Financial Statements
2022
Azul Linhas Aéreas Brasileiras S.A

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Azul

Contents

Management Comments

Company had another exceptional year in 2022 as we followed up our TripAdvisor "World's Best Arline" recognition with the "World's Most On-Time Airline for 2022" from Cirium. This is a remarkable achievement, and I want to thank our more than 13 thousand passionate and motivated Crewmembers for delivering superior customer service and operational excellence every single day.

2022 was also a record year with R$16 billion in total revenue, up a very strong 40% from 2019. Unit revenue for the year was also a record of R$40.29 cents, up 26% from full-year 2019. In 2022, absolute EBITDA was R$3.2 billion, a 20% EBITDA margin. We continued expanding margins even with fuel prices up 112% versus 2019 and 64% compared to 2021. This clearly demonstrates the strength of our business model and our ability to create sustainable competitive advantages. We ended 2022 with immediate liquidity of R$2.5 billion, and including long-term investments and receivables, security deposits and reserves, our total liquidity was R$5.9 billion.

Our wholly-owned and unencumbered business units also had record results in 2022. Compared to 2019, our loyalty program TudoAzul almost doubled its gross billings. Azul Cargo, our logistics business, grew 153% in revenue and ended 2022 as Brazil's largest domestic air-logistics provider. Finally, Azul Viagens had an outstanding 2022, growing 90% from 2019 to R$1.3 billion in gross bookings. We are excited about the continued growth and margin contribution from our business units. Recently, an independent firm appraised these fast-growing businesses at more than R$25 billion.

Looking ahead to 2023, we are encouraged by the strong demand environment and important milestones in our route network. On March 27, we will begin flying our expanded network at São Paulo's downtown airport Congonhas. We will more than double our operations to 84 daily flights, serving the largest corporate destinations and showing new customers all that Azul has to offer. In addition, our international capacity is reaching full recovery in 2023, supported by new routes and destinations, including recently announced Paris and Curaçao. We are also adding more international flights to the United States from Belo Horizonte, Recife, Manaus and Belém.

We are excited and optimistic about what we see in 2023 and beyond. For the year, we expect to generate record revenue of R$20 billion and record EBITDA of more than R$5 billion, around 40% above 2019. With the support of these strong operational trends, we have turned our focus to implement a comprehensive long-term plan, described below, to address the remaining Covid-19 related effects in our capital structure.

John Rodgerson

Recent Developments

Company unique business model and industry-leading margins are well known, and there is market consensus that our 2023 EBITDA will be the largest in our history and one of the highest margins in the world. Still, Company capital structure has been heavily burdened by COVID-19 and its impacts, such as a devalued currency and a significant impact to our cash flows with no corresponding government support, unlike many other airlines around the world.

Since the beginning of the pandemic, we have been successfully addressing these impacts through increased revenue and productivity, the valuable support of our stakeholders, and various financial transactions and capital raises. Additional macro volatility and capital market uncertainty have made the final stretch more difficult. As a response to this, we have developed and started to implement a permanent and comprehensive plan designed to improve Company cash generation and strengthen our capital structure, engaging all major stakeholders including lessors and OEMs.

Today, we are pleased to announce commercial agreements with lessors that represent more than 90% of our lease obligations, subject to some conditions and corporate approvals. Under these agreements, lessors will reduce our lease payments to eliminate COVID-related deferrals, as well as the gap between Azul's contractual lease rates and agreed-upon current market rates. In exchange, lessors will receive a tradeable note maturing in 2030 and equity priced in a way to reflect Company new cash generation, improved capital structure, and reduced credit risk. Consistent with our values and track record, this plan is designed to deliver 100% recovery to our partners through this combination of long-term debt and equity in a reset balance sheet.

Lessors represent almost 80% of our nominal gross debt, and therefore reaching these agreements demonstrates tremendous success in our approach. The leasing community has recognized that supporting Azul is an intelligent, revenue-maximizing business decision, yet we are still honored and grateful for their support. No aircraft have left the fleet throughout this negotiation, and in fact our partners have delivered 12 new aircraft to us over the past five months. Negotiations continue, and we are confident about reaching agreements with all lessors.

As part of our comprehensive permanent plan, we are also negotiating with OEMs, another vital stakeholder group, to improve payment terms for most of our COVID-19 deferrals, increase our credit limits, and exchange the remaining deferrals for a similar structure as that of lessors, also leading to 100% recovery to our partners and a measurable reduction in our Capex in 2023 and beyond.

As a result of these successful negotiations with lessors and OEMs, Company originally projected cash gap for 2023 will now be eliminated, and cash flow should be positive in 2024 and beyond. In addition, this comprehensive solution and its correspondent reduction of our credit risk should significantly reduce our cost of capital, reflecting our high margins and cash generation and increasing access to the capital markets.

Through our strong operations supporting a solid EBITDA of over R$5 billion in 2023, with record revenue of R$20 billion, combined with the benefits of this comprehensive plan, we now have the ability to focus on our growth and margin expansion for the next several years, with great results to all of our stakeholders.

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A free translation from Portuguese into English of Independent auditor's report on individual and consolidated financial statements prepared in Brazilian currency in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB)

INDEPENDENT AUDITOR'S REPORT ON INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Shareholders, Board of Directors and Officers

Azul Linhas Aéreas Brasileiras S.A.

Barueri – São Paulo

Opinion

We have audited the individual and consolidated financial statements of Azul Linhas Aéreas Brasileiras S.A. ("Company"), identified as Individual and Consolidated, respectively, which comprise the statement of financial position as at December 31, 2022, and the statements of profit or loss, of comprehensive income, of changes in equity, and of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements referred to above present fairly, in all material respects, the individual and consolidated financial position of Azul Linhas Aéreas Brasileiras S.A. as at December 31, 2022, and its financial performance and cash flows for the year then ended in accordance with accounting practices adopted in Brazil and with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

Basis for opinion

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

Responsibilities of management for the individual and consolidated financial statements

Management is responsible for the preparation and fair presentation of the individual and consolidated financial statements in accordance with accounting practices adopted in Brazil, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

- Identified and assessed risks of material misstatements of the individual and consolidated financial statements, whether due to fraud or error, designed and performed audit procedures responsive to those risks, and obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's and its subsidiaries' internal control
- Evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the individual and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion.

- Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the individual and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

São Paulo, April 27, 2023.

ERNST & YOUNG

Auditores Independentes S.S. Ltda.

CRC SP-034519/O

Marcio D. Berstecher

Accountant CRC-1SP259735/O-2

AZUL Linhas Aéreas Brasileiras S.A.

Statements of financial position

December 31, 2022 and 2021

(In thousands of Brazilian reais – R$)

Assets	Note	Parent company December 31, 2022	Parent company December 31, 2021	Consolidated December 31, 2022	Consolidated December 31, 2021
Current assets					
Cash and cash equivalents	4	604,464	2,400,505	660,231	2,780,242
Short-term investments	5	-	1,430	-	1,430
Accounts receivable	6	1,583,981	819,722	1,803,998	997,893
Aircraft sublease	7	70,193	76,199	70,193	76,199
Inventories	8	710,932	568,103	721,738	571,924
Security deposits and maintenance reserves	9	1,016,759	410,912	1,016,759	410,912
Taxes recoverable	10	220,529	91,710	223,319	95,131
Derivative financial instruments	22	8,705	9,383	36,054	83,177
Prepaid expenses	11	180,145	241,167	180,802	241,316
Advances to suppliers	12	92,372	173,259	121,697	203,282
Other current assets		6,891	73,312	6,958	73,312
Total current assets		4,494,971	4,865,702	4,841,749	5,534,818
Non-current assets					
Short-term investments	5	733,043	906,719	733,043	906,719
Aircraft sublease	7	105,860	197,999	105,860	197,999
Security deposits and maintenance reserves	9	1,503,939	1,548,796	1,514,317	1,553,507
Derivative financial instruments	22	235,896	270,640	235,896	270,640
Related parties	26	116,904	180,205	-	4,776
Prepaid expenses	11	319,000	313,365	319,000	313,365
Other non-current assets		9,005	125,508	9,005	126,047
Investments	14	451,854	95,543	-	-
Property and equipment	15	1,771,689	1,800,344	1,953,089	1,961,174
Right-of-use assets	16	7,422,286	5,960,576	7,552,548	5,999,595
Intangible assets	17	439,763	384,317	645,529	577,044
Total non-current assets		13,109,239	11,784,012	13,068,287	11,910,866
Total assets		17,604,210	16,649,714	17,910,036	17,445,684

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

AZUL Linhas Aéreas Brasileiras S.A.

Statements of financial position
December 31, 2022 and 2021
(In thousands of Brazilian reais – R$)

Liabilities and equity	Note	Parent company December 31, 2022	Parent company December 31, 2021	Consolidated December 31, 2022	Consolidated December 31, 2021
Current liabilities					
Loans and financing	18	1,097,976	945,344	1,112,940	984,266
Leases	19	4,001,623	3,494,515	4,025,948	3,497,665
Accounts payable	20	2,401,060	1,502,313	2,432,819	1,527,044
Factoring	21	753,352	3,694	753,352	3,694
Airport fees		831,110	506,338	831,897	506,338
Air traffic liability	23	3,858,677	2,830,961	4,140,025	3,063,816
Reimbursement to customers		13,822	173,686	13,822	173,686
Salaries and benefits		470,377	453,291	476,927	457,380
Insurance payable		84,439	92,793	84,985	92,793
Taxes	24	191,402	147,349	192,955	148,730
Derivative financial instruments	22	69,365	77,509	69,365	77,509
Provisions	25	834,288	977,103	834,288	977,103
Related parties	26	442,666	12,491	-	-
Other liabilities		66,533	122,216	68,847	153,996
Total current liabilities		15,116,690	11,339,603	15,038,170	11,664,020
Non-current liabilities					
Loans and financing	18	931,190	1,650,328	6,119,759	7,161,464
Leases	19	10,460,501	11,359,652	10,556,885	11,392,910
Accounts payable	20	516,971	341,318	516,971	342,200
Airport fees		501,905	472,364	502,872	472,364
Derivative financial instruments	22	22,792	129,793	175,210	209,542
Taxes	24	71,595	99,625	71,595	101,046
Provisions	25	2,310,872	2,368,284	2,388,837	2,504,554
Related parties	26	4,631,127	5,353,629	-	-
Provision for loss with investment	14	500,830	-	-	-
Other liabilities		931,760	1,057,868	931,760	1,120,334
Total non-current liabilities		20,879,543	22,832,861	21,263,889	23,304,414
Equity	27				
Issued capital		4,798,563	4,646,563	4,798,563	4,646,563
Capital reserve		171,508	141,821	171,508	141,821
Other comprehensive income		5,281	5,799	5,281	5,799
Accumulated losses		(23,367,375)	(22,316,933)	(23,367,375)	(22,316,933)
		(18,392,023)	(17,522,750)	(18,392,023)	(17,522,750)
Total liabilities and equity		17,604,210	16,649,714	17,910,036	17,445,684

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

AZUL Linhas Aéreas Brasileiras S.A.

Statements of profit or loss

Years ended December 31, 2022 and 2021

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

	Note	Parent company		Consolidated	
		Years ended			
		December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Passenger revenue		14,440,351	8,790,755	14,594,945	8,811,044
Other revenues		1,239,500	1,108,488	1,353,122	1,164,685
Net revenue	30	15,679,851	9,899,243	15,948,067	9,975,729
Cost of services	31	(12,982,010)	(8,031,086)	(13,162,185)	(8,123,510)
Gross profit		2,697,841	1,868,157	2,785,882	1,852,219
Selling expenses		(693,352)	(407,998)	(721,008)	(424,502)
Administrative expenses		(287,836)	(268,510)	(295,077)	(273,581)
Other income (expenses), net		(452,152)	(827,045)	(297,291)	(1,017,191)
	31	(1,433,340)	(1,503,553)	(1,313,376)	(1,715,274)
Equity	14	(219,684)	(486,339)	-	-
Operating (loss) profit		1,044,817	(121,735)	1,472,506	136,945
Financial income		248,676	131,249	255,607	138,844
Financial expenses		(4,186,921)	(3,375,118)	(4,549,253)	(3,619,671)
Derivative financial instruments, net		488,467	(12,775)	438,190	34,971
Foreign currency exchange, net		1,354,519	(1,293,063)	1,332,508	(1,362,229)
Financial result	32	(2,095,259)	(4,549,707)	(2,522,948)	(4,808,085)
Result from related party transactions		-	(4,874)	-	(5,176)
Net loss for the year		(1,050,442)	(4,676,316)	(1,050,442)	(4,676,316)
Basic loss per common share – R$	28	(0.22)	(1.01)	(0.22)	(1.01)
Diluted loss per common share – R$	28	(0.22)	(1.01)	(0.22)	(1.01)

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

Statements of profit or loss

Years ended December 31, 2022 and 2021

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

		Parent company and Consolidated	
		Years ended	
		December 31, 2022	December 31, 2021
Loss for the year		(1,050,442)	(4,676,316)
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Post-employment benefit	25	(518)	5,144
Total comprehensive income		(1,050,960)	(4,671,172)

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

AZUL Linhas Aéreas Brasileiras S.A.

Statements of changes in equity

Years ended December 31, 2022 and 2021

(In thousands of Brazilian reais – R$)

Description	Note	Issued capital	Advance for future capital increase	Capital reserve	Other comprehensive income	Accumulated losses	Total
At December 31, 2020		3,346,563	1,300,000	125,256	655	(17,640,617)	(12,868,143)
Loss for the year		-	-	-	-	(4,676,316)	(4,676,316)
Post-employment benefit	25	-	-	-	5,144	-	5,144
Total comprehensive income (loss)		-	-	-	5,144	(4,676,316)	(4,671,172)
Capital increase		1,300,000	(1,300,000)	-	-	-	-
Share-based payment	29	-	-	16,565	-	-	16,565
At December 31, 2021		4,646,563	-	141,821	5,799	(22,316,933)	(17,522,750)
Loss for the year		-	-	-	-	(1,050,442)	(1,050,442)
Post-employment benefit	25	-	-	-	(518)	-	(518)
Total comprehensive income (loss)		-	-	-	(518)	(1,050,442)	(1,050,960)
Capital increase		152,000	-	-	-	-	152,000
Share-based payment	29	-	-	29,687	-	-	29,687
At December 31, 2022		4,798,563	-	171,508	5,281	(23,367,375)	(18,392,023)

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

AZUL Linhas Aéreas Brasileiras S.A.

Statements of cash flows

Years ended December 31, 2022 and 2021

(In thousands of Brazilian reais – R$)

	Parent company		Consolidated	
	Years ended			
	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Cash flows from operating activities				
Net loss for the year	(1,050,442)	(4,676,316)	(1,050,442)	(4,676,316)
Result reconciliation items				
Depreciation and amortization	2,062,416	1,524,738	2,094,448	1,544,333
Gain (loss) from impairment of assets and onerous liabilities	(1,102,791)	(1,075,682)	(1,102,791)	(1,075,682)
Unrealized derivative results	(488,467)	12,775	(438,190)	(34,971)
Share-based payment	(18,251)	17,180	(18,250)	17,180
Foreign currency exchange, net	(1,403,433)	1,283,327	(1,390,071)	1,352,874
Financial income and expenses	3,259,098	2,927,901	3,732,823	3,213,751
Result whit related parties	-	4,874	-	5,176
Provisions	503,806	655,995	425,736	655,717
Disposal of prepaid expenses	208,923	-	208,923	-
Sale and leaseback	(33,155)	(22,736)	(33,155)	(22,736)
Result from modification of lease contracts	(93,113)	(24,416)	(93,113)	(24,323)
Result on disposal and/or sale of fixed assets and right of use	156,079	110	160,595	832
Equity income	219,684	486,339	-	-
Adjusted net profit for the year	2,220,354	1,114,089	2,496,513	955,835
Changes in operating assets and liabilities				
Accounts receivable	(1,031,047)	(192,981)	(1,107,114)	(270,314)
Aircraft sublease	68,393	65,032	68,393	65,032
Inventories	(152,500)	(158,034)	(159,486)	(159,118)
Security deposits and maintenance reserves	(599,329)	(417,163)	(597,700)	(421,643)
Prepaid expenses	(171,664)	(361,472)	(275,571)	(361,657)
Taxes recoverable	(125,934)	41,109	(125,334)	40,376
Advances to suppliers	(630,245)	(90,296)	(629,547)	(120,320)
Other assets	89,333	3,196	93,895	25,067
Rights and obligations with derivatives	408,744	(101,324)	477,581	(24,520)
Accounts payable	2,318,246	1,099,811	2,278,858	1,109,653
Factoring	-	(1,356,689)	-	(1,356,689)
Airport fees	354,313	80,788	356,067	80,788
Air traffic liability	915,187	525,211	963,680	574,944
Reimbursement to customers	(169,967)	(63,507)	(169,967)	(63,507)
Salaries and benefits	111,199	183,049	124,358	183,937
Insurance payable	(2,325)	39,590	(1,797)	39,590
Taxes	9,494	59,185	8,231	61,208
Contingencies	(179,279)	(395,271)	(179,391)	(395,361)
Other liabilities	132,780	450,218	40,948	439,892
Related parties	-	692,205	-	60,363
Interest paid	(743,076)	(297,273)	(1,063,939)	(624,535)
Total change in operating assets and liabilites	602,323	(194,616)	102,165	(1,116,814)
Net cash provided by operating activities	2,822,677	919,473	2,598,678	(160,979)
Cash flows from investing activities				
Short-term investments				
Acquisition of short-term investments	(10,415)	(96,692)	(10,415)	(98,788)
Redemption of short-term investments	11,932	123,198	11,932	189,470
Payment for acquisition of subsidiary	(23,880)	-	-	-
Non-current financial application	100,962	1,986,560	4,776	-
Linked financial application	(30,317)	(20,000)	(30,317)	(20,000)
Cash received in the leaseback operation	99,629	-	99,629	-
Acquisition of intangible assets	321,266	21,256	321,266	21,256
Acquisition of property and equipment	(199,264)	(152,181)	(198,525)	(152,542)
Net cash used by investing activities	(847,635)	(624,286)	(847,634)	(624,286)
	(577,722)	1,237,855	(649,288)	(684,890)
Cash flows from financing activities				
Loans and financing				
Proceeds	200,000	18,835	200,000	3,071,274
Repayment	(814,211)	(380,581)	(819,182)	(466,630)
Payment of costs	(12,633)	-	(12,633)	-
Factoring	(818,274)	-	(818,274)	-
Related parties	(2,752,864)	(1,871,913)	(2,772,581)	(1,799,815)
Lease payment	152,000	-	152,000	-
Net cash used by investing activities	(4,045,982)	(2,233,659)	(4,070,670)	804,829
Exchange rate changes on cash and cash equivalents	4,986	42,130	1,270	194,363
Increase (decrease) in cash and cash equivalents	(1,796,041)	(34,201)	(2,120,010)	153,323
Cash and cash equivalents at the beginning of the year	2,400,505	2,434,706	2,780,241	2,626,918
Cash and cash equivalents at the end of the year	604,464	2,400,505	660,231	2,780,241

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

AZUL Linhas Aéreas Brasileiras S.A.

Statements of value added

Years ended December 31, 2022 and 2021

(In thousands of Brazilian reais – R$)

		Parent company		Consolidated	
		Years ended			
	Note	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Gross sales revenue					
Passenger revenue	30	14,860,212	9,076,485	15,020,757	9,101,576
Other revenues	30	1,394,238	1,243,269	1,513,582	1,301,090
Allowance for expected credit losses	6	(4,719)	(1,522)	(6,267)	(1,686)
		16,249,731	10,318,232	16,528,072	10,400,980
Inputs acquired from third parties					
Aircraft fuel	31	(6,527,823)	(3,245,983)	(6,561,288)	(3,257,223)
Materials, energy, third-party services and others		(4,812,103)	(3,901,243)	(4,764,054)	(4,152,040)
Insurance	31	(81,416)	(62,781)	(81,665)	(62,781)
		(11,421,342)	(7,210,007)	(11,407,007)	(7,472,044)
Gross value added		4,828,389	3,108,225	5,121,065	2,928,936
Retentions					
Depreciation and amortization	31	(2,062,416)	(1,524,738)	(2,094,448)	(1,544,333)
Impairment and onerous liabilities	31	1,102,791	1,075,682	1,102,791	1,075,682
Net added value		3,868,764	2,659,169	4,129,408	2,460,285
Value added received in transfers					
Equity	14	(219,684)	(486,339)	-	-
Financial income	32	248,676	131,249	255,607	138,844
Result from related party transactions		-	(4,874)	-	(5,176)
		28,992	(359,964)	255,607	133,668
Value added to distribute		3,897,756	2,299,205	4,385,015	2,593,953
Personnel		1,612,754	1,422,985	1,645,158	1,443,550
Salaries and wages [(a)]		1,312,968	1,059,753	1,339,159	1,076,247
Benefits		180,611	268,386	184,545	270,659
F.G.T.S.		119,175	94,846	121,454	96,644
Taxes, fees and contributions		788,788	645,260	808,346	657,991
Federal		740,942	596,775	754,775	606,285
State		46,126	39,077	48,228	40,245
Municipal		1,720	9,408	5,343	11,461
Third-party capital		2,546,656	4,907,276	2,981,953	5,168,728
Financial expenses	32	4,186,921	3,375,118	4,549,253	3,619,671
Derivative financial instruments	32	(488,467)	12,775	(438,190)	(34,971)
Foreign currency exchange, net	32	(1,354,519)	1,293,063	(1,332,508)	1,362,229
Rentals	31	202,721	226,320	203,398	221,799
Own capital		(1,050,442)	(4,676,316)	(1,050,442)	(4,676,316)
Loss for the year		(1,050,442)	(4,676,316)	(1,050,442)	(4,676,316)

(a)Not including INSS in the amount of R$278,309 in the parent company and R$283,778 in the consolidated.

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

1. OPERATIONS

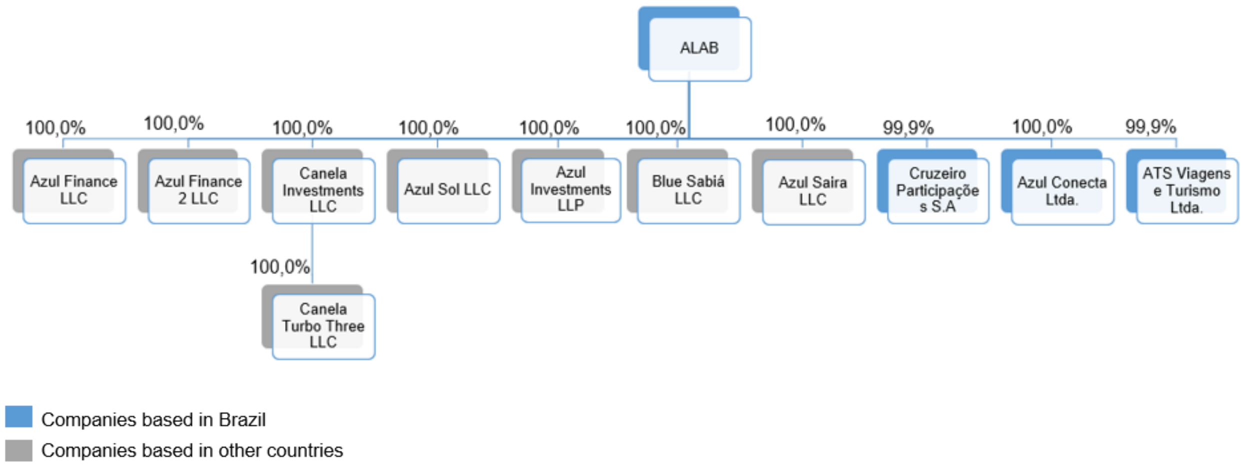
Azul Linhas Aéreas Brasileiras S.A. (“Company” or “ALAB”) is a corporation governed by its bylaws, as per Law 6,404/76. The Company was incorporated on January 4, 2008, and its core business comprises the operation of regular and non-regular airline passenger services, cargo or mail, passenger charter, 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 is integral subsidiary of Azul S.A. ("Azul")

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

1.1 Structure

The Company and its subsidiaries consolidation structure as of December 31, 2022 is as follows:



(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 the year, when applicable.

				% equity interest	
Company	Type of investment	Main activity	Country	December 31, 2022	December 31, 2021
Azul Conecta Ltda.(Conecta)	Direct	Airline operations	Brazil	100.0%	100.0%
ATS Viagens e Turismo Ltda.	Direct	Travel packages	Brazil	99.9%	99.9%
Cruzeiro Participações S.A	Direct	Holding of equity interests in other companies	Brazil	99.9%	99.9%
Azul Investments LLP	Direct	Funding	USA	100.0%	100.0%
Azul SOL LLC	Direct	Aircraft financing	USA	100.0%	100.0%
Azul Finance LLC	Direct	Aircraft financing	USA	100.0%	100.0%
Azul Finance 2 LLC	Direct	Aircraft financing	USA	100.0%	100.0%
Blue Sabiá LLC	Direct	Aircraft financing	USA	100.0%	100.0%
Canela Investments LLC	Direct	Aircraft financing	USA	100.0%	100.0%
Canela Turbo Three LLC	Indirect	Aircraft financing	USA	100.0%	100.0%
Azul Saira LLC	Direct	Aircraft financing	USA	100.0%	100.0%

1.2 Impacts of the COVID-19 pandemic

The Company's Management closely monitors developments related to the COVID-19 pandemic, assessing the impact on its business and especially on its crew and customers.

During the COVID-19 pandemic, the Company's management adopted strict measures to preserve cash, especially the postponement of lease and supplier payments, freezing of contract, suspension of projects that contained non-essential expenditures, and continuous search for opportunities to reduce costs and to raise funds in the capital market, seeking the economic and financial equilibrium among all stakeholders.

As COVID-19 cases have decreased significantly and operations were resumed, the demand for the Company's services was rapidly recovered and today both capacity and fare are already at pre-pandemic levels.

Operating cash generation is again positive; thus, payments of lease considerations and suppliers were also resumed. The Company continues to diligently manage its cash to ensure compliance with the obligations assumed through the operation of the most comprehensive network in the country, connecting more than 158 destinations.

1.3 Impacts caused by Russian invasion of Ukraine

Recent global developments related to the Russian invasion of Ukraine to the sharp increase in Brent oil prices during the year ended December 31, 2022, with a direct impact on fuel costs.

To mitigate such effects, the Company had, on December 31, 2022, fuel term contracts (note 22.2).

1.4 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.

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

The position of equity and consolidated net working capital and their variations are presented below:

	Consolidated				
Description	December 31, 2022	December 31, 2021	Variation	December 31, 2020	Variation
Net working capital	(10,196,421)	(6,129,202)	(4,067,219)	(5,140,730)	(988,472)
Equity	(18,392,023)	(17,522,750)	(869,273)	(12,868,143)	(4,654,607)

The variation in net working capital is mainly due to the resumption of the Company's operations in view of the increase in demand and payment of obligations that had been postponed during the COVID-19 pandemic, as detailed below:

- Decrease in cash and cash equivalents in the amount of R$2,120,010, resulting from the following actions:

  (a) payments of loans, financing and leases in the amount of R$3,591,763;
  (b) acquisitions of property and equipment and intangible assets in the amount of R$1,046,159;
  (c) operating cash generation of R$2,598,678;
  (d) cash inflows from borrowings in the amount of R$200,000 and sales of assets and sale and leaseback operations of R$420,895; and
  (e) extension of the average term for payments to suppliers, resulting in no increase in the headings of:

  - Suppliers" in the amount of R$905,775 and
  - "Factoring" in the amount of R$749,658 fully settled up to the date of disclosure of the financial parts.

- increase in short-term loans, financing and leases caused by new aircraft received and transfers from noncurrent to current at amounts above to those paid in the same period.

In turn, the increase in negative equity is due to the net loss reported by the Company in the year ended December 31, 2022 in the amount of R$1,050,442. Despite presenting operating profit higher than the previous year in the amount of R$1,335,561, it was not enough to cover net financial expenses of R$2,522,948.

Management has been making continuous efforts to ensure the Company's operational continuity. In the period between the end of the year and the disclosure of these financial statements, it initiated several negotiations with lessors seeking to reduce leasing obligations by strengthening the partnerships established over the years with these stakeholders.

Pursuant to a material fact disclosed by the Azul S.A. on March 5, 2023, the Company celebrated commercial agreements into with lessors representing more than 90% of its lease liabilities, subject to certain conditions and corporate approvals met.

These agreements represent a significant part of a comprehensive plan that aims to strengthen Company cash generation and improve its capital structure, in addition to delivering 100% of previously agreed amounts to lessors, through a combination of long-term debt and equity priced on a restructured balance sheet.

Based on these agreements, the lessors will reduce Company lease payments to eliminate differences negotiated during the COVID-19 pandemic, as well as the difference between Company contractual lease rates and current market rates. In exchange, the lessors found a negotiable bond maturing in 2030 and shares priced to reflect Company new cash generation, its improved capital structure and the reduction in its credit risk.

The Company also plans to access the capital market with competitive rates reflecting its better cash generation and lower credit risk. To this end, it hired investment banks and lawyers to raise new funds, with the possibility of offering its unencumbered assets TudoAzul, Azul Cargo Express and Azul Viagens as collateral to obtain the best possible conditions for this funding. The company also hired a specialized consultancy, which evaluated these assets, indicating full capacity to raise the necessary funds.

Management performed an evaluation and concluded that the Company is able to continue as a going concern and meet its obligations on the maturity dates. This evaluation is based on the Company's business plan approved by the Board of Directors of Azul S.A. 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 of Azul S.A. about the performance achieved in relation to the approved plan.

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

1.5 Acceleration of fleet transformation

In 2019, the Company's management approved the Embraer E195 phase-out plan ("E1"). On the same date, the Company signed letters of intent for the sublease of these assets to other air operators. The change in the intended use of the aircraft triggered an impairment review that resulted in the recognition of impairment of these assets of R$2,075,582 and the constitution of an onerous liability of R$821,751 at that time.

During the years ended December 31, 2022 and 2021, there were partial reversals of the impairment and onerous liabilities in the amount of R$1,102,791 and R$1,075,682, respectively, resulting from Management's decision to return these assets definitively to their operations, considering changes in the position of other operators due to the economic consequences of the COVID-19 pandemic.

As of December 31, 2022, the provision for impairment of E1s corresponds to a total of 8 aircraft (28 aircraft as of December 31, 2021).

The main assumptions used in the analysis included:

- Sublease revenue;
- Estimated period for start of the sublease contracts;
- Aircraft delivery and maintenance costs;
- Residual value for own aircraft at the end of sublease contracts;
- Exchange rates; and
- Pre-tax discount rate.

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

1.5.1 Breakdown of balances of provision for impairment and onerous liabilities

Description	Parent company and Consolidated	
	December 31, 2022	December 31, 2021
Provision for (impairment) of right-of-use assets	(110,349)	(605,651)
Provision for (impairment) of property and equipment	(279,077)	(294,490)
Provision for (impairment) of other assets	-	(12,013)
Total provision for (impairment) of Company assets	(389,426)	(912,154)
Provision or onerous liabilities	-	(693,407)
Total	(389,426)	(1,605,561)

1.5.2 Movement of the provision for impairment and onerous liability

Description	Parent company and Consolidated		
	Impairment of assets	Onerous liabilities	Total
At December 31, 2020	(1,218,548)	(1,340,522)	(2,559,070)
Reversals (additions), net	306,394	769,288	1,075,682
Consumption	-	188,842	188,842
Interest incurred	-	(156,516)	(156,516)
Foreign currency exchange	-	(103,858)	(103,858)
Initial recognition of sublease	-	(50,641)	(50,641)
At December 31, 2021	(912,154)	(693,407)	(1,605,561)
Reversals (additions), net	516,157	586,634	1,102,791
Consumption	-	178,126	178,126
Interest incurred	-	(100,975)	(100,975)
Foreign currency exchange	-	29,622	29,622
Transfers	6,571	-	6,571
At December 31, 2022	(389,426)	-	(389,426)

1.6 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, which may affect the usual business seasonality.

2. DECLARATION OF MANAGEMENT, BASIS FOR PREPARATION AND PRESENTATION OF THE INDIVIDUAL AND CONSOLIDATED FINANCIAL STATEMENTS

The Company’s individual and consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil and the International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”). The accounting practices adopted in Brazil include those included in the Brazilian corporation law and the technical pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (“CPC”), approved by the Federal Accounting Council (“CFC”) and the Brazilian Securities and Exchange Commission (“CVM”).

The Company’s individual and consolidated financial statements have been prepared based on the real (“R$”) as a functional and presentation currency and are expressed in thousands of reais, unless otherwise indicated.

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

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

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

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

In order to ensure a better presentation and comparability of the balances, certain reclassifications were made in the statement of financial position and the loss for the prior year, as detailed below:

	Parent company		
	December 31, 2021		
Liabilities and equity	As reported	Reclassifications	As reclassified
Current liabilities			
Accounts payable	1,743,496	(241,183)	1,502,313
Airport fees	217,863	288,475	506,338
Taxes payable	125,237	22,112	147,349
Government installment payment program	69,404	(69,404)	-
Total	2,156,000	-	2,156,000
Non-current liabilities			
Accounts payable	562,620	(221,302)	341,318
Airport fees	-	472,364	472,364
Taxes payable	-	99,625	99,625
Government installment payment program	350,687	(350,687)	-
Total	913,307	-	913,307

	Consolidated		
	December 31, 2021		
Liabilities and equity	As reported	Reclassifications	As reclassified
Current liabilities			
Accounts payable	1,768,227	(241,183)	1,527,044
Airport fees	217,863	288,475	506,338
Taxes payable	126,331	22,399	148,730
Government installment payment program	69,691	(69,691)	-
Total	2,182,112	-	2,182,112
Non-current liabilities			
Accounts payable	563,502	(221,302)	342,200
Airport fees	-	472,364	472,364
Taxes payable	-	101,046	101,046
Government installment payment program	352,108	(352,108)	-
Total	915,610	-	915,610

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

<u>At fair value</u>:

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

Others:

- Investments accounted for under the equity method;

2.1 Authorization for issue of the individual and consolidated financial statements

The authorization for issue of these individual and consolidated financial statements occurred on April 27, 2023.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are described in each corresponding explanatory note, except those that refer to more than one explanatory note, described below. The accounting policies have been consistently applied for the comparative years presented and for the Company's individual and consolidated financial statements.

3.1 Consolidation

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

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

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

3.2 New accounting standards and pronouncements not yet adopted

The following new standards and pronouncements have not yet been adopted, as they will be effective in the year 2023. In Management's opinion, the adoption will not have a significant impact on the results or shareholders' equity disclosed by the Company.

• CPC 26 (R1)/IAS 1 and practical file 2 of IFRS - Classification of Liabilities as Current or Non-Current and Accounting Policies.

• CPC 23/ IAS 8 – Definition of accounting estimates.

• CPC 32/ IAS 12 – Deferred Tax Related to Assets and Liabilities Resulting from a Single Applicable Transaction.

3.3 Statement of value added ("SVA")

Its purpose is to evidence the wealth generated by the Company and its distribution during a given year, and is presented by the Company as required by Brazilian corporate law as part of its individual financial statements and as supplementary information to the consolidated financial statements, as it is not an expected or mandatory statement according to IFRS standards, being prepared based on information obtained from the accounting records following the provisions in CPC 09 - Statement of value added.

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

3.4 Segment information

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

The Company performs quantitative and qualitative analyzes as required by current accounting pronouncements.

For the year ended December 31, 2021, passenger transport revenue was strongly influenced by the COVID-19 pandemic and, therefore, other revenues, even exceeding the 10% parameter, will not have their information disclosed.

Additionally, the Company regularly manages its business and makes resource allocation decisions considering the existence of only one operating segment:

	% of total revenue			
	Parent company		Consolidated	
Parameters	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Qualitative				
Passenger transport				
Quantitative				
Passenger transport	92,1%	88,8%	91,5%	88,3%
Other recipes	7,9%	11,2%	8,5%	11,7%

3.5 Significant accounting estimates

As disclosed in note 2, Management makes judgments that have a significant effect on the amounts recognized in the financial statements, namely:

- provision for impairment of aircraft, engines and onerous liabilities (note 1.5);
- allowance for expected losses (note 6)
- provision for losses on maintenance reserves (note 9);
- annual impairment test of goodwill (note 17);
- ticket breakage revenue and frequent-flyer programs (note 23);
- provision for return of aircraft and engines (note 25.1.1);
- provision for tax, civil and labor risks (note 25.1.2);
- provision for post-employment benefits (note 25.1.4); and
- share-based payment (note 29).

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

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

3.6 Foreign currency transactions

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

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

	Exchange rate					
	Final rate			Average rate		
	Years Ended					
Description	December 31, 2022	December 31, 2021	Variation %	December 31, 2022	December 31, 2021	Variation %
American dolar	5.2177	5.5805	-6.5%	5.1655	5.3956	-4.3%
Euro	5.5694	6.3210	-11.9%	5.4420	6.3784	-14.7%

3.7 Impairment of non-financial assets

The Company performs an annual review for impairment indicators in order to assess events or changes in economic, technological, or operating conditions that may indicate that an asset is impaired.

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

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

The Company operates a single cash-generating unit.

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

Aircraft and engines in operation are tested for impairment, by comparing the net carrying amount with the fair value indicated by specialized publications.

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

4. CASH AND CASH EQUIVALENTS

4.1 Accounting policies

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

4.2 Breakdown of cash and cash equivalents

		Parent company		Consolidated	
Description	Effective interest rate p.a.	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Cash and bank deposits	-	85,830	209,909	95,953	219,021
Cash equivalents					
Bank Deposit Certificate – CDB	101.8% of CDI	304,993	2,190,110	350,637	2,467,943
Repurchase agreements	88.0% of CDI	210,443	486	210,443	2,235
Time Deposit – TD [(a)]	0.4%	2,616	-	2,616	91,043
Exclusive investment funds	10.4%	582	-	582	-
		604,464	2,400,505	660,231	2,780,242

(a) Investment in U.S. dollar.

5. SHORT-TERM INVESTMENTS

5.1 Accounting policies

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

5.1.1 Amortized cost

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

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

5.1.2 Fair value

- Through comprehensive income: short-term investments shall be measured at fair value through comprehensive income when both of the following conditions are met:

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

(i) the Company plans to hold the financial asset to collect cash flows set forth in contract and sell the asset; and

(ii) contractual cash flows represent SPPI.

- Through profit or loss: it is considered to be a residual category, i.e. the Company does not plan to hold the financial asset to collect cash flows set forth in contract and/or sell the asset, this shall be measured at fair value through profit or loss.

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

5.2 TAP Bond

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

5.3 Breakdown of short-term investments

		Parent company		Consolidated	
Description	Effective interest rate p.a.	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Bank Deposit Certificate - CDB	101.8% of CDI	-	1,430	-	1,430
TAP Bond	7.5%	733,043	906,719	733,043	906,719
		733,043	908,149	733,043	908,149
Current		-	1,430	-	1,430
Non-current		733,043	906,719	733,043	906,719

6. ACCOUNTS RECEIVABLE

6.1 Accounting policies

Accounts receivable are measured based on the invoiced amount, net of expected losses on receivables, and approximate the fair value given their short-term nature.

Considering the requirements of CPC 48 - “Financial Instruments”, equivalent to IFRS 9, the allowance for expected losses on receivables is now measured by applying the simplified approach, through the use of historical data, projecting the expected loss over the life of the contract, by segmenting the receivables portfolio into groups that have the same pattern of collection and according to the respective maturities. Additionally, for certain cases, the Company carries out individual analyses to assess the risks of collection of the receivables and establish provision, if necessary.

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

6.2 Breakdown of accounts receivable

Description	Parent company December 31, 2022	Parent company December 31, 2021	Consolidated December 31, 2022	Consolidated December 31, 2021
Local currency				
Credit card companies	1,027,934	342,759	1,109,197	411,092
Cargo and travel agencies	277,723	207,414	282,438	209,621
Travel package funders	-	-	135,168	106,824
TudoAzul Program Partners	69,035	128,018	69,035	128,018
Other	41,295	31,831	41,973	32,896
Total national currency	1,415,987	710,022	1,637,811	888,451
Foregn currency				
Credit card companies	15,913	19,211	15,913	19,211
Refunds to be received from maintenance bookings	65,495	18,197	78,801	18,197
Partner airlines	39,612	36,693	39,612	36,693
Clearing house - agencies and loads	26,363	26,085	26,363	26,085
Other	42,889	27,073	29,582	27,073
Total foreign currency	190,272	127,259	190,271	127,259
Total	1,606,259	837,281	1,828,082	1,015,710
Provision of expected losses	(22,278)	(17,559)	(24,084)	(17,817)
Net total	1,583,981	819,722	1,803,998	997,893

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.

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

Description	Parent company December 31, 2022	Parent company December 31, 2021	Consolidated December 31, 2022	Consolidated December 31, 2021
Not past due				
Up to 30 days	554,249	511,279	583,523	562,539
31 to 60 days	154,208	78,908	177,992	101,699
61 to 90 days	119,288	36,302	140,758	56,001
91 to 180 days	331,023	64,098	397,205	110,207
181 to 360 days	266,772	52,637	344,541	90,351
Not past due	1,425,540	743,224	1,644,019	920,797
Past due				
Up to 30 days	56,918	25,584	55,941	25,872
31 to 60 days	8,870	20,129	9,377	20,178
61 to 90 days	3,105	13,226	3,313	13,235
91 to 180 days	1,046	3,547	2,441	3,589
181 to 360 days	11,095	5,178	11,334	5,388
Over 360 days	77,407	8,834	77,573	8,834
Past due	158,441	76,498	159,979	77,096
Total	1,583,981	819,722	1,803,998	997,893

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

Up to the date of approval financial statements, out of the total amount past due within 90 days, R$63,940 had already been received. Of the receivables past due for more than 90 days, approximately R$50,440 refers to reimbursements receivable for maintenance reserves of a lessor that had just finished a court-supervised reorganization ("Chapter 11"), and Management does not expect to incur losses on these operations since it has obligations at higher amounts to outstanding amounts receivable. Therefore, we conclude that the allowance for expected credit losses is adequately estimated.

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

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Balances at the beginning of the year	(17,559)	(16,037)	(17,817)	(16,131)
Inclusions	(5,035)	(2,818)	(6,583)	(5,921)
Low amounts uncollectible	316	1,296	316	4,235
Balances at the end of the year	(22,278)	(17,559)	(24,084)	(17,817)

7. AIRCRAFT SUBLEASE

7.1 Accounting policies

The aircraft sublease is a transaction whereby the lessee, in this case the Company, subleases the asset that is the subject of a lease to a third party, thus becoming an intermediate lessor. CPC 06 (R2) - Leases, equivalent to IFRS 16, requires an intermediate lessor to classify the sublease as finance or operating. Considering that the contracts entered into by the Company up to December 31, 2022 cover most of the term of the head lease, the subleases were accounted for as follows:

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

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

7.2 Breakdown of aircraft sublease

	Parent company and Consolidated	
Description	December 31, 2022	December 31, 2021
2022	-	92,092
2023	89,293	87,658
2024	70,396	87,817
2025	50,127	54,890
2026	7,951	4,615
Sublease, gross	217,767	327,072
Interest to be appropriated	(25,838)	(52,874)
Provision for loss	(15,876)	-
Sublease, net	176,053	274,198
Current	70,193	76,199
Non-current	105,860	197,999

8. INVENTORIES

8.1 Accounting policies

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

8.2 Breakdown of inventories

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Maintenance parts and materials	730,295	593,383	741,101	597,204
Flight attendance and uniforms	21,922	13,655	21,922	13,655
Provision for losses	(41,285)	(38,935)	(41,285)	(38,935)
Total, net	710,932	568,103	721,738	571,924

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

	Parent company and Consolidated	
Description	December 31, 2022	December 31, 2021
Balances at the beginning of the year	(38,935)	(49,153)
Additions	(5,652)	(10,681)
Write-offs	3,302	2,566
Reversal of impairment	-	18,333
Balances at the end of the year	(41,285)	(38,935)

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

9. SECURITY DEPOSITS AND MAINTENANCE RESERVES

9.1 Accounting policies

9.1.1 Security deposits

Security deposits are represented by amounts deposited by the Company to the lessors of aircraft and engines, as required at the inception of the lease, as guarantee for the fulfillment of the lease contract. Security deposits do not bear interest and are reimbursable at the end of the contracts. Judicial deposits are also classified in this group.

9.1.2 Maintenance reserves

Certain master lease agreements provide for the payment of aircraft maintenance reserves and engines made to the lessors, such values are held as collateral for the performance of major maintenance activities, and therefore these deposits are reimbursable upon completion of the maintenance event in an amount equal to or less than:

- the amount of the maintenance reserve held by the lessor associated with the specific maintenance event; or
- the costs related to the specific maintenance event.

Substantially all of these maintenance reserve payments are calculated based on an aircraft utilization measure, such as flight hours or cycles.

At the reporting date we assess whether the maintenance reserve deposits required by the master lease agreements are expected to be recovered through the performance of qualifying maintenance on the leased assets. Maintenance deposits expected to be recovered are held in assets, and the amounts identified as non-recoverable are readily transferred to profit or loss.

Aircraft and engine maintenance reserves are classified as current or non-current depending on the dates on which the amounts are expected to be recovered.

9.2 Breakdown of security deposits and maintenance reserves

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Security deposits	356,096	314,819	366,474	319,530
Maintenance reserves	2,610,944	2,104,532	2,610,944	2,104,532
Total	2,967,040	2,419,351	2,977,418	2,424,062
Provision for loss	(446,342)	(459,643)	(446,342)	(459,643)
Total, net	2,520,698	1,959,708	2,531,076	1,964,419

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

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

	Parent company		
Description	Security deposits	Maintenance reserves	Total
At December 31, 2020	232,134	1,321,646	1,553,780
Additions	92,696	501,309	594,005
Reversal of impairment	-	24,275	24,275
Provision for loss	-	(221,626)	(221,626)
Write-offs	(49,930)	(86,804)	(136,734)
Transfer	23,782	-	23,782
Foreign currency exchange	16,137	106,089	122,226
At December 31, 2021	314,819	1,644,889	1,959,708
Additions	109,266	714,079	823,345
Provision for loss	(7,294)	(74,831)	(82,125)
Write-offs	(41,048)	(14,847)	(55,895)
Foreign currency exchange	(19,647)	(104,688)	(124,335)
At December 31, 2022	356,096	2,164,602	2,520,698
Current	68,832	947,927	1,016,759
Non-current	287,264	1,216,675	1,503,939

	Consolidated		
Description	Security deposits	Maintenance reserves	Total
At December 31, 2020	232,365	1,321,646	1,554,011
Additions	95,852	501,309	597,161
Reversal of impairment	-	24,275	24,275
Provision for loss	-	(221,626)	(221,626)
Write-offs	(48,606)	(86,804)	(135,410)
Transfer	23,782	-	23,782
Foreign currency exchange	16,137	106,089	122,226
At December 31, 2021	319,530	1,644,889	1,964,419
Additions	115,247	714,079	829,326
Provision for loss	-	(74,831)	(74,831)
Write-offs	(48,658)	(14,847)	(63,505)
Foreign currency exchange	(19,645)	(104,688)	(124,333)
At December 31, 2022	366,474	2,164,602	2,531,076
Current	68,832	947,927	1,016,759
Non-current	297,642	1,216,675	1,514,317

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

10. TAXES RECOVERABLE

10.1 Accounting policies

Taxes recoverable represent rights that will be realized through offsets against future obligations arising from the Company's operational activities. The Company continuously reviews the capacity of realization of these assets and, when necessary, provisions are established to ensure that these assets are accounted for at their realization value. Such amounts are presented net of provision for losses.

10.2 Breakdown of taxes recoverable

	Parent company		Consolidated	
	Years ended			
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
PIS and COFINS	135,176	61,049	135,176	61,049
IRRF	28,233	16,561	31,464	17,588
IRPJ and CSLL	25,364	3,063	25,851	3,100
ICMS	23,129	7,262	21,661	9,500
Others	8,627	3,775	9,167	3,894
	220,529	91,710	223,319	95,131

11. PREPAID EXPENSES

11.1 Accounting policies

Prepaid expenses represent payments through which the Company will receive the provision of services and/or will benefit from the use of the related assets in a subsequent period.

11.2 Breakdown of prepaid expenses

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Insurances	79,911	86,887	80,412	86,887
Maintenance	304,927	295,518	304,927	295,518
Commisions	69,856	112,567	69,856	112,592
Others	44,451	59,560	44,607	59,684
Total	499,145	554,532	499,802	554,681
Current	180,145	241,167	180,802	241,316
Non-current	319,000	313,365	319,000	313,365

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

12. ADVANCES TO SUPPLIERS

12.1 Accounting policies

Advances to suppliers represent the advance payment of installments related to purchases of goods or obtainment of rights that will be delivered in the future. Such amounts are presented net of provision for losses.

12.2 Breakdown of advances to suppliers

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Advances – local currency	63,242	79,745	90,810	109,580
Advances – foreign currency	29,130	93,514	30,887	93,702
	92,372	173,259	121,697	203,282

13. INCOME TAX AND CONTRIBUTION

13.1 Accounting policies

13.1.1 Current taxes

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

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

13.1.2 Deferred taxes

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

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

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

13.1.3 Uncertainty over income tax treatments

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

The Company analyzes relevant tax decisions of higher courts and whether they conflict in any way with the positions adopted. For known uncertain tax positions, when necessary the Company establishes a provision based on the legal opinions issued by its legal advisors. The Company quarterly evaluates the positions assumed in which there are uncertainties about the tax treatment adopted.

13.2 Breakdown of deferred taxes

	Parent company and Consolidated		
Description	**December 31, 2022**	**Profit or loss**	**December 31, 2021**
Temporary differences			
Fair value of TAP Bond	(31,549)	31,549	-
Financial instruments	(95,208)	95,208	-
Breakage	(138,624)	(38,260)	(176,884)
Temporary differences assets	265,897	(88,497)	177,400
Others	(516)	-	(516)
Total	-	-	-

13.3 Reconciliation of the effective income tax rate

	Parent company		Consolidated	
Description	**December 31, 2022**	**December 31, 2021**	**December 31, 2022**	**December 31, 2021**
Loss before income tax and social contribution	(1,050,442)	(4,676,316)	(1,050,442)	(4,676,316)
Combined nomial tax rate	34%	34%	34%	34%
Taxes calculated at nomial rates	357,150	1,589,947	357,150	1,589,947
Adjustments for determining the effective rate				
Equity	(74,693)	(165,355)	-	-
Profits from non-taxed investments abroad	(429)	-	100,586	(147,619)
Profits earned abroad (estimate)	-	(4,220)	-	(4,220)
(Unrecorded) benefit on tax losses and temporary differences	(479,851)	(1,421,150)	(1,035,936)	(1,479,783)
Permanent differences	197,823	778	549,011	721
Rate differential	-	-	29,189	-
Others	-	-	-	40,954
	-	-	-	-

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

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

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Tax losses and negative bases	11,973,489	8,134,108	12,137,431	8,249,782
Tax loss (25%)	2,993,372	2,033,527	3,034,358	2,062,446
Negative social contribution base (9%)	1,077,614	732,070	1,092,369	742,480

14. INVESTMENTS

14.1 Accounting policies

In the individual financial statements, investments represent the Company's equity interest in subsidiaries. Investments are initially stated at cost and subsequently adjusted using the equity method. The Company does not have equity interests in companies over which it does not hold the control.

14.2 Movement of the investments

Description	December 31, 2021	Equity	Capital increase	December 31, 2022
Azul Conecta Ltda	75,619	(925)	51,285	125,979
ATS Viagens e Turismo	116,173	80,713	-	196,886
Azul Investments LLP	(114,585)	(386,246)	-	(500,831)
Azul Finance LLC	(90,416)	90,422	23,880	23,886
Azul Finance 2 LLC	84,563	(12)	-	84,551
Canela Investments LLC	24,189	(3,636)	-	20,553
	95,543	(219,684)	75,165	(48,976)

15. PROPERTY AND EQUIPMENT

15.1 Accounting policies

Property and equipment, including rotable components (replacement parts), are stated at acquisition cost.

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

The carrying amounts of property and equipment relevant items are tested annually to identify any indication of impairment or when facts or changes in circumstances indicate that the carrying amount is greater than the estimated recoverable amount.

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

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

The Company receives credits from manufacturers when purchasing certain aircraft and engines, which can be used to pay for maintenance services. These credits are recorded as a reduction of the acquisition cost of the aircraft and related engines.

15.1.1 Sale and leaseback transactions

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

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

During the year ended December 31, 2022, the Company carried out sale and leaseback transactions of aircraft and engines where the gain, net of costs of sale, related to these operations corresponds to R$33,155 (As of December,31 22,736) and is recognized in line item “Other costs of services rendered”.

15.1.2 Advance payments for acquisition of aircraft

Advance payments for acquisition of aircraft are recorded in property and equipment, including interest and financial charges incurred during the aircraft manufacturing phase.

15.2 Breakdown of property and equipment

	Parent company					
Description	Weighted average rate (a.a)	December 31, 2021	Additions	Write-offs	Transfers (a)	December 31, 2022
Cost						
Arcraft and engines		2,378,941	391,105	(490,595)	225,034	2,504,485
Buildings and improvements		505,718	7,869	(9,213)	18,741	523,115
Equiptment and facilities		197,601	15,212	(407)	5,003	217,409
Other		29,020	1,930	(18)	247	31,179
Construction in progress		50,183	47,427	(5,009)	(50,349)	42,252
		3,161,463	463,543	(505,242)	198,676	3,318,440
Depreciation						
Aircraft and engines	8%	(742,367)	(202,129)	105,846	(38,827)	(877,477)
Buildings and improvements	2%	(173,988)	(48,391)	8,080	-	(214,299)
Equipment and facilities	4%	(128,553)	(22,425)	225	-	(150,753)
Other	2%	(21,721)	(3,428)	4	-	(25,145)
		(1,066,629)	(276,373)	114,155	(38,827)	(1,267,674)
Property and equipment		2,094,834	187,170	(391,087)	159,849	2,050,766
Impairment		(294,490)	-	15,413	-	(279,077)
Total property and equipment, net		1,800,344	187,170	(375,674)	159,849	1,771,689

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

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

	Parent company					
Description	Weighted average rate (p.a.)	December 31, 2020	Additions	Write-offs	Transfers (a)	December 31, 2021
Cost						
Aircraft and engines		2,161,087	351,945	(132,570)	(1,521)	2,378,941
Buildings and leasehold improvements		485,177	19,804	(503)	1,240	505,718
Equipment and facilities		180,044	18,701	(1,144)	-	197,601
Others		27,208	1,812	-	-	29,020
Construction in progress		31,632	44,638	(4)	(26,083)	50,183
Advance payments for acquisition of aircraft		3,924	-	-	(3,924)	-
		2,889,072	436,900	(134,221)	(30,288)	3,161,463
Depreciation						
Aircraft and engines	8%	(570,590)	(181,867)	10,090	-	(742,367)
Buildings and leasehold improvements	9%	(128,693)	(45,755)	460	-	(173,988)
Equipment and facilities	12%	(107,349)	(21,971)	767	-	(128,553)
Others	10%	(18,976)	(2,745)	-	-	(21,721)
		(825,608)	(252,338)	11,317	-	(1,066,629)
Property and equipment		2,063,464	184,562	(122,904)	(30,288)	2,094,834
Impairment		(436,858)	(4,240)	146,608	-	(294,490)
Total property and equipment, net		1,626,606	180,322	23,704	(30,288)	1,800,344

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

	Consolidated					
Description	Weighted average rate (a.a)	December 31, 2021	Additions	Write-offs	Transfers (a)	December 31, 2022
Cost						
Arcraft and engines		2,519,231	410,680	(498,174)	225,034	2,656,771
Buildings and improvements		506,678	7,869	(9,213)	18,741	524,075
Equiptment and facilities		199,119	18,767	(407)	5,003	222,482
Others		29,905	2,073	(20)	247	32,205
Construction in progress		52,174	47,427	(5,009)	(50,349)	44,243
Advance payments for acquisition of aircraft		85,607	23,880	-	-	109,487
		3,392,714	510,696	(512,823)	198,676	3,589,263
Depreciation						
Aircraft and engines	9%	(811,322)	(223,828)	108,911	(38,827)	(965,066)
Buildings and improvements	10%	(174,092)	(48,399)	8,080	-	(214,411)
Equipment and facilities	11%	(129,236)	(22,721)	225	-	(151,732)
Others	12%	(22,400)	(3,492)	4	-	(25,888)
		(1,137,050)	(298,440)	117,220	(38,827)	(1,357,097)
Property and equipment		2,255,664	212,256	(395,603)	159,849	2,232,166
Impairment		(294,490)	-	15,413	-	(279,077)
Total property and equipment, net		1,961,174	212,256	(380,190)	159,849	1,953,089

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

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

Description	Weighted average rate (p.a.)	December 31, 2020	Additions	Write-offs	Transfers (a)	December 31, 2021
	Consolidated					
Cost						
Aircraft and engines		2,297,661	360,384	(137,293)	(1,521)	2,519,231
Buildings and leasehold improvements		485,247	20,694	(503)	1,240	506,678
Equipment and facilities		181,094	19,169	(1,144)	-	199,119
Others		28,008	1,897	-	-	29,905
Construction in progress		33,630	44,631	(4)	(26,083)	52,174
Advance payments for acquisition of aircraft		91,944	-	-	(6,337)	85,607
		3,117,584	446,775	(138,944)	(32,701)	3,392,714
Depreciation						
Aircraft and engines	9%	(624,736)	(200,677)	14,091	-	(811,322)
Buildings and leasehold improvements	9%	(128,761)	(45,791)	460	-	(174,092)
Equipment and facilities	12%	(107,917)	(22,086)	767	-	(129,236)
Others	10%	(19,606)	(2,794)	-	-	(22,400)
		(881,020)	(271,348)	15,318	-	(1,137,050)
Property and equipment		2,236,564	175,427	(123,626)	(32,701)	2,255,664
Impairment		(436,858)	(4,240)	146,608	-	(294,490)
Total property and equipment, net		1,799,706	171,187	22,982	(32,701)	1,961,174

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

16. RIGHT-OF-USE ASSETS

16.1 Accounting policies

CPC 06 (R2) – Leases, equivalent to IFRS 16, establishes the principles for the recognition, measurement, presentation and disclosure of leasing operations and requires that lessees, at the commencement date of the contract, recognize a liability to make payments (a lease liability) and an asset representing the right to use the underlying asset over the lease term (a right-of-use asset – “ROU”). Lessees must separately recognize in the statement of profit or loss interest expense on the lease liability and depreciation expense for the right-of-use asset.

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

Considering the dollar-denominated environment in which the Company raises funds, in determining the discount rate the Company used as a basis the funding rates on the start and/or modification dates of the lease agreements in foreign currency.

16.1.1 Componentization of aircraft

At the receipt and initial recognition of aircraft and/or right-of-use assets, the Company allocates the total cost of the aircraft between five major components; airframe, auxiliary power unit (“APU”), or propeller landing gear and two engines. The useful life of each component is determined according to the estimated period until the next maintenance event, limited to the final term of the contract/and or the estimated useful life of the asset.

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

16.1.2 Capitalization of heavy maintenance events

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

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

16.1.3 Recognition of contractual obligations relating to return of aircraft (asset retirement obligation)

The costs resulting from the maintenance events that will be carried out immediately before the return of the aircraft to the lessors are recognized at present value, increasing the value of the asset as a balancing item to an obligation, as long as they can be reasonably estimated. Assets are depreciated on a straight-line basis over the lease contract term, while liabilities are updated by interest rates and exchange effects.

16.2 Breakdown of right-of-use assets

	Parent company						
Description	Weighted average rate (p.a.)	December 31, 2021	Additions	Write-offs	Contractual modifications	Transfers [(a)]	December 31, 2022
Cost							
Aircraft and engines		11,344,121	1,352,263	(66,458)	49,271	(142,729)	12,536,468
Aircraft and engine maintenance		1,542,856	628,293	(209,458)	(15,242)	(7,661)	1,938,788
Aircraft and engine restoration		1,387,738	674,733	(246,985)	-	-	1,815,486
Simulators		119,782	-	-	-	-	119,782
Others		89,226	181,496	(67,416)	11,452	-	214,758
		14,483,723	2,836,785	(590,317)	45,481	(150,390)	16,625,282
Depreciation							
Aircraft and engines	7%	(6,395,161)	(803,287)	19,254	-	38,827	(7,140,367)
Maintenance of aircraft and engines	20%	(1,052,190)	(313,613)	206,191	-	-	(1,159,612)
Restoration of aircraft and engines	34%	(380,649)	(467,880)	220,177	-	-	(628,352)
Simulators	29%	(70,256)	(35,139)	-	-	-	(105,395)
Others	44%	(19,240)	(39,681)	-	-	-	(58,921)
		(7,917,496)	(1,659,600)	445,622	-	38,827	(9,092,647)
Right-of-use assets		6,566,227	1,177,185	(144,695)	45,481	(111,563)	7,532,635
Impairment		(605,651)	-	488,731	-	6,571	(110,349)
Right-of-use assets, net		5,960,576	1,177,185	344,036	45,481	(104,992)	7,422,286

(a) The balances of transfers are between the groups of property and equipment, right-of-use assets and intangible assets.

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

		Parent company					
Description	Weighted average rate (p.a.)	December 31, 2020	Additions	Write-offs	Contractual modifications	Transfers (a)	December 31, 2021
Cost							
Aircraft and engines		10,061,718	983,684	(19,301)	221,266	96,754	11,344,121
Simulators		70,148	13	-	49,621	-	119,782
Restoration of aircraft and engines		597,011	790,727	-	-	-	1,387,738
Maintenance of aircraft and engines		1,414,507	236,336	(113,160)	(2,285)	7,458	1,542,856
Properties		114,167	-	(98,215)	-	-	15,952
Others		30,435	70,174	(27,335)	-	-	73,274
Advance payments for right of use of aircraft		-	76,097	-	-	(76,097)	-
		12,287,986	2,157,031	(258,011)	268,602	28,115	14,483,723
Depreciation							
Aircraft and engines	7%	(5,734,634)	(676,813)	16,286	-	-	(6,395,161)
Simulators	20%	(55,969)	(14,287)	-	-	-	(70,256)
Restoration of aircraft and engines	33%	(182,861)	(197,788)	-	-	-	(380,649)
Maintenance of aircraft and engines	19%	(892,325)	(271,203)	111,338	-	-	(1,052,190)
Properties	3%	(74,607)	(3,213)	74,606	-	-	(3,214)
Others	30%	(29,429)	(9,194)	22,597	-	-	(16,026)
		(6,969,825)	(1,172,498)	224,827	-	-	(7,917,496)
Right-of-use assets		5,318,161	984,533	(33,184)	268,602	28,115	6,566,227
Impairment		(706,615)	(172,305)	273,269	-	-	(605,651)
Right-of-use assets, net		4,611,546	812,228	240,085	268,602	28,115	5,960,576

(a) The balances of transfers are between the groups of property and equipment, right-of-use assets and intangible assets.

		Consolidated					
Description	Weighted average rate (p.a.)	December 31, 2021	Aquisitions	Write-offs	Contractual modifications	Transfers [(a)]	December 31, 2022
Cost							
Aircraft and engines		11,356,489	1,436,969	(66,458)	49,271	(142,729)	12,633,542
Aircraft and engines maintenance		1,542,856	628,293	(209,458)	(15,242)	(7,661)	1,938,788
Aircraft and engine restoration		1,387,738	678,685	(246,985)	-	-	1,819,438
Simulators		119,782	-	-	-	-	119,782
Other		89,226	193,359	(67,416)	11,452	-	226,621
		14,496,091	2,937,306	(590,317)	45,481	(150,390)	16,738,171
Depreciation							
Aircraft and engines	7%	(6,368,510)	(812,402)	19,254	-	38,827	(7,122,831)
Maintenance of aircraft and engines	20%	(1,052,190)	(313,613)	206,191	-	-	(1,159,612)
Restoration of aircraft and engines	34%	(380,649)	(468,050)	220,177	-	-	(628,522)
Simulators	29%	(70,256)	(35,139)	-	-	-	(105,395)
Other	44%	(19,240)	(39,674)	-	-	-	(58,914)
		(7,890,845)	(1,668,878)	445,622	-	38,827	(9,075,274)
Right-of-use assets		6,605,246	1,268,428	(144,695)	45,481	(111,563)	7,662,897
Impairment		(605,651)	-	488,731	-	6,571	(110,349)
Right-of-use assets, net		5,999,595	1,268,428	344,036	45,481	(104,992)	7,552,548

(a) The balances of transfers are between the groups of property and equipment, right-of-use assets and intangible assets.

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

Description	Weighted average rate (p.a.)	December 31, 2020	Additions	Write-offs	Contractual modifications	Transfers (a)	December 31, 2021
		Consolidated					
Cost							
Aircraft and engines		10,033,538	1,021,819	(19,301)	221,266	99,167	11,356,489
Simulators		70,148	13	-	49,621	-	119,782
Restoration of aircraft and engines		597,011	790,727	-	-	-	1,387,738
Maintenance of aircraft and engines		1,414,507	236,336	(113,160)	(2,285)	7,458	1,542,856
Properties		114,167	-	(98,215)	-	-	15,952
Others		30,435	70,174	(27,335)	-	-	73,274
Advance payments for right of use of aircraft		-	76,097	-	-	(76,097)	-
		12,259,806	2,195,166	(258,011)	268,602	30,528	14,496,091
Depreciation							
Aircraft and engines	7%	(5,707,259)	(677,537)	16,286	-	-	(6,368,510)
Simulators	20%	(55,969)	(14,287)	-	-	-	(70,256)
Restoration of aircraft and engines	33%	(182,861)	(197,788)	-	-	-	(380,649)
Maintenance of aircraft and engines	19%	(892,325)	(271,203)	111,338	-	-	(1,052,190)
Properties	3%	(74,607)	(3,213)	74,606	-	-	(3,214)
Others	30%	(29,429)	(9,194)	22,597	-	-	(16,026)
		(6,942,450)	(1,173,222)	224,827	-	-	(7,890,845)
Right-of-use assets		5,317,356	1,021,944	(33,184)	268,602	30,528	6,605,246
Impairment		(706,615)	(172,305)	273,269	-	-	(605,651)
Right-of-use assets, net		4,610,741	849,639	240,085	268,602	30,528	5,999,595

(a) The balances of transfers are between the groups of property and equipment, right-of-use assets and intangible assets.

17. INTANGIBLE ASSETS

17.1 Accounting policies

17.1.1 Finite useful life

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

17.1.2 Indefinite useful life

17.1.2.1 Goodwill

In this category, the amounts related to goodwill arising from the business combinations of Azul Conecta are recorded. Goodwill is tested annually by comparing the carrying amount with the recoverable amount. Management makes judgments and establishes assumptions to assess the impact of macroeconomic and operational changes, in order to estimate future cash flows and measure the recoverable amount of assets.

17.1.2.2 Rights of operations in airports (slots)

In the business combination of Azul Conecta, slots acquired were recognized at their fair values at the acquisition date and not amortized. The estimated useful life of these rights was considered indefinite due to several factors and considerations, including requirements and authorizations for permission to operate in Brazil and limited availability of usage rights at the most important airports in terms of air traffic volume. The carrying amount of these rights is assessed annually.

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

17.2 Breakdown of intangible assets

	Parent company					
Description	Weighted average rate (p.a.)	December 31, 2021	Additions	Write-offs	Transfers	December 31, 2022
Cost						
Slots (a)		54,705	-	-	-	54,705
Software		747,002	199,264	(58)	(14,428)	931,780
		801,707	199,264	(58)	(14,428)	986,485
Amortization						
Software	17%	(417,390)	(129,332)	-	-	(546,722)
		(417,390)	(129,332)	-	-	(546,722)
Total intangible, net		384,317	69,932	(58)	(14,428)	439,763

	Parent company				
Description	Weighted average rate (p.a.)	December 31, 2020	Additions	Transfers	December 31, 2021
Cost					
Slots (a)		54,705	-	-	54,705
Software		592,648	152,181	2,173	747,002
		647,353	152,181	2,173	801,707
Amortization					
Software	17%	(315,905)	(101,485)	-	(417,390)
		(315,905)	(101,485)	-	(417,390)
Total intangible, net		331,448	50,696	2,173	384,317

(a) As part of the allocation of the purchase price of Azul Conecta (formerly Two Táxi Aéreo Ltda.), the Company recognized the value of operating licenses for certain airport slots, asset with indefinite useful life.

	Consolidated				
Description	Weighted average rate (p.a.)	December 31, 2021	Additions	Write-offs	December 31, 2022
Cost					
Goodwill (a)		147,915	-	-	147,915
Slots (b)		99,056	-	-	99,056
Software		748,033	198,525	(58)	946,500
		995,004	198,525	(58)	1,193,471
Amortization					
Software	17%	(417,960)	(129,982)	-	(547,942)
		(417,960)	(129,982)	-	(547,942)
Total intangible, net		577,044	68,543	(58)	645,529

	Consolidated				
Description	Weighted average rate (p.a.)	December 31, 2020	Additions	Transfers (c)	December 31, 2021
Cost					
Goodwill (a)		57,446	134,820	(44,351)	147,915
Slots (b)		54,705	-	44,351	99,056
Software		593,318	152,542	2,173	748,033
		705,469	287,362	2,173	995,004
Amortization					
Software	17%	(316,195)	(101,765)	-	(417,960)
		(316,195)	(101,765)	-	(417,960)
Total intangible, net		389,274	185,597	2,173	577,044

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

(a) Goodwill for expected future profitability, arises from the acquisition Azul Conecta (formerly Two Táxi Aéreo Ltda.) in 2020, and refers to the consideration transferred, less the fair value of assets acquired and liabilities assumed, net.

(b) As part of the allocation of the purchase price and Azul Conecta (formerly Two Táxi Aéreo Ltda.), the Company recognized the value of operating licenses for certain airport slots, asset with indefinite useful life.

(c) Transfer balances are between property, plant and equipment, right of use and intangible assets

17.3 Impairment of intangible assets without a finite useful life

As of December 31, 2022, the Company performed annual impairment tests, through the discounted cash flow of the cash-generating unit.

The assumptions used in the impairment tests of goodwill and other intangible assets are consistent with the Company's operating plans and internal projections, prepared for a period of five years. After this period, a perpetuity rate of growth of operating projections is assumed. Assumptions and projections are revised and approved by management. The discounted cash flow that determined the value in use of the cash-generating unit was prepared according to the Company’s business plan approved by the Board of Directors of Azul S.A. on December 8, 2022.

The following assumptions were considered:

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

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

The result of the impairment test showed that the estimated recoverable amount is greater than the carrying amount allocated to the cash-generating unit and, therefore no adjustment of the recoverable amount to be recorded at December 31, 2022 was identified, as shown below:

	December 31, 2022		December 31, 2021	
Description	Goodwill for expectation of future profitability	Airport operating license	Goodwill for expectation of future profitability	Airport operating license
Carrying amount	147,915	99,056	147,915	99,056
Carrying amount – CGU	9,505,637	-	7,960,769	-
Value in use	19,622,243	790,626	35,355,308	2,419,843
Pre-tax discount rate	11.5%	12.5%	9.5%	10.5%
Growth rate in perpetuity	3.0%	3.0%	3.0%	3.0%

18. LOANS AND FINANCING

18.1 Accounting policies

Loans and financing are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are measured at amortized cost using the effective interest rate method.

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

18.2 Movement of loans and financing

Parent company											
Description	Average rate nominal a.a.	Maturity	December 31, 2021	Captures (–) costs	Payment of principal	Payment of interest	Interest incurred	Foreign currency exchange	Amortized cost	December 31, 2022
In foreign currency - US$										
Working capital	1.0%	Jun-25	5,002	-	(4,124)	(5)	9	(332)	-	550
Aircraft and engines	6.0%	Mar-29	1,091,953	-	(302,544)	(43,056)	52,930	(74,133)	5,525	730,675
			1,096,955	-	(306,668)	(43,061)	52,939	(74,465)	5,525	731,225
In national currency - R$										
Working capital	CDI + 3.9%	Feb-24	643,699	227,467	(369,623)	(108,887)	104,030	-	311	496,997
	2.9%	Sep-25	19,581	-	(19,556)	(844)	819	-	-	-
Debentures	CDI + 5.0%	Dec-27	733,017	(12,308)	(74,056)	(50,908)	147,029	-	4,396	747,170
Aircraft and engines	6.2%	Mar-27	74,382	-	(39,953)	(3,479)	3,418	-	122	34,490
	Selic + 5.5%	May-25	28,038	-	(8,350)	(4,374)	3,910	-	60	19,284
			1,498,717	215,159	(511,538)	(168,492)	259,206	-	4,889	1,297,941
Total in R$			2,595,672	215,159	(818,206)	(211,553)	312,145	(74,465)	10,414	2,029,166
Current			945,344							1,097,976
Non-current			1,650,328							931,190

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

Parent company										
Description	Average rate nominal a.a.	Maturity	December 31, 2020	Captures (–) costs	Payment of principal	Payment of interest	Interest incurred	Foreign currency exchange	Amortized cost	December 31, 2021
In foreign currency - US$										
Working capital	1.0%	Jul-23	160,534	-	(170,547)	(1,110)	1,095	15,030	-	5,002
Aircraft and engines	3.0% to 6.0%	Mar-29	1,076,442	-	(37,029)	(85,543)	51,050	82,722	4,311	1,091,953
			1,236,976	-	(207,576)	(86,653)	52,145	97,752	4,311	1,096,955
In national currency - R$										
Working capital	CDI + 2.0% to 6.0%	Feb-24	709,668	46,478	(103,065)	(56,750)	47,180	-	188	643,699
	10.7%	Sep-22	38,881	-	(19,302)	(3,258)	3,260	-	-	19,581
	14.9%	Sep-25	-	-	-	-	-	-	-	-
	5.0%	Jul-21	10,846	-	(11,151)	(184)	159	-	330	-
	TJLP + 5.0%	Jul-21	12,524	-	(12,571)	(394)	441	-	-	-
Debentures	CDI + 3.0%	Dec-23	690,904	-	-	(16,000)	52,784	-	5,329	733,017
			-	-	-	-	-	-	-	-
Aircraft and engines	6.0% to 6.5%	Jan-25	104,284	-	(30,753)	(4,491)	5,220	-	122	74,382
	Selic + 2.8% to 5.5%	May-25	35,502	-	(5,880)	(4,060)	2,436	-	40	28,038
			1,602,609	46,478	(182,722)	(85,137)	111,480	-	6,009	1,498,717
Total in R$			2,839,585	46,478	(390,298)	(171,790)	163,625	97,752	10,320	2,595,672
Current			833,066							945,344
Non-current			2,006,519							1,650,328

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

Consolidated										
Description	Average rate nominal a.a.	Maturity	December 31, 2021	Captures (–) costs	Payment of principal	Payment of interest	Interest incurred	Foreign currency exchange	Amortized cost	December 31, 2022
In foreign currency - US$										
Working capital										
Senior notes – 2024	5.9%	Oct-24	2,236,910	-	-	(120,924)	120,487	(146,308)	7,237	2,097,402
Senior notes – 2026	7.3%	Jun-26	3,298,018	-	-	(227,525)	222,675	(208,927)	11,424	3,095,665
Other	1.0%	Jun-25	5,002	-	(4,124)	(5)	9	(332)	-	550
Aircraft and engines	6.0%	Mar-29	1,091,953	-	(302,544)	(43,056)	52,930	(74,133)	5,525	730,675
	Libor 3M + 2.6%	Mar-22	1,561	-	(1,428)	-	6	(141)	-	(2)
			6,633,444	-	(308,096)	(391,510)	396,107	(429,841)	24,186	5,924,290
In national currency - R$										
Working capital	CDI + 3.9%	Feb-24	643,699	227,467	(369,623)	(108,887)	104,030	-	311	496,997
	2.9%	Sep-25	23,202	-	(20,728)	(1,031)	1,232	-	-	2,675
Debentures	CDI + 5.0%	Dec-27	733,017	(12,308)	(74,056)	(50,908)	147,029	-	4,396	747,170
Aircraft and engines	6.2%	Mar-27	84,330	-	(42,324)	(3,863)	4,018	-	122	42,283
	Selic + 5.5%	May-25	28,038	-	(8,350)	(4,374)	3,910	-	60	19,284
			1,512,286	215,159	(515,081)	(169,063)	260,219	-	4,889	1,308,409
Total in R$			8,145,730	215,159	(823,177)	(560,573)	656,326	(429,841)	29,075	7,232,699
Current			984,266							1,112,940
Non-current			7,161,464							6,119,759

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

Consolidated										
Description	Average rate nominal a.a.	Maturity	December 31, 2020	Captures	Payment of principal	Payment of interest	Interest incurred	Foreign currency exchange	Amortized cost	December 31, 2021
In foreign currency - US$										
Working capital										
Senior notes – 2024	5.9%	Oct-24	2,076,310	-	-	(129,680)	127,437	156,163	6,680	2,236,910
Senior notes – 2026	7.3%	Jun-26	-	2,976,795	-	(122,803)	127,840	294,660	21,526	3,298,018
Other	1.0%	Jul-23	160,534	-	(170,547)	(1,110)	1,095	15,030	-	5,002
Aircraft and engines	3.0% to 6.0%	Mar-29	1,076,442	-	(37,029)	(85,543)	51,050	82,722	4,311	1,091,953
	Libor 3M + 2.6%	Mar-22	8,263	-	(7,525)	(178)	189	477	335	1,561
			3,321,549	2,976,795	(215,101)	(339,314)	307,611	549,052	32,852	6,633,444
In national currency - R$										
Working capital	CDI + 2.0% to	Feb-24	709,668	46,478	(103,065)	(56,750)	47,180	-	188	643,699
	10.0%	Sep-25	43,443	-	(20,329)	(3,642)	3,730	-	-	23,202
	5.0%	Jul-21	10,846	-	(11,151)	(184)	159	-	330	-
Debentures	TJLP + 5.0%	Jul-21	12,524	-	(12,571)	(394)	441	-	-	-
Aircraft and engines	CDI + 3.0%	Dec-23	690,904	-	-	(16,000)	52,784	-	5,329	733,017
	6.0% to 7.3%	Mar-27	116,374	-	(32,606)	(5,901)	6,341	-	122	84,330
	Selic + 2.8% to	May-25	35,502	-	(5,880)	(4,060)	2,436	-	40	28,038
Total in R$			1,619,261	46,478	(185,602)	(86,931)	113,071	-	6,009	1,512,286
			4,940,810	3,023,273	(400,703)	(426,245)	420,682	549,052	38,861	8,145,730
Current			858,332							984,266
Non-current			4,082,478							7,161,464

18.3 Main loan and financing operations

18.3.1 *Senior notes 2024*

In October 2017, the subsidiary Azul Investments LLP priced an offering of Senior Notes abroad in the amount of US$400 million, due in 2024 and with a coupon of 5.875% p.a. The Company incurred borrowing costs of R$22,140, which will be amortized over the contract term, as required by CPC48, equivalent to IFRS-9. This transaction is part of the Company's liability management strategy and the proceeds will be used for refinancing debts and general corporate purposes.

18.3.2 Senior notes 2026

In June 2021, the subsidiary Azul Investments LLP priced an offering abroad in the amount of US$600 million, due in 2026 and with a coupon of 7.25% p.a. The Company incurred borrowing costs of R$75,645, which will be amortized over the contract term, as required by CPC48, equivalent to IFRS-9. The Company will provide irrevocable, unconditional and full guarantee to honor the payment of their obligations related to the debt, and net proceeds from the issue will be used by the Company for general corporate purposes.

18.3.3 Working capital

During the year ended December 31, 2022, the Company raised funds as shown below:

- R$200,000 at a rate equivalent to CDI+5.4% p.a. and quarterly payments of interest and principal with final maturity in September 2023. For this funding, the Company assigned receivables and the proceeds will be used for general corporate purposes and;

- R$27,792 with a cost of R$325, at a rate equivalent to CDI+6.3% p.a. and monthly payments of interest and principal due during the year 2023.

18.3.4 Debentures

During the year ended December 31, 2018, the Company conducted, through the 9th and 10th issues, restricted offers of simple 50,000 and 20,000 debentures, non-convertible into shares, in the amount of R$500,000 and R$200,000 with borrowing costs of R$3,414 and R$4,302, respectively. The Company incurred borrowing costs which will be amortized over the contract term, as required by CPC48, equivalent to IFRS-9.

During the year ended December 31, 2022, the Company renegotiated the debentures, changing the conditions and maturities. The rate was changed to CDI+5.0% p.a. with maturity on December 20, 2027. The indicators for measuring the covenants were changed to adjusted debt service coverage ratio (DSCR) equal to or greater than 1,2; and financial leverage less than or equal to 6,5 in 2023; 5,0 in 2024 and 2025; and 4,5 in 2026 and 2027.

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

18.3.5 Aircraft and engines

The balance, in local and foreign currency, consists substantially of the financing of engine maintenance and the purchase of aircraft and engines.

18.4 Schedule of amortization of long-term debt

	Parent company		Consolited	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
2023	-	1,285,005	-	1,247,104
2024	325,678	207,945	2,397,036	2,423,026
2025	243,228	124,280	234,919	114,897
2026	180,562	14,769	3,306,081	3,357,741
2027	172,205	8,143	172,205	8,510
After 2027	9,517	10,186	9,518	10,186
	931,190	1,650,328	6,119,759	7,161,464

18.5 Covenants

As of December 31, 2022, the Company has loans and financing subject to covenants related to the indebtedness level and the debt service coverage ratio.

Covenant related to:	Indicators for the measurement	Frequency of measurement
9th and 10th issue of debentures	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1,2; and (ii) Financial leverage less than or equal to 6,5 in 2023; 5,0 in 2024 and 2025; and 4,5 in 2026 and 2027.	Anual
Credit facility agreement (CFA)	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1,2; and (ii) Financial leverage less than or equal to 6,5.	Annual
Aircraft financing	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1,2; and (ii) Financial leverage less than or equal to 5,5.	Quarterly/Annual
Aircraft financing	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1,2; and (ii) Financial leverage less than or equal to 6,5.	Annual

The Company previously requested a waiver from the counterparties and obtained in 2022. Therefore, the related debt is still classified in these financial statements according to the contractual flow originally established.

19. LEASES

19.1 Accounting policies

The lease liabilities are recognized, measured, presented and disclosed in accordance with CPC 06 (R2) – Leases, equivalent to IFRS – 16, against right-of-use assets, the accounting policies adopted by the Company for leasing operations are presented in Note 16 to these financial statements.

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

19.2 Movement of lease liabilities

Parent company										
Description	Average remaining term	Weighted average rate	December 31, 2021	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Foreign currency exchange	December 31, 2022
Lease without purchase option:										
Aircraft and engines	7.6	21.3%	13,688,239	1,493,733	55,342	(3,214,643)	2,396,297	(1,123)	(879,712)	13,538,133
Others	4.9	9.8%	71,869	181,496	11,452	(29,122)	15,433	(67,416)	(1,505)	182,207
Lease with purchase option:										
Aircraft and engines	5.8	18.5%	1,094,059	42,369	(113,993)	(340,203)	114,053	-	(54,501)	741,784
Total			14,854,167	1,717,598	(47,199)	(3,583,968)	2,525,783	(68,539)	(935,718)	14,462,124
Current			3,494,515							4,001,623
Non-Current			11,359,652							10,460,501

Parent company											
Description	Average remaining term	Weighted average rate	December 31, 2020	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Transfers (a)	Foreign currency exchange	December 31, 2021
Lease without purchase option:											
Aircraft and engines	7.9	21.1%	11,667,890	828,157	119,103	(1,906,025)	2,351,908	(16,153)	(205,978)	849,337	13,688,239
Others	5.0	8.5%	57,278	70,174	-	(18,097)	4,965	(42,433)	-	(18)	71,869
Lease with purchase option:											
Aircraft and engines	5.7	8.4%	800,391	170,621	125,083	(140,470)	76,343	-	-	62,091	1,094,059
Total			12,525,559	1,068,952	244,186	(2,064,592)	2,433,216	(58,586)	(205,978)	911,410	14,854,167
Current			2,276,155								3,494,515
Non-current			10,249,404								11,359,652

(a) Transfers made to the line item “Other non-current liabilities” related to past-due lease liabilities with a lessor that entered court-supervised reorganization.

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

Consolidated										
Description	Average remaining term	Weighted average rate	December 31, 2021	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Foreign currency exchange	December 31, 2022
Lease without purchase option:										
Aircraft and engines	7.6	21.3%	13,724,647	1,507,577	55,342	(3,220,152)	2,400,049	(1,123)	(880,530)	13,585,810
Others	4.9	9.8%	71,869	193,360	11,452	(38,031)	15,798	(67,416)	(1,505)	185,527
Lease with purchase option:										
Aircraft and engines	5.8	18.5%	1,094,059	113,231	(113,993)	(345,503)	117,281	-	(53,579)	811,496
Total			14,890,575	1,814,168	(47,199)	(3,603,686)	2,533,128	(68,539)	(935,614)	14,582,833
Current			3,497,665							4,025,948
Non-Current			11,392,910							10,556,885

Consolidated											
Description	Average remaining term	Weighted average rate	December 31, 2020	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Transfers (a)	Foreign currency exchange	December 31, 2021
Lease without purchase option:											
Aircraft and engines	7.9	21.1%	11,663,143	868,705	119,196	(1,906,735)	2,352,332	(16,153)	(205,978)	850,137	13,724,647
Others	5.0	8.5%	57,278	70,174	-	(18,097)	4,965	(42,433)	-	(18)	71,869
Lease with purchase option:											
Aircraft and engines	5.7	8.4%	800,391	170,621	125,083	(140,470)	76,343	-	-	62,091	1,094,059
Total			12,520,812	1,109,500	244,279	(2,065,302)	2,433,640	(58,586)	(205,978)	912,210	14,890,575
Current			2,272,349								3,497,665
Non-current			10,248,463								11,392,910

(a) Transfers made to the line item “Other non-current liabilities” related to past-due lease liabilities with a lessor that entered court-supervised reorganization.

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

19.3 Schedule of amortization of leases

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
2022	-	3,798,592	-	3,802,070
2023	4,361,841	4,048,768	4,387,911	4,056,001
2024	4,136,971	4,008,514	4,162,958	4,015,746
2025	3,553,600	3,389,896	3,579,587	3,397,128
2026	3,211,523	3,065,180	3,237,509	3,072,413
2027	2,883,215	2,777,361	2,909,201	2,782,538
After 2027	8,439,514	7,283,948	8,512,031	7,298,458
Minimum lease payment	26,586,664	28,372,259	26,789,197	28,424,354
Financial charges	(12,124,540)	(13,518,092)	(12,206,364)	(13,533,779)
Present value of minimum lease payments	14,462,124	14,854,167	14,582,833	14,890,575

19.4 Covenants

As of December 31, 2022, the Company has lease liabilities subject to covenants related to the indebtedness level and the debt service coverage ratio.

Covenant related to:	Indicators for the measurement	Frequency of measurement
Aircraft financing	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1,2; and (ii) Financial leverage less than or equal to 5,5.	Annual

These conditions will be verified only December 31, 2023, therefore, the related debt is still classified in these financial statements according to the contractual flow originally established.

20. ACCOUNTS PAYABLE

20.1 Accounting policies

Accounts payable to suppliers are initially recognized at fair value and subsequently increased, where applicable, by the corresponding charges, monetary variations and exchange differences. These amounts are presented net of provision for losses.

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

20.2 Breakdown of accounts payable

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Accounts payable – local currency	1,832,215	1,206,312	1,857,559	1,232,190
Accounts payable – foreign currency	1,085,816	637,319	1,092,231	637,054
	2,918,031	1,843,631	2,949,790	1,869,244
Current	2,401,060	1,502,313	2,432,819	1,527,044
Non-Current	516,971	341,318	516,971	342,200

21. FACTORING

21.1 Accounting policies

The Company negotiates with suppliers to extend the payment terms. As a result, the Company signed an agreement with financial institutions to allow the discounting of trade notes receivable from its suppliers, mainly fuel, with interest rates ranging from 1.38% to 1.46% p.m. in 2022. When trade notes payable are included in factoring, such amount is transferred from “Accounts payable” to “Factoring” account

The total amount is liquated in the date of disclosure of these financial statements.

21.2 Movement of factoring

Description	Parent company and Consolidated
At December 31, 2020	157,801
Addition	1,202,582
Interest incurred	18,228
Interest paid	(18,228)
Payment	(1,356,689)
At December 31, 2021	3,694
Addition	1,541,948
Interest incurred	79,460
Interest paid	(53,476)
Payment	(818,274)
At December 31, 2022	753,352

22. DERIVATIVE FINANCIAL INSTRUMENTS

22.1 Accounting policies

Changes in interest rates, foreign exchange rates and aviation fuel prices expose the Company and its subsidiaries to risks that may affect their financial performance. In order to mitigate such risks, the Company contracts derivative financial instruments. Operations not designated as hedge accounting present the change in their fair value directly in the financial result.

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

22.2 Breakdown of derivative financial instruments

	Parent company				
	Derivatives nor designated as hedge accounting				
Chanches in fair value	Options - foreign currency	Interest rate Swap	Fuel term	Term forgein currency	Total
At December 31, 2020	8,947	(292,593)	(81,274)	349,093	(15,827)
Gains (losses) recognized in result	(10,222)	825	75,075	(78,453)	(12,775)
Payment	1,275	84,466	15,582	-	101,323
At December 31, 2021	-	(207,302)	9,383	270,640	72,721
Recognized gains (losses) on income	-	83,796	440,065	(35,394)	488,467
Payments (receipts)	-	69,405	(478,149)	-	(408,744)
At December 31, 2022	-	(54,101)	(28,701)	235,246	152,444
Rigths with current derivative financial instruments	-	-	8,705	-	8,705
Rigths witch non-current derivative financial instruments	-	-	650	235,246	235,896
Obligations with current derivative financial instruments	-	(31,603)	(37,762)	-	(69,365)
Non-current derivative financial instruments obligations	-	(22,498)	(294)	-	(22,792)
	-	(54,101)	(28,701)	235,246	152,444

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

	Consolidated				
	Derivatives nor designated as hedge accounting				
Chanches in fair value	**Options - foreign currency**	**Interest rate Swap**	**Fuel term**	**Term forgein currency**	**Total**
At December 31, 2020	8,947	(269,491)	(81,274)	349,093	7,275
Gains (losses) recognized in result	(10,222)	48,571	75,075	(78,453)	34,971
Payment	1,275	7,663	15,582	-	24,520
At December 31, 2021	-	(213,257)	9,383	270,640	66,766
Recognized gains (losses) on income	-	33,519	440,065	(35,394)	438,190
Payments (receipts)	-	568	(478,149)	-	(477,581)
At December 31, 2022	-	(179,170)	(28,701)	235,246	27,375
Rigths with current derivative financial instruments	-	27,349	8,705	-	36,054
Rigths witch non-current derivative financial instruments	-	-	650	235,246	235,896
Obligations with current derivative financial instruments	-	(31,603)	(37,762)	-	(69,365)
Non-current derivative financial instruments obligations	-	(174,916)	(294)	-	(175,210)
	-	(179,170)	(28,701)	235,246	27,375

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

23. AIR TRAFFIC LIABILITY

23.1 Accounting policies

This represents the Company's obligations for the early receipt of air transport services and other auxiliary services related to the main obligation with its customers. They are accounted for at the amount of the transaction and as they are non-monetary items they are not subject to exchange differences or monetary adjustment of any nature. These obligations are extinguished with the provision of the transport services against operating income in the statement of profit or loss for the year.

23.2 Breakdown of air traffic liability

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Air traffic liability	4,378,923	3,238,679	4,660,271	3,471,534
Breakage	(520,246)	(407,718)	(520,246)	(407,718)
	3,858,677	2,830,961	4,140,025	3,063,816
Average term of use	48 days	47 days	48 days	47 days

24. TAXES PAYABLE

24.1 Accounting policies

Taxes payable represent obligations arising from the Company's operating activities, mainly from the transport of passengers and cargo.

24.2 Breakdown of taxes payable

	Parent company		Consolidated	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Government installment program	96,547	121,737	96,547	123,445
PIS and COFINS	43,818	63,014	44,284	63,459
IRRF	48,682	33,614	49,371	34,058
Import taxes	12,318	21,624	12,359	21,625
Others	61,632	6,985	61,989	7,189
	262,997	246,974	264,550	249,776
Current	191,402	147,349	192,955	148,730
Non-current	71,595	99,625	71,595	101,046

25. PROVISIONS

25.1 Accounting policies

25.1. 1Provision for return of aircraft and engines (asset retirement obligation - ARO)

Aircraft and engines negotiated under the lease without purchase option modality regularly provide for contractual obligations establishing conditions for return. In these cases, the Company provides for the return costs, since these are present obligations, arising from past events and which will generate future disbursements, which are reliably measured. These expenses basically refer to aircraft reconfiguration (interior and exterior), obtaining licenses and technical certifications, verifications of returns, maintenance, painting, etc., as established in the contract. Specifically for engines, return events that will occur within 36 months are considered. The estimated cost is initially recognized at present value in right-of-use assets and the balancing item of the provision for aircraft return is recorded in the “Provisions” account. After initial recognition, the liability is updated according to the capital remuneration rate estimated by the Company, with a corresponding entry recorded in the financial result. Any changes in the estimate of expenses to be incurred are recognized prospectively against right of use or in the statement of profit or loss for the year, in the case the right-of-use balance is insufficient.

25.1.2 Tax, civil, labor and other risks

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

The Company’s Management believes that the provision for tax, civil, labor and other risks is sufficient to cover any losses on legal and administrative proceedings.

25.1.3 Onerous liabilities

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

The provision is related to the obligations arising from the fleet transformation plan, as detailed in note 1.5.

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

25.1.4 Post-employment benefits

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

25.2 Breakdown of provisions

	Parent company				
Description	Return of aircraft and engines [(a)]	Provision for tax, civil and labor risks	Provision for onerous contract	post-employment benefit	Total
At December 31, 2020	1,336,186	126,955	1,340,522	9,953	2,813,616
Additions	790,727	424,356	252,164	212	1,467,459
Reversals	-	-	(970,811)	-	(970,811)
Payments	(95,344)	(146,531)	(150,944)	-	(392,819)
Interest incurred	80,484	-	156,516	740	237,740
Effect of change in financial assumptions	-	-	-	(4,744)	(4,744)
Effect of plan experience	-	-	-	(400)	(400)
Transfers	37,898	-	(37,898)	-	-
Foreign currency exchange	91,488	-	103,858	-	195,346
At December 31, 2021	2,241,439	404,780	693,407	5,761	3,345,387
Additions	674,300	241,344	-	113	915,757
Reversals	-	-	(586,634)	-	(586,634)
Payments	(228,034)	(179,279)	(178,126)	-	(585,439)
Interest incurred	144,423	-	100,975	609	246,007
Effect of change in financial assumptions	-	-	-	(888)	(888)
Plan experience effect	-	-	-	1,406	1,406
Foreign currency exchange	(160,814)	-	(29,622)	-	(190,436)
At December 31, 2022	2,671,314	466,845	-	7,001	3,145,160
Current	654,897	179,391	-	-	834,288
Non-current	2,016,417	287,454	-	7,001	2,310,872

(a) Nominal discount rate 11.24% p.a. (as of December 31, 2021 – 9.47% p.a.)

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

	Consolidated				
Description	Return of aircraft and engines [(a)]	Tax, civil, labor and other risks	Onerous contract	Post-employment benefit	Total
At December 31, 2020	1,336,186	128,775	1,340,522	9,953	2,815,436
Additions	790,727	558,898	252,164	212	1,602,001
Reversals	-	-	(970,811)	-	(970,811)
Payments	(95,344)	(146,623)	(150,944)	-	(392,911)
Interest incurred	80,484	-	156,516	740	237,740
Effect of change in financial assumptions	-	-	-	(4,744)	(4,744)
Effect of plan experience	-	-	-	(400)	(400)
Transfer	37,898	-	(37,898)	-	-
Foreign currency exchange	91,488	-	103,858	-	195,346
At December 31, 2021	2,241,439	541,050	693,407	5,761	3,481,657
Additions	678,252	179,199	-	113	857,564
Reversals	-	-	(586,634)	-	(586,634)
Payments	(228,034)	(179,391)	(178,126)	-	(585,551)
Interest incurred	144,563	-	100,975	609	246,147
Effect of changing financial assumptions	-	-	-	(888)	(888)
Effect of plan experience	-	-	-	1,406	1,406
Foreign currency exchange	(160,954)	-	(29,622)	-	(190,576)
At December 31, 2022	2,675,266	540,858	-	7,001	3,223,125
Current	654,897	179,391	-	-	834,288
Non-current	2,020,369	361,467	-	7,001	2,388,837

(a) Nominal discount rate 11.24% p.a. (as of December 31, 2021 – 9.47% p.a.)

25.2.1 Tax, civil, labor and other risks

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

	Parent company			
	Probable loss		Possible loss	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Tax	259,330	213,986	353,287	196,864
Civil	92,793	56,571	57,764	40,806
Labor	114,722	49,559	43,203	107,010
Others	-	84,664	-	-
	466,845	404,780	454,254	344,680

	Consolidated			
	Probable loss		Possible loss	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Tax	259,330	213,986	353,287	196,864
Civil	93,034	56,808	57,764	40,996
Labor	121,084	50,772	43,203	107,427
Others	67,410	219,484	-	-
	540,858	541,050	454,254	345,287

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

25.2.1.1 Main proceedings

25.2.1.1.1 Tax

25.2.1.1.1.1 Probable loss

The Company discusses the non-application of the additional charge of 1% of COFINS on imports of aircraft, parts and components, in the amount of R$209,496 (As of December 31, 2021 R$196,048). Such classification is due to decisions from higher courts considering the legality of the collection of the additional rate on the imports made by airlines.

25.2.1.1.1.2 Possible loss

On October 31, 2022, the Company was assessed by the Federal Revenue Service due to alleged infringement relating to Social Security Contribution on Gross Revenue (“CPRB” or payroll tax relief), totaling approximately R$227,000. Tax assessment notices are being discussed at the administrative and judicial levels.

25.2.1.1.2 Labor

25.2.2.1.2.1 Possible loss

On February 22, 2017, the Labor Department of Justice filed a lawsuit against the Company alleging the violation of certain labor aspects, such as excessive daily workday and the absence of enjoyment of rest periods, for which approximately R$66,000 in punitive damages is claimed. During exercise 2022, a lawsuit was judged partially prosecuting condemning the Company to the payment of R$500. The Company continued the decision and the lawsuit is pending judgment of the appeal. The probability of loss is still assessed as possible by the Company's legal advisors, however, at a desirable amount.

25.2.1.1.3 Others

25.2.1.1.3.1 Probable loss

The amounts recognized under this line item are related to the contingent liability assumed as a result of the business combination with Azul Conecta in the amount of R$67,410 (As of December 31, 2021 R$134,820).

25.2.2 Post-employment benefit

Below are the assumptions used to calculate post-employment benefits:

	Parent company and Consolidated	
Description	December 31, 2022	December 31, 2021
Nominal discount rate p.a.	10.96%	7.43%
Actual discount rate p.a.	5.78%	3.80%
Estimated inflation rate in the long term p.a.	4.90%	3.50%
HCCTR - Average nominal inflation rate p.a.	8.05%	6.60%
HCCTR - Actual nominal inflation rate p.a.	3.00%	3.00%
Mortality table	AT-2000 dowrated by 10%	AT-2000 dowrated by 10%

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

26. 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.

26.1 Transactions with subsidiaries

These transactions include, among other aspects, shared service contracts and loan agreements, detailed below:

Parent company				
Creditor	Debtor	Type of operation	December 31, 2022	December 31, 2021
ALAB	Azul Conecta Ltda.	Loan	50,845	33,797
ALAB	Azul	Loan	-	4,776
ALAB	ATS Viagens e Turismo Ltda.	Sale of airline tickets	21,917	134,812
ALAB	ATS Viagens e Turismo Ltda.	Service sharing	36,448	3,084
Canela Investments LLC	ALAB	Others	-	(808)
ATS Viagens e Turismo Ltda.	ALAB	Travel packages	(58,732)	(26,517)
ATS Viagens e Turismo Ltda.	ALAB	Advance for ticket purchase	(191,808)	-
Azul Investments LLP	ALAB	Loan	(4,815,559)	(5,335,059)
			(4,956,889)	(5,185,915)
Rights with related parties - non-current			116,904	180,205
Payables to related parties - current			(442,666)	(12,491)
Payables to related parties - non-current			(4,631,127)	(5,353,629)
			(4,956,889)	(5,185,915)

Revenue	Expense	Type of operation	December 31, 2022	December 31, 2021
Azul	ALAB (a)	Loan	(49,062)	194
Canela Investments LLC	ALAB	Others	3,714	5,823
ALAB	Azul Investments LLP	Loan	1,383	(31,423)

(a) Transactions not eliminated in the Consolidated.

26.2 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. The compensation and charges paid or payable for services are shown below:

	Parent company		Consolidated	
	Years ended		Years ended	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Remuneration [(a)]	15,678	30,323	16,695	31,614

(a) Considers stock option plans, restricted shares and phantom shares. The effect on the result referring to the phantom shares is based on the variation of the Company's share value, which is updated at each reporting period, and does not represent a cash outflow.

26.3 Technology service sharing contract

On January 1, 2013, the Company entered into a contract with Águia Branca Participações S.A., one of its shareholders, for the sharing of information technology resources for an indefinite period. The total amount of services acquired during the year ended December 31, 2022 was R$52 (R$52 as of December 31, 2021), recorded under "Other expenses, net" in the statement of profit or loss. As of December 31, 2022, there were no amounts to be paid as a result of this transaction.

26.4 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.

26.5 Aircraft sublease receivables

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 S.A., headquartered in the United States. The transaction was voted and approved by 97% of the Azul S.A. shareholders at the Extraordinary General Meeting held on March 2, 2020. Following good corporate practices, the controlling shareholder did not participate in the voting.

Until December 31, 2022, the Company sub-leased three aircrafts to Breeze and recorded a balance receivable of R$67,056 (R$79,663 as of December 31, 2021).

26.6 Lilium

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

26.6 Azorra

During the year ended December 31, 2022, the Company made agreements for sale and lease 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 Azul S.A. controlling shareholder to the position of independent member of Azorra's Board of Directors.

As of December 31, 2022, the Company has a maintenance reserve and lease in the amount of R$107,286 and R$113,832, respectively. During the year ended December 31, 2022, aircraft sales were made

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

27. EQUITY

27.1 Issued capital

Description	Parent company and Consolidated	
	Company's capital	Number of common shares
At December 31, 2020	3,346,563	3,346,562,334
Capital increase	1,300,000	1,300,000,000
At December 31, 2021	4,646,563	4,646,562,334
Capital increase	152,000	152,000,000
At December 31, 2022	4,798,563	4,798,562,334

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.

28. EARNINGS (LOSS) PER SHARE

Description	Parent company and consolidated – Years ended	
	December 31, 2022	December 31, 2021
Numerator		
Net loss the year	(1,050,442)	(4,676,316)
Denominator		
Weighted average number of common shares	4,798,563	4,646,563
Basic loss per common share – R$	(0.22)	(1.01)
Diluted loss per common share – R$	(0.22)	(1.01)

29. SHARE-BASED PAYMENT

29.1 Accounting policies

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

The cost of the instruments is measured based on the fair value at the date they were granted. To determine the fair value, the Company uses the Black-Scholes option pricing model.

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

The cost of cash-settled transactions is initially measured at fair value. Such cost is accounted for in the statement profit or loss under "Salaries and benefits" during the vesting period, with the recognition of a corresponding liability. The outstanding liability is remeasured at fair value at the end of the reporting period.

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

29.2 Compensation plans

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

The movement of the plans is as follows:

	Parent company and Consolidated			
	Number of shares			
Description	Stock option plan [a]	Restricted stock option plan [b]	Phantom Shares [c]	*Total*
At December 31, 2020	6,108,210	1,653,005	4,857,041	12,618,256
Granted	-	300,000	580,000	880,000
Exercised	(2,035,286)	(495,093)	(140,253)	(2,670,632)
Canceled	(149,238)	(91,526)	(160,106)	(400,870)
At December 31, 2021	3,923,686	1,366,386	5,136,682	10,426,754
Granted	17,089,417	1,006,779	-	18,096,196
Exercised [a]	(1,943,398)	(479,098)	-	(2,422,496)
Canceled	-	(98,666)	(4,810,210)	(4,908,876)
At December 31, 2022	19,069,705	1,795,401	326,472	21,191,578

(a) Includes 131,466 restricted stock units for IRRF purposes under the RSU plans.

	Parent company and Consolidated	
Descrição	December 31, 2022	December 31, 2021
Share price (in reais)	11.01	24.36
Weighted average price of the option to buy shares exercised (in reais)	11.84	11.79
Total obligation related to phantom shares plan	844	49,828

	Parent company and Consolidated	
	Expense/(revenue)	
	Years ended	
Description	December 31, 2022	December 31, 2021
Share-based compensation [a]	(18,250)	17,180

(a) Considers stock option plans, restricted shares and phantom shares. The effect on the result referring to the phantom shares is based on the variation of the Company’s share value, which is updated at each reporting period, these plans have estimate of settlement in up to eight years and, therefore, does not represent a cash outflow.

Due to the reduction of the share value in the year ended December 31, 2022, from R$24.36 to R$11.01 and the partial cancellations of the grants (note 29.3.3), there was a decrease in the estimate of remuneration of the phantom shares and consequently a reversal of the expense recorded in prior periods in the amount of approximately R$48 million.

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

29.3 Assumptions

29.3.1 Stock option plan

During the third quarter of 2022, the Company granted stock options under 4 programs, as shown below:

Date of grant	Option exercise price (in R$)	Everage fair value of the option on the grant (in R$)	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%	3.6	4.0	1,774,418	1,774,418	-
August 8, 2022	11.07	6.40	68.8%	-	13.2%	25.0%	2.6	4.0	1,509,499	1,509,499	373,250
August 19, 2022	11.07	7.39	67.2%	-	13.6%	100.0%	0.6	1.0	4,900,000	4,900,000	-
August 19, 2022	11.07	11.54	74.6%	-	12.7%	33.0%	4.6	5.0	8,900,000	8,900,000	-
									37,985,876	19,069,705	2,359,038

29.3.2 Restricted stock option plan

During the third quarter of 2022, the Company granted stock options under 2 plans, as shown below:

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	0.5	4.0	170,000	33,043
June 19, 2020	25.0%	21.80	1.4	4.0	1,382,582	578,576
July 7, 2021	25.0%	42.67	2.5	4.0	300,000	194,803
July 7, 2022	25.0%	11.72	3.5	4.0	335,593	330,593
July 7, 2022	25.0%	11.72	3.5	4.0	671,186	658,386
					2,859,361	1,795,401

29.3.3 Phantom shares

The Board of Director´s Meetings and Extraordinary General Meeting held on August 8 and 19 and September 9, 2022, respectively, approved the cancellation of up to 5,022,850 virtual stock options under the Company´s Second Virtual Stock Option Plans.

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	11.01	1.37	69.8%	-	13.5%	25.0%	-	4 years	4.0	707,400	83,646
July 7, 2019	42.09	25.34	11.01	0.23	69.8%	-	13.5%	25.0%	0.5	4 years	4.0	405,000	13,277
April 30, 2020	10.35	17.40	11.01	3.82	69.8%	-	13.5%	33.3%	0.3	4 years	3.0	3,250,000	173,743
April 30, 2020	10.35	17.40	11.01	4.39	65.9%	-	13.4%	25.0%	1.3	4 years	4.0	1,600,000	50,088
August 17, 2021	33.99	33.99	11.01	1.88	72.1%	-	13.3%	25.0%	2.6	4 years	4.0	580,000	5,718
												6,542,400	326,472

30. SALES REVENUE

30.1 Accounting policies

30.1.1 Passenger, cargo and auxiliary service revenue

Passenger revenue is recognized when air transportation is actually provided. Tickets sold but not yet used are recorded as “Air traffic liability” account, net of breakage revenue estimate (note 23).

Breakage revenue consists of calculating, on a historical basis, tickets issued that will expire due to non-use, that is, passengers who have purchased tickets and are very likely not to use them. For the purposes of recognizing this revenue, the average periods for providing air transport services are also considered, and these assumptions are included in a statistical model that determines the estimate of the breakage rate to be adopted. At least annually, the calculations and the statistical model are reviewed in order to reflect and capture changes in customer behavior regarding ticket expiration.

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

30.1.2 Frequent-flyer program revenue - TudoAzul

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

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

Upon the sale of a ticket, the Company recognizes a portion of ticket sales as revenue when the transportation service occurs and defers a portion corresponding to the points earned under the TudoAzul Program, in accordance with CPC 47 - Revenue from Contracts with Customers, equivalent to IFRS 15.

The Company determines the estimated selling price of the air transportation and points as if each element had been sold on a separate basis and was therefore based on the stand-alone selling price.

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

Points not used are recorded in “Air traffic liability”.

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

30.2 Breakdown of sales revenue

	Parent company		Consolidated	
	Years ended			
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Passenger transportation	14.860.212	9.076.485	15.020.757	9.101.576
Cargo transport and other revenue	1.394.238	1.243.269	1.513.582	1.301.090
Total	16.254.450	10.319.754	16.534.339	10.402.666
Taxes levied				
Passenger revenue	(419.861)	(285.730)	(425.812)	(290.532)
Cargo transport and other revenue	(154.738)	(134.781)	(160.460)	(136.405)
Total taxes	(574.599)	(420.511)	(586.272)	(426.937)
Revenue total	15.679.851	9.899.243	15.948.067	9.975.729

Revenues by geographical location are as follows:

	Parent company		Consolidated	
	Years ended			
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Domestic revenue	12.744.988	8.773.000	13.013.202	8.849.486
Foreign revenue	2.934.863	1.126.243	2.934.865	1.126.243
Total revenue	15.679.851	9.899.243	15.948.067	9.975.729

For information related to the operating segment, see note 3.4.

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

31. RESULT BY NATURE

	Parent company		Consolidated	
	Years ended			
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Cost of services				
Aircraft fuel	(6,527,823)	(3,245,983)	(6,561,288)	(3,257,223)
Salaries and benefits	(1,784,275)	(1,544,201)	(1,817,219)	(1,566,667)
Airport fees	(906,479)	(675,241)	(911,246)	(677,653)
Passenger expenses	(616,063)	(381,977)	(641,900)	(395,533)
Maintenance and repair materials	(585,787)	(531,800)	(616,209)	(546,647)
Depreciation and amortization (a)	(2,022,650)	(1,326,936)	(2,054,668)	(1,346,523)
Impairment and onerous liabilities	1,102,791	1,075,682	1,102,791	1,075,682
Insurance	(81,416)	(62,781)	(81,665)	(62,781)
Rents	(202,721)	226,320	(203,398)	221,799
Others	(1,357,587)	(1,564,169)	(1,377,383)	(1,567,964)
	(12,982,010)	(8,031,086)	(13,162,185)	(8,123,510)
Selling expenses				
Salaries and benefits	(22,005)	(20,693)	(22,005)	(20,693)
Advertising and publicity	(671,347)	(387,305)	(699,003)	(403,809)
	(693,352)	(407,998)	(721,008)	(424,502)
Administrative expenses				
Salaries and benefits	(84,783)	(144,526)	(89,712)	(147,313)
Depreciation and amortization	(8,641)	(8,116)	(8,655)	(8,124)
Other	(194,412)	(115,868)	(196,710)	(118,144)
	(287,836)	(268,510)	(295,077)	(273,581)
Other operating expenses				
Idleness - Depreciation and amortization	(31,125)	(189,686)	(31,125)	(189,686)
Other	(421,027)	(637,359)	(266,166)	(827,505)
	(452,152)	(827,045)	(297,291)	(1,017,191)
Total	(14,415,350)	(9,534,639)	(14,475,561)	(9,838,784)

(a) Net of PIS and COFINS credits in the amount of R$1,777 in the parent company and R$1,740 in the consolidated.

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

32. FINANCIAL RESULT

32.1 Accounting policies

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

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

32.2 Breakdown of financial result

	Parent company		Consolidated	
	Years ended			
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Financial income				
Interest on short-term investments	168,968	82,928	178,041	89,761
Sublease receivable	60,930	26,846	60,930	26,846
TAP Bond fair value	-	15,935	-	15,935
Others	18,778	5,540	16,636	6,302
	248,676	131,249	255,607	138,844
Financial expenses				
Interest on loans and financing	(312,145)	(163,625)	(656,326)	(420,682)
Interest on lease	(2,525,783)	(2,433,216)	(2,533,128)	(2,433,640)
Interest on factoring credit card receivables	(183,371)	(50,043)	(211,528)	(55,395)
Interest on provisions	(246,007)	(237,740)	(246,147)	(237,740)
Interest on factoring	(79,460)	18,228	(79,460)	(18,228)
Interest accounts payable	(282,434)	101,168	(282,434)	(101,168)
Guarantee commission	(158,581)	(109,563)	(158,651)	(109,618)
TAP Bond fair value	(181,726)	-	(181,726)	-
Amortized cost of loans and financing	(10,414)	(10,320)	(29,075)	(38,861)
Cost of financial operations	(55,645)	(43,139)	(67,080)	(34,891)
Others	(151,355)	(446,868)	(103,698)	(169,448)
	(4,186,921)	(3,375,118)	(4,549,253)	(3,619,671)
Derivative financial instruments, net	488,467	(12,775)	438,190	34,971
Foreign currency exchange, net	1,354,519	(1,293,063)	1,332,508	(1,362,229)
Financial result, net	(2,095,259)	(4,549,707)	(2,522,948)	(4,808,085)

33. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

33.1 Accounting policies

Operating activities expose the Company and its subsidiaries to the following financial risks (i) market risk, related to interest rate, fuel price, and exchange rate, (ii) credit risk, and (iii) liquidity risk.

The risks are monitored by the Company's management and can be mitigated through the use of swaps, futures and options contracts in the oil market, US dollar and interest market.
All activities with financial instruments for risk management are carried out by specialists with skill, experience and adequate supervision. It is the Company's policy not to enter into derivative transactions for speculative purposes.

33.2 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

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

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

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

		Parent company			
		Carrying amount		Fair value	
Description	Level	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Assets					
Cash and cash equivalents	2	604,464	2,400,505	604,464	2,400,505
Financial investments	2	733,043	908,149	733,043	908,149
Accounts receivable	-	1,583,981	819,722	1,583,981	819,722
Aircraft sublease	-	176,053	274,198	176,053	274,198
Security deposits and maintenance reserves	-	2,520,698	1,959,708	2,520,698	1,959,708
Derivative financial instruments	2	244,601	280,023	244,601	280,023
Liabilities					
Loans and financing	-	(2,029,166)	(2,595,672)	(1,943,680)	(2,473,647)
Leases	-	(14,462,124)	(14,854,167)	(14,462,124)	(14,854,167)
Accounts payable	-	(2,918,031)	(1,843,631)	(2,918,031)	(1,843,631)
Factoring	-	(753,352)	(3,694)	(753,352)	(3,694)
Airport fees	-	(1,333,015)	(472,364)	(1,333,015)	(472,364)
Reimbursement to customers	-	(13,822)	(173,686)	(13,822)	(173,686)
Insurance payable	-	(84,439)	(92,793)	(84,439)	(92,793)
Derivative financial instruments	2	(92,157)	(207,302)	(92,157)	(207,302)

		Consolidated			
		Carrying amount		Fair value	
Description	Level	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Assets					
Cash and cash equivalents	2	660,231	2,780,242	660,231	2,780,242
Financial investments	2	733,043	908,149	733,043	908,149
Accounts receivable	-	1,803,998	997,893	1,803,998	997,893
Aircraft sublease	-	176,053	274,198	176,053	274,198
Security deposits and maintenance reserves	-	2,531,076	1,964,419	2,531,076	1,964,419
Derivative financial instruments	2	271,950	353,817	271,950	353,817
Liabilities					
Loans and financing	-	(7,232,699)	(8,145,730)	(5,940,333)	(9,610,169)
Leases	-	(14,582,833)	(14,890,575)	(14,582,833)	(14,890,575)
Accounts payable	-	(2,949,790)	(1,869,244)	(2,949,790)	(1,869,244)
Factoring	-	(753,352)	(3,694)	(753,352)	(3,694)
Airport fees	-	(1,334,769)	(472,364)	(1,334,769)	(472,364)
Reimbursement to customers	-	(13,822)	(173,686)	(13,822)	(173,686)
Insurance payable	-	(84,985)	(92,793)	(84,985)	(92,793)
Derivative financial instruments	2	(244,575)	(287,051)	(244,575)	(287,051)

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

33.3 Market risks

33.3.1 Interest rate risk

As of December 31, 2022, the Company had swap contracts to hedge against the effect of fluctuations in interest rates (note 22.2).

33.3.1.1 Sensitivity analysis of financial instruments

As of December 31, 2022, the Company held financial investments and debts linked to various types of rates. In the sensitivity analysis of non-derivative financial instruments, the impact on annual interest was only considered on positions with values exposed to such fluctuations, according to the scenarios shown below:

	Parent company					
	Exposure to CDI		Exposure to SOFR		Exposure to LIBOR rate	
Description	Rate (p.a.)	December 31, 2022	Rate (p.a.)	December 31, 2022	Rate (p.a.) [(a)]	December 31, 2022
Liabilities exposed, net	13.7%	(718,912)	4.3%	(250,659)	5.0%	(355,118)
Effect on profit or loss						
Interest rate devaluation by -50%	6.8%	51,892	2.2%	5,389	2.5%	8,832
Interest rate devaluation by -25%	10.2%	25,946	3.2%	2,695	3.7%	4,416
Interest rate appreciation by 50%	20.5%	(51,892)	6.5%	(5,389)	7.5%	(8,832)
Interest rate appreciation by 25%	17.1%	(25,946)	5.4%	(2,695)	6.2%	(4,416)

	Consolidated					
	Exposure to CDI		Exposure to SOFR		Exposure to LIBOR rate	
Description	Rate (p.a.)	December 31, 2022	Rate (p.a.)	December 31, 2022	Rate (p.a.) [(a)]	December 31, 2022
Liabilities exposed, net	13.7%	(673,266)	4.3%	(250,659)	5.0%	(355,118)
Effect on profit or loss						
Interest rate devaluation by -50%	6.8%	48,729	2.2%	5,389	2.5%	8,832
Interest rate devaluation by -25%	10.2%	24,365	3.2%	2,695	3.7%	4,416
Interest rate appreciation by 50%	20.5%	(48,729)	6.5%	(5,389)	7.5%	(8,832)
Interest rate appreciation by 25%	17.1%	(24,365)	5.4%	(2,695)	6.2%	(4,416)

33.3.2 Aviation fuel price risk (“QAV”)

The price of aviation 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 December 31, 2022, forward transactions on fuel (note 22.2).

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

33.3.2.1 Sensitivity analysis

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

	Parent company	
	Exposure to price	
Description	Average price per liter (in reais)	December 31, 2022
Aircraft fuel	5.45	(6,527,823)
Effect on profit or loss		
Devaluation by -50%	2.73	3,263,912
Devaluation by -25%	4.09	1,631,956
Appreciation by 50%	8.18	(3,263,912)
Appreciation by 25%	6.81	(1,631,956)

	Consolidated	
	Exposure to price	
Description	Average price per liter (in reais)	December 31, 2022
Aircraft fuel	5.45	(6,561,288)
Effect on profit or loss		
Devaluation by -50%	2.73	3,280,644
Devaluation by -25%	4.09	1,640,322
Appreciation by 50%	8.18	(3,280,644)
Appreciation by 25%	6.81	(1,640,322)

33.3.3 Foreign exchange risk

The foreign exchange risk arises from the possibility of unfavorable exchange differences to which the Company's liabilities or cash flows are exposed. To mitigate losses linked to exchange rate variations, the Company had, as of December 31, 2022, foreign currency forward contracts (note 22.2).

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

The exposure to the main exchange differences is as follows:

	Parent company			
	Exposure to US$		Exposure to €	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Assets				
Cash and cash equivalents	48,841	134,007	7,674	3,920
Short-term investments	-	-	733,043	906,719
Accounts receivable	166,012	100,640	-	-
Aircraft sublease	176,053	274,198	-	-
Security deposits and maintenance reserves	2,452,869	1,918,517	-	-
Other assets	12,636	153,679	-	-
Total assets	2,856,411	2,581,041	740,717	910,639
Liabilities				
Loans and financing	(725,700)	(1,096,954)	-	-
Leases	(14,428,843)	(14,814,400)	-	-
Accounts payable	(1,048,028)	(606,821)	-	-
Provisions and other liabilities	(3,020,947)	(3,808,012)	-	-
Total liabilities	(19,223,518)	(20,326,187)	-	-
Net exposure	(16,367,107)	(17,745,146)	740,717	910,639
Net exposure in foreign currency	(3,136,843)	(3,179,849)	132,998	144,066

	Consolidated			
	Exposure to US$		Exposure to €	
Description	December 31, 2022	December 31, 2021	December 31, 2022	December 31, 2021
Assets				
Cash and cash equivalents	51,067	234,224	7,674	3,920
Short-term investments	-	-	733,043	906,719
Accounts receivable	166,012	100,640	-	-
Aircraft sublease	176,053	274,198	-	-
Security deposits and maintenance reserves	2,462,940	1,918,517	-	-
Other assets	12,636	154,198	-	-
Total assets	2,868,708	2,681,777	740,717	910,639
Liabilities				
Loans and financung	(5,900,104)	(6,633,443)	-	-
Leases	(14,546,232)	(14,814,400)	-	-
Accounts payable	(1,051,379)	(621,322)	-	-
Provisions and other liabilities	(3,020,947)	(3,808,012)	-	-
Total liabilities	(24,518,662)	(25,877,177)	-	-
Net exposure	(21,649,954)	(23,195,400)	740,717	910,639
Net exposure in foreign currency	(4,149,329)	(4,156,509)	132,998	144,066

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

33.3.3.1 Sensitivity analysis

As of December 31, 2022, the Company adopted an exchange rate corresponding to the month's closing rate released by the Central Bank of Brazil as a probable scenario.

	Parent company			
	Exposure to US$		Exposure to €	
Description	Rate	December 31, 2022	Rate	December 31, 2022
Assets (liabilities) exposed, net	5.2177	(16,367,107)	5.5694	740,717
Effect on profit or loss				
Foreign currency devaluation by -50%	2.6089	8,183,554	2.7847	(370,359)
Foreign currency devaluation by -25%	3.9133	4,091,777	4.1771	(185,179)
Foreign currency appreciation by 50%	7.8266	(8,183,554)	8.3541	370,359
Foreign currency appreciation by 25%	6.5221	(4,091,777)	6.9618	185,179

	Consolidated			
	Exposure to US$		Exposure to €	
Description	Rate	December 31, 2022	Rate	December 31, 2022
Assets (liabilities) exposed, net	5.2177	(21,649,954)	5.5694	740,717
Effect on profit or loss				
Foreign currency devaluation by -50%	2.6089	10,824,977	2.7847	(370,359)
Foreign currency devaluation by -25%	3.9133	5,412,489	4.1771	(185,179)
Foreign currency appreciation by 50%	7.8266	(10,824,977)	8.3541	370,359
Foreign currency appreciation by 25%	6.5221	(5,412,489)	6.9618	185,179

33.4 Credit risk

Credit risk is inherent to the Company's operating and financial activities, mainly disclosed in cash and cash equivalents, short-term investments, accounts receivable, aircraft sublease receivables, security deposits and maintenance reserves. Financial assets classified as cash, cash equivalents and current short-term investments 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 the exposure periodically.

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

33.5 Liquidity risk

The maturity schedules of the Company's consolidated financial liabilities as of December 31, 2022 are as follows:

	Parent company				
Description	Carrying amount	Contractual cash flow	Until 1 year	From 2 to 5 years	After 5 years
Loans and financing	2,029,166	2,055,552	1,107,844	938,098	9,610
Leases	14,462,124	26,586,664	4,361,841	13,785,309	8,439,514
Accounts payable	2,918,031	2,904,988	2,411,319	493,641	28
Factoring [(a)]	753,352	753,352	753,352	-	-
Airport fees	1,333,015	1,333,015	831,110	205,779	296,126
Reimbursement to customers	13,822	13,822	13,822	-	-
Insurance payable	84,439	84,439	84,439	-	-
Derivative financial instruments	92,157	92,157	69,365	22,792	-
	21,686,106	33,823,989	9,633,092	15,445,619	8,745,278

(a) The total balance has been settled by the date of disclosure of these financial pages.

	Consolidated				
Description	Carrying amount	Contractual cash flow	Until 1 year	From 2 to 5 years	After 5 years
Loans and financing	7,232,699	7,314,976	1,141,760	6,163,606	9,610
Leases	14,582,833	26,789,197	4,387,911	13,889,255	8,512,031
Accounts payable	2,949,790	2,936,746	2,443,078	493,640	28
Factoring [(a)]	753,352	753,352	753,352	-	-
Airport fees	1,334,769	1,334,769	831,897	206,746	296,126
Reimbursement to customers	13,822	13,822	13,822	-	-
Insurance payable	84,985	84,985	84,985	-	-
Derivative financial instruments	244,575	244,575	69,365	175,210	-
	27,196,825	39,472,422	9,726,170	20,928,457	8,817,795

(a) The total balance has been settled by the date of disclosure of these financial pages.

33.6 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 continuously monitors its net indebtedness.

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

34. NON-CASH TRANSACTIONS

	Parent company											
	December 31, 2022											
Description	Sublease	Acquisition of fixed assets	Reservations for maintenance	Risk drawn	Consumption from credit	Back-on-term	Loans and financing	Fees and airport charges	Rentals	Contractual lease modifications	Transfers	Total
Accounts receivable	-	-	-	-	-	-	-	-	(84,429)	-	15,537	(68,892)
Aircraft sublease	(55,948)	-	-	-	-	-	-	-	(40,586)	-	-	(96,534)
Security deposits and maintenance reserves	-	-	147,416	-	-	(8,916)	27,792	-	-	-	-	166,292
Inventories	-	-	-	-	-	-	-	-	-	-	(7,321)	(7,321)
Advances to suppliers	-	-	-	-	-	-	-	-	-	-	(687,731)	(687,731)
Property and equipment	-	232,254	-	-	-	11,150	-	-	65,370	-	171,798	480,572
Right-of-use assets	55,948	-	-	-	-	-	-	-	2,277,910	45,481	(159,850)	2,219,489
Loans and financing	-	-	-	-	-	-	(27,792)	-	-	-	-	(27,792)
Leases	-	-	-	-	-	-	-	-	(1,543,532)	47,199	-	(1,496,333)
Accounts payable	-	(232,254)	(147,416)	1,541,948	42,771	(2,234)	-	462,485	-	-	44,673	1,709,973
Factoring	-	-	-	(1,541,948)	-	-	-	-	-	-	-	(1,541,948)
Airport fees	-	-	-	-	-	-	-	(760,839)	-	-	-	(760,839)
Taxes	-	-	-	-	-	-	-	298,354	-	-	-	298,354
Provisions	-	-	-	-	-	-	-	-	(674,300)	-	406,160	(268,140)
Other assets and liabilities	-	-	-	-	(42,771)	-	-	-	-	-	216,734	173,963
Result	-	-	-	-	-	-	-	-	(433)	(92,680)	-	(93,113)
	-	-	-	-	-	-	-	-	-	-	-	-

	Consolidated											
	December 31, 2022											
Description	Sublease	Acquisition of fixed assets	Reservations for maintenance	Risk drawn	Consumption from credit	Back-on-term	Loans and financing	Fees and airport charges	Rentals	Contractual lease modifications	Transfers	Total
Accounts receivable	-	-	-	-	-	-	-	-	(84,429)	-	15,537	(68,892)
Aircraft sublease	(55,948)	-	-	-	-	-	-	-	(40,586)	-	-	(96,534)
Security deposits and maintenance reserves	-	-	147,416	-	-	(8,916)	27,792	-	-	-	-	166,292
Inventories	-	-	-	-	-	-	-	-	-	-	(7,321)	(7,321)
Advances to suppliers	-	-	-	-	-	-	-	-	-	-	(687,731)	(687,731)
Property and equipment	-	279,406	-	-	-	11,150	-	-	65,370	-	171,798	527,724
Right-of-use assets	55,948	-	-	-	-	-	-	-	2,378,433	45,481	(159,850)	2,320,012
Loans and financing	-	-	-	-	-	-	(27,792)	-	-	-	-	(27,792)
Leases	-	-	-	-	-	-	-	-	(1,640,102)	47,199	-	(1,592,903)
Accounts payable	-	(279,406)	(147,416)	1,541,948	42,771	(2,234)	-	462,485	-	-	44,673	1,662,821
Factoring	-	-	-	(1,541,948)	-	-	-	-	-	-	-	(1,541,948)
Airport fees	-	-	-	-	-	-	-	(760,839)	-	-	-	(760,839)
Taxes	-	-	-	-	-	-	-	298,354	-	-	-	298,354
Provisions	-	-	-	-	-	-	-	-	(678,252)	-	406,160	(272,092)
Other assets and liabilities	-	-	-	-	(42,771)	-	-	-	-	-	216,734	173,963
Result	-	-	-	-	-	-	-	-	(434)	(92,680)	-	(93,114)
	-	-	-	-	-	-	-	-	-	-	-	-

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

35. COMMITMENTS

35.1 Aircraft acquisition

The Company contractually assumed the commitment to acquire aircraft directly from manufacturers and from lessors, according to the table below:

	Parent company and Consolidated	
Description	December 31, 2022	December 31, 2021
Lessors	32	45
Manufacturers	112	86
	144	131

The amounts shown below are discounted to present value using the weighted discount rate of leasing transactions and do not necessarily characterize a cash outflow as the Company evaluates the obtainment of financing to meet these commitments.

	Parent company and Consolidated	
Description	December 31, 2022	December 31, 2021
2022	-	1,332,170
2023	2,025,240	1,048,452
2024	1,544,642	2,354,729
2025	1,969,208	2,116,390
2026	2,414,533	2,325,528
2027	1,361,299	1,323,801
After 2027	4,650,961	2,130,469
	13,965,883	12,631,539

35.2 Letters of credit

The position of the letters of credit in use by the Company follows:

	Parent company and Consolidated			
	December 31, 2022		December 31, 2021	
Descrição	R$	US$	R$	US$
Deposit in guarantee and reservation for maintence	2,453,336	480 millions	3,112,152	492 millions
Local guarantees	44,563	-	8,763	-
	2,497,898	480 millions	3,120,915	492 millions

35.3 Guarantees

The convertible debentures of the Azul S.A. are guaranteed by the Company and are collateralized by certain assets, including, but not limited to, intellectual property assets, right of use of the hangar, and specific equipment necessary for maintenance of the hangar used at Viracopos airport.

Additionally, other guarantees are offered for fundraising, such as the assignment of rights over credit card receivables, parts and equipment.

36 SUBSEQUENT EVENTS

36.1 Renegotiation of debentures

As of January 20, 2023, the Company renegotiated the terms of its local debentures, within the scope of the 9th and 10th issue, in order to extend the maturity period from December 20, 2027 to December 20, 2028.

36.2 STF judgment on res judicata in tax matters

The Federal Supreme Court ("STF") finalized the judgment, on February 8, 2023, of the extraordinary appeals RE nº 955227 (Topic 885) and RE nº 949297 (Topic 881), and consolidated the understanding in the sense that a definitive decision (res judicata) obtained by a given taxpayer on taxes collected on a continuous basis loses its effects if the Court decides otherwise later. Also, the STF did not accept the request for modulation of the effects of the decision, so that the tax authorities can collect the taxes that were no longer collected based on such decisions. The Company reviewed the tax matters for which it has a final decision (res judicata) in the last 5 (five) years and did not identify any material impact of the STF judgment on the treatment currently given to its tax payments.

36.3 Factoring

Up to the date of disclosure of these financial parts, the Company fully settled the factoring balance.

36.4 Agreement with aircraft lessors and manufactures

Pursuant to a material fact disclosed by the Company on March 5, 2023, commercial agreements were entered into with lessors representing more than 90% of its lease liabilities, subject to certain conditions and corporate approvals met.

These agreements represent a significant part of a comprehensive plan that aims to strengthen Azul's cash generation and improve its capital structure, in addition to delivering 100% of previously agreed amounts to lessors, through a combination of long-term debt and equity priced on a restructured balance sheet.

Based on these agreements, the lessors will reduce Azul's lease payments to eliminate differences negotiated during the Covid-19 pandemic, as well as the difference between Azul's contractual lease rates and current market rates. In exchange, the lessors found a negotiable bond maturing in 2030 and shares priced to reflect Azul's new cash generation, its improved capital structure and the reduction in its credit risk.

Renata Bandeira Gomes do Nascimento
CRC 1SP 215231/O-3
Controllership and Tax Director