cash equivalents and short-term investments which is mostly attributable to a 3.38% increase in the CDI Rate for the period, from an annual average of 10.3% on March 31, 2022 to an annual average of 13.7% on March 31, 2023.

Financial Expenses. Financial expenses increased 22.8%, or R\$233.4 million, from R\$1,024.2 million in the three-month period ended March 31, 2022, to R\$1,257.6 million in the three-month period ended March 31, 2023, mainly due to (i) a 10.3% increase in interest expense on lease liabilities due to a higher incremental borrowing rate as a result of lease modifications and an increase in expenses incurred in connection with aircraft lease agreements, and (ii) the increase in the CDI Rate to an annual average of 13.65% on March 31, 2023.

Derivative Financial Instruments, Net. Derivative financial instruments, net, amounted to a gain of R\$306.0 million for the three-month period ended March 31, 2022, and a net loss of R\$275.0 million for the three-month period ended March 31, 2023, a variation of R\$581.0 million, mostly due to fuel hedge losses recorded during the first quarter of 2023. As of March 31, 2023, Azul had hedged approximately 18% of its expected fuel consumption for the next twelve months by using forward contracts and options.

Foreign Currency Exchange, Net. The net currency exchange effect on our monetary assets and liabilities when remeasured into Brazilian *reais* decreased 83.5%, or R\$2,911.7 million, from a gain of R\$3,486.1 million in the three-month period ended March 31, 2022, to a gain of R\$574.4 million, mainly due to the 2.6% appreciation of the

Brazilian *real* against the US dollar in the three-month period ended March 31, 2023, resulting in a decrease in lease liabilities and loans denominated in foreign currency.

Net (Loss) Profit

Net loss was R\$736.6 million for the three-month period ended March 31, 2023, compared to net profit of R\$2,667.0 million for the three-month period ended March 31, 2022, due to the factors described above.

Liquidity and Capital Resources

For information in connection with our proposed lease and OEM restructuring, the Exchange Offers, the Convertible Debenture Amendments, and the raising of additional debt or equity financing before or after consummation of the Exchange Offers, see “Recent Developments” above.

General

Our short-term liquidity requirements relate to the payment of operating costs, including aircraft fuel and salaries, payment obligations under our lease liabilities and loans and financing (including aircraft debt financing and debentures) and the funding of working capital requirements. Our medium and long-term liquidity requirements include equity payments for aircraft and debt financing, the working capital required to start up new routes and new destinations, and payment obligations under our borrowings and financings.

For our short-term liquidity needs, we rely primarily on cash provided by operations and cash reserves. For our medium and long-term liquidity needs, we rely primarily on cash provided by operations, cash reserves, working capital loans and bank credit lines including, but not limited to, bank loans, debentures and promissory notes.

In order to manage our liquidity, we review our cash and cash equivalents, short-term investments, and trade and other receivables on an ongoing basis. Trade and other receivables include credit card sales and accounts receivables from travel agencies and cargo transportation. Our accounts receivables are affected by the timing of our receipt of credit card revenues and travel agency invoicing. One general characteristic of the retail sector in Brazil and the aviation sector in particular is the payment for goods or services in installments via personal credit cards. Our customers may pay for their purchases in up to ten installments without interest. This is similar to the payment options offered by other airlines in Brazil. Once the transaction is approved by the credit card processor, we are no longer exposed to cardholder credit risk, and the payment is guaranteed by the credit card issuing bank in case of default by the cardholder. Since the risk of non-payment is low, banks are willing to advance these receivables, which are paid the same day they are requested. As a result, we believe our ability to advance receivables at any time significantly increases our liquidity position.

As of March 31, 2023, our total cash position consisting of cash and cash equivalents and short-term and long-term investments, was R\$1,220.1 million, compared to R\$2,581.4 million as of March 31, 2022. The cash position decreased mainly due to our continued deleveraging process with R\$958.6 million in payments of loans and leases and R\$765.5 million in supply chain financing repayment during the three-month period ended March 31, 2023 (with no corresponding payment during the three-month period ended March 31, 2022), as compared to R\$1,123.6 million in payments of loans and leases during the three-month period ended March 31, 2022.

We believe that we will continue to be able to access equity and debt capital markets if and when necessary.

The information below does not reflect the expected impact of commercial agreements with lessors and suppliers to restructure debt and lease payments, subject to certain conditions. For more information about the commercial agreements reached with certain of our aircraft lessors and original equipment manufacturers, see the Current Report on Form 6-K furnished by us to the SEC on May 15, 2023 and “Recent Developments—Proposed Lease and OEM Supplier Restructuring” above.

Cash Flows

The table below presents our cash flows from operating, investing and financing activities for the periods indicated:

For the Three-Month Period ended March 31,

2023	2022
(Unaudited)	
(in thousands of Brazilian reais)	

Cash Flows

Net cash provided (used) by operating activities	1,043,153	(237,930)
Net cash used by investing activities	(81,779)	(226,983)
Net cash used by financing activities	(1,162,810)	(703,584)
Exchange rate changes on cash and cash equivalents	(562)	(47,531)
Decrease in cash and cash equivalents	(201,998)	(1,216,028)

Net Cash Provided (Used) by Operating Activities

Net cash provided by operating activities in the three-month period ended March 31, 2023 was R\$1,043.2 million, compared to net cash used by operating activities of R\$237.9 million in the three-month period ended March 31, 2022. The increase of the operating cash flows was mainly due to an increase in passenger revenue and increases in our ticket fares.

Net Cash Used by Investing Activities

Net cash used by investing activities was R\$81.8 million in the three-month period ended March 31, 2023, compared to the net cash used by investing activities of R\$227.0 million in the three-month period ended March 31, 2022. The decrease in cash used in investing activities is mostly related to a reduction in cash used in the acquisition of property and equipment from R\$184.2 million in the three-month period ended March 31, 2022 to R\$41.6 million in the same period in 2023 mainly due to lower maintenance services performed on owned aircrafts on the three-month period ended March 31, 2023 compared to the three-month period ended March 31, 2022.

Net Cash Used by Financing Activities

Net cash used by financing activities was R\$1,162.8 million in the three-month period ended March 31, 2023, compared to R\$703.6 million in the three-month period ended March 31, 2022. The increase in net cash used in financing activities was mainly due to an increase in the repayment of loans and financing, from R\$83.1 million in the three-month period ended March 31, 2022 to R\$322.4 million in the same period in 2023 and the R\$727.4 million in supply chain financing repayment during the three-month period ended March 31, 2023, partially offset by a reduction in lease payments, from R\$820.5 million in the three-month period ended March 31, 2022 to R\$407.8 million in the three-month period ended March 31, 2023, as part of the commercial agreements negotiated with lessors (see “Recent Developments—Proposed Lease and OEM Supplier Restructuring”).

Exchange Rate Changes on Cash and Cash Equivalents

Exchange rate changes on cash and cash equivalents was R\$0.6 million in the three-month period ended March 31, 2023, compared to exchange rate changes on cash and cash equivalents of R\$47.5 million in the three-month period ended March 31, 2022, mainly due to the 2.6% end of period appreciation of the Brazilian *real* against the U.S. dollar on March 31, 2023, compared to the 15.1% end of period appreciation of the Brazilian *real* against U.S. dollar on March 31, 2022.

Loans and Financings

As of March 31, 2023, total loans and financing was R\$23,144.8 million, compared to R\$23,219.3 million as of December 31, 2022, which includes R\$1,523.8 million of convertible debentures and R\$14,500.1 million of lease liabilities. As of March 31, 2023, we had pledged collateral under loans and financing, and the outstanding amount under such loans and financing was R\$2,563.3 million as of March 31, 2023.

The following table sets forth our short-term and long-term loans and financing in the periods indicated:

	March 31, 2023	December 31, 2022
	(in thousands of Brazilian reais)	
Short-Term Debt		
Local currency	740,964	669,307
Foreign currency (U.S. dollars)	585,348	427,168
Lease liabilities	4,578,717	4,025,948
Senior Notes	115,530	31,254
Total short-term debt	6,020,559	5,153,677
Long-Term Debt		
Local Currency	495,081	639,102
Foreign currency (U.S. dollars)	1,627,367	1,651,887
Lease liabilities	9,921,373	10,556,885
Senior Notes	5,080,400	5,217,700
Total long-term debt	17,124,221	18,065,574
Total loans and financing	23,144,780	23,219,251

The following table sets forth the financial charges and balances of our aircraft and non-aircraft debt and excludes lease liabilities as of the periods indicated:

	Financial Charges		March 31, 2023	December 31, 2022
			(in thousands of Brazilian reais)	
Aircraft financing⁽¹⁾				
In local currency (R\$)	6.2%, SELIC + 5.5%	Monthly repayment	55,469	61,566
In foreign currency (US\$) ⁽¹⁾	6.0%	Monthly and quarterly payment	738,329	730,673
Non-aircraft financing:				
		Monthly and semi-annual payment		
In foreign currency (US\$)	1.0% to 7.3%		5,146,542	5,193,618
In local currency (R\$)	2.9%, CDI Rate + 3.9%	Monthly and quarterly payment	684,436	499,672
Debentures (R\$)	CDI Rate + 5%	Quarterly	496,139	747,170
Convertible debenture (R\$)	6.0%	Semi-annual payment	1,523,775	1,403,719
			8,644,690	8,636,418

(1) Aircraft financing includes lease liabilities and financing agreements with respect to our aircraft, flight simulators and related equipment.

As of March 31, 2023, we had 174 leased aircraft and engines without a purchase option with an aggregate balance of R\$13,652.4 million and 40 owned and leased aircraft and engines with a purchase option, with an aggregate outstanding balance of R\$643.9 million, with the underlying aircraft serving as security and 19 owned aircraft, which are in property, plant and equipment at the net amount of depreciation of R\$1,675.5 million. Of our passenger contractual fleet of 193 aircraft, four aircraft with turboprop propulsion manufactured by Avions de Transport Régional G.I.E. are subleased to TAP – Transportes Aéreos Portugueses, SGPS, S.A. (“TAP”), and three Embraer E1s are subleased to Breeze Airways, a related party, as of March 31, 2023.

Our financing agreements, aircraft finance leases and certain other material agreements contain customary financial and other covenants, restrictions and events of default, including events of default relating to non-payment,

cross-default, cross-acceleration, change of control, and certain events relating to insolvency, restructuring, readjustment and rescheduling of debt.

Capital Expenditures

Our gross capital expenditures (acquisitions of property, equipment and intangibles) for the three-month period ended March 31, 2023 and 2022, totaled R\$81.8 million, and R\$226.9 million, respectively. Most of these expenditures related to the capitalization of engine overhaul events and acquisition of spare parts. Other capital expenditures include IT systems and related facilities. Our gross capital expenditures decreased 64.0% in the three-month period ended March 31, 2023 compared to the three-month period ended March 31, 2022, mostly due to a reduction of capital expenditure on new aircraft entering our fleet.

We typically hold our aircraft under leases or aircraft loans. Although we believe financing should be available for all of our future aircraft deliveries, we cannot assure you that we will be able to secure them on terms attractive to us, if at all. To the extent we cannot secure these and other financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to meet our operating obligations as they become due through available cash, internally generated funds and credit lines. We believe that our cash provided by operations and our ability to obtain financing (including through finance leases and aircraft debt-financing), by already approved lines of credit with financial institutions, as well as our ability to obtain operating leases and issue debentures in the Brazilian capital market, will enable us to honor our current contractual and financial commitments.

In January 2023, Azul commenced negotiations with its aircraft lessors and aircraft and engine OEMs aimed at obtaining the short-term deferral of certain lease payments and securing the long-term reprofiling of certain lease payments and other OEM-related payment obligations. For information in connection with our proposed lease and OEM restructuring, the Exchange Offers, and the Convertible Debenture Amendments, see “Recent Developments” above.

Quantitative and Qualitative Disclosures About Market Risk

General

Market risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market prices. Any such changes may adversely affect the value of our financial assets and liabilities or our future cash flows and results of operations. We have entered into derivative contracts and other financial instruments for the purpose of hedging against variations in these factors.

We have also implemented policies and procedures to evaluate such risks and approve and monitor our derivative transactions. Our risk management policy was implemented on April 14, 2011 and was revised on March 9, 2020. It is our policy not to participate in any trading of derivatives for speculative purposes. We measure our financial derivative instruments at fair value which is determined using quoted market prices, standard option valuation models or values provided by the counterparty.

Outstanding financial derivative instruments expose us to credit loss in the event of nonperformance by the counterparties to the agreements. The counterparties to our derivative transactions are major financial institutions with strong credit ratings, and we do not expect the counterparties to fail to meet their obligations. We do not have significant exposure to any single counterparty in relation to derivative transactions, and we believe the credit exposure related to our counterparties is negligible.

Market risk includes three types of risk: interest rate, foreign currency and commodity price risk. The sensitivity analyses provided below do not consider the effects that such adverse changes may have on overall economic activity, nor does it consider additional actions we may take to mitigate our exposure to such changes.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market interest rates. Our exposure to the risk of changes in market interest rates refers primarily to long-term obligations (including lease liabilities and other financing) subject to variable interest rates. To manage this risk,

we engage in interest rate swaps, whereby we agree to exchange at specified intervals the difference between the values of fixed and variable interest rates calculated based on the notional principal amount agreed between the parties. As of March 31, 2023, we had swap contracts to hedge against the effect of fluctuations in interest rates on part of payments for leases.

We utilize swap contracts designated as hedges to protect us from fluctuations on part of the payments of lease liabilities and loans and financing in foreign currency. The swap contracts are used to hedge the risk of variation in interest rates tied to contractual commitments executed. The essential terms of the swap contracts were agreed to be coupled with the terms of the hedged loans and financing and lease commitments.

As of March 31, 2023, we had swap contracts to hedge against the effect of fluctuations in interest rates on part of payments for finance leases. In the three-month period ended March 31, 2023, we recognized a total loss from interest hedge transactions in the amount of R\$34.1 million, compared to total gain R\$23.1 million in the three-month period ended March 31, 2022.

Foreign Currency Risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in foreign exchange rates. Our exposure to the risk of changes in exchange rates refers primarily to loans and lease liabilities indexed to the U.S. dollar (net of investments in U.S. dollars), maintenance reserves and to our TAP bonds denominated in Euros. Also, slightly over half of our operating expenses are either payable in or affected by the U.S. dollar, such as aviation fuel, aircraft operating lease payments and certain flight hour maintenance contract payments. Therefore, according to our risk policy, we may enter into currency forward contracts for periods with a currency exposure of up to 12 months.

Additionally, as part of our international operations, we maintain offshore bank accounts in U.S. dollars that serve as natural hedges. As of March 31, 2023, we held a U.S. dollar balance of cash and cash equivalents and short-term investments of R\$16.7 million.

We constantly monitor the net exposure in foreign currency and evaluate the possibility of contracting hedge transactions to protect the non-operating cash flow, projecting for a maximum period of up to 12 months, and a longer term if deemed appropriate, to minimize its exposure. During the three-month period ended March 31, 2023, we recognized losses on foreign exchange derivative transactions in the amount of R\$24.6 million, compared to gains of R\$43.3 million in the three-month period ended March 31, 2022.

Commodity Price Risk

The volatility of aviation fuel prices is one of the most significant market risks for airlines. For the three-month periods ended March 31, 2023 and 2022, aviation fuel accounted for 38.9% and 35.6%, respectively, of our operating expenses, which are linked or denominated in U.S. dollars. The pricing of aviation fuel is volatile and cannot be predicted with any degree of certainty, as it is subject to many global and geopolitical factors. For example, oil prices experienced substantial variances beginning in 2009 and through June 2018. In addition, largely as a result of the war between Russia and Ukraine, Brent oil prices sharply increased from about US\$75 per barrel at the end of 2021 to US\$128 per barrel on March 8, 2022. As of March 31, 2023, the Brent oil price was US\$77 per barrel. Airlines often use WTI crude or heating oil future contracts to protect their exposure to jet fuel prices. We attempt to mitigate fuel price volatility primarily through derivative financial instruments or a fixed price agreement with our suppliers.

Credit Risk

Credit risk is inherent to Azul's operating and financial activities, mainly disclosed in cash and cash equivalents, long-term investments, accounts receivable, aircraft sublease, security deposits and maintenance reserves. Financial assets classified as cash and cash equivalents and long-term investments are deposited with counterparties that have a minimum investment grade rating in the assessment made by S&P Global Ratings, Moody's or Fitch (between AAA and A+).

Credit limits are established for all Azul's customers based on internal classification criteria and the carrying amounts represent the maximum credit risk exposure. Outstanding receivables from customers are frequently monitored by Azul and, when necessary, allowances for expected credit losses are recognized.

Derivative financial instruments are contracted by Azul on the over-the-counter market (OTC) from counterparties with a minimum investment grade rating, or on commodities and futures exchanges (the B3 and The New York Mercantile Exchange), which substantially mitigates the credit risk. Azul assesses the risks of counterparties in financial instruments and diversifies its exposure periodically.

Liquidity Risk

The maturity schedules of our consolidated financial liabilities as of March 31, 2023, are as follows:

Description	Contractual Cash Flow				
	Carrying Amount	Total	Until 1 year	From 2 to 5 years	After 5 years
		(in thousands of Brazilian reais)			
Loans and financing	8,644,690	10,918,703	1,989,984	8,928,719	—
Leases	14,500,090	26,050,307	3,832,958	13,690,719	8,526,630
Accounts Payable	3,118,899	3,118,899	2,715,650	387,608	15,641
Airport fees	1,538,620	1,538,620	1,033,688	178,680	326,252
Insurance payable	62,798	62,798	62,798	—	—
Derivative financial instruments	139,941	139,941	139,941	—	—
	28,005,038	41,829,268	9,775,019	23,185,726	8,868,523

The above balances do not reflect the renegotiations signed by Azul after March 31, 2023. See "Recent Developments."

Sensitivity Analysis

Our sensitivity analysis measures the impact of interest rate risk, foreign currency risk, and commodity price risk on the results of operations considering two different scenarios: (i) the adverse scenario, which assumes that the relevant interest rate, foreign currency or fuel price will worsen by 25% and (ii) the remote scenario, which assumes that relevant interest rate, exchange rate or fuel price will worsen by 50%.

Risk Factor	Financial Instrument	Risk	As of March 31, 2023	
			(Unaudited)	
			Adverse Scenario	Remote Scenario
			(in thousands of Brazilian reais)	
Financing	Interest rate	CDI Rate	(38,948)	(77,897)
Financing	Interest rate	LIBOR	(4,167)	(8,334)
Financing	Interest rate	SOFR	(2,904)	(5,809)
Assets	Exchange rate	Euro rate decrease	(192,450)	(384,900)
Liabilities and aircraft leases	Exchange rate	U.S. dollar rate increase	(5,800,638)	(11,601,276)
Aircraft fuel	Cost per liter	Fuel price	(418,351)	(836,701)

AZUL S.A.

**Unaudited Interim Condensed
Consolidated Financial Statements**

March 31, 2023

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**AZUL S.A.****Consolidated Statement of financial position**

As of

(In thousands of Brazilian reais – R\$)

Assets	Note	March 31, 2023	December 31, 2022
Current assets			
Cash and cash equivalents	4	466,350	668,348
Accounts receivable	6	1,267,103	1,803,998
Aircraft sublease	7	65,790	70,193
Inventories	8	718,869	721,738
Security deposits and maintenance reserves	9	940,954	1,025,168
Taxes recoverable	10	234,748	234,891
Derivative financial instruments	21	21,205	36,054
Prepaid expenses	11	150,216	182,891
Advances to suppliers	12	77,841	121,697
Other assets		6,625	6,958
Total current assets		3,949,701	4,871,936
Non-current assets			
Long-term investments	5	753,779	733,043
Aircraft sublease	7	89,896	105,860
Security deposits and maintenance reserves	9	1,622,764	1,514,393
Derivative financial instruments	21	-	235,896
Prepaid expenses	11	194,031	319,000
Other assets		8,813	9,005
Property and equipment	14	1,925,503	1,953,089
Right-of-use assets	15	7,394,087	7,552,548
Intangible assets	16	1,463,662	1,426,523
Total non-current assets		13,452,535	13,849,357
Total assets		17,402,236	18,721,293

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





AZUL S.A.

Consolidated Statement of financial position

As of

(In thousands of Brazilian reais – R\$)

Liabilities and equity	Note	March 31, 2023	December 31, 2022
Current liabilities			
Loans and financing	17	1,441,842	1,127,729
Leases	18	4,578,717	4,025,948
Accounts payable	19	2,715,650	2,432,843
Reverse factoring	20	-	753,352
Airport fees		1,033,688	831,897
Air traffic liability	22	4,091,940	4,140,025
Salaries and benefits		491,701	479,412
Insurance payable		62,798	84,985
Taxes payable	23	135,411	193,588
Derivative financial instruments	21	139,941	69,365
Provisions	24	1,079,069	834,288
Other liabilities		113,687	82,673
Total current liabilities		15,884,444	15,056,105
Non-current liabilities			
Loans and financing	17	7,202,848	7,508,689
Leases	18	9,921,373	10,556,885
Accounts payable	19	403,249	516,971
Airport fees		504,932	502,872
Air traffic liability	22	9,193	-
Derivative financial instruments	21	-	175,210
Taxes payable	23	148,277	71,595
Provisions	24	2,140,378	2,408,706
Other liabilities		914,294	931,760
Total non-current liabilities		21,244,544	22,672,688
Equity	26		
Issued capital		2,314,002	2,313,941
Advance for future capital increase		-	61
Capital reserve		1,990,368	1,970,098
Treasury shares		(13,085)	(10,204)
Other comprehensive income		5,281	5,281
Accumulated losses		(24,023,318)	(23,286,677)
		(19,726,752)	(19,007,500)
Total liabilities and equity		17,402,236	18,721,293

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





AZUL S.A.

Consolidated Statements of operations

For the three months ended March 31

(In thousands of Brazilian reais – R\$)

	Note	Three months ended March,31	
		2023	2022
Passenger revenue		4,169,871	2,842,969
Other revenues		308,457	350,072
Total revenue	29	4,478,328	3,193,041
Aircraft fuel		(1,673,402)	(1,188,966)
Salaries and benefits		(537,472)	(434,221)
Airport fees		(262,361)	(199,107)
Passenger expenses		(195,596)	(132,970)
Maintenance		(157,896)	(160,268)
Advertising and publicity		(173,997)	(126,851)
Depreciation and amortization		(567,653)	(522,038)
Insurance		(19,398)	(18,768)
Rental (*)		(15,212)	(35,077)
Other		(707,310)	(524,619)
		(4,310,297)	(3,342,885)
Operating profit (loss)		168,031	(149,844)
Financial income		53,466	48,914
Financial expenses		(1,257,584)	(1,024,158)
Derivative financial instruments, net		(274,972)	306,042
Foreign currency exchange, net		574,418	3,486,094
Financial result	30	(904,672)	2,816,892
Net (loss) profit for the period		(736,641)	2,667,048
Basic (loss) earnings per common share – R\$	27	(0.03)	0.10
Diluted (loss) earnings per common share – R\$	27	(0.03)	0.10
Basic (loss) earnings per preferred share – R\$	27	(2.12)	7.69
Diluted (loss) earnings per preferred share – R\$	27	(2.12)	7.68

(*) Rental expenses are composed mainly by variable lease payments which is not comprised in scope of IFRS 16 .

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



**AZUL S.A.****Consolidated Statements of comprehensive (loss) income**

For the three months ended March 31

(In thousands of Brazilian reais – R\$)

	Three months ended March,31	
	2023	2022
Net (loss) profit for the period	(736,641)	2,667,048
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:	-	-
Total comprehensive (loss) income	(736,641)	2,667,048

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





AZUL S.A.

Consolidated Statements of changes in equity

For the three months ended March 31

(In thousands of Brazilian reais – R\$)

Description	Note	Issued capital	Advance for future capital increase	Treasury shares	Capital reserve	Other comprehensive income	Accumulated losses	Total
As of January 1, 2022		2,290,876	120	(11,959)	1,946,471	5,799	(22,564,310)	(18,333,003)
Net profit for the period		-	-	-	-	-	2,667,048	2,667,048
Total comprehensive income		-	-	-	-	-	2,667,048	2,667,048
Share buyback	26	-	-	(40)	-	-	-	(40)
Share-based payment	26/28	120	22,739	-	4,307	-	-	27,166
As of March 31, 2022		2,290,996	22,859	(11,999)	1,950,778	5,799	(19,897,262)	(15,638,829)

Description	Note	Issued capital	Advance for future capital increase	Treasury shares	Capital reserve	Other comprehensive income	Accumulated losses	Total
As of January 1, 2023		2,313,941	61	(10,204)	1,970,098	5,281	(23,286,677)	(19,007,500)
Net loss for the period		-	-	-	-	-	(736,641)	(736,641)
Total comprehensive income		-	-	-	-	-	(736,641)	(736,641)
Share buyback	26	-	-	(2,881)	-	-	-	(2,881)
Share-based payment	26/28	61	(61)	-	20,270	-	-	20,270
As of March 31, 2023		2,314,002	-	(13,085)	1,990,368	5,281	(24,023,318)	(19,726,752)

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



AZUL S.A.

Consolidated Statements of cash flows

For the three months ended March 31

(In thousands of Brazilian reais – R\$)

	Three months ended March,31	
	2023	2022
Cash flows from operating activities		
Net (loss) profit for the period	(736,641)	2,667,048
Adjustments to reconcile net (loss) profit for the period to net cash flow		
Depreciation and amortization	567,653	522,038
Derivative financial results	274,972	(306,042)
Share-based payment	20,593	8,070
Foreign currency exchange, net	(583,315)	(3,424,626)
Financial income and expenses	975,872	905,931
Provisions	97,669	80,331
Disposal of prepaid expenses	169,999	-
Result from modification of lease contracts	(22,412)	(816)
Result on disposal and/or sale of fixed assets and right of use	24,107	7,323
Adjusted net (loss) profit for the period	788,497	459,257
Changes in operating assets and liabilities		
Accounts receivable	439,324	(361,329)
Aircraft sublease	11,234	14,980
Inventories	1,559	(30,773)
Security deposits and maintenance reserves	9,429	(75,155)
Prepaid expenses	(45,405)	(58,540)
Taxes recoverable	575	(41,258)
Advances to suppliers	(496,171)	73,683
Other assets	(3,208)	(1,114)
Rights and obligations with derivatives	(47,822)	41,123
Accounts payable	349,359	253,042
Airport fees	203,851	21,615
Air traffic liability	(88,107)	(15,804)
Salaries and benefits	53,829	15,482
Insurance payable	(20,436)	(39,447)
Taxes payable	16,925	(82,528)
Contingencies	(49,918)	(37,440)
Other liabilities	40,569	(160,031)
Total changes in operating assets and liabilities	375,587	(483,494)
Interest paid	(120,931)	(213,693)
Net cash provided (used) by operating activities	1,043,153	(237,930)
Cash flows from investing activities		
Short-term investments	-	(500)
Acquisition of short-term investments	-	451
Redemption of short-term investments	-	-
Acquisition of intangible assets	(40,183)	(42,767)
Acquisition of property and equipment	(41,596)	(184,167)
Net cash used by investing activities	(81,779)	(226,983)
Cash flows from financing activities		
Loans and financing		
Proceeds	302,253	200,000
Repayment	(322,383)	(83,077)
Payment of costs	(4,719)	-
Reverse factoring	(727,368)	-
Lease payment	(407,712)	(820,467)
Treasury shares	(2,881)	(40)
Net cash used by financing activities	(1,162,810)	(703,584)
Exchange rate changes on cash and cash equivalents	(562)	(47,531)
Decrease in cash and cash equivalents	(201,998)	(1,216,028)
Cash and cash equivalents at the beginning of the period	668,348	3,073,799
Cash and cash equivalents at the end of the period	466,350	1,857,771

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





AZUL S.A.

Notes to the interim condensed consolidated financial statements

March 31, 2023

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

1. OPERATIONS

Azul S.A. ("Azul" or "Company") is a corporation governed by its bylaws, as per Law No. 6404/76 and by the corporate governance level 2 listing regulation of B3 S.A. – Brasil, Bolsa, Balcão ("B3"). The Company was incorporated on January 3, 2008, and its core business comprises the operation of regular and non-regular airline passenger services, cargo or mail, passenger charter, provision of maintenance and hangarage services for aircraft, engines, parts and pieces, aircraft acquisition and lease, development of frequent-flyer programs, development of related activities and equity holding in other companies since the beginning of its operations on December 15, 2008.

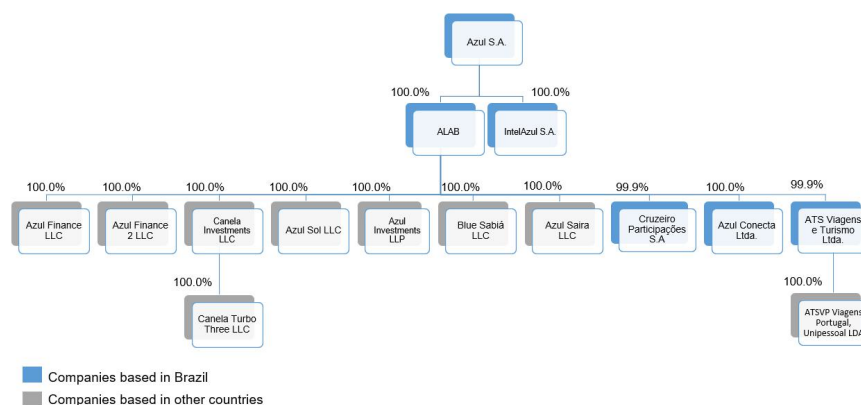
The Company carries out its activities through its subsidiaries, mainly Azul Linhas Aéreas Brasileiras S.A. ("ALAB") and Azul Conecta Ltda. ("Conecta"), which hold authorization from government authorities to operate as airlines.

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

The Company is headquartered at Avenida Marcos Penteado de Ulhôa Rodrigues, 939, 8th floor, in the city of Barueri, state of São Paulo, Brazil.

1.1 Organizational structure

The Company and its subsidiaries organizational consolidation structure as of March 31, 2023 is as follows:



**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

The table below lists the operational activities in which the Company's subsidiaries are engaged, as well as the changes in ownership that occurred in period, when applicable.

Company	Type of investment	Main activity	Country	% equity interest	
				March 31, 2023	December 31, 2022
IntelAzul S.A.	Direct	Frequent-flyer program	Brazil	100.0%	100.0%
AZUL Linhas Aéreas Brasileiras S.A. (ALAB)	Direct	Airline operations	Brazil	100.0%	100.0%
Azul Conecta Ltda. (Conecta)	Indirect	Airline operations	Brazil	100.0%	100.0%
ATS Viagens e Turismo Ltda.	Indirect	Travel packages	Brazil	99.9%	99.9%
ATSVP Viagens Portugal, Unipessoal LDA	Indirect	Travel packages	Portugal	100.0%	-
Cruzeiro Participações S.A	Indirect	Holding of equity interests in other companies	Brazil	99.9%	99.9%
Azul Investments LLP	Indirect	Funding	USA	100.0%	100.0%
Azul SOL LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Azul Finance LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Azul Finance 2 LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Blue Sabiá LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Canela Investments LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Canela Turbo Three LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Azul Saira LLC	Indirect	Aircraft financing	USA	100.0%	100.0%

1.2 Capital structure and net working capital

The Company's Management, together with the Board of Directors, constantly monitors the Company's liquidity position and cash projections, as well as any factors that may affect the ability to generate revenue and the Company's ability to honor the financial commitments assumed.

The variation in consolidated net working capital and equity is presented below:

Description	March 31, 2023	December 31, 2022	Variation
Net working capital	(11,934,743)	(10,184,169)	(1,750,574)
Equity	(19,726,752)	(19,007,500)	(719,252)

The variation in the balance of net working capital is mainly due to:

- decrease of R\$201,998 in cash and cash equivalents, result (i) of payments of R\$1,155,210 related to loans, financing, leases and reverse factoring offset by funding (ii) payments related to the investment activities of R\$81,779 and (iii) operating cash generation of R\$1,043,153;
- increase in accounts payable and airport fees result of payment term extension in the amount of R\$484,598; and.
- transfers from non-current to current, mainly in the account "Loans and financing", "Leases" and "Provision for return of aircraft and engines".

The increase in the negative position of shareholders' equity is mainly due to the financial result of the Company, which exceeds the operating profit by R\$736,641.





AZUL S.A.

Notes to the interim condensed consolidated financial statements

March 31, 2023

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

The Company's Management has been restructuring debts with lessors and original equipment manufacturers ("OEM's") as per note 33.

Management performed an evaluation and concluded that the Company is able to continue as a going concern and meet its obligations as they fall due. This evaluation is based on the Company's business plan approved by the Board of Directors on December 8, 2022. The business plan includes future actions, macroeconomic and aviation sector assumptions, such as: recovery in demand for air transport, estimates of exchange rates and fuel prices. The Company's Management monitors and informs the Board of Directors about the performance achieved in relation to the approved plan.

Based on this conclusion, these interim condensed consolidated financial statements have been prepared based on the principle of going concern.

1.3 Seasonality

The Company's operating revenues depend substantially on the general volume of passenger and cargo traffic, which is subject to seasonal changes. Our passenger revenues are generally higher during the summer and winter holidays, in January and July respectively, and in the last two weeks of December, which corresponds to the holiday season. Considering the distribution of fixed costs, this seasonality tends to cause variations in operating results between the quarters of the fiscal year. It should be noted that the COVID-19 pandemic impacted the behavior related to the frequency of travels of the Company's customers, in the first quarter of 2022, presented for comparative purposes.

2. DECLARATION OF MANAGEMENT, BASIS OF PREPARATION AND PRESENTATION OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The interim condensed consolidated financial statements for the three months ended 31 March 2023 have been prepared in accordance with IAS 34 Interim Financial Reporting.

The Company's interim condensed consolidated financial statements have been prepared based on the real ("R\$") as a functional and presentation currency and are expressed in thousands of reais, unless otherwise indicated.

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



**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

The Company reviews its judgments, estimates, and assumptions on an ongoing basis. When preparing these interim condensed consolidated financial statements, Management used the following disclosure criteria to understand the changes observed in the Company's equity, economic and financial position and in its performance, since the end of the last fiscal year ended December 31, 2022. (i) regulatory requirements; (ii) relevance and specificity of the information on the Company's operations to users; (iii) informational needs of users of the interim condensed consolidated financial statements; and (iv) information from other entities participating in the passenger air transport market.

During the three months ended March 31, 2023, there were no impacts related to changes in accounting estimates and/or provisions that were not described in these interim condensed consolidated financial statements.

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

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

At fair value:

- Short-term investments classified as cash and cash equivalents;
- Short-term investments mainly comprised of TAP Bond;
- Derivative financial instruments; and
- Debenture conversion right.

2.1 Approval and authorization for issue of the interim condensed consolidated financial statements

The approval and authorization for issue of these interim condensed consolidated financial statements occurred at the Board of Directors' meeting held on May 15, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

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 consolidated financial statements as of 31 December 2022.

3.1 New accounting standards and pronouncements not yet adopted

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



**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

3.2 Foreign currency transactions

Foreign currency transactions are recorded at the exchange rate in effect at the date the transactions take place. Monetary assets and liabilities designated in foreign currency are translated based on the exchange rate in effect at the reporting date, and any difference resulting from currency translated is recorded under the line item "Foreign currency exchange, net" in the statement of operations.

The exchange rates to Brazilian reais at the date of these interim condensed consolidated financial statements are as follows:

Description	Exchange rates					
	Rate as of			Average rate		
	March 31, 2023	December 31, 2022	Variation %	March 31, 2023	March 31, 2022	Variation %
U.S. dollar	5.0804	5.2177	-2.6%	5.1963	4.9684	4.6%
Euro	5.5244	5.5694	-0.8%	5.5764	5.4740	1.9%

4. CASH AND CASH EQUIVALENTS

Description	Weighted average rate p.a.	March 31, 2023	December 31, 2022
Cash and bank deposits	-	425,873	101,737
Cash equivalents			
Bank Deposit Certificate - CDB	98.0% of CDI	700	352,971
Repurchase agreements	84.01% of CDI	37,123	210,443
Time Deposit - TD ^(a)	3.5%	2,549	2,616
Others	13.0%	105	581
		<u>466,350</u>	<u>668,348</u>

(a) Investment in U.S. dollar.

5. LONG-TERM INVESTMENTS

Description	Weighted average rate p.a.	Maturity	March 31, 2023	December 31, 2022
TAP Bond	7.5%	Sep-26	753,779	733,043
			<u>753,779</u>	<u>733,043</u>



**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

6. ACCOUNTS RECEIVABLE

Description	March 31, 2023	December 31, 2022
Local currency		
Credit card companies	300,540	1,109,197
Cargo and travel agencies	368,516	282,438
Travel package financing entities	122,872	135,168
TudoAzul Program partners	235,310	69,035
Others	42,079	41,973
Total local currency	1,069,317	1,637,811
Foreign currency		
Credit card companies	17,679	15,913
Reimbursement receivable for maintenance reserves	100,796	78,801
Airline partner companies	39,732	39,612
Clearinghouse - agencies and cargo	25,074	26,363
Others	40,538	29,582
Total foreign currency	223,819	190,271
Total	1,293,136	1,828,082
Allowance for expected credit losses	(26,033)	(24,084)
Total net	1,267,103	1,803,998

In Brazil, credit card receivables are not exposed to credit risk of the cardholder. The balances can easily be converted into cash, when necessary, by discounting of these receivables with credit card companies.

During the three months ended March 31, 2023, the Company discounted accounts receivable of R\$3,143,701 from accounts receivable from credit card companies, with no right of recourse.

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

Description	March 31, 2023	December 31, 2022
Not past due	1,105,971	1,644,019
Over 1 to 90 days	67,557	68,631
Over 90 days	93,575	91,348
Total	1,267,103	1,803,998

Until April 30, 2023, out of the total amount past due within 90 days, R\$38,393 had already been received. Of the receivables past due for more than 90 days, approximately R\$56,364 refer to reimbursement receivables for maintenance reserves of a lessor that had just emerged from a court-supervised reorganization ("Chapter 11"), and Management does not expect to incur losses on these operations since it has obligations at higher amounts than the outstanding amounts receivable. The Company is negotiating to recover these amounts or offset them against lease obligations. Therefore, we conclude that the allowance for expected credit losses is adequately estimated.

**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

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

Description	March 31, 2023	December 31, 2022
Balances at the beginning of the period	(24,084)	(17,817)
(Additions), net	(1,955)	(6,583)
Write-off of uncollectible amounts	6	316
Balances at the end of the period	(26,033)	(24,084)

7. AIRCRAFT SUBLEASE

Description	March 31, 2023	December 31, 2022
2023	70,052	89,293
2024	68,543	70,396
2025	48,808	50,127
2026	7,743	7,951
Gross sublease	195,146	217,767
Accrued interest	(21,224)	(25,838)
Provision for losses	(18,236)	(15,876)
Net sublease	155,686	176,053
Current	65,790	70,193
Non-current	89,896	105,860

8. INVENTORIES

Description	March 31, 2023	December 31, 2022
Maintenance materials and parts	737,260	741,101
Flight attendance and uniforms	24,204	21,922
Provision for losses	(42,595)	(41,285)
Total, net	718,869	721,738

Set out below is the movement of the provision for inventory losses:

Description	March 31, 2023	December 31, 2022
Balances at the beginning of the period	(41,285)	(38,935)
Additions	(8,208)	(5,652)
Write-offs	6,898	3,302
Balances at the end of the period	(42,595)	(41,285)



**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

9. SECURITY DEPOSITS AND MAINTENANCE RESERVES

Description	March 31, 2023	December 31, 2022
Security deposits	370,712	374,960
Maintenance reserves	2,630,002	2,610,943
Total	3,000,714	2,985,903
Provision for loss	(436,996)	(446,342)
Total, net	2,563,718	2,539,561

The movement of security deposits and maintenance reserves is as follows:

Description	Security deposits	Maintenance reserves	Total
At December 31, 2022	374,960	2,164,601	2,539,561
Additions	14,545	146,922	161,467
Provision for loss	-	(16,551)	(16,551)
Write-offs	(10,919)	(46,631)	(57,550)
Foreign currency exchange	(7,874)	(55,335)	(63,209)
At March 31, 2023	370,712	2,193,006	2,563,718
At March 31, 2023			
Current	102,236	838,718	940,954
Non-current	268,476	1,354,288	1,622,764
At December 31, 2022			
Current	77,241	947,927	1,025,168
Non-current	297,719	1,216,674	1,514,393

10. TAXES RECOVERABLE

Description	March 31, 2023	December 31, 2022
Social Integration Program (" PIS ") and Contribution to Social Security Financing (" COFINS ")	139,504	135,176
Withholding income tax	46,222	39,528
Income taxes	14,909	29,359
Tax on the Circulation of Goods and Services (" ICMS ")	24,027	21,661
Others	10,086	9,167
	234,748	234,891



**AZUL S.A.****Notes to the interim condensed consolidated financial statements**

March 31, 2023

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

11. PREPAID EXPENSES

Description	March 31, 2023	December 31, 2022
Insurances	59,744	82,501
Maintenance	180,701	304,927
Commissions	49,658	69,856
Others	54,144	44,607
Total	344,247	501,891
Current	150,216	182,891
Non-current	194,031	319,000

The variation mainly relates to the termination of a maintenance contract that resulted in the write off prepaid amounts. The corresponding loss was recorded under “Other” in the statement of operations.

12. ADVANCE TO SUPPLIERS

Description	March 31, 2023	December 31, 2022
Advances – local currency	44,313	90,810
Advances – foreign currency	33,528	30,887
	77,841	121,697

13. INCOME TAX AND CONTRIBUTION**13.1 Breakdown of deferred taxes**

Description	December 31, 2022	Profit or loss	March 31, 2023
Temporary differences liabilities			
Breakage	(176,884)	(16,732)	(193,616)
Others	(516)	(154)	(670)
	(177,400)	(16,886)	(194,286)
Temporary differences assets	177,400	16,886	194,286
Total	-	-	-





AZUL S.A.

Notes to the interim condensed consolidated financial statements

March 31, 2023

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

13.2 Reconciliation of the effective income tax rate

Description	Three months ended March,31	
	2023	2022
(Loss) profit before income tax and social contribution	(736,641)	2,667,048
Combined nominal tax rate	34%	34%
Taxes calculated at nominal rates	250,458	(906,796)
Adjustments to determine the effective rate		
Profits from non-taxed investments abroad	53,386	(37,853)
Unrecorded and (recorded) benefit on tax losses and temporary differences	(303,134)	874,433
Permanent differences	(10,390)	71,106
Rate differential	10,889	-
Others	(1,209)	(890)
	-	-

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

Description	March,31 2023	December 31, 2022
Tax losses and negative bases	13,214,751	12,863,038
Tax loss (25%)	3,303,688	3,215,760
Negative social contribution base (9%)	1,189,328	1,157,673

14. PROPERTY AND EQUIPMENT

Description	Weighted average rate (p.a.)	December 31, 2022	Acquisitions	Write-offs	Transfers ^(a)	March 31, 2023
Cost						
Aircraft and engines		2,656,771	49,358	(16,316)	1,499	2,691,312
Buildings and leasehold improvements		524,075	4,364	-	160	528,599
Equipment and facilities		222,482	9,535	(486)	-	231,531
Others		32,205	816	-	-	33,021
Construction in progress		44,243	1,281	-	(10,703)	34,821
Advance payments for acquisition of aircraft		109,487	-	-	-	109,487
		3,589,263	65,354	(16,802)	(9,044)	3,628,771
Depreciation						
Aircraft and engines	8%	(965,066)	(54,787)	4,074	-	(1,015,779)
Buildings and leasehold improvements	8%	(214,411)	(10,045)	-	-	(224,456)
Equipment and facilities	11%	(151,732)	(5,941)	300	-	(157,373)
Others	9%	(25,888)	(695)	-	-	(26,583)
		(1,357,097)	(71,468)	4,374	-	(1,424,191)
Property and equipment		2,232,166	(6,114)	(12,428)	(9,044)	2,204,580
Impairment		(279,077)	-	-	-	(279,077)
Total property and equipment, net		1,953,089	(6,114)	(12,428)	(9,044)	1,925,503

(a) The balances of transfers are between "Property and equipment" and "Right-of-use assets" groups.





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15. RIGHT-OF-USE ASSETS

Description	Weighted average rate (p.a.)	December 31, 2022	Additions	Write-offs	Modifications	Transfers ^(a)	March 31, 2023
Cost							
Aircraft and engines		12,633,542	172,071	(335,014)	7,226	6,416	12,484,241
Maintenance of aircraft and engines		1,938,788	89,413	(12,212)	(14,537)	2,628	2,004,080
Restoration of aircraft and engines		1,819,438	80,434	(526)	(63,852)	-	1,835,494
Simulators		119,782	-	-	-	-	119,782
Others		226,621	7,638	-	23,114	-	257,373
		16,738,171	349,556	(347,752)	(48,049)	9,044	16,700,970
Depreciation							
Aircraft and engines	7%	(7,122,831)	(224,672)	335,014	-	-	(7,012,489)
Maintenance of aircraft and engines	17%	(1,159,612)	(81,333)	1,319	-	-	(1,239,626)
Restoration of aircraft and engines	29%	(628,522)	(132,163)	526	-	-	(760,159)
Simulators	30%	(105,395)	(8,891)	-	-	-	(114,286)
Others	20%	(58,914)	(11,060)	-	-	-	(69,974)
		(9,075,274)	(458,119)	336,859	-	-	(9,196,534)
Right-of-use assets		7,662,897	(108,563)	(10,893)	(48,049)	9,044	7,504,436
Impairment		(110,349)	-	-	-	-	(110,349)
Right-of-use assets, net		7,552,548	(108,563)	(10,893)	(48,049)	9,044	7,394,087

(a) The balances of transfers are between "Property and equipment" and "Right-of-use assets" groups.

16. INTANGIBLE ASSETS

Description	Weighted average rate (p.a.)	December 31, 2022	Acquisitions	Write-offs	March 31, 2023
Cost					
Goodwill		901,417	-	-	901,417
Slots		126,547	-	-	126,547
Software		946,516	76,424	(785)	1,022,155
		1,974,480	76,424	(785)	2,050,119
Amortization					
Software	16%	(547,957)	(38,500)	-	(586,457)
		(547,957)	(38,500)	-	(586,457)
Total intangible assets, net		1,426,523	37,924	(785)	1,463,662





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17. LOANS AND FINANCING

Description	Average nominal rate p.a.	Maturity	December 31, 2022	Funding (–) costs	Transfers (c)	Variation of conversion right	Payment of principal	Payment of interest	Interest incurred	Foreign currency exchange	Amortized cost	March 31, 2023
In foreign currency – US\$												
Senior notes – 2024	5.9%	Oct-24	2,097,402	-	-	-	-	-	30,117	(55,476)	1,538	2,073,581
Senior notes – 2026	7.3%	Jun-26	3,095,665	-	-	-	-	-	55,749	(81,989)	3,118	3,072,543
Convertible debentures (a)	6.0%	Oct-25	1,403,719	-	-	81,039	-	-	60,731	(22,905)	1,191	1,523,775
Aircraft and engines	6.8%	Mar-29	730,673	-	-	-	(8,067)	(11,258)	16,760	(19,553)	1,463	710,018
		Aug-26	-	-	28,311	-	-	-	-	-	-	28,311
Others	1.0%	Jun-25	551	-	-	-	-	-	1	(134)	-	418
			7,328,010	-	28,311	81,039	(8,067)	(11,258)	163,358	(180,057)	7,310	7,408,646
In local currency - R\$												
Working capital	CDI +4.9%	Feb-24	496,997	300,000	-	-	(116,633)	(18,299)	19,305	-	628	681,998
	1.7%	Sep-25	2,675	-	-	-	(293)	(44)	100	-	-	2,438
Debentures (b)	CDI + 5.0%	Dec-28	747,170	(2,467)	-	-	(191,530)	(80,811)	22,780	-	997	496,139
Aircraft and engines	6.2%	Mar-27	42,282	-	-	-	(4,685)	(592)	594	-	20	37,619
	Selic + 5.5%	May-25	19,284	-	-	-	(1,174)	(1,109)	849	-	-	17,850
			1,308,408	297,533	-	-	(314,315)	(100,855)	43,628	-	1,645	1,236,044
Total in R\$			8,636,418	297,533	28,311	81,039	(322,382)	(112,113)	206,986	(180,057)	8,955	8,644,690
Current			1,127,729									1,441,842
Non-current			7,508,689									7,202,848

(a) The balance recorded includes the right to convert the debt into Company shares in the amount of R\$198,010 (as of December 31, 2022 – R\$116,971).

(b) The amount of R\$2,467 refers to costs to be amortized due to the renegotiation of the debentures (note 17.3.1).

(c) The balance of transfers are between "Loans and financing" and "Leases" groups.



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17.1 Schedule of amortization of long-term debt

Description	March 31, 2023	December 31, 2022
2024	2,140,975	2,391,313
2025	1,691,396	1,629,572
2026	3,158,884	3,306,081
2027	103,810	172,205
After 2027	107,783	9,518
	<u>7,202,848</u>	<u>7,508,689</u>

17.2 New funding

During the three months ended March 31, 2023, the subsidiary ALAB raised R\$302,252 with costs of R\$2,252, at a rate equivalent to CDI+6.4% p.a. and single payment of interest and principal in June 2023. The proceeds will be used for general corporate purposes.

17.3 Renegotiation

During the three months ended March 31, 2023, the Company renegotiated some loans contracts and evaluated them in accordance with IFRS 9 - Financial instruments. The concluded that the renegotiations did not meet the definition of derecognition of liabilities, which requires the extinguishment of the original financial liability and the recognition of a new financial liability.

17.3.1 Debentures

The subsidiary ALAB renegotiated the terms of the debentures, in order to extend the maturity date from December 20, 2027 to December 20, 2028.

17.3.2 Aircraft and engines

The subsidiary ALAB renegotiated the deferral of the payment from March 31, 2023 to December 31, 2023 of an installment, in the amount of R\$194,330. Consequently, the weighted average rate increased from 6.5% to 7.4%.

17.4 Covenants

The Company has restrictive clauses covenants in some of its loan and financing agreements, as disclosed in the annual financial statements of December 31, 2022.

As of March 31, 2023 the Company was in breach of certain covenants related to aircraft financing agreements whose measurement frequency is quarterly and the Company obtained a waiver as of March 31, 2023. Therefore, the related debt is classified in these interim condensed consolidated financial statements according to the original contractual terms.



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18. LEASES

Description	Average remaining term	Weighted average rate	December 31, 2022	Additions	Modifications	Payments	Interest incurred	Transfers ^(a)	Foreign currency exchange	March 31, 2023
Lease without purchase option:										
Aircraft and engines	7.4	21.4%	13,585,810	176,108	17,910	(457,717)	624,069	62,504	(356,235)	13,652,449
Others	4.8	10.2%	185,527	7,638	23,114	(13,691)	4,284	-	(3,084)	203,788
Lease with purchase option:										
Aircraft and engines	5.5	21.5%	811,496	-	(33,871)	(52,651)	26,789	(90,815)	(17,095)	643,853
Total			14,582,833	183,746	7,153	(524,059)	655,142	(28,311)	(376,414)	14,500,090
Current			4,025,948							4,578,717
Non-current			10,556,885							9,921,373

(a) The balance of transfers is between the "Loans and financing" and "Leases" groups.



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18.1 Schedule of amortization of leases

Description	March 31, 2023	December 31, 2022
2023	3,832,958	4,387,911
2024	4,098,098	4,162,958
2025	3,524,191	3,579,587
2026	3,190,088	3,237,509
2027	2,878,342	2,909,201
After 2027	8,526,630	8,512,031
Minimum lease payments	26,050,307	26,789,197
Financial charges	(11,550,217)	(12,206,364)
Present value of minimum lease payments	14,500,090	14,582,833

18.2 Covenants

The Company has covenants in some of its lease agreements, as disclosed in the annual financial statements as of December 31, 2022.

These conditions will be verified only December 31, 2023, therefore, the related debt is still classified in these interim condensed financial statements according to the original contractual terms.

19. ACCOUNTS PAYABLE

Description	March 31, 2023	December 31, 2022
Accounts payable – local currency	1,821,691	1,857,583
Accounts payable – foreign currency	1,297,208	1,092,231
	3,118,899	2,949,814
Current	2,715,650	2,432,843
Non-current	403,249	516,971

20. REVERSE FACTORING

Description	Consolidated
At December 31, 2022	753,352
Interest incurred	12,258
Interest paid	(38,242)
Payment	(727,368)
At March 31, 2023	-

Due to the high interest rates, the Company decided to terminate all transaction on March 2, 2023.



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21. DERIVATIVE FINANCIAL INSTRUMENTS

Changes in fair value	Derivatives not designated as hedge accounting					Total
	Interest rate swap	Forward - fuel	Option fuel	Forward - foreign currency	Conversion right debentures	
At December 31, 2022	(179,170)	(28,701)	-	235,246	(116,971)	(89,596)
Gains (losses) recognized in result	(34,075)	(146,134)	10,828	(24,552)	(81,039)	(274,972)
Payments (receipts)	213,245	34,894	10,377	(210,694)	-	47,822
At March 31, 2023	-	(139,941)	21,205	-	(198,010)	(316,746)
Rights with current derivative financial instruments	-	-	21,205	-	-	21,205
Obligations with current derivative financial instruments	-	(139,941)	-	-	-	(139,941)
Long-term loans and financing	-	-	-	-	(198,010)	(198,010)
	-	(139,941)	21,205	-	(198,010)	(316,746)

22. AIR TRAFFIC LIABILITY

Description	March 31, 2023	December 31, 2022
Air traffic liability	4,670,593	4,660,271
Breakage	(569,460)	(520,246)
	4,101,133	4,140,025
Average use term	63 days	48 days
Current	4,091,940	4,140,025
Non-current	9,193	-

The balance classified as non-current refers to the TudoAzul points program.

23. TAXES PAYABLE

Description	March 31, 2023	December 31, 2022
Government installment payment program	190,505	96,547
Social Integration Program (" PIS ") and Contribution to Social Security Financing (" COFINS ")	23,193	55,385
Withholding income tax	43,450	49,906
Import taxes	15,078	15,189
Others	11,462	48,156
	283,688	265,183
Current	135,411	193,588
Non-current	148,277	71,595

During the three months ended March 31, 2023, the Company installment taxes in 60 months through Government installment payment program.



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24. PROVISIONS**24.1 Breakdown of provisions**

Description	Return of aircrafts and engines (a)	Tax, civil, labor and other risks	Post-employment benefit	Total
At December 31, 2022	2,675,266	560,727	7,001	3,242,994
Additions	80,434	70,479	29	150,942
Modifications	(77,614)	-	-	(77,614)
Payments	(46,998)	(49,917)	-	(96,915)
Interest incurred	66,506	4,552	190	71,248
Foreign currency exchange	(71,208)	-	-	(71,208)
At March 31, 2023	2,626,386	585,841	7,220	3,219,447
At March 31, 2023				
Current	883,193	195,876	-	1,079,069
Non-current	1,743,193	389,965	7,220	2,140,378
At December 31, 2022				
Current	654,897	179,391	-	834,288
Non-current	2,020,369	381,336	7,001	2,408,706

(a) Nominal discount rate 11.24% p.a. (11.24% p.a as of December 31, 2022).

24.1.1 Tax, civil, labor and other risks

The balances of the proceedings with estimates of probable and possible losses are shown below:

Description	Probable loss		Possible loss	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
Tax	271,337	263,495	412,098	376,510
Civil	121,077	107,980	54,833	57,871
Labor	126,017	121,842	61,441	43,423
Other	67,410	67,410	-	-
	585,841	560,727	528,372	477,804

24.1.1.1 New relevant processes**24.1.1.1.1 Labor****24.1.1.1.1.1 Possible loss**

On February 15, 2023, the Public Ministry of Labor (MPT) filed a lawsuit against the Company alleging non-compliance with the Apprentice quota, a Brazilian program, where young people reconcile work and school before graduation, intending that Azul start to consider, when calculating the quota, all functions that require professional training, as specified in the Brazilian Classification of Occupations (CBO), under penalty of a daily fine of BRL 5 per apprentice not hired.



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The MPT also requests the condemnation of the Company to the payment of compensation for collective pain and suffering in the amount of R\$ 20,000. The lawsuit is in the initial phase, still without decision. The probability of loss is evaluated as "possible" by the Company's legal advisors.

25. RELATED-PARTY TRANSACTIONS

Transactions with related parties were entered into in the ordinary course of the Company's business, at prices, terms and financial charges according to the conditions established between the parties.

25.1 Compensation of key management personnel

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

Key management personnel comprise the directors, officers and members of the Executive Committee. Expenses incurred with remuneration and the respective charges, paid or payable, are shown below:

Description	Three months ended March,31	
	2023	2022
Short-term benefits	6,468	5,649
Wages	1,292	1,641
Share-based payment plan	18,987	6,517
	26,747	13,808

25.2 Technology service sharing contract

On January 1, 2013, the Company entered into a contract with Águia Branca Participações S.A., one of its shareholders, for the sharing of information technology resources for an indefinite period. The total amount of services acquired during three months ended March 31, 2023 was R\$13 (R\$13 as of March 31, 2022), recorded under "Other expenses, net" in the statement of operations. As of March 31, 2023, there were no amounts to be paid as a result of this transaction.

25.3 Ticket sales contract

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

25.4 Aircraft sublease

In December 2019, the Company signed a letter of intent for the sublease of aircraft to the Breeze Aviation Group ("Breeze"), an airline founded by the controlling shareholder of Azul, headquartered in the United States. The transaction was voted and approved by 97% of the Azul's shareholders at



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the Extraordinary General Meeting held on March 2, 2020. Following good corporate practices, the controlling shareholder did not participate in the voting.

Until March 31, 2023, the Company sub-leased three aircrafts to Breeze and recorded a balance receivable of R\$61,139 (R\$67,056 as of December 31, 2022).

25.5 Lilium

In August 2021, the Company announced plans to make a strategic partnership with Lilium GmbH ("Lilium"), a wholly owned subsidiary of Lilium N.V., which has ultimately become a related party as the Company's Board of Directors' Chairman was elected independent member of Lilium's Board of Directors.

25.6 Azorra

In August 2022, the Company made agreements for purchase and sale of aircraft and engines with entities that are part of Azorra Aviation Holdings LLC. ("Azorra") group, which has become a related party as the Company's Board of Directors' Chairman was elected independent member of Azorra's Board of Directors.

As of March 31, 2023, the Company has a maintenance reserve, lease and loans and financing obligations in the amount of R\$98,969, R\$108,220 and R\$28,311 (R\$107,286, R\$113,832 and R\$0 as of December 31, 2022), respectively.

26. EQUITY**26.1 Issued capital**

Description	Company's capital	Quantity	
		Common shares	Preferred shares
At December 31, 2022	2,313,941	928,965,058	335,623,408
Share-based payment	61	-	-
At March 31, 2023	2,314,002	928,965,058	335,623,408

As established in the Company's bylaws, each common share is entitled to 1 (one) vote. Preferred shares of any class do not have voting rights, however they do provide their holders with rights that were disclosed in detail in the annual financial statements of December 31, 2022.



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Company shareholding structure is presented below:

Shareholder	March 31, 2023			December 31, 2022		
	Common shares	Preferred shares	% economic participation	Common shares	Preferred shares	% economic participation
David Neeleman	67.0%	2.2%	4.5%	67.0%	2.2%	4.5%
Acionistas Trip (a)	33.0%	4.0%	5.0%	33.0%	4.4%	5.4%
United Airlines Inc	-	8.0%	7.8%	-	8.0%	7.8%
Blackrock	-	5.0%	4.8%	-	5.0%	4.8%
Others	-	80.6%	77.7%	-	80.3%	77.4%
Treasury shares	-	0.2%	0.2%	-	0.1%	0.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

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

26.2 Treasury shares

Description	Number of shares	Amount paid	Average cost (in R\$)
At December 31, 2022	349,999	10,204	29.15
Repurchase	350,000	2,881	8.23
At March 31, 2023	699,999	13,085	18.69

As of November 11, 2022 approved the repurchase plan for 1,300,000 preferred shares maturing in 18 months, to keep them in treasury for a subsequent payment of the installments of the Restricted Stock Option plan. Until March 31, 2023, the Company had repurchased 610,002 shares.

27. EARNINGS (LOSS) PER SHARE

Description	Three months ended March,31	
	2023	2022
Numerator		
Net (loss) profit for the period	(736,641)	2,667,048
Denominator		
Weighted average number of common shares	928,965,058	928,965,058
Weighted average number of preferred shares	335,623,408	334,320,126
75 preferred shares	75	75
Weighted average number of equivalent preferred shares ^(a)	348,009,609	346,706,327
Weighted average number of equivalent common shares ^(b)	26,100,720,658	26,002,974,508
Weighted average number of presumed conversions	77,059,124	2,010,838
Weighted average number of shares that would have been issued at average market price	162,625	675,821
Basic (loss) earnings per common share – R\$	(0.03)	0.10
Diluted (loss) earnings per common share – R\$	(0.03)	0.10
Basic (loss) earnings per preferred share – R\$	(2.12)	7.69
Diluted (loss) earnings per preferred share – R\$	(2.12)	7.68

(a) This refers to the participation in the value of the Company's total equity, calculated as if all 928,965,058 common shares had been converted into 12,386,201 preferred shares at the conversion ratio of 75 common shares for each preferred share.

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



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Diluted earnings (loss) per share are calculated by adjusting the weighted average number of shares outstanding by instruments potentially convertible into shares. However, due to the loss reported in three months ended March 31, 2023, these instruments issued by the company have a antidilutive effect and therefore were not considered in the total number of shares outstanding to determine the diluted loss per share.

28. SHARE-BASED PAYMENT**28.1 Compensation plans**

The conditions of the share-based grant plans were disclosed in detail in the annual financial statements of December 31, 2022 and did not change during the three months ended March 31, 2023.

The movement of the plans is as follows:

Description	Number of shares			
	Option plan	Restricted shares plan ("RSU")	Phantom shares	Total
At December 31, 2022	19,069,705	1,795,401	326,472	21,191,578
Canceled	-	(34,937)	(13,255)	(48,192)
At March 31, 2023	19,069,705	1,760,464	313,217	21,143,386

Description	March 31, 2023	December 31, 2022
Share price (in reais)	12.03	11.01
Weighted average price of the stock option (in reais)	11.84	11.84
Total obligation related to the phantom shares plan	1,166	844

Description	Expense	
	Three months ended March, 31	
	2023	2022
Stock option	17,801	1,020
Restricted share plan	2,469	3,287
Phantom shares	323	3,763
Share-based payment	20,593	8,070

The amounts related to stock options and RSU are recorded under "Capital reserves" and amounts for phantom shares are recorded under "Salaries and benefits".



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28.2 Assumptions**28.2.1 Stock option plan**

Date of grant	Option exercise price (in R\$)	Average fair value of the option on the grant (in R\$)	Historical volatility	Expected dividend	Average risk-free rate of return	Exercise rate per tranche	Deadline remainder of vesting period (in years)	Purchasing period up to (years)	Total options granted	Total outstanding options	Total options available for exercise
December 11, 2009	3.42	1.93	47.7%	1.1%	8.8%	25.0%	-	4.0	5,032,800	182,870	182,870
March 24, 2011	6.44	4.16	54.8%	1.1%	12.0%	25.0%	-	4.0	1,572,000	84,000	84,000
April 5, 2011	6.44	4.16	54.8%	1.1%	12.0%	25.0%	-	4.0	656,000	7,500	7,500
June 30, 2014	19.15	11.01	40.6%	1.1%	12.5%	25.0%	-	4.0	2,169,122	740,013	740,013
July 1, 2015	14.51	10.82	40.6%	1.1%	15.7%	25.0%	-	4.0	627,810	199,864	199,864
July 1, 2016	14.50	10.14	43.1%	1.1%	12.2%	25.0%	-	4.0	820,250	299,796	299,796
July 6, 2017	22.57	12.82	43.4%	1.1%	10.3%	25.0%	-	4.0	680,467	471,745	471,745
March 14, 2017	11.85	4.82	50.6%	1.1%	11.3%	20.0%	-	5.0	9,343,510	-	-
August 8, 2022	11.07	8.10	70.0%	-	13.0%	25.0%	3.3	4.0	1,774,418	1,774,418	-
August 8, 2022	11.07	6.40	68.8%	-	13.2%	25.0%	2.3	4.0	1,514,999	1,509,499	373,250
August 19, 2022	11.07	7.39	67.2%	-	13.6%	100.0%	0.4	1.0	4,900,000	4,900,000	-
August 19, 2022	11.07	11.54	74.6%	-	12.7%	33.0%	4.4	5.0	8,900,000	8,900,000	-
									37,991,376	19,069,705	2,359,038

28.2.2 Restricted stock option plan

Date of grant	Exercise rate per tranche	Fair value of share (in R\$)	Remaining term of the vesting period (in years)	Purchasing period up to (years)	Total granted	Total not exercised
July 7, 2019	25.0%	51.65	0.2	4.0	170,000	32,414
June 19, 2020	25.0%	21.80	1.2	4.0	1,382,582	564,810
July 7, 2021	25.0%	42.67	2.2	4.0	300,000	190,672
July 7, 2022	25.0%	11.72	3.3	4.0	335,593	326,393
July 7, 2022	25.0%	11.72	3.3	4.0	671,186	646,175
					2,859,361	1,760,464

28.2.3 Phantom shares

Date of grant	Option exercise price (in reais)	Price on the grant date (in reais)	Current share price (in reais)	Average fair value of option at the reporting date (in reais)	Historical volatility	Expected dividend	Average risk-free rate of return	Exercise rate	Remaining term of the vesting period (in years)	Term limit to exercise after dressing	Purchasing period up to (years)	Total options granted	Total outstanding
August 7, 2018	20.43	40.41	12.03	2.22	79.6%	-	13.1%	25.0%	-	4 years	4.0	707,400	83,646
July 7, 2019	42.09	25.34	12.03	0.57	79.6%	-	13.1%	25.0%	0.2	4 years	4.0	405,000	13,277
April 30, 2020	10.35	17.40	12.03	4.93	79.6%	-	13.1%	33.3%	0.0	4 years	3.0	3,250,000	169,784
April 30, 2020	10.35	17.40	12.03	5.51	74.8%	-	12.9%	25.0%	1.0	4 years	4.0	1,600,000	45,080
August 17, 2021	33.99	33.99	12.03	2.18	74.2%	-	12.8%	25.0%	2.4	4 years	4.0	580,000	1,430
												6,542,400	313,217



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29. SALES REVENUE

Description	Three months ended March 31,	
	2023	2022
Passenger revenue	4,176,747	2,931,190
Other revenues	347,930	387,579
Total	4,524,677	3,318,769
Taxes levied		
Passenger revenue	(6,876)	(88,221)
Other revenues	(39,473)	(37,507)
Total taxes	(46,349)	(125,728)
Total revenue	4,478,328	3,193,041

Revenues by geographical location are as follows:

Description	Three months ended March 31,	
	2023	2022
Domestic revenue	3,504,946	2,688,518
Foreign revenue	973,382	504,523
Total revenue	4,478,328	3,193,041



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30. FINANCIAL RESULT

Description	Three months ended March 31,	
	2023	2022
Financial income		
Interest cash and cash equivalents and short-term investments	45,774	34,384
Sublease	3,970	5,679
Others	3,722	8,851
	<u>53,466</u>	<u>48,914</u>
Financial expenses		
Interest on loans and financing	(146,255)	(143,578)
Interest on convertible debentures	(60,731)	(54,004)
Interest on lease	(655,142)	(593,993)
Interest on factoring credit card receivables	(114,742)	(37,223)
Interest on provisions	(71,248)	(49,673)
Interest on reverse factoring	(12,258)	-
Interest accounts payable	(65,933)	(35,413)
Guarantee commission	(50,117)	(31,512)
Amortized cost of loans and financing	(8,955)	(8,496)
Cost of financial operations	(15,568)	(17,716)
TAP Bond fair value	(10,628)	(40,746)
Others	(46,007)	(11,804)
	<u>(1,257,584)</u>	<u>(1,024,158)</u>
Derivative financial instruments, net	<u>(274,972)</u>	<u>306,042</u>
Foreign currency exchange, net	<u>574,418</u>	<u>3,486,094</u>
Financial result, net	<u>(904,672)</u>	<u>2,816,892</u>

31. RISK MANAGEMENT**31.1 Accounting classification and fair value hierarchy of financial instruments**

The following hierarchy is used to determine the fair value of financial instruments:

Level 1: quoted prices, without adjustment, in active markets for identical assets and liabilities;

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

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



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The accounting classifications and the fair value hierarchy of the Company's consolidated financial instruments are shown below:

		Carrying amount		Fair value	
Description	Level	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
Assets					
Cash and cash equivalents	2	466,350	668,348	466,350	668,348
Long-term investments	2	753,779	733,043	753,779	733,043
Accounts receivable	-	1,267,103	1,803,998	1,267,103	1,803,998
Aircraft sublease	-	155,686	176,053	155,686	176,053
Security deposits and maintenance reserves	-	2,563,718	2,539,561	2,563,718	2,539,561
Derivative financial instruments	2	21,205	271,950	21,205	271,950
Liabilities					
Loans and financing	-	(8,446,680)	(8,519,447)	(7,043,161)	(7,474,137)
Loans and financing - conversion right	2	(198,010)	(116,971)	(198,010)	(116,971)
Leases	-	(14,500,090)	(14,582,833)	(14,500,090)	(14,582,833)
Accounts payable	-	(3,118,899)	(2,949,814)	(3,118,899)	(2,949,814)
Reverse factoring	-	-	(753,352)	-	(753,352)
Airport fees	-	(1,538,620)	(1,334,769)	(1,538,620)	(1,334,769)
Insurance payable	-	(62,798)	(84,985)	(62,798)	(84,985)
Derivative financial instruments	2	(139,941)	(244,575)	(139,941)	(244,575)

31.2 Market risks**31.2.1 Interest rate risk****31.2.1.1 Sensitivity analysis**

As of March 31, 2023, the Company held financial assets and liabilities linked to various types of rates. In the sensitivity analysis of non-derivative financial instruments, the impact on annual interest was only considered on positions with values exposed to such fluctuations:

Description	Exposure to CDI		Exposure to SOFR		Exposure to LIBOR	
	Rate (p.a.)	March 31, 2023	Rate (p.a.)	March 31, 2023	Weighted rate (p.a.)	March 31, 2023
Exposed liabilities, net	13.7%	(1,135,409)	4.9%	(238,550)	5.3%	(317,246)
Effect on profit or loss						
Interest rate devaluation by -50%	6.8%	77,897	2.4%	5,809	2.6%	8,334
Interest rate devaluation by -25%	10.2%	38,948	3.7%	2,904	3.9%	4,167
Interest rate appreciation by 50%	20.5%	(77,897)	7.3%	(5,809)	7.9%	(8,334)
Interest rate appreciation by 25%	17.1%	(38,948)	6.1%	(2,904)	6.6%	(4,167)

Assets and liabilities linked to LIBOR are being reviewed and will be restated at the published alternative rates. The Company estimates that the updated cash flows will be economically equivalent to the original ones.



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31.2.2 Fuel price risk (“QAV”)

The price of fuel may vary depending on the volatility of the price of crude oil and its derivatives. To mitigate losses linked to variations in the fuel market, the Company had, as of March 31, 2023, forward and options transactions on fuel (note 21).

31.2.2.1 Sensitivity analysis

The following table demonstrates the sensitivity analysis in US dollars of the price fluctuation of QAV liter:

Description	Exposure to price	
	Average price per liter (in reais)	March 31, 2023
Aircraft fuel	5.32	(1,673,402)
Effect on profit or loss		
Devaluation by -50%	2.66	836,701
Devaluation by -25%	3.99	418,351
Appreciation by 50%	7.98	(836,701)
Appreciation by 25%	6.65	(418,351)

31.2.3 Foreign exchange risk

The foreign exchange risk arises from the possibility of unfavorable exchange differences to which the Company's cash flows are exposed.

The exposure to the main exchange differences is as follows:

Description	Exposure to US\$		Exposure to €	
	March 31, 2023	December 31, 2022	March 31, 2023	December 31, 2022
Assets				
Cash and cash equivalents	16,699	56,487	1,920	8,052
Long-term investments	-	-	753,779	733,043
Accounts receivable	186,322	166,012	14,100	-
Aircraft sublease	155,686	176,053	-	-
Security deposits and maintenance reserves	2,494,285	2,471,349	-	-
Other assets	12,856	12,636	-	-
Total assets	2,865,848	2,882,537	769,799	741,095
Liabilities				
Loans and financing	(7,429,217)	(7,299,291)	-	-
Leases	(14,433,322)	(14,525,385)	-	-
Accounts payable	(1,280,248)	(1,051,379)	-	-
Provisions and other liabilities	(2,925,612)	(3,020,947)	-	-
Total liabilities	(26,068,399)	(25,897,002)	-	-
Net exposure	(23,202,551)	(23,014,465)	769,799	741,095
Net exposure in foreign currency	(4,567,072)	(4,410,845)	139,345	133,066





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31.2.3.1 Sensitivity analysis

Description	Exposure to US\$		Exposure to €	
	Closing rate	March 31, 2023	Closing rate	March 31, 2023
Exposed assets (liabilities), net	5.0804	(23,202,551)	5.5244	769,799
Effect on profit or loss				
Foreign currency devaluation by -50%	2.5402	11,601,276	2.7622	(384,900)
Foreign currency devaluation by -25%	3.8103	5,800,638	4.1433	(192,450)
Foreign currency appreciation by 50%	7.6206	(11,601,276)	8.2866	384,900
Foreign currency appreciation by 25%	6.3505	(5,800,638)	6.9055	192,450

31.3 Credit risk

Credit risk is inherent to the Company's operating and financial activities, mainly disclosed in cash and cash equivalents, long-term investments, accounts receivable, aircraft sublease, security deposits and maintenance reserves. Financial assets classified as cash and cash equivalents and are deposited with counterparties that have a minimum investment grade rating in the assessment made by agencies S&P Global Ratings, Moody's or Fitch (between AAA and A+). The TAP Bond is guaranteed by intellectual property rights and credits related to the TAP mileage program.

Credit limits are established for all customers based on internal classification criteria and the carrying amounts represent the maximum credit risk exposure. Outstanding receivables from customers are frequently monitored by the Company and, when necessary, allowances for expected credit losses are recognized.

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

31.4 Liquidity risk

The maturity schedules of the Company's consolidated financial liabilities as of March 31, 2023 are as follows:

Description	Carrying amount	Contractual cash flow	Until 1 year	From 2 to 5 years	After 5 years
Loans and financing	8,644,690	10,918,703	1,989,984	8,928,719	-
Leases	14,500,090	26,050,307	3,832,958	13,690,719	8,526,630
Accounts payable	3,118,899	3,118,869	2,715,650	387,608	15,641
Airport fees	1,538,620	1,538,620	1,033,688	178,680	326,252
Insurance payable	62,798	62,798	62,798	-	-
Derivative financial instruments	139,941	139,941	139,941	-	-
	28,005,038	41,829,238	9,775,019	23,185,726	8,868,523

The above balances do not reflect the renegotiations signed after March 31, 2023, see note 34.





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31.5 Capital management

The Company seeks capital alternatives in order to satisfy its operational needs, aiming at a capital structure that it considers adequate for the financial costs and the maturity dates of funding and its guarantees. The Company's Management continuously monitors its net indebtedness, see note 1.2 with details of the Company's actions in the quarter.





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32. NON-CASH TRANSACTIONS

Description	Acquisition of property and equipment	Acquisition of right of use	Acquisition of intangible	Maintenance reserves	Compensation of sublease	Compensation of lease	Acquisition of lease	ARO	Modification	Transfers	Total
Accounts receivable	-	-	-	-	-	(34,558)	-	-	-	57,550	22,992
Aircraft sublease	-	-	-	-	(8,718)	-	-	-	-	-	(8,718)
Security deposits and maintenance reserves	-	-	-	169,904	-	-	-	-	-	(57,550)	112,354
Advances to suppliers	-	-	-	-	-	-	-	-	-	(540,027)	(540,027)
Property and equipment	54,126	-	-	-	-	-	-	-	-	(9,044)	45,082
Right-of-use assets	-	59,045	-	-	-	-	183,746	80,434	(48,049)	9,044	284,220
Intangible assets	-	-	36,242	-	-	-	-	-	-	-	36,242
Loans and financing	-	-	-	-	-	-	-	-	-	(28,311)	(28,311)
Leases	-	-	-	-	8,718	23,628	(183,746)	-	(7,153)	28,311	(130,242)
Accounts payable	(54,126)	(59,045)	(36,242)	(169,904)	-	-	-	-	-	493,029	173,712
Provisions	-	-	-	-	-	-	-	(80,434)	77,613	46,998	44,177
Other assets and liabilities	-	-	-	-	-	10,930	-	-	-	-	10,930
Result	-	-	-	-	-	-	-	-	(22,411)	-	(22,411)
As of March 31, 2023	-	-	-	-	-	-	-	-	-	-	-

Description	Consolidated						
	Property and equipment and intangible assets	Maintenance reserves	Supplier finance	Amendment for future capital increase	Lease	Transfers	Total
Aircraft sublease receivables	-	-	-	-	(817)	-	(817)
Security deposits and maintenance reserves	-	164,424	-	-	-	-	164,424
Property and equipment	113,370	-	-	-	-	-	113,370
Right-of-use assets	-	-	-	-	481,515	-	481,515
Lease liabilities	-	-	-	-	(430,936)	-	(430,936)
Accounts payable	(113,370)	(164,424)	161,819	-	-	(88,179)	(204,154)
Accounts payable – supplier finance	-	-	(161,819)	-	-	-	(161,819)
Provisions	-	-	-	-	(49,762)	88,179	38,417
Other assets and liabilities	-	-	-	22,859	-	-	22,859
Equity	-	-	-	(22,859)	-	-	(22,859)
As of March 31, 2022	-	-	-	-	-	-	-



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33. SUBSEQUENT EVENTS**33.1 Restructuring Plan**

According to a Material Fact published on May 15, 2023, Management informed its stakeholders that, subject to certain conditions, the proposed restructuring of Azul's obligations with lessors and OEMs includes:

- (i) lease payment obligations that had previously been deferred during the COVID-19 pandemic;
- (ii) reduction in lease payments originally contracted to current market values;
- (iii) the deferral of certain lease payments, as well as obligations under supplier contracts, including items (i) and (ii) above; and
- (iv) other concessions, including aircraft return conditions, the elimination of future maintenance reserve payments and the negotiated early termination of certain aircraft leases.

In connection with this restructuring plan, lessors and OEMs have generally agreed to receive an unsecured tradeable note maturing in 2030 with a coupon of 7.5% per year and an equity instrument convertible into preferred shares valued at R\$36.00 per share. The shares are subject to a lock-up provision until the second half of 2024 and will vest in fourteen quarterly installments, starting at the end of the lock-up period and ending in the second half of 2027. Azul shareholders will be granted preemption rights enabling them to subscribe for the convertible instrument in proportion to their shareholding in Azul.

The contemplated lessor and OEM equity instrument is limited in its upside and downside, aiming to minimize dilution to shareholders and at the same time provides full recovery to Azul's partners. Dilution from the equity instrument is estimated at 17.5%. Throughout the vesting period, between the second half of 2024 and the second half of 2027 if, at the time of measurement, the trading price of Azul's preferred shares is lower than R\$36.00, Azul may compensate for the difference by issuing additional preferred shares, or through cash settlement, or through the issuance of new debt instruments. If the trading price of Azul's preferred shares is higher than certain thresholds, the number of shares issuable pursuant to the equity instrument will be reduced and dilution will therefore be lower.

Azul estimates that the restructuring debts with lessors, subject to certain conditions, will reduce future lease payments.

Equity instruments will be granted to lessors, considering their characteristics, including lock-up periods and fixed amounts will be temporarily recognized as obligations.

33.2 Debentures

According to a Material Fact published on June 1, 2023, the board of director's approved the collateral grant, in the form of personal guarantee in the issuance. At the same date, the Issuer's board of directors approved the 11th issuance of simple debentures, not convertible into shares, with real guarantee, with personal guarantee additional, in a single series, for public distribution, under the automatic distribution registry rite.





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The issuance will comprised of up to 600,000 debentures, with a unity value of R\$1, with a total of up to R\$600,000 at the issuance date. The maturity period will be 12 months starting from the issuance date. The net proceeds obtained by the Issuer with the Issuance will be used to wholly and exclusively for the payment of fuel supply to Raízen S.A.

