

As submitted to the Securities and Exchange Commission on April 30, 2021

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

**FORM 20-F**

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2020

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

OR

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of event requiring this shell company report

Commission file number: 001-38049

**AZUL S.A.**

(Exact name of Registrant as specified in its charter)

N/A

(Translation of the Registrant's name into English)

Federative Republic of Brazil

(Jurisdiction of incorporation or organization)

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Title of each class	Trading Symbol	Name of each exchange on which registered
Preferred Shares without par value		New York Stock Exchange*
American Depositary Shares (as evidenced by American Depositary Receipts), each representing three Preferred Shares	AZUL	New York Stock Exchange

\*Not for trading purposes, but only in connection with the listing on the New York Stock Exchange of American Depositary Shares representing those Preferred Shares.

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**928,965,058 Common Shares**

**331,644,724 Preferred Shares**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Yes  No

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court:

Yes  No

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## INTRODUCTION

In this annual report, the discussion of our business includes the business of Azul S.A. and its direct and indirect subsidiaries. Unless otherwise indicated or the context otherwise requires, “Azul” “we,” “us,” “our” or the “Company” refer to Azul S.A. and its consolidated subsidiaries. The term “Brazil” refers to the Federative Republic of Brazil and the phrase “Brazilian government” refers to the federal government of Brazil. “Central Bank” refers to the Brazilian Central Bank (*Banco Central do Brasil*). References in the annual report to “real,” “*reais*” or “R\$” refer to the Brazilian real, the official currency of Brazil and references to “U.S. dollar,” “U.S. dollars” or “US\$” refer to U.S. dollars, the official currency of the United States.

**GLOSSARY OF AIRLINE AND OTHER TERMS:**

The following is a glossary of industry and other defined terms used in this annual report:

- “ABEAR” means the Brazilian Association of Airline Companies (*Associação Brasileira das Empresas Aéreas*).
- “ABRACORP” means the Brazilian Corporate Agencies Association (*Associação Brasileira de Agências Corporativas*).
- “ADR” means American depositary receipts.
- “ADS” means American depositary shares.
- “Aeroportos Brasil,” a private consortium that operates Viracopos airport jointly with INFRAERO.
- The “Águia Branca Group,” or “Grupo Águia Branca,” is a Brazilian transportation and logistics conglomerate controlled by the Chieppe family.
- “Airbus” means Airbus S.A.S.
- “Airbus Group” means Airbus Group N.V.
- “aircraft utilization” represents the average number of block hours operated per day per aircraft for our operating fleet, excluding spare aircraft and aircraft in maintenance.
- “ANAC” refers to the Brazilian National Civil Aviation Agency (*Agência Nacional de Aviação Civil*).
- “Atlantic Gateway” means Atlantic Gateway, SPGS, Lda., an entity jointly owned by our principal shareholder, Hainan and another European investor.
- “ATR” means aircraft with turboprop propulsion manufactured by Avions de Transport Régional G.I.E.
- “audited consolidated financial statements” means our audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018.
- “available seat kilometers,” or “ASKs,” represents aircraft seating capacity multiplied by the number of kilometers the aircraft is flown.
- “average fare” means total passenger revenue divided by passenger flight segments.
- “average ticket revenue per booked passenger” means total passenger revenue divided by booked passengers.
- “Avianca Brasil” means Oceanair Linhas Aéreas S.A.
- “block hours” means the number of hours during which the aircraft is in revenue service, measured from the time it closes the door at the departure of a revenue flight until the time it opens the door at the arrival on the gate at destination.
- “Boeing” means The Boeing Company.
- “booked passengers” means the total number of passengers booked on all passenger flight segments.
- “BR Distribuidora” means Petrobras Distribuidora S.A., a subsidiary of Petrobras.
- “CADE” refers to the Brazilian Administrative Council for Economic Defense (*Conselho Administrativo de Defesa Econômica*), the Brazilian antitrust authority.
- “Calfinco” means Calfinco, Inc., a wholly-owned subsidiary of United.
- “CAPA” means the Centre for Aviation, a provider of independent aviation market intelligence, analysis and data services.
- “Cape Town Convention” means the Convention on International Interests in Mobile Equipment and its protocol on Matters Specific to Aircraft Equipment, concluded in Cape Town on November 16, 2001.
- “CASK” represents total operating cost divided by available seat kilometers.
- “CBP” means United States Customs and Border Protection.
- “completion rate” means the percentage of completion of our scheduled flights that were operated by us, whether or not delayed (i.e., not cancelled).
- “COVID-19” means the novel coronavirus that surfaced in Wuhan, China in December 2019.

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- “crewmembers” is a term we use to refer to all our employees, including aircraft crew, airport ground, call center, maintenance and administrative personnel.
- “CVM” means the Brazilian Securities Commission (*Comissão de Valores Mobiliários*).
- “DECEA” means the Brazilian Department of Airspace Control (*Departamento de Controle do Espaço Aéreo*).
- “departure” means a revenue flight segment.
- “DOT” means the United States Department of Transportation.
- “EASA” means the European Union Aviation Safety Agency.
- “economic interest” means a participation in the total equity value of our company, calculated as if all common shares issued and outstanding had been converted into preferred shares at the conversion ratio of 75.0 common shares to 1.0 preferred share pursuant to the mechanisms set forth in our bylaws.
- “E-Jets” refer to narrow-body jets manufactured by Embraer S.A.
- “Embraer” means Embraer S.A.
- “ESG” means Environmental, Social and Governance practices.
- “FAA” means the United States Federal Aviation Administration.
- “FGV” refers to the Getúlio Vargas Foundation (*Fundação Getúlio Vargas*), a Brazilian higher education institution that was founded in December 1944.
- “financial statements” refers to our audited consolidated financial statements.
- “flight hours” means the number of hours during which the aircraft is in revenue service, measured from the time it takes off until the time it lands at the destination.
- “focus-city” means a destination from which an airline operates several point-to-point routes. A focus-city may also function as a smaller scale hub.
- “FTEs” means full-time equivalent employees.
- “FTEs per aircraft” means the number of FTEs divided by the number of operating aircraft.
- “Global Distribution System” or “GDS” means a system that enables automated transactions between airlines and travel agencies. Travel agencies traditionally rely on GDS for services, products and rates in order to provide travel-related services to end consumers. GDS can link services, rates and bookings consolidating products and services across different travel sectors including airline reservations, hotel reservations and car rentals. GDS charges participant airlines a booking fee per passenger and segment sold, typically applying additional charges for ticketing, credit card authorizations, real time connectivity, information pages and other ancillary services.
- “Gol” means Gol Linhas Aéreas Inteligentes S.A.
- “gross billings” means the result of the sale of points to commercial partners and the cash portion of points plus money transactions. It is not an accounting measurement. This revenue may affect the current period or may be recognized as revenue in future periods, depending on the time of redemption on the part of program participants.
- “Hainan” means Hainan Airlines Holding Co., Ltd.
- “IATA” means the International Air Transport Association.
- “IBGE” means the Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*).
- “ICAO” means the International Civil Aviation Organization.
- “IFRS” means International Financial Reporting Standards, as issued by the International Accounting Standards Board.
- “INFRAERO” means Empresa Brasileira de Infraestrutura Aeroportuária—INFRAERO, a Brazilian state-controlled corporation reporting to the Ministry of Transportation, Ports and Civil Aviation that is in charge of managing, operating and controlling federal airports, including control towers and airport safety operations.
- “Innovata” means Innovata LLC, a provider of travel content management that maintains a flight schedule database in partnership with IATA.

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- “INPI” means the Brazilian Institute of Industrial Property (*Instituto Nacional da Propriedade Industrial*).
- “JetBlue” means JetBlue Airways Corporation.
- “LATAM” means Latam Airlines Group S.A. including all of its subsidiaries. LATAM was formed in 2012, through the acquisition of TAM S.A., or TAM Linhas Aéreas S.A., by Lan Airlines S.A.
- “load factor” means the percentage of aircraft seats actually occupied on a flight (RPKs divided by ASKs).
- “main competitors” refers to Gol and LATAM, our competitors in the Brazilian market that have a market share larger than ours and publicly disclose their results of operations from time to time. When used in the singular, the term “main competitor” refers to Gol, our only direct competitor for which stand-alone information is publicly available.
- “LATAM Pass” is LATAM’s loyalty program.
- “Net promoter score or NPS” means a customer loyalty metric that we use to measure how willing a customer is to recommend our service.
- “on-time performance” refers to the percentage of an airline’s scheduled flights that were operated and that arrived within 15 minutes of the scheduled time.
- “operating fleet” means aircraft in service, spare aircraft and aircraft undergoing maintenance.
- “passenger flight segments” means the total number of revenue passengers flown on all revenue flight segments.
- “Petrobras” means Petróleo Brasileiro S.A., a mixed economy corporation in the oil and gas industry that is majority owned by the Brazilian government.
- “pitch” means the distance between a point on one seat and the same point on the seat in front of it.
- “PRASK” means passenger revenue divided by ASKs.
- “PRASK premium” refers to the positive difference between an airline’s PRASK and its main competitor’s PRASK over a given time period.
- “preferred shares” means our preferred shares issued and outstanding.
- “principal shareholder” means David Neeleman.
- “RAB” means the Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro*).
- “RASK” or “unit revenue” means operating revenue divided by ASKs.
- “revenue passenger kilometers” or “RPKs” means one-fare paying passenger transported per kilometer. RPK is calculated by multiplying the number of revenue passengers by the number of kilometers flown.
- “route” means a segment between a pair of cities.
- “Shareholders’ Agreement” means that certain shareholders’ agreement, dated September 1, 2017, entered into by and between us and the holders of our common shares, David Neeleman, Hainan and Calfinco.
- “Smiles” means Smiles Fidelidade S.A., Gol’s loyalty program.
- “stage length” means the average number of kilometers flown per flight.
- “TAP” means TAP – Transportes Aéreos Portugueses, SGPS, S.A.
- “TAP bonds” means Tranche A 7.5% bonds due March 2026 issued by TAP and convertible into TAP special shares that, once issued, will represent certain capital and voting equity, and which are entitled to a right to receive certain dividends.
- “TRIP” means the entity formerly known as TRIP Linhas Aéreas S.A.
- “TRIP acquisition” means our 2012 acquisition of TRIP.
- “trip cost” represents operating expenses adjusted for non-recurring events divided by departures.
- “TRIP’s former shareholders” means, collectively, the Caprioli family and the Águia Branca Group.
- “TSA” means the United States Transportation Security Administration.

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- “TwoFlex” means Two Taxi Aereo Ltda., actually denominated Azul Conecta Ltda. (“Azul Conecta”).
- “United” means United Airlines Inc.
- “Viracopos” means the main airport of Campinas, located approximately 100 km from the city of São Paulo.
- “yield” represents the average amount one passenger pays to fly one kilometer.

**Summary of Risk Factors**

An investment in our common shares is subject to a number of risks, including risks relating to the nature of our business as an airline and the aviation industry, our operations in Brazil and our common shares. The following list summarizes some, but not all, of these risks. Please read the information in the section entitled “Risk Factors” for a more thorough description of these and other risks.

*Risk Relating to Our Business and the Brazilian Aviation Industry*

- The airline industry is characterized by high fixed costs and relatively elastic revenues, airlines cannot quickly reduce their costs to respond to shortfalls in expected revenues.
- The outbreak of highly contagious diseases worldwide, such as the current COVID-19 pandemic, can lead to major disruptions and have a material adverse effect on our business, financial condition, liquidity and results of operations.
- Consolidation in the airline industry, other actions by our competitors, fluctuations in fuel costs and other changes in economic conditions could adversely affect us and our ability to implement our growth strategy.
- We are highly dependent on our three hubs at Viracopos airport, Confins airport and Recife airport for a large portion of our business and we depend upon Embraer, ATR and Airbus aircraft. In addition, we rely on agreements with third parties to provide our customers and us with facilities and services and we rely on partner airlines for code-share and loyalty marketing arrangements. Any disruption in our major hub, with our service providers or in the timely delivery of aircraft can have a negative impact on our business.
- We depend significantly on automated systems and any cyber-attacks, breakdown, hacking or changes in these systems as well as any technical and operational problems in the Brazilian civil aviation infrastructure may adversely affect us.
- We depend on our senior management team and the loss of any member of this team could adversely affect us. In addition, we may be unable to maintain our culture and to retain and/or hire skilled personnel as our business grows, such as pilots, which could have an adverse impact on us.
- Changes to the Brazilian regulatory framework particularly with respect to civil aviation, privacy and data protection, and sale of consumer products may adversely affect us. Further, the airline industry is subject to increasingly stringent environmental and social regulations and non-compliance therewith may adversely affect us.

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- The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement as well as Brazil's political and economic conditions could harm us and the price of our preferred shares, including in the form of ADSs.
- Economic, health, political, and environmental crises, or any other kind of crisis that has the ability to impact the Brazilian economy, may affect the Brazilian population's purchasing power, which may result in a decrease in demand for air travel and, consequently, affect our business.
- We cannot predict which policies Jair Bolsonaro, the President of Brazil, may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy.
- Exchange rate instability, as well as inflation and certain measures by the Brazilian government to curb inflation have historically adversely affected the Brazilian economy and Brazilian capital market, and high levels of inflation in the future would adversely affect us and the price of our preferred shares, including in the form of ADSs.
- Developments and the perceptions of risks in other countries, including other emerging markets, the United States and Europe, may adversely affect the Brazilian economy and the price of Brazilian securities. In addition, any further downgrading of Brazil's credit rating could adversely affect the trading price of our preferred shares, including in the form of ADSs.
- Variations in interest rates may have adverse effects on us; furthermore, we may face challenges associated with IBOR transition.
- Deficiencies in Brazilian infrastructure, particularly in airports and ports, may adversely affect us.

*Risk Relating to Our Preferred Shares, Including in the Form of ADSs*

- Our controlling shareholder has the ability to direct our business and affairs, and its interests may conflict with yours, including with respect to the distribution of dividends.
- An active and liquid trading market for our preferred shares may not be maintained, thereby potentially adversely affecting the price our preferred shares and ADSs.
- Our preferred shares will have limited voting rights and holders of our preferred shares and ADSs may not receive any dividends or interest on shareholders' equity. In addition, holders of our preferred shares and ADSs may experience book value dilution in the future.
- The sale of a significant number of our preferred shares may negatively affect the trading price of our preferred shares.
- The Brazilian government may impose exchange controls and significant restrictions on remittances of reais abroad, which would adversely affect your ability to convert and remit dividends or other distributions or the proceeds from the sale of our preferred shares, our capacity to make dividend payments or other distributions to non-Brazilian investors and would reduce the market price of our preferred shares, including in the form of ADSs, and our capacity to comply with payment obligations in foreign currency.
- If we do not maintain a registration statement and no exemption from the Securities Act is available, U.S. Holders of ADSs will be unable to exercise preemptive rights with respect to our preferred shares.
- The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members or executive officers.
- If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, the market price and trading volume of our preferred shares, including in the form of ADSs could decline.
- Our status as a foreign private issuer allows us to follow alternate standards to the corporate governance standards of the NYSE, which may limit the protections afforded to investors.

## Market Share and Other Information

This annual report contains data related to economic conditions in the market in which we operate. The information contained in this annual report concerning economic conditions is based on publicly available information from third-party sources that we believe to be reasonable. Data and statistics regarding the Brazilian civil aviation market are based on publicly available data published by ANAC, INFRAERO, ABRACORP, Ministry of Transportation, Ports and Civil Aviation and Aeroportos Brasil, among others. Data and statistics regarding international civil aviation markets are based on publicly available data published by ICAO or IATA. We also make statements in this annual report about our competitive position and market share in, and the market size of, the Brazilian airline industry. We have made these statements on the basis of statistics and other information from third-party sources that we believe to be reasonable, such as Innovata, ANAC and Dados Comparativos Avançados (Advanced Comparative Data, a monthly report issued by ANAC that contains preliminary information on the number of ASKs and RPKs recorded in the Brazilian civil aviation market), and ABEAR. In addition, we include additional operating and financial information about Gol, LATAM, Smiles and LATAM Pass, which is derived from the information released publicly by them, including disclosure filed with or furnished to the SEC and other information made available on their respective websites. Although we have no reason to believe any of this information or these reports are inaccurate in any material respect and believe and act as if they are reliable, we have not independently verified it. Governmental publications and other market sources, including those referred to above, generally state that their information was obtained from recognized and reliable sources, but the accuracy and completeness of that information is not guaranteed. In addition, the data that we compile internally and our estimates have not been verified by an independent source.

## Presentation of Financial and Other Information

Our audited consolidated financial statements, as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 are included in this annual report. Our financial statements were prepared in accordance with the International Financial Reporting Standards, or IFRS, as issued by the International Accounting Standards Board, or IASB.

The financial information presented in this annual report should be read in conjunction with our financial statements, the related notes included elsewhere in this annual report and the section of this annual report entitled “Item 5. Operating and Financial Review and Prospects.”

### *Convenience Translations*

This annual report contains conversions of certain Brazilian *real* amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These conversions should not be construed as representations that the Brazilian *real* amounts actually represent such U.S. dollar amounts or could be converted into U.S. dollars at the rate or any other exchange rate as of that or any other date. Unless we indicate otherwise, the U.S. dollar equivalent for information in Brazilian *reais* is based on the commercial selling rate published by the Central Bank of Brazil on December 31, 2020, which was R\$5.1967 = US\$1.00. The Federal Reserve Bank of New York does not report a noon buying rate for Brazilian *reais*.

### *Rounding*

Certain amounts and percentages included in this annual report, including in the section entitled “Item 5. Operating and Financial Review and Prospects,” have been rounded for ease of presentation. Percentage figures included in this annual report have not been calculated in all cases on the basis of the rounded figures but on the basis of the original amounts prior to rounding. For this reason, certain percentage amounts in this annual report may vary from those obtained by performing the same calculations using the figures in our financial statements. Certain other amounts that appear in this annual report may not add up due to rounding.

## FORWARD-LOOKING STATEMENTS

This annual report includes estimates and forward-looking statements principally under the captions “Item 3. Key Information” and “Item 5. Operating and Financial Review and Prospects.”

These estimates and forward-looking statements are based mainly on our current expectations and estimates of future events and trends that affect or may affect our business, financial condition, results of operations, cash flow, liquidity, prospects and the trading price of our preferred shares, including in the form of ADSs. Although we believe that these estimates and forward-looking statements are based upon reasonable assumptions, they are subject to many significant risks, uncertainties and assumptions and are made in light of information currently available to us.

These statements appear throughout this annual report and include statements regarding our intent, belief or current expectations in connection with:

- the economic, financial and other effects of the outbreak of the 2019 novel strain of coronavirus, or COVID-19, particularly as such factors impact Brazil and the other markets in which we operate and continue to cause severe ongoing negative macroeconomic effects and disruptions to financial markets and the global economy, with a significant impact on the ability of businesses, including ours, to operate normally, thus heightening many of the other risks described in the “Risk Factors” section of this annual report;
- the duration and spread of the COVID-19 pandemic and the outbreak of diseases or similar public health threats;
- developments and the perception of risks in connection with ongoing corruption and other investigations and increasing fractious relations and infighting within the administration of President Bolsonaro, as well as policies and potential changes to address these matters or otherwise, including economic and fiscal reforms and in response to the ongoing effects of the COVID-19 pandemic, any of which may negatively affect growth prospects in the Brazilian economy as a whole;
- our ability to implement in a timely and efficient manner, any measure necessary to respond to or reduce the impacts of developments related to the COVID-19 pandemic on our business, operations, cash flow, prospects, liquidity and financial conditions;
- changes in market prices, customer demand and preferences and competitive conditions;
- general economic, political and business conditions in Brazil, particularly in the geographic markets we serve as well as any other countries we currently serve and may serve in the future;
- our ability to keep costs low;
- existing and future governmental regulations;
- increases in maintenance costs, fuel costs and insurance premiums;
- our ability to maintain landing rights in the airports that we operate;
- air travel substitutes;
- labor disputes, employee strikes and other labor-related disruptions, including in connection with negotiations with unions;
- our ability to attract and retain qualified personnel;
- our aircraft utilization rate;
- defects or mechanical problems with our aircraft;
- our ability to successfully implement our growth strategy, including our expected fleet growth, passenger growth, our capital expenditure plans, our future joint venture and partnership plans, our ability to enter new airports (including certain international airports), that match our operating criteria;
- management’s expectations and estimates concerning our future financial performance and financing;
- plans and programs;
- our level of debt and other fixed obligations;
- our reliance on third parties, including changes in the availability or increased cost of air transport infrastructure and airport facilities;



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- inflation, appreciation, depreciation and devaluation of the *real*, as well as interest rates and exchange rates in Brazil and the other markets in which we operate, which have been particularly volatile as a result of the ongoing effects of the COVID-19 pandemic;
- our aircraft and engine suppliers;
- significant public health crises, epidemics or pandemics, including the COVID-19 pandemic, may adversely affect our business, results of operations and financial condition; and
- other factors or trends affecting our financial condition or results of operations, including those factors identified or discussed as set forth under “Item 3.D. Risk Factors.”

The words “believe,” “understand,” “may,” “will,” “aim,” “estimate,” “continue,” “anticipate,” “seek,” “intend,” “expect,” “should,” “could,” “forecast” and similar words are intended to identify forward-looking statements. You should not place undue reliance on such statements, which speak only as of the date they were made. We do not undertake any obligation to update publicly or to revise any forward-looking statements after we file this annual report because of new information, future events or other factors. Our independent auditors have neither examined nor compiled the forward-looking statements and, accordingly, do not provide any assurance with respect to such statements. In light of the risks and uncertainties described above, the future events and circumstances discussed in this annual report might not occur and are not guarantees of future performance. Because of these uncertainties, you should not make any investment decision based upon these estimates and forward-looking statements.

**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not applicable.

**ITEM 3. KEY INFORMATION****A. Selected Financial Data**

The following tables summarize our financial data for each of the periods indicated. You should read this information in conjunction with the items below, all included elsewhere in this annual report:

- our audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018; and
- the information under “Item 5. Operating and Financial Review and Prospects.”

Our selected financial data included below is derived from our financial statements, which were prepared in accordance with IFRS. Our selected financial data as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 is derived from our audited consolidated financial statements included elsewhere in this annual report.

On January 1, 2019, we adopted IFRS 16 – Leases. Under IFRS 16, we capitalize the right-of-use of all aircraft previously held under operating leases and depreciate the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. We applied the full retrospective transition approach on January 1, 2019, under which the comparative information for the year ended December 31, 2018 have been restated in 2019. Upon transition, we recognized a right-of-use asset representing our right to use the underlying asset and a corresponding lease liability that were initially measured at the present value of the future lease payments recognized at the historical U.S. dollar exchange rate and discount rate. The lease liability is updated at each reporting period to reflect the current exchange rate, but the right-of-use carrying value remains at historical rates.

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	December 31, 2020	December 31, 2020	December 31, 2019	December 31, 2018
	(US\$) <sup>(1)</sup>	(R\$)	(R\$)	(R\$)
	(in thousands)			
Net revenue				
Passenger revenue	969,771	5,039,607	10,907,889	8,670,132
Cargo and other revenue	135,570	704,519	534,428	386,932
<b>Total net revenue</b>	<b>1,105,341</b>	<b>5,744,126</b>	<b>11,442,317</b>	<b>9,057,064</b>
Operating expenses				
Aircraft fuel	(290,328)	(1,508,750)	(3,085,603)	(2,644,261)
Salaries, wages and benefits	(274,527)	(1,426,637)	(1,868,402)	(1,413,017)
Landing fees	(89,596)	(465,606)	(724,971)	(592,100)
Traffic and customer servicing	(55,483)	(288,327)	(476,481)	(395,394)
Sales and marketing	(63,469)	(329,829)	(444,079)	(368,663)
Maintenance, materials and repairs	(89,396)	(464,566)	(354,105)	(250,105)
Depreciation and amortization	(347,442)	(1,805,553)	(1,622,352)	(1,284,050)
Impairment	145,776	757,554	(2,897,333)	—
Other operating expenses, net	(310,099)	(1,611,493)	(1,164,391)	(915,850)
	<b>(1,374,566)</b>	<b>(7,143,207)</b>	<b>(12,637,717)</b>	<b>(7,863,440)</b>
<b>Operating profit (loss)</b>	<b>(269,225)</b>	<b>(1,399,081)</b>	<b>(1,195,400)</b>	<b>1,193,624</b>
Financial result				
Financial income	11,603	60,298	72,071	74,522
Financial expense	(629,234)	(3,269,941)	(1,329,524)	(1,094,828)
Derivative financial instruments, net	(279,430)	(1,452,116)	325,452	298,094
Foreign currency exchange, net	(827,937)	(4,302,540)	(391,905)	(1,306,063)
	<b>(1,724,998)</b>	<b>(8,964,299)</b>	<b>(1,323,906)</b>	<b>(2,028,275)</b>
Result from related party transactions, net	(137,363)	(713,834)	(16,959)	381,725
<b>Loss before income taxes</b>	<b>(2,131,586)</b>	<b>(11,077,214)</b>	<b>(2,536,265)</b>	<b>(452,926)</b>
Current income taxes	(2)	(11)	(2,228)	(11,224)
Deferred income taxes	46,667	242,516	135,407	(171,581)
<b>Loss for the year</b>	<b>(2,084,921)</b>	<b>(10,834,709)</b>	<b>(2,403,086)</b>	<b>(635,731)</b>
Basic loss per common share R\$/US\$ <sup>(2)</sup>	(0.08)	(0.42)	(0.09)	(0.03)
Diluted loss earnings per common share R\$/US\$ <sup>(2)</sup>	(0.08)	(0.42)	(0.09)	(0.03)
Basic loss earnings per preferred share R\$/US\$ <sup>(2)</sup>	(6.09)	(31.67)	(7.05)	(1.88)
Diluted loss earnings per preferred share R\$/US\$ <sup>(2)</sup>	(6.09)	(31.67)	(7.05)	(1.88)
EBITDA <sup>(3)</sup>	<b>(1,435,264)</b>	<b>(7,458,639)</b>	<b>59,102</b>	<b>1,622,356</b>
Adjusted EBITDA <sup>(4)</sup>	50,948	264,759	3,622,809	2,703,935
Adjusted EBITDA Margin (%) <sup>(5)</sup>	4.6 %	4.6 %	31.7 %	29.9 %

(1) For convenience purposes only, the amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using the rate of R\$5.1967, which corresponds to the commercial selling rate for US\$1.00 as of December 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) Reflects the conversion ratio of 75.0 common shares to 1.0 preferred share and a two-for-one stock split on February 23, 2017.

(3) We calculate EBITDA as net income (loss) minus interest income (comprised of interest on short-term investments), plus interest expense (comprised of interest on loans and interest on factoring credit card and travel agencies receivables), current and deferred income tax and social contribution and depreciation and amortization. We believe EBITDA is a well-recognized performance measurement in the airline industry that is frequently used by investors, securities analysts and other interested parties in comparing the operating performance of companies in our industry. EBITDA is not a measure of financial performance in accordance with IFRS, and should not be considered in isolation or as an alternative to net income, an alternative to operating cash flows, a measure of liquidity, or the basis for dividend distribution. Other companies may calculate EBITDA differently than us. EBITDA serves as an indicator of overall financial performance, which is not affected by changes in rates of income tax and social contribution or levels of depreciation and amortization. Consequently, we believe that EBITDA serves as an important tool to periodically compare our operating performance, as well as to support certain administrative decision. Because EBITDA does not include certain costs related to our business, such as interest expense, income taxes, depreciation, capital expenditures and other corresponding charges, which might significantly affect our net income, EBITDA has limitations which affect its use as an indicator of our profitability. See "Introduction—Presentation of Financial and Other Information" for a reconciliation of EBITDA to net income (loss). Excludes non-recurring events related to the impairment gain of R\$757.6 million in 2020 and loss of R\$2,897.3 million in 2019.

(4) Adjusted EBITDA is equal to EBITDA adjusted to exclude foreign currency exchange, net, derivative financial instruments, net, other financial income (expense), and result from related party transactions, net. Adjusted EBITDA is not a measure of financial performance in accordance with IFRS, and should not be considered in isolation or as an alternative to net income, an alternative to operating cash flows, a measure of liquidity, or the basis for dividend distribution. Other companies may calculate Adjusted EBITDA differently than us. Adjusted EBITDA serves as an indicator of overall financial performance that we believe serves as an important tool to periodically compare our operating performance, as well as to support certain administrative decisions. Because Adjusted EBITDA does not include certain costs related to our business, it has limitations which affect its use as an indicator of our profitability. See "Introduction—Presentation of Financial and Other Information" for a reconciliation of Adjusted EBITDA to net income (loss). The 2020, 2019 and 2018 calculation of Adjusted EBITDA takes into consideration non-recurring items totaling (i) R\$615.8 million in 2020, mainly due to the impact of the impairment adjustments and the lease modification gain recognized during 2020, partially offset by other items related to the COVID-19 pandemic, compared to a (ii) R\$3.2 billion loss in 2019, including R\$2.9 billion which consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of E-Jets inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees and R\$226.3 million in 2018 in connection with the sale of six E-Jets.

(5) Represents Adjusted EBITDA divided by total operating revenue.

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The following table presents the reconciliation of the non-GAAP performance measures EBITDA and Adjusted EBITDA to loss for the periods indicated below:

	For the Years Ended December 31,			
	2020	2020	2019	2018
	(in thousands)			
	(US\$) <sup>(1)</sup>	(R\$)	(R\$)	(R\$)
<b>Reconciliation:</b>				
Loss for the year	(2,084,921)	(10,834,709)	(2,403,086)	(635,731)
<i>Plus (minus):</i>				
Financial expense <sup>(2)</sup>	358,867	1,864,923	1,015,172	856,308
Financial income <sup>(3)</sup>	(9,987)	(51,901)	(42,157)	(65,076)
Current income taxes	2	11	2,228	11,224
Deferred income taxes	(46,667)	(242,516)	(135,407)	171,581
Depreciation and amortization <sup>(4)</sup>	347,442	1,805,553	1,622,352	1,284,050
<b>EBITDA<sup>(5)</sup></b>	<b>(1,435,264)</b>	<b>(7,458,639)</b>	<b>59,102</b>	<b>1,622,356</b>
Impairment <sup>(6)</sup>	(145,776)	(757,554)	2,897,333	—
Foreign currency exchange, net <sup>(7)</sup>	827,937	4,302,540	391,905	1,306,063
Derivative financial instruments, net <sup>(8)</sup>	279,430	1,452,116	(325,452)	(298,094)
Other financial expense <sup>(9)</sup>	270,367	1,405,018	314,352	238,520
Other financial income <sup>(10)</sup>	(1,616)	(8,397)	(29,914)	(9,446)
Result from related parties transactions, net	137,363	713,834	16,959	(381,725)
Non-recurring events <sup>(11)</sup>	118,506	615,841	298,524	226,261
<b>Adjusted EBITDA<sup>(6)(12)</sup></b>	<b>50,948</b>	<b>264,759</b>	<b>3,622,809</b>	<b>2,703,935</b>
<b>Adjusted EBITDA Margin<sup>(13)</sup>(%)</b>	<b>4.6 %</b>	<b>4.6 %</b>	<b>31.7 %</b>	<b>29.9 %</b>

- (1) For convenience purposes only, the amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using the rate of R\$5.1967, which corresponds to the commercial selling rate for US\$1.00 as of December 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.
- (2) Interest expense is interest on loans, interest on lease, interest on finance lease and interest on factoring credit card, which is a component of financial expense. See "Note 29. Financial result" to our audited consolidated financial statements.
- (3) Interest income is interest on short-term investments and sublease receivable, which is a component of financial income. See "Note 27" to our audited consolidated financial statements.
- (4) Depreciation and amortization in 2020 it is impacted by non-recurring items of R\$79.2 million.
- (5) EBITDA and Adjusted EBITDA, as calculated by us, may not be comparable to EBITDA and Adjusted EBITDA as used by other companies which may calculate Adjusted EBITDA in a manner which differs from ours. EBITDA and Adjusted EBITDA are not measures of financial performance in accordance with IFRS. They do not represent cash flow for the corresponding periods, and should not be considered as alternatives to net income or loss or as measures of operating performance, cash flow or liquidity, nor should they be considered for the calculation of dividend distribution.
- (6) We were impacted by the reversal of the impairment of R\$757.6 million and 2019 includes non-recurring events related to the impairment charge regarding the phase-out plan of our E-Jets fleet of R\$2.1 billion.
- (7) Represents the foreign exchange remeasurement on U.S. dollar and Euro denominated assets and liabilities.
- (8) Represents currency forward contracts used to protect our U.S. dollar exposure.
- (9) Other financial expenses are a component of our financial expense. See "Note 27. Financial result" to our audited consolidated financial statements.
- (10) Other financial income is a component of our financial income. See "Note 27. Financial result" to our audited consolidated financial statements.
- (11) The 2020, 2019 and 2018 calculation of Adjusted EBITDA take into consideration non-recurring items totaling (i) R\$62.5 million in 2020, including non-recurring items due to the impact of the impairment reversal of R\$757.6 million and depreciation of R\$79.2 million non-recurring items impacting EBITDA related to the lease modification gain recognized, partially offset by other items related to the COVID-19 pandemic totaled R\$615.8 million, compared to a (ii) R\$3.2 billion loss in 2019, including R\$2.9 billion, which consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of E-Jets inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees and R\$226.3 million in 2018 in connection with the sale of six E-Jets.
- (12) Adjustments exclude the effects of the following items: (i) the foreign currency exchange variation relating to U.S. dollars denominated assets and liabilities; (ii) gains or losses in connection with our derivative instruments used to protect us against variations of the U.S. dollar compared to the *real*; (iii) other financial expenses (does not include interest expense), which is a component of financial expense; (iv) other financial income and fair value adjustment of other financial liabilities (does not include interest income), which are components of financial income; and (v) related party transactions, net (as applicable). We believe that such adjustments are useful to indicate our operating performance.
- (13) Represents Adjusted EBITDA divided by total operating revenue.

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The Company provides financial information in this filing that was not prepared in accordance with IFRS and should not be considered as an alternative to the information prepared in accordance with IFRS. This financial information, which has not been prepared in accordance with IFRS, has been denominated non-GAAP measures (Non Generally Accepted Accounting Principles). The Company provides supplemental non-GAAP financial information, which the Company's management utilizes to evaluate its ongoing financial performance and the Company believes provides additional insight to investors as supplemental information to its IFRS results. The following measures are often provided, and utilized by the Company's management, analysts, and investors to enhance comparability of year-over-year results, as well as to compare results to other airlines: EBITDA; Adjusted EBITDA; Available seat kilometers (ASKs), non-GAAP; Passenger revenue per ASK (PRASKs), non-GAAP; Operating revenue per ASK (RASK), non-GAAP; and total operating cost divided by ASK (CASK) non-GAAP amongst others.

**Balance Sheet Data**

The following tables present key line items from our historical balance sheet data:

	December 31, 2020 (US\$) <sup>(1)</sup>	December 31, 2020 (R\$)	December 31, 2019 (R\$)	December 31, 2018 (R\$)
	(in thousands)			
Cash and cash equivalents	589,762	3,064,815	1,647,880	1,169,136
<b>Total assets</b>	<b>3,039,324</b>	<b>15,794,457</b>	<b>19,197,490</b>	<b>16,094,398</b>
Loans and financing <sup>(2)</sup>	1,416,382	7,360,514	3,518,156	2,756,126
Lease liabilities <sup>(2)</sup>	2,409,377	12,520,812	12,106,621	8,919,746
Equity	(2,722,641)	(14,148,750)	(3,519,174)	(1,150,038)
Issued capital	432,268	2,246,367	2,243,215	2,209,415
<b>Total liabilities and equity</b>	<b>3,039,324</b>	<b>15,794,457</b>	<b>19,197,490</b>	<b>16,094,398</b>

(1) For convenience purposes only, the amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using the rate of R\$5.1967, which corresponds to the commercial selling rate for US\$1.00 as of December 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) Includes current and non-current loans and financing.

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	As of and For the Years Ended December 31,			
	2020	2020	2019	2018
	(US\$) <sup>(1)</sup>	(R\$)	(R\$)	(R\$)
<b>Operating Statistics (unaudited)</b>				
Operating passenger aircraft at end of period	162	162	142	125
<b>Total aircraft at end of period</b>	<b>185</b>	<b>185</b>	<b>166</b>	<b>143</b>
Cities served at end of period	112	112	116	116
Average daily aircraft utilization (hours)	5.4	5.4	11.3	10.4
Stage length (km)	1,083	1,083	1,050	1,006
Number of departures	158,070	158,070	295,354	262,312
Block hours	266,881	266,881	495,362	433,945
Passenger flight segments	14,796,044	14,796,044	27,674,247	23,122,440
Revenue passenger kilometers (RPKs) (million)	16,311	16,311	29,941	24,156
Available seat kilometers (ASKs) (millions)	20,395	20,395	35,868	29,353
Load Factor (%)	80.0 %	80.0 %	83.5 %	82.3 %
Passenger revenue (in thousands)	US\$969,771	R\$5,039,607	R\$10,907,889	R\$8,670,132
Passenger revenue adjusted (in thousands) <sup>(2)</sup>	US\$979,227	R\$5,088,747	R\$10,907,889	R\$8,670,132
PRASK (cents)	US\$4.75	R\$24.71	R\$30.41	R\$29.54
PRASK adjusted (cents) <sup>(2)</sup>	US\$4.80	R\$24.95	R\$30.41	R\$29.54
RASK (cents)	US\$5.42	R\$28.16	R\$31.90	R\$30.86
RASK adjusted (cents) <sup>(2)</sup>	US\$5.47	R\$28.41	R\$31.90	R\$30.86
Yield per ASK (cents) <sup>(2)</sup>	US\$5.95	R\$30.90	R\$36.43	R\$35.89
Yield per ASK adjusted (cents) <sup>(2)</sup>	US\$6.00	R\$31.20	R\$36.43	R\$35.89
Trip cost	US\$8,695.93	R\$45,190.14	R\$42,788.37	R\$29,977.44
Trip cost adjusted <sup>(3)</sup>	US\$8,831.88	R\$45,896.62	R\$31,863.06	R\$29,114.87
End-of-period FTEs per aircraft	74	74	93	94
CASK (cents)	US\$6.74	R\$35.02	R\$35.23	R\$26.79
CASK adjusted (cents) <sup>(3)</sup>	US\$6.84	R\$35.57	R\$26.24	R\$26.02
CASK ex-fuel adjusted (cents) <sup>(3)</sup>	US\$5.42	R\$28.17	R\$17.63	R\$17.01
Fuel liters consumed (thousands)	651	651	1,203	1,036
Average fuel cost per liter	US\$0.45	R\$2.32	R\$2.56	R\$2.55

(1) For convenience purposes only, the amounts in *reais* as of December 31, 2020 have been translated to U.S. dollars using the rate of R\$5.1967, which corresponds to the commercial selling rate for US\$1.00 as of December 31, 2020, as reported by the Central Bank. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

(2) Passenger revenue adjusted, PRASK adjusted, RASK adjusted and Yield per ASK adjusted for non-recurring items totaled R\$49.1 million in 2020, recognized in pax revenue.

(3) Trip cost adjusted, CASK adjusted and CASK excluding all fuel costs adjusted for non-recurring items totaled R\$111.7 million gain in 2020, R\$3.2 billion loss in 2019 and R\$226.3 million loss in 2018.

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

The risks described below are those that we consider material to our business and an investment in our securities. In general, investing in the securities of issuers in emerging market countries such as Brazil involves risks that are different from the risks associated with investing in the securities of U.S. companies and companies located in other countries with more developed capital markets. You should carefully consider the risks described below. We believe we could be materially and adversely affected by any of these risks. Other risks that we currently deem immaterial or that are currently not known to us may also adversely affect us.

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To the extent that information relates to, or is obtained from sources related to, the Brazilian government or Brazilian macroeconomic data, industry data or other third parties, the following information has been extracted from official publications of the Brazilian government or other reliable third party sources and has not been independently verified by us.

**Risks Relating to Brazil**

*The Brazilian federal government has exercised, and continues to exercise, significant influence over the Brazilian economy. This involvement as well as Brazil's political and economic conditions could harm us and the price of our preferred shares, including in the form of ADSs.*

The Brazilian federal government frequently exercises significant influence over the Brazilian economy and occasionally makes significant changes in monetary, credit, fiscal and other policies and regulations. The Brazilian government's actions to control inflation and other policies and regulations have often involved, among other measures, changes in monetary and tax policies, price controls, foreign exchange rate controls, currency devaluations, capital controls and limits on imports. We have no control over and cannot predict what measures or policies the Brazilian government may take in the future. We and the market price of our securities may be adversely affected by changes in Brazilian government policies, as well as general economic factors, including, without limitation:

- growth or downturn of the Brazilian economy;
- interest rates and monetary policies;
- exchange rates and currency fluctuations;
- inflation;
- liquidity of the domestic capital and lending markets;
- import and export controls;
- exchange controls and restrictions on remittances abroad;
- modifications to laws and regulations according to political, social and economic interests;
- fiscal policy and changes in tax laws;
- economic, political and social instability;
- increases in unemployment;
- labor and social security regulations;
- energy and water shortages and rationing;
- the Brazilian government's intervention, modification or rescission of existing concessions;
- the Brazilian government's control of or influence on the control of certain oil producing and refining companies; and
- other political, social and economic developments in or affecting Brazil.

In addition, Brazil experienced a recession from 2014 to 2016 and grew at a slow pace from 2017 to 2019. Gross Domestic Product, or GDP increased 1.1% in 2018 and in 2019. GDP decreased by 4.1% in 2020 as a result of the COVID-19 pandemic and related economic impact.

Although the size of the economic impact of the COVID-19 pandemic is still uncertain, according to the Focus report issued on March 26, 2021, the Brazilian economy is expected to grow by 3.18% in 2021, see—"Item 5. Operating and Financial Review and Prospects—Principal Factors Affecting Our Financial Condition and Results of Operations." The Brazilian federal government is facing increasing pressures from the population to implement economic reforms. We cannot predict what measures the Brazilian federal government will take in the face of mounting macroeconomic pressures or otherwise.

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Developments in Brazil's political landscape, such as presidential and municipal elections, may also impact us. Uncertainty over whether the current Brazilian federal government will implement changes in policy or regulation affecting these or other factors in the future, aggravated by the impacts of the COVID-19 pandemic, may affect economic performance and contribute to economic uncertainty in Brazil, which may have an adverse effect on us and our preferred shares, including in the form of ADSs. Recent economic and political instability has led to a negative perception of the Brazilian economy and higher volatility in the Brazilian securities markets, which also may adversely affect us and the trading price of our preferred shares, including in the form of ADSs. We cannot predict what future policies will be adopted by current or future Brazilian governments, or whether these policies will result in adverse consequences to the Brazilian economy or cause an adverse effect on us. See “—The ongoing economic uncertainty and political instability in Brazil may adversely affect us and the price of our preferred shares, including in the form of ADSs.”

***Economic, health, political, and environmental crises, or any other kind of crisis that has the ability to impact the Brazilian economy, may affect the Brazilian population's purchasing power, which may result in a decrease in demand for air travel and, consequently, affect our business.***

Economic, health, political, and environmental crises, or any other kind of crisis that has the ability to impact the Brazilian economy, may affect the Brazilian population's purchasing power, which may result in a decrease in the number of sales of our products. The 2008 financial crisis, for example, caused exchange rate fluctuations that devalued the real, along with increased restriction of credit in the domestic market, increased rates of unemployment, increases in default and, consequently, a decrease in expendable income in Brazil.

In the same vein, the country's political-economic crisis between 2015 and 2016 had a significant impact on unemployment rates by reducing the purchasing power of the population and, consequently, expendable income in the country. Recently, the COVID-19 pandemic has caused negative global economic impacts, which we have not yet been able to quantify.

As a result of the pandemic, it is believed that the purchasing power of the Brazilian population may decrease, which may lead to a significant reduction in expendable income and impact demand for air travel, which in turn may negatively affect our results.

***The ongoing economic uncertainty and political instability in Brazil may adversely affect us and the price of our preferred shares, including in the form of ADSs.***

Brazil's political environment has historically influenced, and continues to influence, the performance of the country's economy. Political crises have affected and continue to affect the confidence of investors and the general public, which have historically resulted in economic deceleration and heightened volatility in the securities issued by Brazilian companies.

The recent economic instability in Brazil has contributed to a decline in market confidence in the Brazilian economy as well as to a deteriorating political environment. In addition, various ongoing investigations into allegations of money laundering and corruption being conducted by the Office of the Brazilian Federal Prosecutor, including the largest such investigation, known as *Lava Jato*, have negatively impacted the Brazilian economy and political environment. Members of the Brazilian government, as well as senior officers of large state-owned companies, have faced or are currently facing allegations or convictions of, or have entered into plea bargain or leniency agreements for crimes related to crimes of political of corruption and money laundering.

These individuals are alleged to have accepted bribes by means of kickbacks on contracts granted by the government to several infrastructure, oil and gas and construction companies. The profits of these kickbacks allegedly financed the political campaigns of political parties of the government, forming the previous coalition of the government led by former President Dilma Rousseff, and were unaccounted for or not publicly disclosed. These funds were also allegedly destined toward the personal enrichment of certain individuals. A number of senior politicians, including members of Congress, and high-ranking executive officers of major corporations and state-owned companies in Brazil have been arrested, convicted of various charges relating to corruption, entered into plea agreements with federal prosecutors and/or have resigned or been removed from their positions. The potential outcome of *Lava Jato*, as well as other ongoing corruption-related investigations is uncertain, but they have already had an adverse impact on the image and reputation of those companies that have been implicated as well as on the general market perception of the Brazilian economy, political environment and the Brazilian capital markets.

There has been no link between these scandals and us and we do not believe there will be, but no guarantee can be made that anyone who is directly or indirectly linked to us, whether an employee, director, advisor, supplier, service provider or subcontractor, is not or will not be involved in operation *Lava Jato* or similar investigations, which could adversely affect us, including our image and reputation. The result of ongoing investigations is uncertain, but there has already been a negative impact on the image and reputation of the companies involved, as well as on the Brazilian economy.



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We have no control over, and cannot predict, whether such investigations, allegations, convictions, plea bargains and agreements will lead to further political and economic instability or whether new allegations, convictions, plea bargaining or agreements against or with government officials, officers and/or companies will arise in the future. In addition, we cannot predict the outcome of any such allegations, convictions, plea bargains and agreements, nor their effect on the Brazilian economy.

In addition, political demonstrations in Brazil over the last few years have affected the development of the Brazilian economy and investors' perceptions of Brazil. For example, street protests, which started in mid-2013 and continued through 2016, demonstrated the public's dissatisfaction with the worsening Brazilian economic condition (including an increase in inflation and fuel prices, as well as rising unemployment), the perception of widespread corruption, and the potential for severe water and electricity rationing following a decrease in rainfall and water reservoir levels throughout Brazil in early 2016.

Any of the above factors may create additional political uncertainty, which could have a material adverse effect on the Brazilian economy and, consequently, on us and the price of our preferred shares, including in the form of ADSs.

***We cannot predict which policies Jair Bolsonaro, the President of Brazil, may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy.***

In October 2018, Jair Bolsonaro was elected president, and his term began in January 2019. Although Mr. Bolsonaro has promised in his campaign to implement economic reforms, we cannot predict which policies the President of Brazil may adopt or change during his mandate or the effect that any such policies might have on our business and on the Brazilian economy. Any such new policies or changes to current policies may have a material adverse effect on us or the price of our preferred shares, including in the form of ADRs. Furthermore, uncertainty over whether the acting Brazilian government under the new administration will implement changes in policy or regulation in the future may contribute to economic uncertainty in Brazil and to heightened volatility in the securities issued abroad by Brazilian companies.

Additionally, in April 2020, President Bolsonaro became involved in political discussions that culminated in the resignation of the then-Minister of Health, Luiz Henrique Mandetta, and the resignation request submitted by the then-Minister of Justice, Sergio Moro. The aforementioned Ministers were key figures in the current administration, and the occasions on which the ministerial changes occurred caused even more instability in the Brazilian economy and in capital markets.

President Bolsonaro is currently under investigation by the highest court in the Brazilian judicial system, the *Supremo Tribunal Federal* (STF) for the alleged practice of inappropriate acts, brought forth by the former Minister of Justice, Mr. Sergio Moro. According to the former minister, the President had pressured the appointment of certain Brazilian federal police officers. Any consequences resulting from this investigation, including a potential launch of impeachment proceedings, could have significant adverse effects on the political and economic environment in Brazil, as well as on businesses operating in Brazil, including our business.

President Bolsonaro's response to the pandemic has been sharply criticized both within Brazil and internationally, with the destabilizing effects of the COVID-19 pandemic enhancing political uncertainty and stability in Brazil, particularly following the departure of several high profile federal ministers and corruption allegations against President Bolsonaro.

We cannot guarantee that the unfolding of these events will not lead to additional adverse impacts on Brazil's political and economic situation. Furthermore, we cannot guarantee that other current or future political events may not come to cause even more instability in the Brazilian economy, in capital markets, or in the listing of our shares.

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***Exchange rate instability may have adverse effects on the Brazilian economy, us and the price of our preferred shares, including in the form of ADSs.***

The Brazilian currency has been historically volatile and has devalued frequently over the past three decades. Throughout this period, the Brazilian government has implemented various economic plans and used various exchange rate policies, including sudden devaluations, periodic mini-devaluations (during which the frequency of adjustments has ranged from daily to monthly), exchange controls, dual exchange rate markets and a floating exchange rate system. Although long-term depreciation of the real is generally linked to the rate of inflation in Brazil, depreciation of the real occurring over shorter periods has resulted in significant variations in the exchange rate between the real, the U.S. dollar and other currencies. The real/U.S. dollar exchange rate reported by the Central Bank was R\$3.87 per U.S. dollar on December 31, 2018, and R\$4.03 per U.S. dollar on December 31, 2019, reflecting a 4.02% depreciation in the real against the U.S. dollar. Since the outbreak of the COVID-19 pandemic, the real depreciated over 29% as compared to the U.S. dollar and the real/U.S. dollar exchange rate reported by the Central Bank was R\$5.20 per U.S. dollar on December 31, 2020. There can be no assurance that the real will not further depreciate against the U.S. dollar or other currencies in the future.

A devaluation of the real relative to the U.S. dollar could create inflationary pressures in Brazil and cause the Brazilian government to, among other measures, increase interest rates. Any depreciation of the real may generally restrict access to the international capital markets. It would also reduce the U.S. dollar value of our results. Restrictive macroeconomic policies could reduce the stability of the Brazilian economy and adversely affect our results of operations and profitability. In addition, domestic and international reactions to restrictive economic policies could have a negative impact on the Brazilian economy. These policies and any reactions to them may adversely affect us by curtailing access to foreign financial markets and prompting further government intervention. A devaluation of the real relative to the U.S. dollar may also, as in the context of the current economic slowdown, decrease consumer spending, increase deflationary pressures and reduce economic growth.

On the other hand, an appreciation of the real relative to the U.S. dollar and other foreign currencies may deteriorate the Brazilian foreign exchange current accounts. We and certain of our suppliers purchase goods and services from countries outside Brazil, and thus changes in the value of the U.S. dollar compared to other currencies may affect the costs of goods and services that we purchase. Depending on the circumstances, either devaluation or appreciation of the real relative to the U.S. dollar and other foreign currencies could restrict the growth of the Brazilian economy, as well as our business, results of operations and profitability.

Most of our revenues are linked to the real and a significant part of our operating expenses, such as fuel, certain aircraft operating lease agreements, certain flight hour maintenance contracts and aircraft insurance, are denominated in, or linked to, foreign currency. In addition, we have and may incur substantial amounts of U.S. dollar-denominated operating lease or financial obligations, fuel costs linked to the U.S. dollar and U.S. dollar-denominated indebtedness in the future or similar exposures to other foreign currencies. As of December 31, 2020, 2019 and 2018, 33.2%, 41.3% and 43.2% of our operating expenses, respectively, were denominated in, or linked to, foreign currency. Historically, we have been able to increase our fares and revenues to compensate for the impact from U.S. dollar appreciation on our expenses, but there is no assurance that we will continue to be able to do so.

We are not always fully hedged against fluctuations of the real. In light of the foregoing, there can be no assurance we will be able to protect ourselves against the effects of fluctuations of the real. Depreciation of the *real* could create inflationary pressures in Brazil and cause increases in interest rates, which could negatively affect the growth of the Brazilian economy as a whole, harm us, curtail access to financial markets and prompt government intervention, including recessionary governmental policies. Depreciation of the real can also, as in the context of the current global economic recovery, lead to decreased consumer spending, and reduced growth of the economy as a whole.

Any depreciation of the real against the U.S. dollar may have an adverse effect on us, including leading to a decrease in our profit margins or to operating losses caused by increases in U.S. dollar-denominated costs (including fuel costs), increases in interest expense or exchange losses on unhedged fixed obligations and indebtedness denominated in foreign currency.

***Inflation and certain measures by the Brazilian government to curb inflation have historically adversely affected the Brazilian economy and Brazilian capital market, and high levels of inflation in the future would adversely affect us and the price of our preferred shares, including in the form of ADSs.***

In the past, Brazil experienced extremely high rates of inflation. Inflation and some of the measures taken by the Brazilian government in an attempt to curb inflation have had significant negative effects on the Brazilian economy generally. Inflation, policies adopted to curb inflationary pressures and uncertainties regarding possible future governmental intervention have contributed to economic uncertainty and heightened volatility in the Brazilian capital markets.

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According to the National Consumer Price Index (*Índice Nacional de Preços ao Consumidor Amplo*), or IPCA, Brazilian inflation rates were 4.5%, 4.3%, 3.8%, 2.9%, 6.3%, 10.7% and 6.4% for the years 2020, 2019, 2018, 2017, 2016, 2015 and 2014, respectively. Brazil may experience high levels of inflation in the future and inflationary pressures may lead to the Brazilian government's intervening in the economy and introducing policies that could adversely affect us and the price of our preferred shares, including in the form of ADSs. In the past, the Brazilian government's interventions included the maintenance of a restrictive monetary policy with high interest rates that restricted credit availability and reduced economic growth, causing volatility in interest rates. For example, the SELIC (*Sistema Especial de Liquidação e Custódia*), the Central Bank's overnight rate, as established by the Monetary Policy Committee (*Comitê de Política Monetária do Banco Central do Brasil*), or COPOM, increased from 10.00% at the beginning of 2014 to a high point of 14.25% in 2016 before a series of rate reductions in 2017, 2018 and 2019, bringing the SELIC rate down to 7.00% as of December 31, 2017, 6.50% as of December 31, 2018, to 4.50% as of December 31, 2019 and to 2.00% as of December 31, 2020. Conversely, more lenient government and Central Bank policies and interest rate decreases have triggered and may continue to trigger increases in inflation, and, consequently, growth volatility and the need for sudden and significant interest rate increases, which could negatively affect us and increase our indebtedness.

In the event that Brazil experiences high inflation in the future, we will attempt to adjust the prices we charge our passengers to offset the potential impacts of inflation on our expenses, including salaries as we have done in the past, but we may not be able to. This would lead to decreased net income, adversely affecting us. Inflationary pressures may also adversely affect our ability to access foreign financial markets, adversely affecting us.

***Developments and the perceptions of risks in other countries, including other emerging markets, the United States and Europe, may adversely affect the Brazilian economy and the price of Brazilian securities, including the price of our preferred shares, including in the form of ADSs.***

The market for securities issued by Brazilian companies is influenced by economic and market conditions in Brazil and, to varying degrees, market conditions in other Latin American and emerging markets, as well as the United States, Europe and other countries. To the extent the conditions of the global markets or economy deteriorate, Brazilian companies may have their businesses adversely affected. The weakness in the global economy has been marked by, among other adverse factors, lower levels of consumer and corporate confidence, decreased business investment and consumer spending, increased unemployment, reduced income and asset values, reduction of global growth rate, currency volatility and limited availability of credit and access to capital. Developments or economic conditions in other emerging market countries have at times significantly affected the availability of credit to Brazilian companies and resulted in considerable outflows of funds from Brazil, decreasing the amount of foreign investments in Brazil.

The economic and market conditions of other countries, including the United States, countries of the Europe, and emerging markets, may affect the credit availability and the volume of foreign investments in Brazil and in the countries in which we do business, to varying degrees. More recently, Brexit has contributed to increased volatility and uncertainty in a number of financial markets. In addition, the crisis affecting emerging markets that began in the second quarter of 2018 as a result of the rise in interest rates by the U.S. Federal Reserve and the trade war between the United States and China, among other factors, could have an impact on the Brazilian economy. Political risks remain mainly from the United States presidential election, the medium-term relationship between the United States and China, uncertainty over government instabilities in Europe and other local geopolitical risks. The materialization of these risks may affect global growth and decrease investors' interest in assets from Brazil and other countries in which we do business, which may materially and adversely affect the market price of our preferred shares, including in the form of ADSs, making it more difficult for us to access capital markets and, as a result, to finance our operations in the future.

***Any further downgrading of Brazil's credit rating could adversely affect the trading price of our preferred shares, including in the form of ADSs.***

Brazil's sovereign credit rating is currently rated below investment grade by the three main credit rating agencies. Consequently, the prices of securities issued by Brazilian companies have been negatively affected. A new Brazilian recession or continued political uncertainty, among other factors, could lead to further ratings downgrades. Any further downgrade of Brazil's sovereign credit ratings could heighten investors' perception of risk and, as a result, adversely affect the price of our preferred shares, including in the form of ADSs.

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We can be adversely affected by investors' perceptions of risks related to Brazil's sovereign debt credit rating. Rating agencies regularly evaluate Brazil and its sovereign ratings, which are based on a number of factors including macroeconomic trends, fiscal and budgetary conditions, indebtedness metrics and the perspective of changes in any of these factors. Brazil lost its investment grade sovereign debt credit rating by the three main U.S. based credit rating agencies, Standard & Poor's, Moody's and Fitch in 2015. Standard & Poor's downgraded Brazil's sovereign debt credit rating from BBB- to BB+ in September 2015, subsequently reduced it to BB in February 2016, and maintained its negative outlook on the rating, citing Brazil's fiscal difficulties and economic contraction as signs of a worsening credit situation. In December 2015, Moody's placed Brazil's Baa3 sovereign debt credit rating on review and downgraded Brazil's sovereign credit rating in February 2016 to Ba2 with a negative outlook, citing the prospect for further deterioration in Brazil's indebtedness figures amid a recession and challenging political environment. Fitch downgraded Brazil's sovereign credit rating to BB+ with a negative outlook in December 2015, citing the country's rapidly expanding budget deficit and worse-than-expected recession, and further downgraded Brazil's sovereign debt credit rating in May 2016 to BB with a negative outlook. On January 11, 2018 Standard and Poor's downgraded Brazil's sovereign credit rating due to concerns over a large deficit, stalled pension reform and presidential elections. On February 23, 2018, Fitch further downgraded Brazil's sovereign credit rating to BB-minus with a stable outlook. On April 9, 2018, Moody's reaffirmed the Ba2 rating, but raised the outlook from negative to stable, citing expectations that the winner of the October 2018 presidential elections will pass fiscal reforms. On December 11, 2019, Standard & Poor's maintained Brazil's credit rating at BB- with a positive outlook. In April 2020, Standard & Poor's maintained Brazil's sovereign debt credit rating at BB- with stable outlook. In May 2020, Fitch maintained the rating at BB-minus but with a negative outlook, citing the deterioration of Brazil's fiscal and economic environment and that both could worsen due to political uncertainties, as well as uncertainties regarding the duration and intensity of the COVID-19 pandemic.

***Variations in interest rates may have adverse effects on us.***

We are exposed to the risk of interest rate variations, principally in relation to the Interbank Deposit Rate, or CDI Rate, and with respect to operating and finance leases and debt-financed aircraft denominated in U.S. dollars, the London Interbank Offer Rate, or LIBOR.

We have been benefited by the reduction over the recent years in the CDI Rate and LIBOR, but if the CDI Rate or LIBOR were to increase, our repayments under certain loans, operating and finance leases would increase, and we may not be able to adjust the prices we charge to offset increased payments. For example, our repayments under some of our operating and finance leases and debt-financed aircraft are linked to LIBOR. Volatility in LIBOR or other reference rates could increase our periodic interest and lease payments and have an adverse effect on our total financing costs.

Significant increases in consumption, inflation or other macroeconomic pressures may lead to an increase in these rates. For further information regarding our exposure to the risk of interest rate variations, see "Item 5. Operating and Financial Review and Prospect—Operating Results—Principal Factors Affecting Our Financial Condition and Results of Operations—Effects of exchange rates, interest rates and inflation."

***We may face challenges associated with IBOR transition.***

A portion of our income, expenses and liabilities is directly tied to interest rates. Therefore, our results of operations and financial condition are affected by inflation, interest rate fluctuations and related government monetary policies. In addition, various interbank offered rates, which are deemed to be "benchmarks" (the "IBORs", including LIBOR and EURIBOR) are the subject of recent international and other regulatory guidance and proposals for reform. Some of these reforms are already effective while others are still to be implemented, including the majority of the provisions of the EU Benchmark Regulation (Regulation (EU) 2016/1011) as it forms part of domestic law of the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 (together, the "Benchmarks Regulations").

In particular, the U.K. Financial Conduct Authority ("FCA") announced that the FCA will no longer oblige banks to contribute to the calculation of LIBOR after the end of 2021 and, on March 5, 2021, confirmed that all LIBOR settings will either cease to be provided by any administrator or no longer be representative immediately after December 31, 2021, in the case of all sterling, euro, Swiss franc and Japanese yen settings, and the 1-week and 2-month US dollar settings and immediately after June 30, 2023, in the case of the remaining US dollar settings. These announcements indicate that the continuation of LIBOR on the current basis (or at all) cannot and will not be guaranteed after 2021. On November 18, 2020, ICE Benchmark Administration ("IBA") announced that all LIBOR rates for certain currencies other than U.S. Dollar LIBOR ("USD LIBOR"), would cease publication at the end of 2021. On November 30, 2020, IBA announced that, following a consultation period, for USD LIBOR, it intends to cease publication of 1-week and 2-month LIBOR at the end of 2021 and that it does not intend to cease publication of other tenors of USD LIBOR until June 30, 2023.

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The pending cessation of LIBOR for various currencies at the end of 2021 (and in 2023 for certain tenors of USD LIBOR) will also result in replacement rates being used more widely, including in the instruments documenting certain of our financial obligations. For example, in the U.S., a group convened by the Federal Reserve Board and the Federal Reserve Bank of New York, called the Alternative Reference Rate Committee (“ARRC”) and comprised of a diverse set of private sector entities, has identified the Secured Overnight Financing Rate (or “SOFR”) as its preferred alternative rate for the USD LIBOR and the Federal Reserve Bank of New York has begun publishing SOFR daily. Many banks in the U.S. have begun entering into transactions where interest is determined based on SOFR or plan to do so during the course of 2021, as recommended by ARRC and certain regulators. Additionally, many financial contracts, including some which govern our financial obligations, include replacement alternatives for LIBOR upon the cessation of LIBOR. It is possible that some U.S. lenders will elect to use alternative rates other than SOFR. Central banks in several other jurisdictions have also announced plans for publishing alternative reference rates for other currencies.

In addition, on November 29, 2017, the Bank of England and the FCA announced that, as of January 2018, its working group on Sterling risk free rates has been mandated with implementing a broad-based transition to the Sterling Overnight Index Average (“SONIA”) over the next four years across sterling bond, loan and derivative markets so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021.

On September 21, 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a “risk free overnight rate” which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On September 13, 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate (“€STR”) as the new risk-free rate for the euro area. The €STR was published for the first time on October 2, 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmark Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

This and other reforms may cause IBORs to perform differently than in the past, or to disappear entirely, or have other consequences, which cannot be fully anticipated, which introduce a number of risks for us including legal risks arising from potential changes required to documentation for new and existing transactions, financial risks arising from any changes in the valuation of financial instruments linked to benchmark rates and hedging mismatch.

***Deficiencies in Brazilian infrastructure, particularly in airports and ports, may adversely affect us.***

We offer products and services that depend on the performance and reliability of the infrastructure in Brazil and abroad. Historically, public investment in the construction and development of airports, ports, highways and railroads has been relatively low, which affects the demand for domestic tourism and could also affect our ability to carry out our operations or limit our expansion plans as well as cause delays and increase operational costs. For example, in 2007, Brazil went through a significant crisis related to its air traffic control system, which negatively impacted air travel and the tourism industry as a whole. Insufficient public and/or private investment in the expansion of Brazilian infrastructure, particularly airports, ports and other travel hubs could lead to a decrease in sales or lower growth rates than we expect, which may adversely affect us and growth prospects. In particular, lack of or insufficient investment in the maintenance at our main hub in Campinas could impact the general activity and operation of the airport, which would adversely impact us. For example, Aeroportos Brasil, which holds a concession for the operation of Viracopos airport from ANAC, filed for bankruptcy protection in 2018 as it has not complied with its contractual obligations relating to the construction of a new terminal. On February 14, 2020 creditors approved Aeroportos Brasil’s debt restructuring plan, which consists in returning the concession for the operation of Viracopos airport to ANAC to initiate a re-bidding process of the concession to a new operator.

On February 18, 2020, the debt restructuring court approved the judicial recovery plan and on March 19, 2020, Aeroportos Brasil filed an application to ANAC for the rebidding of Viracopos airport, in compliance with the judicial recovery plan. On July 17, 2020, the Federal Government enacted Decree No 10.427/2020, authorizing the rebidding of Viracopos airport. The Ministry of Infrastructure shall submit, within 90 days, its assessment to the Programa de Parcerias de Investimentos (Investment Partnership Program) of the possibility of transferring the debts acquired by the current concessionaire to the financiers of the new concessionaire.

The Brazilian government expects to issue the public notice at the end of the year and hold the auction during the first quarter of 2022. In April 2021, the Grupo de Consultores em Aeroportos (GCA), a consortium made up of various private companies and a potential bidder in the auction, filed a feasibility study with the Brazilian government for a new bidding process for the concession at Viracopos airport. An evaluation committee formed to review the auction process will review the feasibility study, which, if approved will be sent to ANAC, such delivery expected to take place in June 2021.

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For more information, see “Item 4.B. Business Overview—Airports and Other Facilities and Properties—Airports” and “Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

***The failure to adhere to LGPD or other privacy laws enacted in Brazil and/or other jurisdictions may adversely affect our reputation, business, financial condition, or results.***

We are subject to the legislation of protection of personal data, such as the Internet Civil Framework (Law No. 12,965/2014), and Law 13,709/2018, a comprehensive data protection law establishing general principles and obligations that apply across multiple economic sectors and contractual relationships (*Lei Geral de Proteção de Dados*), or the LGPD, as well as its related regulations, including those published by the National Data Protection Authority (“ANPD”).

Except for administrative sanctions, which have been extended to August 2021, the LGPD came into effect on September 18, 2020, after the President Bolsonaro sanctioned into law provisional measure Number 959/2020, pursuant to Article 62, §12, of the Federal Constitution. The LGPD establishes a new legal framework to be observed in personal data processing operations and provides for the rights of the ownership of personal data, the legal bases that allow the processing of personal data, requirements for obtaining consent, obligations and requirements for security incidents and leaks, domestic and international data transfers, as well as authorization for the creation of ANPD.

With the LGPD sanctions coming into force, non-compliance by us or by any of our subsidiaries may result in judicial action by the holders of personal data (as provided for in the LGPD), or in judicial or extrajudicial action by consumer protection bodies. In addition, we and our subsidiaries may be subject to sanctions, in an isolated or cumulative manner, or may, separately or cumulatively, be subject to (i) warning with an indicative deadline for the adoption of corrective measures, (ii) obligation to disclose incidents, (iii) partial suspension of our database operations for a maximum period of six months, renewable for an equal period, until the controller’s processing activity is reestablished, in case of recurrence; (iv) partial suspension of activities related to data processing for a maximum period of six months, renewable for an equal period, until the controller’s processing activity is reestablished, in case of recurrence; (v) temporary blocking, or deletion, of personal data; (vi) partial or total prohibition of activities; and (vii) a fine of up to 2% of our revenues in Brazil in its previous fiscal year, excluding taxes, up to R\$50,000,000 per infraction. Further, we may be held liable for material, moral, individual or collective damages caused due to non-compliance with the obligations established by LGPD, noting that infractions will be applied starting in August 2021.

Thus, failures in the protection of the personal data processed by us, as well as a failure to comply to the applicable legislation, may result in high fines for us, disclosure of the incident to the market, elimination of the personal data bank, and even suspension of activities, which may adversely affect our reputation, business, financial condition or results.

See “Item 4.B. Business Overview—Data Protection.”

#### **Risks Relating to our Business and the Brazilian Civil Aviation Industry**

***Substantial fluctuations in fuel costs or the unavailability of fuel, which is mostly provided by one supplier, would have an adverse effect on us.***

Historically, international and local fuel prices have been subject to wide price fluctuations based on geopolitical issues and supply and demand. Fuel expenses, which at times in 2007 and 2008 were at historically high levels, constitute a significant portion of our total operating expenses, accounting for 21.1% in 2020, 24.4% in 2019, and 33.6% in 2018. Fuel availability is also subject to periods of market surplus and shortage and is affected by demand for both home heating oil and gasoline. Events resulting from prolonged instability in the Middle East or other oil-producing regions, or the suspension of production by any significant producer, may result in substantial price increases and/or make it difficult to obtain adequate supplies, which may adversely affect us. Natural disasters or other large unexpected disrupting events in regions that normally consume significant amounts of other energy sources could have a similar effect. We cannot predict the price and future availability of fuel with any degree of certainty, and significant increases in fuel prices may harm our business. Our hedging activities may not be sufficient to protect us from fuel price increases, and even though we have been able to adjust our fares adequately to protect us from this cost, we may not be able to do so in the future.



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We purchase fuel from a number of distributors in Brazil, principally from BR Distribuidora, a subsidiary of Petrobras, Air BP Brasil Ltda. and Raízen Combustíveis Ltda., with whom we have agreements to exclusively purchase all of our jet fuel needs in certain locations. As of December 2020, BR Distribuidora provided 61.6% of our fuel and was entitled to terminate its fuel supply contracts with us for a number of reasons, including (i) non-compliance with any contractual obligation, (ii) non-payment of invoices up to 60 days after expiration and (iii) in the event of our judicial or extrajudicial liquidation. In addition, BR Distribuidora may be unable to guarantee its fuel supply to us, for example due to difficulties in its production, import, refining or distribution activities. If we were unable to obtain fuel on similar terms from alternative suppliers, our business would be adversely affected. In addition, our agreement with BR Distribuidora enables us to lock in the cost of the jet fuel that we will consume in the future. Accordingly, in case this agreement is terminated, we might be required to enter into alternative hedging or pay higher prices, which could adversely affect us.

***We and the airline industry in general are particularly sensitive to changes in economic conditions and continued negative economic conditions that would likely continue to adversely affect us and our ability to obtain financing on acceptable terms.***

Our operations and the airline industry in general are particularly sensitive to changes in economic conditions. Unfavorable economic conditions, such as high unemployment rates, a constrained credit market, low or negative GDP growth, unfavorable exchange rates and increased business operating expenses, can reduce spending for both leisure and business travel. For some consumers, leisure travel is a discretionary expense, and short-haul travelers, in particular, have the option to replace air travel with surface travel. As has become particularly evident as a result of the COVID-19 pandemic, businesses and other travelers are able to forego air travel by using communication alternatives such as videoconferencing, business communication platforms, and the Internet. In addition, to the extent businesses continue to permit air travel during the COVID-19 pandemic, they are more likely to require the purchase of less expensive tickets to reduce costs. This, in turn, can result in a decrease in average revenue per seat. Also, as has become particularly evident as a result of the COVID-19 pandemic, unfavorable economic conditions can also impact our ability to raise fares to counteract increases in fuel, labor, and other expenses. In particular, the recent recession in the Brazilian economy and political instability has adversely affected industries with significant spending in travel, including government, oil and gas, mining and construction. In addition to decreases in load factors, reduced spending on business travel also affects the quality of demand, resulting in our inability to sell as many high-yield tickets.

Additionally, any material change to the global financial markets or the Brazilian economy, caused by any factor, including pandemics and/or other regional or international outbreaks, may hinder both our access to new favorable financing terms and issuances of securities. An increasingly unfavorable economic environment would likely adversely affect us. In addition, a significant instability of the credit, capital and financial markets could result in increasing our borrowing costs, adversely affecting us. We typically finance our aircraft through operating and finance leases and debt finance. We may not be able to continue to obtain financing on terms attractive to us, or at all. To the extent we cannot obtain such financing on acceptable terms or at all, we may be required to modify our aircraft acquisition plans or to incur higher than anticipated financing costs, which would adversely affect us and our growth strategy. These factors could also adversely affect our ability to obtain financing on acceptable terms and our liquidity in general.

***Because the airline industry is characterized by high fixed costs and relatively elastic revenues, airlines cannot quickly reduce their costs to respond to shortfalls in expected revenue and this may harm our ability to attain our strategic goals.***

The airline industry is characterized by low gross profit margins; high fixed costs, such as aircraft ownership and leasing, headquarters facility and personnel, information technology system license costs, training and insurance expenses; and revenues that generally exhibit substantially greater elasticity than costs. The operating costs of each flight do not vary significantly with the number of passengers flown and, therefore, a relatively small change in the number of passengers, fare pricing or traffic mix could have a significant effect on operating and financial results.

We expect to incur additional fixed costs, including contractual debt, as we lease or acquire new aircraft and other equipment to implement our growth strategy or other purposes. Based on our current firm orders, we have contractually assumed the commitment to acquire 132 aircraft, 94 directly from manufacturers and 38 from lessors.

As a function of our fixed costs, we may (i) have limited ability to obtain additional financing, (ii) be required to dedicate a significant part of our cash flow to fixed costs resulting from operating leases and debt for aircraft, (iii) incur higher interest or leasing expenses for the event that interest rates increase or (iv) have a limited ability to plan for, or react to, changes in our businesses, the civil aviation sector generally and overall macroeconomic conditions. In addition, volatility in global financial markets may make it difficult for us to obtain financing to manage our fixed costs on favorable terms or at all.

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As a result of the foregoing, we may be unable to quickly adjust our fixed costs in response to changes in our revenues. A shortfall from expected revenue levels could have a material adverse effect on us.

***Changes to the Brazilian civil aviation regulatory framework may adversely affect us.***

Brazilian aviation authorities monitor and influence the developments in Brazil's airline market. For example, in July 2014, ANAC published new rules governing the allocation of slots at the main Brazilian airports, which consider operational efficiency (on-time performance and regularity) as the main criteria for the allocation of take-off and landing slots at Brazilian airports. The policies of Brazilian aviation authorities, including ANAC, may adversely affect us and our operations.

Further, in December 2018, the former Brazilian president approved Provisional Measure MP 863/2018, which lifts restrictions on foreign ownership of Brazilian airlines' voting stock. On June 17, 2019, the provisional measure MP 863/2018 was converted into de Law No 13.842/2019, amending the Brazilian Aeronautical Code, and allowed 100% of the voting stock of a company belonged to foreigners. See "Item 4.B. Business Overview—Restrictions on the Ownership of Shares in Air Transportation Service Providers."

For a description of recent changes to the Brazilian civil aviation regulatory framework, see "Item 4.D. Regulation—Airport Infrastructure." For a description of recent changes to and pending legislation regarding the Brazilian civil aviation regulatory framework, see "Item 4.B. Business Overview—Pending Legislation."

Changes to the Brazilian civil aviation regulatory framework, including the policies of ANAC and/or INFRAERO, as well as other aviation supervisory authorities, including the Brazilian Aeronautical Code, could increase our costs and change the competitive dynamics of our industry and may adversely affect us. In addition, we cannot guarantee that any of the operating concessions that we hold will be renewed or that we will obtain new concession. Any change that requires us to dedicate a significant level of resources on compliance with new aviation regulations, for example, would result in additional expenditure on compliance and consequently adversely affect us.

***We operate in a highly competitive industry and actions by our competitors could adversely affect us.***

We face intense competition on certain routes in Brazil from existing scheduled airlines, charter airlines and potential new entrants in our market and also with regards to our business units TudoAzul, Azul Cargo and Azul Viagens. In particular, we face strong competition in a limited number of routes and markets where our network overlaps with that of our main competitors. As of December 31, 2020, 18% and 8% of our domestic network overlapped with that of Gol and LATAM, respectively. Airlines increase or decrease capacity in markets based on perceived profitability. Decisions by our competitors that increase overall industry capacity, or capacity dedicated to a particular region, market or route, as well as any other management decisions that increase a potential competitor's market share, could have a material adverse impact on us. The COVID-19 pandemic could enhance the competitive dynamics within the industry, although we are unable to predict the duration or extent of this potentially increased pressure. Our growth and the success of our business model could stimulate competition in our markets through the development of similar strategies by our competitors. If these competitors adopt and successfully execute similar business models, we could be adversely affected.

We may face increased competition from existing and new participants in the Brazilian market. The air transportation sector is highly sensitive to price discounting and the use of aggressive pricing policies. Changes in practices, including with respect to change and cancellation fees as a result of the COVID-19 pandemic has led to further pricing changes among our competitors. Other factors, such as flight frequency, schedule availability, brand recognition, and quality of offered services (such as loyalty programs, VIP airport lounges, in-flight entertainment and other amenities) also have a significant impact on market competitiveness. In addition, the barriers to entering the domestic market are relatively low and we cannot guarantee that existing or new competitors in our markets will not offer lower prices, more attractive services or increase their route capacity in an effort to obtain greater market share. We may also face competition from international airlines as they introduce and expand flights to Brazil. In addition to competition among scheduled airlines and charter operators, the Brazilian airline industry faces competition from ground transportation alternatives, such as interstate buses and automobiles. Finally, the Brazilian government and regulators could give preference to new entrants or provide support to our competitors, for example, when granting new and current slots in Brazilian airports, as previously occurred with respect to new slots at Congonhas airport

In addition, technology advancements may limit the desire for air travel. For example, new developments in video conferencing and other methods of electronic communication may reduce the need for in-person communication and add a new dimension of competition to the industry as travelers seek lower cost substitutes for air travel.



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Furthermore, new competitors may target TudoAzul's business partners and members or enter the loyalty marketing industry. We cannot assure you that an increase in competition faced by TudoAzul will not have an adverse effect on the growth of our business with respect to TudoAzul or in general. If we are unable to adjust rapidly to the changing nature of competition in our markets or if the Brazilian loyalty marketing industry does not grow sufficiently to accommodate new participants, it could have an adverse effect on us.

***Further consolidation in the Brazilian and global airline industry may adversely affect us.***

As a result of the competitive environment in which we operate, there may be further consolidation in the Brazilian and global airline industry, whether by means of acquisitions, joint ventures, partnerships or strategic alliances. We cannot predict the effects of further consolidation on the industry. Our competitors could increase their scale, diversity and financial strength and may have a competitive advantage over us, which would adversely affect us. Consolidations in the airline industry and changes in international alliances are likely to affect the competitive landscape in the industry and may result in the formation of airlines and alliances with increased financial resources, more extensive global networks and reduced cost structures than us.

We routinely engage in analysis and discussions regarding our own strategic position, including alliances, code-share arrangements, investments, acquisitions, interline arrangements and loyalty program enhancements, and may have future discussions with other airlines regarding similar arrangements. To the extent we act as consolidators, we may not be able to successfully integrate the business and operations of companies acquired, governmental approvals may be delayed, costs of integration and fleet renovation may be greater than anticipated, synergies may not meet our expectations, our costs may increase and our operational efficiency may be reduced, all of which would negatively affect us. To the extent we do not engage in such consolidations, our competitors may increase their scale, diversity and financial strength and may have a competitive advantage over us, which would negatively affect us, including our ability to realize expected benefits from our own strategic partnerships.

***We are subject to costs and risks associated with increased or changing laws and regulations affecting our business, including those relating to the sale of consumer products. Specifically, developments in data protection and privacy laws could harm our business, financial condition or results of operations.***

We operate in a complex regulatory and legal environment that exposes us to compliance and litigation risks that could materially affect our results of operations. These laws may change, sometimes significantly, as a result of political, economic or social events. Some of the federal, state or local laws and regulations in Brazil that affect us include: those relating to consumer products, product liability or consumer protection; those relating to the manner in which we advertise, market or sell products; labor and employment laws, including wage and hour laws; tax laws or interpretations thereof; data protection and privacy laws and regulations; and securities and exchange laws and regulations.

For instance, data protection and privacy laws are developing to take into account the changes in cultural and consumer attitudes towards the protection of personal data and may be interpreted in a manner that is detrimental to our operations. There can be no guarantee that we will have sufficient financial resources to comply with any new regulations or successfully compete in the context of a shifting regulatory environment.

Any additional laws or regulations enacted or approved in Brazil or in other jurisdictions in which we operate could impose regulatory obligations not previously foreseen by us, causing us to incur additional costs to implement operational and systemic changes or controls within the required deadlines, or risk having our operations restricted if we were not able to do so.

***We depend significantly on automated systems and any cyber-attacks, breakdown, hacking or changes in these systems may adversely affect us.***

We depend on automated systems to operate our businesses, including our sales system, automated seat reservation system, fleet and network management system, telecommunications system and website. Significant or repeated breakdowns of our automated systems may impede our passengers and travel agencies' access to our products and services, which may cause them to purchase tickets from other airlines, adversely affecting our net revenues. Our website and ticket sales system must accommodate a high volume of traffic and deliver important flight information and the increase in work-from-home arrangements since the onset of the COVID-19 pandemic has the potential to enhance cybersecurity risks. Substantial or repeated website, ticket sales, scheduling or telecommunication systems failures could reduce the attractiveness of our services and could cause our customers to purchase tickets from another airline. Any interruption in these systems or their underlying infrastructure could result in the loss of important data, increase our expenses and generally harm us.

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These interruptions may include but are not limited to computer hackings, computer viruses, worms or other disruptive software, or other malicious activities. In particular, both unsuccessful and successful cyber-attacks on companies have increased in frequency, scope and potential harm in recent years. The costs associated with a major cyber-attack could include expensive incentives offered to existing customers to retain their business, increased expenditures on cyber security measures, lost revenues from business interruption, litigation and damage to our reputation. In addition, if we fail to prevent the theft of valuable information, protect the privacy of customer and employee confidential data against breaches of network or IT security, it could result in damage to our reputation, which could adversely impact customer and investor confidence. We may also implement certain changes to our systems that may result in breakdowns, reduced sales, fleet and network mismanagement or telecommunications interruptions, all of which would negatively affect us. Furthermore, the compromise of our technology systems resulting in the loss, disclosure, misappropriation of, or access to, customers', employees' or business partners' information could result in legal claims or proceedings, liability or regulatory penalties under laws protecting the privacy of personal information or disruption to our operations. Any of these occurrences could result in a material adverse effect on us.

***We, our reputation, and the price of our preferred shares, including in the form of ADSs, could be adversely affected by events outside of our control.***

Accidents or incidents involving our aircraft could involve significant claims by injured passengers and others, as well as significant costs related to the repair or replacement of a damaged aircraft and its temporary or permanent loss from service. We are required by ANAC and lessors of our aircraft under our operating lease agreements to carry liability insurance. The amount of liability insurance we maintain may not be adequate, and we may be forced to bear substantial losses in the event of an accident. Substantial claims resulting from an accident in excess of our related insurance coverage would harm our business and financial results. Moreover, any aircraft accident or incident involving our aircraft, even if fully insured, or the aircraft of any major airline could cause negative public perceptions about us, our aircraft or the air transport system, due to safety concerns or other problems, whether real or perceived, which would harm our reputation, financial results and the market price of our preferred shares, including in the form of ADSs.

We may also be affected by other events that affect travel behavior or increase costs, such as the potential of epidemics or acts of terrorism. These events are outside of our control and may affect us even if occurring in markets where we do not operate and/or in connection with other airlines. Any future terrorist attacks or threats of attacks, whether or not involving commercial aircraft, any increase in hostilities relating to reprisals against terrorist organizations, including an escalation of military involvement in the Middle East, or otherwise and any related economic impact, could result in decreased passenger traffic and materially and adversely affect us.

Demand for air travel may be adversely impacted by events beyond our control, such as adverse weather conditions and natural disasters, terrorist attacks, war or political and social instability. Epidemics and outbreaks such as the recent such as the COVID-19 pandemic, Zika virus, Ebola, avian flu, foot-and-mouth disease, swine flu, Middle East Respiratory Syndrome, or MERS, and Severe Acute Respiratory Syndrome, or SARS, may also result in quarantines of our personnel or an inability to access facilities or our aircraft, which would harm us, our reputation, and the market value of our common shares and preferred shares, including in the form of ADSs. The outbreak of diseases such as COVID-19 could result in significant decreases in passenger traffic and the imposition of government restrictions in service and could have a material adverse impact on the airline industry. Situations such as these, or other conditions beyond our control, in one or more of the markets in which we operate could have a material impact on our business, financial condition and results of operations. Furthermore, the current spread of COVID-19 and other adverse public health developments could have a prolonged effect on air travel demand and any prolonged or widespread effects could significantly impact our operations.

Natural disasters, severe weather conditions and other events outside of our control may affect and disrupt our operations. In 2018, a truckers' strike disrupted the distribution of fuel supplies throughout Brazil, affecting flights as well as passengers' ability to commute to and from airports for a period of approximately 10 days. About 37 airports in which Azul operates ran out of fuel, and some airports remained closed for three days.

Severe weather conditions can cause flight cancellations or significant delays that may result in increased costs and reduced revenue. Any natural disaster or other event that affects air travel in the regions in which we operate could have a material adverse impact on us.

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***The COVID-19 pandemic and the resulting economic slowdown and volatility in the Brazilian and global financial and capital markets had, and may in the future continue to have, a material adverse effect on our business, financial condition, liquidity and results of operations. To the extent the COVID-19 pandemic adversely affects our business, liquidity, results of operations and financial condition, it will also have the effect of materially heightening many of the other risks described in this “Risk Factors” section.***

The COVID-19 pandemic and governmental responses thereto have had, and may continue to have, a severe impact on global and Brazilian macro-economic and financial conditions, including the disruption of supply chains and the closures or interruptions of many businesses, leading to losses of revenues, increased unemployment and economic stagnation and contraction.

The COVID-19 pandemic has also resulted in materially increased volatility in both Brazilian and international financial markets and economic indicators, including exchange rates, interest rates and credit spreads. For example, as a result of heightened volatility, the value of assets in the B3 S.A. – Brasil, Bolsa, Balcão, or the B3 decreased significantly and quickly in the month of March 2020, triggering their circuit breaker eight times. Any shocks or unexpected movements in these market factors could result in financial losses associated with our trading portfolio or financial assets, which could deteriorate our financial condition.

Measures taken by governmental authorities worldwide, including Brazil, to stabilize markets and support economic growth may not be sufficient to control high volatility or to prevent serious and prolonged reductions in economic activity. In addition, the social distancing measures imposed by governmental authorities to contain the spread of the COVID-19 pandemic resulted in a sharp drop in air travel, significantly impacting our business. While many of these restrictions have since been lifted, there is no way to predict whether new patterns of contagion, increasing disease severity or other factors related to the pandemic, including access to, or the efficiency of, a vaccine, may result in a renewed tightening of these policies or the imposition of new and different restrictions. These policies and measures have influenced the behavior of the consumer market and the population in general, the demand for services, products and credit.

In addition, there can be no assurance that the restrictive measures imposed by some Brazilian states and municipalities will not worsen if Brazil faces new waves of COVID-19. For example, at the beginning of 2021, a novel strain of COVID-19 started circulating in Brazil, causing an increase in the number of deaths and hospitalizations. In February 2021, Brazil registered 250,000 deaths from COVID-19 and, on March 11, 2021, Brazil was considered the epicenter of the COVID-19 pandemic in terms of number of confirmed cases and deaths. As a result, public authorities in Brazil reinstated more severe restrictive measures, including social distancing, quarantine and lockdowns, once again affecting demand for air travel. Moreover, in spite of recent acceleration in the administration of COVID-19 vaccines in Brazil, there can be no assurance that this pattern will continue or that there will be no further delays, including as a result of supply shortage, delays on Brazilian regulatory approval, among other factors.

The weakened macroeconomic fundamentals coupled with the market downturn caused by the COVID-19 pandemic had, and may in the future continue to have, a negative impact on our performance across our business. Impacts on our business could be widespread, and material impacts may be possible, including but not limited to the following:

- Some governments have discouraged travel and encouraged social distancing efforts and limits on gathering size.
- Numerous travel advisories and restrictions have been implemented, and many foreign governments have placed restrictions or quarantines on citizens of other countries. For instance, numerous countries are now requiring airline passengers to provide negative COVID-19 test results prior to travel into their countries.
- State and local governments have issued travel restrictions, quarantines and advisories and health-related curfews or “shelter in place” orders which dissuade or restrict air travel.
- Businesses have restricted non-essential travel for their employees. Employers in both the public and private sectors have issued instructions to employees to work from home and/or are otherwise dissuading or restricting air travel.
- Business conventions and conferences, concerts and similar entertainment have been and continue to be cancelled. Many popular tourist destinations have been, and remain, closed, or operations are curtailed. Significant sporting events have been, and occasionally continue to be, cancelled or held with limited or no spectators. All of these adjustments reduce the demand for both business air travel (which has historically driven our most profitable ticket sales) and leisure air travel.
- Travelers are discouraged from air travel to destinations where COVID-19 is particularly virulent.

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- Travelers may be dissuaded from flying due to possible enhanced COVID-19-related screening measures, which have been implemented to varying degrees and in different ways across multiple markets we serve, or due to the concern that additional travel restrictions implemented between their departure and return may affect their ability to return to their homes.

The containment and quarantine measures that are being implemented across Brazil and worldwide are significantly limiting the mobility of our customers, crewmembers and business partners, making our operation unfeasible in several routes we serve. We will continue to be materially adversely affected if government authorities extend existing orders or impose new orders or other restrictions intended to mitigate the spread of COVID-19, if businesses continue to restrict travel for their employees, or if fear of travel continues to depress future ticket sales.

As a result, on April 2020, in light of the uncertainty due to the COVID-19 pandemic that was affecting the demand for air traffic, we operated 70 non-stop flights per day to 25 cities, representing a 90% reduction of our consolidated planned capacity in terms of ASKs for the month of April. On the other side, domestic demand recovery in Brazil was one of the fastest in the world. By December 2020, we recovered 91% of the domestic capacity, flying to more than 110 destinations and 700 flights per day.

Thus, in response to the COVID-19 pandemic, we significantly reduced capacity from our original plan and will continue to evaluate the need for further flight schedule adjustments throughout 2021.

We also announced several measures to reduce fixed costs and preserve our cash position. Despite these efforts, we have experienced significant ticket cancellations. These cancellations, together with the waiver, and in many cases elimination, of change fees and other refunds have negatively affected our revenues and liquidity. Ultimately, cost-saving measures that we implemented in 2020, or may consider in the future, have not made up, and may not in the future make up, for the loss in cash as a result of decreased ticket sales and cancellations and could also negatively affect our service to customers.

Continued travel restrictions, reduced demand for travel and continued loss in revenue resulting from the rapid spread of COVID-19 or other contagious illnesses that adversely reduce demand for air travel in a part of the world in which we have significant operations it have had, and will likely continue to have, a material adverse effect on our business and results of operations. The current spread of COVID-19 and other adverse public health developments could have a prolonged effect on air travel demand and any prolonged or widespread effects could significantly impact our operations, cash flows and financial condition. Negative trends have not yet stabilized and may worsen. Moreover, the longer the pandemic persists, the more material the ultimate effects are likely to be.

Furthermore, a global recession and/or economic downturn, notably in Brazil, which includes increased unemployment, may result in lower commercial activity, both during the COVID-19 pandemic and after its initial outbreak, which may continue to reduce the demand for people traveling by air.

Some employees, and employees of our suppliers and service providers, including airport and air traffic personnel, have tested positive for or been suspected of having COVID-19. These cases have resulted in the closure of facilities, reduction in available staffing, and disruptions to our overall operations. Additional instances of actual or perceived risk of infection among our employees, or our suppliers or service providers employees could further negatively impact our operations. We could also be materially adversely affected if we were unable to effectively maintain a suitably skilled and sized workforce, address employment-related matters, or maintain satisfactory relations with our employees or our employees' representatives.

Moreover, the ability to attract and retain passengers depends, in part, upon the perception and reputation of the Company and the public's concerns regarding the health and safety of travel generally, especially regarding airline travel. Actual or perceived risk of infection on our flights could have a material adverse effect on the public's comfort with air travel, which could harm our reputation and business. We expect to continue to incur COVID-19-related costs as we sanitize airplanes and implement additional hygiene-related protocol to airplanes and take other action to limit infection among our employees and passengers. In addition, the industry may be subject to enhanced health and hygiene requirements in attempts to counteract future outbreaks, which requirements may be costly and take a significant amount of time to implement.

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We are not aware of events comparable to the current one that could provide us with guidance on the effect of the dissemination of COVID-19 and a global pandemic. Thus, the ultimate severity of the COVID-19 pandemic is uncertain at this time and therefore we cannot predict the additional impact it may have on the availability of aircraft or aircraft spare parts, on worldwide air travel and on our business, results of operations and financial condition. The extent to which the COVID-19 pandemic could impact our business, financial and operational performance depends on future developments, which cannot be predicted and are outside of our control, including, among others: (i) existing and future governmental regulations, travel advisories and restrictions imposed in response to the pandemic, including pursuant to executive orders, such as the new mask mandate; (ii) new information which may quickly emerge concerning the duration, spread, severity and any recurrence of the COVID-19 pandemic, including through any new variant strains of the underlying virus; (iii) the scope of the outbreak; (iv) the effectiveness and availability of vaccines domestically and globally; (v) the duration and scope of related federal, state, and local government orders and restrictions; (vi) the extent of the impact of the COVID-19 pandemic on overall demand for air travel; (vii) our access to capital; and (viii) other actions to contain the virus or treat its impact.

Any outbreak of a disease that affects people's behavior or that demands public policies to restrict the movement of people and/or social contact may have an adverse impact on our business, as well as on the Brazilian economy.

At this time, we are also not able to predict the extent to which the COVID-19 pandemic may result in permanent changes to our customers' behavior, with such changes including but not limited to a permanent reduction in business travel as a result of increased usage of "virtual" meetings and "teleconferencing" products and more broadly, a general reluctance to travel by consumers, each of which could have a material impact on our business.

The extent of the impacts of the COVID-19 pandemic on our business, financial condition, liquidity and results will depend on future developments, which are highly uncertain, unpredictable and which depend on several factors that are beyond our control, including the possibility of additional outbreaks, further mutations of the virus and the intensity of the economic downturn resulting from actions taken, or to be taken, by government authorities and the scientific community in response to the COVID-19 pandemic, including in relation to the availability and efficiency of vaccines and other treatments. Consumers affected by the COVID-19 pandemic may continue to show retraction behaviors, even after the end of the crisis, maintaining low levels of discretionary spending in the long term, which is why certain sectors we serve may take longer to recover (particularly sectors such as hotels, civil aviation, shopping centers and wholesale retailers).

The COVID-19 pandemic may also exacerbate other risks described in this "Risk Factors" section, including, but not limited to, our competitiveness, demand for our services, shifting consumer preferences and our substantial amount of outstanding indebtedness.

***The outbreak of highly contagious diseases worldwide, such as the current coronavirus pandemic (COVID-19), can lead to major disruptions and greater volatility in global capital and financial markets, resulting in negative pressure on the world economy, including the Brazilian economy, impacting the trading market of our shares, including in the form of ADSs, and our debt ratings.***

Disease outbreaks, or potential disease outbreaks, (such as COVID-19) and governmental responses thereto can have an adverse effect on global capital and financial markets (including the capital market in which our shares are traded), the global economy (including the Brazilian economy), and the listing of our shares. For more information on potential disease outbreaks and governmental responses thereto, see "—A pandemic or the widespread outbreak of contagious illnesses in Brazil and worldwide, such as the COVID-19 pandemic, did have and will likely continue to have a material adverse effect on the airline industry and on us".

The governmental responses, along with the uncertainties caused by the COVID-19 pandemic, have had an adverse impact on the global capital market and economy, including in Brazil, causing eight circuit-breaks in the B3 during the month of March 2020. The listing of the majority of assets traded in B3, including the listing of our shares, including in the form of ADSs, was adversely affected due to the outbreak of COVID-19. We cannot guarantee that the listing of our shares will not reach levels lower than those observed during the outbreak of the current pandemic.

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Moreover, as a result of the pandemic, the availability of credit line facilities became restricted, which could further adversely impact our financial expenses and ability to finance our operations. The effects of the COVID-19 pandemic on the financial markets may materially and adversely affect our access to capital and cost of capital, including our ability to raise funds through equity or debt financings. We continue to evaluate potential sources of additional liquidity in the short-term. The terms of future debt agreements could include more restrictive covenants or require incremental collateral, which could further restrict our business operations. The extent to which the COVID-19 pandemic affects our earnings and liquidity will depend, in part, on our ability to successfully access capital. There is no guarantee that debt or equity financings will be available in the future to fund our obligations, or that they will be available on terms consistent with our expectations.

Additionally, the COVID-19 pandemic has had, and may continue to have, a negative impact on the value of our investments and may result in write-offs of such investments. In particular, the COVID-19 pandemic has directly and adversely impacted TAP, an entity with which we have business arrangements. See “Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP.” Furthermore, during 2020, the Brazilian real depreciated over 29% as compared to the U.S. dollar, increasing the cost of our operating expenses denominated in U.S. dollars, including, without limitation, corporate bonds, aircraft rent, fuel and maintenance.

Additionally, the impact of the COVID-19 pandemic on global financial markets has negatively impacted our ratings. Our credit rating was: (i) downgraded by S&P to B (in March 2020), to CCC+ (in May 2020), to CCC- (in July 2020) and, then, was upgraded to CCC+ (in December 2020); (ii) downgraded by Fitch to B (in March 2020), to B- (in May 2020), to CCC (in August 2020) and upgraded to CCC+ (in December 2020); and (iii) downgraded by Moody’s to B1 (in March 2020), to Caa1 (in June 2020) and upgraded to B3 (in December 2020). The downgrades of our ratings were based on some factors, including on the financial impacts of the COVID-19 pandemic. If our credit ratings were to be further downgraded, or general market conditions were to ascribe higher risk to our ratings levels, the airline industry, or the Company, our business, financial condition and results of operations would be adversely affected.

Furthermore, any material change to the global financial market or to the Brazilian economy may decrease investor interest in Brazilian assets, including our shares, which may adversely affect the listing of the above-mentioned assets, in addition to hindering access to capital markets and financing of the Company’s operations in the future in favorable terms.

***Our insurance expenses may increase significantly as a result of a terrorist attack, war, aircraft accident, seizures or similar event, adversely affecting us.***

Insurance companies may significantly increase insurance premiums for airlines and reduce the amount of insurance coverage available to airlines for civil liability in respect of damage resulting from acts of terrorism, war, aircraft accident, seizures or similar events, as was the case following the terrorist attacks of September 11, 2001 in the United States.

In response to substantial increases in insurance premiums to cover risks related to terrorist attacks following the events of September 11, 2001 in the United States, the Brazilian government enacted legislation, specifically Law 10744, of October 9, 2003, authorizing the Brazilian government to assume civil liability to third parties for any injury to goods or persons, whether or not passengers, caused by terrorist attacks or acts of war against Brazilian aircraft operated by Brazilian airlines in Brazil or abroad. In addition, according to the above mentioned legislation, the Brazilian government may, at its sole discretion, suspend or cancel this assumption of liability. If the Brazilian government suspends its assumption of liability, Brazilian airlines will be required to assume the liability once more and obtain insurance in the market.

Airline insurers may reduce their coverage or increase their premiums in case of new terrorist attacks, war, aircraft accident, seizures and the Brazilian government’s termination of its assumption of liability or other events affecting civil aviation in Brazil or abroad. If there are significant reductions in insurance coverage, our potential liability would increase substantially. If there are significant increases in insurance premiums, our operating expenses would increase, adversely affecting us.

In line with global industry practice, we leave some business risks uninsured, including business interruption, loss of profit or revenue and consequential business losses arising from mechanical breakdown. To the extent that uninsured risks materialize, we could be materially and adversely affected. In addition, there is no assurance that our coverage will cover all potential risks associated with our operations and activities. To the extent that actual losses incurred by us exceed the amount insured, we may have to bear substantial losses which will have an adverse impact on us.



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***Technical and operational problems in the Brazilian civil aviation infrastructure, including air traffic control systems, airspace and airport infrastructure, may have a material adverse effect on our strategy and, consequently, on us.***

We are dependent on improvements in the coordination and development of Brazilian airspace control and airport infrastructure, which, mainly due to the large growth in civil aviation in Brazil in recent years, require substantial improvements and government investments. Technical and operational problems in the Brazilian air traffic control systems have led to extensive flight delays, higher than usual flight cancellations and increased airport congestion. The Brazilian government and air traffic control authorities have taken measures to improve the Brazilian air traffic control systems, but if the changes undertaken by the Brazilian government and regulatory authorities do not prove successful, these air traffic control related difficulties might recur or worsen, which may have a material adverse effect on us and our growth strategy.

Slots at Congonhas airport in São Paulo are fully utilized. The Santos Dumont airport in Rio de Janeiro, which is important for our operations, has certain landing rights restrictions. Several other Brazilian airports, for example Brasília, Salvador, Belo Horizonte (Confins), São Paulo (Guarulhos and Viracopos) and Rio de Janeiro (Galeão), have limited the number of landing rights per day due to infrastructural limitations at these airports. Any condition that would prevent or delay our access to airports or routes that are vital to our strategy, or our inability to maintain our existing landing rights and slots, and obtain additional landing rights and slots, could materially adversely affect us. New operational and technical restrictions imposed by Brazilian authorities in the airports we operate or in those we expect to operate may also adversely affect us. In addition, we cannot assure that any investments will be made by the Brazilian government in the Brazilian aviation infrastructure to permit a capacity increase at busy airports and consequently additional concessions for new slots to airlines.

Furthermore, we cannot assure that any investments will be made by the holders of concessions for the operators of the airports which serve our routes. For example, as a result of the transfer of our operations to the new passenger terminal at Viracopos airport, we signed a “Terminal Transfer Incentive Agreement” with Aeroportos Brasil which established a detailed construction schedule for this new terminal and gave us certain rights to impose penalties in the event of noncompliance. Due to the fact that Aeroportos Brasil has not complied with certain contractual obligations under this agreement, we have retained 40% of the airport landing tariffs since February 2017. As a result of this retention, Aeroportos Brasil filed a collection action against us, which was settled in May 2018. Pursuant to the settlement agreement, we agreed to carry out certain parts of the construction of the new terminal at Viracopos Airport using the airport landing tariffs retained from Aeroportos Brasil. For more information, see “Item 4.B. Business Overview—Airports and Other Facilities and Properties—Airports” and “Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings.”

***Increases in labor benefits, union disputes, strikes, and other worker-related disturbances may adversely affect us.***

Our business is labor intensive. Our expenses related to our workforce (salaries, wages and benefits) represented 20.0%, 14.8% and 18.0%, of our total operating expenses for the years 2020, 2019 and 2018, respectively. All Brazilian airline employees, including ours, are represented by regional aviation unions and by two national labor unions: the National Pilots’ and Flight Attendants’ Union (*Sindicato Nacional dos Aeronautas*) and the National Aviation Union (*Sindicato Nacional dos Aeroviários*). Negotiations regarding cost of living increases and salary payments are conducted annually between these unions and an association that represents all Brazilian airline companies, the National Union of Airline Companies (*Sindicato Nacional das Empresas Aeroviárias*), or SNEA. Work conditions and maximum work hours are regulated by government legislation and are not subject to labor negotiations. Future terms and conditions of collective agreements could become costlier for us as a result of an increase in threats of strikes and binding negotiations between the unions and SNEA. Furthermore, certain employee groups such as pilots, mechanics and other airport personnel have highly specialized skills and cannot be easily replaced. Our labor costs could increase if the size of our business increases. Any labor proceeding or other workers’ dispute involving unionized employees could adversely affect us or interfere with our ability to carry out our normal business operations. Prior to the COVID-19 pandemic, we were already particularly exposed in the event of labor-related job actions. The impact of the COVID-19 pandemic has heightened our exposure and demonstrated the risk that our results could be materially adversely affected in the event of conflicts with our employees or our employees’ representatives.

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Moreover, we are subject to periodic and regular investigations by labor authorities, including the Brazilian Ministry of Labor and the Public Prosecutor's Office, or the Labor Prosecution Office, with respect to our compliance with labor rules and regulations, including those relating to occupational health and safety. These investigations could result in fines and proceedings that may materially and adversely affect us. For example, in February 2017, the Federal Labor Prosecutor's Office filed a lawsuit against us claiming that we have allegedly violated certain labor regulations, including limitations on daily working hours and resting periods. The claim involves an amount of approximately R\$66 million in punitive damages. The Federal Labor Prosecutor's Office also requested the grant of an injunction limiting overtime and enforcing legally required breaks, under the penalty of R\$5,000 per breach. This injunction has been denied by the labor court. The lawsuit has been suspended and we are in the process of negotiating a Conduct Adjustment Agreement (*Termo de Ajuste de Conduta*) with the Federal Labor Prosecutor's Office. We believe the probability of a loss is possible and, although we expect our ultimate liability to be significantly lower than the amount originally claimed, we cannot guarantee that the outcome of this claim will not materially and adversely affect us.

***A failure to implement our growth strategy may adversely affect us.***

Our growth strategy and the consolidation of our leadership in terms of markets served includes, among other objectives, increasing the number of markets we serve and increasing the frequency of the flights we provide. These objectives are dependent on obtaining approvals for operating new routes from local regulators and obtaining adequate access to the necessary airports. Certain airports that we serve or that we may want to serve in the future are subject to capacity constraints and impose landing rights and slot restrictions during certain periods of the day such as the Santos Dumont airport in Rio de Janeiro and the Juscelino Kubitschek airport in Brasília. We cannot assure you that we will be able to maintain our current landing rights and slots and obtain a sufficient number of landing rights and slots, gates, and other facilities at airports to expand our services as we propose. It is also possible that airports not currently subject to capacity constraints may become so in the future. In addition, an airline must use its slots on a regular and timely basis or risks having those slots reallocated to other airlines. Where landing rights and slots or other airport resources are not available or their availability is restricted in some way, we may have to modify our schedules, change routes or reduce aircraft utilization.

Some of the airports to which we fly impose various restrictions, including limits on aircraft noise levels, limits on the number of average daily departures and curfews on runway use. In addition, we cannot assure you that airports at which there are no such restrictions may not implement restrictions in the future or that, where such restrictions exist, they may not become more onerous. Such restrictions may limit our ability to continue to provide or to increase services at such airports, which may adversely affect us.

We cannot guarantee that we will be successful in the implementation of our growth strategy and the consolidation of our leadership in terms of markets served and, as a result, any factor preventing or delaying our access to airports or routes which are vital to our growth strategy (including our ability to maintain our current slots and obtain additional landing rights and slots at certain airports) may restrict our operations or the expansion of our operations and, consequently, adversely affect us, our financial results and our growth strategy.

Our current business plan contemplates the addition of Airbus and Embraer aircraft to replace older generation aircraft and serve high-density markets. Any disruption or change in the manufacturers' delivery schedules for our new Embraer and Airbus aircraft may affect our operations and might negatively affect us because we may not be able to accommodate increased passenger demand or develop our growth strategies.

Additionally, the execution of our strategic plans has been significantly negatively affected by the impacts of the COVID-19 pandemic, and we cannot predict the duration or scope of continued impacts from the pandemic and the impact on us.

***The successful execution of our strategy is partly dependent on the maintenance of a high daily aircraft utilization rate, making us especially vulnerable to delays that could adversely affect us.***

In order to successfully execute our strategy, we need to maintain a high daily aircraft utilization rate. Achieving high aircraft utilization allows us to maximize the amount of revenue that we generate from each aircraft and dilute fixed costs. High daily aircraft utilization is achieved, in part, by reducing turnaround times at airports and developing schedules that enable us to fly more hours on average per day. Our aircraft utilization rate could be adversely affected by a number of factors that we cannot control, including air traffic and airport congestion, interruptions in the service provided by air traffic controllers, adverse weather conditions and delays by third-party service providers in respect of matters such as fueling and ground handling. Such delays could result in a disruption in our operating performance, leading to lower daily aircraft utilization rates and customer dissatisfaction due to any resulting delays or missed connections, which could adversely affect us.



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***Any expansion of our business activities will require us to incur additional and possible expenses and we may be unsuccessful in generating a profit from any such new activities, potentially adversely affecting us.***

We intend to expand our business activities through additional products and services if we believe this expansion will increase our profitability or our influence in the markets in which we operate. As part of our growth strategy, we periodically acquire additional aircraft, including different types of aircraft than the ones we currently operate or have operated in the past, and enter into commitments for additional aircraft based on our expectations of increased traffic given the significant time frames for ordering and taking delivery of these assets. We cannot assure you that we will be able to successfully operate these new aircraft and maintain our historical operating performance.

As the international and domestic markets develop and expand in Brazil, our expansion may also include additional acquisitions of existing service related businesses, aircraft hangars and other assets and business that are expansions of or complementary to our core and ancillary business and responsive to our perceived needs to compete with our competitors. There can be no assurances that our plans to expand our business will be successful given a number of factors, including the possible need for regulatory approvals, additional facilities or rights, personnel and insurance. These new activities may require us to incur material costs and expenses, including capital expenditures, increased personnel, training, advertising, maintenance and fuel costs, as well as costs related to management oversight of any new or expanded activities. We may also incur additional significant costs related to integration of these assets and activities into our existing businesses and require significant ancillary expenditures for systems integration and expansion, financial modeling and development of pricing, traffic monitoring and other management tools designed to help achieve profitability from these new assets and activities.

Any expansion of our activities, change in management oversight and related costs may affect our results and financial condition until we are able to generate a profit from these new activities. Given the current and expected competitive landscape in the airline industry in general and in particular in Brazil, as well as other market factors and conditions, it is possible that there may be a significant period before we are able to generate profits relating to any such new or our existing activities and our overall business, and in certain circumstances we may never turn a profit at all, in each case potentially adversely affecting us.

***We may not be able to grow our operations to or in the United States and Europe and may be adversely affected if Brazil does not maintain a favorable safety assessment or if we fail to comply with the United States and European civil aviation regulatory frameworks.***

We cannot assure you that the laws and regulations of the jurisdictions to which we fly (including, without limitation, immigration and security regulations, which directly affect passengers) will not change or that new laws adverse to us will not be enacted, and any such events may adversely affect us and our ability to continue and expand our operations internationally.

For example, the FAA periodically audits the aviation regulatory authorities of other countries. As a result of their investigations, each country is given an International Aviation Safety Assessment, or IASA, rating. The IASA rating for Brazil is currently "Category 1," which means that Brazil complies with the ICAO safety requirements. This allows us to continue our service from our hubs in Brazil to the United States in a normal manner and take part in reciprocal code-sharing arrangements with U.S. carriers. However, we cannot assure you that Brazil will continue to meet international safety standards, and we have no direct control over its compliance with IASA guidelines.

If Brazil does not maintain a favorable safety assessment or if we fail to comply with the United States and European civil aviation regulatory frameworks, our ability to continue or increase service to or in the United States and Europe could be restricted, which could in turn, adversely affect us.

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***We are highly dependent on our three hubs at Viracopos airport, Confins airport and Recife airport for a large portion of our business and as such, a material disruption at any of our hubs could adversely affect us.***

Our business is heavily dependent on our operations at our three hubs at Viracopos airport, Confins airport and Recife airport. Many of our routes operate through these hubs, which account for a significant part of our daily arrivals and departures. Like other airlines, we are subject to delays caused by factors beyond our control and that could affect one or more of our hubs or other airports in any of the regions served by us. For example, in 2018, an incident with an aircraft from LATAM caused the closing of a runway at Confins airport, one of our main hubs, for 21 hours, which negatively impacted our operations and forced us to re-accommodate our passengers to new flights. Due to this geographical capacity concentration, we may not be able to react as quickly or efficiently as our competitors to any delays, interruption or disruption in service or fuel at any one or more of our hubs, which could have a material adverse impact on us. Furthermore, ANAC has granted concessions for the operation of Viracopos airport and Confins airport. We have no control over these concessions and cannot predict how the current concessions, any future concessions or the termination of any concessions could affect these airports. For example, Aeroportos Brasil, which holds a concession for the operation of Viracopos airport from ANAC, filed for bankruptcy protection in 2018 as it has not complied with its contractual obligations relating to the construction of a new terminal. On February 14, 2020, creditors approved Aeroportos Brasil's debt restructuring plan, which requires returning the concession for the operation of Viracopos airport to ANAC to initiate a new bidding process of the concession to a new operator.

On February 18, 2020, the debt restructuring court approved the judicial recovery plan and on March 19, 2020, Aeroportos Brasil filed an application to ANAC for the rebidding of Viracopos airport, in compliance with the judicial recovery plan. On July 17, 2020, the Federal Government enacted Decree No 10.427/2020, authorizing the rebidding of Viracopos airport. The Ministry of Infrastructure shall submit, within 90 days, its assessment to the Programa de Parcerias de Investimentos (Investment Partnership Program) of the possibility of transferring the debts acquired by the current concessionaire to the financiers of the new concessionaire. The auction is scheduled to be held on April 7, 2021.

For more information, see "Item 4.B. Business Overview—Airports and Other Facilities and Properties—Airports" and "Item 8.A. Consolidated Statements and Other Financial Information—Legal Proceedings." Any changes to these concessions could have a material adverse impact on us.

***We fly and depend upon Embraer, ATR and Airbus aircraft, and we could suffer if we do not receive timely deliveries of aircraft, if aircraft from these companies become unavailable or subject to significant maintenance or if the public negatively perceives our aircraft.***

As our fleet has grown, our reliance on Embraer, ATR and Airbus has also grown. As of December 31, 2020, our passenger operating fleet consisted of 60 Embraer E-Jets, 33 ATR aircraft, 45 Airbus A320 and 11 Airbus A330s. Additionally, we are operating 17 Cessna Cavarans aircraft, which 9 passenger seats each.

Risks relating to Embraer, ATR and Airbus include: (i) our failure or inability to obtain Embraer, ATR or Airbus aircraft parts or related support services on a timely basis because of high demand or other factors, (ii) the issuance by the aviation authorities of directives restricting or prohibiting the use of Embraer, ATR or Airbus aircraft, (iii) the adverse public perception of a manufacturer as a result of an accident or other negative publicity or (iv) delays between the time we realize the need for new aircraft and the time it takes us to arrange for Embraer, ATR and Airbus or from a third-party provider to deliver this aircraft.

Our ability to obtain these new aircraft from Embraer, ATR and Airbus may be affected by several factors, including (i) Embraer, ATR or Airbus may refuse to, or be financially limited in its ability to, fulfill the obligations it assumed under the aircraft delivery contracts, (ii) the occurrence of a fire, strike or other event affecting Embraer's, ATR's or Airbus's ability to fulfill its contractual obligations in a complete and timely fashion and (iii) any inability on our part to obtain aircraft financing or any refusal by Embraer, ATR or Airbus to provide financial support. We may also be affected by any failure or inability of Embraer, ATR, Airbus, (or other suppliers) to supply sufficient replacement parts in a timely fashion, which may cause the suspension of operations of certain aircraft because of unscheduled or unplanned maintenance. Any such suspension of operations would decrease passenger revenue and adversely affect us and our growth strategy.

The occurrence of any one or more of these factors or the suspension of operations could restrict our ability to use aircraft to generate profits, respond to increased demands or could limit our operations and adversely affect us.

[Table of Contents](#)***We cannot guarantee that we will be able to implement the announced sublease agreements and postponement of delivery of aircraft.***

On January 28, 2020, we announced a letter of intent with LOT, a Polish airline, to sublease 18 aircraft with firm orders and up to 14 with additional options, an operation that is subject to LOT's ability to acquire the relevant approvals. In addition, on the same date, we announced the intention of Breeze Airways, a U.S.-based airline startup founded by the Company's controlling shareholder, to sublease up to 28 aircraft. As of December 2020, we kept ongoing negotiations in place with LOT and Breeze Airways.

In 2020, we announced the postponement of the delivery of 59 Embraer E2s aircraft, 36 Airbus aircraft and 8 ATRs, scheduled for between 2020 and 2023 to 2024 and beyond, as part of the measures adopted by us to address the impacts related to the COVID-19 pandemic to its financial results and liquidity. As of December 2020, we kept ongoing negotiations in place with lessors in order to maintain the necessary liquidity during the pandemic.

If the subleases and/or the renegotiation are not carried out, we may be obliged to restructure our plan of measures intended to address the impacts of the pandemic. In the event we are not able to carry out these agreements, we cannot guarantee that we will be able to take the appropriate measures, on favorable conditions, within a reasonable time. Furthermore, if the non-effectuation of transactions is not consensual, we may be subject to litigious procedures involving the parties involved in the transactions, which have the potential to result in relevant costs and expenses, adversely affecting us.

***We could be adversely affected by expenses or stoppages associated with planned or unplanned maintenance on our aircraft, as well as any inability to obtain spare parts on time.***

As of December 31, 2020, the average age of our Azul mainline operating fleet was 6.9 years. Including 17 Cessna aircraft, acquired from TwoFlex (recently renamed Azul Conecta), the average age of our aircraft is 8.3 years. Our relatively new aircraft require less maintenance now than they will in the future. Our fleet will require more maintenance as it ages and our maintenance and repair expenses for each of our aircraft will be incurred at approximately the same intervals. In the event we cannot renew our fleet, our scheduled and unscheduled aircraft maintenance expenses will increase as a percentage of our revenue in future years. Any significant increase in maintenance and repair expenses would have a material adverse effect on us.

Our business would be significantly harmed by unplanned stoppages or suspensions of operations associated with planned or unplanned maintenance due to mechanical issues. For example, if a design defect or mechanical problem with Embraer E-Jets, ATRs or Airbus aircraft were to be discovered, this would cause our aircraft to be grounded while such defect or mechanical problem was being corrected. We cannot assure you that we would succeed in obtaining all aircraft and parts to solve such defect or mechanical problem, that we would obtain such parts on time, or that we would succeed in solving such defect or mechanical problem even if we obtained such parts. This could result in a suspension of the operations of certain of our aircraft, potentially for a prolonged period of time, while we attempted to obtain such parts and solve such defect or mechanical problem, which could have a materially adverse effect on us.

Additionally, General Electric is the sole manufacturer and supplier of the CF34 engines on our Embraer E-Jets and together with Safran, through CFM International, of the LEAP engines on our next-generation Airbus A320neos, Pratt & Whitney is the sole manufacturer and supplier of the PW 127M engines on our ATR 72 aircraft and engines for our Embraer E2s aircraft, and Rolls Royce is the sole manufacturer of the Trent 700 and Trent 7000 engines for our A330 aircraft. As prices for the engines and parts are payable in U.S. dollars, they are subject to fluctuations in exchange rates and may result in us incurring substantial additional expenses in the event that the U.S. dollar appreciates. We have also outsourced all engine maintenance for our Embraer E-Jet and next-generation Airbus A320neo fleet to General Electric, for our ATR fleet to Pratt & Whitney, and the engine maintenance of our A330 fleet to Rolls Royce. If General Electric, Rolls Royce or Pratt & Whitney are unable to perform their contractual obligations or if we are unable to acquire engines from alternative suppliers on acceptable terms, we could lose the benefits we derive from our current agreements with General Electric, Pratt & Whitney and Rolls Royce, incur substantial transition costs, or suffer from the suspension of the operations of certain of our aircraft due to the need for unscheduled or unplanned maintenance while these contractual obligations are not being performed.

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***We rely on agreements with third parties to provide our customers and us with facilities and services that are integral to our business and the termination or non-performance of these agreements could affect us.***

We have entered into agreements with third-party contractors to provide certain facilities and services required for our operations, such as aircraft maintenance, ground handling, baggage handling and television and internet services for our flights. All of these agreements are subject to termination on short notice. The loss or expiration of these agreements or our inability to renew these agreements or to negotiate new agreements with other providers at comparable term and conditions or at all could harm our business and results of operations. Further, our reliance on third parties to provide essential services on our behalf gives us less control over the costs, efficiency, timeliness and quality of those services. Any of these third parties may fail to meet their service performance commitments, may suffer disruptions to their systems that could impact the fulfillment of their obligations, or the agreements with such third parties may be terminated. The failure of any third-party contractor to adequately perform their services, or other interruptions of services, may adversely affect us, including reducing our revenues and increasing our expenses or preventing us from operating our flights or providing other services to our customers. In addition, we, including our reputation, could be materially adversely affected if our customers believe that our services or facilities are unreliable or unsatisfactory.

***We rely on partner airlines for code-share and loyalty marketing arrangements and the loss of a significant partner through bankruptcy, consolidation, or otherwise, could adversely affect us.***

Azul is a party to code-share agreements with international air carriers United, TAP and JetBlue, among others. These agreements provide that certain flight segments operated by us are held out as United, TAP or JetBlue flights, as the case may be, and that certain United, TAP or JetBlue flights, as the case may be, are held out for sale as Azul flights. In addition, these agreements provide that our TudoAzul members can earn points on or redeem points for United or TAP flights, as the case may be, and vice versa. We receive revenue from flights sold under these code-share agreements. In addition, we believe that these frequent flyer arrangements are an important part of our TudoAzul program. The loss of a significant partner through bankruptcy, consolidation, or otherwise, could adversely affect us. We may also be adversely affected by the actions of one of our significant partners, for example, in the event of nonperformance of a partner's material obligations or misconduct by such partner, which could potentially result in us incurring liabilities, or poor delivery of services by one of our partners, which could damage our brand.

***We may be adversely affected if TudoAzul loses business partners or if these business partners change their policies in relation to the granting of benefits to their clients.***

TudoAzul relies on its four largest business partners for a significant majority of its gross billings. We have no control or influence over TudoAzul's business partners, which may terminate their relationship with TudoAzul or change their commercial policies with respect to the accumulation, transfer and redemption of points, as well as choose to develop or offer their customers their own platforms for exchanging points for prizes, including airline tickets issued by other airlines. The loss of a significant TudoAzul business partner or changes to TudoAzul's business partners' policies could (i) make TudoAzul less attractive or efficient for our business partners' customers, and (ii) increase competition with respect to TudoAzul, thereby reducing our gross sales and the demand for points, factors that may negatively impact us. If we do not find satisfactory replacement business partners in the event of the loss of one or more of TudoAzul's significant business partner or adapt satisfactorily to changes to TudoAzul's business partners' policies, we may be adversely affected.

***If actual redemptions by TudoAzul members are greater than expected, or if the costs related to redemption of reward points increase, we could be adversely affected.***

We derive most of our TudoAzul revenues by selling TudoAzul points to business partners. The earnings process is not complete, however, at the time points are sold, as we incur most of our costs related to TudoAzul upon the actual redemption of points by our TudoAzul members. Based on historical data, the estimated period between the issuance of a TudoAzul point and its redemption is currently nine months; however, we cannot control the timing of the redemption of points or the number of points ultimately redeemed. Since we do not incur redemption-related costs for points that are not redeemed, our profitability depends in part on the number of accumulated TudoAzul points that are never redeemed by our TudoAzul members, or "breakage." We experience breakage when TudoAzul points are not redeemed for any number of reasons.

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Our estimate of breakage is based on historical trends. We expect that breakage will decrease from historical amounts as TudoAzul expands its network of business partners and makes available a greater variety of reward options to our TudoAzul members. We seek to offset the anticipated decrease in breakage through our pricing policy for points sold. If we fail to adequately price our points or actual redemptions exceed our expectations, TudoAzul's profitability, and consequently our own profitability, could be adversely affected. Furthermore, if actual redemptions exceed our expectations, we may not have sufficient cash on-hand to cover all actual redemption costs, which could materially adversely affect us.

***We depend on our senior management team, and the loss of any member of this team, including our Chairman and key executives, could adversely affect us.***

Our business depends upon the efforts and skill of our senior management, including our Chairman, who has played a key role in establishing our corporate culture, and our key executives. Our future success depends on a significant extent on the continued service of our senior management team, who are critical to the development and the execution of our business strategies. Any member of our senior management team may leave us to establish or work in businesses that compete with ours. There is no guarantee that the compensation arrangements and non-competition agreements we have entered into with our senior management team are sufficiently broad or effective to prevent them from resigning in order to join or establish a competitor or that the non-competition agreements would be upheld in a court of law. In the event that our Chairman or a number of our senior management team leave our company, we may have difficulty finding suitable replacements, which could have a material adverse effect on us.

***We may be unable to maintain our culture and to retain and/or hire skilled personnel as our business grows, such as pilots, which could have an adverse impact on us.***

We believe that our growth potential and the maintenance of our results and customer-oriented company culture are directly linked to our capacity to attract and maintain the best professionals available in the Brazilian airline industry. As we grow, we may be unable to identify, hire or retain enough people who meet the above criteria, or we may have trouble maintaining our company culture as we become a larger business. From time to time, the airline industry has experienced a shortage of skilled personnel, especially pilots. We compete against all other airlines, both inside and outside Brazil, for these highly-skilled personnel. We may have to increase wages and benefits to attract and retain qualified personnel or risk considerable employee turnover. Our culture is crucial to our business plan, and failure to maintain that culture could have an adverse impact on us.

***The airline industry is subject to increasingly stringent environmental regulations and non-compliance therewith may adversely affect us.***

The airline industry is subject to increasingly stringent federal, state, local and foreign laws (including those of the United States and Europe), regulations and ordinances relating to the protection of the environment, including those relating to emissions to the air, levels of noise, discharges to surface and subsurface waters, safe drinking water, and the management of hazardous substances, oils and waste materials. As far as civil liabilities are concerned, Brazilian environmental laws adopt a strict and joint liability regime. These laws and regulations are enforced by various governmental authorities. Non-compliance with such laws and regulations may subject the violator to administrative and criminal sanctions, in addition to the obligation to repair or to pay damages caused to the environment and third parties. Pursuant to Brazilian environmental laws and regulations, the piercing of the corporate veil of a company may occur to help provide enough financial resources for the recovery of damages caused against the environment. As far as civil liabilities are concerned, Brazilian environmental laws adopt a strict and joint liability regime.

In this regard we may be liable for violations by third parties hired to dispose of our waste, among other activities. Also, we may not hold all valid environmental licenses deemed necessary by the environmental authorities to perform our activities, which could subject us to financial fines, and depending on the degree of irregularity, may reach a value of up to R\$10 million, or even the total or partial suspension of our activities, in accordance with Federal Decree No. 6,514/2008, in addition to indemnity fines. State and municipal laws and regulations may impose distinct administrative sanctions at lower or higher values than the above.

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In 2016, ICAO adopted a resolution creating the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA), providing a framework for a global market-based measure to stabilize carbon dioxide emissions in international civil aviation (i.e., civil aviation flights that depart in one country and arrive in a different country). CORSIA is being implemented in phases, starting with the participation of ICAO member states on a voluntary basis during a pilot phase (from 2021 through 2023), followed by a first phase (from 2024 through 2026) and a second phase (from 2027). Currently, CORSIA focuses on defining standards for monitoring, reporting and verification of emissions from air operators, as well as on defining steps to offset carbon emissions after 2020. In 2020, we began reporting our emissions to Brazilian authorities. Brazil is expected to become a signatory of CORSIA in 2027. To the extent most of the countries in which we operate continue to be ICAO member states, in the future we may be affected by regulations adopted pursuant to the CORSIA framework. The proliferation of national regulations and taxes on carbon emissions in the countries that we have domestic operations, including environmental regulations that the airline industry is facing in Brazil, may also affect our costs of operations and our margins.

Concerns about climate change and greenhouse gas emissions may result in additional regulation or taxation of aircraft emissions in Brazil, the United States or Europe. Future operations and financial results may vary as a result of the adoption of such regulations in Brazil, the United States or Europe.

The European Union has proposed a directive under which the existing emissions trading scheme, or ETS, in each European Union member state was to be extended to all airlines. This directive would require us to submit annual emission allowances in order to operate routes to and from European Union member states. As of December 31, 2020, this proposal would affect only intra-European flights (which are not material to our business) but there is a possibility that the directive could be extended to all flights in the future. Prior to the pandemic, we operated two routes to and from Europe, and serviced additional destinations in Europe through our code-sharing agreement with TAP. Although this proposal has been postponed for evaluation and it is uncertain whether it will be approved, it is increasingly likely that we will be required to participate in some form of an international aircraft emissions program in the future, which may involve significant costs.

***We may incur financial losses and damages to our reputation from environmental and social risks.***

Environmental and social risk is considered a material issue for our business since it can affect the creation of shared value in the short, medium and long terms, from the standpoint of our organization and our main stakeholders. Further, we understand environmental and social risk as the possibility of losses due to exposure to environmental and social events arising from the performance of our activities. We also recognize climate risk as an emerging environmental and social risk. Climate change is a risk as it affects our clients, suppliers and our operations, including property and equipment. Finally, our reputation could be affected if we do not fully comply with voluntary commitments, such as Equator Principles, Principles for Responsible Investment and National Pact for the Eradication of Slave Labor among others.

***We benefit from tax incentives on our purchases of jet fuel in Brazil, and these tax incentives may be suspended, changed, cancelled, revoked or not renewed at any time adversely affecting us.***

The price of the jet fuel that we purchase in certain Brazilian states is subsidized through tax incentives provided to us by those states. Depending on the type of agreement, if we fail to comply with our obligations in the tax incentive agreements that we have executed with those states, Governmental authorities may revoke, suspend or fail to renew these tax incentives at any time. Authorities may choose to do so even if we do comply, for example if they are no longer interested in the obligation.

To ensure the continuity of these incentives, we must comply with a number of tax, labor and social requirements and environmental protection and control that may be questioned, including judicially by third parties, such as the Ministério Público Federal, other Brazilian States, or even other public authorities.

In addition, there are currently proposals in the Brazilian congress for the implementation of a tax reform. Among the proposals under discussion, there is the possibility of a complete change in the system of consumer tax, which would extinguish three federal taxes – the Tax over Industrialized Products (Imposto sobre Produtos Industrializados), or IPI, the Social Integration Program (Programa de Integração Social), or PIS; and the Social Contribution to Social Security Financing (Contribuição Social para o Financiamento da Seguridade Social), or COFINS; the Tax on Circulation of Goods and Services (Imposto sobre Circulação de Mercadorias e Serviços), or ICMS, a State tax; and Tax on Services (Imposto Sobre Serviços), or ISS, which is municipal, to create a single tax for transactions of goods and services (Imposto sobre Bens e Serviços, or IBS) that would focus on consumer taxation. We cannot ensure that there will be no changes to the laws and regulations applicable to the tax incentives that benefit the Company, or that these will be effectively maintained under the same favorable conditions until the end of their term, or that we will be able to renew the tax incentives under favorable conditions after their current deadlines have expired.



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Further, we cannot ensure that new tax incentives will be created after the expiration of tax incentives that the Company currently benefits from, and that, if they are created, that the Company will be subject to their terms, or that their terms and conditions are equivalent to, or more favorable than, the terms and conditions currently in force. If tax incentives are changed, or expire, and we are unable to renew them, or if new tax incentives are not created after the expiry of those in force, or if the terms and conditions of any new incentives are not as beneficial to the Company as the ones currently in force, the Company could also be adversely affected.

In addition, certain tax incentive agreements require approval from CONFAZ, the Brazilian National Council of Fiscal Policy, which have not yet been obtained and could therefore be canceled by the Brazilian Supreme Court at any time. With regard to tax benefits granted after the amendment to Complementary Law 160/2017, to be granted in the future, not without due deliberation and approval by CONFAZ, we stress that its constitutionality can be questioned at any time by the States and may be repealed by the Brazilian Supreme Court. If any of these tax incentives are canceled, revoked, suspended or not renewed, the prices that we pay for jet fuel would increase or we may reduce our number of flights, which may lead to a significant impact in our results and adversely affect us.

***We may not be able to comply with the covenants and restrictions contained in our financing agreements, which could result in declaration of an event of default and acceleration of the maturity of indebtedness, causing an adverse effect on us.***

As of December 31, 2020, we were in compliance with or have obtained waivers from our counterparties in connection with compliance with all financial covenants in our financing instruments requiring us to maintain certain ratios. An eventual default under such agreements may result in their early termination and, as consequence, the cross default of certain obligations which would cause a material adverse effect on us.

However, certain economic, financial and industry-related conditions that are out of our control may adversely impact our ability to comply with financial covenants, as well as with financial obligations contained in our financing agreements, as has been observed during the COVID-19 pandemic, in which we have faced adverse conditions that have caused, and continue to cause, adverse financial impacts on the Company's finances and have led to the breaching of financial covenants and financial obligations.

If (i) we are not able to obtain the necessary waivers or approvals from our creditors in regard to agreements with which we are in default or that have certain financial covenants that are not being satisfied; or (ii) we do not have sufficient resources to repay our debts in a timely manner, or we continue not to be able to meet the financial covenants established in the other agreements (which may occur for several reasons that adversely affect our economic-financial situation, such as, for example, the scenario of global financial crisis we are currently facing due to the COVID-19 pandemic), the early maturity of these and other financial debts contracted by us may be declared due to cross-acceleration clauses.

If our financial agreements mature earlier than we expected, our financial situation and, as a result, our debt-payment capacity will be materially and adversely affected and may even result in our insolvency. Additionally, we may face difficulties or limitations in accessing new financing lines, which may impair the implementation of our investment plan, materially and adversely affecting our business, our financial situation and our operational results.

***We may not be able to renegotiate the financial covenants and obligations established with our creditors in favorable terms.***

Due to the economic crisis caused by the COVID-19 pandemic and the adverse economic and financial effects it has caused, we have been facing difficulties in complying with financial covenants and obligations established with our creditors, with which we have negotiated the restructuring of the obligations established in the respective agreements, including through amendments and/or new instruments reflecting new deadlines and conditions.

It is not possible to ensure that all creditors will accept the new terms and conditions proposed by us, nor that the respective clauses will be changed, so that creditors whose financial contracts have covenants or other obligations, or which may become defaulted, may, in their sole discretion, chose to accelerate the maturity of such debts, which may result in acceleration of other obligations. The acceleration of debt may adversely affect our solvency and our ability to make payments, as well as limit our access to new lines of credit for financing its working capital and investments. This may, in turn, also adversely affect our business and operating results.

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***The agreements governing our debt contain covenants and restrictions that limit our ability to engage in change of control transactions, terminate our relationship with certain suppliers and incur certain levels of indebtedness.***

Our financing agreements contain covenants and restrictions that restrict us and our subsidiaries' ability to engage in change of control transactions and terminate concession agreements associated with such financial contracts, whether through failure to renew or otherwise. In addition, certain of our financing instruments require us and our subsidiaries to meet financial covenants calculated as of December 31 of each year that, among other restrictions, limit our permissible ratios of debt to EBITDA and debt to cash freely convertible into U.S. dollars.

Such restrictive clauses, and the limitation they impose on our ability to enter into certain transactions, may limit our access to new financing lines for the execution of our investment plan, as well as for cash availability, ultimately adversely affecting our business and operational results.

As of December 31, 2020, we were in compliance with or have obtained waivers from our counterparts in connection with compliance with all financial covenants in our financing instruments requiring us to maintain certain ratios. An eventual default under such agreements may result in their early termination and, as consequence, the cross-default of certain obligations which would cause a material adverse effect on us.

For more information on the covenants and restrictions and on certain waivers under certain of our agreements, see "Item 5.B. Liquidity and Capital Resources—Loans and Financings" and "Item 5.D. Trend Information."

***Unfavorable decisions in judicial or administrative proceedings could adversely affect us.***

We and our subsidiaries are parties to various proceedings in the judicial and administrative spheres, including civil, labor, social security, tax, consumer protection, civil, regulatory actions and environmental. There is no way to guarantee that such lawsuits will be ruled favorably to us and/or our subsidiaries, or that the amounts provisioned are sufficient to cover amounts resulting from any unfavorable rulings. Decisions contrary to the interests of us and/or our subsidiaries that could eventually result in substantial payments, affect our image and/or the image of our subsidiaries or impede the performance of our business as initially planned may have a material adverse effect on our business, the business of our subsidiaries, our financial condition and our results of operations.

***We are subject to tax surveillance by tax authorities in the Federal, State, and Municipal levels.***

As a result of such surveillance, our finances can be questioned by tax authorities. We cannot guarantee that provisions for such investigations will be sufficient, that no additional tax exposures will be identified, and that no additional tax reserves will be required for any given tax exposure. Any increase in the amount of taxation as a result of inquiries into our taxes may adversely affect our business, our operating results and our financial condition.

The Brazilian tax authorities have recently intensified the number of audits it orders. There are several fiscal issues of concern to the Brazilian authorities, regarding which Brazilian authorities regularly supervise companies, including inventory control, premium amortization expenses, corporate restructuring and tax planning, among others. Any judicial and administrative proceedings related to fiscal matters before the courts, including the Administrative Board of Tax Resources, (*Conselho Administrativo de Recursos Fiscais*), or CARF, and state and municipal administrative courts, may adversely affect us.

***We are subject to certain tax legislation due to the registration of tax debts in specific payment programs overseen by tax authorities. If we no longer comply with any of the rules set forth in said legislation, the programs may be terminated and the benefits derived from them revoked.***

We are registered in certain payment programs run by the competent and relevant tax authorities concerning various federal, state and municipal tax debts.

The federal, state and municipal payment programs we are party to require the adherence to, and compliance with, certain requirements, including the regularity of payment of debts subject to parceling. If we do not comply with the rules, the programs will be terminated and their benefits revoked. This would also cause the immediate enforceability of the remaining value of the debt, along with any additional values applicable to the legislation in effect at the time of the occurrence of the event at hand, which may impact our operational and financial results, with the return of debt on our liabilities.



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***Any violation or alleged violation of anti-corruption, anti-bribery and anti-money laundering laws could adversely affect us, including our brand and reputation.***

There can be no assurance that our employees, agents, and the companies to which we outsource certain of our business operations will not take actions in violation of our anti-corruption, anti-bribery and anti-money laundering policies, for which we may be ultimately held responsible. We are subject to the United States Foreign Corrupt Practices Act of 1977, or the FCPA, by virtue of having operations in the United States and our shares being listed and traded in the United States as well as. If we are not in compliance with anti-corruption laws, anti-money laundering laws and other laws governing the conduct of business with government entities, including under the FCPA and other United States and local laws, we may be subject to criminal and civil penalties and other remedial measures, which could harm our brand and reputation and have a material adverse impact on our business, financial condition, results of operations and prospects. Any investigation of any actual alleged violations of such laws could also adversely affect us, including our brand and reputation. The likelihood of such risks being realized may increase as we don't have consolidated policies for identifying and monitoring politically exposed persons, nor for due diligence with third parties.

***We are a holding company and do not have any material assets other than the shares of our subsidiaries.***

We are a holding company that conducts its operations through a series of operating subsidiaries. We support these operating subsidiaries with technical and administrative services through our various other subsidiaries. All of the assets we use to perform administrative and technical services and to operate the concessions and authorizations are held at the subsidiary level. As a result, we do not have any material assets other than the shares of our subsidiaries. Dividends or payments that we may be required to make will be subject to the availability of cash provided by our subsidiaries. Transfers of cash from our subsidiaries to us may be further limited by corporate and legal requirements, or by the terms of the agreements governing our indebtedness. If a shareholder were to assert a claim against us, the enforcement of any related judgment would be limited to our available assets, rather than our assets and those of our combined subsidiaries.

***Any inability to obtain or renew all the licenses, permits and permissions necessary to conduct our business could have an adverse effect on us.***

We are in the constant process of obtaining and renewing federal, state and municipal licenses, authorizations, permits and permissions necessary to conduct our activities. If we fail to obtain or renew all such licenses, authorizations, permits and permissions in a timely manner, or if such licenses, authorizations, permits and permissions are suspended or revoked, this could have an adverse effect on us.

#### **Risks Relating to Our Preferred Shares, Including in the Form of ADSs**

***Our controlling shareholder has the ability to direct our business and affairs, and its interests may conflict with that of other shareholders.***

In accordance with Brazilian corporate law and our bylaws, our controlling shareholder has the legal power to, among other things, elect the majority of our directors and determine the outcome of any action requiring shareholder approval. This power includes the ability to control decisions with respect to related party transactions (excluding transactions with a related party to the controlling shareholder himself), corporate restructurings, dispositions, partnerships, sale of all or substantially all of our assets, withdrawal of our shares from the Level 2 segment of B3 and the time for payment of any future dividends. Our controlling shareholder may choose to enter into acquisitions, dispositions, partnerships or enter into loans and financing or other similar transactions for us that could conflict with the interests of investors and that may negatively affect us. As of December 31, 2020, our controlling shareholder owned, directly and indirectly, 67% of our voting capital and 49.7% of our total capital. In economic terms, our controlling shareholder's holdings equal 3.5%,

In particular, due to our capital structure, the capital contributions made by the holders of our common shares to date were considerably lower than those made by the holders of our preferred shares, which means that our controlling shareholder has the right to direct our business but has considerably less economic interest with respect to the results of our activities than holders of our preferred shares. This difference in economic interest may intensify conflicts of interests between our controlling shareholder and other shareholders.

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***Our controlling shareholder is entitled to receive significantly less dividends than holders of our preferred shares, which may cause his decisions on the distribution of dividends to conflict with preferred shareholders' interests.***

Holders of our common shares are entitled to receive an amount of dividends equivalent to 75 times less than the amount of dividends paid to holders of our preferred shares. The fact that our controlling shareholder receives a small portion of our dividends in each distribution in comparison to the amount of dividends to which holders of our preferred shares are entitled may influence his decisions on the distribution of dividends, which may differ from interests of the holders of our preferred shares. For more information on distribution of dividends and compensation of our management, see "Item 10.F. Dividends and Payment Agents—Dividend Policy" and "Item 6.B. Management Compensation," respectively.

***Investors in our preferred shares, including in the form of ADSs, may experience book value dilution in the future.***

We have established stock option and restricted share plans for key personnel, including our officers, certain managers and other key crewmembers. We estimate that as of December 31, 2020, 2,158,658 new preferred shares would have been issued if all of our vested options were exercised by the holders thereof at a weighted average strike price of R\$15.12. The exercise of vested options by the holders thereof could result in substantial dilution in book value to investors if the public offering price for our preferred shares (including in the form of ADSs) is lower than the book value of such shares in the future upon the exercise of our stock options. See "Item 6.B. Management Compensation—Stock-Based Incentive Plans."

In addition, in the event that we need to obtain capital for our operations by issuing new shares in the future, any such issuance may be made at a value below the book value of our preferred shares on the relevant date. In that event, the holders of our ADSs and preferred shares at such time would suffer an immediate and significant dilution of their investment.

***An active and liquid trading market for our preferred shares, including in the form of ADSs may not be maintained, thereby potentially adversely affecting the price our preferred shares, including in the form of ADSs.***

An active and liquid public trading market for our preferred shares, including in the form of ADSs, may not be maintained. Active, liquid trading markets generally result in lower price volatility and more efficient purchases and sales of shares. If an active trading market is not maintained, the liquidity and price of our preferred shares, including in the form of ADSs, could be seriously harmed.

The investment in marketable securities traded in emerging countries, such as Brazil, usually represents higher levels of risk as compared to investments in securities issued in countries whose political and economic situations are more stable, and in general, such investments are considered speculative in nature. The Brazilian capital market is substantially smaller, less liquid, more volatile, and more concentrated than major international capital markets. B3 exchange-listed companies had an aggregate market capitalization of R\$4.9 trillion as of December 31, 2020 and a daily average trading volume of R\$30.0 billion as December 31, 2020, according to B3. These market characteristics may substantially limit the capacity of holders of our preferred shares to sell them at the price and time of their preference and this may have an adverse effect on the market price of our preferred shares.

In addition, the price of shares of companies in the worldwide airline industry are relatively volatile and investors' perception of the market value of these shares, including our preferred shares in the form of ADSs, may also be negatively impacted with additional volatility and decreases in the price of our ADSs and preferred shares.

***Our preferred shares will have limited voting rights.***

Except under certain situations, our preferred shares, including in the form of ADSs, do not carry general voting rights. See "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights." Our principal shareholders, who hold the majority of common shares with voting rights and control us, are therefore able to approve most corporate measures without the approval of holders of our preferred shares, including in the form of ADSs. Accordingly, you will generally not have control over any matters, including the approval of corporate measures such as appointment of directors, approval of significant transactions or changes in our capital structure.

According to Brazilian corporate law, preferred shares with limited or no voting rights and with rights to fixed or minimum priority dividends, gain voting rights if the company ceases to pay the fixed or minimum dividends to which such shares are entitled for three consecutive fiscal years. According to our by-laws, our preferred shares are not fixed or have minimum priority dividends. Consequently, our preferred shares will not have voting rights, even if we stop paying dividends for three consecutive years.

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In addition, to the extent holders of our preferred shares are entitled to vote on certain limited matters pursuant to Brazilian corporate law, the provisions of our bylaws, and the provisions of or governing the deposited preferred shares, we cannot assure ADS holders that they will receive the voting materials in time to ensure that they can instruct the depository to vote the preferred shares underlying their ADSs. Furthermore, there can be no assurance that ADS holders will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our preferred shares. While ADS holders could exercise their right to vote directly if they withdraw the preferred shares, such ADS holders may not know about the meeting sufficiently in advance to withdraw the preferred shares. See “Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights.”

Our controlling shareholder has the right to receive substantially less dividends than the holders of preferred shares, which may motivate it to decide on the distribution of dividends in a manner conflicting with the interest of the other shareholders. The right to receive dividends from holders of our common shares is 75 times lower than the dividend distributed to holders of our preferred shares. The fact that our controlling shareholder receives a proportionally smaller share than the dividends that we distribute, in relation to the dividends to which our shareholders that hold preferred shares are entitled, may influence their decisions regarding the distribution of dividends or proceeds, which may diverge from the interest of the shareholders holding preferred shares.

***Holders of our preferred shares, including in the form of ADSs, may not receive any dividends or interest on shareholders’ equity.***

According to our bylaws, provided that the Company records a net income and there are no accumulated losses, we must pay our common and preferred shareholders at least 0.1% of our annual adjusted net income as dividends or interest on shareholders’ equity, as calculated and adjusted pursuant to Brazilian corporate law. Interim dividends and interest on our shareholders’ equity declared for each fiscal year may be attributed to our minimum obligatory dividend for the year in which it was declared. For more information, see “Item 10.F. Dividends and Payment Agents—Dividend Policy.” This adjusted net income may be capitalized, used to absorb losses or otherwise retained as allowed under Brazilian corporate law, and may not be made available for payment as dividends or interest on shareholders’ equity.

Additionally, Brazilian corporate law allows a company like ours to suspend the mandatory distribution of dividends in any particular fiscal year if our board of directors informs our shareholders that such distribution would be inadvisable in view of our financial condition. If these events were to occur, the holders of our preferred shares, including in the form of ADSs may not receive dividends or interest on shareholders’ equity.

***The sale of a significant number of our preferred shares, including in the form of ADSs, may negatively affect the trading price of our preferred shares, including in the form of ADSs.***

Our principal shareholders, as well as our directors, officers and other affiliates, are able to sell additional preferred shares, including in the form of ADSs, and certain lock up agreements into which they had entered have expired. In addition, under our fifth amended and restated registration rights agreement, or the Registration Rights Agreement, which we entered into on August 3, 2016 with our then principal shareholders, we could be required to register additional preferred shares held by the shareholders who signed the Registration Rights Agreement with the SEC for future sale at any time commencing six months following our initial public offering. For further details of the Registration Rights Agreement, see “Item 7.A. Major Shareholders—Registration Rights Agreement.”

Sales of our preferred shares, including in the form of ADSs, made by our affiliates, including those effected by our directors, executive officers or controlling shareholders or those involving a large number of preferred shares or ADSs, or market perception of an intention to any of such sales, may negatively affect the trading price of our preferred shares, including in the form of ADSs.

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***Changes in Brazilian tax laws may have an adverse impact on the taxes applicable to a disposition of our preferred shares, including in the form of ADSs.***

Law 10833 of December 29, 2003 provides that the disposition of assets located in Brazil by a nonresident to either a resident or a nonresident of Brazil is subject to taxation in Brazil, regardless of whether the disposition occurs outside or within Brazil. This provision results in the imposition of income tax on the gains arising from a disposition of our preferred shares by a nonresident of Brazil to either a resident or a nonresident of Brazil. However, since currently there is no judicial guidance determining whether ADSs should be considered assets located in Brazil, we are unable to predict whether Brazilian courts may decide that income tax under Law 10833 applies to gains assessed on dispositions of our ADSs. In the event that the disposition of assets is interpreted to include the disposition of our ADSs, this tax law would result in the imposition of withholding taxes on the sale of our ADSs by a nonresident of Brazil to either a resident or a nonresident of Brazil. Because any gain or loss recognized by a U.S. Holder (as defined in “Item 10.E. Taxation—United States Federal Income Tax Considerations”) on the disposition of preferred shares or ADSs generally will be treated as U.S.-source gain or loss for U.S. foreign tax credit purposes, the U.S. Holder may not be able to benefit from a foreign tax credit for Brazilian income tax imposed on the disposition of preferred shares or ADSs unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. See “Item 10.E. Taxation—United States Federal Income Tax Considerations —Sale or Other Taxable Disposition of Preferred Shares, Including in the Form of ADSs.”

***The Brazilian government may impose exchange controls and significant restrictions on remittances of reais abroad, which would adversely affect your ability to convert and remit dividends or other distributions or the proceeds from the sale of our preferred shares, our capacity to make dividend payments or other distributions to non-Brazilian investors and would reduce the market price of our preferred shares, including in the form of ADSs, and our capacity to comply with payment obligations in foreign currency.***

In case of serious imbalances, the Brazilian government may restrict the remittance abroad of proceeds of investments in Brazil and the conversion of the *real* into foreign currencies. The Brazilian government last imposed such remittance restrictions for a brief period in 1989 and early 1990. We cannot assure you that the Brazilian government will not take similar measures in the future. The return of any such restrictions would hinder or prevent your ability to convert dividends or other distributions or the proceeds from any sale of our preferred shares into U.S. dollars and to remit U.S. dollars abroad, our capacity to make dividend payments or other distributions to non-Brazilian investors, and our capacity to comply with payment obligations in foreign currency. The imposition of any such restrictions would have a material adverse effect on the stock market price of our preferred shares, including in the form of ADSs, and on our capacity to access foreign capital markets.

***If you surrender your ADSs and withdraw preferred shares, you risk losing the ability to remit foreign currency abroad and certain Brazilian tax advantages.***

As an ADS holder, you benefit from the electronic certificate of foreign capital registration obtained by the custodian for our preferred shares underlying the ADSs in Brazil, permitting the custodian to convert dividends and other distributions with respect to our preferred shares into non-Brazilian currency and remit the proceeds abroad. If you surrender your ADSs and withdraw preferred shares, you will be entitled to continue to rely on the custodian’s electronic certificate of foreign capital registration for only five business days from the date of withdrawal. Thereafter, upon the disposition of distributions relating to our preferred shares, unless you obtain your own electronic certificate of foreign capital registration, or you qualify under Brazilian foreign investment regulations that entitle some foreign investors to buy and sell shares on Brazilian stock exchanges without obtaining separate electronic certificates of foreign capital registration, you would not be able to remit abroad non-Brazilian currency. In addition, if you do not qualify under the foreign investment regulations, you will generally be subject to less favorable tax treatment of dividends and distributions on, and the proceeds from any sale of, our preferred shares.

If you attempt to obtain your own electronic certificate of foreign capital registration, you may incur expenses or suffer delays in the application process, which could delay your ability to receive dividends or distributions relating to our preferred shares or the return of your capital in a timely manner. The depositary’s electronic certificate of foreign capital registration may also be adversely affected by future legislative changes.

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***If we do not maintain a registration statement and no exemption from the Securities Act is available, U.S. Holders of ADSs will be unable to exercise preemptive rights with respect to our preferred shares.***

We may, from time to time, offer preferred shares or other securities, or preemptive rights to acquire additional preferred shares or other securities to shareholders, including as a result of the Brazilian Corporate Law. We will not be able to offer such securities or rights to holders of ADSs unless a registration statement under the Securities Act is effective with respect to such preferred shares and preemptive rights, or an exemption from the registration requirements of the Securities Act is available. We are not obligated to file such registration statement, and we cannot assure you that we will file a registration statement. If a registration statement is not filed and an exemption from registration does not exist, Citibank, N.A., as depositary, will attempt to sell such preemptive rights or securities, as the case may be, and you will be entitled to receive the proceeds of the sale. However, if the depositary is unable to sell these preemptive rights or securities, U.S. holders of ADSs will not receive any value in connection with such distribution.

In the event that you are not entitled to preemptive rights or are unable or unwilling to exercise preemptive rights in connection with the preferred shares, including in the form of ADSs or other securities, your investment could be subjected to dilution.

***The requirements of being a public company may strain our resources, divert management's attention and affect our ability to attract and retain qualified board members or executive officers.***

As a public company, we incur significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting requirements. We also have incurred and will incur costs associated with the Sarbanes-Oxley Act of 2002, as amended, and related rules implemented by the SEC. The expenses incurred by public companies generally for reporting and corporate governance purposes have been increasing. We expect these rules and regulations to increase our legal and financial compliance costs and to make some activities more time consuming and costly, although we are currently unable to estimate these costs with any degree of certainty. These laws and regulations could also make it more difficult or costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. These laws and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as our executive officers and may divert management's attention. Furthermore, if we are unable to satisfy our obligations as a public company, we could be subject to delisting of our preferred shares, fines, sanctions and other regulatory action and potentially civil litigation which may adversely affect us.

***If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, the market price and trading volume of our preferred shares, including in the form of ADSs could decline.***

The trading market for our preferred shares, including in the form of ADSs, depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who cover us downgrade our stock or publish inaccurate or unfavorable research about our business, our stock price may be negatively impacted. If one or more of these analysts cease coverage of our company or fail to publish reports on us regularly, demand for our preferred shares, including in the form of ADSs, could decline, which might cause the market price and trading volume of our preferred shares, including in the form of ADSs to decline.

***Our status as a foreign private issuer allows us to follow alternate standards to the corporate governance standards of the NYSE, which may limit the protections afforded to investors.***

We are a "foreign private issuer" within the meaning of the NYSE corporate governance standards. Under NYSE rules, a foreign private issuer may elect to comply with the practices of its home country and not comply with certain corporate governance requirements applicable to U.S. companies with securities listed on the exchange. We currently follow certain Brazilian practices concerning corporate governance and intend to continue to do so.

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We rely on certain exemptions as a foreign private issuer listed on the NYSE. For example, the NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the affirmative determination of the board of directors of absence of a material relationship between a director and the listed company. Under the listing standards of Level 2 segment of B3, our board of directors must have at least five members, at least 20% of which must be independent. Also, Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company's executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we cannot guarantee that a majority of our directors would be considered independent under the NYSE rules. Pursuant to Brazilian corporate law and Instruction 308, dated May 14, 1999, as amended, issued by CVM, the statutory audit committee is an advisory board to the board of directors, that if installed must be made up of independent members appointed by the board of directors, one of which must also be a member of the board, unlike NYSE rules, which require all audit committee members to also be members of the board of directors. While our audit committee is currently composed entirely of independent directors, our audit committee may not always meet all of the NYSE rules.

In addition, we do not have a nominating committee as required for U.S. issuers under the NYSE rules and although we have a compensation committee and a corporate governance committee, we are not required to comply with the NYSE standards applicable to compensation or corporate governance committees of listed companies.

Furthermore, the corporate disclosure requirements that apply to us may not be equivalent to the disclosure requirements that apply to a U.S. company and, as a result, you may receive less information about us than you would receive from a comparable U.S. company. We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The disclosure requirements applicable to foreign private issuers under the Exchange Act are more limited than the disclosure requirements applicable to U.S. issuers. Publicly available information about issuers of securities listed on the CVM, which is provided in Portuguese, also provides less detail in certain respects than the information regularly published by listed companies in the United States or in certain other countries.

Accordingly, holders of our ADSs will not have the same protections afforded to shareholders of companies that are subject to all of the NYSE corporate governance requirements. For a comparison of the foregoing requirements, see "Item 16.G. Corporate Governance."

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

We are incorporated as a Brazilian *sociedade por ações* under the corporate name Azul S.A. Our headquarters are at Edifício Jatobá, 8<sup>th</sup> floor, Castelo Branco Office Park, Avenida Marcos Pentead de Ulhôa Rodrigues, 939, Tamboré, Barueri, São Paulo, SP 06460-040, Brazil. Our telephone number is +55 11 4134-9800 and our website is <https://ri.voeazul.com.br/en>. In addition, the SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains information filed by us electronically. The information contained on our website, any website mentioned in this annual report or any website directly or indirectly linked to these websites, is not part of, and is not incorporated by reference in, this annual report and you should not rely on such information. We are registered with the Board of Trade of the state of São Paulo under corporate registration number, or NIRE, number 35.300.361.130. We have been registered with the CVM as a publicly held corporation since April 7, 2017.

We were founded on January 3, 2008 by entrepreneur David Neeleman and began operations on December 15, 2008. Backed by Mr. Neeleman and other strategic shareholders, we have benefited from our partnerships and have invested in a robust and scalable operating platform. We have a management team that effectively combines local market expertise with diversified international experience and knowledge of best practices from the United States, the largest aviation market in the world.

Our start-up capital of R\$400.7 million enabled us to invest up-front in a scalable operating platform and efficient young fleet. After less than six months of operations, we became Brazil's third-largest airline in terms of domestic market share in May 2009, according to ANAC. Our operating fleet has grown from three Embraer E-Jets in December 2008 to a total of 168 aircraft, consisting of 60 Embraer E-Jets, 33 ATR aircraft, 45 Airbus A320 and A321, 11 Airbus A330s, two Boeing 737 freighter and 17 Cessna Caravan aircraft as of December 31, 2020.



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In August 2012, we acquired TRIP, which at the time was the largest regional carrier in South America by number of destinations. The fleet similarity between the two airlines allowed us to integrate all of TRIP's activities by June 2014. The TRIP acquisition substantially increased our network connectivity, enabling us to serve 106 destinations upon completion of the acquisition and to become the leading carrier in terms of departures in 82 cities as of December 31, 2020 as well as to consolidate our position as a leader in Brazil's fast-growing regional aviation market. As of December 31, 2020, we had the largest airline network in Brazil in terms of departures and cities served, with around 700 daily departures spanning more than 110 destinations – an unparalleled network of more than 200 non-stop routes.

Leveraging the strength of the network we built over the previous years, in December 2014 we started operating international flights with Airbus A330 aircraft, gaining the ability to serve millions of passengers that connected throughout our network and that previously did not have a convenient option to travel internationally.

As part of our plans to expand globally, we have also established code-share agreements with other carriers such as United and TAP, giving our passengers the ability to connect to more than 200 destinations worldwide in addition to the more than 110 destinations we currently serve.

In addition, during 2020, we signed a domestic code-share agreement with LATAM Airlines Brazil to connect routes in Brazil. The two carriers also signed a frequent flyer agreement, enabling 12 million TudoAzul and 37 million LATAM Pass members to earn points in the frequent flyer program of their choice.

On February 21, 2020, our wholly-owned subsidiary, Azul Linhas Aéreas Brasileiras, and Two Taxi Aereo, "TwoFlex" (recently rebranded Azul Conecta), announced that they entered into a Quota Purchase Agreement under which we agreed to acquire the Brazilian regional carrier TwoFlex for the total purchase price of R\$123 million. TwoFlex is a domestic airline based in Jundiaí, Brazil, founded in 2013, and offers regular passenger and cargo service to 39 destinations in Brazil, of which only three regional destinations were previously served by Azul. TwoFlex also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo's downtown airport. Congonhas is a particularly coveted airport because of its proximity to São Paulo's business districts and because of its status as Brazil's most slot-constrained airport. Currently, our two larger competitors, Gol and LATAM, control most of the flights in Congonhas. TwoFlex's fleet is composed of 17 owned Cessna Caravan aircraft, a regional turboprop with a capacity of 9 passengers.

The transaction was approved without restrictions by CADE on March 27, 2020. On May 14, 2020, Azul announced the completion of the acquisition process of TwoFlex. Payment will be made in up to 30 monthly installments, subject to certain financial and operating conditions, and one final payment of up to R\$30 million, which will be deposited as a guarantee in favor of the Company for a specified period.

With Azul Conecta, we plan to reach more than 200 cities in the coming years.

## Capital Expenditures

For a description of our capital expenditures, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Capital Expenditures".

## B. Business Overview

### General

We are the largest airline in Brazil in terms of departures and cities served, with around 700 daily departures to 112 destinations, creating an unparalleled network of 203 non-stop routes as of December 31, 2020. As the sole airline on 77% of our routes, we are the leading airline in 82 Brazilian cities in terms of departures and carried approximately 15 million passengers in the year ended December 31, 2020. In addition to having an extensive network, optimized fleet, and a high-quality product, we also have strategic revenue generating business units including our wholly-owned loyalty program TudoAzul, and our logistics solutions business Azul Cargo.

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Brazil is geographically similar in size to the continental United States and is currently the sixth largest market for domestic airline passengers in the world. Since 2008, the number of domestic airline passengers carried in Brazil has increased by 90% to 95 million in 2019. In 2020, as the COVID-19 pandemic affected the aviation industry, the number of domestic airline passengers in Brazil decreased 52.4% compared to 2019, to 45.2 million passengers, according to ANAC, of which Azul was responsible for 31.06%. Brazil is moving forward with its vaccination efforts, and we are confident we will gradually see improved health figures in the country. Brazil's air travel market continues to be significantly underpenetrated and in 2019 was expected to double by 2029 according to ABEAR.

We have the most extensive route network in Brazil, serving 110 domestic destinations, about twice as many as our main competitors Gol and LATAM, which served 55 and 43 destinations respectively as of December 31, 2020. We are the only provider of scheduled service to 35 of our domestic destinations and hold the leading position in 9 out of the 10 largest domestic airports in which we operate in terms of departures. Through our network, we connect travelers to destinations exclusively served by us from our three hubs, which cater to the São Paulo, Belo Horizonte and Recife markets, all among the largest metropolitan areas in the country. Notably, we are the leading airline at Viracopos airport, one of the principal airports in the São Paulo area and the largest domestic hub in South America in terms of non-stop destinations served, with a 95% share of its 128 domestic daily departures as of December 31, 2020.

We operate a young, fuel-efficient fleet that we believe is better tailored for Brazil than those of our main competitors, as it allows us to serve markets with different demographics, ranging from large capitals to smaller cities. As of December 31, 2020, our mainline passenger operating fleet was comprised of 145 aircraft with an average age of 6.9 years, which is significantly younger than that of our main competitors. Including 17 Cessna Caravan aircraft acquired through the purchase of TwoFlex (recently renamed Azul Conecta), the average aircraft age is 8.3. We believe that our diversified fleet is optimized to efficiently match capacity to demand. This enables us to offer superior connectivity as well as more convenient and frequent non-stop service to more airports than our main competitors, which exclusively operate larger aircraft.

A key driver of our profitability is our management team's extensive experience in implementing a disciplined, low-cost operating model. Our optimized fleet yields lower trip costs than our main competitor. In 2020, the average trip cost was impacted by the COVID-19 pandemic and increased 44% to R\$45,897, as compared to 2019. In the year ended December 31, 2019, our average trip cost was R\$31,863, 29.6% lower than that of Gol. With the recovery and the increase in the number of next-generation Airbus A320neos and Embraer E2s in our fleet in the coming years, we expect to maintain our market-leading low trip cost advantage. In addition, our FTEs per aircraft were the lowest in Brazil at 74 FTEs as of December 31, 2020. We have built a strong brand by offering what we believe is a superior travel experience, based on a culture of customer service provided by a highly-motivated and well-trained team of crewmembers. Our service features include advanced seat assignment, leather seats, individual entertainment screens with free live television at every seat in all our Embraer jets and most of our A320neos, extensive legroom with a pitch of 30 inches or more, complimentary beverage and snack services, and free bus service to key airports we serve. In addition, we offer Wi-Fi service in some of our A320neo and E2 fleet and are currently installing it in additional aircraft. As a result of our strong focus on customer service, our NPS (Net Promoter Score) average in 2020 totaled 52.8, even with the impact on courtesy and lack of empathy when crewmembers wear masks and during the pandemic when onboard services were suspended by health agency for a period of time. On January and February 2021, our NPS reached 58 and 59.8, significantly higher than our competitors in Brazil. In 2020, Azul was awarded best airline in the world by TripAdvisor, the first time a Brazilian Flag Carrier ranked number one in the Traveler's Choice Awards.

We continue to invest in and expand our loyalty program TudoAzul, which had more than 12.6 million members and 68 program partners as of December 31, 2020. TudoAzul has been the fastest growing loyalty program in terms of members in Brazil for the past seven years compared to Smiles and LATAM Pass, the loyalty programs of Gol and LATAM respectively, according to publicly available information of such competitors, including disclosure filed with or furnished to the SEC and information available on their respective websites. In the fourth quarter of 2020, we launched the Azul Itaucard Infinite, the best positioned co-branded credit card in the Itaucard portfolio and also elected the "Best credit card from Brazilian airlines" by Melhores Destinos. Given our network strength and the expected growth of passenger air travel, credit card penetration and usage and customer loyalty in Brazil, we believe that TudoAzul is a key strategic asset for us.

Other revenue streams are expected to be mostly driven by our logistics solutions business, Azul Cargo. In 2020, Azul Cargo grew 38.4% in terms of gross revenues, reaching R\$764 million mostly driven by our increase in transported cargo volume and our expanding presence in the e-commerce segment. We ended 2020 with a 33% share of transported cargo volume in Brazil, resulting from our unique network and the capillarity support it provides to our cargo business. In addition, we intend to continue growing our ancillary services and other revenue streams, including Azul Viagens, our travel package business.



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In 2020, our revenues were significantly impacted by the COVID-19 pandemic, and we generated net revenue of R\$5,744.1 million and a net loss of R\$10,834.7 million. In 2019, we generated net revenue of R\$11.4 billion and a net loss of R\$2,403.1 million compared to a net revenue of R\$9.1 billion and a net loss of R\$635.7 million respectively in 2018. Non-recurring items in 2020 represented R\$62.5 million, R\$3.2 billion in 2019 and R\$226.3 million in 2018.

**Impact of the ongoing COVID-19 pandemic**

The year 2020 began with a favorable environment to the Company, with good performance in sales and revenues, announcement of a new route to New York, and new key customers in our logistics business. However, on March 11, 2020 the World Health Organization (“WHO”) classified COVID-19 as a “public health emergency of international concern” and declared it a pandemic, causing a sharp rupture in global economic activity and unleashing an unprecedented economic crisis.

The speed of spread and contagion of the disease has caused countries around the world, including Brazil, to adopt measures such as social distancing, travel restrictions and the closure of borders. As a consequence, the airline industry was one of the sectors impacted the earliest and hardest on its operations and results. In order to face this challenging scenario, our Executive Committee began monitoring the crisis as it developed and established operational and financial strategies to go through this period of crisis until the normalization of operations. We communicated these strategies to the public in detail through documents such as Material News Releases or Statements to the Market. Main actions included the following:

Resizing of the airline network: one of the first and most important actions taken by management in response to the economic crisis unleashed by the COVID-19 pandemic was the resizing our airline network, with reductions in capacity that reached its lowest levels in April 2020. In April 2020, the volume of ASKs offered in the domestic market accounted for only 13% of the volume of the same period in 2019, amounting to approximately 70 daily flights. At the same time, demand dropped to 11% of the total for the same period in the previous year.

Since the beginning of the pandemic, management has monitored the recovery of demand and managed the number of flights offered to match it. In December 2020, the domestic market returned to over 90% of the same period in 2019 in terms of capacity and demand.

Our management continuously monitors all developments related to the COVID-19 pandemic and will continue to make adjustments to the flight offer if necessary, matching supply and demand and prioritizing above all the health and safety of all its crew and customers.

Cost reductions: over the course of 2020, we adopted several measures to reduce our fixed and variable costs, including:

- Suspension of hiring new crew members in the period between March and August 2020;
- Launch of an unpaid leave program, with the adhesion of more than 10,000 crew members for periods between 30 and 120 days;
- Reduction of 50% to 100% in salaries for executive committee members and directors and of 25% for managers for the period between March and July 2020;
- Reduction of general salary expenses by 65% in the period between March and August 2020, due to adherence to Provisional Executive Order 936/20, which implemented labor relation alternatives for confronting crisis caused by the COVID-19 pandemic, including agreements to reduce work hours and salaries and temporary suspension of employment contracts; and
- Collective bargaining agreement to reduce pilot and flight attendant working hours for 18 months starting in June 2020, which was terminated at the end of 2020 due to the faster than originally expected demand recovery in the domestic market.

Support from government and regulators: since the beginning of the pandemic, state and federal governments and regulators took certain actions in support of airline companies, including:

- Enactment of Provisional Executive Order No. 925/20, converted into Law No. 14034 / 20, which extended the period to rebook trips to a period of up to 18 months and extended deadlines to reimburse customers to 12 months from the flight cancellation date;
- Change in the deadline to pay navigation and airport fees;
- Suspension of regularity-based slot cancellation rules, in line with a similar decision with other civil aviation organizations and authorities; and

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- Extension by 120 days of the term to renew technical crew qualifications.

Crewmember and customer care: our number one priority has always been and continues to be the health and safety of our crewmembers and customer, and to that end, we implemented a wide range of initiatives, including:

- First airline in Brazil to introduce daily temperature checks for all crewmembers and to require all customers and crewmembers to wear masks while on board.
- Intensified aircraft cleaning procedures between flights and deep cleaning of all aircraft overnight.
- First airline in Latin America to use Honeywell's ultraviolet cabin cleaning system.
- All jets fitted with hospital-grade HEPA filters that remove at least 99.9% of all airborne particles, including the novel coronavirus.
- Only airline in the world to implement an innovative boarding process called "Tapete Azul" or Blue Carpet, a virtual boarding system which projects a moving walkway in the gate area to provide distancing and increase boarding efficiency.
- First airline in Brazil to offer, without any cost, medical assistance to customers during international trips in case of a positive diagnosis of COVID-19.
- Free transportation of health professionals.
- Free transportation of vaccines to cities where we operate.

These initiatives have contributed to increase customer confidence and support the strong market recovery in Brazil observed in 2020.

Strengthening of cash and liquidity: throughout the year, with the evolution of the pandemic, our management has endeavored to keep the necessary cash levels to face the crisis, which required negotiating deferral agreements with suppliers, bank creditors and lessors, as well as to access the capital market through the issuance of debentures. Main initiatives to preserve cash included:

- Postponement of profit share payments for 2019;
- Negotiation of new payment terms with suppliers;
- Suspension of business travels and discretionary expenses;
- Negotiation to reduce aircraft parking fees;
- Agreement to postpone delivery of 59 model E2 aircraft;
- Agreement with lessors resulting in a reduction of approximately 77% of the cash outflow for the period between April and December 2020, offset by slightly higher amounts from 2023 and the extension of the contractual terms.
- Renegotiation of the conditions and maturities of debentures and obligations of the Special Agency for Industrial Financing (*Agência Especial de Financiamento Industrial*), or FINAME; and
- Issuance of debentures convertible into shares in the amount of R\$1,745.9 million with a five-year maturity and interest of 7.5% in the first year and 6.0% starting the second year, with semiannual settlements.

Debentures convertible into shares: on November 12, 2020, we concluded the public offering for the distribution of debentures convertible into first-issue preferred shares, with security interest and additional guarantee by our subsidiary Azul Linhas Aéreas Brasileiras S.A., under CVM Instruction No. 400, with the following characteristics: (i) total issue amount: R\$1,745,900; (ii) issue date: October 26, 2020; (iii) term and maturity date: 5 years from the date of issue, maturing therefore on October 26, 2025; (iv) conversion price: R\$32.2649 per preferred share, resulting in an initial conversion premium of 27.50%, calculated on the VWAP (Volume Weighted Average Price) of 30 trading sessions of the reference share price of R\$25.3058.

The issuance of debentures is part of Azul's efforts to contain the economic impact of the COVID-19 pandemic on our operations and we expect to use the net proceeds obtained for working capital, expansion of our logistics activities and other strategic opportunities.

The debentures are redeemable, totally or partially, in cash at our discretion at any time, after 36 months, if the last price reported by American Depositary Share (ADS) representing Azul's preferred share exceeds 130% of the conversion price for a specific period.

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The debentures are guaranteed by the Company and its main operating subsidiary, ALAB, and are guaranteed by certain assets, including, but not limited to, intellectual property assets held by the guarantors and the TudoAzul frequent-flyer program, certain rights related to the right of use of the hangar and specific equipment necessary for maintenance of our hangar at Viracopos airport.

Our management continues to monitor our profitability and financial position, taking actions to sustain our ability to continue with operations in the foreseeable future. For more information, see “Item 3.D. Risk Factors—A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations.”

### Events Subsequent to the Date of the Financial Statements

During March 2021, Brazil started to experience the impacts of a second wave of COVID-19, the persisting impacts of the pandemic and uncertainties raised a turmoil in the market and a cooling of the economy. Therefore, there has been a reduction in demand for flights. Aiming to maintain adequate levels of liquidity, Management is negotiating postponement of payments to lessors and suppliers and suspended all non-urgent expenditures.

### Strengths and Opportunities

#### Our Competitive Strengths

We believe the following business strengths allow us to compete successfully:

##### *Largest Network in Brazil*

We have the largest network in Brazil in terms of departures and cities served, with around 700 daily departures serving 112 destinations, creating an unparalleled network of 203 non-stop routes as of December 31, 2020. Our connectivity at large hubs allows us to consolidate traffic, serving larger and medium-sized markets as well as smaller cities that do not generate sufficient demand for point-to-point service. We believe that our extensive network coverage allows us to connect more passengers than our competitors, who serve significantly fewer destinations. As of December 31, 2020, we served 110 destinations in Brazil, compared to 55 for Gol and 43 for LATAM. In addition, we were the sole airline on 77% of our routes and 35 of the destinations we served, and the leading player in 82 cities as of December 31, 2020. By comparison, Gol and LATAM were leading carriers in only 10 and 6 cities, respectively, as of December 31, 2020. Furthermore, as of December 31, 2020, 18% and 8% of our domestic network overlapped with that of Gol's and LATAM's, respectively, while Gol's and LATAM's networks had an overlap of approximately 87% between them.

##### *Our Optimized Fleet Enables us to Efficiently Serve our Target Markets*

Our fleet strategy is based on optimizing the type of aircraft for the different markets we serve. Our diversified fleet of ATR, E-Jets and Airbus aircraft enables us to serve markets that we believe our main competitors, who only fly one type of larger narrow-body aircraft, cannot serve profitably. We believe our current fleet of aircraft allows us to match capacity to demand, achieve high load factors, provide greater convenience and frequency, and serve low and medium density routes and markets in Brazil that are not served by our main competitors. Our domestic fleet consists of Embraer E-Jets which seat up to 136 passengers, fuel-efficient ATR aircraft which seat 70 passengers, next-generation Airbus A320neos which seat 174 passengers and Cessna Caravan which seat 9 passengers, while all the narrow-body aircraft used by Gol and LATAM in Brazil have between 138 and 220 seats. We also operate 11 Airbus A330s to serve international markets, three E-Jets converted to dedicated freighters and two Boeing 737 freighter aircraft to support our cargo business.

Our fleet plan focuses on maintaining a trip cost advantage relative to our main competitors while also providing us with flexibility for growth into new markets both domestically and internationally. Based on our current firm orders, between 2024 and 2025, we expect to add approximately 32 next-generation E-195 E2 aircraft and between 2021 and 2025, we expect to add 30 next-generation Airbus 320neos and 1 next-generation Airbus A330neo widebody aircraft to our fleet, replacing older generation aircraft. These new generation aircraft are more fuel-efficient than older generation aircraft, and therefore we expect that our fleet plan will allow us to maintain market-leading trip costs and to reduce our CASK, both in absolute terms and relative to our main competitors.

[Table of Contents](#)*Industry-Leading PRASK*

We utilize a proprietary yield management system that is key to our strategy of optimizing yield through dynamic fare segmentation and demand stimulation. We target both business travelers, to whom we offer convenient flight options, and cost-conscious leisure travelers, to whom we offer low fares to stimulate air travel and to encourage advanced purchases. This segmentation model has enabled us to achieve a market-leading PRASK of 30.41 centavos in the year ended December 31, 2019. In addition, in 2019, our PRASK represented a 18.7% premium compared to Gol. We believe our superior network and product offering allows us to attract high-yield and frequent business travelers. Our PRASK was impacted by the COVID-19 pandemic, reaching 24.95 centavos in the year ended December 31, 2020. We saw a strong PRASK increase of 23% in the fourth quarter of 2020 compared to the previous quarter, which is further evidence of the demand recovery and the sustainable competitive advantages of our business.

According to ABRACORP, we held a 34.7% share in terms of Brazilian business-focused travel agency revenue, compared to a 28% market share in terms of RPKs as of December 31, 2020.

As an illustration of our ability to stimulate demand, the following table highlights the increase in average customers per day on certain routes from November 2008, shortly before we started operations, to December 2019 and December 2020:

	Total Direct Flights	Azul	Average Daily Enplanements (One Way)
<b>Campinas—Rio de Janeiro</b>			
November 2008	6	—	564
December 2019	17	15	1,326
December 2020	11	9	824
<b>Campinas—Salvador</b>			
November 2008	—	—	155 <sup>(1)</sup>
December 2019	2	2	547
December 2020	5	4	518
<b>Campinas—Belo Horizonte</b>			
November 2008	5	—	503
December 2019	10	10	1,934
December 2020	7	7	831
<b>Belo Horizonte—Goiânia</b>			
November 2008	1	—	82
December 2019	4	4	299
December 2020	3	3	305
<b>Campinas—Porto Alegre</b>			
November 2008	—	—	241 <sup>(1)</sup>
December 2019	8	8	772
December 2020	7	7	900

(1) Itinerary available through connecting flight only.

The increase in flights from Campinas, our main hub, illustrates the success of our demand-stimulation model. Across Brazil, our Campinas hub offers superior connectivity for connecting passengers, with the most non-stop services of any airport in the country as of December 31, 2020. As a result of our focus on underserved markets, we have been able to establish a successful platform that has significantly increased demand at Viracopos airport over the last 12 years. In November 2008, before we began operations, airlines serving Viracopos airport offered just twelve daily departures to eight destinations. As of December 31, 2019, Viracopos airport offered 139 domestic daily departures to 61 destinations, and we held a 97.4% share of those daily departures. In 2020, even impacted by the COVID-19 pandemic, Viracopos airport offered 121 daily domestic departures to 45 destinations, and we held a 97.4% share of those daily departures.

[Table of Contents](#)*Most Efficient Cost Structure in the Brazilian Market*

We have leveraged our management team's experience by implementing a disciplined, low-cost operating model to achieve our operational efficiencies. We believe we have achieved these operational efficiencies primarily through:

- Optimized aircraft for markets and routes served;
- Low cost of sales, distribution and marketing through direct-to-consumer marketing, e-commerce (approximately 87% of all sales were generated by online channels in year of 2020) and associated use of social networking tools;
- Lower costs due to single-class cabin configuration for our domestic flights;
- Operation of a modern fleet with better fuel-efficiency and lower maintenance costs than previous generation aircraft;
- Innovative and beneficial financial arrangements for our aircraft, as a result of being one of the largest customers for Embraer and ATR aircraft;
- Investment in check-in technology to increase operating efficiencies; and
- Creation of a company-wide business culture focused on driving down costs.

As a result, we have achieved lower trip costs than our main competitor. In the year ended December 31, 2019, our average trip cost was R\$31,863, 29.6% lower than that of Gol. In the year ended December 31, 2020, our costs were significantly impacted by the COVID-19 pandemic and our average trip cost was R\$45,897. On the other side, our FTEs per aircraft were the lowest in Brazil at 74 compared to 109 for Gol as of December 31, 2020.

We have a robust and scalable operating platform that features advanced technology such as ticketless reservations, an Oracle financial system, a mobile app, and electronic check-in kiosks at our main destination airports. We believe that our scalable platform provides superior reliability and safety and will generate economies of scale as we continue to expand.

*Strategic Global Partnerships*

We have established long-term strategic partnerships with United and TAP. In 2015, United, acting through a subsidiary, acquired shares representing approximately a 5% economic interest in our company for US\$100 million. In 2018, United acquired additional shares and increased its economic interest in our company to 8.0%. Our alliance with United has enhanced the reach of our mutual networks and created additional connecting traffic, as both we and United began selling each other's flights on our websites through a code-share agreement. This code-share agreement also provides customers flying on both airlines with a seamless reservations and ticketing process, including boarding pass and baggage check-in to their final destination, and we are evaluating possible additional cooperation with United.

As part of the TAP's privatization process in 2016, a consortium of private investors (including our principal shareholder) acquired a stake in TAP, and we invested €90 million in exchange for TAP bonds convertible into 41.25% economic interest in TAP.

On March 14, 2019, we acquired a fully diluted economic stake of 6.1% in TAP from Hainan Airlines (Hong Kong) Co. Limited for a purchase price of US\$25 million.

On August 10, 2020, as informed at TAP's extraordinary shareholders meeting, due to the crisis caused by the COVID-19 pandemic, the Portuguese government negotiated an aid package of €1.2 billion for TAP airline with the European Commission, conditioned upon, among other factors, the elimination of the right to convert senior bonds into equity, so that they would not be diluted by the Portuguese government's financial contribution.

On October 2, 2020 Azul successfully concluded the sale of its equity participation in TAP as part of the restructuring effort led by the Portuguese government, raising approximately R\$70 million in cash.

As a result of our existing code-share agreements with United and TAP, our customers have access to more than 200 additional destinations worldwide. In addition, we believe that our strategic partnerships with these airlines provide our TudoAzul members with a broad range of attractive redemption options.

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On February 6, 2020 we entered into a commercial joint venture agreement with TAP. Through this agreement, we intend to bring more connectivity to the Brazilian domestic network and access to the European market, providing a more streamlined travel experience to customers flying between Brazil and Europe. The transaction was approved by our shareholders on December 9, 2019 and the closing of the transaction remains subject to regulatory approvals. We have made progress on certain governance matters relating to the joint venture; however, given the uncertainties around the COVID-19 pandemic and its effects over our industry, we have put on hold certain aspects of the implementation of the joint venture, including with respect to obtaining the necessary regulatory approvals.

#### *High-Quality Customer Experience Through Product and Service-Focused Culture*

We believe we provide a high-quality, differentiated travel experience and have a strong culture focused on customer service. Our crewmembers are trained to be service-oriented, focusing on providing the customer with a travel experience that we believe is unique among Brazilian airlines. We provide extensive training for our crewmembers that emphasizes the importance of both safety and customer service. We strive to hold our employees accountable to maintain the quality of our crew and customer service.

Our service features include advanced seat assignment, leather seats, individual entertainment screens with free live television at every seat in all our jets, extensive legroom with a pitch of 30 inches or more, complimentary beverage and snack service, free bus service to key airports we serve (including between the city of São Paulo and Viracopos airport) and a fleet younger than that of our competitors.

We focus on meeting our customers' needs and had one of the best on-time performance records among Brazil's largest carriers for the last four years, according to Cirium, at 87%, 85%, 86.5% and 87.5% for the years ended in December 31, 2020, 2019, 2018 and 2017, respectively. In addition, our completion rate has been consistently high, totaling 98.94% in 2020, 98.58% in 2019, 98.48% in 2018 and 98.82% in 2017.

#### *Well-Recognized Brand*

We believe we have been successful in building a strong brand by using innovative marketing and advertising techniques with low expenditures that focus on social networking tools to generate word-of-mouth recognition of our high-quality service. As a result of our strong focus on customer service, surveys that we have conducted indicate that, as of December 31, 2020, 68% of our customers would recommend or strongly recommend Azul to a friend or relative. In addition, we use the NPS (Net Promoter Score) metric to measure customer satisfaction and in 2020, our average score totaled 52.8, significantly higher than Gol's NPS of 38. The strength of our brand has been recognized in a number of awards:

- Named "Best Airline in the World" in 2020 by TripAdvisor Traveler's Choice Awards, the first time a Brazilian Flag Carrier ranked number one in the Traveler's Choice Awards;
- Ranked among the ten best airlines in the world in 2017, 2018 and 2019 and best airline in Latin America in 2018 and 2019 by TripAdvisor Traveler's Choice Awards, the only Brazilian airline ever to appear on this ranking;
- Named "Best Airline in Brazil" in 2019 for the third consecutive year by Melhores Destinos, the largest web portal of airline fare promotions and loyalty programs in Brazil;
- Named "Best Regional Carrier in South America" in 2018 and 2019 by Skytrax, an aviation research organization;
- Named "Best Staff in South America" in 2019 for the fourth consecutive year by Skytrax;
- Recognized as the "Most On-Time Low Cost Carrier in the World" by OAG in 2018 for the second time;
- Recognized as the "Most On-time Low Cost Carrier in the Americas" by OAG in 2018;
- Named "Fastest Check-in in Brazil" in 2018 for the third consecutive year by the Civil Aviation Secretariat (*Secretaria de Aviação Civil*);
- Named "Best Low Cost Carrier in South America" in 2017 for the seventh consecutive year by Skytrax;
- Named "Best Low Cost Carrier in The World" in 2012 by CAPA, an independent aviation research organization;
- Named one of the "50 Most Innovative Companies in The World" and "Most Innovative Company in Brazil" in 2011 by Fast Company, a business magazine; and
- Named one of the "50 Hottest Brands In The World" in 2010 by Ad Age, a leading marketing news source.

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In addition, as a result of our strong brand awareness and focus on customer service, our TudoAzul loyalty program had approximately 12.6 million members as of December 31, 2020 and has been recognized with the following awards:

- Named “*Best Loyalty Program in Brazil*” from 2016 to 2020 by Melhores Destinos;
- Named “*The Loyalty Program with the Best Fares in Brazil in 2016-2017*” by Melhores Destinos; and
- Recognized as having “*The Most Innovative Co-Branded Credit Card*” at the 2015 Loyalty Awards Event presented by Flight Global, a renowned website recognized by the global aviation community as a reliable source of news, data and expertise relating to the aviation and aerospace industries.

#### *Experienced Management Team*

We believe we benefit from our highly knowledgeable and experienced management team. Our senior management, which has senior airline experience both in Brazil and in the United States, includes:

- Our Chairman and Founder David Neeleman, a dual Brazilian and U.S. citizen, who has founded five airlines in three different countries, including JetBlue Airways;
- Our Chief Executive Officer, John Peter Rodgerson, who previously served as our Chief Financial Officer and our Investor Relations Officer, where he was responsible for implementing our financial strategy and cost structure since our inception. Mr. Rodgerson also served as Director of Planning and Financial Analysis at JetBlue Airways for five years. Mr. Rodgerson also serves as Chief Executive Officer of our only operating subsidiary – Azul Linhas Aéreas Brasileiras (ALAB);
- Our Chief Financial Officer and Investor Relations Officer, Alexandre Wagner Malfitani, who previously served as the Head of our TudoAzul loyalty program, and our Director of Finance and Treasurer. Before joining Azul, Mr. Malfitani held the position of Managing Director of Treasury at United, having also worked in the finance industry, including as a fund manager at Deutsche Bank and as a trader at Credit Agricole Indosuez;
- Our Chief Revenue Officer, Abhi Shah, who has more than 16 years of experience in the aviation industry and has previously held executive positions at JetBlue Airways and Boeing. He was responsible for developing our yield management, network planning and revenue structure;
- Our Vice-President of People and Customers, Jason Ward, was a member of the original start-up team of Azul in 2008 and played an integral role in the Company’s merger with TRIP a few years later. In 2016, Mr. Ward moved to Portugal and worked as Chief Operating Officer at TAP before returning to Azul in September 2017. He started his career in 1992 at Morris Air, the first airline founded by David Neeleman and has worked with Mr. Neeleman in marketing and sales at Southwest Airlines and customer services at JetBlue Airways; and
- Our Chief Operating Officer, Flávio Costa, who has been part of the Azul founding team since inception and has more than 40 years of experience in the airline industry, having served as Technical and Operations Director at Pluna S.A., and OceanAir and as Technical Director at Varig.

Most of our senior management team has worked together for almost ten years and has been with us since our launch. All non-Brazilian individuals on the team are residents of São Paulo with permanent work visas. In addition to Mr. Neeleman, all of our principal officers are also shareholders in our company, and all are motivated by participation in our stock-based incentive plans, which we believe aligns shareholders’ and management’s interests. Our management team has focused on establishing a successful working environment and employee culture. We believe the experience and commitment of our senior management team have been a critical component in our growth, as well as in the continuing enhancement of our operating and financial performance.

To align senior management interests with our results of operations, we provide a leadership incentive plan based on the achievement of pre-defined company performance targets including operating margin, customer satisfaction, crewmember satisfaction, and on-time performance. We also have established a stock option plan for our leadership that vests over a four-year period. See “Item 6.B. Management Compensation—Stock-Based Incentive Plans.”



[Table of Contents](#)**Principal Strategies***Adding Larger, More Fuel Efficient, Next-Generation Aircraft to our Fleet*

We intend to continue adding next-generation, more fuel-efficient aircraft to our fleet replacing older generation aircraft. In addition to providing us with leading low seat costs, these aircraft have more seats contributing to an increase in revenue generated from connecting traffic, our loyalty business, our cargo business, and our travel package business. Based on our current firm orders, between 2024 and 2025, we expect to add approximately 32 next-generation E2 aircraft and between 2021 and 2025, we expect to add 30 next-generation Airbus 320neos and one next-generation Airbus A330neo widebody aircraft to our fleet, replacing older generation aircraft.

We have begun to introduce next-generation Airbus A320neos, which have 56 more seats than our current E-Jets for longer-haul leisure service in December 2016. At that time, we started flying between our main hub in Campinas and our other hub in Recife with our next-generation Airbus A320neos. This approximately three-hour flight provides us with a 29% lower seat cost than our current E-Jets and provides sufficient seat capacity to connect customers between both hubs.

We started to introduce the Embraer E2 to replace current generation E-Jets starting in the second half of 2019. The E2s have 18 additional seats and a 25% lower cost per seat and a 14% lower cost per trip compared to the E-Jets.

We believe that by applying this strategy we will continue improving our profitability going forward by reducing our cost per seat while expanding revenue.

*Increasing Flight Frequencies, Connecting Cities and Adding New Destinations*

While most of our capacity growth over the next five years is expected to derive from the replacement of smaller aircraft with larger next generation aircraft, we intend to continue identifying, entering into and rapidly achieving leading market presence in new markets or underserved markets with high growth potential. We also intend to continue to grow by adding new destinations to our network, further connecting the cities that we already serve with new non-stop service, increasing frequency in existing markets, and using larger aircraft in markets that we have developed and grown over the years.

We intend to apply our disciplined approach of selecting new destinations that can be served by our ATR or Embraer aircraft, with a continued focus on Brazilian cities where we believe there is the greatest opportunity for profitable growth, and on select destinations in South America with perceived high growth potential. Our ATR aircraft give us a significant strategic advantage in the ability to enter new cities and access previously untapped demand, since these aircraft only have 70 seats and, therefore, have much lower trip costs than larger aircraft and require fewer passengers for the flight to become profitable.

We believe there are significant opportunities to connect the cities we currently serve with non-stop service where none existed before. We believe that our Embraer fleet is the ideal fleet type to connect such cities due to the combination of seat count and low trip costs.

On existing routes that we believe present additional demand, we intend to increase the number of daily flights with our E-Jets to achieve or further increase schedule superiority over our competitors. For example, we increased our daily departures on the Campinas—Rio de Janeiro route from three to 15 between March 2009 and December 2019, and our daily departures on the Campinas—Belo Horizonte route from four to 10 between August 2009 and December 2019. By providing this additional convenience to our customers, we aim to continue stimulating demand for our products and services. We also intend to continue operating the A320neos mostly in high density, longer-haul leisure markets. In 2020, as a result of the COVID-19 pandemic, the number of daily departures reduced significantly compared to 2019, but we remain focused on our long-term strategy and confident in a full recovery by the end of 2021.

We plan to focus our international growth on connecting our strong presence in Brazil via our hub in Campinas, Belo Horizonte and Recife and our current long-haul international destinations Fort Lauderdale, Orlando, Lisbon and Porto. We believe we are especially suited to stimulate additional demand for travel to key long-haul international destinations, which can be served by our Airbus A330s, by taking advantage of our focused domestic route structure, both in terms of passengers and overall connectivity throughout Brazil. We currently reduced our international flights due to the pandemic and international flights restrictions. We continue to leverage our position as the largest airline in Viracopos airport by offering international flights as well as connecting passengers throughout Brazil. Additionally, our codeshare flights with United and TAP enables us to connect our main hubs with United's destinations in the U.S. and TAP's destinations in Europe.



[Table of Contents](#)*Continue to Unlock Value from our TudoAzul Loyalty Program*

As a result of the growth of our network, we believe there is an opportunity to further unlock value from our TudoAzul loyalty program. With more than 12.6 million members as of December 31, 2020, TudoAzul has been the fastest growing loyalty program among the three largest programs in Brazil for the past six years, according to publicly available information of such competitors, including disclosure filed with or furnished to the SEC and information available on their respective websites. TudoAzul sells loyalty points to business partners as well as directly to program members. Our current business partners include financial institutions such as Itaú, Santander, Livelio (Banco do Brasil's and Bradesco's loyalty joint venture), and Caixa, retailers (including Casas Bahia, Magazine Luiza and Fast Shop), and travel partners (including Accor, RentCars, Hertz, and Booking.com).

In September 2014, we launched an Azul-branded credit card in partnership with Banco Itaucard S.A.

In addition, in December 2015, we launched Clube TudoAzul, an innovative, subscription-based product through which members pay a fixed recurring amount per month in exchange for TudoAzul points, access to promotions and other benefits. We also offer members the ability to buy points to complete the amount required for a reward, or pay a fee to renew expired points or transfer points to a different member's account. We believe that our international flights and strategic partnerships with international carriers, including United and TAP, provide our TudoAzul members with a broad range of attractive redemption options.

In October 2020, we also launched an Azul co-branded credit card, the Azul Itaucard Visa Infinite, which is the best positioned card in Itaú portfolio and offers the best benefit of any airline credit card in Brazil.

We offer last-seat availability to TudoAzul members and have significant flexibility to price redemptions in a way that is competitive with other loyalty programs, thus helping to maximize TudoAzul's attractiveness. We actively manage the price of our redemptions, offering very competitive fares in points when seat availability is high and optimizing margin in peak, high-demand flights. We have also developed an exclusive, proprietary pricing system, which provides ample flexibility to price redemptions within a given flight. This allows us to sell seats using several combinations of points and money. It also allows us to customize pricing using a number of different factors, such as a member's elite tier, membership in Clube TudoAzul, and age (allowing us to offer lower prices to infants and children). We are confident that this proprietary system offers more flexibility than those of our main competitors, therefore allowing us to create promotions, stimulate cross-sell of other TudoAzul products, and more accurately price redemptions to maximize profitability.

In an effort to maximize the value creation potential of TudoAzul, we have been managing the program through a dedicated team since mid-2015. On a standalone basis, TudoAzul's gross billings ex-airline totaled R\$879 million in the year ended December 31, 2020 compared to R\$1,298.0 million in the year ended December 31, 2019, mainly due to COVID-19 pandemic impact. Given the number of exclusive destinations we operate, our network strength, and the expected growth of passenger air travel, credit card penetration and usage and member loyalty in Brazil, we believe that TudoAzul is a strategic business for us. As TudoAzul is our wholly-owned subsidiary, all of the cash flows generated by this high-growth, high-margin business accrue to our shareholders in a tax-efficient manner. We plan to continue investing in TudoAzul's expansion and evaluating opportunities to unlock value for this strategic asset.

*Continue to Increase Ancillary, Cargo and Other Revenue*

We intend to continue growing our ancillary, cargo and other revenue, by both leveraging our existing products and introducing new ones. We intend to focus on deriving further value from our existing ancillary and other revenue streams, which represented R\$93.91 per passenger as of December 31, 2020 and included revenue from bag fees, upgrades, other passenger related fees, cargo services, sales of advertising space in our various customer-facing formats, and commissions on travel insurance sales. As a result of the introduction of larger next-generation aircraft to our fleet, we expect to have more seat availability for our TudoAzul loyalty program and our Azul Viagens travel package business as well as additional cargo capacity.

Other revenue streams are expected to be mostly driven by our logistics solutions business, Azul Cargo. In 2020 Azul Cargo grew 38.4% in terms of gross revenues, reaching R\$764.1 million mostly driven by our increase in cargo volume transported and our expanding presence in the e-commerce segment. We ended 2020 with a 33% share of cargo volume transported in Brazil, giving the importance of our unique network and the capillarity support it provides. Our extensive route network and our strategic location at Viracopos airport, the second largest cargo airport in Brazil, according to ANAC, in addition to our high reliability and on-time performance, provide a significant value proposition for our cargo services.

[Table of Contents](#)*Continue to Establish and Extend Strategic Partnerships*

As of December 31, 2020, we had code-share agreements with LATAM airlines, United, TAP, JetBlue, Turkish Airlines, Ethiopian Airlines, Copa Airlines, Beijing Capital, Alitalia and Avianca Colombia, as well as 28 interline agreements with a number of other international airlines, allowing us to handle passengers traveling on itineraries that require multiple flights on multiple airlines widening our network. As part of our plans to expand globally, we have established strategic partnerships with United and TAP. We view these and possible future relationships with other airlines as strategic ways of allowing us to expand our network with connectivity throughout the United States, Europe and Asia without having to commit the full resources on our own. We believe that our existing and future customer base are increasingly taking advantage of the ability to fly internationally, and we aim to be able to offer our Brazilian customers a seamless ability to do so, whether by purchasing tickets on partner airlines on our website or through connected and complimentary schedules facilitating onward travel outside of Brazil. In addition to facilitating a more global network for us through these partnerships, we are exploring a variety of cooperative arrangements, including additional interline agreements, code-sharing, access to partner airlines' frequent flyer programs and possible cobranding efforts. We also see opportunities to leverage these relationships to facilitate greater operating efficiencies by utilizing partner expertise in maintenance, cargo transport and even possible pilot and crew training and redeployment, as well as redeployment of redundant or unneeded aircraft. We are exploring joint ventures and other arrangements with our partners to determine the most effective and beneficial ways to leverage these relationships for all parties.

We view our partnerships as critical to our global connectivity but also as a way to addressing macroeconomic pressures in Brazil. By working with our partners, we believe we have and can continue to adapt to changing economic conditions and do so swiftly in areas involving our fleet, crews and operating expenses. We expect to continue evaluating strategic partnership opportunities, including investments and acquisitions, that allow us to improve our network, offer more attractive benefits to our TudoAzul members, enhance our brand and build loyalty and revenue.

In June 2020, we announced a codeshare agreement with LATAM to connect routes in our respective domestic networks in Brazil. The two carriers also signed a frequent flyer agreement, enabling 12 million TudoAzul and 37 million LATAM Pass members to earn points in the frequent flyer program of their choice. The codeshare agreement will initially include 50 non-overlapping domestic routes to/from the cities of Brasilia (BSB), Belo Horizonte (CNF), Recife (REC), Porto-Alegre (POA), Campinas (VCP), Curitiba (CWB) and Sao Paulo (GRU), providing customers in Brazil with a vast array of new and more convenient connection opportunities. The codeshares will also facilitate a smoother travel experience between Azul and LATAM flights with shared ticketing, check-in and baggage transportation.

*Description of Our Products and Services*

Our principal product is the scheduled air transportation of customers, which generates passenger ticket and non-ticket revenue. In addition, we generate revenue through our wholly-owned TudoAzul loyalty program, our cargo transportation operations, and our travel and tourism operations.

**Scheduled Air Transportation**

We target business travelers by offering convenient and frequent service to numerous destinations, 35 of which we served exclusively as of December 31, 2020. We also target leisure travelers with our extensive route network and our segmented pricing model, offering low fares for advance purchases. In connection with our scheduled air transportation services, we generate passenger ticket revenue and other revenue, such as passenger related ancillary revenue, cargo revenue through our Azul Cargo business, and the sale of travel packages, through our Azul Viagens business.

[Table of Contents](#)*Passenger Revenue*

We believe our extensive network and our range of product offerings allow us to attract high-yield business travelers, who we believe make up the largest component of our ticket revenue and customers. According to ABRACORP, we held a 34.7% share in terms of Brazilian business-focused travel agency revenue and our average business-focused travel agency ticket price was approximately 18% higher than those of our main competitor in the year ended December 31, 2020. By comparison, we held a disproportionately smaller market share in terms of total domestic passengers transported, as measured by RPKs at 28%, during the same period, according to ANAC, which demonstrates our competitive strength in the corporate market segment, even during the pandemic. We attribute this to our network connectivity, which provides business passengers with several connection options allowing them to more easily and conveniently reach their destinations, as well as to the fact that we are the only player in certain markets that are attractive to business travelers. Leisure travelers, by contrast, are typically more price sensitive than business travelers, but tend to be more flexible regarding flight schedules.

Passenger revenue also includes revenue derived from the sale of TudoAzul points to third parties. For more information, see “Item 4.B. Business Overview—TudoAzul Loyalty Program.”

In the year ended December 31, 2020, passenger revenue was R\$5,039.6 million, representing 87.7% of our net revenue. Passenger revenue was R\$10,907.9 million in the year ended December 31, 2019 and R\$8,670.1 million in the year ended December 31, 2018, representing 95.3% and 95.7% of our net revenue, respectively. On January 1, 2018, we adopted IFRS 15, which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees, since they are deemed part of the single performance obligation of providing passenger transportation. These ancillary items are now recognized in passenger revenue while non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized under other revenue.

In addition to generating passenger revenue derived from the sale of tickets and TudoAzul points, we generate ancillary revenue by selling travel insurance and by charging fees for certain services, such as checked baggage fees, cancellation fees, change fees, no-show fees, call center booking fees, online booking fees. We also offer upgrades to our premium “Espaço Azul” seats that feature additional legroom in our domestic flights and to our “Economy Xtra,” “SkySofas” and business class seats available on our international flights serviced with Airbus A330 aircraft. Our “Economy Xtra” cabin has an additional three inches of legroom in a 2-4-2 configuration and our “SkySofas” are an innovative feature consisting of four economy seats with a footrest that can be raised to create a flat, sofa-like, flexible space for families to sleep together more comfortably.

*Cargo and other Revenue*

Other revenue streams are expected to be mostly driven by our logistics solutions business, Azul Cargo. In 2020 Azul Cargo gross revenue grew 38.4%, reaching R\$764 million mostly driven by our increase in cargo volume transported and our expanding presence in the e-commerce segment. We ended 2020 with a 33% share of cargo volume transported in Brazil, giving the importance of our unique network and the capillarity support it provides.

The growth of our cargo business was also driven by our international expansion and the introduction of larger next-generation aircraft to our fleet, which have larger cargo capacity. As a result of the rapid growth of our cargo business, we have leased two used 737-400 freighter aircraft in 2018 and 4 E-Jets were converted into dedicated cargo freighter in 2020. We offer cargo transportation services to over 3,700 locations and we have around 300 cargo stores across Brazil that offer our cargo transportation services. We transport cargo by air and hire independent third parties to transport and deliver cargo to its final destination by ground transportation. While we are liable to our customers for proper cargo delivery, our agreements with such independent third parties provide for our right of recourse against them if any losses occur during the ground transportation.

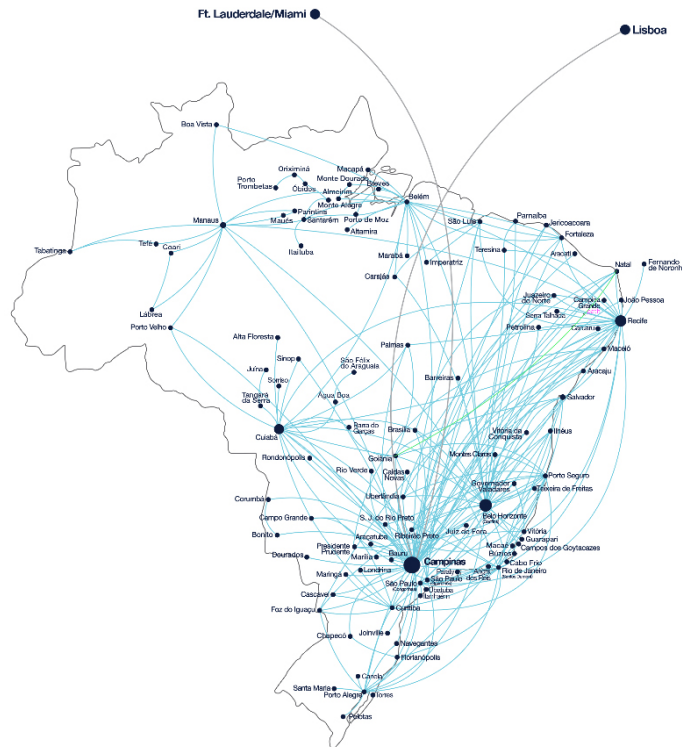
We also derive revenue streams from our travel and tourism operations, Azul Viagens, which combine airfare, ground transportation and lodging options. The travel packages we offer are either pre-built or flexible and customized and can be purchased through our website or, as of December 31, 2020, at one of the 1,865 travel agencies that offer our travel products or at one of our 36 free-standing stores.

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Cargo and other revenue was R\$704.5 million in 2020, R\$534.4 million in 2019 and R\$386.9 million in 2018, representing 12.3%, 4.7% and 4.3% of our net revenue, respectively. On January 1, 2018, we adopted IFRS 15 that impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees, since they are deemed part of the single performance obligation of providing passenger transportation. These ancillary items are now recognized in passenger revenue while non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized under other revenue.

## Route Network

We offer flights to every region in Brazil and to select international destinations. The map below shows the destinations and routes we currently serve.



As of December 31, 2020, we served 112 destinations, including 110 cities across every region in Brazil, the largest number of destinations offered by a Brazilian airline and our flights represented approximately one third of the total domestic departures in the country. Our main hub is in Campinas at Viracopos airport, approximately 100 kilometers (62 miles) from the city of São Paulo. From Viracopos airport, we provided non-stop service to 45 Brazilian cities accounting for 95% of that airport's 121 daily domestic departures as of December 31, 2020.

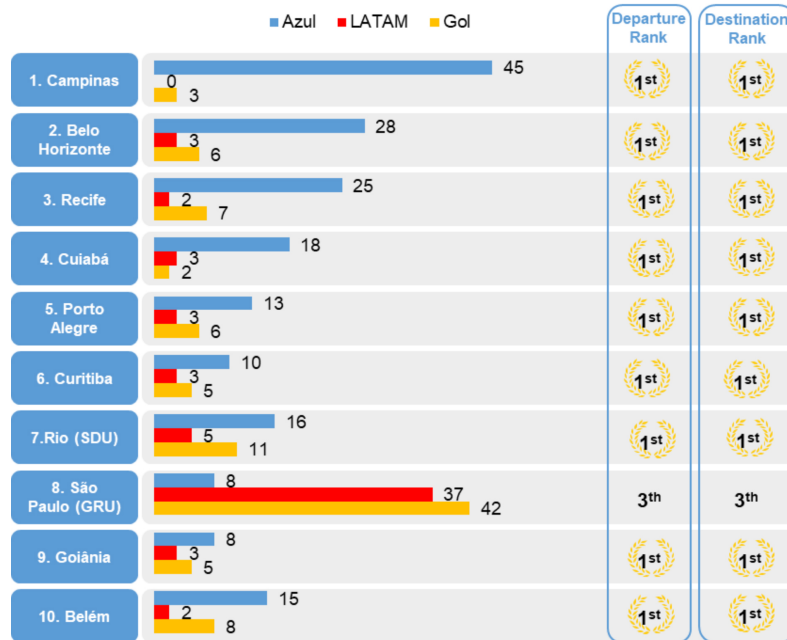
Our second largest hub is located at Belo Horizonte's main airport, where we served 28 domestic destinations and had a 78% share of that airport's 76 daily departures as of December 31, 2020. This hub serves Belo Horizonte, which is the capital city of Minas Gerais, the third wealthiest state in Brazil according to IBGE.

We also built a hub in Recife, which serves 25 domestic non-stop destinations. We had a 74.0 % share of Recife's airport's 67 daily domestic departures as of December 31, 2020. Recife is one of the largest cities in the Northeast of Brazil, and this hub allows us to increase flight connectivity within the Northeast region to other parts of Brazil and internationally, making it our closest hub for non-stop flights to both Europe and the United States.

Our diversified network allows us to connect not only our main hubs but also strategic airports throughout Brazil located in, among other places, São Paulo (Guarulhos and Congonhas airports), Rio de Janeiro (Santos Dumont and Galeão airports), Porto Alegre, Cuiabá, Belém and Manaus.

[Table of Contents](#)*Domestic Routes*

The chart below shows the number of non-stop domestic destinations offered by us and by our competitors at select airports as of December 31, 2020:

**Non-stop Domestic Destinations by Airport (December 31, 2020)**

Source: Anac and Azul

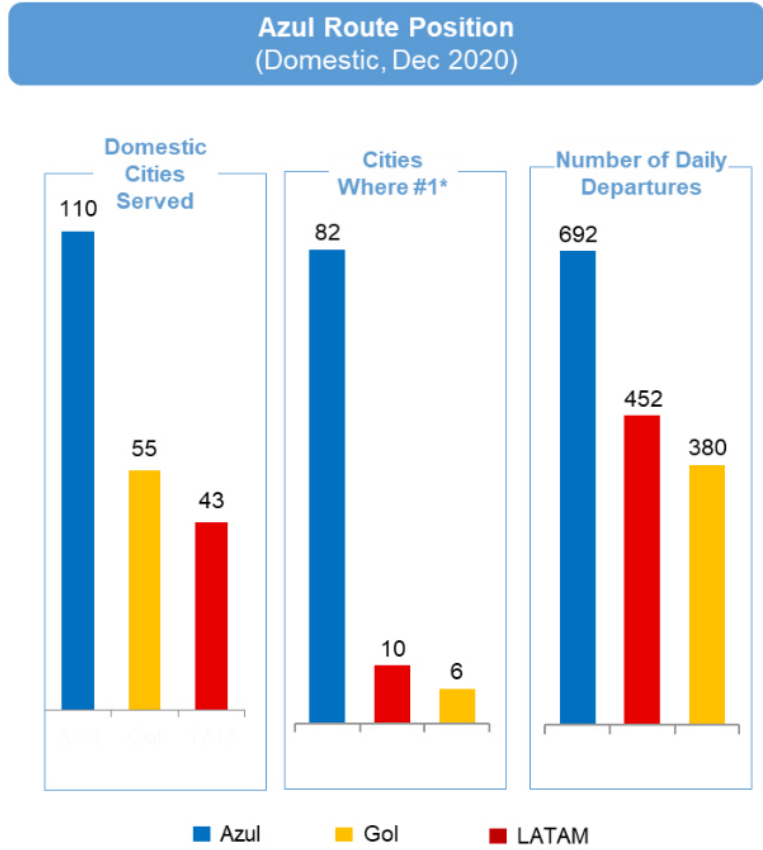
The table below shows our top ten cities served by average number of departures per day as of December 31, 2020.

Airport	Azul Average Number of Departures per Day	Azul Leadership Position (departures)
Campinas	120	1
Belo Horizonte (Confins)	76	1
Recife	67	1
São Paulo (Guarulhos)	18	3
Rio de Janeiro (Santos Dumont)	45	1
Curitiba	22	1
Porto Alegre	26	1
Cuiabá	20	1
Belém	23	1
Goiânia	11	1

Source: Azul

Our focus on providing a large route network with convenient service has enabled us to become the market leader in 82 cities and 43% of our routes in terms of departures, being the only operating airline in 35 cities and the leader on 77% of our routes as of December 31, 2020. By comparison, as of December 31, 2020, Gol and LATAM were leading carriers in 10 and 6 cities in Brazil, respectively. In addition, the routes in which we hold a leadership position represent approximately 58.3% of our total ASKs and 57.5% of our total passenger revenue.

The chart below shows the number of cities we serve and the number of cities in which we are a market leader in terms of departures by cities served in comparison with Gol and LATAM, as of December 31, 2020.



Source: Anac and Azul

\* Considers leadership in terms of number of departures

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The map below shows the domestic cities in which we are a market leader in terms of departures in comparison with Gol and LATAM, as of December 31, 2020:



Our extensive network coverage allows us to offer more itineraries and connections than our competitors, which serve a significantly lower number of destinations.

We believe our optimized fleet is uniquely tailored to the Brazilian market and to our growth strategy, allowing us to serve cities with different demographics ranging from large capitals to smaller cities throughout Brazil. For more information on our fleet, see “Item 4.B. Business Overview—Fleet.” As a result, we believe we effectively match capacity to demand by offering more convenient and frequent non-stop service than Gol and LATAM, which exclusively fly larger aircraft within Brazil, and we believe are limited to serving only a subset of cities profitably due to infrastructure restrictions that do not affect certain of our aircraft. We believe we are effective in adjusting our capacity to meet demand by timing aircraft deliveries and maintenance schedules accordingly. We intend to continue to grow sustainably and profitably by further adding new domestic and international destinations, interconnecting the cities that we already serve and increasing frequency in existing markets.

To enhance our connectivity in Brazil, we have entered into code-share and frequent flyer reciprocity agreements with LATAM Airlines. For more information on our code-share arrangements and strategic partnerships, see “Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements.”

#### *International Routes*

Our international expansion strategy is based on connecting our strong presence in various cities in Brazil with our current long-haul international destinations of Fort Lauderdale, Orlando, Lisbon and Porto and select destinations in South America. In addition, we serve other international destinations according to seasonal demand.

The outbreak of COVID-19 resulted in significant decreases in passenger traffic, mainly in the international flights as borders remain closed and the imposition of government restrictions.

For the year ended December 31, 2020, our international revenue, including cargo, represented 17.1% of our net revenue, as compared to 19.6% for the year ended December 31, 2019.

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We believe our main hub in Campinas, which offers non-stop flights to 45 domestic destinations and is the largest domestic hub in South America in terms of destinations served is uniquely suited to serve our international routes due to our focused domestic route structure, both in terms of passengers and overall connectivity throughout Brazil. Once in Campinas, our international passengers are able to take advantage of our full domestic route structure to connect to every region in Brazil. In the United States, we already serve Fort Lauderdale and Orlando, Florida from Viracopos, Belo Horizonte and Recife.

To enhance our connectivity outside of Brazil, we have entered into code-share and frequent flyer reciprocity agreements with United and TAP, as well as 7 other code-share and 28 interline agreements with several other international carriers. For more information on our code-share arrangements and strategic partnerships, see “Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements.”

In March 2016, we established a strategic partnership with TAP, further supporting our plans to expand globally. For more information regarding our investment in TAP, see “Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP.” As a result of this strategic partnership, in June 2016, we successfully launched a non-stop code-share flight between our and TAP’s main hubs, Campinas and Lisbon, respectively. As of December 31, 2020, TAP served 43 destinations, including 8 destinations in Brazil, and therefore was the number one European carrier serving Brazil in terms of number of seats and flights. Our flight to Lisbon enhances our passenger connectivity between Brazil and Europe and allows our business and leisure passengers to take advantage of TAP’s network to access key destinations in Europe. Furthermore, we expect to continue taking advantage of our network connectivity by adding select destinations in South America to be served by our narrow-body aircraft.

## Customer Service

We believe that a high-quality product and exceptional service significantly enhance customer loyalty and brand recognition through word-of-mouth, as satisfied customers communicate their positive experience to others. Based on this principle, we have built a strong company culture focused on customer service that serves as the foundation of a differentiated travel experience. According to surveys we have conducted, as of December 31, 2020, 68% of our customers would recommend or strongly recommend Azul to a friend or relative. In addition, we use NPS (Net Promoter Score) to measure customer satisfaction, and in 2020 our score totaled 52.8.

### *Crewmembers*

Our crewmembers are specifically trained to implement our values in their interactions with our customers, particularly through being service-oriented and taking individual initiatives, focusing on providing customers with a travel experience that we believe is unique among Brazilian airlines. We strive to instill our “customer comes first” and “can do” approach in all our crewmembers, which is reflective of how we manage our business.

### *Product Features*

We endeavor to provide our passengers with a differentiated travel experience focused on convenience and comfort. To serve this goal, we offer customers the following features:

- a fleet younger than those of our main competitors, Gol and LATAM;
- advanced seat assignment;
- leather seats;
- individual entertainment screens with free live television at every seat in all our jets;
- extensive legroom with a pitch of 30 inches or more;
- complimentary beverage and snack service on domestic flights;
- free bus service to certain key airports we serve (including between the city of São Paulo and Viracopos airport); and
- four-seat “SkySofas,” offering full-length beds in certain economy class cabins.



[Table of Contents](#)*On-Time Performance*

Our commitment to operating an on-time airline with a high-quality customer experience, which we believe is unique among Brazilian airlines, has resulted in us been ranked among the top ten most on-time low-cost carriers in the world since 2016.

The following table sets forth certain performance-related customer service measures for the periods indicated:

	For the year ended December 31,				
	2020	2019	2018	2017	2016
On-Time Performance <sup>(1)</sup>	87.0 %	85.0 %	86.5 %	87.5 %	89.2 %
Completion Rate <sup>(2)</sup>	98.9 %	98.6 %	98.5 %	98.8 %	98.9 %
Mishandled Bag Rates <sup>(3)</sup>	2.32	1.9	1.6	1.7	1.8

Source: Cirium and Azul

(1) Percentage of our scheduled flights that were operated by us and that arrived on time (within 15 minutes).

(2) Percentage of our scheduled flights that were operated by us, whether or not delayed (i.e., not cancelled).

(3) Number of bags mishandled per 1,000 passengers.

**Strategic Partnerships, Alliances and Commercial Agreements***General*

As part of our plans to expand globally, we have established strategic partnerships that allow us to improve our overall network, expand our international connectivity, offer more attractive benefits to our TudoAzul customers, enhance our brand and build customer loyalty and revenue. These strategic partnerships provide for expanded cooperation through commercial cooperation agreements, code-share and interline arrangements, as well as marketing initiatives, loyalty program reciprocity or benefit sharing, enhanced service levels at airports and equity and debt investments in us by our partners, or by us in our partners.

Our commercial cooperation agreements establish broad frameworks for cooperation in such areas as code-sharing, interlining, marketing, service and aircraft and engine maintenance, among other areas. Interline agreements are entered into among individual airlines to handle passengers traveling on itineraries that require multiple airlines, allowing passengers to utilize a single ticket and to check their baggage through to their final destination. Code-share agreements differ from interline arrangements in that they allow airlines to identify a flight with an airline's code even though the flight is operated by another airline, which enhances marketing and customer recognition.

We have entered into a commercial cooperation, a code-share and frequent flyer reciprocity agreements with United and TAP and have entered into another 7 code-share and 28 interline agreements with several other international carriers, including JetBlue, Etihad Airways, Air Europa, Lufthansa, Copa Airlines, and Aerolíneas Argentinas. We believe these strategic relationships allow us to increase our load factor on flights departing from Brazilian airports operated by our partners and expand our brand exposure internationally for our Brazil-based and international customers. Our code-share agreements with United, JetBlue and TAP allow us to sell flights to virtually all destinations served by these carriers, contributing to the growth of our international operations and offering our passengers additional connectivity beyond Brazil. Furthermore, our relationships with other carriers allow us to expand our cargo operations by offering these services beyond the locations served by our own aircraft.

As a result of these arrangements and relationships, our customers have access to more than 200 additional destinations worldwide. We believe that our strategic relationships with our partner airlines, particularly United and TAP, provide our TudoAzul members with a broad range of attractive redemption options and allow us to leverage our TudoAzul program beyond our own network. We continue exploring joint ventures and other arrangements with our strategic partners to determine the most effective and beneficial ways to expand our business and increase profitability through these relationships.

[Table of Contents](#)*United*

On June 26, 2015, we entered into an investment agreement with Calfinco, a subsidiary of United, pursuant to which it acquired Class C preferred shares representing a 5%, non-voting economic interest in us. Such Class C preferred shares were converted on a one-to-one basis into Class A preferred shares on February 3, 2017, which were then simultaneously renamed “preferred shares” and subsequently subject to a two-for-one stock split on February 23, 2017, resulting in United holding 10,843,792 preferred shares through a subsidiary. Pursuant to this agreement, United has the right to elect one member of our board of directors so long as it retains at least 50% of the Class C preferred shares it received on the date of its investment or preferred shares resulting from their conversion. United has designated a representative on our board effective as of August 24, 2018. See “Item 6.A. Directors and Senior Management—Board of Directors.” United is a party to our Shareholders’ Agreement, which provides for United’s right to elect one director, so long as they hold at least 50% of the Class C preferred shares it received on the date of its investment or preferred shares resulting from their conversion. For more information, see “Item 7.B. Related Party Transactions—Shareholders’ Agreement.” On April 27, 2018, United closed a private preferred share transaction with Hainan to acquire 16,151,524 preferred shares of our company increasing its shareholding in us to 26,995,316 preferred shares, representing 7.89% of our economic interest as of December 31, 2019.

In connection with United’s investment, we also entered into a commercial cooperation agreement with United on June 26, 2015 which governs the expanded cooperation between both of our companies with respect to certain matters, including (i) code-sharing, (ii) loyalty programs, (iii) special terms relating to passengers and cargo, (iv) marketing programs, (v) corporate accounts and sales contracts, (vi) employee interline pass travel, (vii) service levels at specific airports, and (viii) the negotiation of a commercial joint venture between us and United whereby we would share resources with United and split revenue related to specified matters relating to our and their route networks in order to optimize profitability for both us and United. To date, this joint venture has not yet been established, and we and United continue discussing objectives, the type of joint venture, revenue sharing and other matters.

Our alliance with United enhances the reach of our network and creates additional connecting traffic, as both we and United cross-sell each other’s flights on our websites. This arrangement provides customers flying on both airlines with a seamless reservation and ticketing process, including boarding pass and baggage check-in to their final or any other destination. United is a principal member of StarAlliance, but Azul currently has no plans to join such alliance.

We expect that our overall relationship with United, including the code-sharing, commercial and other arrangements that are either in place or being discussed by us, will increase international travel by Azul customers to the United States and other international destinations that we do not serve but which are served by United. We also expect that such relationship will increase traffic of United customers to and across Brazil via our network of domestic locations beyond the limited airports served by United in Brazil.

*TAP*

TAP is the national carrier of Portugal and is a leading carrier between Europe and Brazil. We have had a long relationship with TAP since our inception.

TAP was wholly-owned and operated by the Portuguese government until June 2015, when it was privatized. At that time, Atlantic Gateway owned 45% of TAP’s voting shares, employees held a 5% interest, and the Portuguese government had an ownership of 50% of the voting shares. On March 14, 2019, we acquired a 6.1% economic stake in TAP for US\$25 million.

In connection with TAP’s privatization process, we invested €90 million in 7.5% bonds due March 2026, secured by an interest in TAP’s loyalty program, convertible at our option into newly issued TAP equity securities without any further payment by us.

On July 3, 2020, TAP announced an agreement with the Portuguese government in exchange for financial support in the amount of €1.2 billion. The agreement consists of the sale of Azul’s indirect stake in TAP of 6.1%, for approximately R\$65 million, and elimination of the right to convert the senior bonds held by the Company of €90 million maturing in 2026, according to the terms and conditions of the transaction, which was approved by Azul shareholders at an extraordinary general meeting held on August 10, 2020. All other contractual conditions of the senior bonds will be maintained, including the status of senior creditor, annual interest rate of 7.5%, the right to the constitution of guarantees agreed on the respective terms and conditions, such as TAP’s loyalty program.

[Table of Contents](#)*Codeshare Agreement*

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

*Sublease of Aircraft to TAP*

As part of our fleet optimization efforts, we leveraged our strategic partnership with TAP by subleasing, at a discount, 15 aircraft to TAP since 2016. As of December 31, 2020, 13 aircraft were subleased to TAP.

*Joint Venture with TAP*

On February 6, 2020, we entered into a Cooperation Agreement with TAP. This transaction was approved by Azul shareholders on December 9, 2019 and was submitted to regulatory approvals in February 2020. On March 27, 2020 the Brazilian Administrative Council for Economic Defense (CADE – *Conselho Administrativo de Defesa Econômica*) approved the acquisition without imposing further obligations for the parties. The closing date of the transaction has not been determined as of the date of this filing and is subject to further developments following the impact of the COVID-19 pandemic.

We have no other formal strategic partnership or other operating agreements with TAP, but are exploring other agreements and arrangements with TAP as a means of further connecting TAP and its widespread European operations with our Brazilian customers. We are also discussing the possibility of establishing a joint venture with TAP in order to jointly explore flights between Brazil and Portugal. We believe that such cooperation with TAP has the potential for significant synergies primarily through the joint marketing and sales of tickets and cargo for our flights as well as TAP's flights between Brazil and Portugal. On December 9, 2019 the shareholders of Azul approved the execution of a Cooperation Agreement regarding a “Non-Corporate Joint Venture” directed to offer joint air transportation services between ALAB and TAP that further aligns both companies' strategies. This agreement was executed on February 7, 2020 and remains subject to regulatory approvals.

For more information on the impact of the COVID-19 pandemic on our investments and business arrangements, including with respect to TAP, see “Item 3.D. Risk Factors—A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations.”

*TwoFlex*

On February 21, 2020, our wholly-owned subsidiary Azul Linhas Aéreas Brasileiras S.A and TwoFlex announced that they have entered into a certain Quota Purchase Agreement under which Azul agreed to acquire the Brazilian regional carrier TwoFlex for the total purchase price of R\$123 million. TwoFlex is a domestic airline based in Jundiaí, Brazil, founded in 2013 and offers regular passenger and cargo service to 39 destinations in Brazil, of which only three regional destinations were previously served by Azul. TwoFlex also holds 14 daily departure and arrival slots on the auxiliary runway of Congonhas, São Paulo's downtown airport. Congonhas is a particularly coveted airport because of its proximity to São Paulo's business districts and because of its status as Brazil's most slot-constrained airport. Currently, Azul's two larger competitors, Gol and LATAM, control most of the flights in Congonhas. TwoFlex's fleet is composed of 17 owned Cessna Caravan aircraft, a regional turboprop with a capacity of 9 passengers. The transaction was approved without restrictions by the Administrative Council for Economic Defense (CADE) on March 27, 2020 and on May 14, 2020, Azul announced the completion of the acquisition process of TwoFlex. Payment will be made in up to 30 monthly installments, subject to certain financial and operating conditions, and one final payment of up to R\$30 million, which will be deposited as a guarantee in favor of the Company for a specified period.

*LATAM*

In June 2020, we announced a codeshare agreement with LATAM to connect routes in our respective domestic networks in Brazil. The two carriers also signed a frequent flyer agreement, enabling more than 12 million TudoAzul and 37 million LATAM Pass members to earn points in the frequent flyer program of their choice. The codeshare agreement will initially include 50 non-overlapping domestic routes to/from the cities of Brasilia (BSB), Belo Horizonte (CNF), Recife (REC), Porto-Alegre (POA), Campinas (VCP), Curitiba (CWB) and Sao Paulo (GRU), providing customers in Brazil with a vast array of new and more convenient connection opportunities. The codeshares will also facilitate a smoother travel experience between Azul and LATAM flights with shared ticketing, check-in and baggage transportation.

[Table of Contents](#)**Revenue Management**

Our revenue management model is focused on effective pricing and yield management, which are closely linked to our route planning, and our sales and distribution methods.

The fares and the number of seats we offer at each fare are determined by our internally developed, proprietary, proactive yield management system and are based on a continuous process of analysis and forecasting. Past booking history, load factors, seasonality, the effects of competition and current booking trends are used to forecast demand. Current fares and knowledge of upcoming events at destinations that will affect traffic volumes are also included in our forecasting model to arrive at optimal seat allocations for our fares on specific routes. We use a combination of approaches, taking into account yields and flight load factors, depending on the characteristics of the markets served, to design a strategy to achieve the maximum revenue by balancing the average fare charged against the corresponding effect on our load factors.

Our model of fare segmentation seeks to maximize revenue per seat through dynamic inventory adjustment depending on demand. By increasing price segmentation, we are able to ensure that we continue to attract and retain high-yield business traffic including last-minute seat availability for late-booking business travelers, which is integral to our revenue management, as well as leisure travelers who usually pay lower fares for tickets purchased in advance.

Utilizing the appropriate aircraft for a specific market enables us to better match capacity to demand. As a result, we believe we are able to enter new markets, cater to underserved destinations with high growth potential and provide greater flight frequency than our main competitors. With this model, we optimize revenue through dynamic fare segmentation, targeting both business travelers, who appreciate the convenience of our frequent non-stop service, and cost-conscious leisure travelers, many of whom are first-time or low-frequency flyers, and for whom we offer low fares to stimulate air travel and encourage advance purchases.

We utilize a proprietary yield management system that is key to our strategy of optimizing yield through dynamic fare segmentation and demand stimulation. We target both business travelers, to whom we offer convenient flight options, and cost-conscious leisure travelers, to whom we offer low fares to stimulate air travel and to encourage advanced purchases. We believe that our fare segmentation model has enabled us to achieve a market-leading PRASK. We believe our superior network and product offering allows us to attract high-yield and frequent business travelers.

**TudoAzul Loyalty Program**

Our wholly-owned loyalty program TudoAzul, which was launched in May 2009, aims to enhance customer loyalty and brand recognition. TudoAzul had approximately 12.6 million members as of December 31, 2020 and has been the fastest-growing loyalty program in terms of members among the three largest programs in Brazil for the past six years according to information publicly available on the websites of Smiles and LATAM Pass, the loyalty programs of Gol and LATAM, respectively. TudoAzul members earn at least one point and up to six points per each *real* spent in tickets on Azul.

Redemptions of points for one-way tickets start at 3,000 points and go up for more expensive flights. TudoAzul also offers a points plus cash option, in which tickets can be purchased using a combination of cash and TudoAzul points. Periodically, as a promotional tool, we may offer awards for fewer than 3,000 points. We believe that with a system that awards at least as many points as Brazilian reais spent, customers perceive they are also receiving a higher reward for their purchases. At the same time, we believe that the variable amount of points required to redeem awards gives us flexibility in exercising discretion over the costs we incur in relation to these redemptions.

We offer last-seat availability to TudoAzul members and have significant flexibility to price redemptions in a way that is competitive with other loyalty programs, thus helping to maximize TudoAzul's attractiveness. We actively manage the price of our redemptions, offering very competitive fares in points when seat availability is high and optimizing margins in peak, high-demand flights. We have also developed an exclusive, proprietary pricing system, which provides ample flexibility to price redemptions within a given flight. This allows us to sell seats using several combinations of points and money. It also allows us to customize pricing using a number of different factors, such as a member's elite tier, membership in Clube TudoAzul, and age (allowing us to offer lower prices to infants and children). We are confident that this proprietary system offers more flexibility than those of our main competitors, therefore allowing us to create promotions, stimulate cross-sell of other TudoAzul products, and more accurately price redemptions to maximize profitability.

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Most TudoAzul points expire two years after issuance. Frequent flyers achieve “TudoAzul Topázio” (Topaz) status when they accumulate 5,000 qualifying points, “TudoAzul Safira” (Sapphire) status once they accumulate 10,000 qualifying points and “TudoAzul Diamante” (Diamond) status once they accumulate 20,000 qualifying points during a given calendar year. Topázio, Safira or Diamante status is valid during the rest of the year of qualification and the entire following year, and provides the following benefits, among others: bonus points, check-in privileges at major airports like Viracopos, Santos Dumont, Confins, Brasília and others, priority boarding, higher baggage allowances, and dedicated telephone and e-mail services.

Since the program’s inception, TudoAzul members have generally demonstrated a willingness to pay higher average fares than those paid by non-members. We believe this is in part because of high customer satisfaction, increased passenger loyalty and because many of our business travelers, who frequently purchase more expensive, last-minute tickets, are typically also TudoAzul members.

Our current TudoAzul business partners, which offer TudoAzul members options to accrue and redeem points, include financial institutions such as Itaú, Santander, Livelu (Banco do Brasil’s and Bradesco’s loyalty joint venture), and Caixa, retailers (Casas Bahia, Magazine Luiza and Fast Shop), and travel partners (including Accor, RentCars, Hertz and Booking.com).

In September 2014, we also launched an Azul-branded credit card in partnership with Banco Itaucard S.A. In addition, in December 2015, we launched Clube TudoAzul, an innovative subscription-based product through which members pay a fixed recurring amount per month in exchange for TudoAzul points, access to promotions and other benefits. We also offer members the ability to buy points to complete the amount required for a reward, or pay a fee to renew expired points or transfer points to a different member’s account. Finally, we believe that our international flights and loyalty program partnerships with international carriers, including United, TAP and Copa provide our TudoAzul members with a broad range of attractive redemption options.

To maximize the value creation potential of TudoAzul, we have been managing the program through a separate, dedicated team since mid-2015. On a standalone basis, TudoAzul’s gross billings excluding the airline totaled R\$879 million for the year ended December 31, 2020 and R\$1,298.0 million in the year ended December 31, 2019. We believe TudoAzul has significant growth potential.

Given the number of exclusive destinations we operate, our network strength, the expected growth of passenger air travel, credit card penetration and usage and member loyalty in Brazil, we believe that TudoAzul is a key strategic asset for us. We plan to continue investing in TudoAzul’s expansion and evaluating opportunities to unlock value for this strategic asset.

A sample of the key operating statistics demonstrating TudoAzul’s growth are set forth below:

	2020	2019	2018
Gross billings ex-airline (in millions of reais)	879	1,298.0	988.1
<b>Total members (in millions)</b>	<b>12.6</b>	<b>12.0</b>	<b>10.8</b>
<b>Total partners</b>	<b>68</b>	<b>78</b>	<b>76</b>

## Marketing

We strive to achieve the highest marketing impact at the lowest cost through efficient and effective marketing and advertising strategies. Our marketing and advertising strategies are consistent with our low-cost operating model. We believe we have been successful in building a strong brand by focusing on innovative marketing and advertising techniques rather than traditional marketing tools, such as print ads. Our marketing and advertising techniques focus on social networking tools (Facebook, Twitter, and YouTube), email, websites, mobile marketing, and generating word-of-mouth recognition of our service, including through our TudoAzul loyalty program and our visibly branded complimentary bus service between São Paulo and Viracopos airport. Our marketing and advertising strategies also involve sales and promotion campaigns with our travel partners.

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In addition, we increase our visibility and brand recognition by featuring Azul advertisements on the individual entertainment screens at every seat in all of our E-Jets, which feature free live television on domestic flights, and by offering our onboard customers our Azul magazine (which is also a source of revenue, mainly from paid advertisements), snacks branded with our logo, Coca-Cola soft drinks and seasonal free premium beer happy hours. We also build our brand by offering our business travelers with our VIP lounge in Viracopos airport. Additionally, we engage in marketing by maintaining planes in our livery painted with recognizable symbols, like the Brazilian flag, and symbols supporting important social causes, like breast cancer awareness, a social cause that we have supported through our corporate social responsibility platform since our foundation. We also place logos of key partners on our planes to generate additional revenue, such as Sky TV and Coca-Cola. Furthermore, we engage in guerilla marketing campaigns (which consist of marketing activities conducted in public places, such as the airports and the aircraft that we operate) to enhance our brand recognition and provide promotions directed at our customers.

### Sales and Distribution

We currently sell our products through six primary distribution channels: (i) our website, (ii) our mobile app, (iii) our call center, (iv) airport stations, (v) Azul Viagens freestanding stores, and (vi) third parties such as travel agents, including through their websites. Direct internet bookings by our customers represent our lowest cost distribution channel.

Approximately 87% of all sales were generated by online channels in 2020, and approximately 88% of all sales were generated by online channels in 2019, which created significant cost savings for us. We intend to continue working to increase sales through online channels, in particular sales through our website and our mobile app, as these sales are more cost-efficient and involve lower distribution costs than sales through travel agencies. In conjunction with Navitaire, a provider of host reservation services and other ancillary services, including data center implementation services, network configuration and design services, we developed a direct connection to travel agencies using online portals that bypass expensive distribution through GDS, resulting in a considerably lower indirect distribution cost. This allows travel agencies to use common internet programming schemes, which have almost fixed low costs that do not vary by sales, to develop their front end, mobile and internet applications with a direct connection to our reservation system. In connection with sales booked through travel agents, we pay incentive commissions to travel agents who attain our sales targets rather than upfront commissions.

We maintain a high-quality call center, staffed solely with our crewmembers, as we believe that having a high-quality call center is crucial to our culture focused on customer service. We charge a fee for reservations made through our website and call center to offset its operating costs.

### Fleet

As of December 31, 2020, our passenger contractual fleet totaled 186 aircraft and our passenger operating fleet in service totaled 162 aircraft. The 24 aircraft not included in our passenger operating fleet consisted of 13 aircraft subleased to TAP, 1 aircraft subleased to Breeze, seven aircraft being prepared to exit the fleet, and three aircraft in process of entering service.

Our operating fleet has an average age of 6.9 years, which is significantly younger than the average of our main competitor. Including 17 Cessna Caravan aircraft acquired through the purchase of TwoFlex, recently renamed Azul Conecta, the average age of our aircraft is 8.3 years. We believe operating a young fleet leads to better reliability, greater fuel efficiency and lower maintenance costs. Our Embraer E-Jets seat up to 118 customers, our next-generation Airbus A320neos accommodate 174 passengers and our fuel-efficient ATR aircraft seat 70 customers, while the aircraft used by our two principal competitors in Brazil have between 144 and 220 seats. As a result, in the year ended December 31, 2019, the average trip cost of our fleet was R\$31,863, which was 29.6% lower than that of larger Boeing 737 jets flown by Gol. As of December 31, 2020, the average trip cost of our fleet was R\$45,897, resulting from the impacts of the COVID-19 pandemic.

In addition to leveraging the strength of our domestic network and maximizing the growth potential of our loyalty program and cargo operations, in December 2016, we began adding next-generation Airbus A320neo aircraft to our fleet with lower seat and trip costs to serve longer-haul leisure and peak hour focus-city to focus-city service. For example, on long-haul flights such as a flight between Campinas and Salvador, the trip cost flying a next-generation Airbus A320neo is approximately only 5% higher than the trip cost of an E-195. However, as the next-generation Airbus A320neo has 56 more seats than the E-195, its CASK is 29% lower. As a result, by adding next-generation aircraft to our fleet, we expect to maintain market-leading trip costs and to reduce our CASK, both in absolute terms and relative to our main competitors.

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The following tables set forth the composition of (i) our contractual fleet, which consists of aircraft that are contractually leased or owned by us and includes 13 aircraft subleased to TAP as of December 31, 2020, seven aircraft in process of exiting our fleet, and three aircraft in process of entering service; ii) our operating fleet, which consists of aircraft that are being operated by us, including spare aircraft, for the periods indicated.

Total Contractual Fleet	Number of seats	As of December 31,				
		2020	2019	2018	2017	2016
Embraer aircraft						
E-190/195	106-118	67	70	72	79	81
E-195-E2	136	9	4	0	0	0
ATR aircraft						
ATR 72	68-70	39	33	33	39	49
Airbus aircraft						
Airbus narrowbody	174-214	45	41	20	12	5
Airbus widebody	242-298	13	10	7	7	7
Cessna Caravan	9	17	—	—	—	—
Boeing 737 (Freighter)	—	2	2	0	0	0
<b>Total Contractual Fleet</b>		<b>192</b>	<b>166</b>	<b>143</b>	<b>147</b>	<b>139</b>

Total Operating Fleet	Number of seats	As of December 31,				
		2020	2019	2018	2017	2016
Embraer aircraft						
E-190/195	106-118	53	55	72	79	81
E-195-E2	136	7	4	0	0	0
ATR aircraft						
ATR 72	68-70	33	33	33	39	39
Airbus aircraft						
Airbus narrowbody	174-214	45	38	20	12	5
Airbus widebody	242-298	11	10	7	7	5
Cessna Caravan	9	17	—	—	—	—
Boeing 737 (Freighter)	—	2	2	0	0	0
<b>Total Operating Fleet</b>		<b>168</b>	<b>142</b>	<b>125</b>	<b>122</b>	<b>123</b>

Of the 192 aircraft that comprised our contractual fleet as of December 31, 2020, 34 were owned or held under finance leases or debt-financing and 158 were financed under operating leases of up to 12 years. Our finance leased aircraft and debt-financed aircraft were financed through credit facilities with different creditors, of which 1.7% was denominated in *reais* and 98.3% was denominated in U.S. dollars as of December 31, 2020.

#### *Embraer*

We were the first and currently are the only airline in Brazil to operate Embraer E-Jets. We believe that our successful launch of the Embraer E-Jets in the Brazilian market was due in part to the significant experience of most of our senior management team, who were trained in operating and maintaining E-Jet aircraft in the United States. We believe this experience provides us with a significant advantage over any competitor that may seek to reproduce our model. In addition, our decision to purchase Brazilian-made Embraer aircraft has enabled us to access competitive local aircraft financing in *reais* from BNDES, Brazil's national development bank, at rates below Brazil's CDI overnight deposit rate.

We have a strong and close partnership with Embraer, which is headquartered in São José dos Campos, approximately 100 km from our headquarters in Barueri, São Paulo and approximately 150 km from our main hub in Campinas. Our Embraer E-Jets have a two-by-two cabin layout with no middle seats, and our aircraft are configured to offer standard seats with 31 inches of legroom and premium seats called "*Espaço Azul*" with 34 inches of legroom. Our over-wing exit seats (four per aircraft) offer a spacious 39 inches of legroom. Embraer E-Jets are fuel-efficient, with fuel consumption averaging approximately 20% less than a Boeing 737 series, according to Embraer, and thus offer significantly lower trip costs than larger narrow-body aircraft. Embraer E-Jets feature state-of-the-art fly-by-wire technology, which increases operating safety while reducing pilot workload and fuel consumption.



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The new generation E2s, compared to the current generation of Embraer E-Jets, have 18 additional seats, accommodating up to 136 passengers and offering 26% lower cost per seat and 14% lower trip cost compared to current generation aircraft. Based on our current firm orders, between 2024 and 2025 we expect to add approximately 32 next-generation E-195 E2 aircraft to our fleet. In addition, we served as Embraer's launch operator for the next-generation E-195 E2 aircraft. As part of our fleet transformation process, we expect to replace our entire Embraer E190/E195 fleet with next-generation E-195 E2 aircraft in the coming years, contributing to a significant reduction in operating cost.

#### *ATR*

We are the largest ATR operator in the world, according to ATR. ATR is the world's largest manufacturer of 50-to-70-seat turboprop aircraft. ATR turboprop aircraft provide significantly lower operating costs than jets, with fuel consumption averaging approximately 50% to 65% less than a comparably-sized jet. The ATR 72-600 is the newest member of the ATR family known for its high efficiency, dispatch reliability and low fuel burn. It features a new glass cockpit, communications and flight management system. Like Embraer E-Jets, ATR aircraft have a two-by-two layout with no middle seats, and our aircraft are configured to offer 30 inches of legroom, which is comparable to our E-Jets. We began operating ATR aircraft in March 2011 for two strategic purposes: to serve short-haul direct routes between smaller cities where jet aircraft would be less profitable, and to feed customer traffic from secondary markets into our existing network.

As of December 31, 2020, we had 33 ATR aircraft in our fleet.

#### *Airbus*

As part of our strategy to maintain a young and efficient fleet, we expect to add up to 30 next-generation Airbus 320neos family aircraft to our fleet between late 2021 and 2025. The next-generation Airbus A320neo replaces the A320 family, featuring a new engine option and other improvements such as aerodynamic refinements, large curved winglets (sharklets), weight savings, and a rearranged cabin that accommodates up to 174 passengers with larger luggage spaces, and an improved air purification system. Our next-generation Airbus 320neos are equipped with CFM International LEAP-1A engines and have approximately 15% less fuel consumption and less noise production compared to the A320 series, as well as an increase in range of approximately 500 nautical miles.

We began operating the Airbus A330-200, configured up to 272 seats, in December 2014 and currently have 7 aircraft serving Fort Lauderdale, Orlando, Lisbon and Porto with this aircraft. According to Airbus, the A330 delivers better economics than competing aircraft and meets higher environmental standards and provides greater passenger comfort. We also have 4 Airbus A330-900neo widebody aircraft. This aircraft comes with 298 seats in a high-density configuration. The cabin interior is divided into 34 business class, 108 Economy Extra, and 156 Economy seats. The A330neo has the most advanced passenger cabin today dubbed "Air Space by Airbus," bringing together an enhanced experience for passengers and optimum performance based on comfort, ambience, service and design. Moreover, the A330neo reduces fuel consumption by 14% per seat compared to the current model, making it the most cost-efficient, medium range widebody aircraft in the market.

Based on our current firm orders, between 2021 and 2025, we expect to add approximately 30 next-generation Airbus 320neos and 1 next-generation Airbus A330neo widebody aircraft to our fleet, replacing current generation aircraft. At this time, Azul is not able to fully determine the growth of its operating fleet over the next few years as a result of the impact of the spread of COVID-19 on demand for air travel in the regions we operate.

#### **Fuel**

Fuel costs are our largest operating expense. Fuel accounted for 21.1%, 24.4% and 33.6%, of our total operating expenses for the years ended December 31, 2020, 2019 and 2018, respectively. Aircraft fuel prices are composed of a variable and a fixed component. The variable component is set by the refinery and reflects international price fluctuations for oil and the Brazilian real/U.S. dollar exchange rate. This variable component is re-set monthly in the Brazilian market, as opposed to daily in North America and Europe. The fixed component is a spread charged by the supplier and is usually a fixed cost per liter during the term of the contract.

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We purchase fuel from a number of distributors in Brazil, principally from BR Distribuidora, a subsidiary of Petrobras, Air BP Brasil Ltda. and Raízen Combustíveis Ltda., all companies authorized by the National Petroleum Agency (*Agência Nacional do Petróleo*), or ANP, to market products derived from oil for aviation throughout Brazil, with whom we have agreements to exclusively purchase all of our jet fuel needs in certain locations. Our agreement with BR Distribuidora sets forth that we have the obligation to exclusively purchase jet fuel from BR Distribuidora in the event BR Distribuidora installs new supply points in airports where we operate, provided that we have not already entered into a jet fuel supply agreement with another provider. Our agreements with BR Distribuidora, Air BP Brasil Ltda. and Raízen Combustíveis Ltda. are in effect until December 2021. For our international flights departing from outside of Brazil, we purchase fuel from local providers.

International oil prices, which are denominated in U.S. dollars, are volatile and cannot be predicted with any degree of certainty as they are subject to many global and geopolitical factors. Airlines often use West Texas Intermediate, or WTI, crude or heating oil future contracts to protect their exposure to jet fuel prices. In order to protect us against volatile oil prices, we have entered into derivative future contracts in the past and may do so from time to time. We also have the possibility of negotiating customized hedging products directly with fuel distributors, with the purpose of locking in the cost of the jet fuel we will consume in the future, and protect ourselves against any fuel price or exchange rate risk.

Moreover, building on our operations team's significant experience with the E-Jet aircraft, we operate an active fuel conservation program involving reducing taxi times, taxiing using a single engine, and managing the aircraft's load balance, angle of attack and cruising airspeed for optimal fuel-efficiency.

The following chart summarizes our fuel consumption and our fuel costs for the periods indicated.

	For the Year Ended December 31,		
	2020	2019	2018
Liters consumed (in thousands)	650,536	1,203,486	1,035,816
Aircraft fuel (R\$ in thousands)	1,508,750	3,085,603	2,644,261
Average price per liter (R\$)	2.32	2.56	2.55
Percent increase (decrease) in price per liter	(9.54)%	0.43 %	29.83 %
Percent of operating expenses	21.1 %	24.4 %	33.6 %

## Airports and Other Facilities and Properties

### *Airports*

Most of Brazil's public airports are currently managed by INFRAERO, an airport operator wholly-owned by the Brazilian government, or by private concession holders. Brazil's airline industry has grown significantly over the past years and, as a result, some of Brazil's airports face significant capacity constraints.

Airlines and service providers may lease areas within federal, state or municipal airports, such as hangars and check-in counters, cargo terminals, ticket counters and back offices, subject to concessions or authorizations granted by the authority that operates the airport – which may be INFRAERO, the state, the municipality or a private concession holder, as the case may be. No public bid is required for leases of spaces in passenger terminal, although INFRAERO typically conducts processes similar to a public bidding process if there is more than one applicant, for cargo terminals or hangars. In other cases, the use may be granted by a simple authorization or permission issued by the authority that operates the airport. In the case of airports operated by private entities, the use of concession areas is subject to a commercial agreement between the airline and the airport operator.

We have renewable concessions with terms varying from one to five years from INFRAERO and other granting authorities to use and operate all of our facilities at each of the major airports that we serve.

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With respect to our international facilities, we have entered into lease agreements or other occupancy agreements directly with the applicable local airport authority on varying terms dependent on prevailing practice at each airport. It is customary in the airline industry to have agreements that automatically renew. Our terminal passenger service facilities of ticket counters, gate space, operations support area and baggage service offices generally have agreement terms ranging from less than one year to five years. These agreements can contain provisions for periodic adjustments of rental rates, landing fees and other charges applicable under the type of lease and the extension of the concession term. Under these agreements, we are responsible for the maintenance, insurance, utilities and certain other facility-related expenses and services.

In 2011, the Brazilian government started to grant the operation of certain airports in Brazil by way of concessions following public bids. Between 2011 and 2019, 22 airports have been privatized after bidding procedures, including our three hubs, Viracopos, Confins and Recife airports. The concessions for these airports have terms of between 20 and 30 years. In April 2021, the Brazilian government auctioned off another 22 airports located in the Southern, Mid and Northern regions of the country.

Following the concession for the operation of Viracopos airport, our largest hub, in February 2012, a series of new investments for Viracopos airport have been made by Aeroportos Brasil, a private consortium that won the bid to operate Viracopos airport. In April 2016, Aeroportos Brasil transferred all operations to a new passenger terminal, which is approximately six times larger than the old terminal. Total investments at Viracopos airport totaled approximately R\$3.0 billion between 2012 and 2016.

As a result of the transfer of our operations to the new passenger terminal at Viracopos airport, we signed a “Terminal Transfer Incentive Agreement” with Aeroportos Brasil which established a detailed construction schedule for this new terminal and gave us certain rights to impose penalties in the event of noncompliance. Due to the fact that Aeroportos Brasil has not complied with certain contractual obligations under this agreement, we have retained 40% of the airport landing fees from February 2017 until May 2018. As a result of this retention, Aeroportos Brasil filed a collection action against us, which was settled in May 2018 and, consequently, the retention of airport landing fees was resolved. Pursuant to the settlement agreement, we agreed to finish some certain areas of the construction of the new terminal at Viracopos Airport using the airport landing tariffs retained from Aeroportos Brasil. For more information on this proceeding, see “Item 8.A. Consolidated Statements and Other Financial Information —Legal Proceedings.”

In addition, Aeroportos Brasil, which holds a concession for the operation of Viracopos airport from ANAC, filed for bankruptcy protection in 2018 as it has not complied with its contractual obligations relating to the construction of a new terminal. On February 17, 2020 creditors approved Aeroportos Brasil’s debt restructuring plan, which requires returning the concession for the operation of Viracopos airport to ANAC to initiate a re-bidding process. In accordance with article 13 and pursuant to Law 13448, to begin the re-bidding process for the concession to a new operator ANAC will (i) suspend concession forfeiture proceedings; (ii) amend the concession agreement entered into with Aeroportos Brasil to determine the covenants and minimum services to be rendered during the new bidding process; (iii) issue a technical and economic viability study, public bidding rules and a new concession agreement. Once the proceeding is concluded, the operation of Viracopos airport should be transferred to a new operator (in case the re-bidding is successful) or otherwise returned to the government.

Our second largest hub is Confins airport, the main airport in Belo Horizonte, whose concession was granted to private operators in 2013. In 2016, this concession concluded the construction of a new passenger terminal increasing Confins airport’s capacity to up to 22 million passengers per year. We are the leading carrier at Confins airport with a 78% share of its domestic departures to 28 destinations in 76 domestic daily flights as of December 31, 2020.

In July of 2014, ANAC enacted a resolution establishing new procedures to allocate slots in airports operating at full capacity. Through such allocation, we received 26 new slots at Congonhas airport. In November 2014, we started operating 13 daily flights from Congonhas airport to some of our most profitable markets including Belo Horizonte, Porto Alegre, and Curitiba, leveraging the connectivity we have in these cities and expanding our flights available to São Paulo passengers. In August 2019 ANAC announced a temporary distribution of 41 slots in Congonhas airport previously operated by Avianca Brasil, of which 15 slots were allocated to us. As a result, we adjusted our flight schedules at Congonhas airport and since September 2019, we started operating a shuttle service between Congonhas and Rio de Janeiro and between Congonhas and Belo Horizonte.

We built a hub in Recife to increase flight connectivity within the Northeast region of Brazil. Recife has the largest GDP of Brazil’s Northeast region according to IBGE and is our closest Latin American hub for non-stop flights to both Europe and the United States. Our Recife hub serves 25 destinations. We had a 74.0% share of Recife’s airport, and 64 daily domestic departures as of December 31, 2020. Our diversified network allows us to connect not only our main hubs but also strategic destinations throughout Brazil such as São Paulo (Guarulhos and Congonhas airports), Rio de Janeiro (Santos Dumont and Galeão airports), Porto Alegre, Cuiabá and Manaus.

[Table of Contents](#)*Other Facilities and Properties*

Our primary corporate offices and headquarters are located in the city of Barueri, state of São Paulo, where we lease 8,179.33 square meters under three lease agreements that expire in December of 2022. We also entered into a lease agreement for a warehouse and office complex in Fort Lauderdale, United States.

We lease four hangars at our full capability maintenance center in Belo Horizonte, where we perform airframe heavy checks, line maintenance, painting and interior refurbishment of our ATR aircraft and E-Jets. We also lease one hangar in Manaus and Cuiabá for E-Jets and ATR line maintenance. In addition, in 2018 we started to build a full capability maintenance center for our E-Jets and Airbus at Viracopos airport, which was concluded in March 2020. Our training facility for pilot and cabin crew education, UniAzul, has 71,000 square feet and four simulator bays and is located less than a mile away from Viracopos airport, our main hub. This facility provides training services both for our own crewmembers, including pilots, and for third parties on a commercial basis. At UniAzul we train all of our crewmembers, including pilots, flight attendants and maintenance technicians. As part of our extensive training program at UniAzul we operate two E-Jet flight simulators, one ATR flight simulator and one A320 flight simulator, all of them with full-flight capacity, a technology we believe none of our main competitors has. We also provide training and grant access to our onsite flight simulators to third parties, including TAP, Embraer and the Brazilian Air Force. We have plans to expand the training programs offered at UniAzul through partnerships with technical schools and universities.

**Competition***Domestic*

The two largest airlines in Brazil in terms of RPK share are Gol and LATAM. Both Gol and LATAM operate similar hub-and-spoke networks, which require that passengers on many of their routes connect through the cities of São Paulo, Rio de Janeiro or Brasília. The principal competitive factors on these routes that are served by more than one airline are fares, total price, flight schedules, aircraft type, passenger amenities, number of routes served from a city, customer service, on-time performance, safety record and reputation, code-sharing relationships, and frequent flyer programs and redemption opportunities.

As a result of our innovative business model, which is based on stimulating demand in underserved markets, we believe we are less susceptible to the effects of fare competition involving our main competitors, which fly from the airports in the city of São Paulo. As of December 31, 2020, 18% and 8% of our domestic network overlapped with that of Gol and LATAM, respectively, while Gol's and LATAM's networks had an overlap of approximately 87% with each other. In Campinas, our primary hub, only 7 out of 45 domestic destinations faced direct competition from Gol as of December 31, 2020. While Gol, LATAM or any other airline may enter the markets we currently serve exclusively or in which we hold a large market share, we believe that our extensive connectivity allows us to avoid competition in numerous of the markets we serve, in particular from our competitors operating larger aircraft such as Gol and LATAM as it is more difficult to profitably serve our markets with larger aircraft. See “—Route Network.”

Before we started our operations, Gol and LATAM controlled over 90% of the Brazilian airline market in terms of RPK share. From 2008 to 2015, the Brazilian airline market has grown significantly, partially because of (i) our entry into the market, which stimulated demand, and (ii) the organic growth of the market, with more individuals using airline transportation services. As a result, despite the fact that Gol and LATAM lost market share following our entry into the market, the number of passengers transported by both airlines increased in that time period. As of December 31, 2020, we had an 27.7% market share of domestic RPKs, according to ANAC.

In December 2018, Avianca Brasil filed for judicial reorganization (*recuperação judicial*) and as of May 2019 it ceased to operate flights. Most of Avianca Brasil's slots have been redistributed by ANAC to incumbent airlines.

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The following table sets forth the historical market shares on domestic routes, based on revenue passenger kilometers, of the significant airlines in Brazil for each of the periods indicated:

Domestic Market Share— Scheduled Airlines	2018	2019	2020
Gol	35.7%	37.7%	38.1%
LATAM Brasil	31.9%	34.7%	33.7%
Azul	18.6%	23.6%	27.7%
Avianca Brasil	13.4%	3.7%	—
Others	0.4%	0.4%	0.5%

Source: ANAC

The following table provides details with respect to the competition faced on our top routes, based on weekly frequency as of December 31, 2020.

	At December 31, 2020		
	Flights per Day		
	Azul	Gol	LATAM
Campinas—Rio de Janeiro	8	3	—
Campinas—Belo Horizonte	7	1	—
Campinas—Curitiba	6	—	—
Campinas—Porto Alegre	6	—	—
Rio de Janeiro— Belo Horizonte	5	7	9
Recife— Salvador	5	1	1
Belo Horizonte—Vitória	5	—	—
Campinas—Ribeirão Preto	5	2	3
Belo Horizonte—Montes Claros	5	4	4
Campinas—Cuiabá	4	2	—
Campinas—São Jose do Rio Preto	8	3	—

Source: Innovata

In addition to other airlines, our competitors also include companies catering to other forms of transportation, principally bus services. We believe that many of our fares are competitive with the cost of road travel on many of our routes, in particular the discounted fares we offer through our yield management system for advance purchases.

### International

We currently are the only carrier in Viracopos airport that offers non-stop service to the United States and Europe. As we expand our international services to select international destinations, our pool of competitors may increase and we may face competition from Brazilian, North American, South American and other foreign airlines that are already established in the international market and that participate in strategic alliances and code-share arrangements. In addition, non-Brazilian airlines may decide to enter or increase their schedules in the market for routes between Brazil and other international destinations, which would also drive up competition.

In 2010, ANAC approved regulations regarding international fares for flights departing from Brazil to the United States and Europe, which gradually removes the previous minimum fares. In 2010, ANAC approved the continuity of bilateral agreements providing for open skies policies with other South American countries, as well as a new open skies policy with the United States. The open skies policy with the United States was approved by the Brazilian National Congress in March 2018. In March 2011, Brazil also signed an open skies agreement with Europe, which was initially expected to come into force in 2014 but still lacks the necessary approvals from the Brazilian executive branch in order to be considered and ratified by the Brazilian National Congress. These new regulations should increase the number of passengers in South America and may enable the expansion of our international services.

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During 2020, the international operations were affected by the pandemic mainly due to lockdowns imposed, border closures and travel restrictions. The table below shows the 2020 market share of Brazilian airlines in routes to/from Brazil based on RPKs:

<b>International Market Share—Airline</b>	<b>RPK</b>	<b>Market Share</b>
LATAM	7,646,304	66.94 %
Azul	2,481,503	21.73 %
GOL	1,289,659	11.29 %
Other	4,042	0.04 %
<b>Total</b>	<b>11,421,508</b>	<b>100.0 %</b>

Source: ANAC

## Maintenance

Safety is our core value. Aircraft maintenance, repair and overhaul are critical to the safety and comfort of our customers and the optimization of our fleet utilization. Our maintenance policies and procedures are regulated by FAA, EASA and ANAC requirements, and our aircraft maintenance programs are approved by ANAC and are based on manufacturers' maintenance planning documents and recommendations. We employ our own experienced qualified technicians to perform line maintenance services rather than relying on third-party service providers. All technicians are certified by ANAC and meet stringent qualification requirements. Our maintenance technicians undergo extensive initial and ongoing training provided by UniAzul and by our aircraft and engine manufacturers to ensure the safety and continued airworthiness of our aircraft. Our training programs are all approved by ANAC.

We have developed a technical operations organization structure and a Continuous Analysis and Surveillance System, or CASS, aimed at achieving the highest level of safety, airworthiness, customer-worthiness, dependability, quality and cost efficiencies of our aircraft fleet.

With this in mind, we have established an engineering and quality assurance department that oversees the compliance of all airworthiness requirements, and provides oversight of all maintenance activities in accordance with ANAC regulations and our CASS. Our engineering technical services set the standards and specifications for maintaining our aircraft and engines, monitor the performance reliability of the aircraft systems, engine and components, perform root-cause analyses of defects, and forecast long-term and short-term maintenance activities. We have also implemented aircraft and engine health monitoring programs to determine preventative or corrective actions. The newer generation aircraft and engines are able to transmit over ten times more performance data to the airline and aircraft manufacturer engineers, contributing to a higher reliability performance and improved safety. Our engineering and quality assurance crewmembers are trained and qualified in technical and airworthiness management with relevant aircraft type training and certification.

Aircraft maintenance and repair consists of routine and non-routine maintenance work and is divided into two general categories: line maintenance and base maintenance.

Line maintenance consists of routine, scheduled daily and weekly maintenance checks on our aircraft, including pre-flight, daily and overnight checks, any diagnostics and routine repairs and any unscheduled items on an as needed basis. All of our line maintenance is currently performed by our own experienced and certified technicians, primarily in Campinas, Porto Alegre and Belo Horizonte, in addition to other airports we serve.

Base maintenance consists of more complex tasks that cannot be accomplished during an overnight visit and require well-equipped facilities, such as hangars. Base maintenance checks are performed following a pre-scheduled agenda and work scope for major checks. The scheduled interval for such major checks is set forth in the ANAC Approved Maintenance Program, and is based on the number of hours flown, landings and/or calendar time. Base airframe maintenance checks (which do not cover engine performance and overhaul shop visits) may normally take from one week to one month to be accomplished, depending on the manpower requirements of the work package, and typically are required approximately every 18 months. Engine performance and overhaul shop visits are performed approximately every three years.

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We currently perform all base airframe maintenance checks for our ATR aircraft and most of the E-Jets base airframe maintenance at our full-capability maintenance facility in Belo Horizonte and outsource certain base airframe maintenance checks for our E-Jets, Airbus A320neos and A330s to FAA, EASA and ANAC certified maintenance, repair and overhaul providers. Since April 2020, we are performing maintenance checks for our Airbus and E-Jet aircraft at our new full-capability maintenance facility in Campinas.

We hold concessions for three hangars at our ATR full-capability maintenance center in Belo Horizonte, where we perform airframe heavy checks, line maintenance, painting and interior refurbishment of our ATR aircraft. We also have one hangar in Manaus and Cuiabá for E-Jets and ATR line maintenance.

Our current strategy is to outsource all engine repair, performance restoration and overhaul shop visit maintenance to qualified third parties. As such, we have entered into the following long-term flight hour agreements with the following parties; most of such agreements require us to make monthly payments based on utilization and, in turn, these agreements transfer certain risks to the third party provider:

- a) General Electric, or GE, the manufacturer of the CF34 engines installed on our E-Jet aircraft fleet—A power-by-the-hour agreement, effective throughout the period in which we operate each engine part of the agreement, which provides for comprehensive engine repair, performance restoration, overhaul, engine condition monitoring and diagnostics management of the CF34 engine fleet. Under this agreement, GE has equipped its GE Celma plant in Petrópolis near Rio de Janeiro to perform our engine maintenance since September 2012, resulting in a significant reduction in turnaround time and engine spares inventory, and avoiding the cost of shipping engines to the United States for maintenance.
- b) Rolls-Royce, the manufacturer of the Trent 700 and Trent 7000 engines installed on our A330 and A330neo wide-body aircraft fleet, respectively—Separate power-by-the-hour agreements, or Total Care, each effective throughout the period in which we operate each engine part of the agreement, which provides for comprehensive engine repair, performance restoration, overhaul, engine condition monitoring and diagnostics management of Trent 700 and Trent 7000 engines fleet.
- c) CFM International, a joint venture between GE and Safran Aircraft Engines, the manufacturer of the Leap 1A engines installed on our next-generation Airbus A320neo family fleet—A power-by-the-hour twelve year agreement, which provides for the repair, performance restoration, overhaul, engine conditioning monitoring and diagnostics management of each Leap 1A engine fleet. Under this agreement, GE had the obligation to develop its GE Celma plant in Petrópolis near Rio de Janeiro to perform our engine maintenance with full capability by 2020, which it has fulfilled. This will result in significant reduction in turnaround time and engine spares inventory, and will avoid the cost of shipping engines to the United States for maintenance.
- d) Pratt & Whitney, the manufacturer of the PW1900G engines installed on the E2 aircraft fleet—A power-by-the-hour twelve year agreement for each engine effective from the delivery date of the first aircraft and covering the repair, performance restoration, overhaul, engine conditioning monitoring and diagnostics management of the engine fleet.

To support the maintenance of our aircraft, we have entered into component flight hour services program agreements with various industry-leading specialists in the supply, exchange, repair, and lease of commercial aircraft repairable spares. These programs provide us with comprehensive inventory solutions for component repair, on-site inventory and access to spare parts exchange pools for our ATR, E-Jets, and Airbus aircraft fleets. Such programs allow us to optimize our component maintenance costs, improve our cash flow forecasting and achieve the high standards of component reliability required to maximize our aircraft availability. These agreements require us to make monthly payments based on flight hours, and in turn, the agreements transfer certain risks related to the supply and repair of component parts to the third-party service provider.

We have entered into the following long-term component flight hour agreements with the following parties:

- a) ATR — An agreement expiring in 2028 which covers the component repair, on-site inventory and access to a spare parts exchange pool for our ATR72-600 aircraft fleet.
- b) Embraer — A warranty repair agreement expiring in September 2022 which covers the repair of components for our E-Jet aircraft fleet.
- c) Airbus — Separate agreements for both the A320neo and A330 fleet expiring in 2028 and 2027, respectively, which cover the component repair, on-site inventory and access to a spare parts exchange pool.



[Table of Contents](#)**Safety and Quality**

We are committed to the safety and security of our customers and crewmembers and are certified by the IATA Operational Safety Audit, or IOSA, an internationally recognized quality and safety evaluation system designed to assess the operational management and control systems of an airline. We maintain an Operational Safety Team, divided into six departments: (i) Risk Management & Prevention (ii) Safety Assurance, (iii) Corporate Quality, (iv) Maintenance Safety (v) Security and (vi) Emergency Response and Humanitarian Assistance. All of our safety and quality team members have significant international experience in the airline industry and some of them have previously worked at international airlines and original equipment manufacturers, which provides them not only with knowledge of airline safety and quality systems, but also familiarity with the fleet we operate.

The Risk Management and Safety Assurance departments are responsible for managing safety programs as conducting the Safety Reports (voluntary and mandatory), the Human Factors, the Flight Data Monitoring, or FDM, and Line Oriented Safety Audit, which maximizes reactive, proactive and predictive actions to achieve high levels of safety. All of our aircraft are included in the Maintenance Operations Quality Assurance System, a troubleshooting and health programs that monitors Maintenance Safety performance and aircraft engine trends. This department follows all activities related to the Safety Management System, or SMS, including the SMS standards established by ANAC, which follows the highest recognized safety standards in the world. Brazil is ranked in Category 1 in flight safety standards by the International Civil Aviation Organization, which is the same classification held by the United States and Canada. See "Regulation."

The Corporate Quality department conducts audits and inspections in all operational areas in accordance with a Quality Management System. These stringent standards and requirements are key to assuring the very highest levels of safety and quality throughout the operational areas.

The Emergency Response and Humanitarian Assistance department trains and maintain a Special Assistance Team, composed of volunteers that are trained for emergency situations. This department also conducts regular drills, trainings and relevant media training along with our Communications Office.

The Security department focuses on the protection of aviation operations against acts of unlawful interference in compliance with TSA and ANAC security protocols and is also responsible for the security of executives and VIP customers, as well as physical and electronic security at administrative and operational facilities.

We are the first airline in Brazil certified to use dual head-up displays, or HUDs, an advanced display of flight, navigation or other information superimposed upon the pilot's forward field of view, which is currently installed in most of our jets. In addition to this advanced safety feature, the majority of our fleet is equipped with electronic flight bags, an information management device that helps flight crew perform flight management tasks safely. We believe we are the only airline in Brazil with onsite access to flight simulators with full flight capability. We maintain our aircraft in strict accordance with manufacturer specifications and all applicable safety regulations, perform routine daily line maintenance, and are part of the Embraer and Airbus Aircraft Integrity Monitoring Program, which provides close monitoring of malfunction trends in systems and components. We also strive to comply with or exceed most health and safety standards. In pursuing these goals, we maintain an active aviation safety program, in which all our personnel are expected to participate and take an active role in the identification, reduction and elimination of hazards.

Our ongoing focus on safety and quality are reflected in the training of our crewmembers, who are provided with the appropriate tools and equipment required to perform their job functions in a safe and efficient manner. Safety in the workplace targets several areas of our operations, including flight operations, maintenance, dispatch and station operations.

**Employees**

We believe that the quality of our employees, whom we refer to as crewmembers, promotes our success and growth potential. We believe we have created a strong service-oriented company culture, which is built around our values of safety, consideration, integrity, passion, innovation and excellence. We are dedicated to carefully select, train and maintain a highly productive workforce of considerate, passionate and friendly people who serve our customers and provide them with what we believe is the best flying experience possible. We reinforce our culture by providing an extensive orientation program for new crewmembers and instill in them the importance of customer service and the need to remain productive and cost efficient. Our crewmembers are empowered to not only meet our customers' needs and say "yes" to a customer, but to also listen to our customers and solve problems.

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We communicate regularly with all of our crewmembers, keeping them informed about events at our offices through town hall meetings and question and answer sessions and soliciting feedback for ways to improve cooperation and their work environment. We conduct an annual crewmember survey and provide training for our leadership that focuses on crewmember engagement and empowerment. In addition, each of our executives adopts a city and is responsible for meeting with crewmembers on a periodic basis to be an additional source of corporate communication and assistance. Our executives also interact directly with our customers when traveling to obtain feedback and suggestions about the Azul experience.

We aspire to be the best customer service company in Brazil and, as a result, we believe our crewmembers are more likely to recommend us as a place to work to a friend or relative. We have good relations with our crewmembers and we have never experienced labor strikes or work stoppages.

We are focused on increasing the efficiency and productivity of our crewmembers. As of December 31, 2020, we had 74 FTEs per aircraft, compared with our competitors in Brazil. The following table sets forth the number of our crewmembers per category and the number of FTEs per aircraft at the end of the periods indicated:

	At December 31,		
	2020	2019	2018
<b>Crewmembers</b>			
Pilots	2,053	1,846	1,741
Flight attendants	3,078	2,936	2,351
Airport personnel	2,556	3,293	3,165
Maintenance personnel	1,901	2,217	2,063
Call center personnel	637	917	924
Others	1,779	1,980	1,563
<b>Total</b>	<b>12,004</b>	<b>13,189</b>	<b>11,807</b>
End-of-period FTEs per aircraft	74	93	94

We provide extensive training for our crewmembers that emphasizes the importance of safety. In compliance with Brazilian and international IATA safety standards, we provide training to our pilots, flight attendants, maintenance technicians, managers and administrators and customer service (airport and call center) crewmembers. We have implemented employee accountability initiatives both at the time of hiring and on an ongoing basis in order to maintain the quality of our crew and customer service. We currently operate four flight simulators and have an extensive training program at UniAzul, our training facility adjacent to Viracopos airport. See “—Airports and Other Facilities and Properties—Other Facilities and Properties” and “—Safety and Quality.”

A national union represents all airline employees in Brazil. However, we do not have a direct collective bargaining agreement with any labor unions. Binding negotiations in respect of cost of living, wage and salary increases are conducted annually between the national union and an association representing all of Brazil’s airlines. Work conditions and maximum work hours are regulated by government legislation and are not the subject of labor negotiations. In addition, we have no seniority pay escalation. Since our FTEs per aircraft is lower than that of our main competitor, any wage increases have a lower impact on us, thus making labor costs less significant to our operations. As a result, we believe our results of operations are less affected by labor costs than those of our main competitor.

Our compensation strategy is competitive and meant to retain talented and motivated crewmembers and align the interests of our crewmembers with our own. Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, psychosocial assistance under our *Anjo Azul* program, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), salary-deduction loans, bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft. We also benefit from generally lower labor costs in Brazil, when compared to other countries, which is somewhat offset by lower productivity due to government requirements over employee labor conditions and taxes on payroll.

To motivate our crewmembers and align their interests with our results of operations, we provide a leadership incentive plan based on the achievement of pre-defined company performance targets (*Programa de Recompensa*). We also have established a stock option plan for our leadership that vests over a four-year period. See “Item 6.B. Management Compensation—Stock-Based Incentive Plans.”

[Table of Contents](#)**Insurance**

We maintain insurance policies as required by law and the terms of our aircraft leasing agreements. Our insurance coverage for third party and passenger liability is consistent with general airline industry standards in Brazil and we insure our aircraft against physical loss and damage on an “all risks” basis. We maintain all mandatory insurances coverage for each of our aircraft and additional insurances coverage required by lessors, although liability for war and associated acts, including terrorism, is covered by the Brazilian government.

**Environmental, Social and Governance (“ESG”) Responsibility**

Aviation brings people, cultures and economies together, driving economic growth and social progress. Since our foundation in 2008, we have established our operations with a concern for social values, local development and environmental protection, aiming to create sustainable long-term relationships with all of our stakeholders.

Emissions efficiency is a constant concern for our sector. Recently developed, more efficient aircraft models and effective operating processes lead to a decrease in fuel consumption per passenger. Our ongoing fleet transformation process, which consists of replacing older generation aircraft with next-generation fuel-efficient aircraft, will play a significant role in our sustainability process as we expect the renewed fleet to reduce our fuel consumption and carbon emissions per flight as well as on a per passenger basis. We are constantly working on other initiatives to reduce our fuel consumption including route optimization and operational improvements.

Azul’s most valuable asset is its committed and passionate team of crewmembers. Our mission is for our crewmembers to have the best job experience of their lives working at Azul and to offer our customers the best flight experience. For us, our crewmembers are essential to our achieving excellence. Regardless of our position in the Company, we are all part of the same team, and the Azul experience is a collective effort that involves the commitment from all of us.

As of December 31, 2020, we were the sole airline in 155 of the 203 routes we served and, as a result, we support smaller communities that are located far from larger metropolitan areas, boosting their local economy. In addition to our diversified domestic network, we also serve select international destinations and partner with several airlines connecting customers to global destinations.

In 2020, we affirmed our commitment to the United Nations (UN) Sustainable Development Goals (SDGs) and developed an increasingly engaged social action, not only around our operating stations, but also across Brazil. We are committed to building a promising future, connecting people and changing lives through the work of our team of 1,928 volunteers and social investment projects that have directly benefited over 10,000 people.

We conduct our corporate governance with transparency and in accordance with the most relevant market guidelines that comply with SEC and CVM requirements. For more information about our ESG initiatives and results visit [www.voeazul.com.br/ir](http://www.voeazul.com.br/ir).

**Seasonality**

Our operating revenue and results of operations are substantially dependent on overall passenger traffic volume, which is subject to seasonal and other changes in traffic patterns. Therefore, our operating revenue and results of operations for any interim period are not necessarily indicative of those for the entire year. We generally expect demand to be greater in the first, third and fourth quarters of each calendar year compared to the second quarter of each year.

This demand increase occurs due to an increase in business travel during the second half of the year, as well as the Christmas season, Carnival and the Brazilian school summer vacation. Although business travel can be cyclical depending on the general state of the economy, it tends to be less seasonal than leisure travel, which peaks during vacation season and around certain holidays in Brazil.

The table below shows our average fare in *reais* for the periods indicated, reflecting our total passenger revenue divided by passenger flight segments for such periods:

Year Ended December 31,	Average Fare (R\$)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018	376.1	346.1	379.9	395.7
2019	382.3	379.7	391.5	419.9
2020	403.3	329.0	262.4	307.0

[Table of Contents](#)**Intellectual Property***Brands*

We have registered, applied for registration or renewed licenses for approximately 92 trademarks with the INPI including, among others, the trademarks “TUDO AZUL,” “AZUL LINHAS AÉREAS BRASILEIRAS,” “AZUL FLEX,” “AZUL PROMO,” “AZUL VIAGENS,” “VOE AZUL,” and “AZUL CARGO EXPRESS.”.

We operate software products under licenses from our vendors, including Oracle, Trax, Sabre, Navitaire, Amadeus, Comarch, Lufthansa, Sita, Jeppesen and SmartKargo. Under our agreements with Embraer, ATR and Airbus we use their knowledge and proprietary information to maintain our aircraft.

*Patents*

We possess no patents registered with or granted by the INPI.

*Domain Names*

We have also registered several domain names with NIC.br, Brazil’s internet domain name registry, and other domain registers, including, among others, “voeazul.com.br,” “flyazul.com,” “azulcargoexpress.com,” “azulviagens.com.br” and “tudoazul.com.”

**Regulation****Overview**

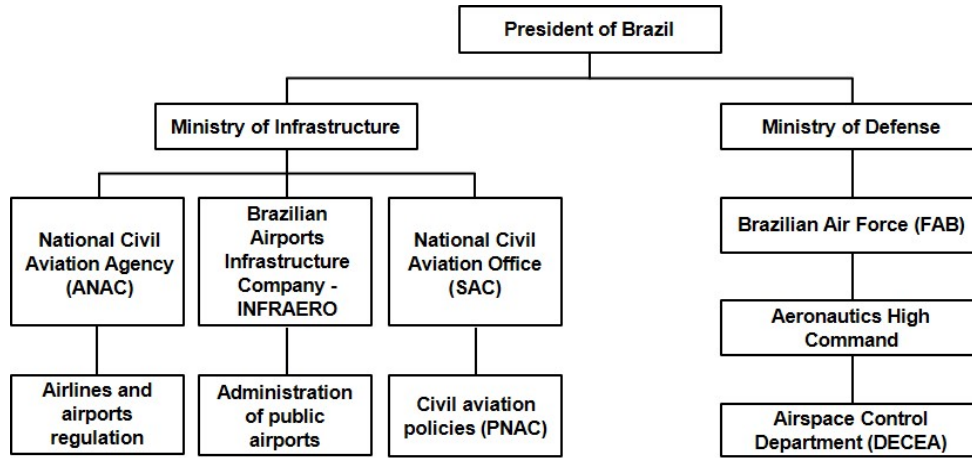
Under the Brazilian Constitution, air transportation is a public service. It is therefore subject to extensive governmental regulation and monitoring by several federal agencies and entities. The sector is regulated by the Brazilian Aeronautical Code, which covers air service concessions; airport infrastructure and operations; flight safety; airline certification; leasing, taking security, disposal, registration and licensing of aircraft; crew training; inspection and control of airlines; public and private air carrier services; civil liability; and penalties for infringement.

Brazil has signed and ratified the Chicago Convention of 1944, the Geneva Convention of 1948, the Montreal Convention of 1999 and the Cape Town Convention of 2001, the leading international conventions relating to worldwide commercial air transportation activities.

The National Civil Aviation Policy (*Política Nacional de Aviação Civil*), or PNAC, which was adopted in 2009, sets out the main governmental guidelines and policies that apply to the Brazilian civil aviation system. The PNAC encourages all regulatory bodies to issue regulations on strategic matters such as safety, competition, environmental and consumer issues, and to inspect, review and evaluate the activities of all operating companies.

## Regulatory Bodies

The chart below illustrates the main regulatory bodies together with their responsibilities and reporting lines:



The Ministry of Infrastructure (formerly the Ministry of Transport, Ports and Civil Aviation) supervises civil aviation services and activities in Brazil and is responsible for issuing governmental policies for the sector. The Ministry of Infrastructure reports directly to the President of Brazil and is responsible for the oversight of ANAC and INFRAERO.

ANAC, which was created in 2005, has full regulatory powers regarding the following:

- guiding, planning, stimulating and supporting the activities of public and private civil aviation companies in Brazil;
- regulating flight operations; and
- regulating economic issues affecting air transportation and airports, including air safety, certification and fitness, insurance, consumer protection and competitive practices.

INFRAERO is a state-controlled airport operator that reports to the Ministry of Infrastructure. It is responsible for managing, operating and controlling all government-operated federal airports (i.e., those whose operations have not been transferred to private parties by way of concessions), including safety, operational conditions and infrastructure. With respect to the recently privatized airports (Natal, Galeão, Confins, Guarulhos, Viracopos and Brasília), although INFRAERO still holds a minority stake in each of them, INFRAERO is no longer in charge of operations, which are now handled by their respective private operators.

The National Commission of Airport Authorities (*Comissão Nacional de Autoridades Aeroportuárias*), or CONAERO, which was created in 2011, is a commission within the Ministry of Infrastructure. Its role is to coordinate the activities of the different entities and public agencies with respect to airport efficiency and safety.

The Department of Airspace Control (*Departamento de Controle do Espaço Aéreo*), or DECEA, reports indirectly to the Brazilian Minister of Defense. It is responsible for planning, administrating and controlling activities related to airspace, aeronautical telecommunications and technology, as well as military aviation. Its functions include approving and overseeing the implementation of equipment and navigation, meteorological and radar systems. The DECEA also controls and supervises the Brazilian Airspace Control.

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The Brazilian Civil Aviation Council (*Conselho de Aviação Civil*), or CONAC, which was created in 2000, is an advisory body to the President of Brazil with authority to establish national civil aviation policies, to be adopted and enforced by the Aeronautics High Command and ANAC. CONAC establishes guidelines relating to following:

- the representation of Brazil in conventions, treaties and other activities related to international air transportation;
- airport infrastructure;
- the provision of funds to airlines and airports to further strategic, economic or tourism interests;
- the coordination of civil aviation;
- air safety; and
- the granting of air routes, concessions and permissions for commercial air transportation services.

### **Airport Infrastructure**

Brazil currently has more than 2,400 private and public airfields. Airlines that operate regularly scheduled flights primarily use public airport infrastructure, with 98% of total passenger traffic passing through a network consisting of 65 airports. INFRAERO is responsible for the operational matters of 47 of these airports.

A number of smaller, regional airports in Brazil are under the control of state or municipal governments and are managed by local governmental entities. INFRAERO is responsible for safety and security activities at the largest airports, including passenger and baggage screening, cargo security measures and airport security.

In 2011, the Brazilian government started to grant the operation of certain airports in Brazil by way of concessions following public bids. Between 2011 and 2019, 22 airports have been privatized after bid concessions, including our three hubs, Viracopos, Confins and Recife. The concessions for these airports have terms of between 20 to 30 years.

Aeroportos Brasil, the holder of the concession to operate Viracopos airport, has announced its intention to return this concession to ANAC. Aeroportos Brasil's judicial reorganization plan was approved by its creditors on February 14, 2020, provided that Aeroportos Brasil present its request for rebidding of Viracopos airport concession to the Brazilian federal government. The request for rebidding was filed with ANAC on March 19, 2020.

In March 2019, the Brazilian government concluded an auction for the concession of 12 airports grouped into three regional blocks – Northeast, Midwest, and Southeast, including our third largest hub in Recife. In April 2021, the Brazilian government auctioned another 22 airports located in the Southern, Mid and Northern region of the country, concluding the 6<sup>th</sup> concession round. The 7<sup>th</sup> concession round is expected to occur in 2022 and is expected to consist of three regional blocks. This auction is the most important one because it includes Santos Dumont and Congonhas airports.

Of the 47 Brazilian airports managed directly or indirectly by INFRAERO, 17 airports are currently receiving infrastructure investments and upgrades. The airport upgrade plan does not require contributions or investments by Brazilian airlines, and is not expected to involve increases in landing fees or passenger taxes on air travel.

The Resolution No. 338, of July 2014, predicts that airports operating at full capacity. Under this resolution, airports operating at full capacity are deemed by ANAC “coordinated airports.” The following airports are currently deemed to be “coordinated airports” by ANAC: Belém, Cuiabá, Congonhas, Curitiba, Guarulhos, Goiania, Foz do Iguaçu, Manaus, Maceió, Recife, Santos Dumont, and Vitória.

In July of 2014, ANAC enacted a resolution establishing new procedures to allocate slots in airports operating at full capacity. Through such allocation, we received 26 new slots at Congonhas airport. In November 2014, we started operating 13 daily flights from Congonhas airport to some of our most profitable markets including Belo Horizonte, Porto Alegre, and Curitiba, leveraging the connectivity we have in these cities and expanding our flights available to São Paulo passengers. In August 2019, ANAC announced a temporary distribution of 41 slots in Congonhas airport previously operated by Avianca Brasil, of which 15 slots were allocated to us. As a result, we adjusted our flight schedules at Congonhas airport and since September 2019, we started operating a shuttle service between Congonhas and Rio de Janeiro and between Congonhas and Belo Horizonte.

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Due to the exceptional Avianca situation, ANAC is in the process of reviewing the Resolution No. 338, to increase the competition on congested airports. Although the rule of Resolution No. 338 has not been changed yet the Board of ANAC on July 25, 2019 has deliberated that exceptionally for Congonhas Airport due to Avianca situation the criteria for distribution of slots are different than the criteria of Resolution No. 338.

Airlines and service providers may lease areas within federal, state or municipal airports, such as hangars and check-in counters, subject to concessions or authorizations granted by the authority that operates the airport—which may be INFRAERO, the state, the municipality or a private concession holder, as the case may be. No public bid is required for leases of spaces within airports, although INFRAERO may conduct a public bidding process if there is more than one applicant. In other cases, the use may be granted by a simple authorization or permission issued by the authority that operates the airport. In the case of airports operated by private entities, the use of concession areas is subject to a commercial agreement between the airline and the airport operator.

We have renewable concessions with terms varying from one to five years from INFRAERO and other granting authorities to use and operate all of our facilities at each of the major airports that we serve. Most of our concession agreements for passenger service facilities at our terminals, which include check-in counters and ticket offices, operational support areas and baggage service offices, contain provisions for periodic adjustments of the lease rates and the extension of the concession term. We have airport areas under concession and certain areas which concessions are being duly formalized in order to be renewed.

### **Air Transportation Service Concessions**

Under the Brazilian Constitution, the Brazilian government is responsible for air transportation and airport infrastructure, as a public service, and may provide these services directly or by way of concessions or authorizations to third parties. ANAC is the authority empowered to authorize concessions for the operation of regular air transportation services.

ANAC requires companies interested in operating air services to meet certain economic, financial, technical, operational and administrative requirements. The applicant must be an entity incorporated in Brazil, must have a valid Airline Operating Certificate (*Certificado de Operador Aéreo – COA*) and must comply with the ownership restrictions discussed below. ANAC has the authority to revoke a concession if the airline fails to comply with the Brazilian Aeronautical Code and any other relevant laws or regulations relating to the concession agreement, including if the airline fails to meet specified service levels, ceases operations or declares bankruptcy.

ALAB's first concession was granted on November 26, 2008 by ANAC and had a term of ten years. Therefore, on November 21, 2018, ALAB made a formal request to renew the concession. On December 6, 2018, ANAC published the renewal of concession contract for another 10 years.

The concession agreement can be terminated if, among other things, ALAB fails to meet specified service levels, ceases operations or declares bankruptcy. By the end of the term of the concession, the continuation of the provision of airport services depends on the extension of the term of the current concession agreement or the granting of a new concession.

Public bidding is not currently required for the grant of concessions for the operation of air transportation services.

### **Route Rights**

#### *Domestic routes*

Until March 25, 2017, ANAC was the intermediary between airlines and airport operators regarding new routes, changes to existing routes and surveillance of allocated routes. After this date, pursuant to Resolution No. 440/2017, airlines negotiate the use of airport and aeronautical infrastructure directly with airport operators and providers of air navigation services prior to registering routes with ANAC. For airports defined by ANAC as “coordinated” or “of interest,” pursuant to Resolution No. 338/2014, airlines are still required to obtain slots. The implementation of Resolution No. 440/2017 permits more flexible and efficient networks to better serve demand for air services, principally in high and low seasons.



[Table of Contents](#)*International Routes*

In accordance with Resolution No. 491, as of September 10, 2018, rights regarding international routes and the corresponding transit rights depend on the bilateral air transport treaties between Brazil and the foreign government. Under these treaties, each government grants to the other the right to designate one or more domestic airlines to operate scheduled services between certain destinations in each country. Airlines are only entitled to apply for new international routes when they are made available under these agreements.

ANAC has the authority to grant Brazilian airlines approval to operate a new international route or change an existing route, subject to the airline having filed satisfactory studies to ANAC demonstrating the viability of the routes and fulfilling certain conditions with respect to the concession for the routes. A Brazilian airline that received ANAC approval to provide international services may address a request for approval of a new or changed route to the Air Services Superintendence of ANAC (*SAS – Superintendencia de Acompanhamento de Serviços Aéreos da ANAC*). The Superintendence submits a non-binding recommendation to the president or ANAC, who may decide whether to approve the request.

An airline's international route frequency rights may be terminated if the airline fails to maintain an Index of Frequency Utilization (*Índice de Utilização de Frequência*), or IUF, of at least 66% of flights for any 180-day period, or if the airline does not initiate operations within a period of 180 days from the grant of the new route.

Resolution No. 491 also established that, after March 2019, low frequency international routes may be reallocated to different operators if an allocation request is made by another company and there are no other available frequencies to the country of destination. Low frequency routes are those with less than 50% of usage in the period of evaluation of 26 consecutive weeks.

In 2010, ANAC approved regulations regarding international fares for flights departing from Brazil to the United States and Europe, which gradually removes the previous minimum fares. In 2010, ANAC approved the continuity of bilateral agreements providing for open skies policies with other South American countries.

In 2011, United States and Brazil reached an open-skies aviation agreement to liberalize the air services and traffic between both countries, including, among other things, removal of restrictions on pricing and additional scheduled and charter services to the congested airports of São Paulo and Rio de Janeiro. Both countries agreed to a transition period of five years; however, the agreement was only approved by the Brazilian National Congress in March 2018 and sanctioned by the President in office (Michel Temer) in June 2018.

There are ongoing negotiations between Brazil and EU to implement an open skies agreement but the final terms of the treaty have not been approved.

*Domestic Slots Policy*

For certain airports that are classified as operating at full capacity by ANAC, passenger airlines are required to obtain slots from ANAC. A slot is a predetermined period of time during which the airline is allowed to take off or land at a specific airport. To obtain domestic slots, the airline must submit a request to ANAC, and ANAC will, in turn, distribute slots to the requesting airlines in accordance with the number of new slots available as per the slot allocation calendar defined by Resolution No. 338. Airlines may transfer slots with ANAC's prior approval. An airline may lose its rights to its slots where service provision is below the quality determined by ANAC. In these cases, the slots are distributed to other airline companies by public tender.

Currently, there are a thirteen Brazilian ANAC "coordinated airports" where slots are necessary to perform scheduled flights: Belém, Cuiabá, Congonhas, Curitiba, Guarulhos, Goiania, Foz do Iguaçu, Manaus, Maceió, Recife, Santos Dumont, and Vitória. Additionally, there are eight airports declared as "airports of interest" which are also subject to slot coordination procedures (coordination performed by their respective airport operators instead of ANAC). These are: Brasília, Confins, Florianópolis, Galeão, Porto Alegre, Salvador, and Viracopos.

Congonhas airport, which is the busiest domestic airport in Brazil, has a shortage of slots due to the lack of airport infrastructure to meet current demand. As a result, the number of new slots granted by ANAC at this airport is limited. New slots are awarded by public tender and generally only become available when they are taken from existing airlines as a result of disciplinary proceedings, or when airport capacity is increased. In the most recent distribution of slots, ANAC opened the public tender to all airlines that were qualified to bid. Airports in smaller and medium-sized markets, which are the focus of our growth strategy, do not require slots, which allows us greater flexibility in establishing our timetable when building out our route network.

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In July of 2014, ANAC enacted a resolution establishing new procedures to allocate slots in airports operating at full capacity. Through such allocation, we received 26 new slots at Congonhas airport. In November 2014, we started operating 13 daily flights from Congonhas airport to some of our most profitable markets including Belo Horizonte, Porto Alegre, and Curitiba, leveraging the connectivity we have in these cities and expanding our flights available to São Paulo passengers. In August 2019 ANAC announced a temporary distribution of 41 slots in Congonhas airport previously operated by Avianca Brasil, of which 15 slots were allocated to us. As a result, we adjusted our flight schedules at Congonhas airport and since September 2019, we started operating a shuttle service between Congonhas and Rio de Janeiro and between Congonhas and Belo Horizonte ceasing to operate flights to Porto Alegre and Curitiba.

Due the significant impact caused by the COVID-19 pandemic, responsible for drastically reducing the number of flights, ANAC granted waiver for the rules about slots cancellations at airports coordinated for seasons W19, S20, W20 and S21, that is, until 03/27/2021.

**Import of Aircraft into Brazil**

Any civil or commercial aircraft must be certified in advance by ANAC before being imported into Brazil. Once certified, the aircraft may be imported in the same way as other goods. Following import, the importer must register the aircraft with the Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro*).

**Registration of Aircraft**

Brazilian aircraft must have a certificate of registration (*certificado de matrícula*) and a valid certificate of airworthiness (*certificado de aeronavegabilidade*), both of which are issued by the RAB after technical inspection of the aircraft by ANAC. The certificate of registration establishes that the aircraft has Brazilian nationality and serves as proof of its enrollment with the aviation authority. The certificate of airworthiness, which is generally valid for 15 years from the date of ANAC's initial inspection, authorizes the aircraft to fly in Brazilian airspace, subject to continuing compliance with certain technical requirements and conditions. An aircraft's registration may be cancelled if the aircraft is not in compliance with the requirements for registration and, in particular, if it has failed to comply with any applicable safety requirements specified by ANAC or the Brazilian Aeronautical Code.

All information relating to the contractual status of an aircraft, including title documents, operating leases and mortgages, must be filed with the RAB in order to update public records.

**Fares**

Brazilian regulations allow airlines to establish their own domestic fares without prior approval from the Brazilian government or any other authority. However, ANAC regularly monitors domestic fares. In particular, under regulations published in 2010, Brazilian airlines must report their monthly prices to ANAC by the last business day of each month.

**Baggage Charge**

According to ANAC's Resolution 400 of December 13, 2016 (General Conditions of Air Transport), or Resolution 400, which became effective on March 14, 2017 (but had its applicability and effects suspended until April 29, 2017) airlines are allowed to charge for checked baggage. On June 1, 2017, we started charging our passengers a fee for checked baggage and believe this will be an important source of revenue going forward. The legality of charging for checked baggage was confirmed by Brazil President's veto of the provisional measure MP No 863/2018, which intended to prohibit charging for checked baggage.

*General Conditions Applicable to Air Transportation*

On December 14, 2016, ANAC approved Resolution No. 400, of December 2016, which sets forth certain general conditions applicable to air transportation. Resolution No. 400 was enacted on March 14, 2017 for all flight tickets purchased on and after this date. This resolution establishes boarding documentation requirements, provides customers with a 24 hour post-purchase period to cancel a flight ticket without charge, reduces repayment periods, increases the baggage allowance, allows for free passenger name corrections on flight tickets, guarantees return tickets in the event a one-way cancellation is made in advance for a domestic flight and simplifies the return and compensation process for lost baggage.

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During the COVID-19 pandemic, ANAC decided to make more flexible the applicability of some provisions of Resolution No. 400, by promulgating Resolutions No. 556 and No. 598. As a result, the requirement to notify passengers of any changes in the air network was reduced from 72 hours before the flight to 24 hours before the flight. This revision will remain in through October 31, 2021. Further, a requirement to provide material assistance in the case of border closings, was excluded.

In addition, law 14,034/20 and Provisional Measure MP1024/20 were enacted as a result of the COVID-19 pandemic to bring financial relief to the airlines' cash outflows by changing the refund term from 7 days to 12 months for any flights canceled between March 19, 2020 to October 31, 2021. This provisional measure must be converted into Law within a period of 60 days, extendable for another 60 days or lose its effectiveness.

### **Restrictions on the Ownership of Shares in Air Transportation Service Providers**

On December 13, 2018, the Brazilian Federal government issued provisional measure MP 863/2018, a new rule amending the Brazilian Aeronautical Code, which established that at least 80% of the voting stock of a company that holds a concession to provide scheduled air transportation services must be held directly or indirectly by Brazilian citizens, and the company must be managed exclusively by Brazilian citizens. MP 863/2018 allows foreign shareholders to hold up to 100% of the voting stock of Brazilian airlines companies and lifts the restriction on foreign management of domestic carriers. Thus, regardless of the company's capital origin, as long as the legal entity is incorporated under Brazilian law, there are no restrictions on the foreign capital interest in such entities.

On June 17, 2019, the provisional measure MP 863/2018 was converted into Law No 13.842/2019, amending the Brazilian Aeronautical Code, and allowed 100% of the voting stock of a company that holds a concession to provide scheduled air transportation services to be owned by foreigners, which completely opened up the market to non-Brazilian citizens. Besides that, the leadership of companies that hold a concession to provide scheduled air transportation services can now be carried by foreigners and ANAC will not need to approve any acts of formation or changes to the corporate governance structure of such companies.

### **Environmental Regulation**

Brazilian airlines are subject to various federal, state and municipal laws and regulations relating to the protection of the environment, including the disposal of waste, the use of chemical substances and aircraft noise. These laws and regulations are enforced by various governmental authorities. If an airline fails to comply with these laws and regulations it may be subject to administrative and criminal sanctions, in addition to the obligation to remediate the environmental damage and/or to pay damages to third parties. In addition, Brazilian environmental law establishes a regime of strict civil liability (i.e., irrespective of fault) as well as joint civil liability, meaning that we may be held liable for violations by any third parties whom we hire, for example, to dispose of waste. Brazilian environmental law also provides for "piercing of the corporate veil," which imposes liability on a corporation's controlling shareholders in order to ensure sufficient financial resources to cover environmental damage. Accordingly, we may be directly liable for any violations caused by ALAB and TRIP.

We seek to comply with all environmental legislation and all requirements of public authorities in order to avoid liabilities and limit additional expenses.

#### *Environmental Licenses*

Under Brazilian law, the authority to grant environmental licenses for facilities or activities within a state, among other activities, belongs to the state authorities, unless the environmental impact would extend beyond the state border, in which case the Brazilian federal government has jurisdiction. Municipal authorities have jurisdiction over the licensing of facilities or activities that have a local impact. Each state has the power to establish specific regulations regarding environmental licensing procedures, within the scope of general guidelines established by the Brazilian government.

Most of the requests for renewal of an environmental license must be filed at least 120 days prior to its expiry. Provided that this deadline is complied with, the license is automatically extended until the environmental authority issues its decision.

The constructing, implementation, operation, expansion or enlargement, without a license, of any facility or activity that causes significant environmental impact, or the expansion of an activity in violation of an existing license, subjects the violator to various penalties, including the requirement to shut down the facility or activity and fines ranging from R\$500 to R\$10,000,000. These penalties would therefore apply if we were to carry out any potentially polluting activity without a valid license or in violation of the license conditions.

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We seek to require our suppliers to comply with several Environmental Management System procedures and use technical audits to enforce compliance. We exercise caution in environmental matters, and reserve the right to reject goods and services from companies that do not meet our environmental protection parameters unless confirmation of compliance is received.

#### *Federal Technical Register*

Federal Law 6938/1981 and IBAMA's Instruction No. 06/2013 of the Brazilian Institute for the Environment and Renewable Natural Resources (*Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renováveis*), or IBAMA set forth that all legal entities that carry out potentially polluting activities must be register with the IBAMA's Federal Technical Register, or CTF. This register is an instrument to promote the preservation of the environment.

Activities with a significant potential of pollutant and intense use of natural resources, such as the manufacture and assemble of aircraft, besides being subject to the CTF, are also subject to the quarterly payment of the Environmental Control and Inspection Fee, or TCFA, to IBAMA.

The Federal Decree 6514/2008 subjects entities with no CTF register to fines that range from R\$50.00 to R\$9,000.00, depending on the size of the enterprise and the economic capability of the offender. The Failure to pay TCFA entails a fine of 20% (twenty percent) on the amount owed, as well as default interest of 1% (one percent) per month. Currently, all of our activities subject to registration with the IBAMA's CTF are duly regular.

#### *Gas Emissions*

We are monitoring and analyzing developments regarding amendments to the Kyoto protocol and the emissions regulations in the United States and Europe. We may be required to purchase carbon credits for the operation of our business in future. Brazilian Federal Law 12187/2009 (National Policy on Climate Change) is still to be regulated by specific legislation concerning the establishment of the Brazilian Emissions Reduction Market (*Mercado Brasileiro de Redução de Emissões*), or MBRE, and the establishment of goals for the reduction of greenhouse gases.

#### *Waste*

Brazilian law, and particularly the National Policy on Solid Waste of 2010, provides that the transportation, management and final disposal of waste matter may not cause damage to the environment or inconvenience to public health and welfare. Brazilian legislation regulates the segregation, collection, storage, transportation, treatment and final disposal of waste, and states that parties who outsource waste disposal to third party providers are jointly and severally liable with the service provider.

The administrative penalties applicable to the improper discharge of solid, liquid and gas waste, whether or not resulting in effective contamination, include, among others, embargo of the activity or civil work and fines up to R\$50 million. The costs for the proper waste management will probably increase in the coming years, in view of the implementation of sectorial agreements and greater regulation.

Proper transportation, treatment and final discharge of waste depend on the waste classification for disposal. The projects are subject to prior approval by the environmental authorities. Waste treatment activities are prone to licensing.

In the context of the shared responsibility (*responsabilidade compartilhada*), the National Solid Waste Policy provides that some industrial sectors shall implement a reverse logistics (*logística reversa*) system, defined as the actions and procedures to enable the collection and recovery of solid residues, for reusing in the manufacture cycles, as well as in other destinations. As stated in the applicable legislation, the reverse logistics systems may be implemented jointly or individually by companies.

The reverse logistics system shall envisage the take-back of products after the consumer's use for their reuse in the manufacture cycle or for proper final destination. Such obligation is applicable to the Company as a consumer of lubricating oil, tires etc. The reverse logistics systems of these products are currently being implemented in Brazil. Each part of the chain has specific obligations with the goal of reducing the solid residues volume and mitigating adverse impacts on human health and on the environment.

[Table of Contents](#)*Environmental Liability*

The Brazilian Federal Constitution provides for three different types of environmental liabilities: (i) civil, (ii) administrative and (iii) criminal. These liabilities may be applied separately and cumulatively. Any individual or legal entity (public or private) that directly or indirectly causes, by action or omission, any damage to the environment may be held liable for such damage, as well as for any violation of environmental regulation.

Brazil's National Environmental Policy provides for strict civil liability for damages caused to the environment, which means that we can be held liable for any damage irrespective of fault. To establish strict liability, one simply has to demonstrate a cause-effect relationship between the polluter's activity and the resulting damage in order to trigger the obligation to redress the environmental damage.

Public Attorneys' offices, foundations, state agencies, state-owned companies and environmental protection associations are empowered to file public civil actions seeking compensation for environmental damages. The National Environmental Policy establishes joint liability among all the parties involved in polluting activity and that benefit directly or indirectly from it. Accordingly, the affected party or any of the other parties entitled to sue may choose to seek damages against any single responsible party, and the defendant is entitled to seek right of recourse against all other parties involved in polluting activity.

According to prevailing legal opinion in Brazil, there is no statute of limitations for claims seeking compensation for environmental damages.

Brazilian Federal Decree 6.514/2008 sets forth the infractions and administrative sanctions regarding the environmental matters and the federal administrative procedure to investigate these infractions. Administrative sanctions include: (i) warnings; (ii) simple fines; (iii) daily fines; (iv) seizure of the animals, products and subproducts of fauna and flora; (v) product destruction; (vi) product sales and manufacturing suspension; (vii) closure of the plant or construction; (viii) construction demolition; (ix) full or partial suspension of the activities; and (ix) restriction of rights.

Criminal liability for environmental matters in Brazil extends to corporations as well as to individuals. If a corporation is found criminally liable for an environmental violation, its officers, directors, managers, agents or proxies may also be subject to criminal penalties if there is proof of their intent or fault in preventing the occurrence of the crime. The settlement of a civil or administrative lawsuit does not prevent criminal prosecution for the same violation. Freedom-restricting penalties (confinement or imprisonment) are reduced to right-restricting penalties, such as community service mandates. Criminal sanctions encompass imprisonment in the case of individuals, or dissolution or restriction of rights for legal entities. Fines may be replaced by an undertaking by the violator to take specific steps to redress the environmental damage, if approved by the appropriate environmental authority. Enforcement of fines may be suspended upon settlement with environmental authorities for damage redress.

**Data Protection**

The Brazilian General Data Protection Act (Lei Geral de Proteção de Dados) was published in the Federal Official Gazette on August 15, 2018 and was amended by Provisional Measure MP 869, issued by the President of Brazil in December 2018. The LGPD became effective in September 2020.

Before LGPD comes into force, Brazil lacks a data privacy specific regulation and a data protection authority. Privacy is generally protected through the Federal Constitution, the Brazilian Civil Code (Law 10406 of January 10, 2002), the Brazilian Consumer Protection Code (Law 8078 of September 11, 1990) and the Civil Rights Framework for the Internet (Law 12965 of April 23, 2014 and the Decree 8771 of May 11, 2016, also known as the Internet Law).

The LGPD brings about major changes in the conditions for personal data processing, with a set of rules to be observed in activities such as collection, processing, storage, use, transfer, sharing and erasure of information concerning identified or identifiable natural persons. The application of the LGPD will apply irrespective of industry or business when dealing with personal data.

The Brazilian National Data Protection Authority, or the ANPD, was created in 2018, which will have equivalent activities to the European data protection authorities, exercising the triple role of (i) investigation, being able to issue norms and procedures, deliberate on the interpretation of the Act and request information to controllers and processors; (ii) enforcement, in cases of noncompliance with the law, through an administrative process; and (iii) education, disseminating knowledge about the Act and security measures, stimulating standards for services and products that facilitate control of data subjects, and elaborating studies on national and international practices for the protection of personal data and privacy, amongst others.

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The ANPD has been assured technical independence, although subordinated to the Presidency of the Republic. The Federal Senate has approved the Bill of Law 1,179/2020, as amended, which introduces emergency changes to federal legislation during the COVID-19 pandemic. These changes include specific amendments to the LGPD, such as: (i) its effectiveness will be postponed to January 1, 2021, and (ii) the sections related to administrative penalties (articles 52-54) will only be effective as of August 1, 2021.

**Pending Legislation**

The Brazilian Congress is currently discussing a draft bill that would replace the current Brazilian Aeronautical Code. This draft bill deals with matters related to civil aviation, including airport concessions, consumer protection, limitation of airlines' civil liability, compulsory insurance and fines.

The draft bill has been internally approved by the Brazilian House of Representatives in March 2019, but it still needs to be discussed and approved by the Brazilian Federal Senate. If approved by the Federal Senate without any relevant amendments to the approved wording submitted by the Brazilian House of Representatives, it will be sent for presidential approval. If the Brazilian civil aviation framework changes in the future, or if ANAC implements increased restrictions, our growth plans and our business and results of operations could be adversely affected.

**Aircraft Repossession**

On March 1, 2012, Brazil ratified the Cape Town Convention, which created a system of international registration of legal interests in aircraft and engines. This convention has been ratified and published by Presidential Decree 8008, dated May 15, 2013, and was regulated by ANAC through Resolution No. 309, of March 18, 2014.

The Cape Town Convention is intended to standardize transactions involving movable property. The treaty creates international standards for registration of ownership, security interests (liens), leases and conditional sales contracts, as well as various legal remedies for default in financing agreements, including repossession and provisions regarding how the insolvency laws of the signatory states will apply to registered aircraft and engines. The Convention provides specific remedies such as the Irrevocable Deregistration and Export Request Authorization, which allows recovery of the aircraft in case of default and insolvency. The Brazilian Aeronautical Registry (*Registro Aeronáutico Brasileiro* – RAB) has been appointed as the responsible authority regarding the international registry in Brazil.

Although the Cape Town Convention has been duly internalized into the Brazilian legal system with the status of an ordinary law, further specific rules relating to the export of aircraft in accordance with the Cape Town Convention, especially upon enforcement of an Irrevocable Deregistration and Export Request Authorization in an event of default under financing or lease agreements, are pending further regulations to be issued by the Government of Brazil. The lack of regulations, at this state, is not likely to prevent export of aircraft in accordance with the Cape Town Convention entirely, but may represent an increase in the time required for actual export of aircraft.

**Government Insurance**

In response to substantial increases in insurance premiums to cover risks related to terrorist attacks following the events of September 11, 2001 in the United States, the Brazilian government enacted Law 10744 of 2003, authorizing the government to assume civil liability to third parties for any injury to goods or persons, whether or not passengers, caused by terrorist attacks or acts of war against Brazilian aircraft operated by Brazilian airlines in Brazil or abroad. This statutory coverage is limited to an amount of US\$1 billion. In addition, under the above mentioned legislation, the Brazilian government may, at its sole discretion, suspend this assumption of liability at any time, provided that it gives seven days' notice of the suspension. Brazil is currently the sole jurisdiction worldwide still providing such statutory coverage to its registered fleet.

We maintain all other mandatory insurance coverage for each of our aircraft and additional insurance coverage as required by lessors. See "Item 4.B. Business Overview—Insurance."



[Table of Contents](#)**U.S. and International Regulation***Operational Regulation*

The airline industry is heavily regulated by the U.S. government. Two of the primary regulatory authorities overseeing air transportation in the United States are the DOT and the FAA. The DOT has jurisdiction over economic issues affecting air transportation, such as unfair or deceptive competition, advertising, baggage liability and disabled passenger transportation. The DOT has authority to issue permits required for airlines to provide air transportation. We hold an open skies foreign air carrier DOT permit authorizing us to engage in scheduled air transportation of passengers, property and mail to and from certain destinations in the United States.

The FAA is responsible for regulating and overseeing matters relating to air carrier flight operations, including airline operating certificates, aircraft certification and maintenance and other matters affecting air safety. The FAA requires each commercial airline to obtain and hold an FAA air carrier certificate and to comply with Federal Aviation Regulations 129 and 145. This certificate, in combination with operations specifications issued to the airline by the FAA, authorizes the airline to operate at specific airports using aircraft approved by the FAA. As of December 31, 2017 ALAB has FAA operations specifications approved as Part 129 to use Airbus A330-200 in scheduled flights to the U.S. We have also obtained the necessary FAA authorization to fly to Fort Lauderdale and Orlando. We hold all necessary operating and airworthiness authorizations, certificates and licenses and are operating in compliance with applicable DOT, FAA and applicable international regulations, interpretations and policies.

*Customs and Border Protection*

Our service to the U.S. is also subject to U.S. Customs and Border Protection, or CBP (a law enforcement agency that is part of the U.S. Department of Homeland Security), immigration and agriculture requirements and the requirements of equivalent foreign governmental agencies. Like other airlines flying international routes, from time to time we may be subject to civil fines and penalties imposed by CBP if un-manifested or illegal cargo, such as illegal narcotics, is found on our aircraft. These fines and penalties, which in the case of narcotics are based upon the retail value of the seizure, may be substantial. We have implemented a comprehensive security program at our airports to reduce the risk of illegal cargo being placed on our aircraft, and we seek to cooperate actively with CBP and other U.S. and foreign law enforcement agencies in investigating incidents or attempts to introduce illegal cargo.

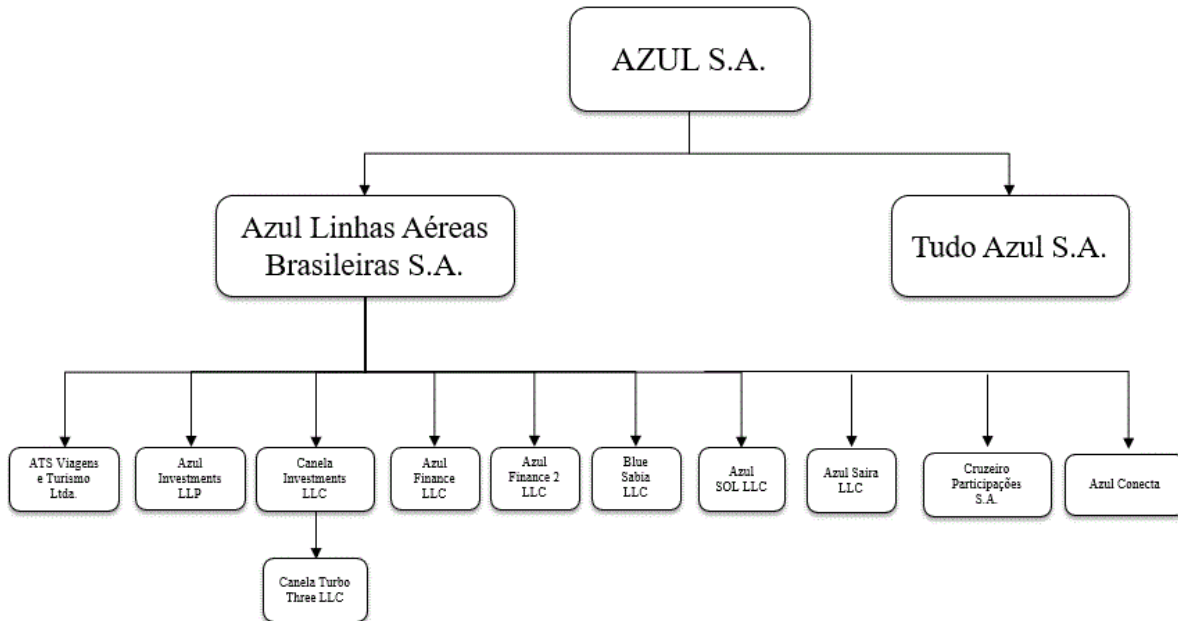
*Security Regulation*

The TSA was created in 2001 with the responsibility and authority to oversee the implementation, and ensure the adequacy, of security measures at airports and other transportation facilities in the United States. Since the creation of the TSA, airport security has seen significant changes including enhancement of flight deck security, the deployment of federal air marshals onboard flights, increased airport perimeter access security, increased airline crew security training, enhanced security screening of passengers, baggage, cargo and employees, training of security screening personnel, increased passenger data to CBP and background checks. Funding for passenger security is provided in part by a per enplanement ticket tax (passenger security fee) of US\$2.50 per passenger flight segment, subject to a US\$5 per one-way trip cap. The TSA was granted authority to impose additional fees on air carriers if necessary to cover additional federal aviation security costs. Pursuant to its authority, the TSA may revise the way it assesses this fee, which could result in increased costs for passengers and/or us. We cannot forecast what additional security and safety requirements may be imposed in the future in the United States or in the EU, or the costs or revenue impact that would be associated with complying with such requirements. The TSA also assess an Aviation Security Infrastructure Fee on each airline.



### C. Organizational Structure

We operate as a holding company and own 100% of our two principal subsidiaries: (i) ALAB and (ii) TudoAzul S.A. The following organizational chart sets forth, in summary form, our material direct or indirect subsidiaries as of December 31, 2020:



ALAB is our original operating subsidiary through which we operate all of our flight activities. ALAB wholly owns Azul Finance LLC and Azul Finance 2 LLC, subsidiaries incorporated in Delaware for the purpose of acquiring next-generation Airbus A320neos from Airbus and E-Jets from Embraer. ALAB also wholly owns Azul SOL LLC, a subsidiary incorporated in Delaware, through which ALAB holds the option to purchase six E-Jets under an operating lease structure, and Blue Sabia LLC, a wholly-owned subsidiary incorporated in Delaware, which leases certain aircraft to Portugalia – Companhia Portuguesa de Transportes Aéreos, S.A., a subsidiary of TAP. In addition, ALAB wholly owns ATS Viagens e Turismo Ltda., a subsidiary organized in Brazil, which sells travel packages offered by our Azul Viagens business unit. ALAB wholly owns TwoFlex (rebranded Azul Conecta), a domestic airline based in Jundiaí, Brazil, which offers regional domestic passenger and cargo service in Brazil, increasing our connectivity. ALAB is also the Managing Partner of Azul Investments LLP, a limited liability partnership incorporated in Delaware for the issuance of debt securities in the United States. ALAB also wholly owns a non-operating subsidiary, Cruzeiro Participações, located in Brazil.

ALAB wholly owns Canela Investments, a limited liability company incorporated in Delaware, which is the parent company of our aircraft operating companies that finance aircraft in U.S. dollars.

We either acquire aircraft using financing obtained in the United States in U.S. dollars, or in Brazil, in *reais*, or lease them from third parties. Each aircraft that we purchase through financing in U.S. dollars is owned by a separate subsidiary of Canela Investments. Each subsidiary of Canela Investments owns one such aircraft and leases it to ALAB, whereas aircraft that we purchase through financing in Brazilian reais are held directly by ALAB. Aircraft that we lease from third parties under operating leases are owned by our relevant counterparty and leased to ALAB.

Azul Saíra, a wholly-owned subsidiary of ALAB and a co-lessor in the sublease contract entered with Breeze Airways, was established on December 7, 2020, in the United States.

[Table of Contents](#)**D. Property, Plant and Equipment**

We lease all of our facilities at each of the airports we serve. Our leases for our terminal passenger service facilities, which include ticket counter and gate space, operations support area and baggage service offices, generally have terms ranging from one to three years and contain provisions for periodic adjustments of lease rates. We expect to either renew these leases or find alternative space that would permit us to continue providing our services. We also are responsible for maintenance, insurance and other facility-related expenses and services. We have also entered into use agreements at each of the airports we serve that provide for the non-exclusive use of runways, taxiways and other facilities. Landing fees under these agreements are based on the number of landings and weight of the aircraft.

Our primary corporate offices and headquarters are located in the city of Barueri, state of São Paulo, where we lease 8,179.33 square meters under three lease agreements that expire in December of 2022.

We also lease four hangars totaling 97,800 square-feet for our full capability maintenance center in Belo Horizonte, with expirations from 2020 to 2024. We also lease one hangar in Manaus totaling 14,854 square feet and one in Cuiabá totaling 13,745 square feet for E-Jets and ATR line maintenance with leases expiring in 2020 and 2024, respectively. We also lease one hangar in Campinas totaling 93,642 square-feet, with lease expiring until 2045. Our training facility for pilot and cabin crew education, UniAzul, located at Viracopos airport has 71,000 square feet is under a lease agreement that expires in 2028. We also lease a 9,600 square-foot warehouse and office complex, located in Fort Lauderdale within the airport area, under a lease that expires in 2022.

Property and equipment are recorded at acquisition or construction cost (which include interest and other financial charges) and are depreciated to estimated residual values over their estimated useful lives using the straight-line method. Under International Accounting Standard, or IAS 16 "Property, Plant and Equipment," major engine overhauls are treated as a separate asset component with the cost capitalized and depreciated over the period to the next overhaul. In estimating the lives and expected residual values of our airframes and engines, we primarily have relied upon actual experience with the same or similar aircraft types and recommendations from third parties. Subsequent revisions to these estimates, which can be significant, could be caused by changes to our maintenance program, changes in utilization of the aircraft, governmental regulations related to aging aircraft.

We evaluate annually whether there is an indication that our property and equipment may be impaired. Factors that would indicate potential impairment may include, but are not limited to, significant decreases in the market value of long-lived assets, a significant change in the long-lived asset's physical condition, and operating or cash flow losses associated with the use of long-lived assets. An impairment loss exists when the book value of an asset unit exceeds its recoverable amount, which is the higher of fair value less selling costs and value in use. The calculation of fair value less selling costs is based on information available of sales transactions regarding similar assets or market prices less additional costs for disposing of assets.

**ITEM 4A. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS****A. Operating Results**

You should read the following discussion of our financial condition and results of operations in conjunction with the financial statements and the notes thereto included elsewhere in this annual report, as well as the data set forth in "Item 3.A. Selected Financial Data." The following discussion contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those discussed below and elsewhere in this annual report particularly in "Item 3.D. Risk Factors."

**Principal Factors Affecting Our Financial Condition and Results of Operations**

We believe our operating and business performance is driven by various factors that affect the global and Brazilian economy, the Brazilian airline industry, trends affecting the broader Brazilian travel industry, and trends affecting the specific markets and customer base that we target. The following key factors may affect our future performance. In 2020, our results were significantly affected by the COVID-19 pandemic, which caused a decrease in demand for flights globally and as a result, negatively impacted our revenues and profitability.

[Table of Contents](#)**Brazilian Economic Environment**

As most of our flight operations are within Brazil, our revenues and profitability are affected by conditions in the Brazilian economy. Our operations and the airline industry in general are particularly sensitive to changes in economic conditions. Unfavorable economic conditions, such as high unemployment rates and a constrained credit market, can reduce spending for both leisure and business travel. Unfavorable economic conditions can also impact our ability to raise fares to counteract increased fuel, labor, and other expenses, and generally increase our credit risk, particularly with respect to our trade receivables.

The following table shows data for real GDP, inflation and interest rates in Brazil, the Brazilian real/U.S. dollar exchange rate and crude oil prices for and as of the periods indicated.

	As of and for the Years ended December 31,		
	2020	2019	2018
Real growth (contraction) in gross domestic product	(4.1)%	1.1 %	1.1 %
Inflation (IGP-M) <sup>(1)</sup>	23.14 %	7.3 %	7.6 %
Inflation (IPCA) <sup>(2)</sup>	4.52 %	4.3 %	3.8 %
Long-term rates – TLP (average) <sup>(3)</sup>	4.55 %	5.6 %	6.5 %
CDI Rate (average) <sup>(4)</sup>	2.75 %	5.9 %	6.5 %
LIBOR <sup>(5)</sup>	0.6 %	2.4 %	2.3 %
Period-end exchange rate— <i>reais</i> per US\$ 1.00	5.197	4.031	3.875
Average exchange rate— <i>reais</i> per US\$ 1.00 <sup>(6)</sup>	5.156	3.945	3.654
Average depreciation of the <i>real</i> vs. US\$	30.7 %	8.0 %	14.8 %
WTI crude price (average US\$ per barrel during period)	40.39	57.63	64.89
Unemployment rate <sup>(7)</sup>	10.6 %	12.4 %	12.7 %

Source: FGV, IBGE, Central Bank, Bloomberg and Energy information administration

- (1) Inflation (IGP-M) is the general market price index measured by the FGV.
- (2) Inflation (IPCA) is a broad consumer price index measured by the IBGE.
- (3) TJLP was replaced by TLP and is the Brazilian long-term interest rate (average of monthly rates for the year).
- (4) The CDI Rate is an average of inter-bank overnight rates in Brazil (daily average for the period).
- (5) Average U.S. dollar three-month LIBOR for the year.
- (6) Average of the exchange rate on each business day of the year.
- (7) Average unemployment rate for year as measured by IBGE.

According to IBGE, the Brazilian economy contracted 4.1% in 2020 mainly due to the COVID-19 pandemic. In 2020, the risk assessment of the Brazilian economy, measured by Credit Default Swap (“CDS”), increased 46.64% impacted by the economy recession during the pandemic and the pessimistic expectation about ongoing reforms and fiscal discussions.

In terms of passenger demand as measured by RPKs, according to ANAC, the Brazilian domestic aviation market grew 0.8% for the year ended December 31, 2019, compared to growth of 4.4% in 2018 and 3.2% in 2017. The lower growth in 2019 is mostly related to the judicial recovery process and resulting termination of flights operated by Avianca Brasil during the second quarter of the year.

Although the size of the economic impact of the COVID-19 pandemic is still uncertain, according to the Focus report issued on March 26, 2021, the Brazilian economy is expected to grow by 3.18% in 2021.

**Net Operating Loss Carryforwards**

We and our subsidiaries had net operating loss carryforwards of R\$5,751.9 million as of December 31, 2020, represented by income tax losses and negative basis of social contribution. Certain of these net operating losses have been recorded at dormant subsidiaries and any future usage is dependent on transferring operating activities to such subsidiaries. Under Brazilian tax laws, we may only use our net operating losses to offset taxes payable up to 30% of the taxable income for each year. See “Item 5.A. Operating Results—Principal Components of Our Results of Operations—Taxes”.

[Table of Contents](#)**Impact of Airline Industry Competition**

The airline industry is highly competitive. The principal competitive factors in the airline industry are fare pricing, flight schedules, flight times, aircraft type, passenger amenities, number of routes served from a city, customer service, safety record and reputation, brand recognition, code-sharing relationships, and loyalty programs and redemption opportunities. Price competition occurs on a market-by-market, route-by-route and flight schedule basis through price discounts, changes in pricing structures, fare matching, target promotions and loyalty program initiatives.

As of December 31, 2020, 18% and 8% of our domestic network overlapped with that of Gol and LATAM, respectively. At Viracopos airport, our primary hub, only 3 out of 45 domestic destinations faced direct competition from Gol or LATAM as of December 31, 2020.

In addition, we were the sole airline on 77% of our routes and 35 of the destinations we served, and the market leader in 82 cities in terms of departure as of December 31, 2020. By comparison, Gol and LATAM were market leaders in only 10 and 6 cities, respectively, as of December 31, 2020.

**Effects of Aviation Fuel Costs**

Aviation fuel costs have been subject to wide fluctuations in recent years. Fuel availability and pricing are also subject to refining capacity, periods of market surplus and shortage, and demand for heating oil, gasoline and other petroleum products, as well as meteorological, economic and political factors and events occurring throughout the world, which we can neither control nor accurately predict. We attempt to mitigate fuel price volatility through commodity forward agreements with banks or a fixed price agreement with BR Distribuidora. See “Item 5.A. Operating Results—Principal Components of Our Results of Operations—Operating Expenses.” Our fuel hedging practices are dependent upon many factors, including our assessment of market conditions for fuel, the pricing of hedges and other derivative products in the market and applicable regulatory policies. Petrobras, the leading player in the Brazilian oil industry and the parent company of BR Distribuidora, has a strategy to equalize aviation fuel prices to international fuel prices every month. There are also regional differences based on logistical issues and different regional taxes.

**Seasonality**

Our operating revenue and results of operations are substantially dependent on overall passenger traffic volume, which is subject to seasonal and other changes in traffic patterns. Therefore, our operating revenue and results of operations for any interim period are not necessarily indicative of those for the entire year. We generally expect demand to be greater in the first, third and fourth quarters of each calendar year compared to the second quarter of each year. This demand increase occurs due to an increase in business travel during the second half of the year, as well as the Christmas season, Carnival and the Brazilian school summer vacation. Although business travel can be cyclical depending on the general state of the economy, it tends to be less seasonal than leisure travel, which peaks during vacation season and around certain holidays in Brazil.

The table below shows our average fare in *reais* for the periods indicated, reflecting our total passenger revenue divided by passenger flight segments for such periods:

Year Ended December 31,	Average Fare (R\$)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018	376.1	346.1	379.9	395.7
2019	382.3	379.7	391.5	419.9
2020	403.3	329.0	262.4	306.9

**Effects of Exchange Rates, Interest Rates and Inflation**

Our results of operations are affected by currency fluctuations. For the years ended December 31, 2020, 2019 and 2018, 82.9%, 80.4% and 81.5%, respectively, of our revenue was domestic and therefore denominated in reais while 33.7%, 30.8% and 41.9%, respectively, of our operating expenses were either payable in or affected by the U.S. dollar, such as aviation fuel, certain flight hour maintenance contract payments and aircraft insurance. We also have certain aircraft debt denominated in U.S. dollars, see “Item 5.B. Liquidity and Capital Resources—Loans and Financings.” We use short-term arrangement to hedge against exchange rate exposure related to our aircraft lease and other rent payment obligations.

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We also have assets denominated in foreign currency such as security deposits, maintenance reserves, cash and equivalents, and the TAP bond, providing us with a natural hedge against our U.S. dollar denominated liabilities. In addition, our aircraft, engines, and spare parts are commercialized in U.S. dollars.

Inflation also had, and may continue to have, effects on our financial condition and results of operations. For the year ended December 31, 2020, 2019 and 2018, approximately, 27.9%, 30.1% and 28.9%, respectively, of our operating expenses, including salaries, catering and ground handling expenses were impacted by changes in inflation.

The Central Bank determines the base interest rate in order to manage inflation. Variations in interest rate affect primarily our long-term obligations subject to variable interest rates, including our loans and financing. As of December 31, 2020, 2019 and 2018, we had R\$7,360.5 million, R\$3,518.2 million and R\$2,756.1 million, respectively, in current and noncurrent loans and financing. In addition, interest rates also affect our financial income to the extent that we have investments indexed to the CDI Rate. The Central Bank has changed the base interest rate several times over the past years in order to keep inflation within its targets.

### **New IFRS Standards**

On January 1, 2019, we adopted IFRS 16 – Leases. IFRS 16 was issued in January 2016 and replaced IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement Contains a Lease, SIC-15 – Operating leases-Incentives and SIC-27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

IFRS 16 establishes the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single model in the balance sheet, similar to accounting for finance leases under IAS 17. Under IFRS 16, we capitalize the right-of-use of all aircraft previously held under operating leases and depreciates the asset on a straight-line basis over the life of the underlying lease contract or the component useful economic life, whichever is shorter. We applied the full retrospective transition approach on January 1, 2019, under which the comparative information from prior years have been restated. Upon transition, we recognized a right-of-use asset representing our right to use the underlying asset and a corresponding lease liability that were initially measured at the present value of the future lease payments recognized at the historical U.S. dollar exchange rate and discount rate. The lease liability is updated at each reporting period to reflect the current exchange rate, but the right-of-use carrying value remains at historical rates, in accordance with IAS 21 – The effects of changes in foreign exchange rates.

We have adopted IFRS 15 – Revenue from Contracts with Customers as of January 1, 2018, which impacted the classification and timing of recognition of certain ancillary items such as bags, upgrades, itinerary changes and other air travel-related fees, since they are deemed part of the single performance obligation of providing passenger transportation. These ancillary items are now recognized in passenger revenue while non-passenger related items including cargo, travel packages, and revenue from aircraft subleases continue to be recognized under other revenue.

We adopted IFRS 9 on January 1, 2018. Except for hedge accounting, retrospective application is required, but comparative information is not required. We have opted not to present comparative information showing retroactively the results from the adoption of IFRS 9.

### **Principal Components of Our Results of Operations**

#### *Operating Revenue*

Our operating gross revenue is primarily derived from transporting customers in our aircraft. For the year ended December 31, 2020, 86.7% of our gross revenue was derived from passenger revenue, and 13.3% was derived from cargo and other revenue.

For the years ended December 31, 2020, 2019 and 2018 82.9%, 80.4% and 81.5% respectively of our operating net revenue was denominated in Brazilian reais. Passenger revenue is recognized either upon departure of the scheduled flight or when a purchased ticket expires unused, including revenue related to the redemption of TudoAzul points for Azul flights. Cargo revenue is recognized when transportation is provided. Passenger revenue depends on our capacity, load factor and yield. Capacity is measured in terms of ASKs, which represents the number of seats we make available on our aircraft multiplied by the number of kilometers these seats are flown. Load factor, or the percentage of our capacity that is actually used by paying customers, is calculated by dividing RPKs, which represents the number of kilometers flown by revenue passengers, by ASKs. Yield is the average amount that one passenger pays to fly one kilometer. We use RASK, or revenue divided by ASKs, and PRASK, or passenger revenue divided by ASKs, as our key performance indicators, because we believe they enable us to evaluate the balance between load factor and yield. Since our first year of operations, we have maintained a significant RASK and PRASK premium compared to our competitors given our higher load factors and yields. We expect that our strategy will enable us to maintain that premium in the future.

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Our revenues are net of certain taxes, including state-value added tax, the Tax on Circulation of Goods and Services (*Imposto sobre Circulação de Mercadorias e Serviços*), or ICMS; federal social contribution taxes, including the Social Integration Program (*Programa de Integração Social*), or PIS; and the Social Contribution to Social Security Financing (*Contribuição Social para o Financiamento da Seguridade Social*), or COFINS. ICMS does not apply to passenger revenue. The average rate of ICMS on cargo revenues varies by state and ranges from 4% to 19%. In respect of passenger transportation revenues, the applicable rates of PIS and COFINS are 0.65% and 3%, respectively, due to a specific rule which enforces the use of the cumulative system of PIS and COFINS on these revenues. The remaining revenue related to air transportation activity is levied at rates of 1.65% and 7.60%, respectively. The Municipal Tax on Services (*Imposto Sobre Serviços*), or ISS, is a municipal tax assessed at rates varying from 2% to 5% of our service rendered revenues.

The air transportation business is volatile and highly affected by economic cycles and trends. Fluctuations in aviation fuel prices, customer discretionary spending, fare initiatives, labor actions, pandemics such as COVID-19, weather and other factors have resulted in significant fluctuations in revenues and results of operations in the past.

ANAC, the Brazilian civil aviation agency, may adopt regulations that influence our ability to generate revenue as it is responsible for approving the concession of landing rights slots, entry of new companies, launch of new routes, increases in route frequencies and lease or acquisition of new aircraft. Our ability to grow and to increase our revenues is dependent on approvals for new routes, increased frequencies and additional aircraft by ANAC.

#### *Operating Expenses*

We are committed to maintaining a low-cost operating structure, and we seek to keep our expenses low by operating a young and efficient fleet with a single-class of service on domestic routes, maintaining high employee productivity, investing significantly in technology, utilizing our fleet efficiently and deploying low-cost distribution processes.

Our largest operating expense is aviation fuel, which represented 21.1% of our total operating expenses in 2020, 24.4% in 2019 and 33.6% in 2018. Aircraft fuel prices in Brazil are much higher than in the United States, as the Brazilian infrastructure needed to produce, transport and store fuel is expensive and aviation fuel prices are controlled by a concentrated number of suppliers. Our aviation fuel expenses are variable and fluctuate based on global oil prices. Since global prices are denominated in U.S. dollars, our aviation fuel costs are also subject to exchange rate fluctuations between the *real* and U.S. dollar.

During the year ended December 31, 2020, the fuel price per liter decreased 9.5%, from R\$2.56 per barrel as of December 31, 2019 to R\$2.32 per barrel as of December 31, 2020. In 2019, the fuel price per liter increased 0.4%, from R\$2.55 per barrel as of December 31, 2018 to R\$2.56 per barrel as of December 31, 2019. In 2018, the fuel price per liter increased 29.8% from R\$1.97 per barrel as of December 31, 2017 to R\$2.55 per barrel as of December 31, 2018.

We attempt to mitigate fuel price volatility related to global changes in fuel prices through commodity forward agreements with banks and also have the option to enter into hedge agreements with Petrobras, whose subsidiary BR Distribuidora is a key supplier of fuel for us. The Petrobras hedging product available to us enables us to lock in the cost of the jet fuel we will consume in the future, thereby offering a more tailored hedge than WTI or heating oil futures, which are not perfectly correlated to jet fuel. In addition, Petrobras offers us the option to lock the jet fuel price in reais, thereby hedging our exposure not only to fuel prices, but also to the Brazilian *real*/U.S. dollar exchange rates.

In addition, local taxes applicable to the sale of jet fuel are high, ranging from 3.0% to 25.0%. Different states in Brazil apply different rates of value-added tax to fuel (which is not passed on to end consumers for passenger services), requiring us to continually adjust our fuel prices to optimize fuel uplift. Several states in Brazil offer a value-added fuel tax relief or subsidy to airlines that provide better connectivity between cities within the state and other domestic or international destinations. Given the size of our network and diversified fleet, we believe we pay lower value-added fuel tax rates compared to our main competitors.

Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft. While we had 74 FTEs per aircraft as of December 31, 2020. We also benefit from generally lower labor costs in Brazil, when compared to other countries, which is somewhat offset by lower productivity due to government requirements over employee labor conditions and taxes on payroll.



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Landing fees include airport charges for each landing and aircraft parking, connecting fees as well as aeronautical and navigation fees. Most of these fees vary based on our level of operations and the rates are set by INFRAERO, DECEA and private airports.

Traffic and customer servicing includes the cost of airport facilities, ground handling expenses, customer bus service and inflight services and supplies. We provide complimentary bus services between a limited number of locations and certain strategic airports, such as transportation from the city of São Paulo to Viracopos airport, and we believe that the additional customers we attract by offering this service more than offset its cost.

Our sales and marketing expenses include commissions paid to travel and cargo agents, fees paid to credit card companies and advertising associated with the sale of our tickets and other products and services. We believe that our distribution costs are lower than those of our competitors because a higher proportion of our customers purchase tickets directly through our website instead of through traditional distribution channels, such as ticket offices, and we have comparatively fewer sales made through higher cost global distribution systems. In 2020 we generated 87% of our passenger revenue through our website, including direct connect bookings with travel agencies compared to 88% in 2019 and 87% in 2018. We employ low-cost, innovative marketing techniques, focusing on social networking tools (Facebook, Twitter, YouTube and Instagram) and generating word of mouth recognition, including visibly branded complimentary bus service and guerrilla marketing campaigns to enhance brand recognition and provide promotions directed at our customers. We believe that we have an advantage compared to industry peers in sales and marketing expenses and expect this advantage will remain in the future.

Our maintenance, materials and repair expenses consist of line maintenance checks and certain maintenance fees based on number of hours flown to access spare parts to repair aircraft and engines. Since the average age of our operating fleet was 6.9 years (excluding the 17 Cessna Caravan aircraft acquired through the purchase of TwoFlex) as of December 31, 2020, 5.8 years as of December 31, 2019 and 5.9 years as of December 31, 2018, and most of the parts on our aircraft are under four-year warranties, our aircraft have required a relatively low level of maintenance. As our aircraft age, these costs will increase.

At the initial recognition of aircraft or right-of-use assets, Azul allocates the total cost of the aircraft between four major components; airframe, engines, heavy maintenance and structural checks. The useful economic life is the period extending up to the next heavy maintenance or structural check or the remaining useful life of the aircraft/engines or lease contract, whichever is shorter. Azul has maintenance contracts for its engines that cover all significant maintenance events. Azul has "power-by-the-hour" type contracts, which stipulate a rate for maintenance per hour flown, which are paid in accordance with the total hours flown when maintenance occurs. Subsequent heavy maintenance events and structural checks, which increase the useful lives of the assets, are capitalized and recognized as property and equipment or in addition to the right-of-use assets, according to the underlying asset. Subsequently they are depreciated during the respective period of use or until the end of the lease. Repairs and other routine maintenance are recognized in the maintenance expenses during the period in which they are incurred.

Depreciation and amortization expenses include the depreciation of all fixed assets we own or right-of-use assets, including amortization of capitalized maintenance expenses.

Other operating expenses, net consist of general and administrative expenses, purchased services, equipment rentals, communication costs, professional fees, travel and training expenses for crews and ground personnel, provisions for legal proceedings, interrupted flights and all other overhead expenses.

Slightly over half of our expenses, such as fuel and maintenance, fluctuate with changes in the exchange rate between the *real* and the U.S. dollar. We currently enter into arrangements to hedge against increases in fuel prices, foreign exchange and interest rates. See "Item 11—Quantitative and Qualitative Disclosures about Market Risk."

### *Financial Results*

Our financial income includes interest earned on our cash and cash equivalents (which bear interest indexed to the CDI Rate) and short-term investments. Our financial expenses include interest expense on lease liabilities, aircraft debt, loans and financings and working capital facilities, which are exposed to foreign currency fluctuations. The balances of derivative financial instruments include gains or losses on our derivatives not designated for hedge accounting. Foreign currency exchange is the net gain or loss on our assets and liabilities related to the appreciation or depreciation of the *real* against the U.S. dollar and has limited impact on our cash position.



[Table of Contents](#)*Taxes*

We account for income taxes using the liability method. We record deferred tax assets only when, based on the weight of the evidence, it is more likely than not that the deferred tax assets will be realized. Deferred taxes are recorded based on differences between the financial statement basis and tax basis of assets and liabilities and available tax loss and credit carryforwards. In assessing whether the deferred tax assets are realizable, our management considers whether it is more likely than not that some or all of the deferred tax assets will be utilized. We consider all available evidence, both positive and negative, in determining future taxable income on a jurisdiction by jurisdiction basis.

We and our subsidiaries had net operating loss carryforwards of R\$5,751.9 million as of December 31, 2020, represented by income tax losses and negative basis of social contribution.

*Critical Accounting Policies and Estimates*

The preparation of our financial statements in accordance with IFRS requires our management to adopt accounting policies and make estimates and judgments to develop amounts reported in our financial statements and related notes. Critical accounting policies are those that reflect significant judgments or estimates about matters that could potentially result in materially different outcomes under different assumptions and conditions. We believe that our estimates and judgments are reasonable. However, actual results and the timing of recognition of such amounts could differ from our estimates. For a discussion of these and other accounting policies, see “Note 4. Summary of Significant Accounting Policies” to our audited consolidated financial statements.

**Business Combination.** We account for business combinations using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred. In the acquisition of a business, we assess the assets acquired and liabilities assumed in order to classify and allocate them according to the contractual terms, economic circumstances and relevant conditions at the acquisition date. Goodwill is initially measured as the excess of the consideration transferred over the fair value of the net assets acquired (identifiable assets and liabilities assumed, net). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash generating units that are expected to benefit from the acquisition.

**Aircraft sublease receivables.** When the underlying asset is leased again by us to a third party, and the original lease remains in effect, we assesses whether it is a finance or operating sublease by analyzing the extent to which the lease transfers the risks and benefits inherent in the right of use, according to CPC 06 (R2) – Leases, equivalent to IFRS 16.

**Maintenance reserves.** Certain master lease agreements provide that we pay maintenance reserves to aircraft lessors to be held as collateral in advance of the performance of major maintenance activities. Maintenance reserve deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lower of 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 a utilization measure, such as flight hours or cycles, and are used solely to collateralize the performance of maintenance by the lessor. At the reporting date we assess whether the maintenance reserve payments 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 considered as maintenance costs.

**Property and equipment.** Assets included in property and equipment are stated at acquisition or construction cost including interest and other financial charges. 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 amount of property and equipment is tested annually for impairment when facts or changes in circumstances indicate that the carrying amount is greater than the estimated recoverable amount. In turn, the carrying amount of the aircraft is tested for impairment annually, even if there are no circumstances that indicate the existence of impairment. An item of property and equipment is derecognized upon 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.

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**Right of use asset and lease liability.** CPC 06 (R2) – Leases, equivalent to IFRS 16, establishes the principles for the recognition, measurement, presentation and disclosure of leasing operations and requires lessees to account for all leases according to a single balance sheet model, similar to accounting of financial leases. The exemptions from recognition for lessees are: low value and short-term leases (with a term of 12 months or less). On the lease start date, we recognize a liability to make payments (a lease liability) and an asset representing the right to use the underlying asset during the lease term (a right-of-use asset). Lessees must separately recognize interest expense on the lease liability and the depreciation expense for the right-of-use asset.

In general, we should recognize the remeasurement value of the lease liability as an adjustment to the right-of-use asset. In determining the discount rate, we used as a primary basis those contracted in the funding operations that took place close to the start dates and / or modification of the lease agreements.

We 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. During the year ended December 31, 2020, we renegotiated aircraft and engine lease contracts, which included the deferral of payments and changes in contractual terms. Accordingly, in accordance with IFRS 16 – Leases, it was necessary to apply the requirements that deal with lease modification, which require remeasurement of the lease liability by means of a revised discount rate.

**Goodwill for expected future profitability.** We allocated goodwill with indefinite lives acquired through business combinations of TRIP and Azul Conecta, for impairment testing purposes to a single cash-generating unit. Goodwill is tested annually or sooner if we experience indicators of impairment, by comparing the carrying amount to the recoverable amount of the cash-generating unit level that has been measured on the basis of its value-in-use. 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. No impairment has been recorded to date.

**Impairment of rights of operations in airports (slots).** In the business combination of Tudo Azul S.A. (formerly TRIP Linhas Aéreas S.A.), 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. No impairment has been recorded to date.

**Impairment of non-financial assets.** We perform 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. To assess the recoverability of an asset, it is necessary to estimate its recoverable amount. 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 impairment loss is reversed only if there is a change in the assumptions used to determine the asset's recoverable amount.

We operate a single cash-generating unit.

In estimating the value of assets 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. After this comparison, we assess if there are any impairment losses to be recorded.

As part of our fleet transformation plan, we intend to sublease certain E1 aircraft and engines, and as a result, we recorded a provision for impairment.

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**Derivative financial instruments.** We account for derivative financial instruments in accordance with IFRS 9 – Financial Instruments, and record them at fair value. Subsequent changes in fair value are recorded in profit or loss, unless the derivative meets the criteria and is designated for hedge accounting. At the beginning of a hedge transaction, we designate and formally document the item covered by the hedge and how it will be effective in offsetting the changes in fair value or cash flows. Our derivative financial instruments are assessed quarterly to determine if they have been effective throughout the entire period for which they have been designated. Any gain or loss resulting from changes in the fair value of our derivative financial instruments during the quarter in which they are not qualified for hedge accounting, as well as the ineffective portion of the instruments designated for hedge accounting are recognized in financial results. When the fair value of financial assets and liabilities presented in our balance sheet cannot be obtained in an active market, we determine fair value using assessment techniques prevailing in the market, including the discounted cash flow method, and a certain level of judgment is required to establish fair value in this way. This judgment includes considerations on the data used, for example, liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the fair value presented of financial instruments.

**Provisions for tax, civil and labor risks.** We recognize provisions for tax, civil and labor risks when we have a present legal obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. The assessment of probability of loss includes assessing the available evidence and jurisprudence, the hierarchy of laws and most recent court decisions, and their relevance in the legal system, or the assessment of independent counsels. Provisions are reviewed and adjusted to take into account changes in circumstances such as the applicable limitation period, findings of tax inspections and additional exposures identified based on new issues or decisions of courts.

**Provision for return of aircraft.** We recognize provisions for the return costs of the aircraft, since these are present obligations, arising from past events and generate future disbursements, which are reliably measured. The estimated cost is initially recognized at present value in property, equipment and right of use asset. After initial recognition, the liability is updated according to the capital remuneration rate estimated by us. Any changes in the estimate of expenses to be incurred are recognized prospectively.

**Provision for onerous contract.** We recognize provisions for unavoidable costs of meeting the contractual obligations that exceeds the economic benefits expected to be received over the same contract. However, before a separate provision for onerous contract is established, we assess and recognize any impairment loss that has occurred in the assets related to that contract in accordance with IAS 36.

**Share-based payment.** Our share-based compensation program is intended to grant awards priced at the fair market value of our common stock at the date of grant. We measure transactions with crewmembers settled with equity instruments at the grant date using the Black-Scholes option pricing model. The resulting amount, adjusted for forfeitures, is charged to expense over the period in which the options vest. Estimating the fair value of share-based payments requires determining the most appropriate assessment model for the grant of shares, which depends on the terms and conditions of the grant. This also requires determining assumptions as including the option's expected life, volatility, dividend income, risk free rate of return, maximum life of the option, expected term considered of valuation. The cost of cash-settled transactions is initially measured at fair value at the grant date. This fair value is expensed over the period up to the maturity date, with the recognition of a corresponding liability. The liability is remeasured at fair value at the reporting date up to the settlement date, recognized as "Salaries, wages and benefits" in the financial statements.

**Revenue recognition – passenger.** Passenger revenue is recognized when air transportation is actually provided. Tickets sold but not yet flown are recorded as air traffic liability, representing deferred revenue from tickets sold to be flown on a future date, net of breakage revenue estimate. 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 revenue recognition purposes, the average terms of the service provided are also considered. At least annually, the assumptions 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.

**Frequent-flyer program revenue recognition.** Under the TudoAzul program, customers accrue points based on the amount spent on tickets flown. The amount of points earned depends on TudoAzul membership category, market, fare class and other factors, including promotional campaigns. Through historical data, we estimate the points that will expire without being used and recognizes the corresponding revenue in the issue of the point (breakage) considering the average utilization of the redemption pattern. 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, we recognize 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 IFRS 15.

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We determine 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. We also sell 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 revenue when the points are redeemed and the related service occurs, based on the weighted average price of the points sold. Points awarded or sold and not used are recorded in "Air traffic liability."

## Results of Operations

### General

We believe we have created a robust network of profitable routes by stimulating demand through frequent and affordable air service. We expect that most of our domestic capacity growth will come from replacing smaller aircraft with larger, fuel efficient, next generation aircraft that have a lower seat cost. We also expect to continue adding select routes and cities that we believe possess high demand and growth potential and are either not served or underserved by other airlines. We expect to continue leveraging the strong connectivity we have created in Brazil to benefit from the addition of select international destinations in the United States and Europe. In addition, we believe that we will continue benefiting from additional revenue streams coming from our TudoAzul loyalty program, our cargo, and our travel package businesses.

The following chart includes certain operating information that evidences the evolution of our business between 2008 through December 31, 2020:

As of	Cities Served	FTEs	Total Aircraft at End of Period		
			Owned	Leased	Total <sup>(1)</sup>
December 31, 2008	3	712	3	2	5
December 31, 2009	17	1,535	8	6	14
December 31, 2010	28	2,940	14	13	27
December 31, 2011	43	4,329	22	27	49
December 31, 2012 <sup>(2)</sup>	100	8,914	50	74	124
December 31, 2013	103	9,848	56	81	137
December 31, 2014	106	10,501	46	107	153
December 31, 2015	102	10,533	46	106	152
December 31, 2016 <sup>(3)</sup>	102	10,311	39	100	139
December 31, 2017 <sup>(3)</sup>	104	10,878	27	120	147
December 31, 2018 <sup>(3)</sup>	110	11,807	20	123	143
December 31, 2019 <sup>(3)</sup>	116	13,189	19	147	166
December 31, 2020 <sup>(3)(4)</sup>	112	11,946	34	158	192

(1) Includes aircraft held under finance and operating leases. We do not record aircraft held under operating leases as assets on our balance sheet.

(2) Includes operating information resulting from the TRIP acquisition since November 30, 2012.

(3) Includes aircraft subleased to TAP, 15 as of December 31, 2019 and 13 as of December 31, 2020.

(4) Cities served reduced in 2020 due to the COVID-19 pandemic.

[Table of Contents](#)**Comparison of the year ended December 31, 2020 to the year ended December 31, 2019**

	For the Year Ended December 31,		Percent Change
	2020	2019	
Net revenue:	(in thousands of reais)		
Passenger revenue	5,039,607	10,907,889	(53.8) %
Cargo and other revenue	704,519	534,428	31.8 %
<b>Total net revenue</b>	<b>5,744,126</b>	<b>11,442,317</b>	<b>(49.8) %</b>
Operating expenses:			
Aircraft fuel	(1,508,750)	(3,085,603)	(51.1) %
Salaries, wages and benefits	(1,426,637)	(1,868,402)	(23.6) %
Landing fees	(465,606)	(724,971)	(35.8) %
Traffic and customer servicing	(288,327)	(476,481)	(39.5) %
Sales and marketing	(329,829)	(444,079)	(25.7) %
Maintenance materials and repairs	(464,566)	(354,105)	31.2 %
Depreciation and amortization	(1,805,553)	(1,622,352)	11.3 %
Impairment	757,554	(2,897,333)	<i>n.a.</i>
Other operating expenses, net	(1,611,493)	(1,164,391)	38.4 %
	<b>(7,143,207)</b>	<b>(12,637,717)</b>	<b>(43.5) %</b>
<b>Operating loss</b>	<b>(1,399,081)</b>	<b>(1,195,400)</b>	<b>17 %</b>
Financial result:			
Financial income	60,298	72,071	(16.3) %
Financial expense	(3,269,941)	(1,329,524)	145.9 %
Derivative financial instruments	(1,452,116)	325,452	<i>n.a.</i>
Foreign currency exchange, net,	(4,302,540)	(391,905)	997.9 %
	<b>(8,964,299)</b>	<b>(1,323,906)</b>	<b>577.1 %</b>
Result from related party transactions, net	(713,834)	(16,959)	4109.2 %
<b>Loss before income taxes</b>	<b>(11,077,214)</b>	<b>(2,536,265)</b>	<b>336.8 %</b>
Current income taxes	(11)	(2,228)	(99.5) %
Deferred income taxes	242,516	135,407	79.1 %
<b>Net loss</b>	<b>(10,834,709)</b>	<b>(2,403,086)</b>	<b>350.9 %</b>

**Operating Loss**

In 2020 we reported an operating loss of R\$1,399.1 million, compared to an operating loss of R\$1,195.4 million in 2019. This result was mostly driven by a 49.8% decrease in total net revenue resulting from the 43.1% decrease in capacity in terms of ASKs, mostly due to the COVID-19 pandemic, which impacted the aviation industry all around the world.

Passenger demand during 2020 was significantly impacted by the COVID-19 pandemic, affecting both domestic and international air travel, and during the year we carried 12.9 million less passengers compared to 2019. For the full year 2020, passenger traffic fell 46.5% and total passenger capacity decreased 43.1%, even considering that domestic operations in Brazil was one of the least affected by the pandemic. During 2020, the domestic operations in Brazil led in terms of the recovery of the operation, with ASKs in the full year decreasing by 37.7% compared to the previous year. Domestic passenger traffic decreased by 43.1% in 2020 compared to 2019, resulting in a decrease of 2.4 percentage points in domestic passenger load factors, which reached 80.4%.

We reported a net loss of R\$10,835 million in 2020, compared to a net loss of R\$2,403 million in 2019.

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The table below sets forth the breakdown of our operating revenues and expenses on a per-ASK basis for the periods indicated:

	For the Year Ended December 31,		Percent Change
	2020 <sup>(1)</sup>	2019 <sup>(1)</sup>	
	(per ASK in R\$ cents)		
Net revenue:			
Passenger revenue	24.95	30.41	(18.0 %)
Cargo and other revenue	3.45	1.49	131.8 %
<b>Net revenues</b>	<b>28.41</b>	<b>31.90</b>	<b>(11.0 %)</b>
Operating expenses:			
Aircraft fuel	7.40	8.60	(14.0 %)
Salaries, wages and benefits	7.00	5.21	34.3 %
Landing fees	2.28	2.02	13.0 %
Traffic and customer servicing	1.41	1.33	6.4 %
Sales and marketing	1.62	1.24	30.6 %
Maintenance materials and repairs	2.28	0.99	181.0 %
Depreciation and amortization	8.46	4.44	90.8 %
Other operating expenses	5.20	2.62	98.6 %
<b>Total operating expenses, net</b>	<b>35.57</b>	<b>26.24</b>	<b>35.6 %</b>

(1) Adjusted for non-recurring items totaling R\$62.5 million gain in 2020 and R\$3.2 billion loss in 2019

## Net Revenue

Net revenue decreased 49.8%, or R\$5.7 billion, from R\$11.4 billion in 2019 to R\$5.7 billion in 2020, significantly impacted by the COVID-19 pandemic, partially offset by a 31.8% increase in cargo and other revenue discussed herein.

### *Passenger Revenues*

The R\$5.9 billion, or 53.8% decrease in passenger revenue in 2020 compared to 2019 was mainly attributable to (i) an decrease of 45.5% of RPKs reflecting a 43.1% decrease in ASK's and (ii) a 18% decrease in PRASK due to significantly impacted by the COVID-19 pandemic.

### *Cargo and Other Revenue*

The R\$170.1 million or 31.8% increase in cargo and other revenue was mainly due to an increase in cargo revenue, especially in e-commerce.

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The table below presents our passenger revenue and selected operating data for the periods indicated.

	For the Year Ended December 31,		Percent Change
	2020	2019	
Passenger revenue (in millions of <i>reais</i> ) <sup>(1)</sup>	R\$ 5,088,747	R\$ 10,907.9	(53.9)%
Available seat kilometers (ASKs) (millions)	20,395	35,868	(43.1)%
Load factor (%)	80.0 %	83.5 %	-3.5 p.p.
Passenger revenue per ASK (cents) (PRASK)	24.95	30.41	(18.0)%
Operating revenue per ASK (cents) (RASK)	28.41	31.90	(11.0)%
Yield per passenger kilometer (cents)	31.20	36.43	(14.4)%
Number of departures	158,070	295,354	(46.5)%
Block hours	266,881	495,362	14.2 %

<sup>(1)</sup> Passenger revenue in 2020 was adjusted for non-recurring items totaling R\$49.1 million recorded under passenger revenue, related to the COVID-19 pandemic.

### Operating Expenses

Operating expenses decreased R\$5,494.5 million, from R\$12,637.7 million in 2019 to R\$7,143.2 million in 2020 mainly due to lower capacity-related expenses and cost reduction initiatives.

*Aircraft Fuel.* Aircraft fuel expenses decreased 51.1%, or R\$1,576.8 million, in 2020 compared to 2019, mostly due a 43.1% reduction in capacity year over year and a 9.5% decrease in jet fuel prices.

*Salaries, Wages and Benefits.* Salaries, wages and benefits decreased 23.6%, or R\$441.8 million, in 2020 compared to 2019, mainly due to: lower fixed and variable salary costs from our labor agreements and lower capacity.

*Landing Fees.* Landing fees decreased 35.8%, or R\$259.4 million, in 2020 compared to 2019 primarily due to the 43.1% decrease in ASKs.

*Traffic and Customer Servicing.* Traffic and customer servicing expense decreased 39.5% or R\$188.2 million, in 2020 compared to 2019 primarily due to (i) a 43.1% decrease in ASKs, driving a 46.5% decrease in the number of passengers, and (ii) an decrease in international flights which have higher catering expenses than domestic flights.

*Sales and Marketing.* Sales and marketing expenses decreased 25.7%, or R\$114.3 million, in 2020 compared to 2019 mostly driven by a 54.8% reduction in passenger revenue and marketing initiatives, partly offset by an increase in cargo express shipments, which have higher commission fees.

*Maintenance, Materials and Repairs.* Maintenance, materials and repairs increased 31.2% or R\$110.5 million driven by a 30.7% average devaluation of the Brazilian real against the U.S. dollar and additional maintenance events, performed to prepare the fleet for operational recovery, and which had been previously deferred.

*Depreciation and Amortization.* Depreciation and amortization increased 11.3% or R\$183.2 million in 2020 compared to the same period in 2019, as a result of aircraft additions during 2020.

*Impairment.* Impairment in 2020 was a gain of R\$757.5 million compared to an expense of R\$2,897.3 million, primarily due to the renegotiation of lease modification and in 2019 we had an impairment charge related to the book value and expected recoverable amount of our E-Jets.

*Other Operating Expenses.* Other operating expenses increased 38.4% or R\$447.1 million in 2020 compared to 2019 primarily by the 30.7% average devaluation of the Brazilian real against the U.S. dollar and the revision of several noncash provisions.



[Table of Contents](#)**Financial Results**

*Financial Income.* Financial income decreased 16.3%, or R\$11.8 million, in 2020 compared to 2019, mostly due to the reduction of the Brazilian risk-free rate during 2020.

*Financial Expenses.* Financial expenses increased 145.9%, or R\$1,940.4 million, in 2020 compared to 2019 mainly due to an increase of lease interest payments from the lease modification at a higher discount rate, which reduced the lease liability and increased the interest expense, and the non-cash impact of R\$799.9 million related to the variation of conversion right, interest and foreign exchange rate differences related to the convertible debentures issued in 2020.

*Derivative Financial Instruments.* Loss in derivative financial instruments amounted to R\$1,452.1 million in 2020 and gains of R\$325.5 million in 2019, which reflects (i) U.S. dollar derivative instruments used to hedge our foreign exchange exposure resulting from U.S. dollar denominated financial expenses and (ii) heating oil derivative instruments used to hedge our fuel exposure.

*Foreign Currency Exchange.* The net currency exchange effect on our monetary assets and liabilities when remeasured into reais, amounted to a loss of R\$4,302.5 million in 2020 compared to a loss of R\$391.9 million in 2019, due to the 29% end of period depreciation of the Brazilian real against the U.S. dollar from December 31, 2019 to December 31, 2020 resulting in a higher value for our liabilities denominated in foreign currency.

*Result from Related Party Transactions, net.* In 2020, we recorded a net loss of R\$713.8 million from related party transactions compared to a net loss of R\$17.0 million in 2019, mostly due to the elimination of the conversion right of the TAP bond call option which resulted in a loss of R\$637.6 million.

*Current Income Taxes.* We recorded current income taxes expense of R\$0.01 million in 2020 mostly due to the recognition of taxable income in the holding company, which reduced compared to 2019, as a result of the a "drop-down" of the TAP Bonds to one of its subsidiaries.

*Deferred Income Taxes.* In 2020, the credit related to deferred income taxes totaled R\$242.5 million compared to a credit R\$135.4 million in 2019, mostly due to the reversal of temporary differences in 2020.

[Table of Contents](#)**Comparison of the year ended December 31, 2019 to the year ended December 31, 2018**

	<b>For the Year Ended December 31,</b>		<b>Percent Change</b>
	<b>2019<sup>(1)</sup></b>	<b>2018<sup>(1)</sup></b>	
	<b>(in thousands of reais)</b>		
Net revenue:			
Passenger revenue	10,907,889	8,670,132	25.8 %
Cargo and other revenue	534,428	386,932	38.1 %
<b>Net revenue</b>	<b>11,442,317</b>	<b>9,057,064</b>	<b>26.3 %</b>
Operating expenses:			
Aircraft fuel	(3,085,603)	(2,644,261)	16.7 %
Salaries, wages and benefits	(1,868,402)	(1,413,017)	32.2 %
Landing fees	(724,971)	(592,100)	22.4 %
Traffic and customer servicing	(476,481)	(395,394)	20.5 %
Sales and marketing	(444,079)	(368,663)	20.5 %
Maintenance materials and repairs	(354,105)	(250,105)	41.6 %
Depreciation and amortization	(1,622,352)	(1,284,050)	26.3 %
Impairment	(2,897,333)	—	n.a.
Other operating expenses	(1,164,361)	(915,850)	27.1 %
	<b>(12,637,717)</b>	<b>(7,863,440)</b>	<b>60.7 %</b>
<b>Operating income (loss)</b>	<b>(1,195,400)</b>	<b>1,193,624</b>	<b>n.a.</b>
Financial result:			
Financial income	72,071	74,522	(3.3) %
Financial expense	(1,329,524)	(1,094,828)	21.4 %
Derivative financial instruments	325,452	298,094	9.2 %
Foreign currency exchange	(391,905)	(1,306,063)	(70.0) %
	<b>(1,323,906)</b>	<b>(2,028,275)</b>	<b>34.7 %</b>
Result from related party transactions, net	(16,959)	381,725	(104.4) %
<b>Loss before income taxes</b>	<b>(2,536,265)</b>	<b>(452,926)</b>	<b>460.0 %</b>
Current income taxes	(2,228)	(11,224)	(80.1) %
Deferred income taxes	135,407	(171,581)	n.a.
<b>Net loss</b>	<b>(2,403,086)</b>	<b>(635,731)</b>	<b>278.0 %</b>

(1) On January 1, 2019, we adopted IFRS 16 using the full retrospective method of adoption and the comparative information for 2018 and 2017 was restated.

**Operating Income (Loss)**

In 2019 we reported an operating loss of R\$1,195.4 million, compared to an operating income of R\$1,193.6 million in 2018. This result was mostly driven by a 26.3% increase in total operating revenue resulting from the 22.2% increase in capacity in terms of ASKs, mostly due to the introduction of next-generation aircraft to our fleet, which are more fuel efficient and have a lower CASK, partially offset by (i) non-recurring events totaling R\$3,226.8 million consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees, (ii) the end of a 20% payroll tax relief effective January 2019, and (iii) the 8.0% average depreciation of the Brazilian real against the U.S. dollar in 2019 compared to 2018, which increased expenses denominated in U.S. dollars. Excluding the impact of non-recurring events, operating income would have been R\$2,031.4 million in 2019, representing a 17.8% margin.

We reported a net loss of R\$2,403.1 million in 2019, compared to a net loss of R\$635.7 million in 2018. Excluding the impact of non-recurring events, 2019 net income would have been R\$823.7 million.

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The table below sets forth the breakdown of our operating revenues and expenses on a per-ASK basis for the periods indicated:

	For the Year Ended December 31,		Percent Change
	2019	2018	
	(per ASK in R\$ cents)		
Operating revenue:			
Passenger revenue	30.41	29.54	3 %
Cargo and other revenue	1.49	1.32	13.0 %
<b>Total operating revenues</b>	<b>31.90</b>	<b>30.86</b>	<b>3.4 %</b>
Operating expenses:			
Aircraft fuel	8.60	9.01	(4.5) %
Salaries, wages and benefits	5.21	4.81	8.2 %
Landing fees	2.02	2.02	0.2 %
Traffic and customer servicing	1.33	1.35	(1.4) %
Sales and marketing	1.24	1.26	(1.4) %
Maintenance materials and repairs	0.78	0.81	(3.4) %
Depreciation and amortization	4.44	4.37	1.4 %
Other operating expenses	2.62	2.39	9.5 %
<b>Total operating expenses</b>	<b>26.24</b>	<b>26.02</b>	<b>0.8 %</b>

## Operating Revenue

Operating revenue increased 26.3%, or R\$2.4 billion, from R\$9.1 billion in 2018 to R\$11.4 billion in 2019, due to (i) an increase of 25.8% of passenger revenue and (ii) a 38.1% increase in cargo and other revenue discussed herein.

### *Passenger Revenues*

The R\$2.2 billion, or 25.8% increase in passenger revenue in 2019 compared to 2018 was mainly attributable to (i) an increase of 23.9% of RPKs reflecting a 22.2% increase in ASK's and (ii) a 3.0% increase in PRASK due to higher load factors, yields and non-ticket revenue.

### *Cargo and Other Revenue*

The R\$147.5 million or 38.1% increase in cargo and other revenue was mainly due to an increase in cargo revenue.

The table below presents our passenger revenue and selected operating data for the periods indicated.

	For the Year Ended December 31,		Percent Change
	2019	2018	
Passenger revenue (in millions of reais)	R\$ 10,907.9	R\$ 8,670.1	25.8 %
Available seat kilometers (ASKs) (millions)	35,868	29,353	22.2 %
Load factor (%)	83.5%	82.3%	+1.2 p.p.
Passenger revenue per ASK (cents) (PRASK)	30.41	29.54	3.0 %
Operating revenue per ASK (cents) (RASK)	31.90	30.86	3.4 %
Yield per passenger kilometer (cents)	36.43	35.89	1.5 %
Number of departures	295,354	262,312	12.6 %
Block hours	495,362	433,945	14.2 %

[Table of Contents](#)**Operating Expenses**

Operating expenses increased R\$4,774.3 million, from R\$7,863.4 million in 2018 to R\$12,637.7 million in 2019 mainly due to (i) non-recurring losses totaling R\$3.2 billion in 2019 due to the expected exit of E-Jets from our fleet consisted of an impairment charge related to the difference between the book value and expected recoverable amount of our E-Jets, the write-off of E-Jets inventory and spare parts, expected aircraft sale losses, delivery expenses, and contractual early termination fees, (ii) the end of a 20% payroll tax relief effective January 2019 and (iii) the 8.0% average depreciation of the Brazilian real against the U.S. dollar in 2019 compared to 2018, which increased expenses denominated in U.S. dollars, partially offset by the introduction of more fuel-efficient aircraft to our fleet.

*Aircraft Fuel.* Aircraft fuel expenses increased 16.7%, or R\$441.3 million, in 2019 compared to 2018, mainly as a result of (i) a 14.2% increase in block hours and (ii) the 0.4% increase in fuel price per liter, partially offset by the introduction of more fuel-efficient aircraft to our fleet. On a per-ASK basis, aircraft fuel decreased by 4.5%.

*Salaries, Wages and Benefits.* Salaries, wages and benefits increased 32.2%, or R\$455.4 million, in 2019 compared to 2018, due to (i) an increase in the number of crewmembers from 11,807 in 2018 to 13,189 in 2019, mostly related to the 22% increase in capacity and (ii) the end of a 20% payroll tax relief effective since January 2019. On a per ASK basis, salaries, wages and benefits increased 8.2%.

*Landing Fees.* Landing fees increased 22.4%, or R\$132.9 million, in 2019 compared to 2018 primarily due to the 22.2% increase in ASKs. On a per ASK basis, landing fees increased 0.2%.

*Traffic and Customer Servicing.* Traffic and customer servicing expense increased 20.5% or R\$81.1 million, in 2019 compared to 2018 primarily due to (i) a 22.2% increase in ASKs, driving a 19.7% increase in the number of passengers, and (ii) an increase in international flights which have higher catering expenses than domestic flights. On a per ASK basis, traffic and customer servicing expense decreased 1.4%.

*Sales and Marketing.* Sales and marketing expenses increased 20.5%, or R\$75.4 million, in 2019 compared to 2018 in line with the increase in passenger revenues, which results in higher credit card processing fees expenses and commissions paid to travel agencies. Sales and marketing per ASK decreased 1.4%.

*Maintenance, Materials and Repairs.* Maintenance, materials and repairs increased 41.6% or R\$104.0 million primarily due to (i) a R\$72.5 million maintenance provision related to the exit of E-Jets from our fleet and (ii) a higher number of aircraft in our fleet resulting in an increase in maintenance repair and overhaul fee rates. On a per ASK basis, maintenance decreased 3.4% excluding the impact of non-recurring items.

*Depreciation and Amortization.* Depreciation and amortization increased 26.3% or R\$338.3 million in 2019 compared to the same period in 2018, mainly due to a net addition of 23 aircraft to the fleet during 2019 and (iii) an increase in the capitalization of heavy maintenance checks. On a per-ASK basis, excluding the impact of non-recurring items, depreciation and amortization increased 1.4%.

*Impairment.* Impairment recorded R\$2,897.3 million at 2019, related to the difference between the book value and expected recoverable amount of our E-Jets, write-off of inventory and spare parts, expected sale losses and contractual termination fees.

*Other Operating Expenses.* Other operating expenses increased 27.1% or R\$248.5 million in 2019 compared to 2018 primarily due to (i) an increase in training and accommodations expenses related to our growth, (ii) higher IT expenses, and (iii) an increase in flight contingencies. On a per-ASK basis excluding the impact of non-recurring items, other operating expenses increased 9.5%.

**Financial Results**

*Financial Income.* Financial income decreased 3.3%, or R\$2.5 million, in 2019 compared to 2018, mostly due to the reduction of the Brazilian risk-free rate from an average of 6.4% during 2018 to 5.0% in 2019.

*Financial Expenses.* Financial expenses increased 21.4%, or R\$234.7 million, in 2019 compared to 2018 mainly due to an increase of lease interest payments from the net addition of 23 new aircraft to our balance sheet over the last twelve months, and the 8.0% average depreciation of the Brazilian real in 2019 compared to the same period in 2018.

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*Derivative Financial Instruments.* Gains in derivative financial instruments amounted to R\$325.5 million in 2019 and gains of R\$298.1 million in 2018, which reflects (i) U.S. dollar derivative instruments used to hedge our foreign exchange exposure resulting from U.S. dollar denominated financial expenses and (ii) heating oil derivative instruments used to hedge our fuel exposure.

*Foreign Currency Exchange.* The net translation effect on our monetary assets and liabilities when remeasured into reais, amounted to a loss of R\$391.9 million in 2019 compared to a loss of R\$1,306.1 million in 2018, due to the 8.0% end of period depreciation of the Brazilian real against the U.S. dollar from December 31, 2018 to December 31, 2019 resulting in a higher value for our liabilities denominated in foreign currency.

*Result from Related Party Transactions, net.* In 2019, we recorded a net loss of R\$17.0 million from related party transactions compared to a net gain of R\$381.7 million in 2018, mostly due to the fair value of the TAP bond call option, which is convertible into 41.25% of the equity value of the Portuguese carrier.

*Current Income Taxes.* We recorded current income taxes expense of R\$2.2 million in 2019 mostly due to the recognition of taxable income in the holding company. In 2018, we recorded income taxes expense of R\$11.2 million mainly due to the recognition of taxable income in the holding company.

*Deferred Income Taxes.* In 2019, the credit related to deferred income taxes totaled R\$135.4 million compared to an expense of R\$171.6 million in 2018, mostly due to temporary differences recognized in 2019.

## **B. Liquidity and Capital Resources**

### **General**

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

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

In order to manage our liquidity, we review our cash and cash equivalents, short-term investments, and trade and other receivables on an ongoing basis. Trade and other receivables include credit card sales and accounts receivables from travel agencies and cargo transportation. Our accounts receivables are affected by the timing of our receipt of credit card revenues and travel agency invoicing. One general characteristic of the retail sector in Brazil and the aviation sector in particular is the payment for goods or services in installments via a credit card. Our customers may pay for their purchases in up to ten installments without interest or up to 12 installments with 3% interest per month. This is similar to the payment options offered by other airlines in Brazil. Once the transaction is approved by the credit card processor, we are no longer exposed to cardholder credit risk, and the payment is guaranteed by the credit card issuing bank in case of default by the cardholder. Since the risk of non-payment is low, banks are willing to advance these receivables, which are paid the same day they are requested. As a result, we believe our ability to advance receivables at any time significantly increases our liquidity position.

As of December 31, 2020, our total cash position consisting of cash and cash equivalents and short-term and long-term investments, was R\$4,011.1 million, compared to R\$3,107.6 million as of December 31, 2019. The cash position increased mainly due to the convertible debentures issued on November 12, 2020, raising a total of R\$1,745.9 million. The issuance of debentures is part of Azul's efforts to contain the economic impact of the COVID-19 pandemic on its operations.

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We believe that we will continue to be able to access equity and debt capital markets if and when necessary. The table below presents our cash flows from operating, investing and financing activities for the periods indicated:

	<b>For the Year Ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(in thousands of reais)</i>		
<b>Cash Flow</b>			
Net cash provided by operating activities	976,230	2,594,637	1,764,903
Net cash used in investing activities	(403,833)	(1,186,820)	(273,841)
Net cash provided by (used in) financing activities	933,506	(913,503)	(1,151,284)
Exchange gain (losses) on cash and cash equivalents	(88,968)	(15,570)	67,039
<b>Net increase in cash and cash equivalents</b>	<b>1,416,935</b>	<b>478,744</b>	<b>406,817</b>

### Net Cash Provided By Operating Activities

Net cash provided by operating activities in 2020 was R\$976.2 million compared to net cash provided by operating activities of R\$2,594.6 million in 2019. The reduction of the operating cash flows was a direct consequence of the reduced operation (43.1% of ASKs compared to 2019) caused by the COVID-19 pandemic and governments restrictions on travel.

Net cash provided by operating activities in 2019 was R\$2,594.6 million compared to net cash provided by operating activities of R\$1,764.9 million in 2018. The growth of operating cash flows was mainly a result of (i) a net income excluding non-cash activities of R\$3,334.3 million in 2019 compared to R\$3,051.6 million in 2018, (ii) a reduction of cash flow from derivative instruments to R\$2.4 million in 2019 compared to R\$373.8 million in 2018, (iii) an increase in salaries and wages of R\$113.6 million in 2019 due to higher bonus and profit sharing provisions compared to a reduction of R\$2.3 million in 2018 and (iv) an increase of R\$421.8 million in cash provided by air traffic liability, compared to R\$322.4 million in 2018, mostly due to the growth of the company.

### Net Cash Used In Investing Activities

Net cash used in investing activities was R\$403.8 million in 2020, compared to net cash used in investing activities of R\$1,186.8 million in 2019. The decrease in cash used in investing activities is mostly related to the decrease in the amount spent on acquisitions of property, equipment and intangible assets from R\$1,560.4 million in 2019 to R\$452.7 million in 2020.

Net cash used in investing activities was R\$1,186.8 million in 2019, compared to net cash used in investing activities of R\$273.8 million in 2018. The increase in cash used in investing activities is mostly related to (i) a decrease in the sale of fixed assets proceeds from R\$363.2 million in 2018 to R\$59.4 million in 2019, (ii) the increase in the amount spent on acquisitions of property, equipment and intangible assets from R\$1,186.6 million in 2018 to R\$1,560.4 million in 2019, and (iii) the acquisition of long term financial investments of R\$96.2 million in 2019.

### Net Cash Provided By (Used In) Financing Activities

Net cash provided in financing activities was R\$933.5 million in 2020, compared to a net cash used in financing activities of R\$913.5 million in 2018. The increase in net cash provided by financing activities was mainly due to a reduction of repayment of loans, debentures, and leases, as well as the R\$1,745.9 million in convertible debentures raised during 2020.

Net cash used in financing activities was R\$913.5 million in 2019, compared to a net cash used in financing activities of R\$1,151.3 million in 2018. The decrease in net cash used by financing activities was mainly due to a reduction of repayment of loans, debentures, and leases from R\$1,997.6 million in 2018 to R\$1,547 million in 2019 partially offset by an increase in loans and debentures issued from R\$98.9 million in 2018 to R\$592.3 million in 2019.

### Loans and Financings

As of December 31, 2020, our total debt was R\$19,881.3 million, and our total debt including sublease receivables was R\$19,568.4 million. Excluding the convertible debentures, total debt was R\$17,148.7 million as of December 31, 2020, a 11.8% increase compared to December 31, 2019.

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The following tables set forth our short-term and long-term loans and financing as of December 31, 2020 and 2019:

	At December 31,	
	2020	2019
	(in thousands of reais)	
Short-Term Debt		
Local currency	473,853	289,676
Foreign currency (U.S. Dollars)	369,189	174,712
Lease liabilities	2,272,349	1,585,233
Senior Notes	15,289	16,839
<b>Total short-term debt</b>	<b>3,130,680</b>	<b>2,066,460</b>
Long-Term Debt		
Local Currency	1,145,408	604,366
Foreign currency (U.S. Dollars)	3,295,754	820,047
Lease liabilities	10,248,463	10,521,388
Senior Notes	2,061,021	1,612,516
<b>Total long-term debt</b>	<b>16,750,646</b>	<b>13,558,317</b>
<b>Total loans and financing</b>	<b>19,881,326</b>	<b>15,624,777</b>

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

			As of December 31,	
			2020	2019
	Financial Charges			
<b>Aircraft financing<sup>(1)</sup></b>				
In local currency (R\$)	6.0% to 6.5%, Selic + 2.8% to 5.5% TJLP + 5%	Monthly repayment	151,876	164,280
In foreign currency (U.S.\$) <sup>(1)</sup>	4.7% to 6.0%, Libor 3M + 2.4% to 2.9% Libor 6M + 2%	Monthly, quarterly and semi-annual repayment	1,084,705	896,232
<b>Non-aircraft financing:</b>				
In foreign currency (U.S.\$)	1% to 5.9%	Monthly, quarterly, semi-annual and bullet payment	2,236,844	1,727,882
In local currency (R\$)	5.0% to 10.7%, CDI + 2% to 6% TJLP + 5%	Monthly, quarterly and semi-annual repayment and monthly repayment after grace period of 20 months	776,481	37,355
Debentures (R\$)	CDI + 3%	Quarterly	690,904	692,407
Convertible debenture (R\$)	6.0% to 7.5%	Semi-annual payment	2,419,704	—
			<b>7,360,514</b>	<b>3,518,156</b>

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

As of December 31, 2020, we had assets and equipment with a carrying value of R\$388 million pledged as security under our loans and financing.

As of December 31, 2020, we had 158 aircraft under operating leases with an aggregate balance of R\$11,663.1 million and 17 aircraft held under finance leases and loans, with an aggregate outstanding balance of R\$800.4 million, with the underlying aircraft serving as security. Of our contractual fleet of 192 aircraft, 13 aircraft were subleased to TAP and one aircraft was subleased to Breeze as of December 31, 2020. Our non-aircraft secured loans, aircraft finance leases and aircraft debt financing contain customary covenants and restrictions, such as default in case of change of control and termination, or non-renewal of the agreement.



[Table of Contents](#)**Capital Expenditures**

Our gross capital expenditures (acquisitions of property, equipment and intangibles) for the years ended December 31, 2020, 2019 and 2018, totaled R\$452.7 million, R\$1,560.4 million and R\$1,186.6 million, respectively. Most of these expenditures are related to the acquisition of new aircraft, engines, engine overhaul and aircraft equipment such as spare parts. Other capital expenditures include IT systems and facilities.

Capital expenditures decreased compared to the previous year as a result of the impact of the spread of COVID-19 on demand for air travel in the regions we operate. We typically hold our aircraft under operating leases, finance leases or aircraft loans. Although we believe financing should be available for all of our future aircraft deliveries, we cannot assure you that we will be able to secure them on terms attractive to us, if at all. To the extent we cannot secure these and other financing, we may be required to modify our aircraft acquisition plans or incur higher than anticipated financing costs. We expect to meet our operating obligations as they become due through available cash, internally generated funds and credit lines. We believe that our cash provided by operations and our ability to obtain financing (including through finance leases and aircraft debt-financing), by already approved lines of credit with financial institutions, as well as our ability to obtain operating leases and issue debentures in the Brazilian capital market, will enable us to honor our current contractual and financial commitments.

For additional information relating to our commitments for future acquisition of aircraft, see “Note 30. Commitments” to our audited consolidated financial statements.

**C. Research and Development, Patents and Licenses**

We have registered the trademark “AZUL LINHAS AÉREAS BRASILEIRAS,” among others, with the INPI. We have also registered several domain names with the Brazilian body for domain registration, or NIC.br, and other domain registrars, including “voeazul.com.br,” “flyazul.com,” “azulviagens.com.br,” “azulcarga.com.br” and “tudoazul.com.” We also operate software products under licenses from our suppliers, such as Oracle, Trax, Sabre and Navitaire.

For the past three years, we have not had any research and development policies in effect.

**D. Trend Information**

While we have experienced economic crises in the past, and our management remains committed to achieving its long-term targets, we cannot at this point assure you to what extent the spread of the COVID-19 pandemic and measures to attempt to contain it will affect us in the near term.

As the COVID-19 pandemic continues to evolve, our priority is the health and safety of our crewmembers and customers. We continue to take immediate action to reduce our costs to reflect the slowdown we are seeing in the Brazilian economy while preserving our cash position.

The extent of the impact of the COVID-19 pandemic on our operational and financial performance will depend on future developments, including the duration and spread of the outbreak, related travel advisories and restrictions and the impact of the COVID-19 pandemic on overall demand for air travel, all of which are highly uncertain and cannot be predicted.

We believe that our business model and strong cash position and balance will enable us to continue to weather the economic impact of the COVID-19 pandemic. Although we cannot predict how quickly air travel will recover from the economic impact caused by the COVID-19 pandemic, prior unexpected demand shocks have been followed by quick recoveries in air travel. Also, in the long-term, we believe that demand for passenger aircraft travel in the markets we serve will continue to grow as travel remains underpenetrated in Brazil compared to other developed economies. Under normal economic conditions, we believe there is a strong growth opportunity in airline service on routes not served by us or underserved routes among larger, medium-sized, and regional cities in Brazil. In addition, we believe there is an opportunity to leverage our domestic network connectivity by serving additional select international destinations. For a discussion of the impact of the COVID-19 pandemic on our business, see “Item 3.D. Risk Factors—A pandemic or the widespread outbreak of contagious illnesses can have a material adverse effect on our business and results of operations.”

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Since the start of the COVID -19 pandemic, carriers such as ourselves have seen a significant decrease in passenger and cargo revenue resulting from a significant decrease in flights in Brazil and internationally. Due to the uncertainties associated with the COVID-19 pandemic and the indeterminate length of time it will affect the air transportation industry, we have taken certain proactive measures to secure our liquidity position including renegotiating the terms of agreements with our aircraft lessors, our Brazilian and international creditors, our employees and their unions and with international airport and regulatory authorities. As we have indicated in our public statements, our focus now is to take advantage of our competitive position and optimize it for the post COVID-19 pandemic world so that we can become even more efficient, flexible and in a better position to explore future opportunities.

We have suspended all guidance for 2021 in light of the uncertainty due to the COVID-19 pandemic that is affecting the demand for air traffic and the uncertainties on the vaccinations in Brazil.

In 2020, we received notices of default with respect to certain aircraft leases. We have negotiated with the relevant counter parties and reached what we believe to be satisfactory arrangements with respect to each of such leases.

In May 2020, we obtained waivers from one of our creditors of certain rights provided for in an agreement relating to third party maintenance payments, regarding the non-compliance of covenants through the end of January 2021. In addition, in August 2020, we entered into a forbearance agreement with such creditor, also valid through the end of January 2021. On March 31, 2021, we obtained additional waivers under that agreement, which was also amended as of that date to provide, among other things, for a new principal repayment schedule.

#### E. Off-Balance Sheet Arrangements

In connection with the full retroactive adoption of IFRS 16 – Leases, we do not have off-balance sheet arrangements, as our operating lease obligations are now reflected in our financial statements.

#### F. Tabular Disclosure of Contractual Obligations

Our non-cancellable contractual obligations (in thousands of R\$) as of December 31, 2020 included the following:

	2021	2022-2023	2024-2026	>2026	Total
	Less than 1 year	1 to 2 years	3 to 5 years	More than 5 years	
	(in thousands of R\$)				
Commitments for future aircraft acquisition	1,941,843	1,420,908	4,518,189	2,292,894	10,173,834
Lease liabilities	2,160,088	4,391,625	3,741,633	2,227,466	12,520,812
Non-aircraft loans	592,820	303,198	2,076,020	—	2,972,038
Debentures	—	677,569	2,433,055	—	3,110,624
Aircraft loans	186,800	671,378	321,066	14,560	1,193,804
Interest payable on bonds	282,387	626,599	356,799	1,179	1,266,964
Interest on lease liabilities	338,092	2,456,948	5,619,078	6,233,640	14,647,758
<b>Total</b>	<b>5,502,030</b>	<b>10,548,225</b>	<b>19,065,840</b>	<b>10,769,739</b>	<b>45,884,834</b>

#### G. Safe Harbor

Not applicable.

### ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

#### A. Directors and Senior Management

##### Board of Directors

Our board of directors is responsible for, among other tasks, establishing our overall strategy and general business policies, supervising management, electing and removing our executive officers, and appointing our independent auditors. Our bylaws determine that our board of directors shall be composed of five to fourteen members.

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The members of our board of directors are elected at a shareholders' meeting in accordance with the terms and conditions of our bylaws, Brazilian corporate law, Shareholders' Agreement, and the regulations of the Level 2 segment of B3. The members of our board of directors are elected for terms of two consecutive years and can be re-elected and removed at any time by our shareholders at a shareholders' meeting. In addition, pursuant to our bylaws, the chairman of the board of directors will be appointed by our shareholders at a general shareholders' meeting.

Pursuant to Brazilian corporate law, holders of preferred shares (with no voting rights or restricted voting rights) representing at least 10% of the total capital stock have the right to elect one member to the board of directors in a separate voting process, except if the bylaws of the company already provide the right of holders of preferred shares to elect one member of the board of directors. Pursuant to our bylaws, holders of our preferred shares have the right to elect two members to the board of directors in a separate voting process. In addition, minority shareholders whose interest in our common shares represent a minimum of 15% of our total voting capital stock have the right to elect one director in a separate voting process.

Pursuant to the Shareholders' Agreement:

- As long as TRIP's former shareholders hold (i) more than 20% of our common shares, they will have the right to appoint three directors among them as a single shareholding block; (ii) between 10% and 20% of our common shares, they will have the right to appoint two directors; and (iii) between 5% and 10% of our common shares, they will have the right to appoint one director;
- As long as Calfinco holds at least 50% of the preferred shares that were held by Calfinco as of August 3, 2016, Calfinco will have the right to appoint one director;
- The remaining directors must be appointed by David Neeleman, provided that at least two directors are independent, according to the regulations of the Level 2 segment of B3, and the majority of the directors are Brazilian citizens, to the extent required by applicable Brazilian law or governmental authorities.

Currently, our board of directors is composed of 11 members, elected in accordance with the Shareholders' Agreement, three of whom were appointed by TRIP's former shareholders, one of whom was appointed by Calfinco and the remainder were appointed by David Neeleman. On April 29, 2021, nine current members were reelected and two new members were appointed to our board of directors. One director was appointed by Calfinco (Mr. Patrick Wayne Quayle), replacing Calfinco's previous appointee, and one director was appointed by David Neeleman (Mr. Peter Allan Otto Seligmann, an ESG specialist). Ten members of our board of directors are independent members, according to the regulations of the Level 2 segment of B3.

Under our bylaws and in conformity with regulations of the Level 2 segment of B3, at least two or 20%, whichever is greater, of the members of our board of directors must be independent, and must be expressly identified as so at the time of election. Pursuant to Brazilian corporate law, members of our board of directors who are also shareholders of the company may not vote in any shareholders' meetings or vote in any decision regarding any transaction in which there is a conflict of interest with such member.

The Level 2 segment of B3 rules also require that all members of our board of directors execute a management compliance statement as a prerequisite for service on the board. Consistent with this statement, our directors are personally liable for our compliance with the terms of the Level 2 segment of B3 Participation Agreement, including the Market Arbitration Chamber Rules (*Câmara de Arbitragem do Mercado*) and the Level 2 rules.

Pursuant to Brazilian corporate law, the members of our board of directors are prohibited from taking any actions, including the deliberation of such actions during a meeting of the board of directors, in which he or she has a conflict of interest with us. In accordance with this law, our bylaws prohibit the election to our board of directors of someone who has or may have a conflict of interest, except when such conflict of interest is disregarded through a shareholders' meeting. In addition, if a conflict of interest arises after the election of a member of our board of directors, such member may not exercise his or her right to vote and may not access information or participate in board of directors meetings related to such conflict of interest.

All decisions made by our board of directors are made by majority vote of those members present at the relevant meeting. Pursuant to our bylaws, our board of directors is required to meet at least once each quarter, and whenever corporate interests require such meeting.

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In 2020, we paid our board of directors a fixed aggregate compensation amount totaling approximately R\$2.8 million for services rendered. The members of our board of directors are also granted stock-based compensation as a long-term incentive, see “Item 6.B. Management Compensation—Stock-Based Incentive Plans.” In addition, as a benefit, our directors receive passenger tickets on our flights.

As of December 31, 2020, we do not have any contractual arrangements, insurance policies or other instruments structuring compensation or indemnification mechanisms for our directors in the event of dismissal or retirement.

The table below sets forth the name, title, election date, expiration date of the term of office, and the date of birth of each of the current members of our board of directors:

Name	Title	Election Date <sup>(1)</sup>	Mandate Term	Date of Birth
David Neeleman	Chairman	April 29, 2021	April 28, 2023	October 16, 1959
José Mario Caprioli dos Santos	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	July 11, 1971
Sérgio Eraldo de Salles Pinto	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	September 24, 1964
Carolyn Luther Trabuco	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	April 15, 1969
Gelson Pizzirani	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	July 18, 1951
Renan Chieppe <sup>(3)</sup>	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	April 6, 1962
Decio Luiz Chieppe <sup>(3)</sup>	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	May 14, 1960
Michael Lazarus	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	May 20, 1955
Gilberto de Almeida Peralta	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	May 3, 1957
Peter Allan Otto Seligmann	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	September 30, 1950
Patrick Wayne Quayle	Independent Member <sup>(2)</sup>	April 29, 2021	April 28, 2023	November 22, 1978

(1) Refers to date of most recent election.

(2) Independent according to the regulations of the Level 2 segment of B3.

(3) Renan Chieppe and Decio Luiz Chieppe are relatives.

The business address of each member of our board of the directors is Edifício Jatobá, 8<sup>th</sup> floor, Castelo Branco Office Park, Avenida Marcos Penteado de Ulhõa Rodrigues, 939, Tamboré, Barueri, São Paulo, SP 06460-040, Brazil.

The following discussion contains summary biographical information relating to each of the members of our board of directors:

*David Neeleman*, a dual Brazilian and U.S. citizen, is the Chairman of our board of directors and served as Chief Executive Officer until July 2017 since he founded Azul in January 2008. Prior to Azul, Mr. Neeleman founded JetBlue, where he held the position of Chief Executive Officer from 1998 to 2007 and Chairman of the board of directors from 2002 to 2008. Mr. Neeleman’s career in the airline industry began in 1984 when he co-founded Morris Air. As president of Morris Air, he implemented the industry’s first electronic ticketing system and pioneered a home reservationist system that is now the foundation of JetBlue’s call center. Mr. Neeleman sold Morris Air in 1993 and took the electronic ticketing to Open Skies. He sold Open Skies to Hewlett Packard in 1999. Mr. Neeleman was also co-founder of WestJet Airlines and served as a member of its board of directors from 1996 to 1999.

*José Mario Caprioli dos Santos* is an independent board member (according to the regulations of the Level 2 segment of B3) and has been a member of our board of directors since August 15, 2012. Mr. Caprioli was our Chief Operating Officer from August 15, 2012 to February 18, 2014 and he was also our Institutional Relations Officer from February 18, 2014 to March 9, 2020. Mr. Caprioli was the founder of TRIP, where he served as the Chief Executive Officer from 1998 until February 2013. Mr. Caprioli holds a bachelor’s degree in business administration from Pontificia Universidade Católica de Campinas. He also attended a specialization course on public transportation at Universidade de Campinas and a capital markets program at Columbia University.

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*Sérgio Eraldo de Salles Pinto* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since March 10, 2008. He is the Chief Executive Officer of the Bozano Group. Mr. Salles is also a current board member of Embraer, Mercatto Investimentos, Trapezus Asset Management, BR Investimentos, Ouro Preto Óleo e Gás and Netpoints. In addition to holding these positions, Mr. Salles served as Executive Director of Banco Meridional and was Chairman of Bozano Simonsen Securities of London. Mr. Salles holds a bachelor's degree in economics and electrical engineering from Universidade de Brasília, a master's degree in economics from Fundação Getúlio Vargas do Rio de Janeiro, and a master's degree in business administration from Pontifícia Universidade Católica do Rio de Janeiro.

*Carolyn Luther Trabuco* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since March 10, 2008. Ms. Trabuco is a member of the investment team at Manatuck Hill Partners. She was a Senior Vice President at Astenbeck Capital Management LLC and Phibro Trading LLC ("Phibro") from 2009 until 2014, where she was responsible for global oil and gas equity analysis. Prior to joining Phibro, Ms. Trabuco worked at Pequot Capital Management as a senior equity research analyst focused on the global resources sector and the Latin America region from 2002 until 2009. She has worked in the financial services industry for over 20 years and has been involved with Azul since its formation in 2008. Ms. Trabuco holds a bachelor's degree in art history from Georgetown University.

*Gelson Pizzirani* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since April 30, 2012. Mr. Pizzirani was a VP of Revenue Management and Fleet Planning at Tam Linhas Aéreas S.A. from 2002 to 2007. Before joining Tam Linhas Aéreas S.A., he held several management positions with different IT companies. Mr. Pizzirani holds a bachelor's degree in mathematics from the Universidade do Santo André and a master's degree in strategic management and information technology from Fundação Getúlio Vargas.

*Renan Chieppe* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since August 15, 2012 and General Executive Officer of Grupo Águia Branca's passenger transportation unit since 1994. Mr. Chieppe joined Grupo Águia Branca in 1980. He is also currently the president of the Brazilian Association of Passenger Ground Transportation Providers (*Associação Brasileira das Empresas de Transporte Terrestre de Passageiros—ABRATT*) and a member of the board of directors of VIX Logística. Mr. Chieppe also served as chairman of the board of TRIP from 2008 to 2012. In 2001, he was elected president of the Espírito Santo State Passenger Transportation Trade Association (*Sindicato de Transportes de Passageiros do Estado do Espírito Santo*), a position he held for two consecutive terms. Mr. Chieppe holds a degree in business administration from Faculdades Integradas Espírito-Santenses.

*Decio Luiz Chieppe* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since August 15, 2012. He is also an Executive Officer for Administration and Finance at Grupo Águia Branca and a member of the board of directors of Vix Logística S.A. During his career, Mr. Chieppe has held leadership positions at all Grupo Águia Branca companies, including as an executive officer for finance and administration from 1993 through the present day and as the chief executive officer of certain Grupo Águia Branca companies from 1978 to 1993. Mr. Chieppe holds a degree in business administration from the *Universidade Federal do Espírito Santo* and an executive master's degree in business administration in finance from IBMEC, a private Brazilian university. He also completed an executive skills, tools and competencies program (STC), at the J.L. Kellogg Graduate School of Management.

*Michael Lazarus* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since February 20, 2013. Mr. Lazarus co-founded Weston Presidio, a private equity firm focused on growth companies, in 1991 and currently serves as one of its Managing Partners. Mr. Lazarus is also a founding partner of Main Post Partners, a San Francisco based growth equity fund. Prior to the formation of Weston Presidio, he served as Managing Director and Director of the Private Placement Department of Montgomery Securities. He was previously the founding Chairman of JetBlue and served on the board of directors for the airline as well as on the boards of directors for Restoration Hardware, Morris Air, Guitar Center, Fender Musical Instrument Corp., Integro, Jimmy John's LLC, and numerous privately held companies. Michael graduated with a bachelor's degree in accounting from Grove City College and he is a certified public accountant in the United States.

*Gilberto de Almeida Peralta* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since August 24, 2018. With more than 35 years of experience in the aviation sector, Mr. Peralta has held led positions at General Electric, including CEO of GE Brazil, General Manager of GE Capital Aviation Services, and Vice President at GE Aviation. He has lived and worked in Brazil, the United States and Europe and holds a bachelor's degree in Civil and Mechanical Engineering from the Catholic University of Petropolis.

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*Peter Allan Otto Seligmann* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since April 29, 2021. He is the CEO and co-founder of Nia Tero, a joint venture of the Emerson Collective, the MacArthur Foundation, the Mulago Foundation and Conservation International. Nia Tero works alongside Indigenous peoples and local communities in securing their rights, cultures, and well-being through agreements that secure the vitality of their oceans and lands. He is also the Chairman of the Board, and former CEO, of Conservation International (CI), a global nonprofit organization he co-founded in 1987. Peter is a Director at First Eagle Holdings, Inc. He is a member of the Council on Foreign Relations, serves on the board of the Mulago Foundation, and served on the Coca-Cola Company's International Advisory Committee from 2011 to 2014. Peter was also named to the Enterprise for the America's Board by President Clinton in 2000. Peter holds a Master of Science in Forestry and Environmental Science from Yale University and a Bachelor of Science in Wildlife Ecology from Rutgers University. Peter has Honorary Doctorates in Science from Michigan State University and Rutgers University.

*Patrick Wayne Quayle* has been an independent member (according to the regulations of the Level 2 segment of B3) of our board of directors since April 29, 2021. As United's vice president of international network and alliances, Patrick is a Vice President, International Network and Alliances of United Airlines. Patrick previously served as managing director of international planning at American Airlines. He also served as managing director of network and fleet strategy for American. Patrick began his career in network planning at Continental Airlines. Patrick was named as one of the top 40 under 40 individuals in Crain's Chicago Business. He received a Bachelor of Arts in political science from Rice University, and his MBA from University of Bath in Bath, U.K.

### Board of Executive Officers

The members of our board of executive officers are our legal representatives. They are primarily responsible for the day-to-day management of our business and for implementing the general policies and directives established by our board of directors. Our board of directors is responsible for establishing the roles of each executive officer.

Pursuant to Brazilian corporate law, each member of our board of executive officers must reside and have domicile in Brazil. In addition, up to, at most, one third of the members of our board of directors may hold a position on our board of executive officers.

According to our bylaws, our board of executive officers is composed of two to seven members, who serve for two-year terms and may be reelected. Our bylaws set forth that our board of executive officers must be composed of (i) one chief executive officer; (ii) one chief financial officer, (iii) one institutional relations officer and (iv) up to four additional officers with or without specific designation. In addition, our bylaws establish that one officer must be designated the investment relations officer. Officers may serve in more than one capacity at the same time.

Our executive officers can be removed by our board of directors at any time. Pursuant to the regulations of the Level 2 segment of B3, each executive officer must, prior to taking office, sign an instrument of consent (*Termo de Anuência dos Administradores*).

Our investor relations department is located in the city of Barueri, state of São Paulo. Alexandre Wagner Malfitani, who is also our Chief Financial Officer, was elected our Investors Relations Officer at the board of directors meeting held on July 24, 2017. The telephone number of our investor relations department is +55 (11) 4831-2880, the fax number is +55 (11) 4134-9890 and its e-mail is [invest@voeazul.com.br](mailto:invest@voeazul.com.br).

The table below indicates the name, title, date of birth and date of election of each of the current members of our board of executive officers:

<b>Name</b>	<b>Title</b>	<b>Election Date</b>	<b>Mandate Term</b>	<b>Date of Birth</b>
John Peter Rodgeron	Chief Executive Officer	January 11, 2021	January 10, 2023	June 11, 1976
Antonio Flavio Torres Martins Costa	Chief Operating Officer	March 9, 2020	March 9, 2022	August 28, 1951
Alexandre Wagner Malfitani	Chief Financial Officer Investor Relations Officer	January 11, 2021	January 10, 2023	August 21, 1972
Abhi Manoj Shah	Chief Revenue Officer	January 11, 2021	January 10, 2023	September 27, 1978



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The following discussion contains summary biographical information relating to each of the members of our board of executive officers:

*John Peter Rodgerson* is our Chief Executive Officer. He has been our Chief Executive Officer since July 24, 2017. Mr. Rodgerson previously served as our Chief Financial Officer and Investor Relations Officer. Prior to joining Azul, Mr. Rodgerson served as the Director of Planning and Financial Analysis at JetBlue from 2003 to 2008. Before JetBlue, he worked for IBM Global Services from 2001 to 2003. Mr. Rodgerson holds a bachelor's degree in finance from Brigham Young University.

*Alexandre Wagner Malfitani* is our Chief Financial Officer and Investor Relations Officer. Mr. Malfitani previously served as the head of our TudoAzul loyalty program and our Director of Finance and Treasurer. Mr. Malfitani joined Azul in 2008 as one of the airline's founding members. Before joining Azul, Malfitani worked from 2003 to 2008 at United Airlines in Chicago, and occupied the position of managing director of treasury. Before that, he worked for five years in the finance industry, including as fund manager at Deutsche Bank and trader at Credit Agricole Indosuez.

*Antonio Flavio Torres Martins Costa* is our Chief Operating Officer. Mr. Costa has been part of the Azul founding team since inception and has more than 40 years of experience in the airline industry, having served as Technical and Operations Director at Pluna S.A., and OceanAir and as Technical Director at Varig.

*Abhi Manoj Shah* is our Chief Revenue Officer and one of the founding members of Azul. Prior to joining Azul in 2008, Mr. Shah worked at JetBlue from 2004 to 2008 and at the Boeing Company from 2000 to 2004. Mr. Shah holds a bachelor's degree in aerospace engineering from the University of Texas and a master's degree in aerospace engineering from the University of Washington.

### **Fiscal Council**

Pursuant to Brazilian corporate law, a fiscal council is a corporate body independent from a company's management and independent auditors. A fiscal council may be either permanent or non-permanent. Although we have not elected any fiscal council members as of December 31, 2020, we currently have a non-permanent fiscal council as required by law, which may be installed at any time at the request of shareholders, as described below. If installed, the primary responsibilities of our fiscal council would include monitoring management activities, reviewing our financial statements each quarter, and reporting its findings to our shareholders. If installed, fiscal council members would be entitled to annual compensation in the form of a fixed salary.

The fiscal council, if installed, will be composed of three members who are residents of Brazil and their respective alternates. Under Brazilian corporate law, a non-permanent fiscal council may be installed at the request of shareholders representing at least (i) 10% of the outstanding common shares or (ii) 5% of the preferred shares and, once installed, the fiscal council will serve until the first annual shareholders' meeting following its establishment. Pursuant to CVM rules, listed corporations with outstanding capital stock valued at more than R\$150 million, such as us, may reduce these percentages to (i) 2% of the outstanding common shares or (ii) 1% of the preferred shares. In addition, each group of preferred shareholders (irrespective the percentage of shares held) and minority shareholders representing a minimum of 10% of or outstanding common shares is entitled to elect one fiscal council member and the corresponding alternate by a separate vote. In this case, our controlling shareholders may elect the same number of council members as the minority shareholders (common and preferred), plus one. The fiscal council may not include members of our board of directors or our board of executive officers, employees of controlled companies or any company from within our economic group, or relatives of our managers. Brazilian corporate law requires each fiscal council member to receive as compensation an amount equal to at least 10% of the average individual annual salary of executive officers, excluding benefits and other allowances, or profit-sharing arrangements. Fiscal council members are further required to comply with the rules of the Level 2 segment of B3.

### **B. Management Compensation**

Our executive officers are entitled to compensation consisting of a fixed and variable component. The monthly fixed compensation paid to our management is based on market practices and surveys prepared by an independent consulting firm and consist of thirteen monthly payments per year. Such amounts are subject to annual adjustment. The variable component consists of bonus, stock and restricted share options, as further described below.



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Short-term variable compensation is based on targets that, if reached, entitle the officer to an annual bonus based on his or her individual performance. The targets are established at the beginning of the year based on our strategic plan. The main performance indicators considered for purposes of variable compensation are operating margin, customer satisfaction, crewmember satisfaction and on-time performance. For managers, half of the short-term variable compensation is based on our performance, and the other half is based on the individual's performance. For officers, 75% of the short-term variable compensation is based on our performance, and 25% is based on the individual's performance. On the other hand, our long-term variable compensation involves the grant of stock and restricted share options. In addition, our officers receive benefits in line with market practices, which include medical, dental and life insurance, meal vouchers and passenger tickets on our flights.

Only the independent members of our board of directors, according to the regulations of the Level 2 segment of B3, receive compensation for their service through either a monthly fixed amount or a fixed amount per meeting attended.

Certain of our executives receive additional benefits, such as an allowance package for school fees and housing for our expatriate executive officers. Under this package, ALAB has given a guarantee of rent and other payments under three lease agreements for family housing in Brazil. In addition, our directors, officers and non-statutory officers are entitled to free airline tickets for their immediate family.

The aggregate compensation expense incurred to our directors, executive officers and officers in the years ended December 31, 2020, 2019 and 2018 was R\$66.8 million, R\$58.6 million and R\$45.0 million, respectively, including stock options.

### Stock-Based Incentive Plans

We have stock option and restricted share plans for key personnel, including our officers, certain managers and other key crewmembers. Beneficiaries of the plans receive options to purchase preferred shares and/or restricted units, allowing them to participate in the long-term achievements of our company through share ownership, with the aim of stimulating alignment with and commitment to achieving our corporate strategies and goals. The beneficiaries of our stock option, restricted share and virtual stock option plans are selected by our compensation committee.

On December 11, 2009, we established our first stock option plan, which consists of three programs:

- The first program was established on December 11, 2009 and terminated on December 31, 2010. The options granted to each beneficiary under this first program vested in 48 equal monthly installments. The vested, options under this program became exercisable upon the pricing of our initial public offering. The strike price under this program, after accounting for the stock splits that we carried out subsequent to the date of grant, is R\$3.42 per preferred share. On December 11, 2009, our compensation committee authorized the issuance of 5,718,400 preferred options (after giving effect to the two-for-one stock split on February 23, 2017) for our officers, executives and key employees.
- The second program, which extends to our statutory and non-statutory officers, was established on March 24, 2011. The options granted to each beneficiary under this second program vested in 48 equal monthly installments and authorized the issuance of 1,648,000 preferred options (after giving effect to the two-for-one stock split on February 23, 2017). The vested options under this program became exercisable upon the pricing of our initial public offering. The strike price under this program, after accounting for the stock splits that we carried out subsequent to the date of grant, is R\$6.44 per preferred share, which was calculated based on a valuation of our shareholders' equity at the time. Due to the granting of additional options under this program, the Special Shareholder's Meeting held on April 27, 2011 approved an amendment to our charter authorizing a capital increase and a limit of 7,366,400 preferred shares (after giving effect to the two-for-one stock split on February 23, 2017); however, only 1,572,000 preferred options (after giving effect to the two-for-one stock split on February 23, 2017) were granted under this second program.
- The third program was established on April 5, 2011, authorizing the issuance of 685,600 preferred options (after giving effect to the two-for-one stock split on February 23, 2017), which were remaining from the first program. The options granted to each beneficiary under this third program vested in 48 equal monthly installments. The vested options under this program became exercisable upon the pricing of our initial public offering. The strike price under this program (after giving effect to the two-for-one stock split on February 23, 2017) is R\$6.44 per preferred share, which was calculated based on a valuation of our shareholders' equity at the time.

As of December 31, 2020, we have 389,430 outstanding shares under this stock option plan.

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On June 30, 2014, we established our second stock option plan. The options granted to each beneficiary under the second stock option plan vest in four equal annual installments. The vested options under this plan became exercisable upon the pricing of our initial public offering. The strike price under this second stock option plan shall reflect the lowest stock price of our preferred shares traded in the stock market during the 30 trading sessions prior to the options grant approved by the Board of Directors.

There were three programs approved under the second stock option plan:

- On June 30, 2014, our compensation committee approved the first share-based program, authorizing 2,169,122 options (after giving effect to the two-for-one stock split on February 23, 2017). The strike price under this program is R\$19.15 per preferred share.
- On July 1, 2015, our compensation committee approved the second share-based program, authorizing 627,810 options (after giving effect to the two-for-one stock split on February 23, 2017). The strike price under this program is R\$14.51 per preferred share.
- On July 1, 2016, our compensation committee approved the third share-based program, authorizing 820,250 options (after giving effect to the two-for-one stock split on February 23, 2017). The strike price under this program is R\$14.50 per preferred share.
- On July 6, 2017, our compensation committee approved the fourth share-based program, authorizing 680,467 options. The strike price under this program is R\$22.57

As of December 31, 2020, we have 1,894,170 outstanding shares under this second stock option plan.

On October 3, 2017, our shareholders, upon our compensation committee's and board of directors' recommendation, approved the following amendments to the second stock option plan: (i) revise the definition of "Compensation Committee" to reflect activities related to the organization, management and construction of the Company's share incentive plans; (ii) omit references and definitions related to our initial public offering as they are no longer applicable; (iii) reflect the power of our board of directors to approve and amend the Company's share incentive plans, as well as to awards thereunder; (iv) omit the compensation committee's obligations with respect to the delivery and execution of restricted share agreements; (v) for purposes of reflecting the stock split that occurred on February 23, 2017, increase the total number of stock options that may be granted under the second stock option plan from 3,738,364 to 7,476,728 shares; (vi) change the exercise price of each share corresponding to the options granted under the second stock option plan so that it equals the lowest stock price traded in the stock market during the 30 trading sessions prior to the options grant approved by our board of directors; and (vii) change the maximum option exercise period to 10 years from the beginning of the applicable vesting period.

On March 10, 2017, we established our third stock option plan, authorizing the issuance of options resulting in up to 11,679,389 preferred shares. The beneficiaries of our third stock option plan are certain of our statutory officers, including our Chairman and controlling shareholder David Neeleman. Our board of directors may approve various programs under our third stock option plan and determine the strike price under each program. Our board of directors may also determine if the settlement of the exercise of options should be covered by an increase in our capital stock to issue new shares to be subscribed for by our eligible statutory officers or by treasury shares.

Under each program, our board of directors will determine the granting of options under our third stock option plan for each of our eligible statutory officers based on the achievement of certain milestones to be established by our board of directors with the guidance of our Compensation Committee. In the case of David Neeleman, the granting of options is conditioned on him maintaining a position as an officer or on our board of directors. The options granted to each beneficiary under the third stock option plan vest in five equal annual installments. Once vested, options under this program may be exercised during the 15 day period following the relevant annual vesting date.

As of December 31, 2018 one program has been approved under the third stock option plan:

- On March 14, 2017, our board of directors approved the first share based program authorizing options which when exercised will represent 9,343,510 preferred shares. The strike price for the first program is R\$11.85 per preferred share.

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The table below shows, as of December 31, 2020 the total number of stock options granted to all beneficiaries, and the number of options that have already vested, in each case after accounting for the stock splits carried out subsequent to the date of grant:

Stock Option Plans	Total Number/ Amount of Stock Options Granted	Number of Stock Options Outstanding
<b>First Stock Option Plan</b>		
First Program	5,032,800	296,470
Second Program	1,572,000	84,000
Third Program	656,000	8,960
<b>Second Stock Option Plan</b>		
First Program	2,169,122	786,197
Second Program	627,810	231,638
Third Program	820,250	385,980
Fourth Program	680,467	490,355
<b>Third Stock Option Plan</b>		
First Program	9,343,510	3,824,610

**Restricted Share Units**

On June 30, 2014, we also established our restricted share units, or RSUs, plan. Under the restricted share units plan, the participants were granted a fixed monetary amount which would be converted into a quantity of restricted preferred shares equal to the monetary value in the event of an IPO. The restricted share granted to each beneficiary under the plan vests in four equal annual installments. As of the pricing of our initial public offering, the beneficiaries became vested in the restricted shares. Prior to our initial public offering, at the end of each year of the vesting period, we paid the beneficiaries in cash the portion corresponding to the value of the restricted shares already vested, at fair value and without any additions. In 2018, 2019 and 2020, 299,659, 260,451 and 244,947 restricted shares were transferred to the beneficiaries of the plan, respectively.

On October 3, 2017, our shareholders, following our compensation committee's and board of directors' recommendation, approved the following amendments to the RSUs plan: (i) revise the definition of "Compensation Committee" to reflect its activities related to the organization, management and construction of any the Company's share incentive plans; (ii) omit references and definitions related to our initial public offering as they are no longer applicable; (iii) reflect the power of our board of directors to approve and amend our restricted share units plans, as well as to grant awards thereunder; (iv) omit the compensation committee's obligations related to delivery and execution of restrict stock agreements; and (v) for purposes of reflecting the stock split that occurred on February 23, 2017, increase the total number of restricted shares that may be granted under the RSUs plan from 934,591 to 1,869,182. In addition, our board of directors proposed to amend the RSUs plan to include the Company's option to, at the end of each vesting period of a restricted share award, at its sole discretion: (a) settle the obligations related to the restricted share award in cash, or (b) deliver to the award beneficiary the restricted shares held in treasury, through a private transaction.

On April 26, 2019, our shareholders, following our compensation committee's and board of directors' recommendation, approved an amendment to the RSUs plan with the purpose to set the maximum amount of RSU that may be subject to annual concession under the RSU Plan as 0.10% of the total preferred shares issued by the Company.

Our second restricted share units plan was approved at the Extraordinary General Meeting held on June 19, 2020. According to its provisions, the Beneficiaries are qualified to receive the restricted share units that are the object of the plan. In addition, this plan should contemplate the annual granting of up to 0.50% of the preferred shares issued by the Company in 2020, and 0.20% in the following years.

The first program of the second restricted share units plan establishes that 1,382,582 shares will be allocated to the First Program.

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The table below shows, as of December 31, 2020, the total number of RSUs and the number of RSUs that have been granted and outstanding:

<b>RSU Plan</b>	<b>Total RSUs Granted</b>	<b>Total RSUs Outstanding</b>	<b>Fair Value as of Grant Date (in reais)</b>
First Program	487,670	3,967	R\$ 21.00
Second Program	294,286	4,047	R\$ 21.00
Third Program	367,184	7,722	R\$ 21.00
Fourth Program	285,064	59,080	R\$ 24.17
Fifth Program	291,609	129,860	R\$ 24.43
Sixth Program	170,000	115,774	R\$ 51.65
Seventh Program	1,382,582	1,332,555	R\$ 21.80

### Virtual Stock Option Plan

On August 7, 2018 and on April 30, our Board of Directors approved the Virtual Stock Option Plan, or the Phantom Shares and the Second Virtual Stock Option Plan, or the Second Phantom Shares Plan, respectively. These plans consist of a remuneration in cash, as there is no effective trading of the shares. There will be no issuance and/or delivery of shares for settlement of the plan. A liability to us is recorded monthly, based on the fair value of the Phantom Shares granted and the vesting period of such Phantom Shares, with an offsetting entry in the statement of income (loss). The fair value of this liability is reviewed and updated for each reporting period, in accordance with the change in the fair value of the benefit granted.

The options issued under each program of the Phantom Shares require a vesting period between 3 and 4 years. The options have an 8-year life and the exercise price shall be equal to the lowest stock price traded in the stock market during the 30 trading sessions prior to the options grant approval by our Compensation Committee. Expected volatility has been calculated based on historical volatility of airline shares listed on stock exchanges in Brazil and Latin America.

<b>Virtual Stock Option Plan</b>	<b>Total Options Granted</b>	<b>Total Options Outstanding</b>
First Program	707,400	89,674
Second Program	405,000	14,201
First Program – Second Plan	3,250,000	3,167,765
Second Program – Second Plan	1,600,000	1,585,401

### Directors' and Officers' Insurance

Our directors and officers have been covered by liability insurance since our inception. Our current directors' and officers' insurance policy, which we entered into on March 17, 2021, is provided by Starr International Brasil Seguradora S/A and coverage is in place as of February, 11, 2020. This policy covers damages or costs in the event our directors or officers suffer losses as a result of a lawsuit for alleged wrongful misconduct while acting in their capacity as directors or officers. The current policy expires on March 17, 2022 and we plan to renew it on such date. See "Item 7.B. Related Party Transactions—Arrangements with Directors and Officers."

### C. Board Practices

Our bylaws determine that our board of directors shall be composed of five to 14 members. The members of our board of directors are elected at a shareholders' meeting in accordance with the terms and conditions of our bylaws, Brazilian corporate law, Shareholders' Agreement, and the regulations of the Level 2 segment of B3. The members of our board of directors are elected for terms of two consecutive years and can be re-elected and removed at any time by our shareholders at a shareholders' meeting. In addition, pursuant to our bylaws, the chairman of the board of directors will be appointed by our shareholders at a general shareholders' meeting. For more information on board practices, see "Item 6.A. Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors."

[Table of Contents](#)**Audit Committee**

Our audit committee is composed of three members who are elected by our board of directors and the majority of which must be independent members. According to our bylaws, at least two members of our audit committee shall be independent members of our board of directors. The members shall be appointed for a two-year term of office, being permitted reelection, with a limit of ten consecutive years in office. Upon reaching the ten consecutive year limit, members will become eligible to serve on this committee again after three years from the end of his or her last term of office. The audit committee is responsible for: (i) advising our board of directors regarding the selection of independent auditors, (ii) reviewing the scope of the audit and other services provided by our independent auditors, (iii) evaluating and monitoring related party transactions and (iv) evaluating our internal controls, among other things. The members of our audit committee are Gelson Pizzirani, Gilberto Peralta and Sérgio Eraldo de Salles Pinto (coordinator), all of whom are independent members of the audit committee under applicable SEC and NYSE rules. As of December 31, 2020 all members of our audit committee have either satisfied the independence requirements of the SEC and NYSE applicable to audit committees of foreign private issuers or qualified for an exemption under the applicable rules. At least one member of the audit committee is an audit committee “financial expert” within the meaning of the rules adopted by the SEC relating to the disclosure of financial experts on audit committees in periodic filings pursuant to the Exchange Act. The members of our audit committee are entitled to annual compensation in the form of a fixed salary.

**Compensation Committee**

Our compensation committee is composed of three members who are elected by our board of directors, two of which shall be independent members of the board of directors, according to the regulations of the Level 2 segment of B3. Our compensation committee’s principal responsibilities include: (i) reviewing corporate goals, (ii) evaluating certain executive compensation arrangements as well as the performance of key executives, and (iii) recommending compensation, incentive-compensation and stock option, restricted share and virtual stock option plans to the board of executive officers. The current members of our compensation committee are David Neeleman, Sérgio Eraldo de Salles Pinto and Carolyn Luther Trabuco, all of whom are directors of our company. Their mandates are for an unlimited duration, until the board of directors replaces them. The members of our compensation committee are entitled to annual compensation in the form of a fixed salary. As a foreign private issuer, we are not required to comply with the SEC rules applicable to compensation committees.

**Corporate Governance Committee**

Our corporate governance committee was created on December 23, 2013 and is composed of three members who are elected by our board of directors. At least two members of the corporate governance committee shall be independent members of the board of directors, according to the regulations of the Level 2 segment of B3. The members of our corporate governance committee are Renan Chieppe, Michael Lazarus (coordinator) and Gelson Pizzirani. Our corporate governance committee’s principal responsibilities include: (i) recommending to the board of directors a set of corporate governance guidelines applicable to us and supervising its enforcement, (ii) reviewing and approving our code of business conduct and ethics (which provides specific rules for the identification and administration of conflicts of interest applicable to all of our employees and our board of directors) on an annual basis, (iii) reviewing and expressing its opinion about potential conflicts of interest among members of the board of directors and us, considering, as applicable, the Regulation and to the Self-Regulatory Code on Mergers and Acquisitions issued by the Brazilian Takeover Panel (*Comitê de Aquisições e Fusões*), or CAF, or the Panel Code, and (iv) expressing an opinion about (a) the sale or transfer of our fixed assets in amounts, in reais, equivalent to or higher than 3% of the net earnings recorded in our financial statements, converted by the PTAX-800 rate of the day of the transaction, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein we operate; (b) any transaction between our shareholders, officers or related parties, their respective spouses, ascendants, relatives up to the third degree, its controlling entities, or persons under common control, on the one side, and us or our subsidiaries, on the other side, whenever such transactions are outside the ordinary course of business of a company operating in the same industry wherein we operate; and (c) contracting any financial obligation not provided for in our or our subsidiaries ‘annual plan or budget, whose amount, in reais, is higher than US\$200.0 million, converted by the PTAX-800 rate of the day of the transaction. In relation to these responsibilities, our corporate governance committee is in the process of analyzing and proposing a related party transactions policy to further govern potential conflicts of interests between us and our board of directors. The members of our corporate governance committee are entitled to annual compensation in the form of a fixed salary.

[Table of Contents](#)**D. Employees***Overview*

We believe that the quality of our employees, whom we refer to as crewmembers, promotes our success and growth potential. We believe we have created a strong service-oriented company culture, which is built around our values of safety, consideration, integrity, passion, innovation and excellence. We are dedicated to carefully selecting, training and maintaining a highly productive workforce of considerate, passionate and friendly people who serve our customers and provide them with what we believe is the best flying experience possible. We reinforce our culture by providing an extensive orientation program for new crewmembers and instill in them the importance of customer service and the need to remain productive and cost efficient. Our crewmembers are empowered to not only meet our customers' needs and say "yes" to a customer, but to also listen to our customers and solve problems.

We communicate regularly with all of our crewmembers, keeping them informed about events at our offices through town hall meetings and question and answer sessions and soliciting feedback for ways to improve cooperation and their work environment. We conduct an annual crewmember survey and provide training for our leadership that focuses on crewmember engagement and empowerment. In addition, each of our executives adopts a city and is responsible for meeting with crewmembers on a periodic basis to be an additional source of corporate communication and assistance. Our executives also interact directly with our customers when traveling to obtain feedback and suggestions about the Azul experience.

We aspire to be the best customer service company in Brazil, and as a result, we believe our crewmembers are more likely to recommend us as a place to work to a friend or relative. We have good relations with our crewmembers and we have never experienced labor strikes or work stoppages.

We are focused on increasing the efficiency and productivity of our crewmembers.

We provide extensive training for our crewmembers that emphasizes the importance of safety. In compliance with Brazilian and international IATA safety standards, we provide training to our pilots, flight attendants, maintenance technicians, managers and administrators and customer service (airport and call center) crewmembers. We have implemented employee accountability initiatives both at the time of hiring and on an ongoing basis in order to maintain the quality of our crew and customer service. We currently operate four flight simulators and have an extensive training program at UniAzul, our training facility adjacent to Viracopos airport (see "Item 4.B. Business Overview—Airports and Other Facilities and Properties—Other Facilities and Properties" and "Item 4.B. Business Overview—Safety and Quality").

A national union represents all airline employees in Brazil. However, we do not have a direct collective bargaining agreement with any labor unions. Binding negotiations in respect of cost of living, wage and salary increases are conducted annually between the national union and an association representing all of Brazil's airlines. Work conditions and maximum work hours are regulated by government legislation and are not the subject of labor negotiations. In addition, we have no seniority pay escalation. Since our FTEs per aircraft is lower than that of our main competitor, any wage increases have a lower impact on us, thus making labor costs less significant to our operations. As a result, we believe our results of operations are less affected by labor costs than those of our main competitor.

Our compensation strategy is competitive and meant to retain talented and motivated crewmembers and align the interests of our crewmembers with our own. Salaries, wages and benefits paid to our crewmembers, include, among others, health care, dental care, child care reimbursement, life insurance, funeral assistance, psychosocial assistance under our *Anjo Azul* program, school aid (granted to expatriate executive officers only), housing allowance (granted to expatriate executive officers only), salary-deduction loans, bonuses, pension plans, transportation tickets, food allowances and meal vouchers. We believe that we have a cost advantage compared to industry peers in salaries, wages and benefits expenses due to high employee productivity measured by the average number of employees per aircraft. We also benefit from generally lower labor costs in Brazil, when compared to other countries, which is somewhat offset by lower productivity due to government requirements over employee labor conditions and taxes on payroll.

To motivate our crewmembers and align their interests with our results of operations, we provide a leadership incentive plan based on the achievement of pre-defined company performance targets (*Programa de Recompensa*). We also have established a stock option plan for our leadership that vests over a four or five-year period. See "Item 6.B. Directors, Senior Management and Employees—Management Compensation—Stock-Based Incentive Plans."

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As of December 31, 2020, we had 12,004 total employees, a reduction of 9% compared to the same period last year. During the year, we adopted several measures to reduce fixed and variable costs, including labor initiatives, such as: (i) hiring freeze for new crewmembers between March and August 2020; (ii) launch of the unpaid leave program, which more than 10,000 crew members adhered to, for periods ranging between 30 and 120 days; (iii) reduction of 50% to 100% in salaries for executive committee members and directors and of 25% for managers between March and July 2020; (iv) reduction of general salary expenses of 65% between March and August 2020, due to adherence to Provisional Executive Order 936/20; and (v) collective bargaining agreement to reduce the working hours of pilots and flight attendants for 18 months, beginning in June 2020, which was suspended at the end of 2020, as a result of an increase in operations in the domestic market.

**E. Share Ownership**

As of December 31, 2020, David Neeleman, the chairman of our board of directors and our controlling shareholder, holds directly and indirectly 622,406,638 of our common shares, representing 67% of the common shares of our capital stock, José Mario Caprioli dos Santos, our director, indirectly holds 167,455,107 of our common shares, representing 18% of our capital stock. Decio Luiz Chieppe and Renan Chieppe, our directors, indirectly hold 139,103,313 of our common shares, representing 15% of our capital stock.

For a description of our stock option plans granted to our directors and executive officers, see “Item 6.B. Directors, Senior Management and Employees—Management Compensation—Stock-Based Incentive Plans.”



[Table of Contents](#)**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

The tables below show the numbers of shares and percentage ownership held by (i) each person that is a beneficial owner of 5% or more of each class of our shares, (ii) all of our executive officers and directors as a group, (iii) certain other significant shareholders and (iv) all of our other minority shareholders. For a discussion of the differences in voting and other rights between our common and preferred shares, see “Item 10.B. Additional Information—Memorandum and Articles of Association—Rights of Our Common and Preferred Shares.”

As of the December 31, 2020, 67.00% of our outstanding common stock was held by one record holder in the United States and approximately 62.04% of our outstanding preferred shares were traded in Brazil and 37.96% of our outstanding preferred shares were held as ADRs.

The following table shows the beneficial ownership of our capital stock following as of December 31, 2020.

Name	Common Shares	Percentage of Outstanding Common Shares	Total Preferred Shares	Percentage of Outstanding Preferred Shares	Percentage of Total Capital Stock	Economic Interest
David Neeleman <sup>(1)</sup>	622,406,638	67.00%	3,853,897	1.16%	49.68%	3.53%
Chieppe family <sup>(2)</sup>	139,103,313	14.97%	6,060,810	1.83%	11.52%	2.30%
Caprioli family <sup>(3)</sup>	167,455,107	18.03%	12,170,230	3.67%	14.25%	4.19%
Bozano Group <sup>(4)</sup>	—	—	8,484,287	2.56%	0.67%	2.47%
Calfinco <sup>(5)</sup>	—	—	26,995,316	8.14%	2.14%	7.85%
BlackRock Inc	—	—	16,860,744	5.08%	1.34%	4.90%
Capital Research International Group	—	—	16,845,579	5.08%	1.34%	4.90%
Others	—	—	239,892,650	72.33%	19.03%	69.73%
Executive officers and directors <sup>(6)</sup>	—	—	215,749	0.07%	0.02%	0.06%
Treasury	—	—	265,462	0.08%	0.02%	0.08%
<b>Total</b>	<b>928,965,058</b>	<b>100.00%</b>	<b>331,644,724</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

(1) Consists of shares beneficially owned by David Neeleman, founder and controlling shareholder of Azul. The record holders of these shares are David Neeleman and Saleb II Founder 1 LLC. David Neeleman is a U.S. resident and has a domicile in Brazil at Av. Marcos Penteado de Ulhôa Rodrigues, 939, 9th floor, Edifício Jatobá, Condomínio Castelo Branco Office Park, Tamboré, Barueri, 06460-040, São Paulo, Brazil. David Neeleman is our Chairman. The address for Saleb II Founder 1 LLC is Corporation Trust Center, 1209 Orange Street, Wilmington, New Castle, Delaware 19801. David Neeleman's economic interest is 5.3%. David Neeleman, entered into a personal loan in 2019, in the total amount of US\$30 million, using part of his Azul preferred shares as collateral. The impact of the COVID-19 pandemic in the markets triggered a margin call on his loan, and given the speed of the developments and the fact that Mr. Neeleman had no liquidity and no other investments in the sector, including TAP and Breeze, there was no time to access other sources of capital. Accordingly, Mr. Neeleman had to sell a portion of his preferred shares to satisfy the margin call on his loan. As a result, on April 14, 2020, the Company announced that David Neeleman's non-voting position was reduced from 11,432,352 preferred shares, representing 3.47% of this class of shares, to 2,116,004 preferred shares during the month of March 2020 and in December 2020, David Neeleman increased his preferred shares position to 3,853,897 preferred shares and 622,406,638 common shares. Additionally, Mr. Neeleman reaffirmed that he did not actively sell any of his Azul shares.

(2) Consists of shares beneficially owned by Renan Chieppe and Decio Luiz Chieppe. The record holders of these shares are Trip Participações S.A., Trip Investimentos Ltda. and Rio Novo Locações Ltda. The address for Trip Participações S.A. is Rua José Alexandre Buaiz, 300, 17 e 18 andares, Enseada do Suá, CEP 29050-545, Vitória, Espírito Santo, Brazil. The address for Trip Investimentos Ltda. is Rodovia BR 262, km 5, s/n, CEP 29145-901, Cariacica, Espírito Santo, Brazil. The address for Rio Novo Locações Ltda. is Rodovia BR 262, Km 6,3, Sala 208, CEP 29157-405, Cariacica, Espírito Santo, Brazil. Renan Chieppe and Decio Luiz Chieppe are residents of Brazil and their address is Rua José Alexandre Buaiz, 300, Ed. Work Center, 18th floor, Enseada do Suá, Vitória, Espírito Santo, Brazil. Renan Chieppe and Decio Luiz Chieppe are members of our board of directors.

(3) Consists of shares beneficially owned by José Mario Caprioli dos Santos. The record holder of these shares is Trip Participações S.A. and Trip Investimentos Ltda. The address for Trip Participações S.A. is Rua José Alexandre Buaiz, 300, 17 e 18 andares, Enseada do Suá, CEP 29050-545, Vitória, Espírito Santo, Brazil. The address for Trip Investimentos Ltda. is Rodovia BR 262, km 5, s/n, CEP 29145-901, Cariacica, Espírito Santo, Brazil. José Mario Caprioli dos Santos is a resident of Brazil and his address is Av. Marcos Penteado de Ulhôa Rodrigues, 939, 9th floor, Edifício Jatobá, 06460-040, Tamboré Barueri, São Paulo, Brazil. He is our Institutional Relations Officer and a member of our board of directors.

(4) Consists of shares beneficially owned by Julio Rafael de Aragão Bozano. The record holders of these shares are Kadon Empreendimentos S.A. and Bozano Investments LLC. The address for Bozano Investments LLC and Kadon Empreendimentos S.A. is Rua Visconde de Ouro Preto, 5, 11º andar (parte), Botafogo, 22250-180, Rio de Janeiro, Brazil. Julio Rafael de Aragão Bozano is a resident of Brazil and his address is Rua Visconde de Ouro Preto, 5, 11º andar (parte), Botafogo, 22250-180, Rio de Janeiro, Brazil.

(5) Consists of shares owned beneficially and of record by Calfinco Caymans Ltd.

(6) Consists of shares held by Carolyn Luther Trabuco, Sérgio Eraldo de Salles Pinto, and indirectly by John Rodgeron, the sole member of Saleb II Founder 11 LLC, and, as such, holder of voting and dispositive power with respect to the shares held by Saleb II Founder 11 LLC. However, shares held by David Neeleman, Renan Chieppe, Decio Luiz Chieppe and José Mario Caprioli dos Santos are not being reported as being held by executive officers and directors, as they are being reported as held by David Neeleman, the Chieppe family and the Caprioli family, respectively.

[Table of Contents](#)*United Investment Agreement*

On June 26, 2015, we entered into an investment agreement with United pursuant to which it, acting through a subsidiary, acquired 5,421,896 Class C preferred shares representing a 5%, non-voting economic interest in us. Such Class C preferred shares were converted on a one-to-one basis into Class A preferred shares on February 3, 2017, which were then simultaneously renamed “preferred shares” and subsequently subject to a two-for-one stock split on February 23, 2017, resulting in United holding 10,843,792 preferred shares through a subsidiary. Pursuant to this agreement, United has the right to elect one member of our board of directors, so long as it retains at least 50% of the shares it received on the date of its investment or as a result of conversion. United has designated a representative on our board effective as of January 28, 2016. See “Item 6.A. Directors and Senior Management—Board of Directors.” United is a party to our Shareholders’ Agreement, which provides for United’s right to elect one director, so long as they hold at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016. For more information, see “Item 6.A. Directors and Senior Management—Board of Directors.” On April 27, 2018, United closed a private preferred share transaction with Hainan to acquire 16,151,524 preferred shares of our company. This transaction increased United’s shareholding in us to 26,995,316 preferred shares, which represents 7.85% of our economic interest.

*Registration Rights Agreement*

On August 3, 2016, we entered into a fifth amended and restated registration rights agreement, or the Registration Rights Agreement, with our then principal shareholders that gave them certain rights to register additional preferred shares held by them with the SEC for future sale.

Under the Registration Rights Agreement, at any time commencing six months following the initial public offering of our shares, shareholders owning a majority of our preferred shares that are not registered under the Securities Act at that time and that are entitled to registration rights thereunder may require us to file a registration statement covering the sale or distribution of the preferred shares owned by them. We must also include in that registration statement any preferred shares owned by any other principal shareholders of our company.

Additionally, shareholders who own 35% of our preferred shares that are not registered under the Securities Act may require us to file a registration statement on Form F-3 at any time. We must also include in that registration statement any preferred shares owned by any other principal shareholders of our company.

**Dividends**

According to the bylaws of the Company, unless the right is waived by all shareholders, the shareholders are guaranteed a minimum mandatory dividend equal to 0.1% of net income of the Company after the deduction of legal reserve, contingency reserves, and the adjustment prescribed by Law 6404/1976 (Brazilian Corporate Law).

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

Dividends are subject to approval by the Annual Shareholders Meeting.

The Company has not distributed dividends for the years ended December 31, 2020, 2019 and 2018.

**B. Related Party Transactions**

We currently engage in various transactions with related parties. These transactions are based on terms that reflect the terms that would apply to transactions with third parties.

[Table of Contents](#)**Shareholders' Agreement***General*

On May 25, 2012, and as amended from time to time, our principal shareholder entered into an Investment Agreement with TRIP's former shareholders, referred to herein as the Investment Agreement, which provides TRIP's former shareholders with certain rights related to the control of our company. On June 26, 2015, the Investment Agreement was amended by the Fourth Amendment to the Investment Agreement to include Calfinco as a party, and on August 3, 2016, the Investment Agreement was amended by the Fifth Amendment to the Investment Agreement to include Hainan as a party. This agreement, as amended, provided that upon the effectiveness of an initial public offering, we and our current shareholders will be obligated in connection therewith to execute an agreed form of Shareholders' Agreement that is attached to the Investment Agreement, referred to herein as the Shareholders' Agreement. The Shareholders' Agreement was executed on September 1, 2017 and will remain in effect until the earlier of (i) twenty years as of the date of its execution or (ii) with respect to TRIP's former shareholders' rights under the Shareholders' Agreement, such time as TRIP's former shareholders together hold less than 5% of our common shares. For purposes of the discussion below, we refer to (i) Mr. Neeleman and TRIP's former shareholders together as the Principal Common Shareholders and (ii) Calfinco and Hainan together as the Principal Preferred Shareholders. All common shares held by the Principal Common Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, and all preferred shares held by the Principal Preferred Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, are subject to the Shareholders' Agreement.

Under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, a majority of TRIP's former shareholders is required in order to approve any changes that, by amending the following provisions of our bylaws, may materially affect the rights of TRIP's former shareholders:

- the quorum required for decisions of our board of directors;
- the powers of our board of directors; and
- the rules for calling, installing or reducing powers and other provisions regarding the meetings of our board of directors.

Furthermore, under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, changes to our bylaws that change the total number of directors of our board of directors, which must remain composed of 14 members, must necessarily be approved by a majority of TRIP's former shareholders. However, a majority of TRIP's former shareholders is not necessary to approve an amendment that increases the size of our board of directors if TRIP's former shareholders are guaranteed representation proportional to that which they had before such amendment.

In June 2018, we announced a secondary public offering pursuant to which Hainan sold 19,379,335 ADSs representing all of Hainan's preferred shares held in our company. The offering price was US\$16.15 per ADS and no other shareholder of Azul sold its ADSs or preferred shares in the offering. As a result, Hainan is no longer bound to our Shareholders' Agreement nor has the right to appoint any members of our board of directors. Consequently, the three members of our board of directors appointed by Hainan and elected in 2016 resigned to their positions in June 2018, following the closing of the offering.

In March 2021, we announced an amendment to the shareholders' agreement where Hainan is no longer a shareholder of the Company, and therefore HNA has no further rights and obligations under this Agreement and Calfinco US transferred all the rights to Calfinco Cayman.

*Election of Board Members*

As a general rule, pursuant to the Shareholders' Agreement, a person who has a relationship (including as an investor, manager, executive, employee, consultant or representative) with any of our competitors or their subsidiaries may not serve as a member of our board, unless the competitor or its subsidiary is one of our shareholders or an affiliate of a shareholder.

[Table of Contents](#)*Election of Board Members by David Neeleman*

For so long as TRIP's former shareholders have the right to elect one or more directors pursuant to the mechanisms described above and subject to Calfinco's right to appoint members of the board of directors, Mr. Neeleman may appoint the remaining members of the board of directors of the Company along with their alternates, and may dismiss or replace any of those members. In the event that the other holders of common shares or preferred shares exercise their right for multiple vote procedure in the election of members of the board of directors, in accordance with Brazilian corporate law, the number of directors elected by such shareholders shall be deducted from the number of directors that Mr. Neeleman has the right to appoint. Directors nominated by Mr. Neeleman shall qualify as Independent Directors, except if the minimum number of Independent Directors have already been reached pursuant to the nominations by the other shareholders.

*Election of Board Members by TRIP's Former Shareholders*

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- So long as TRIP's former shareholders collectively hold at least 20% of our common shares, they may appoint three directors, along with their alternates, and may dismiss or replace any of those three directors;
  - If TRIP's former shareholders collectively hold at least 10%, but less than 20% of our common shares, they may appoint two directors, along with their alternates, and may dismiss or replace both of those directors; and
  - If TRIP's former shareholders collectively hold at least 5%, but less than 10% of our common shares, they may appoint one director, plus an alternate, and may dismiss or replace such director.

*Election of Board Members by Calfinco*

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- So long as Calfinco holds at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016, Calfinco may appoint one director, along with his or her alternate, and may dismiss or replace this director.

*Transfers of Shares*

The tag-along right and right of first offer described below do not apply to transfers of common shares to the Principal Preferred Shareholders or to affiliates of the Principal Common Shareholders. In addition, shareholders must, in any event, submit any request for the transfer of shares to ANAC for prior approval.

*Tag-Along Rights*

If Mr. Neeleman intends to sell any of his common shares to a third party, he must give TRIP's former shareholders an opportunity (i) to participate in the sale on the same terms and (ii) to sell an equivalent amount of common shares so that the proportion of common shares between Mr. Neeleman and TRIP's former shareholders remains the same. TRIP's former shareholders must give Mr. Neeleman the same opportunity if they intend to sell any of their common shares.

*Rights of First Offer*

If Mr. Neeleman intends to sell any common shares in such a manner that, after such sale, the common shares held by Mr. Neeleman come to represent less than 50% plus one of our common shares, in each subsequent sale of common shares, he must first offer those shares to TRIP's former shareholders before offering them to any third party. His offer to TRIP's former shareholders must specify the number of common shares he intends to sell, the intended price per share, the payment conditions and any other relevant conditions. TRIP's former shareholders may then purchase those shares at or above the specified terms, as described in the Shareholders' Agreement.

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If TRIP's former shareholders wish to sell any of their common shares, they must first offer those shares to Mr. Neeleman before offering them to any third party. Their offer to Mr. Neeleman must specify the number of common shares they intend to sell, the intended price per share, the payment conditions and any other relevant conditions. Mr. Neeleman may then purchase those shares at or above the specified terms.

If either Mr. Neeleman or TRIP's former shareholders, as the case may be, decline the right of first offer, the seller may pursue the intended sale to the third party at or above the price originally contemplated.

#### *Termination*

The Shareholders' Agreement will remain in effect until the earlier of twenty years as of the date of its execution or, with respect to TRIP's former shareholders' rights under the Shareholders' Agreement, such time as TRIP's former shareholders together hold less than 5% of our common shares.

#### **Rent Guarantees Given by ALAB**

ALAB has guaranteed rent and other payments under three lease agreements for family housing in Brazil used by two of our executive officers.

#### **Arrangements with Directors and Officers**

We have entered into indemnity agreements with two of our directors pursuant to which we agree to indemnify and hold each of them harmless for certain losses arising out of their respective positions as directors excluding any willful misconduct, fraud or gross negligence, see "Item 6.B. Management Compensation—Directors' and Officers' Insurance."

#### **Service Agreements with Águia Branca Participações S.A.**

On January 1, 2013, we entered into an agreement with Águia Branca Participações S.A., one of our shareholders, for the sharing of information technology resources during an indefinite period, which was an extension of a similar agreement that TRIP entered into with Águia Branca Participações S.A., and on November 1, 2015, we entered into a services agreement with Águia Branca Participações S.A. for the hosting and use of information technology resources for a 24 month term, which has been renewed for an additional 12 month term. The amounts payable under these agreements are based on the services actually rendered. We paid R\$51,359, R\$50,118 and R\$49,900 in connection with these agreements in 2020, 2019 and 2018, respectively.

#### **Air Tickets Sales Agreement with Caprioli Turismo Ltda.**

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

#### **Strategic Partnership with TAP**

As a result of the sale of our indirect stake in TAP and the elimination of the right to convert the senior bonds held by Azul on August 10, 2020, TAP is no longer considered a related party. For additional information regarding this transaction, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—TAP."

#### **Sublease of Aircraft to Breeze Airways**

On March 2, 2020 our shareholders approved the execution of up to 28 sublease agreements with Breeze Airways, a U.S. start-up airline founded by our controlling shareholder. All E-Jets are expected to be phased out by the end of 2022 and will be subleased at least until the end of the original operating lease term. In December 2020, the first aircraft was delivered according to the sublease agreement signed with Breeze and two more aircraft are scheduled to be delivered in the first quarter of 2021.

#### **Strategic Partnership with United**

For a description of our strategic partnership with United, see "Item 4.B. Business Overview—Strategic Partnerships, Alliances and Commercial Agreements—United." *Commercial Cooperation Agreement with United*

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In connection with United's investment, we also entered into a commercial cooperation agreement with United on June 26, 2015 which governs the expanded cooperation between both of our companies with respect to certain matters, including (i) code-sharing, (ii) loyalty programs, (iii) special terms relating to passengers and cargo, (iv) marketing programs, (v) corporate accounts and sales contracts, (vi) employee interline pass travel, (vii) service levels at specific airports, and (viii) the negotiation of a commercial joint venture between us and United whereby we would share resources with United and split revenue related to specified matters relating to our and their route networks in order to optimize profitability for both us and United. To date, this joint venture has not yet been established, and we and United continue discussing objectives, the type of joint venture, revenue sharing and other matters.

*Code-Share Agreement with United*

On June 26, 2015, ALAB entered into a Code-Share Agreement with United, the sole shareholder of Calfinco. The Code-share Agreement governs the terms and conditions of code-sharing and interlining arrangements between ALAB and United.

**C. Interests of Experts and Counsel**

Not applicable.

**ITEM 8. FINANCIAL INFORMATION****A. Consolidated Statements and Other Financial Information**

See "Item 3.A. Selected Financial Data" and "Item 18. Financial Statements."

**Legal Proceedings**

We are subject to a number of proceedings in the Brazilian judicial and administrative court systems, almost all of which relate to civil and labor claims. We believe these proceedings are normal and incidental to the operation of a business in Brazil. We recognize provisions when (i) we have a present obligation as a result of a past event, (ii) it is probable that an outflow of resources will be required to settle the obligation, and (iii) a reliable estimate can be made of the amount of the obligation. The assessment of the likelihood of loss includes analysis of available evidence, the hierarchy of laws, available case law, recent court rulings and their relevance in the legal system and assessment of internal and external legal counsel.

When the Company is party in other judicial and administrative proceedings, a provision is set up for all legal claims related to lawsuits for which it is probable that an outflow of funds will be required to settle the legal claims obligation and a reasonable estimate can be made. The assessment of probability of loss includes assessing the available evidence, the hierarchy of laws, the most recent court decision and their relevance in the legal system, as well as the assessment of legal counsel.

For civil claims connected to litigation proceedings before small claims court classified as probable loss, our provisioning policy is based on fixed and pre-established criteria, estimated based on historical information on similar claims. For pending litigation proceedings before civil courts, the ascertainment of amounts under dispute is based on the amount the plaintiff has attributed to such dispute (subject to a R\$30,000 limit for material damages and a R\$5,000 limit for pain and suffering). As a result of these circumstances and subject to the possibility of further in-house counsel review of such provisions during the course of proceedings, the provisioned amounts may not correspond to the effective amounts under dispute.

As of December 31, 2020, we are party to civil claims of various types (deemed "active" under our criteria, which does not consider claims in which agreements were entered into) and we have provisioned a total of R\$104.9 million in respect of these civil claims. In addition, we are party to legal proceedings relating to labor law issues of various types we have provisioned a total of R\$48.0 million in respect of these labor proceedings.

The Federal Labor Prosecution's Office filed a lawsuit against us on February 22, 2017, claiming that we allegedly violated certain labor regulations, including limitations on daily working hours and rest periods. It claimed approximately R\$66 million in punitive damages. It also requested the grant of an injunction limiting overtime and enforcing legally required breaks, under penalty of R\$5,000 per breach. We are in the process of negotiating a Conduct Adjustment Agreement (*Termo de Ajuste de Conduta*) with the Federal Labor Prosecutor's Office. We classify the probability of a loss as possible but expect our ultimate liability to be significantly lower than the amount originally claimed. We classify the probability of a loss as possible but expect our ultimate liability to be significantly lower than the amount originally claimed.

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We are subject to several lawsuits filed by the Public Prosecution's Office which have the potential to affect our business models because the majority of these lawsuits challenges day-to-day aspects of our business, including, but not limited to, plane ticket fares, no-show fees, rescheduling fees, contractual fines and the treatment of individuals with special needs.

We are subject to certain claims related to taxes allegedly payable on imports of aircraft, flight simulators and aircraft parts. We believe, on the advice of counsel, that the chance of loss with respect to these proceedings is possible and have therefore not recorded any provisions in this regard.

As of December 31, 2020, we are also defendants judicial and administrative tax proceedings, in which we have recorded a provision of R\$2.9 million for tax proceedings.

We are the defendant in a tax foreclosure filed by the Brazilian federal government to collect air navigation fees relating to the period from January 2014 to March 2014. We posted a judicial bond to cover such debts and have filed its defense, which is still pending judgment. Our attorneys consider that losses with respect to this proceeding are not probable and we have therefore not recorded any provisions in this regard.

On August 8, 2016, we filed an annulment action together with LATAM requesting the annulment of a decision issued by CADE imposing a fine of R\$9.7 million to both LATAM and us because of the late merger filing by the parties notifying the existence of a code-share agreement between LATAM and TRIP in effect from 2004 until 2013, which is still pending judgment. We have posted a judicial bond in the amount of R\$7.7 million to guarantee our payment of this fine in the event of a decision that is adverse to us.

On May 2018, we and Aeroportos Brasil agreed to settle a collection action initiated by Aeroportos Brasil in July 2017. This proceeding was related to the noncompliance of contractual obligations by Aeroportos Brasil in connection with the construction of the new terminal at Viracopos airport and, as a result, our retention of 40% of the airport landing tariffs since February 2017. Pursuant to the settlement agreement, we agreed to carry out certain parts of the construction of the new terminal at Viracopos Airport using the airport landing tariffs retained from Aeroportos Brasil.

Additionally, in May 2018, we and Aeroportos Brasil agreed to settle a lawsuit for damages initiated by Aeroportos Brasil in October 2017. This proceeding was related to the noncompliance of contractual obligations in connection with a land concession at Viracopos airport, through which (i) Aeroportos Brasil undertook to level ground and build an ancillary runway, and (ii) Azul undertook to build a hangar and an apron area, as well as to remunerate Aeroportos Brasil for the land concession. According to the settlement, we and Aeroportos Brasil agreed to comply with our respective obligations set forth in the land concession agreement, and Aeroportos Brasil granted a twelve-month grace period for the payments due by us under the land concession agreement. In October 2019, we and Aeroportos Brasil agreed to amend this agreement to establish that Azul will also be responsible for some activities to concluding the construction of the ancillary runway and other works directly related to them. As a result, Aeroportos Brasil extended the grace period for the beginning of the rental payment of the hangar area for more 17 months, totaling 37 months. We believe that the outcome of the proceedings to which currently we are a party will not, individually or in the aggregate, have a material adverse effect on our financial position, results of operations or cash flows.

#### **Dividend Policy**

For information regarding our dividend policy, see "Item 10.F. Dividends and Payment Agents—Dividend Policy."

#### **B. Significant Changes**

See "Item 4.A. History and Development of the Company."

### **ITEM 9. THE OFFER AND LISTING**

#### **A. Offering and Listing Details**

In the United States, our preferred shares trade in the form of ADSs. Our ADSs trades on the NYSE under the symbol "AZUL" and the preferred shares trades on the B3 under the symbol "AZUL4." As of December 31, 2020 the ADSs represented approximately 32% of our preferred shares and 38% of our current global public float. Our ADSs began trading on the NYSE on April 11, 2017.

On April 29, 2021, the last reported sale price of our preferred shares on the São Paulo Stock Exchange was R\$40.19 per share.



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Not applicable.

**C. Markets****Regulation of Brazilian Capital Markets**

Pursuant to Brazilian Securities Law and Brazilian corporate law, the Brazilian capital market is regulated and supervised by the CMN, which has general authority over the stock exchanges and capital markets. The CMN regulates and supervises the activities of the CVM and has, among other powers, licensing authority over brokerage firms and also regulates foreign investment and foreign exchange transactions, according to the provisions of the Brazilian Securities Law and Law 4595, dated December 31, 1964, as amended. These laws and other rules and regulations together set the requirements for disclosure of information applying to issuers of securities listed on stock exchanges, the criminal penalties for insider trading and price manipulation, the protection of minority shareholders, licensing procedures, supervision of brokerage firms, and governance of the Brazilian stock exchanges.

Pursuant to Brazilian corporate law, a company may be publicly held and listed or privately held and unlisted. All publicly held companies are registered with the CVM and are subject to periodic reporting requirements and disclosure of material events. A company registered with the CVM is authorized to trade its securities on the B3 or on the Brazilian over-the-counter market. Shares listed on the B3 may not be simultaneously traded on Brazilian over-the-counter markets. Trading on the over-the-counter market implies direct off-stock exchange trades between investors through a financial institution registered with the CVM. No special application, other than registration with the CVM (and for organized over-the-counter markets, with the relevant over-the-counter market), is necessary for securities of a publicly held company to be traded on the over-the-counter market. Listing on the B3 requires a company to apply for registration with the B3 and the CVM.

The Brazilian over-the-counter market consists of direct trades between individuals in which a financial institution registered with the CVM serves as intermediary.

The trading of securities on the B3 may be suspended under certain circumstances, including as a result of the disclosure of material information. Trading may also be suspended at the request of the B3 or the CVM if there is any evidence that a company has provided inadequate information regarding a material fact or has provided inadequate responses to inquiries by the CVM or the stock exchange, among other reasons.

**Trading on the B3**

B3 trading sessions are conducted from 10:00 a.m. to 5:00 p.m. in an automated system known as PUMA Trading System. The B3 also permits trading from 5:45 p.m. to 7:00 p.m. in an online system known as “after market,” which is connected to traditional and online brokers. “After market” trading is subject to regulatory limits on price volatility and on the volume of preferred shares transacted by online brokers.

Sales of shares on the B3 are settled within three business days after the trading date. Generally, the seller is expected to deliver the shares to the B3 on the third business day after the trading date. Delivery and payment of the shares are made through the facilities of the Central Depository B3 (*Central Depositária B3*).

For a more efficient control of volatility of the BOVESPA Index, the B3 has adopted a circuit breaker system that suspends trading for 30 minutes to one hour if the BOVESPA Index falls below 10% and 15%, respectively, compared with the level at the close of trading on the preceding trading session. If the BOVESPA Index falls below 20%, the B3 may suspend trading for a period of time to be defined by it at the time of such event.

**Corporate Governance Practices and the Level 2 Segment of B3**

In 2000, the B3 introduced three special listing segments, known as Level 1, Level 2 and the *Novo Mercado*, aiming at fostering a secondary market for securities issued by Brazilian companies with securities listed on the B3 by prompting such companies to follow good practices of corporate governance. The listing segments were designed for the trading of shares issued by companies voluntarily undertaking to abide by corporate governance practices and disclosure requirements in addition to those already imposed by applicable Brazilian law. Our securities are listed on the Level 2 segment of B3. The main elements of this segment are described below:

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To become a Level 2 segment of B3 company, in addition to the obligations imposed by applicable law, an issuer must comply with the following rules: (1) ensure that shares of the issuer representing at least 25% of its total capital are effectively available for trading; (2) adopt offering procedures that favor widespread ownership of shares whenever making a public offering, including (a) guaranteed access to all prospective investors, or (b) the allocation of at least 10% of the total offer to individuals or non-institutional investors; (3) comply with additional quarterly disclosure standards, such as disclosing related party transactions to the same level as required by the accounting standards used in the preparation of annual financial statements; (4) follow stricter disclosure policies with respect to transactions made by controlling shareholders, members of its board of directors, its executive officers and, if applicable, members of its fiscal council (*conselho fiscal*) and other technical or consulting committees involving securities issued by the issuer; (5) submit any existing shareholders' agreement and stock option plans to the B3; (6) make a schedule of corporate events available to shareholders; (7) grant tag-along rights for all shareholders in connection with a transfer of control of the company offering the same price paid per share of controlling block for each common share and preferred share; (8) grant voting rights to holders of preferred shares, at least in connection with the following matters: (a) transformation, merger, consolidation or spin-off of the Company; (b) execution of any agreement between the Company and its controlling shareholder, acting directly or through any third party, in the event such agreement must be approved by a shareholders' meeting, as provided by law or in the bylaws of the Company; (c) valuation of assets to be contributed to the capital stock of the Company in a capital increase; (d) appointment of the valuation company or institution that will determine the economic value of the Company; and (e) amendments or exclusions of bylaw provisions which eliminate or modify any of the matters above; (9) have a board of directors consisting of at least five members out of which a minimum of 20% of the directors must be independent and limit the term of all members to two years, reelection permitted; (10) not name the same individual for being both chairman of the board and the president, chief executive officer or other principal executive, observing the exceptions provided on corporate governance Level 2 segment of B3 listing regulation; (11) translate into English its annual and quarterly consolidated and unconsolidated financial statements; (12) if it elects to delist from the Level 2 segment of B3, conduct a tender offer by the company's controlling shareholder (the minimum price of the shares to be offered will be the economic interest determined by an independent specialized firm with requisite experience); (13) adhere exclusively to the Market Arbitration Chamber for resolution of disputes between the company and its investors relating to or derived from the enforceability, validity, applicability, interpretation, breach and its effects, of the provisions of the Brazilian corporate law, the Company's bylaws, the rules published by the CMN, the Central Bank, the CVM, and other rules applicable to the Brazilian capital markets in general, including the Level 2 rules, the Level 2 listing agreement, the Level 2 sanctions regulation and the rules of the Market Arbitration Chamber of the B3; and (14) adopt and publish a code of conduct that establishes the principles and values that guide the company.

In addition, as a result of CMN Resolution 3792, dated as of September 24, 2009, as amended, shares issued by companies that adopt differentiated corporate practices, such as those whose securities are admitted for trading in the special segment of the *Novo Mercado* or whose listing classification is Level 1 or Level 2 in accordance with the regulations of the B3, may have a larger participation in the investment portfolio of private pension funds. As a result, companies that adopt differentiated corporate practices are an important and attractive investment for private pension funds, which are large investors in the Brazilian capital markets.

### Investment in Our Preferred Shares By Non-residents Outside Brazil

#### *Resolution 4373*

Investors residing outside Brazil are authorized to purchase, *inter alia*, equity instruments, including our preferred shares, on the B3, provided that they comply with the registration requirements set forth in CMN Resolution 4373, and CVM Instruction 560.

With certain limited exceptions, and subject to the registration requirements set forth in CMN Resolution 4373 and CVM Instruction 560, CMN Resolution 4373 investors are permitted to carry out any type of transaction in the Brazilian financial capital markets involving a security traded on a Brazilian stock, future or organized over-the-counter, or OTC, market. Investments and remittances outside Brazil of gains, dividends, profits or other payments related to our shares are made through the foreign exchange market.

In order to become a CMN Resolution 4373 investor, an investor residing outside Brazil must:

- appoint one or more representatives in Brazil, which must be a financial institution duly authorized by the Central Bank, with powers to receive service of process related to any action regarding financial and capital market legislation, among others;
- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint one or more authorized custodians in Brazil for the investments, which custodian must be duly authorized by the CVM; and
- through its representative, register itself as a foreign investor with the CVM and register its investment with the Central Bank.

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Securities and other financial assets held by foreign investors pursuant to CMN Resolution 4373 must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Central Bank or the CVM, as the case may be. In addition, securities trading by foreign investors is generally restricted to transactions involving securities listed on the Brazilian stock exchanges or traded in organized OTC markets licensed by the CVM.

In addition, an investor operating under the provisions of CMN Resolution 4373 must be registered with the Brazilian tax authorities pursuant to its Regulatory Instruction 1634, dated as of May 6, 2016. This registration process is undertaken by the investor's legal representative in Brazil.

#### *Law 4131*

Alternatively, foreign investors may also invest directly in Brazilian companies (e.g., through the establishment of a branch or a foreign company) under Law 4131, as amended, and may sell their shares in both public and private transactions. However, these investors are currently subject to a less favorable tax treatment on gains than foreign investors that invest in Brazil under CMN Resolution 4373.

A direct foreign investor under Law 4131 must:

- register as a foreign direct investor with the Central Bank;
- obtain a taxpayer identification number from the Brazilian tax authorities;
- appoint a tax representative in Brazil; and
- appoint a representative in Brazil for service of process with respect to suits based on Brazilian corporate law.

The Brazilian government decreased the rate of the Tax on Foreign Exchange Transactions (*Imposto sobre Operações de Crédito, Câmbio e Seguro, ou relativas a Títulos ou Valores Mobiliários*), or IOF/Exchange Tax, the tax related to certain foreign investments in Brazilian financial and capital markets, including investments made pursuant to CMN Resolution 4373, from 6% to 0%. Currently, currency exchange transactions carried out by CMN Resolution 4373 investors are subject to IOF/Exchange Tax at a rate of (i) 0%, in the case of variable income transactions carried out on the Brazilian stock, futures and commodities exchanges, and acquisitions of shares of Brazilian publicly-held companies through public offerings or subscription of shares related to capital contributions, provided that the issuing company has registered its shares for trading on the stock exchange, and (ii) 0%, in the case of the outflow of funds from Brazil related to these types of investments, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market.

The IOF/Exchange Tax applies upon the conversion of foreign currency into Brazilian *reais* for purposes related to equity or debt investments by foreign investors in the Brazilian stock exchanges or the OTC market, private investment funds, Brazilian treasury notes and other fixed income securities. The Brazilian government is permitted to increase the rate of the IOF/Exchange Tax at any time, up to 25% of the amount of the foreign exchange transaction. However, any rate increase will only apply to transactions carried out after the rate increase and will not apply retroactively. For more information, see “—Taxation—Brazilian Tax Considerations—Income Tax—Tax on Foreign Exchange and Financial Transactions.”

Uncertainty over whether the Brazilian government will implement changes in policy or regulation affecting these or other factors in the future may contribute to economic uncertainty in Brazil and heightened volatility in the Brazilian capital markets and securities issued abroad by Brazilian companies. This uncertainty and other future events affecting the Brazilian economy and the actions of the Brazilian government may adversely affect us and the price of our preferred shares, including in the form of ADSs.

#### **D. Selling Shareholders**

Not applicable.

#### **E. Dilution**

Not applicable.

#### **F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION****A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

The following is a brief summary of certain significant provisions of our bylaws, Brazilian corporate law, and the rules and regulations of the CVM and of the Level 2 segment of B3. This discussion does not purport to be complete and is qualified by reference to our bylaws, and of those laws, rules and regulations. For a summary of certain of your rights as a shareholder of a company listed on the Level 2 segment of B3, see “Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights” below.

**Organization and Register**

We are incorporated as a Brazilian *sociedade por ações* under the corporate name Azul S.A. Our headquarters are at, Avenida Marcos Pentead de Ulhôa Rodrigues, 939, Edifício Jatobá, 8th floor, Castelo Branco Office Park Tamboré, Barueri, São Paulo, SP 06460-040, Brazil. We are registered with the Board of Trade of the state of São Paulo under corporate registration number, or NIRE, number 35.300.361.130. We have been registered with the CVM as a publicly held corporation since April 7, 2017.

Our preferred shares are listed on the Level 2 segment of B3 since April 11, 2017. This listing requires us to comply with the corporate governance and disclosure rules of the Level 2 segment of B3 as summarized in the “Item 9.C.—Markets.”

**Corporate Purpose**

The corporate purpose of our company, as stated in our bylaws, is as follows:

- to hold direct or indirect equity interest in other companies of any type whose activities include:
- explore scheduled and non-scheduled air transportation services of passengers, cargo and mailbags, in Brazil and abroad, according to the concessions granted by the relevant authorities;
- explore additional air charter transportation activities for passengers, cargo and mailbags;
- render services of maintenance and repair of own and third-party aircraft, motors, items and parts;
- render services of aircraft hangar;
- render services of runway, flight attendance and aircraft cleaning;
- purchase and lease aircraft and other related assets;
- develop and manage its own customer loyalty program or customer loyalty programs of third parties;
- sell redemption rights regarding awards under the customer loyalty program;
- explore Travel Agency and Tourism businesses; and
- develop other activities that are connected, incidental, additional or related to the above-mentioned activities.

**Shareholders’ Agreement***General*

On May 25, 2012, our principal shareholder entered into an Investment Agreement with TRIP’s Shareholders (as defined below), which provided TRIP’s Shareholders with certain rights related to the control of our company. On June 26, 2015, the Investment Agreement was amended to include Calfinco, Inc (“Calfinco”), that subscribed new Class C preferred shares issued by us. On February 5, 2016, the Investment Agreement was amended again to include Hainan Airlines Co., Ltd. (“HNA”) that subscribed new Class D preferred shares issued by us (the “Investment Agreement”). On September 1st, 2017, upon completion of our Initial Public Offering of Shares (“IPO”), we, Mr. David Gary Neeleman (“Mr. Neeleman”, TRIP’s former shareholders (“TRIP’s Shareholders”), Calfinco, and HNA entered into a Shareholders’ Agreement as per the provisions of the Investment Agreement (as defined below) with the purpose of assigning each Party certain and specific rights.

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On June 2018, we announced a secondary public offering pursuant to which HNA sold 19,379,335 ADSs representing all of HNA's preferred shares held in our company. The offering price was US\$16.15 per ADS and no other shareholder of Azul sold its ADSs or preferred shares in the offering. As a result, Hainan is no longer bound to our Shareholders' Agreement nor has the right to appoint any members of our board of directors.

For purposes of the discussion below, we refer to (i) Mr. Neeleman and TRIP's Shareholders together as the Principal Common Shareholders and (ii) Calfinco (previously together with HNA) as the Principal Preferred Shareholders. All common shares held by the Principal Common Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, and all preferred shares held by the Principal Preferred Shareholders at the date of the Shareholders' Agreement, or which they may acquire in the future, are subject to the Shareholders' Agreement.

Under the Shareholders' Agreement, for as long as TRIP's former shareholders collectively hold at least 5% of our common shares, a majority of TRIP's former shareholders is required in order to approve any changes that, by amending the following provisions of our bylaws, may materially affect the rights of TRIP's former shareholders:

- the quorum required for decisions of our board of directors;
- the total number of directors of our board of directors (except if representation proportional to that which they had before such amendment is guaranteed)
- the powers of our board of directors; and
- the rules for calling, installing or reducing powers and other provisions regarding the meetings of our board of directors.

*Election of Board Members*

As a general rule, pursuant to the Shareholders' Agreement, a person who has a relationship (including as an investor, manager, executive, employee, consultant or representative) with any of our competitors or their subsidiaries may not serve as a member of our board, unless the competitor or its subsidiary is one of our shareholders or an affiliate of a shareholder.

*Election of Board Members by David Neeleman*

For so long as TRIP's former shareholders have the right to elect one or more directors pursuant to the mechanisms described below and subject to Calfinco's right to appoint members of the board of directors, Mr. Neeleman may appoint the remaining members of the board of directors of the Company along with their alternates, and may dismiss or replace any of those members. In the event that the other holders of common shares or preferred shares exercise their right for multiple vote procedure in the election of members of the board of directors, in accordance with Brazilian corporate law, the number of directors elected by such shareholders shall be deducted from the number of directors that Mr. Neeleman has the right to appoint. Directors nominated by Neeleman shall qualify as Independent Directors, except if the minimum number of Independent Directors have already been reached pursuant to the nominations by the other shareholders.

Furthermore, Mr. Neeleman, any of his permitted transferees or any company controlled by Mr. Neeleman shall abstain from voting in any resolution and from taking part in any decision related to the conversion of TAP bonds into TAP equity securities.

*Election of Board Members by TRIP's Shareholders*

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- So long as TRIP's Shareholders collectively hold at least 20% of our common shares, they may appoint three directors, along with their alternates, and may dismiss or replace any of those three directors;
- If TRIP's Shareholders collectively hold at least 10%, but less than 20% of our common shares, they may appoint two directors, along with their alternates, and may dismiss or replace both of those directors; and
- If TRIP's Shareholders collectively hold at least 5%, but less than 10% of our common shares, they may appoint one director, plus an alternate, and may dismiss or replace such director.

[Table of Contents](#)*Election of Board Members by Calfinco*

The Shareholders' Agreement provides that all the Principal Common Shareholders and the Principal Preferred Shareholders must vote in favor of electing directors as follows:

- so long as Calfinco holds at least 50% of the preferred shares resulting from the conversion of Class C preferred shares that were held as of August 3, 2016, Calfinco may appoint one director, along with his or her alternate, and may dismiss or replace this director.

*Transfers of Shares*

The tag-along right and right of first offer described below do not apply to transfers of common shares to the Principal Preferred Shareholders or to affiliates of the Principal Common Shareholders. In addition, shareholders must, in any event, submit any request for the transfer of shares to ANAC for prior approval.

*Tag-Along Rights*

If Mr. Neeleman intends to sell any of his common shares to a third party, he must give TRIP's Shareholders an opportunity (i) to participate in the sale on the same terms and (ii) to sell an equivalent amount of common shares so that the proportion of common shares between Mr. Neeleman and TRIP's Shareholders remains the same. TRIP's Shareholders must give Mr. Neeleman the same opportunity if they intend to sell any of their common shares.

*Rights of First Offer*

If Mr. Neeleman intends to sell any common shares in such a manner that, after such sale, the common shares held by Mr. Neeleman come to represent less than 50% plus one of our common shares, in each subsequent sale of common shares, he must first offer those shares to TRIP's Shareholders before offering them to any third party. His offer to TRIP's Shareholders must specify the number of common shares he intends to sell, the intended price per share, the payment conditions and any other relevant conditions. TRIP's Shareholders may then purchase those shares at or above the specified terms, as described in the Shareholders' Agreement.

If TRIP's Shareholders wish to sell any of their common shares, they must first offer those shares to Mr. Neeleman before offering them to any third party. Their offer to Mr. Neeleman must specify the number of common shares they intend to sell, the intended price per share, the payment conditions and any other relevant conditions. Mr. Neeleman may then purchase those shares at or above the specified terms.

If either Mr. Neeleman or TRIP's Shareholders, as the case may be, decline the right of first offer, the seller may pursue for the next sixty (60) days the intended sale to the third party at or above the price originally contemplated. After such period, if Mr. Neeleman or TRIP's Shareholders still intend to transfer Common Shares, they shall again observe the procedure mentioned above.

*Termination*

The Shareholders' Agreement will remain in effect until the earlier of (a) twenty years as of the date of its execution; or (ii) (b) (i) with respect to TRIP Shareholders rights, until the date when they hold less than 5% of our common shares; and (ii) with respect to the Calfinco rights, until the date when it holds less than fifty percent (50%) of the equivalent number of Preferred Shares into which the Class C Preferred Shares subscribed on June 26, 2015 have been converted into.

**Rights of our Common and Preferred Shares**

Each of our common shares entitles the holder to cast one vote at our shareholders' meetings. Holders of our common shares that are fully paid-in may convert them into preferred shares, at the ratio of 75.0 common shares for 1.0 preferred share pursuant to our bylaws. However, the total number of preferred shares outstanding may never exceed 50% of our total shares.

Our preferred shares are non-voting, except with regard to certain limited matters for as long as we are listed on the Level 2 segment of B3, as described below under "Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights."

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Our preferred shares have the following additional rights as compared to our common shares:

- The right to be included in a takeover bid resulting from the Disposal of the Company's Control under the same conditions and for a price per share equal to seventy-five (75) times the price per common share paid to the Disposing Controlling Shareholder;
- In case the Company is wound up, capital refund priority over the common shares, in the amount corresponding to the multiplication of the Company's share capital by the Dividends Distribution to which the preferred shares issued by the Company are entitled to. After the priority refund over the capital for preferred shares and the refund of the capital over the common shares, the preferred shares will have right to refund of amounts equivalent to the multiplication of the remaining assets to which the shareholder is subject to due to the Dividends Distribution that the preferred shares would be entitled to. For the sake of clarification, the amounts paid to preferred shares as priority shall be considered for purposes of the calculation of the total amount to be paid to the preferred shares in case of the Company's wind up; and
- The right to receive dividends 75 times greater than the dividends payable on each common share, as described in the section entitled "Item 10.F. Dividends and Payment Agents—Dividend Policy."

#### *Reimbursement and Right of Withdrawal*

Under Brazilian corporate law, "dissenting shareholders" including shareholders who have no voting rights have the right to withdraw from a company and receive full reimbursement for the value of all their shares in certain circumstances. For purposes of this right of withdrawal, "dissenting shareholders" include shareholders who vote against a specific resolution, as well as those who abstain from voting or fail to appear at the shareholders' meeting.

This right of withdrawal and reimbursement arises if any of the following matters are decided upon at a shareholders' meeting:

1. Creation of a new class of preferred shares or a disproportionate increase in an existing class of preferred shares relative to other classes of shares, unless such action is provided for in or authorized by our bylaws, which, by this date, is not the case;
2. Modification to the preference, privilege or conditions for redemption or amortization granted to one or more classes of preferred shares, or the creation of a new class of preferred shares with greater privileges than the existing classes of preferred shares;
3. Reduction of the mandatory dividend;
4. Consolidation or merger into another company;
5. Participation in a group of companies (*grupo de sociedades*), as defined by Brazilian corporate law;
6. The transfer of all shares to another company or receipt of shares by another company, in such a way as to make the company whose shares were transferred a wholly-owned subsidiary of the other;
7. Changes to our corporate purpose; or
8. A spin-off that results in (i) a change to our corporate purpose (unless the spun-off company's assets and liabilities are transferred to a company that has substantially the same corporate purpose); (ii) a reduction in any mandatory dividend (although in our case, our preferred shares do not carry mandatory dividends); or (iii) any participation in a group of companies.

In the case of items 1. and 2. above, only holders of the class or type of shares adversely affected may exercise a right of withdrawal.

The right of withdrawal also arises if a spin-off or merger occurs but the new company fails to register as a public stock corporation (and, if applicable, fails to list its shares on the stock exchange) within 120 days of the date of the shareholders' meeting that approved the spin-off or merger.

In the event that our shareholders approve any resolution for us to:

- consolidate or merge with another company;



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- transfer all our shares to another company or acquire all the shares of another company; or
- become part of a group of companies,

then any dissenting shareholder may exercise a right of withdrawal, but only if that shareholder's class of shares fails to satisfy certain liquidity tests at the time of the shareholders' meeting approving the merger, acquisition, sale or consolidation.

The right of withdrawal expires 30 days after publication of the minutes of the shareholders' meeting that approved the relevant event. In addition, any resolution regarding items 1. or 2. above requires ratification by the majority of shareholders holding preferred shares at a special shareholders' meeting to be held within one year. In such cases, the 30-day deadline begins on the date of publication of the minutes of the special shareholders' meeting. If we were to believe that the exercise of withdrawal rights would be prejudicial to our financial stability, we would have ten days after the expiration of that 30-day deadline to reconsider the resolution that triggered the withdrawal rights.

Brazilian corporate law provides that in order for any withdrawal rights to be exercised, any shares to be withdrawn and redeemed must have a value greater than the book value per share, calculated by reference to the latest balance sheet approved at a shareholders' meeting. If more than 60 days have passed since the date of that balance sheet, the shareholders wishing to exercise the withdrawal right may request a new valuation.

The sale of our controlling stake in ALAB to a third party would be considered a change in our corporate purpose, which would give our shareholders withdrawal rights.

#### *Capital Increases and Preemptive Rights*

Each of our shareholders has preemptive rights to subscribe for any new shares that increase our capital stock (and any warrants or other securities convertible into new shares) in direct proportion to the equity interest held by them. Preemptive rights may be exercised during the period of up to 30 days following the publication of notice of the capital increase. If the capital increase applies in equal proportion to all existing types and classes of shares, each shareholder's preemptive rights would apply only to the type and class of shares currently held by such shareholder. If, however, an exercise of preemptive rights would result in a change to the proportional composition of our capital stock, the preemptive rights may be exercised over the types and classes identical to those already held by the shareholders only. The preemptive rights may only extend to any other shares if necessary to ensure the shareholders receive the same proportion of our capital stock as they had prior to the increase in capital. If the shares being issued are of types and classes that are different from the existing shares, each shareholder may exercise preemptive rights (in proportion to the shares currently held) over all the types and classes of shares being issued.

Our bylaws provide that the preemptive rights may be excluded, or the deadline for exercise may be shortened, if we issue shares (or warrants or other securities convertible into new shares) through a public offering or a sale on a stock exchange, or by means of an exchange for shares in a public tender offer or acquisition of control.

In addition, the grant of options to purchase shares under stock option plans does not give rise to preemptive rights.

#### **Dividend Rights**

Dividends are allocated and distributed in accordance with Brazilian corporate law and our bylaws. For more information on dividend rights, see "Item 10.F. Additional Information—Dividends and Payment Agents—Dividend Policy."

#### **Voting Rights**

Each of our common shares entitles the holder to cast one vote at our shareholders' meetings. Our preferred shares have no voting rights, except with regard to the following matters for as long as we are listed on the Level 2 segment of B3:

- (i) any direct conversion, consolidation, spin-off or merger of Azul;
- (ii) approval of any agreement between our company and our controlling shareholder(s) or parties related to the controlling shareholder, to the extent that Brazilian corporate law or our bylaws require that the agreement be submitted to the approval of a general shareholders' meeting;
- (iii) the valuation of any assets to be contributed to our company in payment for shares issued in a capital increase;

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- (iv) the appointment of an expert to ascertain the value our shares in connection with (A) a mandatory tender offer; (B) a delisting and deregistration transaction; or (C) any decision to cease to adhere to the requirements of the Level 2 segment of B3;
- (v) any change in, or the revocation of, provisions of our bylaws that results in the violation of certain requirements of the Level 2 segment of B3, as summarized in “Item 9.C—Markets;”
- (vi) the matters set forth in the Panel Code;
- (vii) any change in, or the revocation of, provisions of our bylaws that amends or modifies any of the requirements provided for in (A) Paragraphs Nine, Ten and Twelve of Article 5 (restricted voting rights attached to preferred shares); (B) Article 12 (extraordinary measures requiring shareholder approval); and (C) Article 14 (governance of special shareholders’ meetings) of our bylaws;
- (viii) any change in, or the revocation of, provisions of our bylaws that amends or modifies any of the requirements provided for in (A) Paragraph Two of Article 15 (compensation of officers); (B) Article 30 (composition of our compensation committee), (C) Article 31 (functions of our compensation committee); (D) Article 32 (composition of our corporate governance committee); and (E) Article 33 (functions of our corporate governance committee) of our bylaws; and
- (ix) the compensation of our officers in accordance with Paragraph Two of Article 15 of our bylaws.

Items (i) through (vii) listed above are considered “special matters.” Items (i) through (vi) require previous approval of a special preferred shareholders’ meeting if our controlling shareholder holds shares representing a dividend percentage equal to or less than 50%, and item (vii) always requires previous approval of a special preferred shareholders’ meeting.

In addition to the foregoing, the rights conferred on the preferred shareholders by the following articles of Brazilian corporate law may be exercised by our shareholders holding shares representing a percentage of dividend shares equal to the percentage of outstanding capital stock: (i) Article 4a—Introductory Paragraph (new valuation in the event of a public offer for the acquisition of shares for the closing of capital), (ii) Article 105 (filing lawsuits for access to corporate books), (iii) Sole Paragraph, Paragraph (c) and Paragraph (d) of Article 123 (convening an ordinary shareholders’ meeting), (iv) Section Three of Article 126 (requesting a shareholders’ directory), (v) Section One of Article 157 (requesting information from management at the annual shareholders’ meeting), (vi) Section Four of Article 159 (filing a lawsuit against directors), (vii) Section Two of Article 161 (establishing a fiscal council), (viii) Section Six of Article 163 (requesting the provision of information by the fiscal council), (ix) Paragraph II of Article 206 (proposing a dissolution action), and (x) Paragraph 1(a) of Article 246 (filing an action for liability and redress against a parent company).

Under Brazilian corporate law, shares with no voting rights or restricted voting rights (which would include our preferred shares) carry unrestricted voting rights in the event the company fails, for three consecutive years, to pay the privileged minimum or fixed dividends to which the shares are entitled, if any. Our preferred shares are not entitled to privileged minimum or fixed dividends and accordingly do not carry unrestricted voting rights if our Company fails to distribute the mandatory dividend (which is applicable to both common and preferred shares).

Brazilian corporate law also provides that any change in the rights of preferred shareholders, or any creation of a class of preferred shares with greater privileges than the existing preferred shares, must be approved by the holders of common shares at a shareholders’ meeting. Any such approval only becomes legally effective once it has been ratified by the majority of shareholders holding preferred shares at a special shareholders’ meeting.

Under Brazilian corporate law, minority holders of our preferred shares (with no voting rights or restricted voting rights) jointly representing at least 10% of our total capital stock have the right to elect one member of our board of directors in a separate voting process. Preferred shareholders have the right to elect two members of our board of directors in a separate voting process, pursuant to our bylaws. In addition, minority shareholders whose holding of our common shares represents at least 15% of our total voting capital stock have the right to elect one director in a separate voting process. Holders of preferred shares and common shares that represent 10% of the total share capital may combine their holdings in order to benefit from these rights.

In addition, Brazilian corporate law provides that the following rights of shareholders may not be altered either in the bylaws or by shareholders’ resolutions:

- the right of holders of common shares to vote at general shareholders’ meetings;

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- the right to participate in the distribution of dividends (including interest paid on our capital), and to share in our remaining assets in case of liquidation;
- the right to subscribe for shares (or securities convertible into shares) in the circumstances summarized above; and
- the withdrawal rights summarized above.

Rights other than these unalterable rights may be granted or excluded in the bylaws or by shareholders' resolutions.

### Shareholders' Meetings

Our board of directors has the power to call shareholders' meetings. Notice of shareholders' meetings must be published at least three times in the *Diário Oficial do Estado de São Paulo*, the official newspaper of the state of São Paulo, and in a second newspaper of general circulation (currently *Diário Comercial*). Our shareholders' meetings are held at our headquarters, in the city of Barueri, state of São Paulo. Shareholders attending a shareholders' meeting must produce proof of their status as shareholders and proof that they hold the shares entitling them to vote.

Certain extraordinary matters must be approved by shareholders holding preferred shares through an extraordinary shareholders' meeting. In the first instance, our preferred shareholders representing at least 25% of our preferred shares may call an extraordinary shareholders' meeting. In the second instance, our preferred shareholders representing any number of our preferred shares may call an extraordinary shareholders' meeting, subject to the regulations of the Level 2 segment of B3. If a specific quorum is not required by Brazilian corporate law or the regulations of the Level 2 segment of B3, resolutions may pass by a majority vote of the preferred shareholders present.

For a summary of how a holder of ADSs may receive information regarding and attend shareholders' meetings, see the section entitled "Item 12.D.—American Depositary Shares."

### Directors' Power to Vote Compensation

In accordance with our bylaws, shareholder vote at the general shareholders' meeting establishes the overall annual compensation of the management and the Board of Directors sets forth the individual compensation of each member of the Board of Directors and Board of Executive Officers.

### Anti-Takeover Provisions

Differently from companies incorporated under the laws of the State of Delaware, the majority of Brazilian publicly-held companies do not employ "poison pill" provisions to prevent hostile takeovers. As most Brazilian companies have clearly identified controlling shareholders, hostile takeovers are rare and thus no developed body of case law addresses the limits on the ability of management to prevent or deter potential hostile bidders. Brazilian corporate law, Level 2 B3 rules and our bylaws require any party that acquires our control to extend a tender offer for common and preferred shares held by non-controlling shareholders at the same purchase price paid to the controlling shareholder. In addition, any shareholder whose equity interest reaches 30% of our outstanding common shares, or the Relevant Shareholding Level must effect a tender offer for all of our outstanding common shares, preferred shares and instruments convertible to our common shares or preferred shares, under the terms of the Self-Regulatory Code on Mergers and Acquisitions, or the Panel Code, issued by the Takeover Panel Sponsors Association—CAF, or CAF, which code we adhere to (see "Item 10.B. Memorandum and Articles of Association—Principal Differences between Brazilian and U.S. Corporate Governance Practices—Brazilian Takeover Panel (CAF)"). The price to be offered for our common shares in the tender offer will be the highest price paid for our common shares by the offer or during the twelve months prior to the day when the holder reached the Relevant Shareholding Level, adjusted for certain relevant corporate events such as dividends payments and stock splits. The price to be offered for each of our preferred shares and instruments convertible to our common shares in the tender offer will be a price 75 times higher than the price offered for each of our common shares. For more information on CAF, see "Item 10.B. Memorandum and Articles of Association—Principal Differences between Brazilian and U.S. Corporate Governance Practices—Brazilian Takeover Panel (CAF)."

### Principal Differences between Brazilian and U.S. Corporate Governance Practices

We are subject to the NYSE corporate governance listing standards. As a foreign private issuer, the standards applicable to us are considerably different to the standards applicable to U.S. listed companies. Under the NYSE rules, we are required only

- to have an audit committee or audit board that meets certain requirements, pursuant to an exemption available to foreign private issuers, as discussed below;

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- to provide prompt certification by our chief executive officer of any material non-compliance with any corporate governance rules; and
- to provide a brief description of the significant differences between our corporate governance practices and the NYSE corporate governance practice required to be followed by U.S. listed companies.

A summary of the significant differences between our corporate governance practices and those required of U.S. listed companies is included below and under “Item 16.G. Corporate Governance.”

#### *Majority of Independent Directors*

The NYSE rules require that a majority of the board must consist of independent directors. Independence is defined by various criteria, including the affirmative determination of the board of directors of the absence of a material relationship between a director and the listed company. Under the listing standards of Level 2 segment of B3, our board of directors must have at least five members, at least 20% of which must be independent. Also, Brazilian corporate law and the CVM have established rules that require directors to meet certain qualification requirements and that address the compensation and duties and responsibilities of, as well as the restrictions applicable to, a company’s executive officers and directors. While our directors meet the qualification requirements of Brazilian corporate law and the CVM, we do not believe that a majority of our directors would be considered independent under the NYSE rules. Brazilian corporate law requires that our directors be elected by our shareholders at a shareholders’ meeting.

#### *Executive Sessions*

NYSE rules require that the non-management directors must meet at regularly scheduled executive sessions without management present. Brazilian corporate law does not have a similar provision. According to Brazilian corporate law, up to one-third of the members of the board of directors can be elected to officer positions. Our Chairman, David Neeleman, is a member of our board of directors. As a result, the non-management directors on our board do not typically meet in executive session.

#### *Nominating Committee, Corporate Governance Committee and Compensation Committee*

NYSE rules require that listed companies have a nominating/corporate governance committee and a compensation committee composed entirely of independent directors and governed by a written charter addressing the committee’s required purpose and detailing its required responsibilities—although as a company the majority of whose voting shares are held by another group, we would not be required to comply with this rule. The responsibilities of the nominating/corporate governance committee include, among other things, identifying and selecting qualified board member nominees and developing a set of corporate governance principles applicable to the company. The responsibilities of the compensation committee, in turn, include, among other things, reviewing corporate goals relevant to the chief executive officer’s compensation, evaluating the chief executive officer’s performance, approving the chief executive officer’s compensation levels and recommending to the board compensation of other executive officers, incentive compensation and equity-based plans.

We are not required under applicable Brazilian corporate law to have a nominating committee, corporate governance committee and compensation committee. Aggregate compensation for our directors and executive officers is established by our common and preferred shareholders at annual shareholders’ meetings, and our directors at board of directors’ meeting are required to determine the allocation of the aggregate compensation among their members and the officers.

#### *Audit Committee and Audit Committee Additional Requirements*

NYSE rules require that listed companies have an audit committee that:

- is composed of a minimum of three independent directors who are all financially literate;
- meets the SEC rules regarding audit committees for listed companies;
- has at least one member who has accounting or financial management expertise, and
- is governed by a written charter addressing the committee’s required purpose and detailing its required responsibilities.

The audit committee is elected by the board of directors.

[Table of Contents](#)*Shareholder Approval of Equity Compensation Plans*

NYSE rules require that shareholders be given the opportunity to vote on all equity compensation plans and material revisions to those plans (which may be approved for an undefined period), with limited exceptions. Under Brazilian corporate law, all stock option plans must be submitted for approval by the holders of our common shares. In addition, any issuance of new shares that exceeds our authorized share capital is subject to approval by holders of our common shares at a shareholders' meeting.

*Corporate Governance Guidelines*

NYSE rules require that listed companies adopt and disclose corporate governance guidelines. We comply with the corporate governance guidelines under applicable Brazilian law and the Level 2 segment of B3. We believe the corporate governance guidelines applicable to us under Brazilian law are consistent with the NYSE guidelines. We have adopted and observe the Policy of Material Fact Disclosure, which deals with the public disclosure of all relevant information as per CVM's Instruction 358 guidelines, and the Policy on Trading of Securities, which requires management to disclose all transactions relating to our securities, and which is required under Level 2 segment of B3.

*Code of Business Conduct and Ethics*

NYSE rules require that listed companies adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Level 2 segment of B3 has a similar requirement.

We adopted a code of business conduct and ethics in May 2009, which regulates the conduct of our managers in connection with the disclosure and control of financial and accounting information and their access to privileged and non-public information. Our code of business conduct and ethics complies with the requirements of the Sarbanes-Oxley Act of 2002, the NYSE rules and Level 2 segment of B3 rules.

*Internal Audit Function*

NYSE rules require that listed companies maintain an internal audit function to provide management and the audit committee with ongoing assessments of the company's risk management processes and system of internal control.

Our internal auditing department works independently to conduct methodologically structured examinations, analysis, surveys and fact finding to evaluate the integrity, adequacy, effectiveness, efficiency and economy of the information systems processes and internal controls related to our risk management. The internal auditing department reports continually to our board of directors and audit committee and its activities are directly supervised by our audit committee, which acts under our board of directors, and is monitored by our audit and operational risk management superior committee. In carrying out its duties, the internal auditing department has access to all documents, records, systems, locations and people involved with the activities under review.

*Brazilian Takeover Panel (CAF)*

On January 21, 2014, we entered into an agreement to adhere to the Panel Code issued by CAF, a non-statutory non-for-profit entity organized under private law for the purpose of organizing, maintaining and administering the CAF. Our Company, shareholders, directors, fiscal council members and members of any other entity with technical or consultative functions created by statutory provision will have to respect the principles and rules of the Panel Code and comply with the decisions that may be taken by CAF under the Panel Code in respect of all tender offers, takeovers, stock takeovers, mergers or spin-offs in connection with a takeover.

The rights of any shareholder who fails to comply with the Panel Code may be suspended pursuant to a decision of the shareholders at the Annual General Meeting, including the right of the non-compliant shareholder to vote.

**C. Material Contracts**

Our material contracts are directly related to our operating activities, such as contracts relating to aircraft leases, fuel supply and other commercial agreements as well as contracts relating to our concession to operate as a commercial airline. We do not have material contracts that are not related to our operating activities.

[Table of Contents](#)**D. Exchange Controls**

The right to convert dividend or interest payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments have been registered with the Central Bank and the CVM. Such restrictions on the remittance of foreign capital abroad may hinder or prevent the custodian for our preferred shares represented by our ADSs or the holders of our preferred shares from converting dividends, distributions or the proceeds from any sale of these preferred shares into U.S. dollars and remitting the U.S. dollars abroad. Holders of our ADSs could be adversely affected by delays in, or refusal to grant any, required government approval to convert Brazilian currency payments on the preferred shares underlying our ADS and to remit the proceeds abroad.

Resolution 1927 of the National Monetary Council provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. The ADS program was approved under the Annex V Regulations by the Central Bank and the CVM prior to the issuance of the ADSs. Accordingly, the proceeds from the sale of ADSs by ADR holders outside Brazil are not subject to Brazilian foreign investment controls, and holders of the ADSs are entitled to favorable tax treatment under certain circumstances. See “Item 10.E. Taxation—Brazilian Tax Considerations.”

**E. Taxation**

The following summary contains a description of certain Brazilian and U.S. federal income tax consequences of the acquisition, ownership and disposition of preferred shares, including in the form of ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase preferred shares, including in the form of ADSs. The summary is based upon the tax laws of Brazil and regulations thereunder and on the tax laws of the United States and regulations thereunder as of December 31, 2020, which are subject to change.

Although there is at present no income tax treaty between Brazil and the United States, the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. Holders (as defined below) of preferred shares, including in the form of ADSs. Prospective holders of preferred shares, including in the form of ADSs, should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of preferred shares, including in the form of ADSs, in their particular circumstances.

**Brazilian Tax Considerations**

The following discussion summarizes the main Brazilian tax consequences of the acquisition, ownership and disposition of preferred shares or ADSs by a holder that is not domiciled in Brazil for purposes of Brazilian taxation, or a “Non-Resident Holder.” This discussion is based on Brazilian law as currently in effect, which is subject to change, possibly with retroactive effect, and to differing interpretations. Any change in such law may change the consequences described below.

The tax consequences described below do not take into account the effects of any tax treaties or reciprocity of tax treatment entered into by Brazil and other countries. The discussion also does not address any tax consequences under the tax laws of any state or locality of Brazil.

The description below is not intended to constitute a complete analysis of all tax consequences relating to the acquisition, exchange, ownership and disposition of our preferred shares or ADSs. Prospective purchasers are advised to consult their own tax advisors with respect to an investment in our preferred shares or ADSs in light of their particular investment circumstances.

**Income Tax***Dividends*

Historically, dividends paid by a Brazilian company, such as ourselves, including dividends paid to a Non-Resident Holder, have not been subject to withholding income tax in Brazil, to the extent that such amounts are related to profits generated as of January 1, 1996 (Law 9249, dated December 26, 1995). Dividends paid from profits generated prior to January 1, 1996 may be subject to Brazilian withholding income tax at varying rates, according to the tax legislation applicable to each corresponding year.



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Law 11,638, dated December 28, 2007, significantly altered Brazilian corporate law in order to align the accounting practices adopted in Brazil, or Brazilian GAAP, more closely with. However, Law 11941, dated May 27, 2009, introduced the Transitory Tax Regime, or RTT, in order to render neutral, from a tax perspective, all the changes provided by Law 11638. Under the RTT, for tax purposes, legal entities should observe the accounting methods and criteria as they were on December 31, 2007. Law 12973, dated May 13, 2014, as amended, abolished the RTT and approved new rules aimed at permanently aligning the Brazilian tax system with IFRS as of January 1, 2015, including with respect to dividend distributions. For the 2014 fiscal year, taxpayers were entitled to elect to adopt the new rules or to continue adopting the RTT.

Under the RTT, there was controversy over how tax authorities would view certain situations, including whether dividends should be calculated in accordance with IFRS or the old Brazilian GAAP. It was debatable whether any dividend distributions made in accordance with IFRS in excess of the amount that could have been distributed had the profits been ascertained based on the old Brazilian GAAP would be subject to taxation in Brazil. In view of such controversy, Law 12973/2014 expressly stated that dividends calculated in accordance with IFRS based on profits ascertained between January 1, 2008 and December 31, 2013 would not be subject to taxation.

Notwithstanding the provisions of Law 12973/2014, Brazilian tax authorities issued Normative Ruling 1492, dated September 17, 2014, which provided that dividend distributions supported by IFRS profits ascertained in 2014 that exceeded the amount resulting from the adoption of the old Brazilian GAAP would be: (i) subject to withholding income tax based on progressive rates (0% to 27.5%) if paid to Brazilian individuals; (ii) added to the tax base of the corporate tax (IRPJ/CSLL) of the beneficiary if paid to Brazilian companies; (iii) be subject to WHT at a 15% rate if paid to non-residents; or (iv) subject to WHT at a 25% rate if paid to non-residents that are based in blacklisted tax haven jurisdictions. However, this rule would only apply to taxpayers that have not elected to account for the effects of Law 12973/2014 (i.e., taxation based on IFRS standards) for the 2014 fiscal year.

Despite our belief that the tax exemption on dividends applies to dividends distributed by Brazilian companies out of profits ascertained in accordance with IFRS, if the provisions of Normative Ruling 1492/2014 are applicable, dividends ascertained in fiscal year 2014 based on IFRS that exceed the amount that would result from the adoption of the old Brazilian GAAP, for that calendar year, could be subject to withholding income tax, even if it were distributed in 2018 or later, at a rate of 15% or, if the Non-Resident Holder is domiciled in a Low or Nil Tax Jurisdiction (as defined below), 25%. For dividends paid out from profits ascertained in 2015 going forward, there are no such issues and dividends will be exempt, provided that they are distributed pursuant to Brazilian corporate law.

#### *Interest on Shareholders' Equity*

Law 9249, dated December 26, 1995, as amended, allows a Brazilian corporation, such as ourselves, to make distributions to shareholders of interest on shareholder's equity and treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution on net profits, both of which are taxes levied on our profits, as far as the limits described below are observed. These distributions may be paid in cash. For tax purposes, this interest on net equity is limited to the daily pro rata variation of the TJLP (long-term interest rate), as determined by the Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50.0% of the net profits (after the social contribution on net profits and before taking into account the provision for corporate income tax and the amounts attributable to shareholders as interest on shareholders' equity) related to the period in respect of which the payment is made; and
- 50.0% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest on shareholders' equity to a Non-Resident Holder is subject to withholding income tax at the rate of 15.0%, or 25.0% in case of a resident of a Low or Nil Tax Jurisdiction (as defined below) or where applicable local laws impose restrictions on the disclosure of the shareholding composition or the ownership of investments or the ultimate beneficiary of the income derived from transactions carried out and attributable to a non-Resident Holder (Normative Ruling 1455/14). These payments may be included, at their net value, as part of any mandatory dividend. The distribution of interest on shareholders' equity may be determined by our board of directors. To the extent payment of interest on shareholders' equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable Brazilian withholding income tax, plus the amount of declared dividends is at least equal to the mandatory dividend.



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On September 30, 2015, the Brazilian federal government enacted Provisional Measure MP 694 in an attempt to increase the withholding income tax on interest on shareholders' equity from 15% to 18%. In addition, such provisional measure provided that the deductibility of interest on shareholders' equity should be limited to the lower amount of either (i) the TJLP or (ii) 5% of shareholders' equity. However, since Provisional Measure MP 694 was not converted into law by the Brazilian Senate within the relevant legal term, it did not produce any effects and was nullified. We cannot assure you that the Brazilian federal government will not try to increase the withholding income tax on interest on shareholders' equity in the future.

*Low or Nil Tax Jurisdictions*

According to Law 9430, dated December 27, 1996, as amended, Tax Favorable Jurisdiction is a country or location that (i) does not impose taxation on income, (ii) imposes income tax at a rate lower than 20%, or (3) imposes restrictions on the disclosure of shareholding composition or investment ownership.

Additionally, on June 24, 2008, Law 11727 introduced the concept of "privileged tax regime," which is defined as a tax regime that (i) does not tax income or taxes it at a maximum rate lower than 20%; (ii) grants tax benefits to non-resident entities or individuals (a) without the requirement to carry out substantial economic activity in the country or dependency or (b) contingent to the non-exercise of substantial economic activity in the country or dependency; (iii) does not tax or that taxes income generated abroad at a maximum rate of lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of assets and rights or economic transactions carried out.

On November 28, 2014, the Brazilian tax authorities issued Ordinance 488, which decreased these minimum thresholds from 20% to 17% for specific cases. Under Ordinance 488, the 17% threshold applies only to countries and regimes aligned with international standards of fiscal transparency, in accordance with rules to be established by the Brazilian tax authorities.

We consider that the best interpretation of Law 11727/2008 that the new concept of "privileged tax regime" would be applicable solely for purposes of transfer pricing and thin capitalization rules. However, we are unable to ascertain whether or not the privileged tax regime concept will be extended to the concept of Low or Nil Tax Jurisdiction, though the Brazilian tax authorities appear to agree with our position, in view of the provisions of introduced by Normative Ruling 1037, dated as of June 4, 2010, as amended, which presents two different lists (Low or Nil Tax Jurisdictions—taking into account the non-transparency rules—and privileged tax regimes).

Notwithstanding the above, we recommend that you consult your own tax advisors regarding the consequences of the implementation of Law 11727, Normative Ruling 1037 and of any related Brazilian tax law or regulation concerning Low or Nil Tax Jurisdictions or "privileged tax regimes."

*Taxation of Gains*

According to Brazilian tax legislation, the capital gains tax applicable to Brazilian resident individuals should also apply to non-resident investors. In this sense, gains related to the sale or disposition of assets located in Brazil, such as our common shares, by a Non-Resident Holder, are subject to withholding income tax in Brazil, regardless of whether the sale or disposition is made by a Non-Resident Holder to another non-resident of Brazil or to a Brazilian resident.

As a general rule, capital gains realized as a result of a sale or disposition of common shares are equal to the positive difference between the amount realized on the sale or disposition and the respective acquisition costs of the common shares.

There is a controversy regarding the currency that should be considered for purposes of determining the capital gain realized by a Non-Resident Holder on a sale or disposition of shares in Brazil, more specifically, if such capital gain is to be determined in foreign or in local currency.

Under Brazilian law, income tax on such gains can vary depending on the domicile of the Non-Resident Holder, the type of registration of the investment by the Non-Resident Holder with the Central Bank and how the disposition is carried out, as described below.

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Currently, capital gains realized by Non-Resident Holders on a sale or disposition of shares carried out on the Brazilian stock exchange (including the organized over-the-counter market) are:

- exempt from income tax when realized by a Non-Resident Holder that (1) has registered its investment in Brazil with the Central Bank under the rules of Resolution 4373/14 of the Brazilian Monetary Council, or a 4373 Holder, and (2) is not resident or domiciled in a Low or Nil Tax Jurisdiction; or
- subject to income tax at a rate of 15% in any other case, including gains realized by a Non-Resident Holder that (1) is not a 4373 Holder and (2) is resident or domiciled a Low or Nil Tax Jurisdiction.

A withholding income tax of 0.005% will apply and shall be withheld by the intermediary institution (i.e., a broker) that receives the order directly from the Non-Resident Holder, which can be offset against the eventual income tax due on the capital gain. Such withholding does not apply to a 4373 Holder that is not resident or domiciled in a Low or Nil Tax Jurisdiction.

Any capital gains realized on the disposition of shares that are not carried out on the Brazilian stock exchange are:

- subject to the income tax at a rate of 15% when realized by a 4373 Holder that is not resident or domiciled in a Low or Nil Tax Jurisdiction;
- subject to income tax at progressive rates that vary from 15% to 22.5%, as further detailed below, when realized by a Non-Resident Holder that is not a 4373 Holder and is not resident or domiciled in a Low or Nil Tax Jurisdiction; and
- subject to income tax at a rate of up to 25% when realized by a Non-Resident Holder that is resident or domiciled in a Low or Nil Tax Jurisdiction.

In the cases above, if the capital gains are related to transactions conducted on the Brazilian non-organized over-the-counter market with the intermediation of a financial institution the withholding income tax of 0.005% will apply and can be later offset against any income tax due on the capital gains.

In the case of redemption of shares or capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount effectively received by the Non-Resident Holder and the corresponding acquisition cost is treated, for tax purposes, as capital gains derived from sale or exchange of shares that is not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the rates of 15% up to 22.5%, or up to 25%, in case of beneficiaries resident or domiciled in a Low or Nil Tax Jurisdiction.

On September 22, 2015, the Brazilian federal government enacted Provisional Measure MP 692/2015, converted into Law 13259, of March 16, 2016, or Law 13259/2016, which introduced a regime based on the application of progressive tax rates for income taxation on capital gains recognized by Brazilian individuals on the disposition of assets in general. Under Law 13259/2016, effective as from January 1, 2017, the income tax rates on capital gains recognized by Brazilian individuals, which also applies to a Non-Resident Holder, would be: (i) 15% for the part of the gain that does not exceed R\$5 million, (ii) 17.5% for the part of the gain that exceeds R\$5 million but does not exceed R\$10 million, (iii) 20% for the part of the gain that exceeds R\$10 million but does not exceed R\$30 million and (iv) 22.5% for the part of the gain that exceeds R\$30 million.

As a general rule, the increased capital gains taxation regime should apply to transactions conducted outside of the Brazilian stock exchange or the organized OTC market. Also, as a general rule, a foreign investor who is a resident of or has a domicile in a Low or Nil Tax Jurisdiction would be subject to income tax at a rate of up to 25%, as mentioned above. However, although debatable, if the Non-Resident Holder is a 4373 Holder, it is possible to sustain that the income tax should not apply at progressive rates. Furthermore, as a general rule, gains recognized by a Non-Resident Holder in transactions executed on the Brazilian stock exchange or the organized OTC market should not be subject to the increased capital gains taxation under Law 13259.

In the case of a redemption of shares or a capital reduction by a Brazilian corporation, such as ourselves, the positive difference between the amount received by a Non-Resident Holder and the acquisition cost of the shares redeemed is treated as capital gain derived from the sale or exchange of shares not carried out on a Brazilian stock exchange market and is therefore subject to income tax at the progressive rates, or the 25% flat rate mentioned above, as the case may be.

Any exercise of preemptive rights relating to shares or ADSs will not be subject to Brazilian withholding income tax. Gains realized by a Non-Resident Holder on the disposition of preemptive rights will be subject to Brazilian income tax according to the same rules applicable to disposition of shares or ADSs.

[Table of Contents](#)Sales of ADSs

Arguably, the gains realized by a Non-Resident Holder on the disposition of ADSs to another non-Brazilian resident are not subject to Brazilian tax, based on the argument that the ADSs would not constitute assets located in Brazil for purposes of Law 10833/2003. However, we cannot assure you how Brazilian courts would interpret the definition of assets located in Brazil in connection with the taxation of gains realized by a Non-Resident Holder on the disposition of ADSs to another non-Brazilian resident. As a result, gains on a disposition of ADSs by a Non-Resident Holder to Brazilian resident, or even to a Non-Resident Holder in the event that courts determine that the ADSs would constitute assets located in Brazil, may be subject to income tax in Brazil according to the rules described above.

Gains on the exchange of ADSs for shares

Non-Resident Holders may exchange ADSs for the underlying shares, sell the shares on a Brazilian stock exchange and remit abroad the proceeds of the sale. As a general rule, the exchange of ADSs for shares is not subject to income taxation in Brazil.

Upon receipt of the underlying shares in exchange for ADSs, Non-Resident Holders may also elect to register with the Central Bank the U.S. dollar value of such shares as a foreign portfolio investment under 4373/2014, which will entitle them to the tax treatment referred above on the future sale of the shares.

Alternatively, the Non-Resident Holder is also entitled to register with the Central Bank the U.S. dollar value of such shares as a foreign direct investment under Law 4131/1962, in which case the respective sale would be subject to the tax treatment applicable to transactions carried out of by a Non-Resident Holder that is not a 4373 Holder.

Gains on the exchange of shares for ADSs

The deposit of shares in exchange for the ADSs by a Non-Resident Holder may be subject to Brazilian withholding income tax on capital gains if the acquisition cost is lower than the shares price verified on the exchange date. The capital gains ascertained by the Non-Resident Holder, in this case, should be subject to taxation at rates that vary from 15% to 22.5%, depending on the amount of the gain, as referred to above; or at 25% if realized by a Non-Resident Holder that is resident or domiciled in a Low or Nil Tax Jurisdiction. In certain circumstances, there may be arguments to sustain the position that such taxation is not applicable to 4,373 Holders that are not resident or domiciled in a Low or Nil Tax Jurisdiction.

*Tax on Foreign Exchange and Financial Transactions*Foreign Exchange Transactions

Pursuant to Decree No. 6,306, dated December 14, 2007, as amended, or Decree No. 6,306/07, the conversion of Brazilian currency into foreign currency (e.g., for purposes of paying dividends and interest) and the conversion of foreign currency into Brazilian currency may be subject to the Tax on Foreign Exchange Transactions or IOF/Exchange. For most exchange transactions, the rate of IOF/Exchange is 0.38%. However, foreign currency exchange transactions related to the inflow of funds and outflow of funds into and out of Brazil in connection with investments carried out by a foreign investor (including a Non-Resident Holder, as applicable) for investment in the Brazilian financial and capital markets, including payments of dividends and interest on shareholders' equity and the repatriation of funds invested in the Brazilian market are subject to IOF/Exchange tax at a zero percent rate. The Brazilian Government is permitted to increase the rate of the IOF/Exchange tax at any time up to 25% of the amount of the foreign exchange transaction. However, any increase in rates may only apply to transactions carried out after this increase in rate and not retroactively.

Furthermore, the IOF/Exchange is currently levied at a 0% rate on the withdrawal of ADSs into shares. Nonetheless, the Brazilian government is permitted to increase the rate at any time to a maximum of 25%, but only in relation to future transactions. However, any increase in rates may only apply to future foreign exchange transactions.

Tax on Transactions involving Bonds and Securities

Brazilian law imposes a Tax on Transactions Involving Bonds and Securities, or "IOF/Bonds," on transactions involving bonds and securities, including those carried out on a Brazilian stock exchange. The rate of IOF/Bond Tax applicable to transactions involving the transfer of shares traded on the Brazilian stock exchange with the purpose of the issuance of depositary receipts to be traded outside Brazil is currently zero, although the Brazilian government may increase such rate at any time up to 1.5% of the transaction amount per day, but only in respect of future transactions.

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On December 24, 2013, the Brazilian government reduced the IOF/Bonds Tax to zero for transactions involving the deposit of shares which are issued by a Brazilian company admitted to trade on the Brazilian stock exchange with the specific purpose of enabling the issuance of depository receipts traded outside Brazil. Any increase in this rate may only apply to future transactions.

*Other Brazilian Taxes*

There are no Brazilian federal inheritance, gift or succession taxes applicable on the ownership, transfer or disposition of shares by individuals or entities not domiciled in Brazil. Gift and inheritance taxes, however, may be levied by some states in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant state to individuals or entities that are resident or domiciled within such state in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes payable by holders of shares, or shares comprised of shares.

**Material U.S. Federal Income Tax Consequences**

The following discussion is a general discussion of the material U.S. federal income tax consequences relating to the acquisition, ownership and disposition of preferred shares, including in the form of ADSs. This discussion deals only with U.S. Holders (as defined below) that purchase the preferred shares, including in the form of ADSs, for cash and that hold preferred shares, including in the form of ADSs, as capital assets (generally, property held for investment). This discussion does not purport to address all of the tax considerations that may be relevant to U.S. Holders based upon their particular circumstances and may not apply to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as banks or other financial institutions, insurance companies, regulated investment companies, real estate investment trusts, partnerships or other pass-through entities or arrangements for U.S. federal income tax purposes or investors in such entities or arrangements, investors liable for the alternative minimum tax, individual retirement accounts and other tax-deferred accounts, tax-exempt organizations, dealers in securities or currencies, investors that hold preferred shares, including in the form of ADSs, as part of a straddle or hedging, constructive sale, integrated or conversion transactions for U.S. federal income tax purposes, a person that actually or constructively owns 10% or more of the total combined voting power or value in our stock, traders in securities that have elected the mark-to-market method of accounting for their securities, or persons whose functional currency is not the U.S. dollar).

The discussion is based on the U.S. Internal Revenue Code of 1986, as amended, or the Code, its legislative history, existing and proposed U.S. Treasury regulations thereunder, published rulings and court decisions, and all subject to change at any time, perhaps with retroactive effect.

No assurance can be given that the Internal Revenue Service, or the IRS, will agree with the views expressed in this discussion, or that a court will not sustain any challenge by the IRS in the event of litigation. This discussion does not include any description of the tax laws of any state, local, municipal or non-U.S. government that may be applicable to a particular investor and does not consider the Medicare tax on net investment income or any aspects of U.S. federal tax law other than income taxation.

As used herein, the term "U.S. Holder" means a beneficial owner of a preferred share, including in the form of an ADS, that is, for U.S. federal income tax purposes: (a) an individual who is a citizen or resident of the United States; (b) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof or the District of Columbia; (c) an estate the income of which is subject to U.S. federal income taxation regardless of its source or (d) a trust (i) if a court within the United States can exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of the substantial decisions of that trust or (ii) the trust had a valid election in effect under current U.S. Treasury regulations to be treated as a U.S. person. If a partnership or an entity or an arrangement that is treated as a partnership for U.S. federal income tax purposes holds preferred shares, including in the form of ADSs, the tax treatment of a partner generally will depend upon the status of the partner and the activities of the partnership. Partners in partnerships that hold preferred shares, including in the form of ADSs, are encouraged to consult their tax advisors.

Except where specifically described below, this discussion assumes that we are not a passive foreign investment company, or a PFIC, for U.S. federal income tax purposes. See the discussion under "—Passive Foreign Investment Company Considerations" below.

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The discussion below assumes that the representations contained in the ADS deposit agreement are true and that the obligations in the ADS deposit agreement and any related agreements will be complied with in accordance with their terms. In general, for U.S. federal income tax purposes, U.S. Holders who own ADSs will be treated as the beneficial owners of the preferred shares represented by those ADSs. Accordingly, the surrender of ADSs in exchange for preferred shares (or vice versa) will not result in the realization of gain or loss for U.S. federal income tax purposes. The rest of this discussion assumes that a holder of an ADS will be treated for U.S. federal income tax purposes as directly holding the underlying preferred shares. The U.S. Treasury Department has expressed concern that depositaries for ADRs, or other intermediaries between the holders of shares of an issuer and the issuer, may be taking actions that are inconsistent with the claiming of U.S. foreign tax credits by U.S. Holders of such receipts or shares. These actions would also be inconsistent with claiming the reduced rate for “qualified dividend income” described below. Accordingly, the analysis regarding the availability of a U.S. foreign tax credit for Brazilian withholding taxes and availability of the reduced rate for qualified dividend income could be affected by future actions that may be taken by the depositary and the U.S. Treasury Department.

Each person considering the acquisition of preferred shares, including in the form of ADSs, is encouraged to consult its own independent tax advisor regarding the specific U.S. Federal, state, local and foreign income and other tax considerations of the acquisition, ownership and disposition of the preferred shares, including in the form of ADSs.

#### *Taxation of Dividends and Other Distributions*

Subject to the PFIC rules discussed below, distributions of cash or property with respect to preferred shares, including in the form of ADSs, (including any distributions paid in the form of interest on shareholders’ equity for Brazilian tax purposes and the amount of any Brazilian taxes withheld on any such distribution, if any) will constitute ordinary dividend income to the extent of our current and accumulated earnings and profits (as determined for U.S. federal income tax purposes). Dividends generally will be includible in a U.S. Holder’s gross income on the day on which the dividends are received by the depositary in the case of a holder of ADSs, or by the U.S. Holder in the case of a holder of preferred shares, not in the form of ADSs. Any distributions in excess of such earnings and profits will constitute a nontaxable return of capital and reduce a U.S. Holder’s tax basis in such preferred shares or ADSs. To the extent such distributions exceed a U.S. Holder’s tax basis in its preferred shares or ADSs, such excess will constitute capital gain and generally will be treated as described below under “Item 10.E. Taxation—Material U.S. Federal Income Tax Consequences—Sale or Other Taxable Disposition of Preferred Shares, Including in the Form of ADSs.” Because we do not intend to maintain calculations of our earnings and profits on the basis of U.S. federal income tax principles, U.S. Holders should expect that any distribution paid generally will be reported to them as a dividend. Dividends on preferred shares, including in the form of ADSs, will not be eligible for the dividends received deduction allowed to U.S. corporations.

A U.S. Holder may be entitled, subject to a number of complex limitations and conditions (including a minimum holding period requirement), to claim a U.S. foreign tax credit in respect of any Brazilian income taxes withheld on dividends received in respect of the preferred shares, including those in the form of ADSs. A U.S. Holder who does not elect to claim a credit for any foreign income taxes paid during the taxable year may instead claim a deduction in respect of such income taxes provided the U.S. Holder elects to deduct (rather than credit) all foreign income taxes for that year. Dividends received in respect of preferred shares, including in the form of ADSs, generally will be treated as foreign-source income, subject to various classifications and other limitations and generally will be treated as passive category income for most U.S. Holders for purposes of the foreign tax credit limitation. However, for any period in which we are treated as a “United States-owned foreign corporation,” a portion of any dividends paid by us during such period may be treated as U.S. source solely for purposes of the foreign tax credit. We would be treated as a United States-owned foreign corporation if 50% or more of the total value or total voting power of our shares is owned, directly, indirectly or by attribution, by United States persons. To the extent any portion of our dividends is treated as U.S.-source income pursuant to this rule, the ability of a U.S. Holder to claim a foreign tax credit for any Brazilian withholding taxes payable in respect of our dividends may be limited. The rules relating to computing foreign tax credits or deducting foreign taxes are extremely complex, and U.S. Holders are encouraged to consult their own tax advisors regarding the availability of foreign tax credits under their particular circumstances.

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Dividends paid in *reais* (including the amount of any Brazilian taxes withheld therefrom, if any) will be includible in a U.S. Holder's gross income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the day the *reais* are received by the depositary, in the case of a holder of ADSs, or by the U.S. Holder in the case of a holder of preferred shares not in the form of ADSs, regardless of whether the dividends are converted into U.S. dollars. If the *reais* are converted to U.S. dollars on the date of such receipt, a U.S. Holder generally will not recognize a foreign currency gain or loss. However, if the U.S. Holder converts the *reais* into U.S. dollars on a later date, the U.S. Holder must include in gross income any gain or loss resulting from any exchange rate fluctuations. The gain or loss will be equal to the difference between (i) the U.S. dollar value of the amount included in income when the dividend was received and (ii) the amount received on the conversion of the *reais* into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend is includible in a U.S. Holder's gross income to the date such payment is converted into U.S. dollars will be foreign currency gain or loss and will be treated as ordinary income or loss. Such gain or loss generally will be treated as income from sources within the United States. U.S. Holders are encouraged to consult their own independent tax advisors regarding the treatment of foreign currency gain or loss, if any, on any *reais* received that are converted into U.S. dollars on a date subsequent to receipt by the depositary or the U.S. Holder, as the case may be.

Distributions treated as dividends that are received by a non-corporate U.S. Holder (including an individual) from "qualified foreign corporations" generally qualify for a reduced maximum tax rate so long as certain holding period and other requirements are met. Dividends paid on preferred shares, including in the form of ADSs, should qualify for the reduced rate if we are treated as a "qualified foreign corporation." For this purpose, a qualified foreign corporation means any foreign corporation provided that: (i) the corporation was not, in the year prior to the year in which the dividend was paid, and is not, in the year in which the dividend is paid, a PFIC (as discussed below), (ii) certain holding period requirements are met and (iii) either (A) the corporation is eligible for the benefits of a comprehensive income tax treaty with the United States that the IRS has approved for the purposes of the qualified dividend rules or (B) the stock with respect to which such dividend was paid is readily tradable on an established securities market in the United States. The ADSs are listed on the NYSE and should be considered to be readily tradable on an established securities market in the United States. Based on existing guidance, it is not entirely clear whether dividends received with respect to the preferred shares not represented by ADSs will be treated as qualified dividend income because the preferred shares are not themselves listed on a U.S. exchange. U.S. Holders are encouraged to consult their tax advisors regarding the availability of the lower rate for dividends paid with respect to the preferred shares, including in the form of ADSs.

#### *Sale or Other Taxable Disposition of Preferred Shares, Including in the Form of ADSs*

Subject to the PFIC rules discussed below, upon the sale or other taxable disposition of preferred shares, including in the form of ADSs, a U.S. Holder generally will recognize capital gain or loss in an amount equal to the difference between the amount realized on the sale or other taxable disposition and such U.S. Holder's tax basis in such preferred shares or ADSs. The amount realized on a sale or other taxable disposition of preferred shares, including in the form of ADSs, generally will be equal to the amount of cash or the fair market value of any other property received. The initial tax basis of a U.S. Holder's preferred shares, including in the form of ADSs, will be the U.S. dollar value of the *reais* denominated purchase price determined on the date of purchase. Gain or loss recognized by a U.S. Holder on such sale or other taxable disposition generally will be long-term capital gain or loss if, at the time of the sale or other taxable disposition, the preferred shares, including those in the form of ADSs, have been held for more than one year. Certain non-corporate U.S. Holders (including individuals) may be eligible for preferential rates of U.S. federal income tax in respect of long-term capital gains. The deduction of a capital loss is subject to limitations for U.S. federal income tax purposes.

If Brazilian income tax is withheld on the sale or other taxable disposition of preferred shares, including in the form of ADSs, the amount realized by a U.S. Holder will include the gross amount of the proceeds of that sale or other taxable disposition before deduction of the Brazilian income tax. Capital gain or loss, if any, recognized by a U.S. Holder on the sale or other taxable disposition of preferred shares, including in the form of ADSs, generally will be treated as U.S. source gain or loss for U.S. foreign tax credit purposes. Consequently, in the case of a gain from the disposition of a preferred share, including in the form of an ADS, that is subject to Brazilian income tax, the U.S. Holder may not be able to benefit from the foreign tax credit for that Brazilian income tax (i.e., because the gain from the disposition would be U.S. source), unless the U.S. Holder can apply the credit against U.S. federal income tax payable on other income from foreign sources. Alternatively, the U.S. Holder may take a deduction for the Brazilian income tax, provided that the U.S. Holder elects to deduct all foreign taxes paid or accrued for the taxable year. The rules governing foreign tax credits are complex and a U.S. Holder is encouraged to consult its own tax advisor regarding the availability of foreign tax credits under its particular circumstances.



[Table of Contents](#)*Passive Foreign Investment Company Considerations*

Special U.S. federal income tax rules apply to U.S. persons owning shares of a PFIC. A non-U.S. corporation generally will be classified as a PFIC for U.S. federal income tax purposes in any taxable year in which, after applying relevant look-through rules with respect to the income and assets of subsidiaries, either:

- at least 75% of its gross income is passive income; or
- at least 50% of the value of its assets (based on an average of the quarterly values of the assets during a taxable year) is attributable to assets that produce or are held for the production of passive income.

For this purpose, passive income generally includes, among other things, dividends, interest, rents, royalties, gains from the disposition of passive assets (other than gains from the disposition of property that is inventory) and gains from commodities and securities transactions. In addition, if the non-U.S. corporation owns, directly or indirectly, at least 25%, by value, of the shares of another corporation, it will be treated as if it holds directly its proportionate share of the assets and receives directly its proportionate share of the income of such other corporation.

The determination as to whether a non-U.S. corporation is a PFIC is based on the application of complex U.S. federal income tax rules, which are subject to differing interpretations, the composition of the income and assets of the non-U.S. corporation from time to time and the nature of the activities performed by such non-U.S. corporation. Based on current estimates of our gross income and gross assets, the nature of our business and our current business plans (all of which are subject to change), we do not expect to be classified as a PFIC for our 2020 taxable year and our current taxable year (although the determination cannot be made until the end of such taxable year), and we intend to continue our operations in such a manner that we do not expect to be classified as a PFIC in the foreseeable future. There can be no assurance in this regard, because the PFIC determination is made annually and is based on the portion of our assets and income that is characterized as passive under the PFIC rules.

If we are or become a PFIC for any taxable year during which a U.S. Holder holds preferred shares, including in the form of ADSs, the U.S. Holder will be subject to special tax rules with respect to any “excess distributions” that the U.S. Holder receives and any gain realized from a sale or other disposition of the preferred shares, including those in the form of ADSs, unless the U.S. Holder makes a “mark-to-market” election or a “qualified electing fund,” or QEF, election, as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions received by the U.S. Holder during the shorter of the three preceding taxable years or the U.S. Holder’s holding period for the preferred shares, including those in the form of ADSs, will be treated as excess distributions. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the preferred shares, including those in the form of ADSs;
- the amount allocated to the current taxable year, and any taxable year prior to the first taxable year in which we became a PFIC, will be treated as ordinary income; and
- the amount allocated to each other year will be subject to the highest tax rate in effect for that year and the interest charge generally applicable to underpayments of tax will be imposed on the resulting tax attributable to each such year.

The tax liability for amounts allocated to years prior to the year of disposition or “excess distribution” cannot be offset by any net operating losses for such years, and gains (but not losses) realized on the sale of the preferred shares, including those in the form of ADSs, cannot be treated as capital, even if a U.S. Holder holds the preferred shares or ADSs as capital assets. If we were a PFIC, certain subsidiaries and other entities in which we have a direct or indirect interest may also be PFICs, or Lower-tier PFICs. Under attribution rules, U.S. Holders would be deemed to own their proportionate shares of Lower-tier PFICs and would be subject to U.S. federal income tax according to the rules described above on (i) certain distributions by a Lower-tier PFIC and (ii) a disposition of shares of a Lower-tier PFIC, in each case as if the U.S. Holder held such shares directly, even though such U.S. Holder had not received the proceeds of those distributions or dispositions.

If we are a PFIC, a U.S. Holder may avoid taxation under the rules described above by making a QEF election to include such U.S. Holder’s share of our income on a current basis, provided that we furnish such U.S. Holder annually with certain tax information. If we conclude that we should be treated as a PFIC for any taxable year, we intend to notify each U.S. Holder of such conclusion. However, there can be no guarantee that we will be willing or able to provide the information needed by any U.S. Holder to make a QEF election with respect to the preferred shares, including in the form of ADSs.



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If a U.S. Holder makes a QEF election, such U.S. Holder will generally be taxable currently on its pro rata share of our ordinary earnings and net capital gains (at ordinary income and capital gain rates, respectively) for each taxable year during which we are treated as a PFIC, regardless of whether or not such U.S. Holder receives distributions, so that the U.S. Holder may recognize taxable income without the corresponding receipt of cash from us with which to pay the resulting tax obligation. The basis in the preferred shares, including those in the form of ADSs, held by such U.S. Holder will be increased to reflect taxed but undistributed income. Distributions of income that were previously taxed will result in a corresponding reduction of tax basis in the preferred shares, including those in the form of ADSs, and will not be taxed again as distributions to the U.S. Holder.

Alternatively, a U.S. Holder of “marketable stock” (as defined below) in a PFIC may make a mark-to-market election with respect to such stock (but not for the shares of any Lower-tier PFIC) to elect out of the tax treatment discussed above. A U.S. Holder electing the mark-to-market regime generally would compute gain or loss at the end of each taxable year as if the preferred shares, including those in the form of ADSs, had been sold at fair market value. Any gain recognized by the U.S. Holder under mark-to-market treatment, or on an actual sale, would be treated as ordinary income, and the U.S. Holder would be allowed an ordinary deduction for any decrease in the value of its preferred shares, including those in the form of ADSs, as of the end of any taxable year, and for any loss recognized on an actual sale, but only to the extent, in each case, of previously included mark-to-market income not offset by previously deducted decreases in value. Any loss on an actual sale of preferred shares, including those in the form of ADSs, would be a capital loss to the extent in excess of previously included mark-to-market income not offset by previously deducted decreases in value. A U.S. Holder’s tax basis in preferred shares, including those in the form of ADSs, will be adjusted to reflect any such income or loss amounts included in gross income. If a U.S. Holder makes such an election, the tax rules that apply to distributions by corporations that are not PFICs would apply to distributions by us, except that the reduced rate discussed above under “Item 10.E. Taxation—Taxation of Dividends and Other Distributions” would not apply.

The mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than *de minimis* quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable U.S. Treasury regulations. A non-U.S. securities exchange constitutes a qualified exchange if it is regulated or supervised by a governmental authority of the country in which the securities exchange is located and meets certain trading listing, financial disclosure and other requirements set forth in the U.S. Treasury regulations. The NYSE is a qualified exchange. The ADSs are listed on the NYSE and, consequently, if the ADSs are regularly traded, the mark-to-market election would be available to a U.S. Holder of ADSs if we were treated as a PFIC. Our preferred shares are listed on the B3. It is unclear, however, whether the B3 would meet the requirements for a “qualified exchange.” As mentioned above, however, the mark-to-market election will not be available for Lower-tier PFICs, so U.S. Holders would remain subject to the interest charge and other rules described above with respect to Lower-tier PFICs.

A U.S. Holder who owns preferred shares, including in the form of ADSs, during any taxable year that we are treated as a PFIC generally would be required to file IRS Form 8621. U.S. Holders are encouraged to consult their own tax advisors regarding the application of the PFIC rules to the preferred shares, including those in the form of ADSs, the availability and advisability of making a mark-to-market election to avoid the adverse tax consequences of the PFIC rules should we be considered a PFIC for any taxable year and the application of the reporting requirements on IRS Form 8621 to their particular situation.

#### *U.S. Information Reporting and Backup Withholding*

Dividend payments with respect to preferred shares, including in the form of ADSs, and proceeds from the sale, exchange or redemption of preferred shares, including in the form of ADSs, may be subject to information reporting to the IRS and possible U.S. backup withholding at a current rate of 24%. Backup withholding will not apply, however, to a U.S. Holder who furnishes a correct taxpayer identification number and makes any other required certification or who is otherwise exempt from backup withholding and establishes such exempt status. Backup withholding is not an additional tax. Amounts withheld as backup withholding may be credited against a U.S. Holder’s U.S. federal income tax liability, and a U.S. Holder may obtain a refund of any excess amounts withheld under the backup withholding rules by filing the appropriate claim for refund in a timely manner with the IRS and furnishing any required information. U.S. Holders are encouraged to consult their tax advisors regarding the application of the U.S. information reporting and backup withholding rules.

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In addition, U.S. Holders should be aware that additional reporting requirements apply (including a requirement to file IRS Form 8938, Statement of Specified Foreign Assets) with respect to the holding of certain foreign financial assets, including stock of foreign issuers which is not held in an account maintained by certain financial institutions, if the aggregate value of all of such assets exceeds US\$50,000 at the end of the taxable year or US\$75,000 at any time during the taxable year. The thresholds are higher for individuals living outside of the United States and married couples filing jointly. U.S. Holders are encouraged to consult their own tax advisors regarding the application of the information reporting rules to preferred shares, including in the form of ADSs, and the application of these additional reporting requirements for foreign financial assets to their particular situations.

**F. Dividends and Payment Agents****Dividend Policy****Amounts Available for Distribution**

According to Brazilian corporate law and our bylaws, our board of directors makes a recommendation to the annual shareholders' meeting regarding the allocation of our net income for the preceding fiscal year, and the shareholders' meeting decides upon the allocation. Under Brazilian corporate law, our board of directors may also approve intermediary dividend distributions.

Brazilian corporate law defines "net income" as the results for the fiscal year after deducting accrued losses, the provisions for income and social contribution taxes for that year and any amounts allocated to profit sharing payments to employees and management. Management is only entitled to any profit-sharing payment, however, after the shareholders are paid the mandatory dividend referred to below.

**Reserve Accounts**

Companies incorporated under Brazilian law generally have two main reserve accounts: a profit reserve account and a capital reserve account.

*Profit Reserves*

Profit reserves consist of a legal reserve, statutory reserve, contingency reserve, retained profit reserve and unrealized profit reserve, as described below.

The combined balance of our profit reserve accounts (other than the contingency reserve and the unrealized profits reserve) may not exceed our capital stock. If the balance does exceed capital stock, the shareholders' meeting must decide whether to use the excess to pay in subscribed but unpaid capital, to increase our share capital, or to pay dividends.

*Legal Reserve*

Brazilian corporate law requires us to maintain a legal reserve to which we must allocate 5.0% of our net income for each fiscal year until the aggregate amount of the reserve equals 20.0% of our capital stock. However, we are not required to make any allocations to our legal reserve in a year in which the legal reserve, when added to our other established capital reserves, exceeds 30.0% of our capital stock. The amounts allocated to the legal reserve must be approved by our shareholders in a shareholders' meeting, and may only be used to increase our capital stock or to offset losses. Therefore, they are not available for the payment of dividends.

*Statutory Reserve*

Brazilian corporate law allows us to allocate a portion of our net profits to discretionary reserve accounts established in accordance with our bylaws. As of December 31, 2020, we did not have a statutory reserve. If we establish these accounts, the bylaws must indicate the purpose, allotment criteria and maximum amount of the reserve. However, we may not allocate profits to these discretionary reserve accounts if this would affect the payment of the minimum mandatory dividend.

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Brazilian corporate law allows us to allocate a percentage of our net income to a contingency reserve for anticipated losses that are deemed probable in future years, if the amount of the losses can be estimated. Any amount so allocated must be reversed in the fiscal year in which any expected loss fails to occur as projected, or charged against in the event that the expected loss occurs. The amounts to be allocated to this reserve must be approved by our shareholders. As of December 31, 2020, we did not have a contingency reserve.

*Retained Profit Reserve*

Brazilian corporate law allows us to retain a portion of our net income, by a decision of our shareholders, provided that the retention is included in a capital expenditure budget that has been previously approved. The allocation of funds to this reserve cannot jeopardize the payment of the minimum mandatory dividends. As of December 31, 2020, we did not have a retained profit reserve.

*Unrealized Profit Reserve*

Under Brazilian corporate law, the amount by which the mandatory dividend exceeds the “realized” net income in a given year may be allocated to an unrealized profit reserve account, and the mandatory dividends may be limited to the “realized” portion of the net income. Brazilian corporate law defines “realized” net income as the amount by which net income exceeds the sum of (i) our net positive results, if any, from the equity method of accounting and (ii) the profits, gains or income that will be received by us after the end of the next fiscal year. The unrealized profit reserve can only be used to pay mandatory dividends. Profits recorded in the unrealized profit reserve, if realized and not absorbed by losses in subsequent years, must be added to the next mandatory dividend distributed after the realization. As of December 31, 2020, we did not have an unrealized profit reserve.

*Capital Reserves*

Our capital reserve consists of the premium reserve, tax incentives, and investment subsidies. Under Brazilian corporate law, capital reserves may only be used (i) to absorb losses that exceed retained earnings and profit reserves, (ii) to fund redemptions, refunds or repurchases of shares, (iii) to redeem founder shares, and (iv) to increase our share capital. As of December 31, 2020, we had R\$1,947.9 billion allocated to the capital reserve account.

**Payment of Dividends and Interest on Shareholders’ Equity**

Brazilian corporate law requires the bylaws of a Brazilian company to specify a minimum percentage of available profits to be allocated to the annual distribution of dividends, known as mandatory dividends. The mandatory dividend must be paid to shareholders either as dividends or as interest on shareholders’ equity. The basis of the mandatory dividend is a percentage of income, adjusted according to Article 202 of Brazilian corporate law. Under our bylaws, we must distribute every year at least 0.1% of our adjusted net income from the previous fiscal year as a dividend.

Brazilian corporate law allows a company to suspend distribution of mandatory dividends if the board of directors advises the annual shareholders’ meeting that the distribution would not be advisable given the company’s financial condition. The fiscal council, if one is in place, must review any suspension of the mandatory dividend, and management must submit a report to the CVM setting forth the reasons for the suspension of dividends. Net income that is not distributed due to a suspension is allocated to a separate reserve account and, if not absorbed by subsequent losses, must be distributed as dividends as soon as the financial condition of the company permits.

**Dividends**

Brazilian corporate law and our bylaws require us to hold an annual shareholders’ meeting by the fourth month following the closing of each fiscal year, in which, among other matters, shareholders must decide upon the distribution of annual dividends. The calculation of annual dividends is based on our audited consolidated financial statements for the immediately preceding fiscal year.

Each holder of shares at the time a dividend is declared is entitled to receive dividends. In our case, holders of preferred shares have the right to receive dividends that are 75 times greater than the dividends attributed to each common share. Under Brazilian corporate law, dividends are generally required to be paid within 60 days from the date on which the dividend is declared, unless the shareholders’ resolution establishes another payment date. The dividend must be paid at the latest before the end of the year in which it is declared.

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Shareholders have three years from the date of payment to claim their dividends or interest on shareholders' equity, after which the unclaimed dividends or interest revert to us.

**Distributions of Interest on Shareholders' Equity**

Brazilian corporations are permitted to pay interest on equity capital to shareholders and to treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax and social contribution tax. The interest is calculated based on the TJLP, as set by the Central Bank from time to time, and cannot exceed the greater of 50% of net income (after deduction of the social contribution tax on net income, and without taking account of the distribution being made and any income tax deduction) for the period in relation to which the payment is made, or 50% of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made. The payment of interest on shareholders' equity represents an alternative form of dividend payment to shareholders. The amount distributed to shareholders as interest on shareholders' equity, net of any income tax, may be included as part of the mandatory dividend distribution. Brazilian corporate law requires us to pay shareholders an amount sufficient to ensure that the net amount they receive in respect of interest on shareholders' equity, after payment of the applicable withholding tax, plus the amount of declared dividends, is at least equivalent to the mandatory dividend amount.

**G. Statements by Experts**

Not applicable.

**H. Documents on Display**

We are subject to the informational requirements of the Exchange Act, applicable to foreign private issuers and, in accordance therewith, file reports and other information with the SEC. Accordingly, we will be required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy the reports and other information to be filed with the SEC at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington D.C. 20549. Copies of the materials may be obtained from the Public Reference Room of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. The public may obtain information on the operation of the SEC's Public Reference Room by calling the SEC in the United States at 1-800-SEC-0330. In addition, the SEC maintains an Internet website at <http://www.sec.gov>, from which you can electronically access the registration statement and its materials.

As a foreign private issuer, we are not subject to the same disclosure requirements as a domestic U.S. Registrant under the Exchange Act. For example, we are not required to prepare and issue quarterly reports. However, we will be required to file annual reports on Form 20-F within the time period required by the SEC, which is currently four months from December 31, the end of our fiscal year. As a foreign private issuer, we are exempt from Exchange Act rules regarding proxy statements and short-swing profits.

We will provide the depositary with annual reports in English, which will include a review of operations and annual audited consolidated financial statements prepared in accordance with IFRS.

You may request a copy of our SEC filings, at no cost, by contacting us at our headquarters at Edifício Jatobá, 8th floor, Castelo Branco Office Park, Avenida Marcos Pentead de Ulhôa Rodrigues, 939, Tamboré, Barueri, São Paulo, Brazil, or by phone at the number +55 (11) 4831-2880, Attention: Investor Relations Department.

**I. Subsidiary Information**

For information on subsidiaries, see "Item 4.E. Organizational Structure" and "Note 1. Operations" to our audited consolidated financial statements as of and for the years ended December 31, 2020, 2019 and 2018 included in "Item 18. Financial Statements" and Exhibit 8.1 to this annual report.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK****General**

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

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

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

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

**Interest Rate Risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument fluctuates due to changes in market interest rates. Our exposure to the risk of changes in market interest rates refers primarily to long-term obligations (including lease liabilities and other financing) subject to variable interest rates. To manage this risk, we engage in interest rate swaps, whereby we agree to exchange, at specified intervals, the difference between the values of fixed and variable interest rates calculated based on the notional principal amount agreed between the parties. As of December 31, 2020, we had interest rate swap contracts designated as hedges and fair value hedges.

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

At December 31, 2020, we did not have any debt indexed to LIBOR maturing after June 2023, which is the date LIBOR rates will cease to be published.

As of December 31, 2020, we had swap contracts to hedge against the effect of fluctuations in interest rates on part of payments for finance leases. During the year ended December 31, 2020, we recognized a total gain from interest hedge transactions in the amount of R\$30.9 million.

**Foreign Currency Risk**

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

Additionally, as part of our international operations, we maintain offshore bank accounts in U.S. dollars that serve as natural hedges. As of December 31, 2020, we held a U.S. dollar balance of cash and cash equivalents and short-term investments of R\$262.3 million. We have derivative financial instruments that were not designated as hedges that included forward foreign currency contracts and foreign currency options.

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We constantly monitor the net exposure in foreign currency and evaluate the contracting of hedge transactions to protect the non-operating cash flow, projecting for a maximum period of up to 12 months, and a longer term if deemed appropriate, to minimize its exposure. During the year ended December 31, 2020, we recognized losses on foreign exchange derivative transactions in the amount of R\$74.4 million.

### Commodity Price Risk

The volatility of aviation fuel prices is one of the most significant market risks for airlines. For the years ended December 31, 2020, 2019 and 2018 aviation fuel accounted for 21.1%, 24.4% and 33.6%, respectively, of our operating expenses, which are linked or denominated in U.S. dollars, are volatile and cannot be predicted with any degree of certainty as they are subject to many global and geopolitical factors. For example, oil prices experienced substantial variances beginning in 2009 and through June 2018. Airlines often use WTI crude or heating oil future contracts to protect their exposure to jet fuel prices. We attempt to mitigate fuel price volatility primarily through derivative financial instruments or a fixed price agreement with BR Distribuidora.

### Sensitivity Analysis

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

Risk Factor	Financial Instrument	Risk	As of December 31, 2020	
			Adverse Scenario	Remote Scenario
			(in thousands of R\$)	
Financing	Interest rate	CDI	(45,937)	(53,593)
Financing	Interest rate	LIBOR	26,310	30,695
Assets	Exchange rate	Euro rate decrease	(213,616)	(427,231)
Liabilities and aircraft leases	Exchange rate	U.S. dollar rate increase	(4,375,952)	(8,751,904)
Aircraft fuel	Cost per liter	HOA	(45,667)	(98,454)

## ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

### A. Debt Securities

Not applicable.

### B. Warrants and Rights

Not applicable

### C. Other Securities

Not applicable.

### D. American Depositary Shares

#### American Depositary Shares

Citibank, N.A., as depositary, will register and deliver the ADSs. Each ADS represents the right to receive three preferred shares (which ratio may be changed, as described below) in registered form, deposited with the office of Banco Bradesco S.A. as custodian for the depositary. Each ADS will also represent the right to receive any other securities, cash or other property which may be received on behalf of the owner of the ADSs but not distributed by the depositary to the owners of ADSs because of legal restrictions or practical considerations. The principal executive office of the depositary is located at 388 Greenwich Street, New York, New York 10013.

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The preferred shares are listed for trading on the Level 2 listing segment of the São Paulo Stock Exchange (*B3 S.A.—Bolsa de Valores, Mercadorias e Futuros*), or the B3, and the ADSs are listed for trading on the New York Stock Exchange.

The Direct Registration System, or DRS, is a system administered by The Depository Trust Company, or DTC, pursuant to which the depository may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto.

We will not treat ADS holders as our shareholders and accordingly, you, as an ADS holder, will not have shareholder rights. Brazilian law governs shareholder rights. The depository, the custodian and their respective nominees will be the holders of the preferred shares underlying your ADSs. As a holder of ADSs, you will have ADS holder rights. A deposit agreement among us, the depository, you, as an ADS holder, and the beneficial owners of ADSs sets out ADS holder and beneficial owner rights as well as the rights and obligations of the depository. The laws of the State of New York govern the deposit agreement and the ADSs.

The following is a summary of the material provisions of the deposit agreement. For more complete information, you should read the entire deposit agreement and the form of American Depositary Receipt. For directions on how to obtain copies of those documents, see “Exhibit 2.1.”

### **Holding the ADSs**

*How will you hold your ADSs?*

You may hold ADSs (a) by having an American Depositary Receipt, or ADR, which is a certificate evidencing a specific number of ADSs, registered in your name or through your broker or other financial institution, or (b) by holding ADSs in DRS. If you hold ADSs directly, you are an ADS holder. This description assumes you hold your ADSs directly, by means of an ADR registered in your name. If you hold the ADSs indirectly, you must rely on the procedures of your broker or other financial institution to assert the rights of ADS holders described in this section. You should consult with your broker or financial institution to find out what those procedures are.

### **Dividends and Other Distributions**

*How will you receive dividends and other distributions on the shares?*

The depository has agreed to pay to you the cash dividends or other distributions it or the custodian receives on preferred shares or other deposited securities, after deducting its fees and expenses and any taxes and government charges. You will receive these distributions in proportion to the number of preferred shares your ADSs represent as of the record date (which will be as close as practicable to the record date for our preferred shares) set by the depository with respect to the ADSs.

- **Cash.** The depository will convert or cause to be converted any cash dividend or other cash distribution we pay on the preferred shares or any net proceeds from the sale of any preferred shares, rights, securities or other entitlements under the terms of the deposit agreement into U.S. dollars, if it can do so on a practicable basis and can transfer such U.S. dollars to the United States and will distribute the amount thus received. If such conversions or transfers are not practical or lawful or if any government approval or license is needed and cannot be obtained, the deposit agreement allows the depository to either distribute the foreign currency only to those ADS holders to whom it is possible to do so, or hold or cause the custodian to hold the foreign currency for the account of the ADS holders who have not been paid and such funds will be held for the respective accounts of the ADS holders. The depository will not invest the foreign currency and will not be liable for any interest for the respective accounts of the ADS holders.



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Before making a distribution, any taxes or other governmental charges, together with fees and expenses of the depositary, will be deducted. See “Item 10.E—Taxation.” If the exchange rates fluctuate during a time when the depositary cannot convert the foreign currency, you may lose some or all of the value of the distribution.

- **Shares.** For any preferred shares we distribute as a dividend or free distribution, either (1) the depositary will distribute additional ADSs representing the right to receive such preferred shares or (2) existing ADSs as of the applicable record date will represent rights and interests in the additional preferred shares distributed, to the extent reasonably practicable and permissible under law, in either case, net of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary will only distribute whole ADSs. It will try to sell preferred shares which would require it to deliver a fractional ADS and distribute the net proceeds in the same way as it does with cash. The depositary may sell a portion of the distributed preferred shares sufficient to pay its fees and expenses in connection with that distribution. There can be no assurance that you will be given the opportunity to receive distributions under the same terms and conditions as the holders of preferred shares.
- **Elective Distributions in Cash or Shares.** If we offer holders of our preferred shares the option to receive dividends in either cash or shares, the depositary, after consultation with us and having received timely notice from us as described in the deposit agreement of such elective distribution by us, and if we have indicated that we wish to make such elective distribution available to you, has discretion to determine to what extent such elective distribution is lawful and reasonably practicable, and thus, whether it can be made available to you as a holder of the ADSs. The depositary will not make such elective distribution to you until we first timely instruct the depositary to make such elective distribution available to you and furnish it with satisfactory evidence that it is lawful to do so. The depositary could decide it is not lawful or reasonably practicable to make such elective distribution available to you. In such case, the depositary shall, on the basis of the same determination as is made in respect of the preferred shares for which no election is made, distribute either cash in the same way as it does in a cash distribution, or additional ADSs representing the right to receive preferred shares in the same way as it does in a share distribution. The depositary will not be obligated to make available to you a method to receive the elective dividend in preferred shares rather than in ADSs. There can be no assurance that you will be given the opportunity to receive elective distributions on the same terms and conditions as the holders of preferred shares.
- **Rights to Purchase Additional Shares.** If we offer holders of our preferred shares any rights to subscribe for additional shares, the depositary shall, having received timely notice as described in the deposit agreement of such distribution by us, consult with us, and determine whether it is lawful and reasonably practicable to make these rights available to you. The depositary will not make rights available to you unless we first instruct the depositary to make such rights available to you and furnish the depositary with satisfactory evidence that it is lawful and reasonably practicable to do so, and such other documentation as is provided in the deposit agreement. If it is not lawful and reasonably practicable to make the rights available but it is lawful and reasonably practicable to sell the rights, the depositary will attempt to sell the rights and distribute the net proceeds in the same way as it does with cash. The depositary will allow rights that are not distributed or sold to lapse. In that case, you will receive no value for them.

If the depositary makes rights available to you, it will establish procedures to distribute such rights and enable you to exercise the rights upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary shall not be obliged to make available to you a method to exercise such rights to subscribe for preferred shares (rather than ADSs).

U.S. securities laws may restrict transfers and cancellation of the ADSs represented by shares purchased upon exercise of rights. For example, you may not be able to trade these ADSs freely in the United States. In this case, the depositary may deliver restricted depositary shares that have the same terms as the ADSs described in this section except for changes needed to put the necessary restrictions in place.

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There can be no assurance that you will be given rights on the same terms and conditions as the holders of preferred shares or be able to exercise such rights.

- **Other Distributions.** Subject to receipt of timely notice and satisfactory documents by the depositary, as described in the deposit agreement, from us with our request to make any such distribution available to you, and provided the depositary has determined such distribution is lawful and reasonably practicable and in accordance with the terms of the deposit agreement, the depositary will distribute to you anything else we distribute on deposited securities by any means it may deem practicable, upon your payment of applicable fees, charges and expenses incurred by the depositary and taxes and/or other governmental charges. The depositary may attempt to sell all or a portion of the distributed property sufficient to pay its fees and expenses in connection with that distribution. If any of the conditions above are not met, the depositary will attempt to sell, or cause to be sold, what we distributed and distribute the net proceeds in the same way as it does with cash; or, if it is unable to sell such property, the depositary may dispose of such property in any way it deems reasonably practicable under the circumstances for nominal or no consideration, such that you may have no rights to or arising from such property.

The depositary is not responsible if it is unlawful or impracticable to make a distribution available to any ADS holders. We have no obligation to register ADSs, preferred shares, rights or other securities under the Securities Act. We also have no obligation to take any other action to permit the distribution of ADSs, preferred shares, rights or anything else to ADS holders. This means that you may not receive the distributions we make on our preferred shares or any value for them if we or the depositary determine that it is not lawful or not practicable for us or the depositary to make them available to you. The depositary will hold any cash amounts or property it is unable to distribute in a non-interest bearing account for the benefit of the applicable holders and beneficial owners of ADSs until a distribution can be effected or such amounts and property that the depositary holds must be escheated as unclaimed property in accordance with the laws of the relevant states of the United States.

### **Deposit, Withdrawal and Cancellation**

#### *Which shares shall be accepted for deposit?*

No preferred shares shall be accepted for deposit unless accompanied by confirmation or such additional evidence, if any is required by the depositary, that is reasonably satisfactory to the depositary and the custodian that all conditions to such deposit have been satisfied by the person depositing such preferred shares under the laws and regulations of Brazil and any necessary approval has been granted by the CVM, the Central Bank or any governmental body in Brazil, if any, which is then performing the function of the regulator of currency exchange.

The depositary shall not be required to accept for deposit or maintain on deposit with the custodian (a) any fractional preferred shares or fractional deposited securities, or (b) any number of preferred shares or deposited securities which, upon application of the ratio of ADSs to deposited securities, would give rise to fractional ADSs.

#### *How are ADSs issued?*

The depositary will deliver ADSs if you or your broker deposits preferred shares or evidence of rights to receive preferred shares with the custodian. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, and upon presentation of the applicable deposit certification, the depositary will register the appropriate number of ADSs in the names you request and will deliver the ADSs to or upon the order of the person or persons entitled thereto. Your ability to deposit shares and receive ADSs may be limited by U.S. and Brazilian legal considerations applicable at the time of deposit.

#### *How do ADS holders cancel an ADS?*

You may present (or provide appropriate instructions to your broker to present) your ADSs to the depositary for cancellation and then receive the corresponding number of underlying preferred shares at the custodian's offices. Upon payment of its fees and expenses and of any taxes or charges, such as stamp taxes or stock transfer taxes or fees, the depositary will deliver the preferred shares and any other deposited securities underlying the ADSs to you or a person you designate. The depositary may ask you to provide documents as the depositary may deem appropriate before it will cancel your ADSs and deliver the underlying preferred shares and any other property.

[Table of Contents](#)*How do ADS holders interchange between Certificated ADSs and Uncertificated ADSs?*

You may surrender your ADR to the depositary for the purpose of exchanging your ADR for uncertificated ADSs. The depositary will cancel that ADR and will send you a statement confirming that you are the owner of uncertificated ADSs. Alternatively, upon receipt by the depositary of a proper instruction from a holder of uncertificated ADSs requesting the exchange of uncertificated ADSs for certificated ADSs and provided the continued availability of certificated ADSs in the U.S., the depositary will execute and deliver to you an ADR evidencing those ADSs.

**Voting Rights***How do you vote?*

If certain conditions in the deposit agreement are satisfied as further described below, you may instruct the depositary to vote the preferred shares or other deposited securities underlying your ADSs at any meeting at which holders of preferred shares or other deposited securities are entitled to vote pursuant to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities. Otherwise, you could exercise your right to vote directly if you withdraw the preferred shares. However, you may not know about the meeting sufficiently enough in advance to withdraw the preferred shares. Our preferred shares have limited voting rights. See “Item 10.B. Memorandum and Articles of Association—Rights of Our Common and Preferred Shares—Voting Rights.”

Upon timely notice from us by regular, ordinary mail delivery, or by electronic transmission, as described in the deposit agreement, the depositary will notify you of the upcoming meeting at which you are entitled to vote pursuant to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities, and arrange to deliver our voting materials to you. The materials will include or reproduce (a) such notice of meeting or solicitation of consents or proxies; (b) a statement that the ADS holders at the close of business on the ADS record date will be entitled, subject to any applicable law, the provisions of our bylaws and other constitutive documents, and the provisions of or governing the deposited securities (which provisions, if any, shall be summarized in pertinent part by us), to instruct the depositary as to the exercise of the voting rights, if any, pertaining to the preferred shares or other deposited securities represented by such holder’s ADSs; and (c) a brief statement as to the manner in which such instructions may be given. Voting instructions may be given only in respect of a number of ADSs representing an integral number of preferred shares or other deposited securities. For instructions to be valid, the depositary must receive them in writing on or before the date specified by the depositary in its notice to ADS holders. The depositary will endeavor, insofar as practicable and permitted under applicable law, the provisions of the deposit agreement, our bylaws and the provisions of or governing the deposited securities, to vote or cause the custodian to vote the preferred shares or other deposited securities (in person or by proxy) as you instruct. The depositary will only vote or attempt to vote as you instruct provided that if the depositary timely receives voting instructions from you that fail to specify the manner in which deposited securities are to be voted, you will be deemed to have instructed the depositary to vote in favor of the items in the voting instructions. Preferred shares or other deposited securities represented by ADSs for which no specific voting instructions are received by the depositary from the ADS holder shall not be voted except as provided below. Without limiting any of the foregoing, to the extent the depositary does not receive voting instructions from ADS holders, the depositary will take such actions as are necessary, upon our written request and subject to applicable law and the terms of the deposited securities, to cause the amount of shares represented by ADSs of those ADS holders to be counted for the purpose of satisfying applicable quorum requirements.

If (i) we make a timely request to the depositary as contemplated above and (ii) no timely voting instructions are received by the depositary from you with respect to the deposited securities represented by your ADSs on or before the date established by the depositary for such purpose, the depositary shall deem you to have instructed the depositary to give a discretionary proxy to a person designated by our board of directors with respect to such deposited securities and the depositary shall endeavor, insofar as practicable and permitted under applicable law, the provisions of the deposit agreement, our bylaws and the provisions of the deposited securities, to give or cause the custodian to give a discretionary proxy to a person designated by our board of directors to vote such deposited securities; provided, however, that no such instruction shall be deemed given and no such discretionary proxy shall be given with respect to any matter as to which our board of directors informs the depositary that (x) we do not wish such proxy given, (y) substantial opposition exists or (z) such matter materially and adversely affects the rights of holders of preferred shares.

We cannot assure you that you will receive the voting materials in time to ensure that you can instruct the depositary to vote the preferred shares underlying your ADSs. In addition, there can be no assurance that you will be given the opportunity to vote or cause the custodian to vote on the same terms and conditions as the holders of our preferred shares.

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The depositary and its agents are not liable for failing to carry out voting instructions or for the manner of carrying out voting instructions. This means that you may not be able to exercise your right to vote and you may have no recourse if the preferred shares underlying your ADSs are not voted as you request.

**Compliance with Regulations***Information Requests*

Each ADS holder and beneficial owner shall (a) provide such information as we or the depositary may request pursuant to law, including, without limitation, relevant Brazilian law, any applicable law of the United States of America, the rules and requirements of B3, our bylaws and other constitutive documents, any resolutions of our board of directors adopted pursuant to such bylaws, the requirements of any markets or exchanges upon which the preferred shares, ADSs or ADRs are listed or traded, or to any requirements of any electronic book-entry system by which the ADSs or ADRs may be transferred, regarding the capacity in which they own or owned ADSs, the identity of any other persons then or previously interested in such ADSs and the nature of such interest, and any other applicable matters, and (b) be bound by and subject to applicable provisions of the laws of Brazil, our bylaws and other constitutive documents, and the requirements of any markets or exchanges upon which the ADSs or preferred shares are listed or traded, or pursuant to any requirements of any electronic book-entry system by which the ADSs or preferred shares may be transferred, to the same extent as if such ADS holder or beneficial owner held preferred shares directly, in each case irrespective of whether or not they are ADS holders or beneficial owners at the time such request is made.

*Disclosure of Interests*

Each ADS holder and beneficial owner shall comply with our requests pursuant to Brazilian law, the rules and requirements of the CVM and B3, and any other stock exchange on which the preferred shares are, or will be, registered, traded or listed or our bylaws and other constitutive documents, which requests are made to provide information, *inter alia*, as to the capacity in which such ADS holder or beneficial owner owns ADS and regarding the identity of any other person interested in such ADS and the nature of such interest and various other matters, whether or not they are ADS holders or beneficial owners at the time of such requests.

*Delivery of Information to the CVM, the Central Bank and B3*

We will comply with Brazil's Monetary Council Resolution 4373, dated as of September 29, 2013, and will furnish to the CVM, the Central Bank and the B3, whenever required, information or documents related to the approved ADR program, the deposited securities and distributions thereon. The depositary and the custodian may release such information or documents and any other information as required by local regulation, law or regulatory body request.

*Ownership Restrictions*

We may restrict transfers of the preferred shares where such transfer might result in ownership of preferred shares exceeding limits imposed by applicable laws or our bylaws. We may also restrict, in such manner as we deem appropriate, transfers of the ADSs where such transfer may result in the total number of preferred shares represented by the ADSs owned by a single ADS holder or beneficial owner of ADSs to exceed any such limits. We may, in our sole discretion but subject to applicable law, instruct the depositary to take action with respect to the ownership interest of any ADS holder or beneficial owner of ADSs in excess of the limits set forth in the preceding sentence, including, but not limited to, the imposition of restrictions on the transfer of ADSs, the removal or limitation of voting rights or mandatory sale or disposition on behalf of an ADS holder or beneficial owner of ADSs of the preferred shares represented by the ADSs of such holder or beneficial owner in excess of such limitations, if and to the extent such disposition is permitted by applicable law and our bylaws. Notwithstanding the foregoing, neither we nor the depositary shall be obligated to ensure compliance with the foregoing ownership restrictions.

[Table of Contents](#)*Reporting Obligations and Regulatory Approvals*

Applicable laws and regulations, including those of the Central Bank, the CVM, the B3 and the Level 2 listing segment may require ADS holders and beneficial owners of preferred shares, including the ADS holders and beneficial owners of ADSs, to satisfy reporting requirements and obtain regulatory approvals in certain circumstances. ADS holders and beneficial owners of ADSs are solely responsible for complying with such reporting requirements and obtaining such approvals, and pursuant to the deposit agreement, such holders and beneficial owners agree to make such determinations, file such reports, and obtain such approvals to the extent and in the form required by applicable laws and regulations as in effect from time to time and neither the depository, the custodian nor we, nor any of their or our respective agents or affiliates shall be required to take any actions on behalf of such holders or beneficial owners to determine or satisfy such reporting requirements or obtain such regulatory approvals under applicable laws and regulations.

*Fees and Expenses*

As an ADS holder, you will be required to pay the following service fees to the depository and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs):

Service	Fees
Issuance of ADSs, including issuances resulting from a distribution of shares or rights or other property	Up to US\$0.05 per ADS issued
Cancellation of ADSs, including in the case of termination of the deposit agreement	Up to US\$0.05 per ADS cancelled
Distribution of cash dividends or other cash distributions	Up to US\$0.05 per ADS held
Distribution of ADSs pursuant to share dividends, free share distributions or exercise of rights	Up to US\$0.05 per ADS held
Distribution of securities other than ADSs or rights to purchase ADSs	Up to US\$0.05 per ADS held
Depository operation and maintenance services	Up to US\$0.05 per ADS held

As an ADS holder, you will also be responsible to pay certain fees and expenses incurred by the depository and certain taxes and governmental charges (in addition to any applicable fees, expenses, taxes and other governmental charges payable on the deposited securities represented by any of your ADSs) such as:

- fees for the transfer and registration of preferred shares charged by the registrar and transfer agent for the preferred shares in Brazil (i.e., upon deposit and withdrawal of preferred shares);
- expenses incurred for converting foreign currency into U.S. dollars;
- expenses for cable, telex, electronic and fax transmissions and for delivery of securities;
- taxes and duties upon the transfer of securities, including any applicable stamp duties, any stock transfer charges or withholding taxes (i.e., when preferred shares are deposited or withdrawn from deposit);
- fees and expenses incurred in connection with the delivery or servicing of preferred shares on deposit;
- fees and expenses incurred in connection with complying with exchange control regulations and other regulatory requirements applicable to preferred shares, deposited securities, ADSs and ADRs; and
- any applicable fees and penalties thereon.

The depository fees payable upon the issuance and cancellation of ADSs are typically paid to the depository by the brokers (on behalf of their clients) receiving the newly issued ADSs from the depository and by the brokers (on behalf of their clients) delivering the ADSs to the depository for cancellation. The brokers in turn charge these fees to their clients. Depository fees payable in connection with distributions of cash or securities to ADS holders and the depository services fee are charged by the depository to the holders of record of ADSs as of the applicable ADS record date.

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The depositary fees payable for cash distributions are generally deducted from the cash being distributed or by selling a portion of distributable property to pay the fees. In the case of distributions other than cash (i.e., share dividends, rights), the depositary charges the applicable fee to the ADS record date holders concurrent with the distribution. In the case of ADSs registered in the name of the investor (whether certificated or uncertificated in direct registration), the depositary sends invoices to the applicable record date ADS holders. In the case of ADSs held in brokerage and custodian accounts (via DTC), the depositary generally collects its fees through the systems provided by DTC (whose nominee is the registered holder of the ADSs held in DTC) from the brokers and custodians holding ADSs in their DTC accounts. The brokers and custodians who hold their clients' ADSs in DTC accounts in turn charge their clients' accounts the amount of the fees paid to the depositary.

Until the applicable depositary fees and expenses are paid, the depositary may, under the terms of the deposit agreement, refuse the requested service until payment is received or may set off the amount of the depositary fees from any distribution to be made to the ADS holder. The depositary may sell preferred shares or other depositary property held with respect to your ADSs and use the proceeds to satisfy your obligations to pay its fees and expenses.

**Certain of the depositary fees and charges (such as the depositary services fee) may become payable shortly after the closing of the ADS offering. Note that the fees and charges you may be required to pay may vary over time and may be changed by us and by the depositary. You will receive prior notice of such changes.**

The depositary reimburses us for certain expenses we incur in connection with the ADR program. These reimbursable expenses currently include legal and accounting fees, listing fees, investor relations expenses and fees payable to service providers for the distribution of material to ADR holders. In this context, for the year ended December 31, 2020, Citibank N.A. reimbursed us or paid on our behalf approximately US\$230,105.

#### Payment of Taxes

You will be responsible for any taxes or other governmental charges payable, or which become payable, on your ADSs or on the deposited securities represented by any of your ADSs. The depositary may refuse to register or transfer your ADSs or allow you to withdraw the deposited securities represented by your ADSs until such taxes or other charges are paid. It may apply payments owed to you or sell deposited securities represented by your ADSs to pay any taxes owed and you will remain liable for any deficiency. If the depositary sells deposited securities, it will, if appropriate, reduce the number of ADSs to reflect the sale and pay to you any net proceeds, or send to you any property, remaining after it has paid the taxes. You agree to indemnify us, the depositary, the custodian and each of our and their respective agents, directors, employees and affiliates for, and hold each of them harmless from, any claims with respect to taxes (including applicable interest and penalties thereon) arising from any tax benefit obtained for you. Your obligations under this paragraph shall survive any transfer of ADSs, any surrender of ADSs and withdrawal of deposited securities or the termination of the deposit agreement.

The depositary may refuse to issue ADSs, to deliver, transfer, split and combine ADSs or to release securities on deposit until all taxes and charges are paid by you. The depositary and the custodian may take reasonable administrative actions to obtain tax refunds and reduced tax withholding for any distributions on your behalf. However, you may be required to provide to the depositary and to the custodian proof of taxpayer status and residence and such other information as the depositary and the custodian may be required to fulfill legal obligations.

Each ADS holder will be responsible for the payment and/or reimbursement of any and all taxes effectively paid or incurred by us, the Depositary or the Custodian (including as a result of the execution of any symbolic foreign exchange transaction (*operação simbólica de câmbio*)) related to or as a result of a deposit of preferred shares and/or withdrawal or sale of deposited property by such ADS holder. Each ADS holder will be responsible for the reporting of any false or misleading information, or the failure to report required information relating to foreign exchange transactions to the custodian or the Central Bank, as the case may be, in connection with deposits or withdrawals of deposited securities.



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If we change the nominal or par value of, split-up, cancel, consolidate or otherwise reclassify any of the deposited securities, or if we recapitalize, reorganize, merge, consolidate or sell our assets, any property which shall be received by the depositary or the custodian in exchange for, or in conversion of, or replacement of, or otherwise in respect of, the deposited securities shall, to the extent permitted by law, be treated as new deposited property under the deposit agreement, and the ADSs shall, subject to the provisions of the deposit agreement, any ADR(s) evidencing such ADSs and applicable law, represent the right to receive such additional or replacement deposited property. In connection with the foregoing, we may (i) issue and deliver additional ADSs as in the case of a stock dividend on the preferred shares, (ii) amend the deposit agreement and the applicable ADR(s), (iii) amend the applicable registration statement(s) in respect of the ADSs, (iv) call for the surrender of outstanding ADRs to be exchanged for new ADRs, and (v) take such other actions as are appropriate to reflect the transaction with respect to the ADSs.

**Amendment and Termination***How may the deposit agreement be amended?*

We may agree with the depositary to amend the deposit agreement and the form of ADR without your consent for any reason. If an amendment adds or increases fees or charges, except for taxes and other governmental charges or expenses of the depositary for registration fees, facsimile costs, delivery charges or similar items, including expenses incurred in connection with foreign exchange control regulations and other charges specifically payable by ADS holders under the deposit agreement, or materially prejudices a substantial existing right of ADS holders, it will not become effective for outstanding ADSs until 30 days after the depositary notifies ADS holders of the amendment. The depositary will not consider to be materially prejudicial to your substantial rights any modification or supplement that are reasonably necessary for the ADSs to be registered under U.S. laws, in each case without imposing or increasing the fees and charges you are required to pay. In addition, the depositary may not be able to provide you with prior notice of any modifications or supplements that are required to accommodate compliance with applicable provisions of law. At the time an amendment becomes effective, you are considered, by continuing to hold your ADSs, to agree to the amendment and to be bound by the ADRs and the deposit agreement as amended.

*How may the deposit agreement be terminated?*

We have the right to direct the depositary to terminate the deposit agreement. Similarly, the depositary may in certain circumstances on its own initiative terminate the deposit agreement. In such cases, the depositary must notify you at least 30 days before termination.

After termination, the depositary and its agents will do the following under the deposit agreement but nothing else: collect distributions on the deposited securities, sell rights and other property and deliver preferred shares and other deposited securities upon cancellation of ADSs after payment of any fees, charges, taxes or other governmental charges. At any time after the date of termination, the depositary may sell any remaining deposited securities by public or private sale. After that, the depositary will hold the money it received on the sale, as well as any other cash it is holding under the deposit agreement, for the *pro rata* benefit of the ADS holders that have not surrendered their ADSs. It will not invest the money and has no liability for interest. After such sale, the depositary's only obligations will be to account for the money and other cash. After termination, we shall be discharged from all obligations under the deposit agreement except for our obligations to the depositary and the custodian thereunder. The obligations of ADS holders and beneficial owners of ADSs outstanding as of the effective date of any termination shall survive such effective date of termination and shall be discharged only when the applicable ADSs are presented to the depositary for cancellation under the terms of the deposit agreement and the ADS holders have satisfied any and all of their obligations thereunder (including, but not limited to, any payment and/or reimbursement obligations which relate to prior to the effective date of termination but which payment and/or reimbursement is claimed after such effective date of termination).

**Books of Depositary**

The depositary will maintain ADS holder records at its depositary office. You may inspect such records at such office at all reasonable times but solely for the purpose of communicating with other holders in the interest of business matters relating to the Company, the ADRs and the deposit agreement.

The depositary will maintain in New York facilities to record and process the issuance, cancellation, combination, split-up and transfer of ADRs.

These facilities may be closed at any time or from time to time, when such action is deemed necessary or advisable by the depositary in connection with the performance of its duties under the deposit agreement or at our reasonable request to the extent not prohibited by law.



**Limitations on Obligations and Liability***Limits on our Obligations and the Obligations of the Depositary and the Custodian; Limits on Liability to Holders of ADSs*

The deposit agreement expressly limits our obligations and the obligations of the depositary and the custodian. It also limits our liability and the liability of the depositary and the custodian. We, the depositary and the custodian:

- are only obligated to take the actions specifically set forth in the deposit agreement without negligence or bad faith;
- are not liable if any of us or our respective controlling persons or agents are prevented or forbidden from, or subjected to any civil or criminal penalty or restraint on account of, or delayed in, doing or performing any act or thing required by the terms of the deposit agreement and any ADR, by reason of any provision of any present or future law or regulation of the United States or any state thereof, Brazil or any other country, or of any other governmental authority or regulatory authority or stock exchange, or on account of the possible criminal or civil penalties or restraint, or by reason of any provision, present or future, of our bylaws or other constituent documents or any provision of or governing any deposited securities, or by reason of any act of God or war or other circumstances beyond its control (including, without limitation, nationalization, expropriation, currency restrictions, work stoppage, strikes, civil unrest, revolutions, rebellions, explosions and computer failure);
- are not obligated to perform any act that is inconsistent with the terms of the deposit agreement;
- are not liable by reason of any exercise of, or failure to exercise, any discretion provided for in the deposit agreement or in our bylaws or other constituent documents or provisions of or governing deposited securities;
- disclaim any liability for any action or inaction of any of us or our respective controlling persons or agents in reliance upon the advice of or information from legal counsel, accountants, any person presenting preferred shares for deposit, any holder of ADSs or authorized representatives thereof, or any other person believed by any of us in good faith to be competent to give such advice or information;
- are not liable for any indirect, special, consequential or punitive damages for any breach of the terms of the deposit agreement;
- disclaim any liability for inability of any holder to benefit from any distribution, offering, right or other benefit made available to holders of deposited securities but not made available to holders of ADSs;
- may rely upon any documents we believe in good faith to be genuine and to have been signed or presented by the proper party;
- are not obligated to appear in, prosecute or defend any action with respect to deposited property or the ADSs, except under the circumstances set forth in the deposit agreement; and
- are not liable for any action or failure to act by any ADS holder relating to the ADS holder's obligations under any applicable Brazilian law or regulation relating to foreign investment in Brazil in respect of a withdrawal or sale of deposited securities, including, without limitation, any failure to comply with a requirement to register such investment pursuant to the terms of any applicable Brazilian law or regulation prior to such withdrawal or any failure to report foreign exchange transactions to the Central Bank, as the case may be.

The depositary and any of its agents also disclaim any liability (i) with respect to Brazil's system of share registration and custody, including any liability in respect of the unavailability of deposited securities (or any distribution in respect thereof), (ii) for any failure to carry out any instructions to vote, the manner in which any vote is cast or the effect of any vote or failure to determine that any distribution or action may be lawful or reasonably practicable or for allowing any rights to lapse in accordance with the provisions of the deposit agreement, (iii) the failure or timeliness of any notice from us, the content of any information submitted to it by us for distribution to you or for any inaccuracy of any translation thereof, (iv) any investment risk associated with the acquisition of an interest in the deposited securities, the validity or worth of the deposited securities, the credit-worthiness of any third party, (v) for any tax consequences that may result from ownership of ADSs, preferred shares or deposited securities, or (vi) for any acts or omissions made by a successor depositary.

In the deposit agreement, we and the depositary agree to indemnify each other under certain circumstances.

[Table of Contents](#)**Requirements for Depositary Actions**

Before the depositary will issue, deliver or register a transfer of an ADS, make a distribution on an ADS, or permit withdrawal of preferred shares, the depositary may require:

- payment of stock transfer or other taxes or other governmental charges and transfer or registration fees charged by third parties for the transfer of any preferred shares or other deposited securities and payment of the applicable fees, expenses and charges of the depositary;
- satisfactory proof of the identity and genuineness of any signature or other information it deems necessary; and
- compliance with (A) any laws or governmental regulations relating to the execution and delivery of ADRs or ADSs or to the withdrawal or delivery of deposited securities and (B) regulations it may establish, from time to time, consistent with the deposit agreement and applicable laws, including presentation of transfer documents.

The depositary may refuse to issue and deliver ADSs or register transfers of ADSs generally when the register of the depositary or our transfer books are closed or at any time if the depositary or we determine that it is necessary or advisable to do so.

**Your Right to Receive the Shares Underlying Your ADSs**

You have the right to cancel your ADSs and withdraw the underlying preferred shares at any time except:

- when temporary delays arise because: (1) the depositary has closed its transfer books or we have closed our transfer books; (2) the transfer of preferred shares is blocked to permit voting at a shareholders' meeting; or (3) we are paying a dividend on our preferred shares;
- when you owe money to pay fees, taxes and similar charges;
- when it is necessary to prohibit withdrawals in order to comply with any laws or governmental regulations that apply to ADSs or to the withdrawal of preferred shares or other deposited securities; or
- other circumstances specifically contemplated by Section I.A.(1) of the General Instructions to Form F-6 (as such General Instructions may be amended from time to time).

This right of withdrawal may not be limited by any other provision of the deposit agreement.

The depositary shall not knowingly accept for deposit under the deposit agreement any preferred shares or other deposited securities required to be registered under the provisions of the Securities Act, unless a registration statement is in effect as to such preferred shares.

**Pre-release of ADSs**

The deposit agreement permits the depositary to deliver ADSs before deposit of the underlying preferred shares. This is called a pre-release of the ADSs. The depositary may also deliver preferred shares upon cancellation of pre-released ADSs (even if the ADSs are cancelled before the pre-release transaction has been closed out). A pre-release is closed out as soon as the underlying preferred shares are delivered to the depositary. The depositary may receive ADSs instead of preferred shares to close out a pre-release. The depositary may pre-release ADSs only under the following conditions: (1) before or at the time of the pre-release, the person or entity to whom the pre-release is being made (a) represents to the depositary in writing that at the time of the pre-release transaction it or its customer owns the preferred shares or ADSs that are to be delivered by it under such pre-release transaction, (b) agrees to indicate the depositary as owner of such preferred shares or ADSs in its records and to hold such preferred shares or ADSs in trust for the depositary until such preferred shares or ADSs are delivered to the depositary or the custodian, (c) unconditionally guarantees to deliver such preferred shares or ADSs to the depositary or the custodian, as the case may be, and (d) agrees to any additional restrictions or requirements that the depositary deems appropriate; (2) at all times the pre-release is fully collateralized with cash, United States government securities or other collateral that the depositary considers appropriate; and (3) the depositary must be able to close out the pre-release on not more than five business days' notice. Each pre-release is subject to further indemnities and credit regulations as the depositary considers appropriate. In addition, the depositary will normally limit the number of ADSs that may be outstanding at any time as a result of pre-release to 30% of the aggregate number of ADSs then outstanding, although the depositary may disregard the limit from time to time, if it thinks it is appropriate to do so.

[Table of Contents](#)**Direct Registration System**

In the deposit agreement, all parties to the deposit agreement acknowledge that the DRS and Profile Modification System, or Profile, will apply to uncertificated ADSs upon acceptance thereof to DRS by DTC. DRS is the system administered by DTC pursuant to which the depository may register the ownership of uncertificated ADSs, which ownership shall be evidenced by periodic statements issued by the depository to the ADS holders entitled thereto. Profile is a required feature of DRS which allows a DTC participant, claiming to act on behalf of an ADS holder, to direct the depository to register a transfer of those ADSs to DTC or its nominee and to deliver those ADSs to the DTC account of that DTC participant without receipt by the depository of prior authorization from the ADS holder to register such transfer.

## PART II

### ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

None.

### ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

None.

### ITEM 15. CONTROLS AND PROCEDURES

#### Disclosure Controls and Procedures

Disclosure controls and procedures are designed to ensure that information required to be disclosed by us in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We carried out an evaluation under the supervision of our management, including our chief executive officer and chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2020. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. Based upon our evaluation, our chief executive officer and chief financial officer concluded that as of December 31, 2020, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the applicable rules and forms, and that it is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

#### Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that: (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect our transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements following generally accepted accounting principles, and that our receipts and expenditures are being made only per authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, and that the degree of compliance with the policies or procedures may deteriorate.

Our management has assessed the effectiveness of our internal control over financial reporting as of December 31, 2020 based on the criteria established in "Internal Control—Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission, or COSO. Based on such assessment and criteria, our management has concluded that our internal control over financial reporting was effective as of December 31, 2020.

On May 14, 2020, we acquired Two Taxi Aereo Ltda (renamed Azul Conecta Ltda). Our management excluded Azul Conecta's internal controls over financial reporting from its assessment of the effectiveness of our internal controls over financial reporting as of December 31, 2020. Azul Conecta had total assets of R\$84.3 million (representing 0.5% of consolidated assets), and an equity of R\$64.1 million (representing -0.5 % of consolidated negative equity). Azul Conecta also represents R\$14.5 million of net revenue for the year ended December 31, 2020 (representing 0.3% of consolidated net revenue), and representing 0.2% of consolidated net loss, for the year then ended. These amounts were included in our consolidated financial statements for the year ended December 31, 2020.

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The effectiveness of our internal control over financial reporting as of December 31, 2020, has been audited by Ernst & Young Auditores Independentes S.S., the independent registered public accounting firm that also audited our consolidated financial statements, as stated in their report included herein.

**Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

It is important to mention that management has not assessed, however, the internal controls over financial reporting of Azul Conecta, waived by the fact that it was acquired during this annual assessment.

**ITEM 16. [RESERVED]****A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our board of directors has determined that Sérgio Eraldo de Salles Pinto, a member of our audit and corporate governance committee, meets the requirements of an “audit committee financial expert,” as defined by the SEC, and is an independent member of the audit committee under applicable SEC and NYSE rules.

See Item 6: “Directors, Senior Management and Employees—Directors and Senior Management—Board of Directors—Corporate Governance Committee.”

**B. CODE OF ETHICS**

We currently have a code of ethics which has been accepted by all of our directors and executive officers and other personnel. Our Code of Ethics and Conduct is available on our website at <http://ir.voeazul.com.br>, under the “Corporate Governance—Code of ethics” tab. The information on our website is not incorporated into this annual report.

**C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Audit Committee of the Azul Board of Directors has adopted a policy of pre-approval of services of the Company’s independent registered public accounting firm. The policy provides that the Audit Committee shall pre-approve all audit and non-audit services to be provided to Azul and its subsidiaries and affiliates by its independent auditors. The process by which this is carried out is as follows:

For recurring services, the Audit Committee reviews and pre-approves the independent registered public accounting firm’s annual audit services, comprised by the description of the services along with related fees. The Audit Committee also reviews and pre-approves other classes of recurring services along with the fee thresholds for pre-approved services. In the event that the additional services are required prior to the next scheduled Audit Committee meeting, pre-approvals of additional services must be submitted to the Audit Committee and cannot commence until such approval has been granted.

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All of the services in 2020 and 2019 under the Audit Fees, Audit Related Fees and Tax Fees categories below have been approved by the Audit Committee (in thousands of reais):

	Year Ended December,	
	2020	2019
Audit Fees <sup>(1)</sup>	4,395	4,377
Audit-Related Fees <sup>(2)</sup>	601	95
Tax Fees <sup>(3)</sup>	—	233
<b>Total</b>	<b>4,996</b>	<b>4,705</b>

- (1) "Audit fees" are the fees billed in connection with the audit of our annual consolidated financial statements, the review of our quarterly financial information, and the statutory audits of subsidiaries.  
(2) "Audit-related fees" refer to services related to the issuance of comfort letters in connection to the convertible debentures in 2020 and agreed upon procedures in 2019.  
(3) "Tax Fees" refer to fees billed in connection with tax compliance services in 2019.

Our audit committee pre-approves all audit and non-audit services provided by our independent auditor pursuant to the Sarbanes-Oxley Act of 2002.

#### D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

#### E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

Not applicable.

#### F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

Not applicable.

#### G. CORPORATE GOVERNANCE

As a foreign private issuer, we may follow our home country's corporate governance practices in lieu of most of the NYSE's corporate governance listing standards. Pursuant to Section 303A.11 of the Listed Company Manual of the New York Stock Exchange, we are required to provide a summary of the significant ways in which our corporate governance practices differ from those required for U.S. companies under the NYSE listing standards. The table below discloses the significant differences between our corporate governance practices and the NYSE.

NYSE Standards	Our Corporate Governance Practices
<b>Director Independence. Majority of board of directors must be independent. "Controlled companies," which would include our company if we were a U.S. issuer, are exempt from this requirement. A controlled company is one in which more than 50% of the voting power is held by an individual, group or another company, rather than the public. §303A.01</b>	<b>Director Independence.</b> A majority of our board of directors qualify as independent directors under the listing rules of the Brazilian stock exchanges.
<b>Executive Sessions. Non-management directors must meet regularly in executive sessions without management. Independent directors should meet alone in an executive session at least once a year. §303A.03</b>	<b>Executive Sessions.</b> Our corporate governance practices do not require non-management directors to meet regularly in executive sessions without management and independent directors are not required to meet alone in an executive session at least once a year.

[Table of Contents](#)**NYSE Standards****Our Corporate Governance Practices**

**Nominating/Corporate Governance Committee.** Nominating/corporate governance committee of independent directors is required. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. "Controlled companies" are exempt from these requirements. §303A.04 As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.

**Compensation Committee. Compensation committee of independent directors is required, which must evaluate and approve executive officer compensation. The committee must have a charter specifying the purpose, duties and evaluation procedures of the committee. "Controlled companies" are exempt from this requirement. §303A.05**

**As a controlled company, we would be exempt from this requirement if we were a U.S. issuer.**

**Audit Committee.** Audit committee satisfying the independence and other requirements of Exchange Act Rule 10A-3 and the more stringent requirements under the NYSE standards is required. §§303A.06, 303A.07

**Equity Compensation Plans.** Equity compensation plans require shareholder approval, subject to limited exemptions. §§303A.08 & 312.03

**Shareholder Approval for Issuance of Securities. Issuances of securities (1) that will result in a change of control of the issuer, (2) that are to a related party or someone closely related to a related party, (3) that have voting power equal to at least 20% of the outstanding common stock voting power before such issuance or (4) that will increase the number of shares by at least 20% of the number of outstanding shares before such issuance require shareholder approval. §§312.03(b)-(d)**

**Governance Committee.** We have a Governance Committee consisting of three members, two of whom must qualify as independent directors under the listing rules of the Brazilian stock exchanges, that are elected by and report directly to our board of directors. The purpose, roles, duties and procedures of the Governance Committee are specified by the Governance Committee's Internal Regulations.

**Compensation Committee.** We have a Compensation Committee consisting of three members, two of whom must qualify as independent directors under the listing rules of the Brazilian stock exchanges, that are elected by and report directly to our board of directors. The purpose, roles, duties and procedures of the Compensation Committee are specified by the Compensation Committee's Internal Regulations.

**Audit Committee.** We have an Audit Committee composed of three members who are elected by our board of directors and, according to our bylaws, a majority of which must be independent members. The members are appointed for a two-year term of office, being permitted reelection, with a limit of ten consecutive years in office. Upon reaching the ten consecutive year limit, members will become eligible to serve on this committee again after three years from the end of his or her last term of office. The audit committee is responsible for: (i) advising our board of directors regarding the selection of independent auditors, (ii) reviewing the scope of the audit and other services provided by our independent auditors, (iii) evaluating and monitoring related party transactions and (iv) evaluating our internal controls, among other things. All of our Audit Committee members qualify as directors under the listing rules of the Brazilian stock exchanges and at least one member of the audit committee is an audit committee "financial expert" within the meaning of the SEC rules and regulations.

**Equity Compensation Plans.** Our equity based compensation plans require shareholder approval. The grants under the plans require approvals from the Compensation Committee and our board of directors.

**Shareholder Approval for Issuance of Securities.** Issuances of securities require shareholder approval by absolute majority vote, with certain limited exceptions provided for in our bylaws.



**NYSE Standards****Our Corporate Governance Practices**

**Code of Business Conduct and Ethics.** Corporate governance guidelines and a code of business conduct and ethics is required, with disclosure of any waiver for directors or executive officers. The code must contain compliance standards and procedures that will facilitate the effective operation of the code. §303A.10

**Conflicts of Interest.** Determination of how to review and oversee related party transactions is left to the listed company. The audit committee or comparable body, however, could be considered the forum for such review and oversight. §307.00. Certain issuances of common stock to a related party require shareholder approval. §312.03(b)

**Solicitation of Proxies.** Solicitation of proxies and provision of proxy materials is required for all meetings of shareholders. Copies of such proxy solicitations are to be provided to NYSE. §§402.00 & 402.04

**H. MINE SAFETY DISCLOSURE**

Not applicable.

**Code of Business Conduct and Ethics.** Our Code of Ethics and Conduct, or the Code, last updated and approved by the Executive Committee and our board of directors on March 09, 2020, sets forth the ethical principles and standards of conduct that guide the businesses and decisions of the Company. The Code contains policies, standards, reporting procedures and other compliance procedures and established the Conduct Committee and Canal Confidencial to provide full transparency to and intensify the dissemination of the Code. The Conduct Committee is responsible for the management of the Code, ensuring its compliance and adequacy to the reality of the business environment of Azul. The Canal Confidencial consists of a direct communications platform that can be used by crewmembers to solve any doubts, obtain clarifications or file reports.

**Conflicts of Interest.** Conflicts of interest and related party transactions are governed by the Related-Party Transactions Policy of Azul, which was approved by our board of directors in November 2017, and amended in November 2019. The policy sets forth the reporting requirements of key management, the review and oversight procedures of the legal department, the standards of evaluation and approval of related party transactions by the legal department or board of directors, including the Audit Committee and Governance Committee, as applicable, the required disclosure of certain related party transactions, and penalties for noncompliance with the policy. The policy also prohibits certain related party transactions and exempts certain other transactions from the requirements of the policy.

**Solicitation of Proxies.** The solicitation of proxies and provision of proxy materials for the general shareholders' meeting are governed by Brazilian Corporate Law, our bylaws and the listing agreement signed with the NYSE.

[Table of Contents](#)**PART III****ITEM 17. FINANCIAL STATEMENTS**

We have responded to Item 18 in lieu of responding to this Item.

**ITEM 18. FINANCIAL STATEMENTS**

See our audited consolidated financial statements beginning on page F-1.

**ITEM 19. EXHIBITS**

Exhibit Number	Description
1.1**	<a href="#">Bylaws of the Registrant (English Translation)</a>
2.d**	<a href="#">Description of the Securities</a>
2.1*	<a href="#">Form of Deposit Agreement among the Registrant, Citibank, N.A., as depository, and the Owners and Holders from time to time of American Depository Shares issued thereunder (previously filed as Exhibit 4.1 of Form F-1 (File No. 333-220433) as filed with the SEC on September 12, 2017, and incorporated by reference herein).</a>
2.2*	<a href="#">Indenture, dated as of October 26, 2017, among Azul Investments LLP, Azul S.A., Azul Linhas Aéreas Brasileiras S.A. and U.S. Bank National Association. (previously filed as Exhibit 2.2 of Form 20-F (File No. 001-38049) as filed with the SEC on April 27, 2018, as incorporated by reference herein).</a>
4.1†*	<a href="#">Purchase Agreement COM0041-08, dated as of March 11, 2008, between Embraer – Empresa Brasileira de Aeronáutica S.A. and Canela Investments LLC, including Amendment No. 1, dated as of April 30, 2008; Amendment No. 2, dated as of July 31, 2008; Amendment No. 3, dated as of October 21, 2008; Amendment No. 4, dated as of August 31, 2008; Amendment No. 5, dated as of November 25, 2008; Amendment No. 6, dated as of December 12, 2008; Amendment No. 7, dated as of December 23, 2008; Amendment No. 8; dated as of March 12, 2009; Amendment No. 9, dated as of October 30, 2009; Amendment No. 10, dated as of December 21, 2009; Amendment No. 11, dated as of October 26, 2010; Amendment No. 12, dated as of September 30, 2011; Amendment No. 13; dated as of November 9, 2011; Amendment No. 14, dated as of December 1, 2011; Amendment No. 15, dated as of January 20, 2012; Amendment No. 16, dated as of May 2, 2012; Amendment No. 17, dated as of July 11, 2012; Amendment No. 18, dated as of December 28, 2012; Amendment No. 19, dated as of April 9, 2013; Amendment No. 20; dated as of May 29, 2013; Amendment No. 21, dated as of June 26, 2013; Amendment No. 22, dated as of March 13, 2014; Amendment No. 23, dated as of April 1, 2014; Amendment No. 24; dated as of April 29, 2014; Amendment No. 25, dated as of May 23, 2014; Amendment No. 26, dated as of July 30, 2014; and Amendment No. 27, dated as of September 24, 2015. (previously filed as Exhibit 10.1 of Pre-Effective Amendment No. 1 to our registration statement on Form F-1 (File No. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).</a>
4.2*	<a href="#">Sale and Purchase Contract, dated as of December 14, 2010, between Avions de Transport Régional and Canela Investments LLC, including the Amendment No. 1, dated as of December 22, 2011; and Amendment No. 2, dated as of December 4, 2012. (previously filed as Exhibit 10.2 of Pre-Effective Amendment No. 1 to our registration statement on Form F-1 (File No. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).</a>
4.3*	<a href="#">First Amendment to the Investment Agreement, dated as of August 15, 2012, between Azul S.A., Trip Participações S.A., Trip Investimentos Ltda. and Rio Novo Locações Ltda. (including the restated version of the Investment Agreement as Exhibit I); the Second Amendment to the Investment Agreement, dated as of December 27, 2013; the Third Amendment to the Investment Agreement, dated as of October 22, 2014; the Fourth Amendment to the Investment Agreement, dated as of June 26, 2015, between Azul S.A., Trip Participações S.A., Trip Investimentos Ltda., Rio Novo Locações Ltda. and Calfinco, Inc.; and the Fifth Amendment to the Investment Agreement, dated as of August 3, 2016, between Azul S.A., Trip Participações S.A., Trip Investimentos Ltda., Rio Novo Locações Ltda., Calfinco, Inc. and Hainan Airlines Holding Co. Ltd. (previously filed as Exhibit 10.7 of Pre-Effective Amendment No. 1 to our registration statement on Form F-1 (File No. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).</a>
4.4*	<a href="#">A320 NEO Purchase Agreement, dated as of October 24, 2014, between Airbus S.A.S. and Azul Finance LLC., including Amendment No. 1 to the A320 NEO Purchase Agreement, dated as of December 21, 2015. (previously filed as Exhibit 10.9 of Pre-Effective Amendment No. 1 to our registration statement on Form F-1 (File No. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).</a>

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Exhibit Number	Description
4.4.1*	<a href="#">Amendment N° 2 to the A320 NEO Purchase Agreement dated as of July 20, 2018; Amendment N° 3 to the A320 NEO Purchase Agreement, dated as of July 20, 2018 (previously filed as Exhibit 4.6.1 to Form 20-F/A (File No. 001-38049) as filed with the SEC on July 18, 2019 and incorporated by reference herein).</a>
4.4.2†**	<a href="#">Amendment N° 4 to the A320 NEO Purchase Agreement, dated as of December 26, 2019, Amendment N° 5 to the A320 NEO Purchase Agreement, dated as of December 26, 2019, Amendment N° 6 to the A320 NEO Purchase Agreement, dated as of August 28, 2020.</a>
4.5†*	<a href="#">Purchase Agreement COM0384-14, dated as of December 30, 2014, between Embraer S.A. and Azul Finance 2 LLC., including Amendment No. 1, dated as of September 4, 2015; Amendment No. 2, dated as of March 2, 2016; and Amendment No. 3, dated as of March 31, 2016. (previously filed as Exhibit 10.10 of Pre-Effective Amendment No. 1 to our registration statement on Form F-1 (File No. 333-215908) as filed with the SEC on March 3, 2017 and incorporated by reference herein).</a>
4.5.1†*	<a href="#">Amendment No. 4, dated as of December 22, 2016, to the Purchase Agreement COM0384-14, dated as of December 30, 2014, between Embraer S.A. and Azul Finance 2 LLC (previously filed as Exhibit 10.13 of Form F-1 (File No. 333-220433) as filed with the SEC on September 12, 2017, and incorporated by reference herein).</a>
4.5.2†**	<a href="#">Amendment N° 5 to Purchase Agreement COM0384-14, dated as of December 14, 2018, Amendment N° 6 to Purchase Agreement COM0384-14, dated as of November 20, 2019.</a>
4.6†*	<a href="#">Contract for Sale and Other Covenants, dated as of November 28, 2019, between Petrobras Distribuidora S.A. and Azul Linhas Aéreas Brasileiras S.A. (previously filed as Exhibit 4.6 to our annual report on Form 20-F for the year ended December 31, 2019, as filed with the SEC on April 30, 2020 and incorporated by reference herein).</a>
8.1**	<a href="#">List of subsidiaries of the Company.</a>
12.1**	<a href="#">Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
12.2**	<a href="#">Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>
13.1**	<a href="#">Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
13.2**	<a href="#">Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

(\*) Previously filed.

(\*\*) Filed herewith.

† Certain identified confidential information has been redacted from this exhibit because it is both (i) not material and (ii) would be competitively harmful if publicly disclosed.

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### Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf.

#### Azul S.A.

By: /s/ John Peter Rodgerson

Name: John Peter Rodgerson

Title: Chief Executive Officer

By: /s/ Alexandre Wagner Malfitani

Name: Alexandre Wagner Malfitani

Title: Chief Financial Officer

Dated: April 30, 2021

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## **Consolidated Financial Statements**

### **Azul S.A.**

December 31, 2020, 2019 and 2018

with Reports of Independent Registered Public Accounting Firm

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## Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of  
**Azul S.A.**

### Opinion on the Financial Statements

We have audited the accompanying consolidated statements of financial position of Azul S.A. (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board - IASB.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated April 30, 2021 expressed an unqualified opinion thereon.

### Basis for Opinion

These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by Management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.



### Maintenance reserve deposits

#### Description of the Matter

At December 31, 2020, the balance of maintenance reserve deposits totaled R\$1,321,646 thousand, as disclosed in Note 10. The Company is contractually committed, under the terms of lease agreements with aircraft lessors, to perform certain maintenance events on the aircraft or to reimburse the lessor based on the actual condition of the airframe, engines and limited life parts.

The recoverability of those deposits is assessed by Management based on the amounts that are expected to be reimbursed at the time of the next maintenance event, as disclosed in Note 4.9.2 to the consolidated financial statements. Amounts determined as non-recoverable are recognized as expenses in the consolidated statement of operations.

Auditing the recoverable maintenance deposits is specially challenging due to the degree of judgment required in estimating the expected time of the next maintenance event to be performed and the applicable expected utilization of the aircraft.

#### How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of the controls over maintenance reserve deposits. For example, we tested controls over the Company's analysis of maintenance reserve deposits recoverability, reconciliation of its balance to the underlying accounting records, as well as related review controls.

To test the recoverability of the maintenance reserve deposits our audit procedures included, among others, confirming maintenance reserve deposit balances for individual contracts with the respective lessors; tracing elements of actual maintenance expenses incurred to supporting documentation; evaluating the Company analysis of the recoverability of the maintenance reserve deposits that includes the assessment of the expected date of the next maintenance event and expected utilization of aircraft; comparing relevant inputs in the Company's estimate to contractual agreements with the lessors. We also assessed the Company's disclosures in respect of its maintenance reserve deposits in Notes 4.9.2 and 10 to the consolidated financial statements.

### Assessment of the impacts of the COVID-19 pandemic

#### Description of the Matter

As discussed in Notes 1.2 and 1.3 to the consolidated financial statements, as a result of the effects of COVID-19 global pandemic during the year 2020, the Company and the aviation industry experienced a significant decline in the demand for air transportation services. The Company incurred a net loss of R\$10,834,709 thousand in the year ended December 31, 2020, presented a total negative equity (deficit) of R\$14,148,750 thousand, and consolidated current liabilities exceeded consolidated current assets by R\$4,795,208 thousand as of December 31, 2020. As discussed in the aforementioned notes, management has taken a series of measures to address the situation created by the pandemic and concluded that those measures allow the Company to continue operating and fulfilling its obligations in the normal course of business, and that, therefore, the use of the going concern basis of accounting continues to be applicable for the preparation of the Company's consolidated financial statements.

Auditing management assessment was complex and required significant auditor judgement, as the judgements and assumptions applied by management in making their assessment include estimating future demand and revenue, the Company access to additional capital and other future market conditions, that are subject to significant estimation uncertainty. Those assumptions and judgements are forward-looking and could be affected by future economic events and market conditions, including the evolution of the pandemic.

#### How We Addressed the Matter in our audit

We obtained an understanding, evaluated the design and tested the operating effectiveness of controls over the process of management assessment. For example, we tested controls over the inputs into management financial forecasting model and management review controls over the conclusions reached based on the output of such model.

To test management assessment our audit procedures included, among others, involving our valuation specialists to assist in evaluating the management financial forecasting model and key assumptions; testing the mathematical accuracy of that model; comparing key inputs against historical financial information and records; performing a sensitivity analysis; inspecting support documentation such as lease contract amendments; comparing key inputs in the model to measures taken by management, such as flight network changes; and assessing management application of the relevant accounting framework. We also assessed the Company's disclosures in Notes 1.2 and 1.3 to the consolidated financial statements.

/s/ ERNST & YOUNG  
Auditores Independentes S.S.

We have served as the Company's auditor since 2009.  
São Paulo, Brazil  
April 30, 2021

[Table of Contents](#)**Report of Independent Registered Public Accounting Firm**

To the Shareholders and the Board of Directors of  
**Azul S.A.**

**Opinion on Internal Control over Financial Reporting**

We have audited Azul S.A.'s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Azul S.A. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

As indicated in the accompanying Management's Annual Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Azul Conecta Ltda. (previously denominated Two Táxi Aéreo Ltda.), which is included in the 2020 consolidated financial statements of the Company and constituted 0.5% and -0.5% of consolidated total assets and consolidated negative equity (deficit), respectively, as of December 31, 2020 and 0.3% and 0.2% of consolidated net revenue and consolidated net loss, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Azul Conecta Ltda.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's consolidated statements of financial position as of December 31, 2020 and 2019, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated April 30, 2021 expressed an unqualified opinion thereon.

**Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

**Definition and Limitations of Internal Control Over Financial Reporting**

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ ERNST & YOUNG  
Auditores Independentes S.S.

São Paulo, Brazil  
April 30, 2021

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[Table of Contents](#)**Consolidated statements of financial position**

As of December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$)

Assets	Note	December 31,	
		2020	2019
<b>Current assets</b>			
Cash and cash equivalents	5	3,064,815	1,647,880
Short-term investments	6	91,819	62,009
Accounts receivable	7	875,382	1,165,866
Aircraft sublease receivables	8	123,455	75,052
Inventories	9	402,587	260,865
Assets held for sale		—	51,850
Security deposits and maintenance reserves	10	318,460	258,212
Taxes recoverable	11	133,706	139,668
Derivative financial instruments	19	79,216	168,148
Prepaid expenses	12	136,350	139,403
Other current assets		191,633	169,778
Total current assets		5,417,423	4,138,731
<b>Non-current assets</b>			
Long-term investments	6	854,462	1,397,699
Aircraft sublease receivables	8	189,482	204,452
Security deposits and maintenance reserves	10	1,235,582	1,393,321
Derivative financial instruments	19	349,093	657,776
Taxes recoverable	11	—	244,601
Prepaid expenses	12	18,192	22,216
Other non-current assets		149,508	497,567
Property and equipment and right of use	14	6,410,447	9,553,643
Intangible assets	15	1,170,268	1,087,484
Total non-current assets		10,377,034	15,058,759
<b>Total assets</b>		<b>15,794,457</b>	<b>19,197,490</b>

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

[Table of Contents](#)**Consolidated statements of financial position**

As of December 31, 2020 and 2019

(In thousands of Brazilian reais – R\$)

<b>Liabilities and equity</b>	<b>Note</b>	<b>December 31,</b>	
		<b>2020</b>	<b>2019</b>
<b>Current liabilities</b>			
Loans and financing	16	858,332	481,227
Lease liabilities	17	2,272,349	1,585,233
Accounts payable	18	2,238,668	1,376,850
Accounts payable – supplier finance		157,801	249,727
Air traffic liability	20	2,488,872	2,094,254
Reimbursement to customers		221,342	—
Salaries, wages and benefits		400,371	357,571
Insurance premiums payable		52,427	49,938
Taxes payable		55,260	49,060
Federal tax installment payment program		13,358	13,480
Derivative financial instruments	19	173,769	81,196
Provisions	21	853,810	323,441
Other current liabilities		426,272	200,043
<b>Total current liabilities</b>		<b>10,212,631</b>	<b>6,862,020</b>
<b>Non-current liabilities</b>			
Loans and financing	16	6,502,182	3,036,929
Lease liabilities	17	10,248,463	10,521,388
Accounts payable	18	323,059	—
Derivative financial instruments	19	247,265	228,994
Deferred income tax and social contribution	13	—	242,516
Federal tax installment payment program		108,519	119,300
Provisions	21	1,988,665	1,489,911
Other non-current liabilities		312,423	215,606
<b>Total non-current liabilities</b>		<b>19,730,576</b>	<b>15,854,644</b>
<b>Equity</b>			
	23		
Issued capital		2,246,367	2,243,215
Advance for future capital increase		20,625	—
Capital reserve		1,947,887	1,928,830
Treasury shares		(13,182)	(15,565)
Other comprehensive income		655	(159,261)
Accumulated losses		(18,351,102)	(7,516,393)
<b>Total liabilities and equity</b>		<b>15,794,457</b>	<b>19,197,490</b>

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

[Table of Contents](#)**Consolidated statements of operations**

Years ended December 31, 2020, 2019 and 2018

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

	Note	Years ended December 31,		
		2020	2019	2018
Passenger revenue		5,039,607	10,907,889	8,670,132
Cargo and other revenue		704,519	534,428	386,932
<b>Net revenue</b>	26	<u>5,744,126</u>	<u>11,442,317</u>	<u>9,057,064</u>
Aircraft fuel		(1,508,750)	(3,085,603)	(2,644,261)
Salaries, wages and benefits		(1,426,637)	(1,868,402)	(1,413,017)
Landing fees		(465,606)	(724,971)	(592,100)
Traffic and customer servicing		(288,327)	(476,481)	(395,394)
Sales and marketing		(329,829)	(444,079)	(368,663)
Maintenance materials and repairs		(464,566)	(354,105)	(250,105)
Depreciation and amortization		(1,805,553)	(1,622,352)	(1,284,050)
Impairment		757,554	(2,897,333)	—
Other operating expenses, net		(1,611,493)	(1,164,391)	(915,850)
		<u>(7,143,207)</u>	<u>(12,637,717)</u>	<u>(7,863,440)</u>
<b>Operating profit (loss)</b>		<u>(1,399,081)</u>	<u>(1,195,400)</u>	<u>1,193,624</u>
Financial income	27	60,298	72,071	74,522
Financial expenses	27	(3,269,941)	(1,329,524)	(1,094,828)
Derivative financial instruments	19	(1,452,116)	325,452	298,094
Foreign currency exchange, net	27	(4,302,540)	(391,905)	(1,306,063)
		<u>(8,964,299)</u>	<u>(1,323,906)</u>	<u>(2,028,275)</u>
Result from related party transactions, net		(713,834)	(16,959)	381,725
<b>Loss before income tax and social contribution</b>		<u>(11,077,214)</u>	<u>(2,536,265)</u>	<u>(452,926)</u>
Current income tax and social contribution	13	(11)	(2,228)	(11,224)
Deferred income tax and social contribution	13	242,516	135,407	(171,581)
<b>Loss for the year</b>		<u>(10,834,709)</u>	<u>(2,403,086)</u>	<u>(635,731)</u>
Basic loss per common share – R\$	24	(0.42)	(0.09)	(0.03)
Diluted loss per common share – R\$	24	(0.42)	(0.09)	(0.03)
Basic loss per preferred share – R\$	24	(31.67)	(7.05)	(1.88)
Diluted loss per preferred share – R\$	24	(31.67)	(7.05)	(1.88)

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



[Table of Contents](#)**Consolidated statements of comprehensive loss**

Years ended December 31, 2020, 2019 and 2018

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

	Note	Years ended December 31,		
		2020	2019	2018
Loss for the year		(10,834,709)	(2,403,086)	(635,731)
<b>Other comprehensive income that may be reclassified to profit or loss in subsequent years:</b>				
Cash flows hedges	19	159,261	(5,292)	(139,281)
Post-employment benefit	21	655	—	—
Total comprehensive income for the year		<u>(10,674,793)</u>	<u>(2,408,378)</u>	<u>(775,012)</u>

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

[Table of Contents](#)**Consolidated statements of changes in equity**

Years ended December 31, 2020, 2019 and 2018

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

	Note	Issued capital	Advance for future capital increase	Treasury shares	Capital reserve	Other comprehensive income	Accumulated losses	Total
At December 31, 2017		2,163,377	—	(2,745)	1,898,926	(14,688)	(4,477,576)	(432,706)
Loss for the year		—	—	—	—	—	(635,731)	(635,731)
Cash flow hedge	19	—	—	—	—	(139,281)	—	(139,281)
<b>Total comprehensive loss</b>		—	—	—	—	(139,281)	(635,731)	(775,012)
Share buyback	23	—	—	(12,179)	—	—	—	(12,179)
Share-based payment		46,038	—	4,374	19,447	—	—	69,859
At December 31, 2018		2,209,415	—	(10,550)	1,918,373	(153,969)	(5,113,307)	(1,150,038)
Loss for the year		—	—	—	—	—	(2,403,086)	(2,403,086)
Cash flow hedge	19	—	—	—	—	(5,292)	—	(5,292)
<b>Total comprehensive loss</b>		—	—	—	—	(5,292)	(2,403,086)	(2,408,378)
Share buyback	23	—	—	(12,853)	—	—	—	(12,853)
Share-based payment		33,800	—	7,838	10,457	—	—	52,095
At December 31, 2019		2,243,215	—	(15,565)	1,928,830	(159,261)	(7,516,393)	(3,519,174)
Loss for the year		—	—	—	—	—	(10,834,709)	(10,834,709)
Post-employment benefit	21	—	—	—	—	655	—	655
Cash flow hedge	19	—	—	—	—	159,261	—	159,261
<b>Total comprehensive loss</b>		—	—	—	—	159,916	(10,834,709)	(10,674,793)
Share-based payment		3,152	20,625	2,383	19,057	—	—	45,217
At December 31, 2020		2,246,367	20,625	(13,182)	1,947,887	655	(18,351,102)	(14,148,750)

The accompanying notes are an integral part of these financial statements

[Table of Contents](#)**Consolidated statements of cash flow**

Years ended December 31, 2020, 2019 and 2018

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

	Years ended December 31,		
	2020	2019	2018
<b>Cash flows from operating activities</b>			
Loss for the year	(10,834,709)	(2,403,086)	(635,731)
<b>Reconciliation of non-cash items</b>			
Depreciation and amortization	1,805,553	1,622,352	1,284,050
Impairment of assets and onerous liabilities	(757,554)	2,897,333	—
Unrealized derivative results	2,207,470	(367,753)	(298,799)
Share-based payment	22,909	17,239	17,851
Exchange differences, net	4,040,946	448,901	1,243,882
Interest (income) expenses on assets and liabilities	2,166,133	1,082,256	866,895
Related parties	687,531	(3,241)	76,949
Deferred income tax and social contribution	(242,516)	(135,407)	171,581
Provision for loss on maintenance reverses	419,843	8,417	31,132
Provisions	281,479	68,814	78,866
Sale and Leaseback	(16,224)	—	—
Result from modification of lease contracts	(902,888)	—	—
Proceeds from sale and/or disposal of property and equipment and intangible assets	621,415	106,914	246,069
<b>Net adjusted profit (loss)</b>	<b>(500,612)</b>	<b>3,342,739</b>	<b>3,082,745</b>
<b>Change in operating assets and liabilities</b>			
Accounts receivable	341,759	(98,803)	(160,427)
Aircraft sublease receivables	69,336	66,899	4,854
Inventories	(44,587)	(78,511)	(53,011)
Security deposits and maintenance reserves	(173,778)	(57,848)	(96,162)
Prepaid expenses	(25,089)	(24,483)	(50,475)
Taxes recoverable	251,962	(15,718)	(170,950)
Other assets	272,718	(103,233)	(210,302)
Rights and obligations with derivatives	(257,021)	(2,412)	(373,831)
Accounts payable	993,546	83,593	245,785
Accounts payable – supplier finance	(249,727)	86,949	162,778
Reimbursement to customers	212,542	4,043	2,232
Salaries, wages and benefits	40,093	113,563	(2,328)
Insurance premiums payable	2,489	14,939	10,588
Taxes payable	4,212	(8,417)	12,581
Federal installment payment program	(9,749)	27,326	(8,722)
Air traffic liability	394,618	421,802	320,178
Provision for tax, civil and labor risks	(116,393)	(93,718)	(62,653)
Other liabilities	250,509	(112,578)	(42,680)
Interest paid	(480,294)	(969,061)	(845,297)
Income tax and social contribution paid	(304)	(2,434)	—
<b>Net cash provided by (used in) operating activities</b>	<b>976,230</b>	<b>2,594,637</b>	<b>1,764,903</b>
<b>Cash flows from investing activities</b>			
Short-term investments			
Acquisition of short-term investments	(1,471,743)	(1,451,616)	(2,843,002)
Disposal of short-term investments	1,513,613	1,816,862	3,387,015
Loans granted to third parties	—	(51,028)	—
Acquisition of subsidiary, net of cash acquired	(38,713)	—	—
Restricted investments	—	—	5,635
Proceeds from sale of property and equipment	45,670	59,381	363,157
Acquisition of intangible assets	(109,587)	(132,454)	(100,204)
Acquisition of property and equipment	(343,073)	(1,427,965)	(1,086,442)
<b>Net cash provided by (used in) investing activities</b>	<b>(403,833)</b>	<b>(1,186,820)</b>	<b>(273,841)</b>
<b>Cash flows from financing activities</b>			
Loans and financing			
Proceeds	1,936,223	592,312	798,940
Repayment	(192,408)	(174,304)	(915,329)
Lease payment	(834,086)	(1,372,701)	(1,082,239)
Proceeds from sale and leaseback	—	16,276	11,889
Capital increase due to exercise of stock options	23,777	37,767	47,634
Treasury shares	—	(12,853)	(12,179)
<b>Net cash provided by (used in) financing activities</b>	<b>933,506</b>	<b>(913,503)</b>	<b>(1,151,284)</b>
Exchange rate changes on cash and cash equivalents	(88,968)	(15,570)	67,039
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,416,935</b>	<b>478,744</b>	<b>406,817</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>1,647,880</b>	<b>1,169,136</b>	<b>762,319</b>
<b>Cash and equivalents at end of the year</b>	<b>3,064,815</b>	<b>1,647,880</b>	<b>1,169,136</b>

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

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**Notes to the consolidated financial statements**

December 31, 2020

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

**1. OPERATIONS**

Azul S.A. (“Azul” or “Company”) is a corporation governed by its bylaws, by Law No. 6,404/76 and by the corporate governance level 2 listing regulation of B3 S.A. – Brasil, Bolsa, Balcão (“B3”). The Company was incorporated on January 3, 2008, and its core business comprises the operation of regular and non-regular airline passenger services, cargo or mail, passenger charter, provision of maintenance and hangarage services for aircraft, engines, parts and pieces, aircraft acquisition and lease, development of frequent-flyer programs, development of related activities and equity holding in other companies.

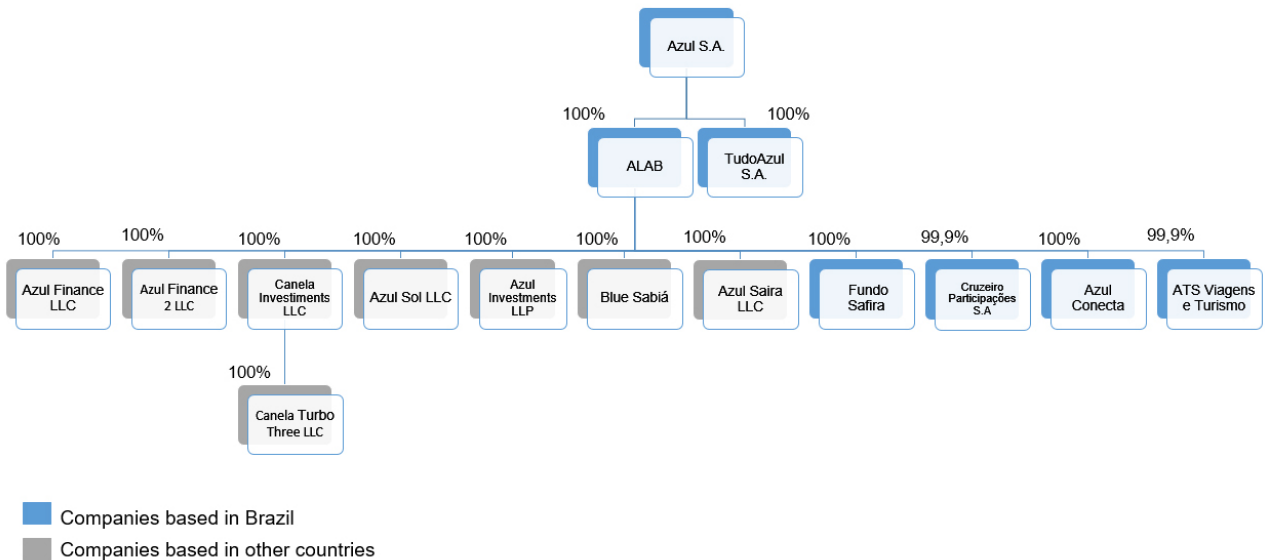
The Company carries out its activities through its subsidiaries, mainly Azul Linhas Aéreas Brasileiras S.A. (“ALAB”), which holds authorization from regulatory agencies to operate as an airline.

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

The Company is headquartered at Avenida Marcos Pentead de Ulhôa Rodrigues, 939, 9º andar, in the city of Barueri, state of São Paulo, Brazil.

**1.1 Shareholding structure**

The Company’s shareholding structure at December 31, 2020 is as follows:



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December 31, 2020

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

The Company's shareholding structure and operating activities in which its subsidiaries are engaged at December 31, 2020 and 2019 and changes for the year are as follows:

Company	Type of investment	Main activity	Country	% equity interest December 31,	
				2020	2019
TudoAzul S.A.	Direct	Loyalty programs	Brazil	100.00 %	100.00 %
Azul Linhas Aéreas Brasileiras S.A. (ALAB)	Direct	Airline operations	Brazil	100.00 %	100.00 %
TwoTaxi Aéreo Ltda. (Azul Conecta) (a)	Indirect	Airline operations	Brazil	100.00 %	—
ATS Viagens e Turismo Ltda.	Indirect	Package holidays	Brazil	99.90 %	99.90 %
Fundo Garoupa (b)	Indirect	Exclusive investment fund	Brazil	—	100.00 %
Fundo Safira	Indirect	Exclusive investment fund	Brazil	100.00 %	100.00 %
Cruzeiro Participações S.A	Indirect	Holding of equity interests in other companies	Brazil	99.90 %	99.90 %
Azul Investments LLP	Indirect	Funding	USA	100.00 %	100.00 %
Azul SOL LLC	Indirect	Aircraft financing	USA	100.00 %	100.00 %
Azul Finance LLC	Indirect	Aircraft financing	USA	100.00 %	100.00 %
Azul Finance 2 LLC	Indirect	Aircraft financing	USA	100.00 %	100.00 %
Blue Sabiá LLC	Indirect	Aircraft financing	USA	100.00 %	100.00 %
Canela Investments LLC (Canela)	Indirect	Aircraft financing	USA	100.00 %	100.00 %
Canela 407 LLC ( c)	Indirect	Aircraft financing	USA	—	100.00 %
Canela 429 LLC ( c)	Indirect	Aircraft financing	USA	—	100.00 %
Canela Turbo Three LLC	Indirect	Aircraft financing	USA	100.00 %	100.00 %
Global AzulAirProjects, SGPS, S.A. (Global) (d)	Indirect	Equity holding in other companies	Portugal	—	45.45 %
Daraland S.A. (e)	Indirect	Holding	Uruguay	—	100.00 %
Encenta S.A. (Azul Uruguai) (e)	Indirect	Airline operations	Uruguay	—	100.00 %
Azul Saíra LLC (f)	Indirect	Aircraft financing	USA	100.00 %	—

(a) Subsidiary acquired on May 14, 2020 (see Note 2).

(b) Investment fund closed in January 2020.

(c) Subsidiaries closed in August 2020.

(d) Divestiture in October 2020.

(e) Subsidiary closed in December 2020.

(f) Subsidiary established on December 7, 2020.

On December 7, 2020, the wholly-owned subsidiary of subsidiary ALAB, Azul Saíra, which is a co-lessor in the sublease contract entered with Breeze Airways, was established as detailed in Note 22.6.

**1.2. Impacts of the COVID-19 pandemic**

The beginning of 2020 brought a favorable environment to the Company with a good performance of sales and revenues, announcement of the new route to New York, and win of new key customers in the cargo transport. However, beginning March 11, 2020, when the World Health Organization ("WHO") classified the COVID-19 disease as a "public health emergency of international concern" and declared it a pandemic, a sharp rupture was noted in the global economic activity, unleashing an unprecedented economic crisis.

The speed of spread and contagion of the disease has caused countries around the world, including Brazil, to adopt measures to recommend social distancing, travel restrictions and the closure of borders. As a consequence, the airline industry was one of the first and hardest hit in its operations and results.

In order to face this absolutely challenging scenario, the Company, through its Executive Committee, started to monitor and establish operational and financial strategies to go through this period of crisis until the resumption of operations. The communication of these strategies was made in detail to the public through documents, whether Material News Release or Statements to the Market. The main actions include the following:

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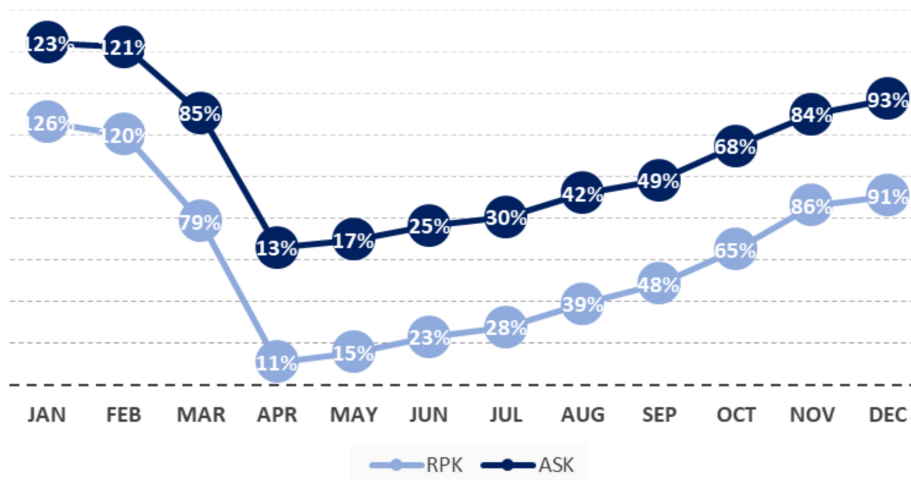
December 31, 2020

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

**1.2.1 Resizing of the airline network**

One of the first and most important actions taken by Management in response to the economic crisis unleashed by the COVID-19 pandemic was the resizing of its airline network, with reductions in capacity that reached its peak in April 2020. At this moment, the volume of ASKs offered in the domestic market accounted for only 13% of the volume of the same period of 2019, represented by approximately 70 daily flights, and in turn the demand reduced to 11% of the total of the previous year.

Since the beginning of the pandemic, Management has monitored the resumption of demand and managed the offer of flights, reaching in December 2020, in the domestic market, 93% of the volume of ASKs offered in the domestic market in the same period of 2019, while demand corresponded to 91%. According to data from *FlightRadar24*, Brazil is one of the countries with the highest speed of recovery in the domestic commercial aviation market. During the year, the recovery of demand and supply in the domestic market compared to 2019 developed as shown graphically below:

**ASK and RPK evolution 2020 x 2019**

Source: ANAC

The Company's Management continuously monitors all developments related to the COVID-19 pandemic, and will continue to make adjustments to the flight offer, if necessary, prioritizing above all the health and safety of all its crew and customers.

**1.2.2 Cost reductions**

During the year, the Company adopted several measures to reduce its fixed and variable costs, among which the following stand out:

- Suspension of hiring new crew members in the period between March and August 2020;
- Launch of an unpaid leave program, with the adhesion of more than 10,000 crew members, for periods between 30 and 120 days;
- Reduction of 50% to 100% in salaries for executive committee members and directors and of 25% for managers for the period between March and July 2020;
- Reduction of salary expenses by 65% in the period between March and August 2020, due to adherence to Provisional Executive Order 936/20; and
- Collective labor agreement to reduce the working hours of pilots and flight attendants for 18 months, starting in June 2020, ended at the end of 2020, due to the speed of resumption of operations in the domestic market.

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

**1.2.3 Strengthening of cash and liquidity**

Throughout the year, with the evolution of the pandemic, Management acted to preserve the liquidity in face of the crisis, establishing new agreements with suppliers, bank creditors and lessors, as well as accessing the capital market through issuance of debentures, as highlighted below:

- Postponement of payment of the profit sharing of 2019;
- Negotiation of new payment conditions with suppliers for cash preservation;
- Suspension of business travels and discretionary expenses;
- Negotiation to reduce aircraft parking fees;
- Agreement for postponement the delivery of 59 aircraft model E2;
- Agreement with lessors resulting in a reduction of approximately 77% of the cash outflow for the period between April and December 2020, offset by slightly higher amounts from 2023 and extension of the contractual terms. As from such renegotiations, in accordance with the requirements of IFRS 16 – Leases, these contracts were remeasured and the lease liabilities reduced by R\$5,701,928 (see Note 17);
- Renegotiation of the conditions and maturities of debentures and obligations of FINAME; and
- Issuance of debentures convertible into shares in the amount of R\$1,745,900 with maturity in 5 years and interest of 7.5% in the first year and 6.0% from the second year, with semiannual settlements.

**1.2.4 Support from government and regulators**

Since the beginning of the pandemic, state and federal governments and regulators took certain actions in support of airline companies. Among these actions, the following stand out:

- Enactment of Provisional Executive Order No. 925/20, converted into Law No. 14,034/20, which extended the period for rebooking trips to a period of up to 18 months, as well as extended to 12 months, counted from the flight cancellation date, deadline for repayment;
- Change in the deadline for payment of navigation and airport fees;
- Granting of a waiver for canceling slots using the regularity index, in line with a similar decision with other civil aviation organizations and authorities; and
- Extension by 120 days to renew the qualifications of the technical crew.

**1.2.5 Support to the society and care with crew and customers**

- Free transportation of health professionals;
- Maximizing the use of the Tapete Azul to avoid agglomerations on boarding;
- Landing organized by rows to avoid crowds within the aircraft;
- Use of a mask by all our crew and daily check of body temperature;
- Distribution of hand sanitizer to our customers;
- Implementation of Honeywell's ultraviolet ray cleaning system in our aircraft; and
- Free transport of vaccines to the cities where we operate.



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

**1.2.6 COVID-19 impacts on the consolidated financial statements**

Taking into consideration the economic scenario and the risks and uncertainties from the impacts of the economic and sanitary crisis unleashed by the COVID-19 pandemic, the following adjustments were recorded during the year:

<b>Description of adjustments</b>		<b>December 31, 2020</b>
Decrease in lease liabilities	(a)	5,701,928
Write-off of right of use (leased property and equipment)	(a)	(4,799,040)
Loss on fair value of conversion right – TAP Bond	(b)	(637,639)
Interest expense on reimbursement to customers	(c)	(8,800)
Effect on profit for the year		<u>256,449</u>
<b>Reclassifications</b>		<b>December 31, 2020</b>
Airline traffic liability	(c)	(212,542)
Obligations with reimbursement to customers	(c)	212,542

- (a) During the year, the Company renegotiated 96% of the aircraft and engine lease contracts. Such renegotiations included the deferral of payments and changes in contractual terms, and as a consequence, it was necessary to apply the requirements for contractual modification contained in IFRS 16 – Leases, which resulted in the reduction of the lease liability and the right-of-use assets, the difference was recognized in the statements of operations for the year.
- (b) On August 10, 2020, as informed at the Extraordinary General Meeting, due to the crisis caused by the COVID-19 pandemic, the Portugal Government's negotiated an aid of €1.2 billion for the airline TAP with the European Commission, conditional upon, among other factors, eliminating the right to convert senior bonds, since they would not be diluted by the Portugal Government's financial contribution. As a consequence, the elimination of the conversion right resulted in a loss recognized in the consolidated statement of operations of R\$637,639, recorded under "Result from related party transactions, net"; and
- (c) The amounts corresponding to customer reimbursement obligations, provided for in Law No. 14,034/20, resulting from flight cancellation, were reclassified to the line item of reimbursement to customers, in current liabilities, and subsequently adjusted by the National Consumer Price Index ("INPC").

**1.3. Capital structure and net working capital**

At December 31, 2020, the Company had a negative equity position of R\$14,148,750 (R\$3,519,174 at December 31, 2019). The variation in the balance is mainly due to the following factors:

- Strong reduction in demand for airline tickets as a result of the COVID-19 pandemic;
- Devaluation of 28.9% of the real against the U.S. dollar, in the year ended December 31, 2020, from R\$4.0307 to R\$5.1967, which significantly impacted the Company's result through the foreign currency exchange, net expense in the amount of R\$4,302,540, recorded in the financial result, and increased fuel, maintenance and interest costs with lease arrangements indexed to foreign currency; and
- Increase in financial expenses due to the issuance of convertible debentures, which, due to the appreciation of the Company's shares, generated an unrealized mark-to-market expenses in connection to the conversion right of R\$755,354.

In turn, consolidated net current liabilities increased by R\$2,071,919, reaching a negative position of R\$4,795,208 at December 31, 2020 (R\$2,723,289 at December 31, 2019). The variation in the balance is related to the following factors:

- Significant reduction in the position of accounts receivable due to the social distancing behavior adopted by our customers during the COVID-19 pandemic;
- Increase in obligations to suppliers due mainly to the negotiations carried out by the Company during the crisis; and
- Significant increase in lease obligations, loans, provisions for redelivery and onerous contracts, also impacted by the 28.9% devaluation of the real against the U.S. dollar.

The Company's management has taken several actions to obtain additional sources of liquidity, together with measures to contain non-essential operating expenses and cash outflows.

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Such actions have proven to be efficient to withstand the economic slowdown presented due to the COVID-19 pandemic. Among them, the following stand out: the deferral through the renegotiation of 96% of the contracts that represents lease obligations, renegotiation of financial debts such as debentures and obligations with derivatives and, finally, on November 12, 2020, the Company concluded the process of issuing convertible debentures, raising a total of R\$1,745,900, increasing the liquidity and expanding the business, as detailed in Note 16.

Management continuously monitors the effects of the crisis and will continue to adopt measures to strengthen its cash position.

Management also evaluated and concluded that the Company is in a position to continue its operations and comply with its obligations, according to the contracted maturities. This assessment is based on the Company's business plan, approved by the Board of Directors on December 10, 2020, which in turn includes planned future actions, macroeconomic and aviation sector assumptions, such as growth in gross domestic product, exchange rate and fuel price estimation.

Based on this conclusion, these financial statements were prepared based on the principle of going concern.

**1.4. Acceleration of fleet transformation**

In the last quarter of 2019, the Company's management approved the Embraer E195 phase-out plan ("E1"). The objective of the plan was to accelerate the replacement of its entire domestic E2 fleet, allowing the transport of a greater number of passengers with lower operating cost and less environmental impact, especially due to less fuel consumption. On the same date, the Company entered into agreements with the intention to sub-lease the E1 aircraft to other airlines 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.

The COVID-19 pandemic triggered the postponement of aircraft delivery plans to sub-lessors. It should be noted that the signed letters of intent are still valid. In December 2020, the first aircraft was delivered according to the sublease agreement signed with Breeze Airways, and others units are scheduled to be delivered in 2021.

At December 31, 2020, in the impairment calculation there are 51 aircraft and 4 engines (54 aircraft and 4 engines at December 31, 2019) and considering the updating of the Company's macroeconomic assumptions and business plans, the changes in the provision and the corresponding accounting balances are shown below:

The main assumptions used in the analysis included:

- Sublease revenue;
- Delivery and maintenance costs;
- residual value for own aircraft and under finance lease at the end of sublease contracts;
- Exchange rate;
- Pre-tax discount rate

**1.4.1 Breakdown of balances of provision for impairment and onerous liability**

Description	December 31,	
	2020	2019
Provision for impairment of ROU	(706,614)	(1,351,431)
Provision for impairment of aircraft and engines	(211,062)	(171,050)
Provision for impairment of rotables	(225,797)	(509,725)
Provision for impairment of inventories	(18,334)	(14,784)
Provision for impairment of other assets	(56,741)	(28,592)
Total provision for impairment of Company assets	(1,218,548)	(2,075,582)
Provision for onerous liabilities	(1,340,522)	(821,751)

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**1.4.2 Rollforward of the provision for impairment and onerous liability**

Description	Impairment of assets	Onerous liabilities	Total
<b>Balance at December 31, 2019</b>	(2,075,582)	(821,751)	(2,897,333)
Foreign currency exchange	—	(213,280)	(213,280)
Interest expense – adjustment of the provision for onerous liabilities	—	(206,011)	(206,011)
Additions of onerous liabilities	—	(362,426)	(362,426)
Consumption of aircraft material and rotables / onerous liabilities	272,006	262,946	534,952
Maintenance reserve	(20,486)	—	(20,486)
Sale of aircraft	13,123	—	13,123
Renegotiation of lease contracts (lease modification)	581,926	—	581,926
Other	10,465	—	10,465
<b>Balance at December 31, 2020</b>	<b>(1,218,548)</b>	<b>(1,340,522)</b>	<b>(2,559,070)</b>

**1.5 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.

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**2. BUSINESS COMBINATION****2.1 Acquisition of Two Táxi Aéreo Ltda.**

On May 14, 2020, the Company completed the acquisition of all the shares of Azul Conecta Ltda., previously denominated “Two Táxi Aéreo Ltda”. The transaction was approved without restrictions by the Brazilian Antitrust Authority (“CADE”) on March 27, 2020. On April 30, 2020, through a power of attorney, the Company assumed control of Azul Conecta, therefore, the transfer control occurred before the closing date mentioned above, in accordance with IFRS 3 – Business Combinations.

Azul Conecta offers regular passenger and cargo services to 39 destinations in Brazil, of which only seven were served by Azul. The acquired company also has 14 daily departure and arrival times on the auxiliary runway at the Congonhas airport, the country's main domestic terminal. Its fleet consists of 17 own aircraft, model Cessna Caravan, a single-engine regional turboprop with a capacity for nine passengers.

The total nominal amount of the transaction was R\$123,000. Payment will be made in up to 30 monthly installments, ranging from R\$3,000 to R\$10,000, subject to certain contractual and market conditions, and a final payment of up to R\$30 million, which will be kept deposited in a bank account as a guarantee in favor of Company for a specified period.

This acquisition generated goodwill of R\$57,446 initially allocated to the line item “Goodwill for expected future profitability” in the consolidated financial statements. The conclusion of the analysis of the fair value of the assets acquired and liabilities assumed will be complete within the period of 12 months following the acquisition.

Azul Conecta contributed revenues of R\$14,505 and pre-tax losses of R\$25,966 from the acquisition date until December 31, 2020. Had the business combination occurred at the beginning of the year, revenue would have totaled R\$35,921 and pre-tax losses would be R\$35,881.

Description	Fair value of assets and liabilities
<b>Assets</b>	
Cash and cash equivalents	3,971
Accounts receivable	3,637
Inventories	1,624
Taxes recoverable	1,399
Other assets	458
Property and equipment (a)	74,205
	85,294
<b>Liabilities</b>	
Loans and financing	(16,540)
Accounts payable	(5,764)
Salaries, accruals and payroll charges	(2,707)
Taxes payable	(824)
Provision for tax, civil and labor risks (b)	(1,687)
Other liabilities	(650)
	(28,172)
Net assets acquired	57,122
Consideration at present value	114,568
Goodwill for expected future profitability	57,446
<b>Cash flows</b>	
Net cash acquired with subsidiary	3,971
Payment	(42,684)
Net cash flow from acquisition	(38,713)

(a) The Company carried out the fair value measurement of property and equipment based on conditions at the acquisition date. Fair value recognized in this line item amounts to R\$56,820.

(b) The Company recognized R\$500 of fair value from possible contingencies.

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**3. DECLARATION OF MANAGEMENT, BASIS FOR PREPARATION AND PRESENTATION OF THE FINANCIAL STATEMENTS**

The Company's financial statements were prepared in accordance with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The Company's consolidated financial statements have been prepared based in Brazilian Reais ("R\$") as a functional and presentation currency and are expressed in thousands of reais, unless otherwise indicated, as well as the disclosures of amounts in other currencies, when necessary, have also been made in thousands.

The preparation of the Company's 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 could 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.

Management, when preparing these consolidated financial statements, 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 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 consolidated financial statements, and only such information, is being evidenced and corresponds to that used by Management when carrying out its business management activities.

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

- Short-term investments classified as cash and cash equivalents measured at fair value;
- Short-term investments comprising mainly exclusive investment funds, measured at fair value;
- TAP bonds;
- Right to convert obligations with debentures issued in 2020;
- Derivative financial instruments.

The approval and authorization for the issuance of these consolidated financial statements took place at the Board of Directors' meeting held on April 27, 2021.

**4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies adopted by the Company in the preparation of these consolidated financial statements, which were applied consistently in the comparative years presented, are set out below.

**4.1 Consolidation**

The consolidated financial statements include information about the Company and its subsidiaries in which Azul held direct or indirect control. Control of a subsidiary is achieved when Azul is exposed, or has rights, to variable returns in such subsidiaries and have 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 and liabilities, equity, income, expenses and cash flows related to transactions between related parties are eliminated in full in the consolidation process.

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**4.2 Business combinations**

The Company accounts for business combinations using the acquisition method. The cost of an acquisition is measured as the sum of the consideration transferred, which is measured at acquisition date fair value. Acquisition-related costs are expensed as incurred.

In the acquisition of a business, Management assesses the assets acquired and liabilities assumed in order to classify and allocate them according to the contractual terms, economic circumstances and relevant conditions at the acquisition date. Goodwill is initially measured as the excess of the consideration transferred over the fair value of the net assets acquired (identifiable assets and liabilities assumed, net). After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill is allocated to each of the cash-generating units that are expected to benefit from the acquisition.

**4.3 Cash and cash equivalents**

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 classified in this group are measured at fair value through profit or loss.

**4.4 Short-term investments**

In the presentation and measurement of financial assets, the Company considers the provisions of IFRS 9 – "Financial Instruments" 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:

**4.4.1 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 in 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".

**4.4.2 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: (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 designed to eliminate or significantly reduce an accounting mismatch and are therefore measured at fair value.

**4.5 Accounts receivable**

These are measured based on the invoiced amount, net of expected losses on receivables, and approximate the fair value given their short-term nature. The allowance for expected losses on receivables is measured by applying the simplified approach, through the use of historical data, projecting the expected loss over the life of the contract and no longer based on the historical loss incurred, 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.

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**4.6 Aircraft sublease receivables**

The sublease receivable is a transaction whereby the lessee subleases the asset that is the subject of a lease to a third party, thus becoming an intermediate lessor. IFRS 16 – Leases, 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, 2020 cover most of the term of the head lease, these were accounted for as follows:

- Derecognition of the right-of-use assets 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 assets 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; and
- Recognition of financial expenses relating to obligations of the host lease contract.

**4.7 Inventories**

Inventory balances mainly comprise materials for maintenance and replacement of 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 transfers between operational bases are not capitalized, if incurred. Provisions for obsolescence of inventories are recorded for items not expected to be realized.

**4.8 Assets held for sale**

Assets held for sale are measured at the lower of their carrying amount and fair value, less costs to sell, and are not depreciated or amortized. Such items are only classified under this line item when the sale is highly probable and they are available for immediate sale in their present conditions. At December 31, 2020, the Company did not have items classified in this category. The item previously classified under this line item returned to the operations.

**4.9 Security deposits and maintenance reserves****4.9.1 Security deposits**

Security deposits are represented by amounts deposited by the Company to the lessors of aircraft, as required at the inception of the lease, as guarantee for the fulfillment of the lease contract. Security deposits are denominated in U.S. dollars, do not bear interest and are not reimbursable at the end of the contracts.

**4.9.2 Maintenance reserves**

Certain master lease agreements provide that we pay maintenance reserves to aircraft lessors to be held as collateral in advance of the performance of major maintenance activities. Maintenance reserve deposits are reimbursable to us upon completion of the maintenance event in an amount equal to the lower of:

- 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 a utilization measure, such as flight hours or cycles, and are used solely to collateralize the performance of maintenance by the lessor. At the reporting date we assess whether the maintenance reserve payments required by the master lease agreements are expected to be recovered through the performance of qualifying maintenance on the leased assets. We assess recoverability of amounts currently on deposit with a lessor by comparing them to the amounts that are expected to be reimbursed at the time of the next maintenance event. Maintenance deposits expected to be recovered are held in assets, and the amounts identified as non-recoverable are considered as maintenance costs.

Aircraft maintenance reserves are classified as current or non-current depending on the dates when the related maintenance is expected to be performed.



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**4.10 Income tax and contribution****4.10.1 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 losses carryforward, 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.

**4.10.2 Deferred taxes**

Deferred taxes represent credits and debits on tax losses carryforward, as well as temporary differences between the tax and accounting bases. Deferred tax 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 off-set 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 enacted tax rates at the reporting date. The projections of future taxable profits on tax losses carryforward are prepared based on the business plans and are reviewed and approved annually by the Board of Directors.

On January 1, 2019, the interpretation of IFRIC 23 – Uncertainty over Income Tax Treatments, became effective, addressing the application of recognition and measurement requirements when there is uncertainty over income tax treatments.

The Company analyzed relevant tax decisions of higher courts and whether they conflict in any way with the positions adopted by the Company. For known uncertain tax positions, the Company reviewed the corresponding legal opinions and legal case and did not identify impacts to be recorded, since it concluded that the tax authorities are not likely to accept the positions adopted.

The Company will periodically evaluate the positions assumed in which there are uncertainties about the tax treatment adopted and will set up a provision when applicable.

**4.11 Property and equipment**

Property and equipment, including rotatable components (replacement parts), are stated at acquisition cost. Loan and financing costs are recorded as part of the costs of property and equipment in progress considering the weighted average rate of loans and financing in force at the capitalization date.

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 amount of property and equipment is tested annually for impairment when facts or changes in circumstances indicate that the carrying amount is greater than the estimated recoverable amount. In turn, the carrying amount of the aircraft is tested for impairment annually, even if there are no circumstances that indicate the existence of impairment.

An item of property and equipment is derecognized upon 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 statement of operations.

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.

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Additionally, the Company adopts the following treatment for the groups below:

**4.11.1 Lease contracts**

IFRS 16 – Leases, establishes the principles for the recognition, measurement, presentation and disclosure of lease transactions and requires lessees to account for all leases in accordance with a single balance sheet model. The standard includes two exemptions from recognition for lessees – leases of “low value” assets and short-term leases, that is, leases with a term of 12 months or less.

At the inception of the lease, the lessee recognizes 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 assets). Lessees must separately recognize interest expense on the lease liability and depreciation expense for the right-of-use assets.

Lessees must also 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 amount of the lease liability as an adjustment to the right-of-use assets.

In determining the discount rate, the Company primarily used those contracted in funding operations that took place close to the date of start and/or modification of lease contracts, in the Brazilian and U.S. markets. For operations in the Brazilian market, the Company converted the cost of funding to the equivalent of one transaction in U.S. dollars, adjusting this according to the country risk and the interest rate differential between Brazil and the United States of America. Thus, it was concluded that the built-in inflationary effects are very low, in addition to the fact that 99.4% of the Company's lease transactions are denominated in U.S. dollar.

**4.11.2 Sale and leaseback transactions**

First, sale and leaseback transactions are analyzed within the scope of IFRS 15 – Revenue from Contracts with Customers, 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 set out in IFRS 15 are met, the Company measures a right-of-use assets arising from the sale and leaseback transaction in proportion to the carrying amount of the asset related to the right-of-use assets retained by the Company. Accordingly, only the gains or losses related to the rights transferred to the buyer-lessor are recognized.

**4.11.3 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”), landing gear and two engines. The economic useful life is the period extending up to the next heavy maintenance or structural check or the remaining useful life of the aircraft/engines or lease contract, whichever is shorter.

**4.11.4 Capitalization of heavy maintenance events**

The Company has maintenance contracts for its engines that cover all significant maintenance events. Subsequent 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 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 statement of operations 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.

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**4.11.5 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, defined as restoration events, upon the receipt of the aircraft, 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.

**4.11.6 Advance payments for acquisition of aircraft**

Property and equipment prepayments for aircraft acquisition are recorded, including interest and financial charges incurred during the aircraft manufacturing phase and improvements to third-party assets.

**4.12 Intangible assets****4.12.1 Definite useful life**

Intangible assets acquired are measured at cost at the time of their initial recognition. After initial recognition, intangible assets with definite 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 operations for the year in which it was incurred.

**4.12.2 Indefinite useful life****4.12.2.1 Goodwill for expected future profitability**

In this category, the amounts recorded are related to goodwill arising from business combinations of Tudo Azul S.A. (formerly TRIP Linhas Aéreas S.A.) and Azul Conecta Ltda. (formerly Two Táxi Aéreo Ltda.). Goodwill is tested annually by comparing the carrying amount with the recoverable amount of the cash-generating unit. 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. No impairment has been recorded to date.

**4.12.2.2 Rights of operations in airports (slots)**

In connection with the acquisition of TudoAzul (former TRIP), 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. No impairment has been recorded to date.

**4.13 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.

To assess the recoverability of an asset, it is necessary to estimate its recoverable amount. 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.

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Aircraft and engines in operation are tested for impairment, by comparing the net carrying amount with the fair value indicated by specialized publications. After this comparison, Management concluded that there are no losses related to the right-of-use assets recorded in the asset, and therefore no provision for loss on these assets was recorded.

As disclosed in Note 1.4, the Company intends to sublease the E1 model aircraft, in accordance with its fleet transformation acceleration plan and, accordingly, a provision for impairment was established. The details and assumptions adopted are also included in that note to financial statements.

**4.14 Rights and obligations with derivatives**

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 that may or may not be designated for hedge accounting and, if so, are classified as cash flow or fair value hedge.

**4.14.1 Derivative financial instruments not designated as hedge accounting**

The Company may contract derivative financial instruments that are not designated as hedge accounting when the objectives of Risk Management do not require such classification. Transactions not designated as hedge accounting present the change in their fair value directly in the financial result.

**4.14.2 Derivative financial instruments designated as fair value hedge**

The instruments designated as fair value hedge aim to protect changes in the fair value of the hedged item, which may be an asset, a liability or a firm commitment.

The change in the fair value of a hedge instrument is recognized in the statement of operations, as well as the change in the fair value of the hedged item attributable to the hedged risk.

**4.14.3 Derivative financial instruments designated as cash flow hedge**

The instruments designated as cash flow hedge aim to protect future results arising from changes in interest rates and foreign currency. The effectiveness of the variations is estimated based on statistical correlation methods and by the ratio between the hedge gains and losses and the variation of the hedged costs and expenses. The effective changes in fair value are recognized in equity in "Other comprehensive income (loss)", until the recognition of the result of the hedged item. The inefficiencies found in each reporting period are recognized in the financial result. Hedge transactions recorded in "Other comprehensive income (loss)" are net of tax effects.

**4.14.4 Derecognition and write-off of derivative financial instruments**

The hedge accounting is discontinued prospectively when the Company and its subsidiaries (i) cancel the hedge relationship; (ii) the derivative instrument expires or is sold, terminated or executed, (iii) when there is low predictability of realization of the hedged item, or (iv) when it no longer qualifies as hedge accounting. If the operation is discontinued, any gains or losses, previously recognized in "Other comprehensive income (loss)" and accumulated in equity up to that date, are immediately recognized in profit or loss for the year.

**4.15 Loans and financing**

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 method, with the exception of the embedded derivative contained in the convertible debentures, issued in November 2020, which is measured at fair value through profit or loss.

**4.16 Accounts payable and other**

These are initially recognized at fair value and subsequently increased, where applicable, by the corresponding charges and monetary and exchange variations incurred up to the end of the reporting period.

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**4.16.1 Accounts payable – supplier finance**

Management negotiated 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. Taking into account that the early receipt with financial institutions is an option for suppliers, this does not generate financial expenses for the Company, and the Company is neither refunded and/nor benefited with discounts from the financial institution due to payment before the maturity date agreed upon with the supplier. There is no change in the bill subordination level in the event of judicial execution.

**4.17 Air traffic liability**

This represents the Company's obligations to provide air transport services and other ancillary services related to the main obligation with its customers, net of breakage revenue already recognized in the statement of operations, as detailed in Note 20.

**4.18 Provisions****4.18.1 Provision for return of aircraft (asset retirement obligation)**

Aircraft negotiated under the operating lease 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 expenses related to aircraft reconfiguration (interior and exterior), obtaining licenses and technical certifications, verifications of returns, painting, etc., as established in the contract. 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.

**4.18.2 Provision for onerous contract**

Onerous contract is 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 IAS 36 – Impairment of assets.

**4.18.3 Provision for tax, civil and labor risks**

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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.

**4.19 Employee benefits****4.19.1 Executive bonus and employee profit sharing**

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

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**4.19.2 Share-based payment**

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

The cost of transactions with executives, settled with equity instruments and with awards, 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, as detailed in Note 25.

The cost of equity-settled transactions is recognized, 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 cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and Management's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement or statement of operations for the period is recognized in "Salaries, wages and benefits" and represents the movement in cumulative expense recognized as at the beginning and end of that year.

No expense is recognized for awards that do not ultimately vest, except for awards in which vesting is conditional on a market condition (condition connected to the Company's share price), which are treated as vested irrespective of whether the market conditions are met or not, provided that all other vesting conditions are met.

The cost of cash-settled transactions is initially measured at fair value at the grant date. This fair value is expensed over the period up to the maturity date, with the recognition of a corresponding liability. The liability is remeasured at fair value at the reporting date up to the settlement date, with the changes in fair value recognized in the statement of operations for the year under "Salaries, wages and benefits".

**4.19.3 Post-employment benefits**

As of the year ended December 31, 2020, the Company started to recognize actuarial assets and liabilities related to health insurance benefits offered to its employees in accordance with IAS 19 – "Employee Benefits". Actuarial gains and losses are recognized in other comprehensive income based on the actuarial report prepared by independent experts, while the benefits paid directly by the Company, the cost of current service and the cost of interest are recognized in statement of operations for the year.

**4.20 Treasury shares**

Own equity instruments that are acquired (treasury shares) are recognized at cost and deducted from equity. No gain or loss is recognized in statement of operations on the purchase, sale, issue or cancellation of these equity instruments. Any difference between the carrying amount and the fair value, if the share is reissued, is recognized in the share premium.

**4.21 Revenue recognition****4.21.1 Passenger, cargo and auxiliary service revenue**

Passenger revenue is recognized when air transportation is actually provided. Tickets sold but not yet flown are recorded as air traffic liability, representing deferred revenue from tickets sold to be flown on a future date, net of breakage revenue estimate.

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 terms are also considered provision of air transport services. At least annually, the calculations 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.

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**4.21.2 Frequent-flyer program revenue – TudoAzul**

Under the “TudoAzul” program, customers accrue points based on the amount spent on tickets flown. 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 period. 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 IFRS 15 – Revenue from Contracts with Customers.

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 awarded or sold and not used are recorded in “Air traffic liability”.

**4.22 Financial income and expenses**

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

**4.23 Earnings (loss) per share**

Basic earnings (loss) per share are calculated by dividing the net income (loss) for the year attributed to the Company's controlling shareholders by the weighted average number of all classes of shares outstanding during the year.

Diluted earnings (loss) per share are calculated by adjusting the weighted average number of shares outstanding by instruments potentially convertible into shares, unless these adjustments are not dilutive.

**4.24 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's Management identified the operating segment that meet the quantitative and qualitative parameters of disclosure and mainly represent types of business.

Parameters	% net revenue December 31,	
	2020	2019
<b>Qualitative</b>		
Passenger service	n/a	n/a
<b>Quantitative</b>		
Passenger service	86.7 %	94.9 %
Cargo service	12.7 %	4.7 %
Other revenue	0.6 %	0.4 %



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The Company regularly manages its business and makes resource allocation decisions considering the existence of only one operating segment, which is why only the information available for the cargo transportation segment is not being disclosed, as there is not a complete set of financial information being commonly prepared.

**4.25 Significant accounting estimates**

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

- ticket breakage revenue and frequent-flyer programs (Note 20);
- allowance for expected losses (Note 7);
- annual impairment test of deferred taxes (Note 13);
- analysis of recoverability of maintenance deposits (Note 10);
- useful life of property and equipment and intangible assets with finite useful life (Notes 14 and 15);
- annual impairment test of goodwill (Note 15);
- slot recovery analysis (Note 15);
- provision for post-employment benefits (Note 21.4);
- provision for tax, civil and labor risks (Note 21.2);
- provision for return of aircraft and engines (Note 21.1);
- share-based payment (Note 25).

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.

**4.26 New accounting standards and interpretations adopted**

On May 28, 2020, the IASB published an amendment to IFRS 16 – Leases as a result of benefits granted (“lease concessions”) due to the COVID-19 pandemic. In certain renegotiations of its lease contracts, the Company adopted the provisions of said standard and the effects on these consolidated financial statements are immaterial.

**4.27 New accounting standards and pronouncements not yet adopted**

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

**4.28 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 operations for the year.

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

Description	Final rate			Average rate		
	December 31,			December 31,		
	2020	2019	2018	2020	2019	2018
U.S. dollar	5.1967	4.0307	3.8748	5.1578	3.9461	3.6558
Euro	6.3779	4.5305	4.4390	5.8989	4.4159	4.3094

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**5. CASH AND CASH EQUIVALENTS**

Description	Effective interest rate p.a.	December 31,	
		2020	2019
Cash and bank deposits		465,054	308,958
Cash equivalents			
Bank Deposit Certificate – CDB	1.9%	2,216,592	156,593
Debentures	1.9%	361,183	1,160,795
Exclusive investment funds	1.2%	21,986	21,534
		3,064,815	1,647,880

**6. SHORT AND LONG -TERM INVESTMENTS**

Description	Effective interest rate p.a.	December 31,	
		2020	2019
Exclusive investment funds	1.2%	62,972	40,766
Investment funds	0.7%	28,847	21,243
TAP Bonds	6.7%	854,462	1,236,828
Other investments	—	—	160,871
		946,281	1,459,708
<b>Current</b>		91,819	62,009
<b>Non-current</b>		854,462	1,397,699

Investment funds comprise Brazilian government bonds, bank notes, CDBs and debentures issued by companies with a risk rating between AAA and A+. Brazilian government bonds comprise National Treasury Bills (“LTN”), Financial Treasury Bills (“LFT”) and National Treasury Notes (“NTN”).

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

**7. ACCOUNTS RECEIVABLE**

Description	December 31,	
	2020	2019
<b>Local currency</b>		
Credit card companies	394,895	768,839
Cargo and travel agencies	146,854	127,509
Azul Viagens	56,870	88,410
TudoAzul program	65,522	56,485
Other	52,713	59,715
Total local currency	716,854	1,100,958
<b>Foreign currency</b>		
Credit card companies	8,927	4,439
Maintenance reserve	112,170	6,726
Airline partner companies	24,910	17,598
Insurance	7,150	24,112
Other	21,502	26,749
Total foreign currency	174,659	79,624
Total	891,513	1,180,582
Allowance for expected losses	(16,131)	(14,716)
Total net	875,382	1,165,866

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

Description	December 31,	
	2020	2019
<b>Current (not past due)</b>		
Up to 30 days	476,378	734,218
31 to 60 days	69,729	110,392
61 to 90 days	46,007	82,142
91 to 180 days	86,215	170,182
181 to 360 days	65,386	46,945
Total current	743,715	1,143,879
<b>Past due</b>		
Up to 30 days	104,377	7,429
31 to 60 days	8,371	4,149
61 to 90 days	4,228	5,720
91 to 180 days	5,077	111
181 to 360 days	6,178	563
Over 360 days	3,436	4,015
Total past due	131,667	21,987
Total	875,382	1,165,866

Changes in the allowance for expected losses are as follows:

Description	December 31,	
	2020	2019
Balances at the beginning of the year	(14,716)	(12,723)
Business combination – Azul Conecta	(380)	—
(Inclusions) and reversals	(3,205)	(1,993)
Write-off of uncollectible amounts	2,170	—
Balances at the end of the year	(16,131)	(14,716)

**8. AIRCRAFT SUBLEASE RECEIVABLES**

Description	December 31,	
	2020	2019
2020	—	98,152
2021	142,932	86,657
2022	62,547	47,136
2023	65,040	44,154
2024	65,188	44,154
After 2024	36,783	20,588
Gross lease receivables	372,490	340,841
Accrued interest	(59,553)	(61,337)
Net lease receivables	312,937	279,504
<b>Current</b>	123,455	75,052
<b>Non-current</b>	189,482	204,452

As at December 31, 2020, the amount of R\$34,457 was past due. No provision was established as the Company's holds cash balances in connection with guarantee deposits and maintenance reserves advanced by the sub-lessor, and therefore, there is a low risk of non-realization of such assets. There were no past due amounts as at December 31, 2019.

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**9. INVENTORIES**

<b>Description</b>	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Maintenance parts and materials	442,161	288,824
Flight attendance and uniforms	9,579	5,768
Provision for loss on inventories	(49,153)	(33,727)
<b>Total net</b>	<b>402,587</b>	<b>260,865</b>

Changes in the provision for losses on inventories:

<b>Description</b>	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Balances at the beginning of the year	(33,727)	(15,935)
Additions	(16,438)	(19,815)
Write-offs	1,012	2,023
<b>Balances at the end of the year</b>	<b>(49,153)</b>	<b>(33,727)</b>

**10. SECURITY DEPOSITS AND MAINTENANCE RESERVES**

The changes in security deposits and maintenance reserves for the years ended December 31, 2020 and 2019 is as follows:

<b>Description</b>	<b>Maintenance reserve</b>	<b>Security deposit</b>	<b>Total</b>
Balances at December 31, 2018	1,321,490	225,230	1,546,720
Additions	343,727	37,614	381,341
Write-offs	(8,417)	—	(8,417)
Reimbursements	(210,356)	(113,137)	(323,493)
Foreing exchanges variations	52,454	2,928	55,382
<b>Balances at December 31, 2019</b>	<b>1,498,898</b>	<b>152,635</b>	<b>1,651,533</b>
Business combination – Azul Conecta	—	298	298
Additions	313,950	93,739	407,689
Impairment	(20,486)	—	(20,486)
Write-offs	(419,843)	—	(419,843)
Reimbursements	(476,588)	(43,519)	(520,107)
Foreing exchanges variations	425,715	29,243	454,958
<b>Balances at December 31, 2020</b>	<b>1,321,646</b>	<b>232,396</b>	<b>1,554,042</b>
<b>Current</b>	<b>318,460</b>	<b>—</b>	<b>318,460</b>
<b>Non-current</b>	<b>1,003,186</b>	<b>232,396</b>	<b>1,235,582</b>

Management assessed that the above balances are realizable in accordance with the business plan.

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**11. TAXES RECOVERABLE**

	December 31,	
	2020	2019
IRPJ and CSSL recoverable	4,443	11,357
Withholding income tax	3,470	5,082
PIS and COFINS recoverable	123,005	323,457
ICMS recoverable	1,765	7,002
INSS recoverable	519	27,904
Other taxes recoverable	504	9,467
	<u>133,706</u>	<u>384,269</u>
<b>Current assets</b>	133,706	139,668
<b>Non-current assets</b>	—	244,601

**12. PREPAID EXPENSES**

Description	December 31,	
	2020	2019
Insurance premiums	49,428	47,506
Expenses with leased aircraft and engines	28,351	39,989
Guarantee commission	40,678	16,332
Other	36,085	57,792
Total	<u>154,542</u>	<u>161,619</u>
<b>Current</b>	136,350	139,403
<b>Non-current</b>	18,192	22,216

**13. TAXES****13.1 Reconciliation of deferred tax assets (liabilities)**

Description	December 31, 2019	Statement of operations	December 31, 2020
<b>Temporary differences</b>			
Fair value of TAP Bonds	(243,288)	217,156	(26,132)
Financial instruments	(201,738)	79,778	(121,960)
Deferred revenue – TudoAzul Program	(148,963)	31,423	(117,540)
Depreciation of aircraft and engines	(48,899)	(4,283)	(53,182)
Foreing exchanges variations	(16,498)	16,498	—
Fair value of other investments	(21,963)	21,963	—
Active temporary difference (*)	421,563	(102,749)	318,814
	<u>(259,786)</u>	259,786	—
<b>Tax loss and CSSL negative base</b>			
Tax loss	12,699	(12,699)	—
Negative social contribution base	4,571	(4,571)	—
	<u>17,270</u>	(17,270)	—
<b>Total</b>	<u>(242,516)</u>	242,516	—

(\*) Deferred taxes assets recognized up in the limit of the deferred taxes liabilities recognized.

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**13.2 Reconciliation of the effective income tax rate**

Description	Years ended December 31,		
	2020	2019	2018
Profit (loss) before income tax and social contribution	(11,077,214)	(2,536,265)	(452,926)
Combined nominal tax rate	34 %	34 %	34 %
Taxes calculated at nominal rates	3,766,253	862,330	153,995
<b>Adjustments to determine the effective rate</b>			
Profits from investments not taxed abroad	—	(10,341)	3,050
(Unrecorded) benefit on tax loss carryforwards	(3,257,190)	(880,375)	(400,187)
Offset against PERT (a)	—	84,711	—
Permanent differences	(244,011)	76,958	65,971
Other	(22,547)	(104)	(5,634)
	<u>242,505</u>	<u>133,179</u>	<u>(182,805)</u>
Current income tax and social contribution	(11)	(2,228)	(11,224)
Deferred income tax and social contribution	242,516	135,407	(171,581)
Income tax and social contribution credit (expense)	<u>242,505</u>	<u>133,179</u>	<u>(182,805)</u>
<b>Effective rate</b>	2 %	5 %	(40)%

(a) Tax Recovery Program ("PERT")

The Company offsets tax assets and tax liabilities if, and only if, it has a legal right to offset such assets when they are levied on the same legal entity and collected by the same tax authority.

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

Description	December 31,		
	2020	2019	2018
Tax loss carryforwards – net	5,751,867	1,971,779	1,829,244
Income tax loss carryforwards (25%)	1,437,967	492,945	457,311
Social contribution on tax loss carryforwards (9%)	517,668	177,460	164,632

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**14. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS****14.1 PROPERTY AND EQUIPMENT**

Description	Weighted average rate (p.a.)	December 31, 2019	Business combination – Azul Conecta	Acquisitions	Disposals/write-offs	Contractual modifications	Transfers (a)	December 31, 2020
<b>Cost</b>								
Aircraft and engines		2,706,529	97,814	259,986	(689,771)	—	(76,897)	2,297,661
Building and leasehold improvements		296,728	—	22,433	(2,104)	(975)	169,165	485,247
Equipment and facilities		176,814	780	21,324	(12,867)	—	(4,957)	181,094
Other – property and equipment		24,297	294	818	—	—	2,599	28,008
Construction in progress		171,839	—	40,464	(4,485)	—	(174,188)	33,630
Advance payments for acquisition of aircraft		84,578	—	20,800	(13,434)	—	—	91,944
		<u>3,460,785</u>	<u>98,888</u>	<u>365,825</u>	<u>(722,661)</u>	<u>(975)</u>	<u>(84,278)</u>	<u>3,117,584</u>
<b>Depreciation</b>								
Aircraft and engines	8%	(612,124)	(24,214)	(207,908)	230,855	—	(11,345)	(624,736)
Building and leasehold improvements	17%	(78,001)	—	(50,795)	35	—	—	(128,761)
Equipment and facilities	12%	(97,990)	(326)	(21,191)	11,786	—	(196)	(107,917)
Other – property and equipment	11%	(16,654)	(142)	(2,792)	—	—	(18)	(19,606)
		<u>(804,769)</u>	<u>(24,682)</u>	<u>(282,686)</u>	<u>242,676</u>	<u>—</u>	<u>(11,559)</u>	<u>(881,020)</u>
<b>Total property and equipment</b>		<u>2,656,016</u>	<u>74,206</u>	<u>83,139</u>	<u>(479,985)</u>	<u>(975)</u>	<u>(95,837)</u>	<u>2,236,564</u>
<b>Impairment</b>		<u>(687,176)</u>	<u>—</u>	<u>—</u>	<u>250,318</u>	<u>—</u>	<u>—</u>	<u>(436,858)</u>
<b>Total property and equipment, net</b>		<u>1,968,840</u>	<u>74,206</u>	<u>83,139</u>	<u>(229,667)</u>	<u>(975)</u>	<u>(95,837)</u>	<u>1,799,706</u>

Description	Weighted average rate (p.a.)	December 31, 2018	Acquisitions	Disposals/write-offs	Transfers	December 31, 2019
<b>Cost</b>						
Aircraft and engines		2,007,825	712,679	(222,745)	208,770	2,706,529
Buildings and leasehold improvements		146,315	124,181	(3,118)	29,350	296,728
Equipment and facilities		130,655	48,101	(2,091)	149	176,814
Other – property and equipment		22,035	2,267	(5)	—	24,297
Construction in progress		81,023	319,275	—	(228,459)	171,839
Advance payments for acquisition of aircraft		112,923	55,649	(45,081)	(38,913)	84,578
		<u>2,500,776</u>	<u>1,262,152</u>	<u>(273,040)</u>	<u>(29,103)</u>	<u>3,460,785</u>
<b>Depreciation</b>						
Aircraft and engines	9%	(509,296)	(177,372)	74,544	—	(612,124)
Buildings and leasehold improvements	17%	(53,030)	(25,157)	186	—	(78,001)
Equipment and facilities	13%	(81,412)	(17,265)	687	—	(97,990)
Other – property and equipment	8%	(14,799)	(1,860)	5	—	(16,654)
		<u>(658,537)</u>	<u>(221,654)</u>	<u>75,422</u>	<u>—</u>	<u>(804,769)</u>
<b>Total property and equipment</b>		<u>1,842,239</u>	<u>1,040,498</u>	<u>(197,618)</u>	<u>(29,103)</u>	<u>2,656,016</u>
<b>Impairment</b>		<u>—</u>	<u>(687,176)</u>	<u>—</u>	<u>—</u>	<u>(687,176)</u>
<b>Total property and equipment, net</b>		<u>1,842,239</u>	<u>353,322</u>	<u>(197,618)</u>	<u>(29,103)</u>	<u>1,968,840</u>

(a) Balance of aeronautical material transferred to "Inventories" in amount of R\$110,937 for the year ended December 31, 2020.



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**14.2 RIGHT-OF-USE ASSETS**

Description	Weighted average rate (p.a.)	December 31, 2019	Acquisitions (a)	Disposals/write-offs	Contractual modifications	Transfers (b)	December 31, 2020
<b>Cost</b>							
Aircraft		12,071,427	2,197,881	(25,741)	(4,736,892)	68,701	9,575,376
Engines and simulators		484,597	86,995	(38,160)	(6,515)	1,393	528,310
Restoration of aircraft and engines		423,194	290,785	(116,968)	—	—	597,011
Maintenance of aircraft and engines		1,374,925	168,513	(82,887)	(54,658)	8,614	1,414,507
Properties		114,167	—	—	—	—	114,167
Other		42,391	109	(12,065)	—	—	30,435
		14,510,701	2,744,283	(275,821)	(4,798,065)	78,708	12,259,806
<b>Depreciation</b>							
Aircraft	8%	(4,538,684)	(954,452)	25,741	—	(31,220)	(5,498,615)
Engines and simulators	14%	(231,625)	(67,191)	35,595	—	(1,392)	(264,613)
Restoration of aircraft and engines	9%	(145,546)	(37,315)	—	—	—	(182,861)
Maintenance of aircraft and engines	27%	(549,869)	(368,476)	32,729	—	(6,709)	(892,325)
Properties	9%	(64,042)	(10,565)	—	—	—	(74,607)
Other	16%	(34,776)	(6,717)	12,064	—	—	(29,429)
		(5,564,542)	(1,444,716)	106,129	—	(39,321)	(6,942,450)
<b>Total right-of-use assets</b>		<b>8,946,159</b>	<b>1,299,567</b>	<b>(169,692)</b>	<b>(4,798,065)</b>	<b>39,387</b>	<b>5,317,356</b>
<b>Impairment</b>		<b>(1,361,356)</b>	<b>—</b>	<b>72,815</b>	<b>581,926</b>	<b>—</b>	<b>(706,615)</b>
<b>Total right-of-use assets, net</b>		<b>7,584,803</b>	<b>1,299,567</b>	<b>(96,877)</b>	<b>(4,216,139)</b>	<b>39,387</b>	<b>4,610,741</b>

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Description	Weighted average rate (p.a.)	December 31, 2018	Acquisitions	Disposals/write-offs	Transfers	December 31, 2019
<b>Cost</b>						
Aircraft		8,232,475	4,031,436	(118,193)	(74,291)	12,071,427
Engines and simulators		336,731	147,866	—	—	484,597
Restoration of aircraft and engines		283,542	139,652	—	—	423,194
Maintenance of aircraft and engines		923,517	534,502	(88,102)	5,008	1,374,925
Properties		105,754	8,413	—	—	114,167
Other		28,766	14,475	(850)	—	42,391
		9,910,785	4,876,344	(207,145)	(69,283)	14,510,701
<b>Depreciation</b>						
Aircraft	11%	(3,691,143)	(928,018)	52,589	27,888	(4,538,684)
Engines and simulators	11%	(192,902)	(38,723)	—	—	(231,625)
Restoration of aircraft and engines	12%	(112,043)	(33,503)	—	—	(145,546)
Maintenance of aircraft and engines	33%	(290,617)	(304,356)	45,104	—	(549,869)
Properties	12%	(51,604)	(12,438)	—	—	(64,042)
Other	77%	(13,251)	(22,141)	616	—	(34,776)
		(4,351,560)	(1,339,179)	98,309	27,888	(5,564,542)
<b>Total right-of-use assets</b>		5,559,225	3,537,165	(108,836)	(41,395)	8,946,159
<b>Impairment</b>		—	(1,361,356)	—	—	(1,361,356)
<b>Total right-of-use assets, net</b>		5,559,225	2,175,809	(108,836)	(41,395)	7,584,803

(a) ROU acquisitions are net of credits obtained from aircraft and engine manufacturers.

(b) Balance of available for sale transferred to "Property and equipment" in amount of R\$54,487.

During the year ended December 31, 2020, the Company carried out a sale and leaseback transaction for five of its own engines. The gain related to this operation corresponds to the amount of R\$17,104, recognized in "Other operating expenses, net".

In accordance with IFRS 16 – Leases, it was necessary to apply the requirements that deal with lease modification. The effects related to these modifications are represented by a reduction in the lease liabilities of R\$5,701,928, with a balancing item in right-of-use assets in the amount of R\$4,799,040, with the difference recognized in the statement of operations in "Other operating expenses, net" in the amount of R\$902,888.

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**15. INTANGIBLE ASSETS**

Breakdown and changes in intangible assets:

Description	Weighted average rate (p.a.)	Consolidated			
		December 31, 2019	Acquisitions	Disposals/write-offs	December 31, 2020
<b>Cost</b>					
Goodwill for expected future profitability (a)	—	753,502	57,446	—	810,948
Airport operating license (b)	—	82,196	—	—	82,196
Software	—	489,904	109,587	(6,157)	593,334
		<u>1,325,602</u>	<u>167,033</u>	<u>(6,157)</u>	<u>1,486,478</u>
<b>Amortization</b>					
Software	16%	(238,118)	(78,151)	59	(316,210)
		<u>(238,118)</u>	<u>(78,151)</u>	<u>59</u>	<u>(316,210)</u>
<b>Total intangible assets, net</b>		<u>1,087,484</u>	<u>88,882</u>	<u>(6,098)</u>	<u>1,170,268</u>

Description	Weighted average rate (p.a.)	Consolidated			
		December 31, 2018	Additions	Disposals/write-offs	December 31, 2019
<b>Cost</b>					
Goodwill for expected future profitability (a)	—	753,502	—	—	753,502
Airport operating license (b)	—	82,196	—	—	82,196
Software	—	357,457	132,447	—	489,904
		<u>1,193,155</u>	<u>132,447</u>	<u>—</u>	<u>1,325,602</u>
<b>Amortization</b>					
Software	17%	(176,599)	(61,519)	—	(238,118)
		<u>(176,599)</u>	<u>(61,519)</u>	<u>—</u>	<u>(238,118)</u>
<b>Total intangible assets, net</b>		<u>1,016,556</u>	<u>70,928</u>	<u>—</u>	<u>1,087,484</u>

(a) Goodwill for expected future profitability arises from the acquisition of Tudo Azul S.A. in 2012 and Azul Conecta in 2020. The amount of R\$810,948 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 for the acquisition of Tudo Azul S.A., the Company recognized the value of operating licenses for certain airports and has an indefinite useful life.

**15.1 Impairment of intangible without a finite useful life**

As at December 31, 2020, the Company performed annual impairment tests, through the discounted cash flow of the cash-generating unit. As disclosed in Note 4.12, the Company operates only a single 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 on December 10, 2020.

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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 U.S. 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, 2020 was identified.

**15.2 Sensitivity analysis of the impairment test of intangible assets without a finite useful life**

	December 31,			
	2020		2019	
	Goodwill for expected future profitability	Airport operating license	Goodwill for expected future profitability	Airport operating license
Carrying amount	810,948	82,196	753,502	82,196
Carrying amount – CGU	6,410,447	—	9,553,643	—
Value in use	32,227,871	1,726,007	34,595,386	3,219,401
Pre-tax discount rate	10.3%	8.5%	8.8%	9.8%
Growth rate in perpetuity	3.0%	3.0%	3.4%	3.4%

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**16. LOANS AND FINANCING****16.1 Breakdown and changes in loans and financing**

Description	Nominal rate p.a.	Effective rate p.a.	Maturity	December 31, 2019	Proceeds	Variation of conversion right	Debt acknowledgment	Business combination – Azul Conecta	Payment of principal	Payment of interest	Interest incurred	Foreign exchanges variations	Amortized cost	December 31, 2020
<b>In foreign currency – US\$</b>														
Working capital	1% to 5.9%	6.2 %	Oct/24	1,727,882	4,682	—	—	—	(907)	(137,795)	132,033	504,766	6,183	2,236,844
Debentures	6.0% to 7.5%	20.5 %	Oct/25	—	1,702,155	755,354	—	—	—	—	25,116	(82,358)	19,437	2,419,704
Aircraft and engines	4.7% to 6.0% Libor 3M + 2.4% to 2.9% Libor 6M + 2%	5.6 %	Mar/29	896,232	—	—	—	—	(111,703)	(23,880)	54,178	268,404	1,474	1,084,705
<b>In local currency – R\$</b>														
Working capital	5.0% to 10.7% CDI + 2% to 6% TJLP + 5%	4.1 %	Dec/23	37,355	229,386	—	527,375	4,975	(58,746)	(3,366)	39,365	—	107	776,481
Debentures	CDI + 3%	2.9 %	Dec/23	692,407	—	—	—	—	—	(18,459)	24,238	—	(7,282)	690,904
Aircraft and engines	6.0% to 6.5% Selic + 2.8% to 5.5% TJLP + 5%	6.1 %	May/25	164,280	—	—	—	11,565	(21,052)	(10,241)	7,649	—	(325)	151,876
<b>Total in R\$</b>				<b>3,518,156</b>	<b>1,936,223</b>	<b>755,354</b>	<b>527,375</b>	<b>16,540</b>	<b>(192,408)</b>	<b>(193,741)</b>	<b>282,609</b>	<b>690,812</b>	<b>19,594</b>	<b>7,360,514</b>
<b>Current</b>				481,227										858,332
<b>Non-current</b>				3,036,929										6,502,182

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Description	Nominal rate p.a.	Effective rate p.a.	Maturity	December 31, 2018	Proceeds	Payment of principal	Payment of interest	Interest incurred	Exchange differences	Foreign exchanges variations	December 31, 2019
<b>In foreign currency – US\$</b>											
Working capital	LIBOR + 0.88% a 5.90%	5.7 %	Oct/24	1,656,947	—	(350)	(96,970)	94,610	70,629	3,016	1,727,882
Aircraft and engines	LIBOR +2.55% a 6.07% US Treasury + 3.25%	5.5 %	Mar/29	100,042	813,328	(43,795)	(24,047)	28,076	19,386	3,242	896,232
<b>In local currency – R\$</b>											
Working capital	5.00% 125% a 126% do CDI	7.2 %	Dec/23	75,757	—	(37,752)	(5,059)	3,520	—	889	37,355
Debentures	117% e 122% do CDI	6.8 %	Dec/23	730,519	—	(64,345)	(26,784)	49,808	—	3,209	692,407
Aircraft and engines	6.00% a 6.50% SELIC +5.46%a.a.	4.5 %	May/25	192,861	—	(29,864)	(12,738)	13,977	—	44	164,280
Total in R\$				<u>2,756,126</u>	<u>813,328</u>	<u>(176,106)</u>	<u>(165,598)</u>	<u>189,991</u>	<u>90,015</u>	<u>10,400</u>	<u>3,518,156</u>
<b>Current</b>				158,813							481,227
<b>Non-current</b>				2,597,313							3,036,929

**16.2 Schedule of amortization of long-term debt**

Description	December 31,	
	2020	2019
2021	—	539,378
2022	743,137	359,943
2023	914,343	277,465
2024	2,264,451	1,764,136
2025	2,551,701	62,164
After 2025	28,550	33,843
	<u>6,502,182</u>	<u>3,036,929</u>

**16.3 Debentures convertible into shares**

On November 12, 2020, the Company concluded the public offering for the distribution of debentures convertible into preferred shares, with security interest and additional guarantee of the Company, with the following characteristics: total issue amount: (i) R\$1,745,900; (ii) issue date: October 26, 2020; (iii) term and maturity date: 5 years from the date of issue, maturing therefore on October 26, 2025; (iv) Conversion price: R\$32.2649 per preferred share, resulting in an initial conversion premium of 27.50%, calculated on the VWAP (Volume Weighted Average Price) of 30 trading sessions of the reference stock price of R\$25.3058.

The issuance of debentures is part of Azul's efforts to contain the economic impact of the COVID-19 pandemic on its operations and the Company expects to use the net proceeds obtained for working capital, expansion of its logistics activities and other strategic opportunities.

The debentures are redeemable, totally or partially, in cash at the Company's discretion at any time, after 36 months, if the last price reported by American Depositary Share (ADS) representing Azul's preferred share exceeds 130% of the conversion price for a specific period.

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The debentures are guaranteed by the Company and its main operating subsidiary, ALAB, and are guaranteed by certain assets, including, but not limited to, intellectual property assets held by the guarantors and the TudoAzul frequent-flyer program, certain rights related to the right-of-use assets of the hangar and specific equipment necessary for maintenance of the hangar used by the Company and located at the Viracopos airport.

As required by IFRS 9 – Financial Instruments, the conversion right was measured at fair value through profit or loss as it is an embedded derivative. Thus, since the issuance of debentures, due to the strong recovery of the shares value, an expense of R\$755,354 was recognized. It should be noted that conversion rights are “in the money” with a high probability of execution by debenture holders.

**16.4 Covenants**

As at December 31, 2020, the Company has loans and financing subject to covenants related to the Company’s indebtedness level and the debt service coverage ratio.

<b>Covenant related to:</b>	<b>Indicators for the measurement</b>	<b>Frequency of measurement</b>
9 <sup>th</sup> issue of debentures	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1.2	Annual
10 <sup>th</sup> issue of debentures	(ii) Financial leverage less than or equal to 6.5.	
Aircraft financing	(i) Adjusted debt service coverage ratio (DSCR) equal to or greater than 1.2 (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 (ii) financial leverage less than or equal to 6.5.	Annual

Due to the impact caused by the COVID-19 pandemic, the Company previously requested a waiver to the counterparties, and obtained it in 2020. Therefore, the related debt is still classified in these financial statements according to the contractual flow originally established.



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**17. LEASE LIABILITIES****17.1 Changes in lease liabilities**

Description	Average payment term in years	Weighted average rate	December 31, 2019	Additions	Contractual modifications	Payments	Interest incurred	Write-offs	Foreign exchanges variations	December 31, 2020
<b>Lease without purchase option:</b>										
Aircraft and engines	7.89	22.19%	11,046,134	2,329,443	(5,327,038)	(1,162,869)	1,431,944	(4,912)	3,350,441	11,663,143
Other	2.12	8.11%	72,230	—	—	(21,741)	6,881	—	(92)	57,278
<b>Lease with purchase option:</b>										
Aircraft and engines	5.54	13.56%	988,257	—	(374,890)	(231,417)	130,326	—	288,115	800,391
Total in R\$			<u>12,106,621</u>	<u>2,329,443</u>	<u>(5,701,928)</u>	<u>(1,416,027)</u>	<u>1,569,151</u>	<u>(4,912)</u>	<u>3,638,464</u>	<u>12,520,812</u>
<b>Current liabilities</b>			1,585,233							2,272,349
<b>Non-current liabilities</b>			10,521,388							10,248,463

Description	Average payment term in years	Weighted average rate	December 31, 2018	Additions	Payments	Interest incurred	Write-offs	Foreign exchanges variations	December 31, 2019
<b>Lease without purchase option:</b>									
Aircraft and engines	8.26	8.20%	7,725,397	4,153,314	(1,865,472)	726,613	(24,775)	331,057	11,046,134
Other	2.90	7.64%	82,545	22,888	(39,008)	8,628	(279)	(2,544)	72,230
Aircraft and engines	4.24	6.15%	1,111,804	32,188	(269,988)	70,767	—	43,486	988,257
Total in R\$			<u>8,919,746</u>	<u>4,208,390</u>	<u>(2,174,468)</u>	<u>806,008</u>	<u>(25,054)</u>	<u>371,999</u>	<u>12,106,621</u>
<b>Current liabilities</b>			1,237,909						1,585,233
<b>Non-current liabilities</b>			7,681,837						10,521,388

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### 17.2 Schedule of lease amortization

Description	December 31,	
	2020	2019
2020	—	2,481,457
2021	2,498,180	2,335,363
2022	3,206,765	2,406,701
2023	3,641,808	1,875,308
2024	3,610,754	1,560,055
After 2024	14,211,063	5,580,166
Minimum lease payment	27,168,570	16,239,050
Financial charges	(14,647,758)	(4,132,429)
Present value of minimum lease payments	<u>12,520,812</u>	<u>12,106,621</u>

During the year ended December 31, 2020, the Company renegotiated aircraft and engine lease contracts, which included the deferral of payments and changes in contractual terms. Accordingly, in accordance with IFRS 16 – Leases, it was necessary to apply the requirements that deal with lease modification, which require remeasurement of the lease liability by means of a revised discount rate.

The application of such requirements resulted in the reduction of the debt at present value, of R\$5,701,928 and R\$4,799,040 in the right-of-use assets, the difference, a gain of R\$902,888 was recognized in statement of operations the period.

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**18. ACCOUNTS PAYABLE**

Description	December 31,	
	2020	2019
Accounts payable – local currency	1,612,933	952,439
Accounts payable – foreign currency	948,794	424,411
	<u>2,561,727</u>	<u>1,376,850</u>
<b>Current</b>	2,238,668	1,376,850
<b>Non-current</b>	323,059	—

The increase in the balance of accounts payable is due to the renegotiation carried out by the Company with its suppliers to face the economic crisis caused by the COVID-19 pandemic.

**19. RIGHTS AND OBLIGATIONS WITH FINANCIAL INSTRUMENTS**

Changes in fair value	Cash flow hedge		Fair value hedge	Derivatives not designated as hedge				Total (a)
	Interest rate swap	Options – foreign currency	Interest rate swap	Options – foreign currency	Interest rate swap	Fuel	Forward – foreign currency	
Rights (obligations) with derivatives at December, 31 2019	(7,129)	338,592	24,057	(35,487)	(62,803)	56,491	202,013	515,734
Gains (losses) recognized in result	(4,799)	(94,928)	24,421	(143,156)	(22,846)	(1,374,519)	163,711	(1,452,116)
Gains (losses) in OCI	7,129	152,132	—	—	—	—	—	159,261
Reclassification to debt	—	(218,979)	(43,485)	127,889	(101,136)	778,286	(15,200)	527,375
(Receipt) payment in cash	4,799	(176,817)	(2,744)	57,453	(82,706)	458,468	(1,432)	257,021
Rights (obligations) with derivatives at December, 31 2020	—	—	2,249	6,699	(269,491)	(81,274)	349,092	7,275

Changes in fair value	Cash flow hedge		Fair value hedge	Derivatives not designated as hedge				Total (a)
	Interest rate swap	Options – foreign currency	Interest rate swap	Options – foreign currency	Interest rate swap	Fuel	Forward – foreign currency	
Rights (obligations) with derivatives at December, 31 2018	(9,422)	246,323	20,080	(45,949)	(166,987)	(123,223)	233,564	154,386
Gains (losses) recognized in result	(4,072)	99,855	6,133	10,462	140,159	115,189	(42,274)	325,452
Gains (losses) in OCI	2,294	(7,586)	—	—	—	—	—	(5,292)
(Receipt) payment in cash	4,071	—	(2,156)	—	(35,975)	64,525	10,723	41,188
Rights (obligations) with derivatives at December 31, 2019	(7,129)	338,592	24,057	(35,487)	(62,803)	56,491	202,013	515,734

(a) The changes of derivative transactions are disclosed on a net basis.

Movement of equity method adjustment	Interest rate swap	Options – foreign currency	Total
Balance at December 31, 2019	7,129	152,132	159,261
Fair value adjustments during the period	2,918	—	2,918
Net reversals to result	(923)	(152,132)	(153,055)
Derecognition of hedged item	(9,124)	—	(9,124)
Balance at December 31, 2020	—	—	—

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<b>Movement of equity method adjustment</b>	<b>Interest rate swap</b>	<b>Options – foreign currency</b>	<b>Total</b>
Balance at December 31, 2018	9,422	152,132	161,554
Fair value adjustments during the period	1,778	(99,855)	(98,077)
Net reversals to result	(4,071)	99,855	95,784
Balance at December 31, 2019	7,129	152,132	159,261

**20. AIR TRAFFIC LIABILITY**

<b>Description</b>	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Cargo and passenger air traffic liability	1,550,579	1,294,263
Azul viagens	183,061	109,977
TudoAzul Program	755,232	685,982
	<u>2,488,872</u>	<u>2,094,254</u>

As determined by regulators, travel rescheduling may be carried out within a period corresponding to 18 months from the flight cancellation. As at December 31, 2020 there are no passenger transport obligations to be executed after the 12-month period subsequent to the date of these financial statements.

The air traffic liability balances are presented net of passenger revenue breakage and the TudoAzul program, corresponding to R\$372,534 at December 31, 2020 (R\$539,232 at December 31, 2019).

**21. PROVISIONS**

<b>Description</b>	<b>Provisions for return of aircraft and engines</b>	<b>Provisions for tax, civil and labor risks</b>	<b>Provisions for onerous contract</b>	<b>Provisions for post-employment benefit</b>	<b>Total</b>
Balance at December 31, 2018	669,041	80,983	—	—	750,024
Addition of provision	139,652	100,241	1,129,866	—	1,369,759
Write-offs and/or payments	—	(93,718)	(333,420)	—	(427,138)
Interest incurred	67,366	—	18,633	—	85,999
Foreing exchanges variations	28,036	—	6,672	—	34,708
Balance at December 31, 2019	904,095	87,506	821,751	—	1,813,352
Business combination – Azul Conecta	—	1,688	—	—	1,688
Additions	304,594	183,014	362,426	9,921	859,955
Write-offs and/or payments	(118,504)	(116,394)	(262,946)	—	(497,844)
Interest incurred	84,939	—	206,011	687	291,637
Changes in assumptions	—	—	—	(655)	(655)
Foreing exchanges variations	161,062	—	213,280	—	374,342
Balance at December 31, 2020	<u>1,336,186</u>	<u>155,814</u>	<u>1,340,522</u>	<u>9,953</u>	<u>2,842,475</u>
<b>Current</b>	106,944	—	746,866	—	853,810
<b>Non-current</b>	1,229,242	155,814	593,656	9,953	1,988,665

**21.1 Provisions for return of aircraft and engines**

These provisions consider the costs that meet the contractual conditions for the return of engines maintained under an operating lease, as well as for the costs to be incurred in reconfiguring aircraft when they are returned under the conditions established in the lease contracts. The contra-entry of these provisions is in right-of-use assets.

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**21.2 Provision for tax, civil and labor risks**

The Company and its subsidiaries are parties to legal and administrative proceedings.

The Company's Management believes that the provision for tax, civil and labor risks, established in accordance with IAS 37 – Provisions, Contingent Liabilities and Contingent Assets, is sufficient to cover probable losses on administrative and judicial proceedings. The balances of the proceedings with estimates of probable and possible losses are shown below:

Description	Probable loss December 31,		Possible loss December 31,	
	2020	2019	2020	2019
Tax	2,858	2,024	154,640	116,074
Civil	104,915	45,067	43,347	77,360
Labor	48,041	40,415	114,524	123,119
	<u>155,814</u>	<u>87,506</u>	<u>312,511</u>	<u>316,553</u>

Provisions are revised based on the evolution of lawsuits and the history of losses through the best current estimate for civil and labor claims.

The labor lawsuit presented below was assessed by Management and legal counselors as being significant and of possible loss at December 31, 2020:

- 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. The lawsuit is awaiting a hearing.

The tax claims below are assessed by Management and legal counselors to be significant and of possible loss at December 31, 2020:

- The Company discusses the non-application of the additional charge of 1% of COFINS on imports of aircraft, parts and pieces, in the amount of R\$144,352 (R\$102,317 at December 31, 2019). The classification as possible risk results from the fact that there was no express revocation of the tax exemption (zero rate) granted to regular air transport companies.

**21.3 Provision for onerous contract**

The provision is related to the obligations arising from the fleet transformation plan, as detailed in Note 1.4.

**21.4 Provision for post-employment benefit**

The Company offers its employees a health care plan that, as a result of complying with current legislation, generates post-employment benefit obligations. The changes of actuarial assets and liabilities related to the post-employment benefit, prepared based on an actuarial report, are presented below:

Actuarial liabilities at the 12.31.19	<u>December 31, 2020</u>	—
Current service cost recognized in result		9,921
Cost of interest recognized in result		687
Effect of change in financial assumptions		(962)
Effect of plan experience		307
Actuarial liabilities at the 12.31.20		<u>9,953</u>

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	<b>December 31, 2020</b>
<b>Actuarial assumptions</b>	
<b>Weighted average of assumptions to determine the defined benefit obligation</b>	
Nominal discount rate p.a.	7.43 %
Actual discount rate p.a.	3.80 %
Estimated inflation rate in the long term p.a.	3.50 %
HCCTR – Average nominal inflation rate p.a.	6.60 %
HCCTR – Actual nominal inflation rate p.a.	3.00 %
Mortality table	AT-2000 downrated in 10%

**22. RELATED PARTY TRANSACTIONS****22.1 Compensation of key management personnel**

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:

<b>Description</b>	<b>Years ended December 31,</b>		
	<b>2020</b>	<b>2019</b>	<b>2018</b>
Salaries and charges	18,075	22,187	16,275
Bonus	11,717	7,255	7,263
Share-based payment plan	36,986	29,129	21,508
	<u>66,778</u>	<u>58,571</u>	<u>45,046</u>

**Sensitivity analysis: variations in share value**

<b>Description</b>	<b>Stock price</b>	<b>Expense</b>
Exposure at December 31, 2020	39.30	36,986
<b>Effect on result</b>		
Devaluation -50%	19.65	12,203
Devaluation -25%	29.48	21,807

The effect on the result referring to the share-based compensation plan is based on the variation of the Company's share value, which is updated each reporting period, and therefore does not represent a cash outflow in the current year, with a forecast for vesting and settlement in up to four years.

**22.2 Guarantees and pledges granted by the Company**

The Company has granted guarantees on rental properties for some of its executives and the total amount involved is not significant.

**22.3 Loan agreement**

On September 2, 2016, the Company signed a loan agreement with one of its shareholders. As at December 31, 2020, the balance of the loan receivable is R\$16,973 (R\$12,789 as at December 31, 2019). Interest corresponds to three-month LIBOR plus a fixed rate of 2.3% per year.

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**22.4 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, 2020 was R\$51 (R\$50 at December 31, 2019), recorded under “Other operating expenses, net” in the statement of operations. As at December 31, 2020, there were no amounts to be paid as a result of this transaction.

**22.5 Ticket sales contract**

On March 26, 2018, the Company entered into a ticket sales agreement 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.

**22.6 Sublease of aircraft receivable**

In December 2019, the Company signed a letter of intent for the sublease of up to 28 aircraft to the Breeze Aviation Group (“Breeze”), an airline founded by the controlling shareholder of Azul, headquartered in the United States. The transaction was voted and approved by 97% of the Azul's shareholders at the Extraordinary General Meeting held on March 2, 2020. Following good corporate practices, the controlling shareholder did not participate in the voting.

On December 29, 2020, the Company sub-leased an aircraft to Breeze and recorded a balance receivable balance of R\$24,167.

**22.7 Indemnities**

As at December 31, 2020, the Company has recorded a balance receivable from former shareholders of TRIP in the amount of R\$39,339 (R\$30,347 as at December 31, 2019). This balance refers to the reimbursement of expenses with legal proceedings originating prior to the merger between the companies and is recorded under “Other non-current assets”.

**23. EQUITY****23.1 Equity**

Description	Quantity		
	Company's capital	Common shares	Preferred shares
At December 31, 2020	2,246,367	928,965,058	331,644,724
At December 31, 2019	2,243,215	928,965,058	329,568,166

As established in the Company's articles of incorporation, each common share is entitled to 1 (one) vote. Preferred shares of any class do not entitle to voting rights, however they do provide their holders:

- capital repayment priority;
- the right to be included in a public offer for the purchase of shares, due to the transfer of control of the Company, under the same conditions and for a price per share equivalent to 75 times the price per share paid to the controlling shareholder;
- the right to receive amounts equivalent to 75 times the price per common share after the division of the remaining assets among the shareholders; and
- the right to receive dividends equal to 75 times the amount paid to each common share.



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The Company's shareholding structure is presented below:

Shareholder	December 31, 2020			December 31, 2019		
	Common shares	Preferred shares	% economic participation	Common shares	Preferred shares	% economic participation
David Neeleman	67.0 %	1.2 %	3.5 %	67.0 %	3.5 %	5.8 %
Acionistas Trip (a)	33.0 %	5.5 %	6.5 %	33.0 %	5.5 %	6.5 %
United Airlines Inc	—	8.1 %	7.8 %	—	8.2 %	7.9 %
Other	—	85.1 %	82.1 %	—	82.7 %	79.7 %
Treasury	—	0.1 %	0.1 %	—	0.1 %	0.1 %
Total	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %

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

The Company is authorized by resolution of the Board of Directors to increase the issued capital regardless of statutory reform with the issue of up to 104,949,010 new preferred shares. The Board of Directors will set the conditions for the issue, including price and payment term.

**23.2 Treasury shares**

Changes in of treasury shares:

Description	Number of shares	R\$
December 31, 2018	332,980	10,550
Acquisition	301,008	12,853
Cancellation	(189,743)	(7,838)
December 31, 2019	444,245	15,565
Cancellation	(178,784)	(2,383)
December 31, 2020	265,461	13,182

**24. EARNINGS (LOSS) PER SHARE**

Although there are differences between common and preferred shares as to voting and preemptive rights in the event of liquidation, the Company's preferred shares do not grant the right to receive fixed dividends. Preferred shares have economic power and the right to receive dividends 75 times greater than common shares. Accordingly, the Company considers that the economic power of preferred shares is greater than that of common shares. Therefore, the statement of operations for the period attributable to the controlling shareholders is allocated proportionally in relation to the total economic participation of the amount of common and preferred shares.

Basic earnings (loss) per share are calculated by dividing the net income (loss) for the period attributable to the Company's controlling shareholders by the weighted average number of all classes of shares outstanding during the period.

Diluted earnings (loss) per share are calculated by adjusting the weighted average number of shares outstanding by instruments potentially convertible into shares. However, due to the losses reported in the years ended December 31, 2020, 2019 and 2018 these instruments have a non-dilutive effect and therefore were not considered in the total number of shares outstanding to determine the diluted loss per share.

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Description	Years ended December 31,		
	2020	2019	2018
<b>Numerator</b>			
Loss for the year	(10,834,709)	(2,403,086)	(635,731)
<b>Denominator</b>			
Weighted average number of common shares	928,965,058	928,965,058	928,965,058
Weighted average number of preferred shares	329,779,360	328,571,282	325,310,485
75 preferred shares (*)	75	75	75
Weighted average number of equivalent preferred shares (*)	342,165,561	340,957,483	337,696,686
Weighted average number of equivalent common shares (**)	25,662,417,083	25,571,811,221	25,327,251,414
Weighted average number of stock options and restricted shares	63,789,234	9,865,114	11,530,390
Weighted average of shares that would have been issued at average market price	4,705,897	6,805,600	6,400,619
Basic loss per common share – R\$	(0.42)	(0.09)	(0.03)
Diluted loss per common share – R\$	(0.42)	(0.09)	(0.03)
Basic loss per preferred share – R\$	(31.67)	(7.05)	(1.88)
Diluted loss per preferred share – R\$	(31.67)	(7.05)	(1.88)

(\*) This refers to the participation in the value of the Company's total equity, calculated as if all 928,965,058 common shares had been converted into 12,386,200 preferred shares at the conversion ratio of 75 common shares for each preferred share.

(\*\*) This refers to the participation in the value of the Company's total equity, calculated as if the weighted average of preferred shares had been converted into common shares at the conversion ratio of 75 common shares for each 1 preferred share.

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**25. SHARE-BASED PAYMENT**

The Company has three additional compensation plans for its management: the Stock Option Plan, the Restricted Stock Option Plan and the Stock Purchase Plan ("Phantom"). 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.

**25.1 Stock option plan**

The options granted in the Stock Option Plan require an acquisition period between 4 and 5 years, exercisable at a rate between 20% and 25% per year and have an average duration of eight years. The estimated volatility was calculated based on the historical volatility of shares of airlines listed on the stock exchanges in Brazil and the rest of Latin America.

Date of grant	Total options granted	Total outstanding options	Share exercise price	Fair value of option on the date of grant	Estimated volatility of share price	Expected dividend	Risk-free return rate	Average remaining maturity (in years)
12.11.09	5,032,800	296,470	3.42	1.93	47.67 %	1.10 %	8.75 %	0
03.24.11	1,572,000	84,000	6.44	4.16	54.77 %	1.10 %	12.00 %	0
04.05.11	656,000	8,960	6.44	4.16	54.77 %	1.10 %	12.00 %	0
06.30.14	2,169,122	786,197	19.15	11.01	40.59 %	1.10 %	12.46 %	0
07.01.15	627,810	231,638	14.51	10.82	40.59 %	1.10 %	15.69 %	0
01.07.16	820,250	385,980	14.50	10.14	43.07 %	1.10 %	12.21 %	0
07.06.17	680,467	490,355	22.57	12.82	43.35 %	1.10 %	10.26 %	0.5
03.14.17	9,343,510	3,824,610	11.85	4.82	50.64 %	1.10 %	11.32 %	1.2
12.31.20	20,901,959	6,108,210						

Set out below the changes of the plans:

Description	Number of shares	Weighted average of exercise price (in R\$)
At December 31, 2018	11,190,829	
Cancelled	(69,085)	
Exercised	(2,936,976)	
At December 31, 2019	8,184,768	12.85
Exercised	(2,076,558)	11.45
At December 31, 2020	6,108,210	16.91
<b>Number of exercisable options at:</b>		
At December 31, 2020	2,158,658	15.12
At December 31, 2019	2,294,135	13.81

The expense recognized in the statement of operations corresponding to the stock option plan for the year ended December 31, 2020 was R\$9,489 (R\$12,742 and R\$16,677 as at December 31, 2019 and 2018, respectively).

**25.2 Restricted stock option plan**

The shares granted in the Restricted Stock Option Plan require an acquisition period of 4 years, exercisable at the rate of 25% per year. The estimated volatility was calculated based on the historical volatility of shares of airlines listed on the stock exchanges in Brazil and the rest of Latin America.

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Grants are measured based on the fair value of the share at the date premiums are granted.

<b>Date of grant</b>	<b>Fair value of share (in reais)</b>	<b>Total granted</b>	<b>Total not exercised</b>
06.30.14	21.00	487,670	3,967
07.01.15	21.00	294,286	4,047
07.01.16	21.00	367,184	7,722
07.06.17	24.17	285,064	59,080
08.07.18	24.43	291,609	129,860
08.05.19	51.65	170,000	115,774
06.19.20	21.80	1,382,582	1,332,555
		<u>3,278,395</u>	<u>1,653,005</u>

Set out below is the changes of the plans:

<b>Description</b>	<b>Number of shares</b>
At December 31, 2018	729,593
Granted	170,000
Cancelled	(49,748)
Delivered	(260,451)
At December 31, 2019	<u>589,394</u>
Granted	1,382,582
Cancelled	(74,024)
Delivered	(244,947)
At December 31, 2020	<u>1,653,005</u>

The expense recognized in the statement of operations corresponding to the restricted stock option plan for the year ended December 31, 2020 was R\$13,421 (R\$6,152 and R\$6,254 as at December 31, 2019 and 2018, respectively).

**25.3 Virtual Stock Option Plan – Phantom**

Phantom Shares plans require an acquisition period of between 3 and 4 years, have a duration of between 6 and 8 years and the exercise price must be equal to the lowest share price traded on the market during the thirty trading sessions prior to the date of the granting of options approved by the Compensation Committee. The estimated volatility was calculated based on the historical volatility of the Company's shares. No dividends are expected for this plan. The fair value of this liability is reviewed and updated in each reporting period, according to the change in the fair value of the benefit granted and the acquisition of the right to exercise.

<b>Date of grant</b>	<b>Total granted</b>	<b>Total outstanding</b>	<b>Exercise price</b>	<b>Price at the date of grant</b>	<b>Current share price</b>	<b>Fair value at the date of grant</b>	<b>Estimated volatility of share price</b>	<b>Risk-free return rate</b>	<b>Average remaining maturity (in years)</b>
08.07.18	707,400	89,674	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.98	53.22 %	3.02 %	2.33
08.05.19	405,000	14,201	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.98	53.22 %	3.02 %	2.33
04.30.20	3,250,000	3,167,765	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.98	53.22 %	3.02 %	2.33
04.30.20	1,600,000	1,585,401	R\$ 10.35	R\$ 17.40	R\$ 39.30	R\$ 11.63	53.22 %	3.02 %	3.33
12.31.20	<u>5,962,400</u>	<u>4,857,041</u>							

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Set out below is the changes of the plan:

Description	Total outstanding
At December 31, 2018	707,400
Granted	405,000
Cancelled	(47,889)
Settled	(98,603)
At December 31, 2019	965,908
Granted	4,793,582
Cancelled	(898,881)
Settled	(3,568)
At December 31, 2020	4,857,041

The expense recognized in the statement of operations corresponding to the virtual stock option plan – phantom for the year ended December 31, 2020 was R\$28,842 (R\$13,373 and R\$1,184 as at December 31, 2019 and 2018, respectively). As at December 31, 2020, the total obligation related to the plan is R\$62,351 (R\$11,647 as at December 31, 2019).

**26. OPERATING REVENUE**

Description	Years ended December 31,		
	2020	2019	2018
Passenger service	4,688,295	10,382,240	8,431,966
Loyalty program revenue	508,976	818,572	597,994
Cargo service	764,108	552,084	373,417
Other revenue	35,115	49,986	57,308
Total gross revenue	5,996,494	11,802,882	9,460,685
Taxes levied	(252,368)	(360,565)	(403,621)
Net revenue	5,744,126	11,442,317	9,057,064

Revenues by geographical location are as follows:

Description	Years ended December 31,		
	2020	2019	2018
Domestic revenue	4,759,257	9,195,535	7,383,183
Foreign revenue	984,869	2,246,782	1,673,881
Net revenue	5,744,126	11,442,317	9,057,064

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**27. FINANCIAL RESULT**

Description	Years ended December 31,		
	2020	2019	2018
<b>Financial income</b>			
interest on short-term investments	23,187	12,462	31,947
Sublease receivable	28,714	29,695	33,129
Other	8,397	29,914	9,446
	<u>60,298</u>	<u>72,071</u>	<u>74,522</u>
<b>Financial expenses</b>			
Interest on loans	(270,057)	(195,688)	(164,294)
Interest on lease	(1,438,825)	(732,723)	(606,076)
Interest on finance lease	(130,326)	(73,284)	(75,313)
Interest on factoring credit card receivables	(25,715)	(13,477)	(10,625)
Interest on provision for return of aircraft	(283,797)	(88,015)	(56,827)
Interest and fines on other operations	(225,082)	(129,954)	(79,822)
Share conversion right	(755,354)	—	—
Guarantee commission	(38,484)	(30,977)	(26,187)
Borrowing cost	(44,671)	(12,549)	(23,169)
Other	(57,630)	(52,857)	(52,515)
	<u>(3,269,941)</u>	<u>(1,329,524)</u>	<u>(1,094,828)</u>
Derivative financial instruments, net	<u>(1,452,116)</u>	<u>325,452</u>	<u>298,094</u>
Foreign currency exchange, net	<u>(4,302,540)</u>	<u>(391,905)</u>	<u>(1,306,063)</u>
Financial result, net	<u>(8,964,299)</u>	<u>(1,323,906)</u>	<u>(2,028,275)</u>

**28. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Operating activities expose the Company and its subsidiaries to financial market risks related to fuel prices, foreign currency, interest rates, credit and liquidity. Such risks can be mitigated through the use of swaps, futures and options, in the fuel, U.S. dollar and interest market.

The Company's management supervises the monitoring of the market, credit and liquidity risks.

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.

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**28.1 Accounting classification and fair value hierarchy of financial instruments**

The accounting classifications of the Company's financial instruments and fair value hierarchy as at December 31, 2020 and 2019 are shown below:

Description	Level	Carrying amount		Fair value	
		December 31,		December 31,	
		2020	2019	2020	2019
<b>Assets</b>					
Cash and cash equivalents	2	3,064,815	1,647,880	3,064,815	1,647,880
Accounts receivable	—	875,382	1,165,866	875,382	1,165,866
Aircraft sublease receivables	—	312,937	279,504	312,937	279,504
Short-term investments	2	946,281	1,459,708	946,281	1,459,708
Derivative financial instruments	2	428,309	825,924	428,309	825,924
<b>Liabilities</b>					
Accounts payable	—	(2,561,727)	(1,376,850)	(2,561,727)	(1,376,850)
Accounts payable – Supplier finance	—	(157,801)	(249,727)	(157,801)	(249,727)
Reimbursement to customers	—	(221,342)	(4,032)	(221,342)	(4,032)
Loans and financing	—	(5,894,515)	(3,518,156)	(5,414,689)	(3,504,754)
Loans and financing – Conversion's right	2	(1,465,999)	—	(1,465,999)	—
Lease liabilities	—	(12,520,812)	(12,106,621)	(12,520,812)	(12,106,621)
Derivative financial instruments	2	(421,034)	(310,190)	(421,034)	(310,190)

**28.2 TAP Bonds**

On March 14, 2016, the Company acquired Series A convertible bonds issued by TAP ("TAP Bonds") in the amount of €90 million. TAP Bonds mature in 10 years from their issue, with annual interest of 3.75% until September 20, 2016 and at the rate of 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.

On August 10, 2020, as informed at the Extraordinary General Meeting, due to the crisis caused by the COVID-19 pandemic, the Portugal Government negotiated an aid of €1.2 billion for TAP with the European Commission, such aid being conditional among other factors to the elimination of the right to convert senior bonds, since they would not be diluted by the Portugal Government's financial contribution. Accordingly, there are no other rights or obligations measured at fair value requiring level 3 information, according to the fair value hierarchy set out in IFRS 13 – Fair Value Measurement.

As a result, the elimination of the conversion right resulted in a loss of R\$637,639, recorded under "Result from related party transactions, net".

As at December 31, 2020, rights receivable related to TAP Bonds correspond to R\$854,462 (R\$1,236,828 as at December 31, 2019), as shown in Note 6.

**28.3 Derivative financial instruments**

Derivative financial instruments, designated or not as hedge transactions, and their changes are presented in Note 19 to these financial statements.

**28.4 Market risks****28.4.1 Interest rate risk**

As at December 31, 2020, the Company had swap contracts to hedge against the effect of fluctuations in interest rates on part of payments for finance leases. During the year ended December 31, 2020, the Company recognized a total gain from interest hedge transactions in the amount of R\$30,949 (R\$142,220 and R\$217,422 as at December 31, 2019 and 2018, respectively).



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**28.4.2 Aviation fuel price risk (“QAV”)**

The price of QAV varies 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 at December 31, 2020, forward transactions on fuel. During the year ended December 31, 2020, the Company recognized total losses in the statement of operations of R\$1,371,941 related to fuel derivatives (gain of R\$115,189 and loss of R\$110,549 as at December 31, 2019 and 2018).

**28.4.3 Foreign currency risk**

The foreign currency risk arises from the possibility of unfavorable exchange differences to which the Company's liabilities or cash flows are exposed. The Company constantly monitors the net exposure in foreign currency and evaluates the contracting of hedge transactions to protect the non-operating cash flow, projecting for a maximum period of up to 12 months, and a longer term if deemed appropriate, to minimize its exposure. During the year ended December 31, 2020, the Company recognized losses on foreign exchange derivative transactions in the amount of R\$74,371 (gain of R\$68,043 and R\$191,222 as at December 31, 2019 and 2018, respectively).

The exposure to foreign currency is as follows:

Description	Exposure to US\$		Exposure to €	
	December 31,		December 31,	
	2020	2019	2020	2019
<b>Assets</b>				
Cash, cash equivalents and short-term investments	262,309	289,297	—	—
Security deposits and maintenance reserves	1,540,231	1,613,221	—	—
Aircraft sublease receivables	312,937	279,504	—	—
Long-term investment	—	160,871	854,462	1,236,828
Derivative rights	155,920	121,968	—	—
Other assets	293,526	244,355	—	—
<b>Total assets</b>	<b>2,564,923</b>	<b>2,709,216</b>	<b>854,462</b>	<b>1,236,828</b>
<b>Liabilities</b>				
Accounts payable	(831,429)	(424,411)	—	—
Loans and financing	(5,741,253)	(2,624,114)	—	—
Lease liabilities	(12,463,426)	(12,034,392)	—	—
Derivative obligations	(81,274)	—	—	—
Other liabilities	(951,348)	(688,134)	—	—
<b>Total liabilities</b>	<b>(20,068,730)</b>	<b>(15,771,051)</b>	<b>—</b>	<b>—</b>
<b>Net exposure</b>	<b>(17,503,807)</b>	<b>(13,061,835)</b>	<b>854,462</b>	<b>1,236,828</b>
<b>Net exposure in foreign currency</b>	<b>(3,368,254)</b>	<b>(3,240,587)</b>	<b>133,972</b>	<b>273,000</b>

**28.5 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, subleases receivable, security deposits, maintenance reserves and other financial assets included in other assets. Financial assets classified as cash and cash equivalents and short-term investments are deposited with counterparties that have a minimum investment grade rating in the assessment made by agencies S&P, Moody's or Fitch (between AAA and A+). Most of them are contracted on a commodities and futures exchange, which substantially mitigates credit risk. TAP Bonds are 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. The credit quality of the customer is assessed based on an extensive internal credit rating system. Outstanding receivables from customers are frequently monitored by the Company.

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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 credit risk. The Company has an obligation to assess the risks of counterparties in financial instruments and to diversify the exposure periodically.

**28.6 Liquidity risk**

The maturity schedules of the Company's consolidated financial liabilities as at December 31, 2020 are as follows:

Description	December 31, 2020						
	Carrying amount	Contractual cash flows	2021	2022	2023	2024	After 2025
Accounts payable	2,561,727	2,561,727	2,238,668	156,889	83,670	41,168	41,332
Accounts payable – supplier finance	157,801	157,801	157,801	—	—	—	—
Loans and financing	7,360,514	7,439,673	874,925	767,353	935,286	2,276,106	2,586,003
Lease liabilities	12,520,812	27,168,570	2,498,180	3,206,765	3,641,808	3,610,754	14,211,063
Derivative obligations	421,034	421,034	173,768	70,577	66,570	110,119	—
Reimbursement to customers	221,342	221,342	221,342	—	—	—	—
	23,243,230	37,970,147	6,164,684	4,201,584	4,727,334	6,038,147	16,838,398

**28.7 Sensitivity analysis of financial instruments****28.7.1 Risk factor: Foreign currency variations**

As at December 31, 2020, the Company adopted an exchange rate of R\$5.1967/US\$1.00 and R\$6.3779/€1.00, corresponding to the month's closing rate announced by the Central Bank of Brazil as a probable scenario. The table below shows the sensitivity analysis and the effect on the result of the foreign exchange rate fluctuation in the amount exposed at December 31, 2020:

Description	Exposure to US\$		Exposure to €	
	Rate	December 31, 2020	Rate	December 31, 2020
Net exposure at 12.31.20	5.1967	(17,503,807)	6.3779	854,462
<b>Effect on result</b>				
Foreign currency devaluation by -50%	2.5984	8,751,904	3.1890	(427,231)
Foreign currency devaluation by -25%	3.8975	4,375,952	4.7834	(213,616)
Foreign currency appreciation by 50%	7.7951	(8,751,904)	9.5669	427,231
Foreign currency appreciation by 25%	6.4959	(4,375,952)	7.9724	213,616

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**28.7.2 Risk factor: changes in QAV prices**

As at December 31, 2020, the Company has oil derivative contracts to protect future QAV consumption. The probable scenarios used by the Company are the market curves at the December 31, 2020 closing for derivatives that protect the fuel price risk. The table below shows the sensitivity analysis in U.S. dollar of the fluctuation of QAV barrel prices:

Description	Exposure to HOA (a)	
	Price (b)	December 31, 2020
HOA reference price at 12.31.20	150	81,274
<b>Effect on statements of operations</b>		
HOA devaluation by -50%	75	(98,454)
HOA devaluation by -25%	112	(45,667)
HOA appreciation by 50%	225	98,454
HOA appreciation by 25%	187	45,667

(a) HOA – Heating Oil

(b) Average price in U.S. dollar, per gallon, projected for the next 12 months.

**28.7.3 Risk factor: changes in interest rates**

As at December 31, 2020, 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 and exposed to such fluctuations, according to the scenarios shown below:

Description	Exposure to CDI		Exposure to LIBOR rate	
	Rate p.a.	December 31, 2020	Rate p.a. (a)	December 31, 2020
Net exposure at 12.31.20	2.8 %	1,113,627	2.7 %	(650,740)
<b>Effect on statements of operations</b>				
Interest rate devaluation by -50%	1.4 %	(53,593)	1.3 %	30,695
Interest rate devaluation by -25%	2.1 %	(45,937)	2.0 %	26,310
Interest rate appreciation by 50%	4.1 %	53,593	4.0 %	(30,695)
Interest rate appreciation by 25%	3.4 %	45,937	3.4 %	(26,310)

(a) Weighted rate.

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**28.8 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 monitors its degree of financial leverage, which corresponds to net debt, including short and long-term loans, as shown below:

Description	December 31,	
	2020	2019
Cash and cash equivalents	3,064,815	1,647,880
Short-term investments	946,281	1,459,708
Aircraft sublease receivables	312,937	279,504
Loans and financing	(7,360,514)	(3,518,156)
Lease liabilities	(12,520,812)	(12,106,621)
Net debt	(15,557,293)	(12,237,685)

**29. NON-CASH TRANSACTIONS**

Description	Consolidated
	December 31, 2020
Supplier finance	157,801
Derivative debt acknowledgment	527,375
Acquisition of property and equipment through financing (IFRS 16)	2,561,504
Decrease in lease liabilities	5,701,928

**30. COMMITMENTS****30.1 Aircraft acquisition**

As at December 31, 2020, the Company had contractually assumed the commitment to acquire 132 aircraft, 94 directly from manufacturers and 38 from lessors (147 as at December 31, 2019, 94 directly from manufacturers and 53 from lessors). The related financial disbursements calculated at present value are shown below:

Description	December 31,	
	2020	2019
2020	—	3,011,655
2021	1,941,843	3,318,239
2022	855,247	3,628,931
2023	565,661	4,122,212
2024	1,533,423	1,925,315
2025	1,351,477	1,901,725
After 2025	3,926,183	4,955,775
	10,173,834	22,863,852

**30.2 Letters of credit**

As at December 31, 2020, the Company issued letters of credit in the amount of US\$522 million (US\$529 million as at December 31, 2019), equivalent to R\$2,713,794 (R\$2,134,186 as at December 31, 2019) and bank guarantees in the amount of R\$38,270 (R\$50,432 as at December 31, 2019) related to security deposits, maintenance reserves and local guarantees.

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**31. SUBSEQUENT EVENT****31.1 COVID-19 Second wave**

During March 2021, Brazil started to experience the impacts of a second wave of COVID-19, the persisting impacts of the pandemic and uncertainties raised a turmoil in the market and a cooling of the economy. Therefore, there has been a reduction in demand for flights. Aiming to maintain adequate levels of liquidity, Management is negotiating postponement of payments to lessors and suppliers and suspended all non-urgent expenditures.

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